

9746

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
COTTON DRAW UNIT AREA
EDDY AND LEA COUNTIES, NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the _____ day of _____, 1958, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto,"

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty or other oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. Secs. 181 et seq., authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating under a cooperative or unit plan of development or operation or any oil or gas pool, field or like area, or any part thereof, for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Chap. 88, Laws 1943) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Chapter 72, Laws of 1935, as amended by Chap. 193, Laws of 1937, Chap. 166, Laws of 1941, and Chap. 168, Laws of 1949) to approve this agreement, and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Cotton Draw Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth:

NOW THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. ENABLING ACT AND REGULATIONS: The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder or valid pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located, are hereby accepted and made a part of this agreement.

2. UNIT AREA: The following described land is hereby designated and recognized as constituting the Cotton Draw unit area:

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

T. 24 S., R. 31 E.

Sec. 13: All
Sec. 14: $S\frac{1}{2}$
Secs. 23, 24, 25, 26: All
Sec. 34: $E\frac{1}{2}$
Secs. 35 and 36: All

T. 24 S., R. 32 E.

Secs. 7, 8, 9: All
Secs. 16, 17, 18, 19,
20, 21: All
Sec. 27: $W\frac{1}{2}$, $SE\frac{1}{4}$
Secs. 28, 29, 30, 31, 32,
33 and 34: All

T. 25 S., R. 32 E.

Secs. 3, 4, 5, 6, 7, 8, 9, 10: All
Secs. 15, 16, 17, 18, 19, 20, 21, 22: All
Sec. 27: $N\frac{1}{2}$
Sec. 28: $N\frac{1}{2}$
Sec. 29: $N\frac{1}{2}$
Sec. 30: $N\frac{1}{2}$

T. 25 S., R. 31 E.

Secs. 1 and 2: All
Sec. 3: $E\frac{1}{2}$
Sec. 10: $E\frac{1}{2}$
Secs. 11, 12, 13, 14: All
Sec. 15: $E\frac{1}{2}$, $E\frac{1}{2}W\frac{1}{2}$
Sec. 22: $E\frac{1}{2}$, $E\frac{1}{2}W\frac{1}{2}$, $SW\frac{1}{4}NW\frac{1}{4}$, $NW\frac{1}{4}SW\frac{1}{4}$
Secs. 23 and 24: All
Sec. 25: $N\frac{1}{2}$
Sec. 26: $N\frac{1}{2}$

Situated in Eddy and Lea Counties, containing 35,144.36 acres,
more or less.

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary, or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor," or the Commissioner of Public Lands, hereinafter referred to as "Commissioner," and not less than seven copies of the revised exhibits shall be filed with the Supervisor, and at least one

copy shall be filed with the Commissioner and one copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "Commissioner."

The above described unit area shall when practicable be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purpose of this agreement, or shall be contracted to exclude lands not within any participating area whenever such expansion or contraction is necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director," or on demand of the Commissioner shall prepare, after preliminary concurrence by the Director, a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the Supervisor, the Commissioner and the Commission and copies thereof mailed to the last known address of each working interest owner, lessee and lessor whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor, the Commissioner and the Commission evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with the Unit Operator, together with an application in sufficient number, for approval of such expansion or contraction, and with appropriate joinders.

(d) After due consideration of all pertinent information, the expansion or contraction shall, upon approval by the Director, the Commissioner, and the Commission become effective as of the date prescribed in the notice thereof.

(e) All legal subdivisions of unitized lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent in instances of irregular surveys; however, unusually large lots or tracts shall be considered in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination under this subsection), no parts of which are entitled to be in a participating area within 5 years after the first day of the month following the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of the first day thereafter, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless at the expiration of said 5-year period diligent drilling operations are in progress on unitized lands not entitled to participation, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well, except that the time allowed between such wells shall not expire earlier than 30 days after the expiration of any period of time during which drilling operations are prevented by a matter beyond the reasonable control of Unit Operator as set forth in the section hereof entitled "Unavoidable Delay"; provided that all legal subdivisions of lands not in a participating area and not entitled to become participating under the applicable provisions of this agreement within 10 years after said first day of the month following the effective date of said first initial participating area shall be eliminated as above specified. Determination of

creditable "Unavoidable Delay" time shall be made by Unit Operator and subject to approval of the Director and Commissioner. The Unit Operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Director and Commissioner and promptly notify all parties in interest.

If conditions warrant extension of the 10-year period specified in this subsection 2. (e), a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90% of the current unitized working interests and 60% of the current unitized basic royalty interests (exclusive of the basic royalty interests of the United States), on a total-non-participating-acreage basis, respectively, with approval of the Directors and Commissioner, provided such extension application is submitted to the Commissioner and the Director not later than 60 days prior to the expiration of said 10-year period.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this subsection 2. (e) shall not be considered automatic commitment or recommitment of such lands.

3. UNITIZED LAND AND UNITIZED SUBSTANCES: All lands committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement." All oil and gas in any and all formations of the unitized land are unitized under the terms of this agreement and are herein called "unitized substance."

4. UNIT OPERATOR: The Texas Company, a corporation with offices at Fort Worth, Texas, is hereby designated as Unit Operator and by signature hereto as Unit Operator commits to this agreement all interests in unitized substances vested in it as set forth in Exhibit "B" attached hereto and agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development and production of unitized substances as

herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of 6 months after notice of intention to resign has been served by Unit Operator on all working interest owners, the Director and Commissioner and the Commission, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor as to Federal lands and the Commission as to State and privately-owned lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time a participating area established hereunder is in existence, but, in all instances of resignation or removal, until a successor Unit Operator is selected and approved as hereinafter provided the working interest owners shall be jointly responsible for performance of the duties of Unit Operator, and shall not later than 30 days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the Director and Commissioner.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor Unit Operator or to the owners thereof if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or, until a participating area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator; provided, that, if a majority but less than 75% of the working interests

qualified to vote are owned by one party to this agreement, a concurring vote of sufficient additional working interest owners shall be required so as to constitute in the aggregate not less than 75% of the total working interests in order to select a new operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Director and Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Director and Commissioner at their election may declare this Unit Agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT: If the Unit Operator is not the sole owner of working interests, costs, and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid in the first instance by Unit Operator and such costs and expenses so paid by Unit Operator shall be apportioned among and borne by the owners of working interests and the Unit Operator reimbursed, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement." Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to

modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement, and in case of any inconsistency or conflict between the unit agreement and the unit operating agreement, this Unit Agreement shall prevail. Three true copies of any unit operating agreement executed pursuant to this section should be filed with the Supervisor, and one true copy with the Commissioner prior to approval of this agreement by the Director.

