

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:) CASE NO. 11,780
)
APPLICATION OF COBRA OIL AND GAS)
CORPORATION FOR A UNIT AGREEMENT,)
LEA COUNTY, NEW MEXICO)
_____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

May 15th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, May 15th, 1997, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

May 15th, 1997
 Examiner Hearing
 CASE NO. 11,780

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| Examination by Examiner Catanach | 10 |
| <u>FRANK WILSON</u> (Geologist) | |
| Direct Examination by Mr. Carr | 11 |
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* * *

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:09 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 11,780.

5 MR. CARROLL: Application of Cobra Oil and Gas
6 Corporation for a unit agreement, Lea County, New Mexico.

7 EXAMINER CATANACH: Appearances in this case?

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe law firm Campbell, Carr,
10 Berge and Sheridan. We represent Cobra Oil and Gas
11 Corporation in this matter, and I have two witnesses.

12 Additional appearances?

13 Please swear in the witnesses.

14 (Thereupon, the witnesses were sworn.)

15 MR. CARR: May it please the Examiner, in
16 meetings yesterday with the Land Office, we were requested
17 to expand the unit.

18 As you will see from our initial exhibits, it's
19 originally proposed as an 80-acre unit. They believe it
20 should be expanded to be 160-acre, which would be comprised
21 of four 40-acre tracts that straddle a section line.

22 With your permission, since the witnesses are
23 here and this change will affect nothing in the
24 presentation except the description of the acreage, I would
25 request permission to go forward today.

1 We're talking about unitizing a portion of two
2 state leases that have a common beneficiary institution for
3 both of the leases, and the well is very, very close to the
4 center line because, as it seems to always be, that's where
5 the top of the small Devonian structure happens to be.

6 So with your permission, we'd like to present the
7 case today, continue it for four weeks, which will require
8 readvertisement and a resubmission to you of the unit
9 agreement.

10 EXAMINER CATANACH: Okay, so the case will be
11 continued and readvertised to June 12th; is that your
12 understanding?

13 MR. CARR: And I will send a new advertisement
14 and a unit with a revised description at that time.

15 EXAMINER CATANACH: Okay, let's go ahead with the
16 case.

17 CHARLES L. HOUSE,
18 the witness herein, after having been first duly sworn upon
19 his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. CARR:

22 Q. Would you state your name for the record, please?

23 A. Charles L. House.

24 Q. And Mr. House, where do you reside?

25 A. Midland, Texas.

1 Q. By whom are you employed?

2 A. I'm a self-employed landman.

3 Q. And in this case are you working for Cobra Oil
4 and Gas Corporation?

5 A. That is correct. I'm a consultant.

6 Q. Have you previously testified before this
7 Division?

8 A. Yes, I have.

9 Q. At the time of that testimony, were your
10 credentials as a petroleum landman accepted and made a
11 matter of record?

12 A. Yes, they were.

13 Q. Are you familiar with the Application filed in
14 this case on behalf of Cobra Oil and Gas Corporation?

15 A. Yes, I am.

16 Q. And are you familiar with the proposed Gainer
17 exploratory unit?

18 A. Yes.

19 MR. CARR: Are the witness's qualifications
20 acceptable?

21 EXAMINER CATANACH: Yes, they are.

22 Q. (By Mr. Carr) Would you briefly summarize for
23 the Examiner what it is Cobra seeks with this Application?

24 A. Cobra seeks approval of Gainer exploratory unit,
25 a voluntary exploratory unit containing now 160 acres of

1 state land, Lea County, New Mexico.

2 Q. Have you prepared certain exhibits for
3 presentation in this case?

4 A. Yes, I have.

5 Q. Let's go to what has been marked for
6 identification as Cobra Exhibit Number 1. Would you
7 identify that for Mr. Catanach?

8 A. This is a unit agreement for the development and
9 operation of the Gainer unit area.

10 Q. And this is on the state form for a voluntary
11 state/fee exploratory unit; is that correct?

12 A. Yes.

13 Q. Let's look at Exhibit Number 2, which is the plat
14 that is also attached to the unit agreement, and would you
15 simply review that for Mr. Catanach?

16 A. This is just a copy of the Midland Map Company
17 map outlining the affected leases, and then in blue we're
18 showing the unit outline, proposed unit outline.

19 Q. And that blue outline will be expanded to include
20 the west half of the northwest quarter of Section 22 and
21 the east half of the northeast quarter of Section 21; is
22 that correct?

23 A. Yes.

24 Q. We're looking at two state leases; is that right?

25 A. That's correct.

1 Q. And does Cobra -- Is Cobra the lessee on both of
2 those leases?

3 A. Technically, I'm the lessee of record. However,
4 Monday of this week I did forward to the State Land Office
5 assignments into Cobra. I'm waiting on approved copies.

6 Q. Let's go to Exhibit B to the unit agreement, and
7 I'd ask you to review the status of the ownership of the
8 acreage in the proposed unit.

9 A. The two leases are -- two state leases are still
10 in their primary term, now owned by Cobra Exploration
11 Company.

12 The royalty percentage on both is identical, the
13 overriding royalty percentage on both is identical, the
14 beneficiary is identical in both cases.

15 Cobra owns 100 percent of the cost-bearing
16 interest, and it would be a 75-percent net revenue
17 interest.

18 Q. And when you amend the unit, you anticipate being
19 able to provide Mr. Catanach the State Land Office's
20 preliminary approval for the proposed unit; is that
21 correct?