Notwithstanding any provision contained herein to the contrary, if any, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the unit operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

9. DRILLING TO DISCOVERY: Within six months after the effective date hereof, Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if on Federal land, or by the Commissioner if on State land, or by the Commission if on privately-owned land, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the basal members of the Delaware formation down to the Bone Springs formation have been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the Supervisor if on Federal land, the Commissioner if on State land, or the Commission if on privately-owned land, that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 12,000 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if on Federal land, the Commissioner if on State land, or the Commission if on privately-owned land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or

continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

upon failure to comply with the drilling provisions of this section, the Director and Commissioner may, after reasonable notice to the Unit Operator, and each working interest owner, lessee, and lessor at their last known addresses, declare this unit agreement terminated.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION:

Within six months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor and the Commissioner an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor and the Commissioner shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Supervisor, the Commissioner and the Commission, a plan for an additional specified period for the development and operation of the unitized land. Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the diligent drilling necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Supervisor and the Commissioner may determine to be necessary for timely development and proper conservation of the oil and gas resources of the

unitized area and shall (a) specify the number and location of any wells to be drilled and the proposed order and time for such drilling; and (b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Separate plans may be submitted for separate productive zones, subject to the approval of the Supervisor and the Commissioner. Such plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. The Supervisor and the Commissioner are authorized to grant a reasonable extension of the six-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing any unitized substances in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Supervisor and Commissioner, shall be drilled except in accordance with a plan of development approved as herein provided.

11. PARTICIPATION AFTER DISCOVERY: Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor or the Commissioner, the Unit Operator shall submit for approval by the Director and the Commissioner, a schedule, based on subdivisions of the public land survey or aliquot parts thereof, of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all land in said schedule on approval of the Director and the Commissioner to constitute a participating area,

effective as of the date of completion of such well or the effective date of this agreement, whichever is later. Said schedule also shall set forth the percentage of unitized substances to be allocated as herein provided to each unitized tract in the participating area so established, and shall govern the allocation of production from and after the date the participating area becomes effective. A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone, and any two or more participating areas so established may be combined into one with the consent of the owners of all working interests in the lands within the participating areas so to be combined, on approval of the Director and the Commissioner. The participating area or areas so established shall be revised from time to time, subject to like approval, whenever such action appears proper as a result of further drilling operations or otherwise, to include additional land then regarded as reasonably proved to be productive in paying quantities, or to exclude land then regarded as reasonably proved not to be productive in paying quantities, and the percentage of allocation shall also be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, a more appropriate effective date may be used if justified by the Unit Operator and approved by the Director and Commissioner. No land shall be excluded from a participating area on account of depletion of the unitized substances.

It is the intent of this section that a participating area shall represent the area known or reasonably estimated to be productive in paying quantities; but regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production

obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the Director and the Commissioner as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established as provided herein, the portion of all payments affected thereby may be impounded in a manner mutually acceptable to the owners of working interests, except royalties due the United States and the State of New Mexico, which shall be determined by the Supervisor for Federal lands, the Commissioner as to State lands, and the Commission as to privately-owned lands, respectively, and the amount thereof deposited as directed by the Supervisor and Commissioner respectively to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Federal and State royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the Supervisor, as to wells on Federal land, and Commissioner as to wells on State land, and the Commission as to wells on privately-owned land, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the land on which the well is located so long as such land is not within a participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a well shall be made as provided in the unit operating agreement.

12. ALLOCATION OF PRODUCTION: All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor, Commissioner and the Commission, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total number of acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as constituted at the time of such final production.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS: Any party or parties hereto owning or controlling the working interests or a majority of the working interests in any unitized land having thereon a regular well location may, with the approval of the Supervisor as to Federal land, the Commissioner as to State land, the Commissioner as to State land, and the Commission as to privately-owned land, at such party's sole risk, cost, and expense drill a well to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, or drill any well not mutually agreed to by all interested parties, unless within 90 days of receipt of notice from said party of his intention to drill the well the Unit Operator elects and commenced to drill such well in like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled as aforesaid by a working interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement, and the party or parties paying the cost of drilling such well shall be reimbursed as provided in the unit operating agreement for the cost of drilling such well, and the well shall thereafter be transferred to and operated by Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

If any well drilled as aforesaid by a working interest owner obtains production in quantities insufficient to justify the inclusion in a participating area of the land upon which such well is situated, such well may be operated and produced by the party drilling the same subject to the conservation require-

ments of this agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

14. ROYALTY SETTLEMENT: The United States and the State of New Mexico and all royalty owners who, under existing contract, are entitled to take in kind a share of the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the right to take in kind their share of the unitized substances allocated to such tract, and Unit Operator, or in case of the operation of a well by a working interest owner as herein in special cases provided for, such working interest owner shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interests not taken in kind shall be made by working interest owners responsible therefor under existing contracts, laws, and regulations, on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Supervisor, the Commissioner and the Commission, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area, and with due allowance for loss or depletion from any cause, may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not as to the products extracted therefrom; provided that such withdrawal

shall be at such time as may be provided in the plan of operations or as may otherwise be consented to by the Supervisor, the Commissioner, and the Commission, as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

Royalty due the United States shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized Federal land as provided herein at the rates specified in the respective Federal leases, or at such lower rate or rates as may be authorized by law or regulation; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

Royalty due on account of State and privately owned lands shall be computed and paid on the basis of all unitized substances allocated to such lands.

15. RENTAL SETTLEMENT: Rentals or minimum royalties due on leases committed hereto shall be paid by working interest owners responsible therefor under existing contracts, laws, and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective leases from the United States, unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rates specified in the respective leases.

With respect to any committed lease on privately-owned land containing provisions which would terminate such lease unless drilling operations were within the time therein specified commenced upon the land covered thereby or rentals paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provision of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and thereafter until the required drilling operations are commenced upon the land covered thereby or some portion of such land is included in a participating area.

16. CONSERVATION: Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to state or federal law or regulation.

17. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, including wells on adjacent unit areas, or, with the consent of the Director or the Commissioner, respectively, pursuant to applicable regulations pay a fair and reasonable compensatory royalty as determined by the Supervisor for Federal lands or as approved by the Commissioner for State lands.

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED: The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas of lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise

to remain in full force and effect; and the parties hereto hereby consent that the Secretary as to Federal leases and the Commissioner as to State leases shall and each by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned tract subject to this agreement, regardless of whether there is any development of any particular tract or part of the unit area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Drilling and producing operations performed hereunder upon any tract of unitized lands will be accepted and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Secretary and the Commissioner or their duly authorized representatives shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land.

(d) Each lease, sublease or contract relating to the exploration, drilling, development or operation for oil or gas of lands other than those of the United States committed to this agreement, which, by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of this agreement.

(e) Any federal lease for a fixed term of 20 years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the committed land so long as such lease remains subject hereto, provided that production is had in paying quantities under this agreement prior to the expiration date of the term of such lease.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States, committed to this Agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, is hereby extended beyond any such terms so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

(g) The segregation of any Federal lease committed to this agreement, is governed by the following provision in the fourth paragraph of Sec. 17(b) of the Act, as amended by the Act of July 29, 1954, (68 Stat. 583, 585):

"Any (federal) lease hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as

of the effective date of unitization: Provided, however, That any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(h) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall be segregated as to the portion committed and the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Provided, however, notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the terms provided therein as to all lands embraced in such lease, if unitized substances are discovered and are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, the same as to all lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of unitized substances, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as unitized substances in paying quantities are being produced from any portion of said lands.

19. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates, and any grant, trans-

fer, or conveyance, of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any working interest, royalty, or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

20. EFFECTIVE DATE AND TERM: This Agreement shall become effective upon approval by the Commissioner, and the Director, or their duly authorized representatives, as of the date of approval by the Director, and shall terminate five years after such date, unless:

(a) such date of expiration is extended by the Director and Commissioner, or

(b) it is reasonably determined prior to the expiration of the fixed term or any extensions thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder and after notice of intention to terminate the Agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, the Agreement is terminated with the approval of the Director and Commissioner, or

(c) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof, in which event the Agreement shall remain in effect for such term and so long as unitized substances can be produced in paying quantities, i.e., in this particular instance in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as

the unitized substances so discovered can be produced as aforesaid, or

(d) it is terminated as heretofore provided in this Agreement.

This Agreement may be terminated at any time by not less than 75 per centum, on an acreage basis, of the owners of working interests signatory hereto, with the approval of the Director and Commissioner; notice of any such approval to be given by the Unit Operator to all parties hereto.

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION: All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any federal or state statute. The Director is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and within the limits made or fixed by the Commission to alter or modify the quantity and rate of production under this agreement, such authority being hereby limited to alternation or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Commissioner and as to any lands of the State of New Mexico or privately-owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

Powers in this section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than 15 days from notice.

22. CONFLICT OF SUPERVISION: Neither the Unit Operator

nor the working interest owners nor any of them shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provision thereof to the extent that the said Unit Operator, working interest owners or any of them are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions of this contract are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

23. APPEARANCES: Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of the Interior, the Commissioner of Public Lands and the New Mexico Oil Conservation Commission and to appeal from orders issued under the regulations of said Department, the Commission or the Commissioner, or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior, the Commissioner or Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his own expense to be heard in any such proceeding.

24. NOTICES: All notices, demands or statements required hereunder to be given or rendered to the parties hereto

shall be deemed fully given if given in writing and personally delivered to the party or sent by postpaid registered mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

25. NO WAIVER OF CERTAIN RIGHTS: Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

26. UNAVOIDABLE DELAY: All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while, but only so long as, the Unit Operator despite the exercise of due care and diligence is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, federal, state, or municipal law or agencies unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar in nature to the matters herein enumerated or not.

27. FAIR EMPLOYMENT: In connection with the performance of work under this agreement, the Unit Operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall include, but not be limited to, the following:

employment, upgrading, demotion, or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay of other forms of compensation; and selection for training, including apprenticeship. The Unit Operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the nondiscrimination clause.

The Unit Operator agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

28. LOSS OF TITLE: In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, so that such tract is not committed to this unit agreement, or the operation thereof hereunder becomes impractical as a result thereof, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to federal and state land or leases, no payments of funds due the United States or the State of New Mexico should be withheld, but such funds of the United States shall be deposited as directed by the Supervisor, and such funds of the State shall be deposited as directed by the Commissioner, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

29. NON-JOINDER AND SUBSEQUENT JOINDER: If the owner of any substantial interest in a tract within the unit area fails

or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice to the Director, Commissioner and the Unit Operator prior to the approval of this agreement by the Director. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working interest owner is involved, in order for the interest to be regarded as effectively committed to this unit agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided for in this section, by a working interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof joinder by a non-working interest owner may be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. Joinder by any owner of a non-working interest, at any time, must be accompanied by appropriate joinder by the owner of the corresponding working interest in order for the interest to be regarded as effectively committed hereto. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working interest owner is involved, in order for the interest to be regarded as effectively committed to this unit agreement. Except as may otherwise herein

be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor, the Commissioner and the Commission of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within 60 days by the Director, Commissioner, or Commission.

30. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed and have set opposite their respective names the date of execution.

ATTEST:

THE TEXAS COMPANY

BY _____

Secretary

Address _____

Date _____

UNIT OPERATOR AND WORKING
INTEREST OWNER

ATTEST:

Secretary

Address _____

Date _____

ATTEST:

Secretary

Address _____

Date _____

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STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me
this _____ day of _____, 1958, by _____
_____ of The Texas Company, a _____
corporation, on behalf of said corporation.

Notary Public
My Commission Expires:

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me
this _____ day of _____, 1958, by _____,
_____ of _____,
a _____ corporation, on behalf of said corporation.

Notary Public
My Commission Expires:

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me
this _____ day of _____, 1958, by _____,
_____ of _____, a _____
corporation, on behalf of said corporation.

Notary Public
My Commission Expires:

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me
this _____ day of _____, 1958, by _____,
_____ of _____, a _____
corporation, on behalf of said corporation.

Notary Public
My Commission Expires:

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me
this _____ day of _____, 1958, by _____
_____, _____ of _____
_____, a _____ corporation, on
behalf of said corporation.

Notary Public

My Commission Expires:

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me
this _____ day of _____, 1958, by _____
_____, _____ of _____
_____, a _____ corporation, on
behalf of said corporation.

Notary Public

My Commission Expires:

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me
this _____ day of _____, 1958, by _____
_____, _____ of _____
_____, a _____ corporation, on
behalf of said corporation.

Notary Public

My Commission Expires:

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me
this _____ day of _____, 1958, by _____
_____, _____ of _____
_____, a _____ corporation, c
on behalf of said corporation.

Notary Public

My Commission Expires:

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me
this _____ day of _____, 1958, by
_____ and his wife, _____.

Notary Public

My Commission Expires:

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me
this _____ day of _____, 1958, by
_____ and his wife, _____.

Notary Public

My Commission Expires:

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me
this _____ day of _____, 1958, by
_____ and his wife, _____.

Notary Public

My Commission Expires:

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me
this _____ day of _____, 1958, by
_____ and his wife, _____.

Notary Public

My Commission Expires:

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me
this _____ day of _____, 1958, by
_____ and his wife, _____.

Notary Public

My Commission Expires:

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me
this _____ day of _____, 1958, by
_____ and his wife, _____.

Notary Public

My Commission Expires:

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me
this _____ day of _____, 1958, by
_____ and his wife, _____.

Notary Public

My Commission Expires:

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me
this _____ day of _____, 1958, by
_____ and his wife, _____.

Notary Public

My Commission Expires:

CERTIFICATION - DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior, under the Act approved February 25, 1920, 41 Stat. 437, 30 U.S.C., Secs. 181, et seq., as amended by the Act of August 8, 1946, 60 State. 950, and delegated to the Director of the Geological Survey pursuant to Departmental Order 2365 of October 8, 1947, 43 C.F.R. Sec. 4.611, 12 F.R. 6784, I do hereby:

A. Approve the attached agreement for the development and operation of the Cotton Draw Unit Area, Eddy and Lea Counties, New Mexico.

B. Certify and determine that the unit plan of development and operation set forth in the attached agreement is necessary and advisable in the public interest and is for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of all federal leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

Director,
United States Geological Survey

Date _____

CERTIFICATE OF APPROVAL
BY COMMISSIONER OF PUBLIC LANDS
STATE OF NEW MEXICO
OF UNIT AGREEMENT FOR DEVELOPMENT AND OPERATION
OF COTTON DRAW UNIT AREA
EDDY AND LEA COUNTIES, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, an agreement for the development and operation of the Cotton Draw Unit Area, Eddy and Lea Counties, New Mexico, dated the _____ day of _____, 1958, in which The Texas Company is designated as Operator, and which has been executed by various parties owning and holding oil and gas leases embracing lands within the unit area, and upon examination of said agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said field;
- (b) That under the operations proposed, the State will receive its fair share of the recoverable oil or gas in place under its lands in the area affected;
- (c) That the agreement is in other respects for the best interest of the State;
- (d) That the agreement provides for the unit operation of the field, for the allocation of production, and the sharing of proceeds from a part of the area covered by the agreement on an acreage basis as specified in the agreement.

NOW, THEREFORE, by virtue of the authority conferred upon me by the Laws of the State of New Mexico, I, the undersigned Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the above referred to Cotton Draw Unit Agreement, as to the lands of the State of New Mexico committed thereto, and all oil and gas leases embracing lands of the State of New Mexico committed to said agreement shall be and the same are hereby amended so that the provisions thereof will conform to the provisions of said Unit Agreement and so that the length of the secondary term of each such lease will be extended, insofar as necessary, to coincide with the terms of said Unit Agreement, and in the event the term of said Unit Agreement shall be extended as provided therein such extension shall also be effective to extend the term of each oil and gas lease embracing lands of the State of New Mexico committed to said Unit Agreement which would otherwise expire, so as to coincide with the extended term of such Unit Agreement.

IN WITNESS WHEREOF, this Certificate of Approval is executed as of this the _____ day of _____, 1958.

Commissioner of Public Lands of
the State of New Mexico

R-32-E



SCALE = 1 MILE

EXHIBIT "B"
COTTON DRAW UNIT AREA
TOWNSHIPS 24 and 25 SOUTH, RANGES 31 and 32 EAST, LEA AND EDDY COUNTIES, NEW MEXICO

SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF OIL AND GAS INTERESTS IN ALL LANDS IN THE UNIT AREA

Tr. No.	Description of Land	No. of Acres	Serial No. & Date of Lease or Application	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty Owner and Percentage	Working Interest Owner *
<u>FEDERAL LAND</u>							
1	T-25-S. R-31-E Sec. 1: A11 Sec. 10: SE/4 Sec. 11: A11 Sec. 12: SW/4, N/2 Sec. 14: NW/4 Sec. 15: NE/4, E/2 NW/4, E/2 SW/4	2400.80	NM 0503 2-1-50	USA 12 1/2%	R. L. Harrison -1/2 Edwin W. Pauley-1/2	Tom W. Heflin et ux Frieda -1% B. E. Spencer Estate-1%	The Texas Company - 1/2 R. L. Harrison- 1/4 Edwin W. Pauley - 1/4
2	T-24-S. R-31-E Sec. 23: NE/4, S/2 Sec. 24: A11 Sec. 25: E/2 NE/4	2555.24	NM 0507 2-1-50	USA 12 1/2%	R. L. Harrison -1/2 Edwin W. Pauley-1/2	Tom W. Heflin et ux Frieda -1% B. E. Spencer Estate-1%	R. L. Harrison- 1/2 Edwin W. Pauley - 1/2
3	T-24-S. R-32-E Sec. 19: Lots 1, 2, 3, 4, E/2 W/2, E/2 Sec. 30: Lots 1, 2, 3, 4, E/2 W/2 Sec. 31: Lots 1, 2, 3, 4, E/2 W/2	245.34	NM 04168 9-1-55	USA 12 1/2%	Mrs. Margaret A. Andrews	Margaret A. Andrews et vir F. K.-\$1000.00 per acre out of 3%	Continental Oil Company

EXHIBIT "B" (Cont'd)

Tr. No.	Description of Land	No. of Acres	Serial No. & Date of Lease or Application	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty Owner and Percentage	Working Interest Owner *
4	<u>T-24-S, R-32-E</u> Sec. 17: N/2 Sec. 18: NE/4 Sec. 21: A11	1120.00	NM 04329 7-1-52	USA 12 $\frac{1}{2}$ %	G. W. Littlefield	Nell S. Sergeant-\$1000.00 per acre out of 3% Erle Payne-\$125.00 per acre out of 1/2 of 1%	G. W. Littlefield
5	<u>T-24-S, R-31-E</u> Sec. 13: N/2 <u>T-24-S, R-32-E</u> Sec. 18: Lots 1, 2, E/2 NW/4	490.65	NM 04534 5-1-52	USA 12 $\frac{1}{2}$ %	Grace E. Van Hook	None	Grace E. Van Hook
6	<u>T-24-S, R-32-E</u> Sec. 7: Lots 1, 2	90.97	NM 06229 1-1-52	USA 12 $\frac{1}{2}$ %	M. G. Livermore -1/4 Frank O. Elliott-3/4	None	M. G. Livermore - 1/4 Frank O. Elliott - 3/4
7	<u>T-24-S, R-31-E</u> Sec. 25: W/2, SE/4 Sec. 26: A11 Sec. 35: NE/4	1280.00	NM 012121 12-1-50	USA 12 $\frac{1}{2}$ %	R. L. Harrison -1/2 Edwin W. Pauley-1/2	Clara Loving -1/2 of 1% B. E. Spencer Estate - 1% Robert E. Ferguson -1/4 of 1% J. S. Ward & Son, Inc. -1/4 of 1% C. B. Smith-2% as to NW/4 Sec. 26 only	R. L. Harrison Edwin W. Pauley
8	<u>T-24-S, R-32-E</u> Sec. 7: E/2 NE/4	80.00	NM 025283 5-1-57	USA 12 $\frac{1}{2}$ %	H. L. Sanderson	None	H. L. Sanderson
9	<u>T-24-S, R-32-E</u> Sec. 7: SE/4, S/2 SW/4	245.25	NM 025543 1-1-58	USA 12 $\frac{1}{2}$ %	Vincent Cuccia -1/2 George E. Conley-1/2	None	Vincent Cuccia George E. Conley

EXHIBIT "B" (Cont'd)

Tr. No.	Description of Land	No. of Acres	Serial No. & Date of Lease or Application	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty and Percentage	Owner	Working Interest Owner *
10	<u>T-24-S, R-31-E</u> Sec. 23: S/2 NW/4	80.00	NM 025750 2-1-58	USA 12 1/2%	J. M. Garfinkel	None		J. M. Garfinkel
11	<u>T-25-S, R-31-E</u> Sec. 3: Lots 1, 2, S/2 NE/4	159.38	NM 042625 3-1-58	USA 12 1/2%	W. R. Pagen	None		W. R. Pagen - 1/2% The Texas Company - 1/2%
12	<u>T-25-S, R-31-E</u> Sec. 3: E/2 SE/4 Sec. 10: NE/4	240.00	NM 042626 3-1-58	USA 12 1/2%	W. R. Pagen	None		W. R. Pagen - 1/2% The Texas Company - 1/2%
13	<u>T-25-S, R-31-E</u> Sec. 3: W/2 SE/4	80.00	NM 033501 2-1-58	USA 12 1/2%	R. Hal Johnson	None		R. Hal Johnson
14	<u>T-24-S, R-31-E</u> Sec. 34: Lots 3, 4, N/2 SE/4 Sec. 35: NW/4, Lots 1, 2, 3, 4, N/2 S/2	628.68	NM 036379 8-1-57	USA 12 1/2%	R. J. Kerr	None		R. J. Kerr
15	<u>T-24-S, R-31-E</u> Sec. 34: NE/4	160.00	NM 037489 10-1-57	USA 12 1/2%	Lillian Hinkle Coll	None		Lillian Hinkle Coll
16	<u>T-24-S, R-32-E</u> Sec. 17: S/2 Sec. 18: S/2 Sec. 20: A11 Sec. 29: N/2, W/2 SE/4, SW/4 Sec. 30: E/2 Sec. 31: E/2	2491.15	LC 061637 10-1-48	USA 12 1/2%	R. L. Harrison - 1/4 Edwin W. Pauley - 1/4 The Texas Co. - 1/2	J. A. Fairey - 3% Erle Payne - 1%		R. L. Harrison - 1/4 Edwin W. Pauley - 1/4 The Texas Company - 1/2

EXHIBIT "B" (Cont'd)

Tr. No.	Description of Land	No. of Acres	Serial No. & Date of Lease or Application	Basic Royalty & Per-centage	Lessee of Record	Overriding Royalty Owner and Percentage	Working Interest Owner *
17	<u>T-25-S, R-31-E</u> Sec. 12: SE/4 Sec. 13: A11 Sec. 14: NE/4, S/2 Sec. 15: SE/4 Sec. 23: N/2	1760.00	LC 061862 6-1-50	USA 12 $\frac{1}{2}$ %	R. L. Harrison -1/2 Edwin W. Pauley-1/2	H. L. Arnold J. L. Prude C. L. Cameron B. E. Spencer Estate-1/2%	R. L. Harrison - 1/4 Edwin W. Pauley - 1/4 The Texas Company - 1/2
18	<u>T-24-S, R-32-E</u> Sec. 33: W/2	320.00	LC 061863 6-1-50	USA 12 $\frac{1}{2}$ %	R. L. Harrison -1/2 Edwin W. Pauley-1/2	B. E. Spencer Estate-1% Marshall Rowley -1%	R. L. Harrison Edwin W. Pauley
	<u>T-25-S, R-32-E</u> Sec. 4: W/2 Sec. 5: A11 Sec. 6: A11 Sec. 7: N/2	1922.99	LC 061863 6-1-50	USA 12 $\frac{1}{2}$ %	R. L. Harrison -1/2 Edwin W. Pauley-1/2	B. E. Spencer Estate-1% Marshall Rowley -1%	R. L. Harrison - 1/4 Edwin W. Pauley - 1/4 The Texas Company - 1/2
19	<u>T-25-S, R-31-E</u> Sec. 24: N/2	2398.96	LC 061869 1-1-51	USA 12 $\frac{1}{2}$ %	Eugene H. Perry	J. A. Fairey H. L. Arnold - 1/2%	Sid W. Richardson & Perry R. Bass
	<u>T-25-S, R-32-E</u> Sec. 17: SE/4 Sec. 19: A11 Sec. 20: A11 Sec. 21: A11						
20	<u>T-25-S, R-32-E</u> Sec. 18: Lots 1, 2, E/2 NW/4, NE/4	319.45	LC 061873 3-1-51	USA 12 $\frac{1}{2}$ %	The Texas Company	Jack B. Shaw et ux -1% Virginia B. E. Spencer Estate-1%	The Texas Company
	<u>T-25-S, R-32-E</u> Sec. 7: Lots 3, 4, E/2 SW/4, SE/4	319.73	LC 061873 3-1-51	USA 12 $\frac{1}{2}$ %	R. L. Harrison -1/2 Edwin W. Pauley-1/2	Jack B. Shaw et ux -1% Virginia B. E. Spencer Estate-1%	R. L. Harrison Edwin W. Pauley

EXHIBIT "B" (Cont'd)

Tr. No.	Description of Land	No. of Acres	Serial No. & Date of Lease or Application	Basic Royalty & Per- centage	Lessee of Record	Overriding Royalty Owner and Percentage	Working Interest Owner *
21	<u>T-25-S, R-32-E</u>	1759.31	LC 061873	USA	R. L. Harrison -1/2	Jack B. Shaw et ux	R. L. Harrison -1/4
	Sec. 8: All		3-1-51	12 $\frac{1}{2}$ %	Edwin W. Pauley -1/2	Virginia	Edwin W.
	Sec. 9: W/2					B. E. Spencer Estate -1%	Pauley
	Sec. 17: N/2, SW/4						The Texas Co. -1/2
	Sec. 18: Lots 3, 4, E/2 SW/4, SE/4						
21	<u>T-24-S, R-32-E</u>	1879.14	LC 061936	USA	R. L. Harrison -1/2	Emily Flint Ray et	R. L. Harrison
	Sec. 27: SE/4		7-1-51	12 $\frac{1}{2}$ %	Edwin W. Pauley -1/2	vir G. B.	Edwin W. Pauley
	Sec. 34: All						
	<u>T-25-S, R-32-E</u>						
	Sec. 3: All						
22	Sec. 10: E/2, N/2 NW/4, SE/4 NW/4	520.00	LC 061936	USA	R. L. Harrison -1/2	Emily Flint Ray et	R. L. Harrison -1/4
	<u>T-25-S, R-32-E</u>		7-1-51	12 $\frac{1}{2}$ %	Edwin W. Pauley -1/2	vir G. B.	Edwin W.
	Sec. 9: E/2						Pauley
	Sec. 10: SW/4, SW/4 NW/4						The Texas Co. -1/2
	<u>T-24-S, R-32-E</u>	1359.20	LC 062000	USA	R. L. Harrison -1/2	B. E. Spencer Estate -2%	R. L. Harrison
22	Sec. 27: W/2		10-1-48	12 $\frac{1}{2}$ %	Edwin W. Pauley -1/2		Edwin W. Pauley
	Sec. 28: All						
	Sec. 29: E/2 SE/4						
	Sec. 33: E/2						
	<u>T-25-S, R-32-E</u>	320.32	LC 062000	USA	R. L. Harrison -1/2	B. E. Spencer Estate -2%	R. L. Harrison -1/4
22	Sec. 4: E/2		10-1-48	12 $\frac{1}{2}$ %	Edwin W. Pauley -1/2		Edwin W.
							Pauley
22							The Texas Co. -1/2

EXHIBIT "B" (Cont'd)

Tr. No.	Description of Land	No. of Acres	Serial No. & Date of Lease or Application	Basic Royalty & Per- centage	Lessee of Record	Overriding Royalty Owner and Percentage	Working Interest Owner *
23	<u>T-25-S, R-31-E</u> Sec. 23: S/2 Sec. 24: S/2 Sec. 26: N/2 Sec. 27: E/2 NW/4, NE/4	1200.00	LC 062140 3-1-51	USA 12 $\frac{1}{2}$ %	R. L. Harrison -1/2 Edwin W. Pauley-1/2	Clarence W. Gormley et ux Quilla - 1-1/3% B. E. Spencer Estate-2/3%	R. L. Harrison Edwin W. Pauley The Texas Company -1/4 -1/4 -1/2
24	<u>T-25-S, R-31-E</u> Sec. 25: N/2	2479.82	LC 062300 3-1-51	USA 12 $\frac{1}{2}$ %	R. L. Harrison -1/2 Edwin W. Pauley-1/2	G. E. Jordan et ux Edna B. E. Spencer Estate -1%	R. L. Harrison Edwin W. Pauley The Texas Company -1/4 -1/4 -1/2
	<u>T-25-S, R-32-E</u> Sec. 15: All Sec. 22: W/2 E/2, W/2 Sec. 27: N/2 NW/4 Sec. 28: N/2 Sec. 29: N/2 Sec. 30: Lots 1, 2, E/2 NW/4, NE/4						
25	<u>T-24-S, R-31-E</u> Sec. 13: S/2 Sec. 14: S/2 Sec. 25: W/2 NE/4	720.00	LC 062654 1-1-51	USA 12 $\frac{1}{2}$ %	R. L. Harrison -1/2 Edwin W. Pauley-1/2	R. H. Hayes et ux Cathryn B. E. Spencer Estate-1% Robert E. Ferguson -1/4% J. S. Ward & Son, Inc-1/4%	R. L. Harrison Edwin W. Pauley -1/2 -1/2
26	<u>T-25-S, R-32-E</u> Sec. 22: E/2 NE/4, NE/4 SE/4	120.00	LC 064727 4-1-51	USA 12 $\frac{1}{2}$ %	Ora R. Hall, Jr.	None	Ora R. Hall, Jr.

EXHIBIT "B" (Cont'd)

Tr. No.	Description of Land	No. of Acres	Serial No. & Date of Lease or Application	Basic Royalty & Per- centages	Lessee of Record	Overriding Royalty Owner and Percentage	Working Interest Owner *
27	<u>T-25-S, R-32-E</u> Sec. 27: N/2 NE/4, S/2 N/2	240.00	LC 065877-A 9-1-48	USA 12 $\frac{3}{4}$ %	Josie Jennings	Albert Evans, Jr. -7681/14714 of 1 $\frac{3}{4}$ % Island Oil Company -3/4 of 1% Porter Brown-7033/14714 of 1 $\frac{3}{4}$ % Charles P. Miller -3/4 of 1%	Josie Jennings
28	<u>T-25-S, R-32-E</u> Sec. 22: SE/4 SE/4	40.00	LC 065878 9-1-48	USA 12 $\frac{3}{4}$ %	Porter Brown	None	Porter Brown
29	<u>T-24-S, R-32-E</u> Sec. 8: N/2 Sec. 9: W/2, SE/4	800.00	LC 069272 6-1-51	USA 12 $\frac{3}{4}$ %	R. L. Harrison -1/4 Edwin W. Pauley-1/4 The Texas Co. -1/2	Lloyd E. Lockhart et ux Erin Helen Magruder Kollfiker and Fort Worth National Bank of Fort Worth, Texas, Trustee -1 $\frac{3}{4}$ %	R. L. Harrison Edwin W. Pauley The Texas Company -1/4 -1/2
30	<u>T-24-S, R-32-E</u> Sec. 8: S/2 Sec. 9: NE/4	480.00	LC 069272-A 6-1-51	USA 12 $\frac{3}{4}$ %	F. W. Estill	Lloyd E. Lockhart et ux Erin -3%	F. W. Estill
31	<u>T-25-S, R-31-E</u> Sec. 22: E/2	320.00	LC 070707 8-1-51	USA 12 $\frac{3}{4}$ %	E. B. Todhunter	None	E. B. Todhunter
32	<u>T-25-S, R-31-E</u> Sec. 22: E/2 W/2, SW/4 NW/4, NW/4 SW/4	240.00	LC 070707-A 8-1-51	USA 12 $\frac{3}{4}$ %	Jeff Hawks	E. B. Todhunter - \$1,000.00 per acre out of - 3%	Jeff Hawks

* 32 Federal Tracts containing 31,866.38 acres, or 90.673% of Unit Area.
Some Federal Leases are presently held under Option Agreement.

EXHIBIT "B" (Cont'd)

Tr. No.	Description of Land	No. of Acres	Serial No. & Date of Lease or Application	Basic Royalty & Per- centage	Lessee of Record	Overriding Royalty Owner and Percentage	Working Interest Owner *
<u>STATE LAND</u>							
33	<u>T-24-S, R-31-E</u> Sec. 36: N/2 SE/4	80.00	E-2129-1 9-10-48	State 12 $\frac{1}{2}$ %	R. L. Harrison -1/2 Edwin W. Pauley-1/2	None	R. L. Harrison Edwin W. Pauley
34	<u>T-25-S, R-32-E</u> Sec. 16: N/2	320.00	E-5009-1 2-10-51	State 12 $\frac{1}{2}$ %	Continental Oil Co.	None	Continental Oil Co.
35	<u>T-25-S, R-31-E</u> Sec. 2: All	639.92	E-7952 2-16-54	State 12 $\frac{1}{2}$ %	The Ohio Oil Co.	None	The Ohio Oil Co.
36	<u>T-24-S, R-32-E</u> Sec. 16: S/2	320.00	E-8192 5-18-54	State 12 $\frac{1}{2}$ %	Gulf Oil Corp.	None	Gulf Oil Corp.
37	<u>T-24-S, R-32-E</u> Sec. 16: N/2	320.00	E-8245 6-15-54	State 12 $\frac{1}{2}$ %	Gulf Oil Corp.	None	Gulf Oil Corp.
38	<u>T-24-S, R-32-E</u> Sec. 32: W/2, SE/4, N/2 NE/4, SE/4 NE/4	600.00	E-8325-1 7-20-54	State 12 $\frac{1}{2}$ %	R. L. Harrison -1/2 Edwin W. Pauley-1/2	None	R. L. Harrison Edwin W. Pauley
39	<u>T-24-S, R-31-E</u> Sec. 36: N/2, SW/4, S/2 SE/4	557.96	E-9127 6-21-55	State 12 $\frac{1}{2}$ %	R. L. Harrison -1/2 Edwin W. Pauley-1/2	None	R. L. Harrison Edwin W. Pauley
40	<u>T-25-S, R-32-E</u> Sec. 16: S/2	320.00	E-9789 2-21-56	State 12 $\frac{1}{2}$ %	Monsanto Chemical Co.	None	Monsanto Chemical Co.
41	<u>T-24-S, R-32-E</u> Sec. 32: SW/4 NE/4	40.00					Open

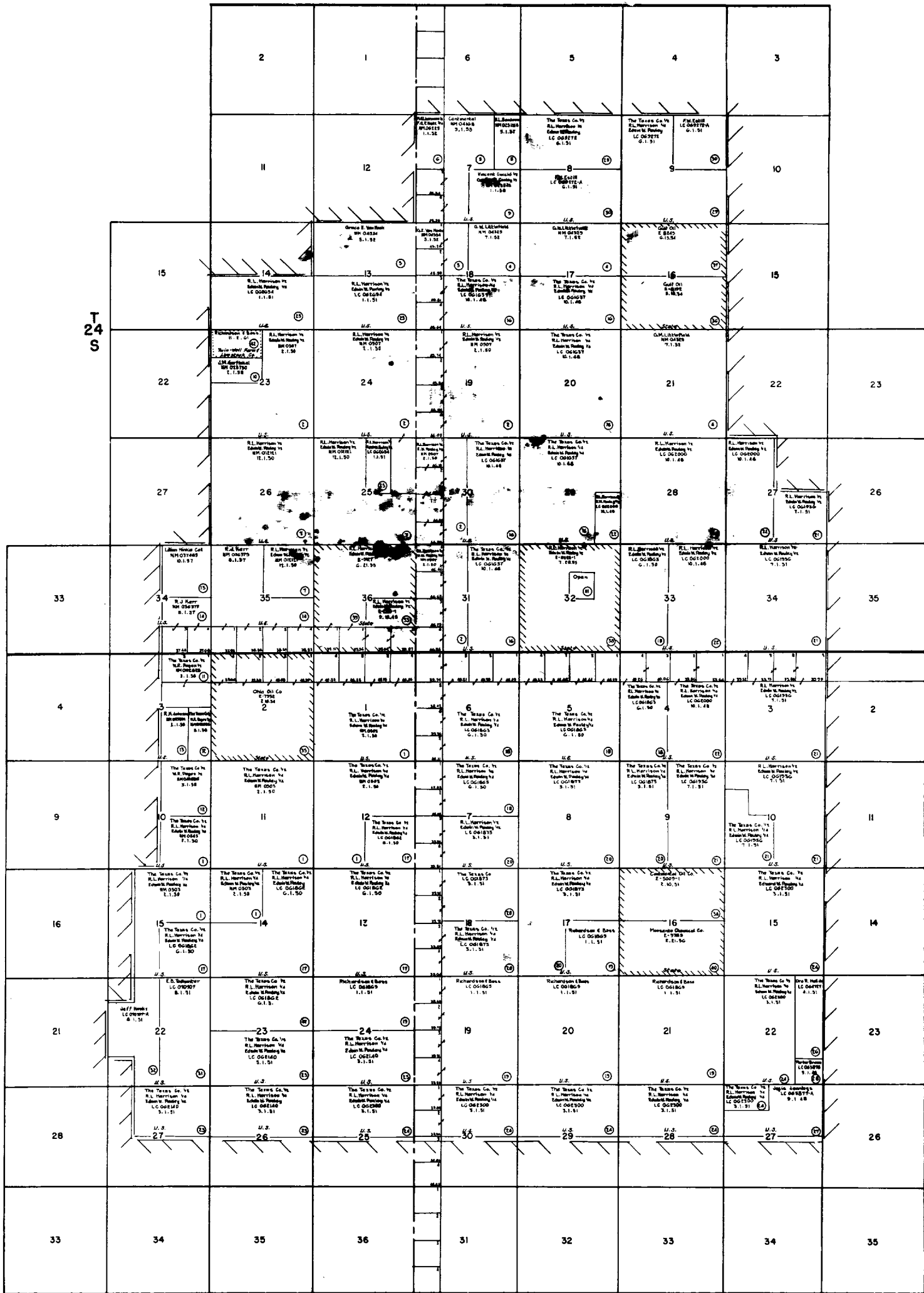
9 State Tracts containing 3,197.88 Acres, or 9.099% of Unit Area

EXHIBIT "B" (Cont'd)

Tr. No.	Description of Land	No. of Acres	Date of Lease Expiration	Royalty	Lessor of Record	Overriding Royalty Owner and Percentage	Working Interest Owner
42	FEE LAND T-24-S, R-31-E Sec. 23: N/2 NW/4	80.00	11-2-61	1/8	Twinwell Farm and Livestock Co.	None	Richardson and Bass
	1 Fee Tract Containing 80.00 Acres, or .228% of Unit Area						
	FEDERAL LAND	32 tracts			31,866.38 acres	90.673 % of unit area	
	STATE LAND	9 tracts			3,197.88 acres	9.099 % of unit area	
	FEE LAND	<u>1 tract</u>			<u>80.00 acres</u>	<u>.228 % of unit area</u>	
	TOTAL	42 tracts			35,144.26 acres	100.00 %	

R-31-E

R-32-E



R-31-E

EDDY CO.

LEA CO.

R-32-E

COTTON DRAW UNIT AREA
EDDY & LEA COUNTIES, NEW MEXICO

EXHIBIT "A"

LEGEND

- UNIT BOUNDARY
- STATE LAND --- 3,197.88 ACRES
- FEDERAL LAND --- 31,866.38 ACRES
- FEE LAND --- 80.00 ACRES

SCALE = 1 MILE

BEFORE EXAMINER UTZ
OIL CONSERVATION COMMISSION
EXHIBIT NO. 1
CASE NO. 1746