22 A. That is correct.

23 Q. And under the unit agreement, Cobra is designated
24 operator of the unit?

25 A. Yes.

1 Q. Does this agreement provide for the filing of
2 periodic plans of development?

3 A. Yes, it does.

4 Q. And those plans will be filed with the Oil
5 Conservation Division at the same time they're filed with
6 other agencies?

7 A. Yes.

8 Q. You file initial plan how soon after creation of
9 the unit?

10 A. We show the initial plan to be filed in six
11 months, with subsequent plans in twelve months.

12 Q. In fact, this is probably, what's left, a one-
13 well reservoir; isn't that right?

14 A. That's correct.

15 Q. And your geological witness will review that
16 portion of this case?

17 A. Yes.

18 Q. Were Exhibits 1 and 2 prepared by you?

19 A. Yes, they were.

20 MR. CARR: Mr. Catanach, at this time we'd move
21 the admission into evidence of Cobra Exhibits 1 and 2.

22 EXAMINER CATANACH: Exhibits 1 and 2 will be
23 admitted as evidence.

24 MR. CARR: And that concludes my examination of
25 Mr. House.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. House, does this unit agreement cover all formations?

A. It would cover all formations, all depths. The primary target would be the Devonian.

Q. Okay. Cobra is the only interest owner --

A. That's correct.

Q. -- in this proposed unit?

Do you -- Or do you plan to submit a revised unit agreement that shows the additional acreage --

A. Yes.

Q. -- in this unit?

And it's my understanding that the unit will now comprise the east half of the northeast quarter of 21?

A. That's correct.

Q. And the west half of the northwest of 22?

A. Yes.

Q. Okay. 160 acres. And that won't change the ownership at all?

A. No, sir.

Q. Have you obtained preliminary approval from the State Land Office?

A. We have not at this time. We discussed it with them and are waiting to hear back.

1 Q. Did they indicate that there would be any problem
2 with giving you --

3 A. No, they did not. I specifically asked that
4 question, if they had any problem with it, and the answer
5 was no.

6 EXAMINER CATANACH: I have nothing further of
7 this witness.

8 MR. CARR: At this time we would call Frank
9 Wilson.

10 FRANK WILSON,
11 the witness herein, after having been first duly sworn upon
12 his oath, was examined and testified as follows:

13 DIRECT EXAMINATION

14 BY MR. CARR:

15 Q. Would you state your name for the record, please?

16 A. Frank Wilson.

17 Q. Where do you reside?

18 A. Wichita Falls, Texas.

19 Q. By whom are you employed?

20 A. I'm self-employed.

21 Q. And are you a petroleum geologist?

22 A. Yes.

23 Q. And are you employed in this matter by Cobra --

24 A. Yes, I am.

25 Q. -- to provide geological services for this unit?

1 A. Yes.

2 Q. Have you previously testified before the New
3 Mexico Oil Conservation Division?

4 A. No, I have not.

5 Q. Could you briefly review for Mr. Catanach your
6 educational background?

7 A. I graduated from the University of Alabama in
8 1993, with a bachelor of science in geology.

9 Q. And since graduation, for whom have you worked?

10 A. Cobra Oil and Gas, basically as a consulting
11 petroleum geologist.

12 Q. Have you made a geological study of the area
13 surrounding the proposed Gainer exploratory unit?

14 A. Yes, I have.

15 Q. And are you prepared to share the results of that
16 study --

17 A. Yes, sir.

18 Q. -- with the Examiner?

19 MR. CARR: Mr. Catanach, we tender Mr. Wilson as
20 an expert witness in petroleum geology.

21 EXAMINER CATANACH: He is so qualified.

22 Q. (By Mr. Carr) What formations are we unitizing
23 in the proposed Gainer exploratory unit?

24 A. All formations.

25 Q. Primary objective is, as Mr. House stated, the

1 Devonian?

2 A. That's correct.

3 Q. And what pool will this well actually be located?

4 A. The South Crossroads-Devonian.

5 Q. Are there any secondary objectives in the pool?

6 A. No.

7 Q. Or in the unit?

8 A. No, sir.

9 Q. Let's go to what has been marked for
10 identification as Cobra Exhibit Number 4, and I'd ask you
11 to identify that and review it for Mr. Catanach.

12 A. This is a base map I've prepared showing the
13 wells in the area with their TDs marked. Notice there are
14 approximately 14 producing Devonian wells within these four
15 sections. All of those are in the South Crossroads-
16 Devonian Pool.

17 Q. Let's go to Exhibit Number 5, your structure map.
18 Would you review that for us?

19 A. Okay. I prepared the structure map from
20 subsurface geology. As you can see, there's a structural
21 high point in the northwest quarter of Section 22,
22 northeast quarter of Section 21.

23 The original oil-water contact in this field was
24 about 8275. Subsequent drilling has shown that the oil-
25 water contact has moved up to above 8200.

1 The Landreth well, which is drilled 330 from the
2 south line and 11 feet from the west line of Section 15 is
3 probably the most recent well, closest to our feature.
4 That well produced 90-percent water and 10-percent oil on
5 the test.

6 Q. Is that well no plugged and abandoned?

7 A. Yes, sir, I believe so.

8 Q. So basically what you've got is a Devonian
9 feature. Is it a bottom water drive?

10 A. It's definitely a bottom water drive.

11 Q. And what we've got is just a little attic left in
12 the reservoir, and you're attempting to drill at the top of
13 the structure --

14 A. That's correct.

15 Q. -- to reach the remaining reserves?

16 A. Yes, sir.

17 Q. And that happens to be right on the section line?

18 A. Yes.

19 Q. Let's go to Exhibit Number 6. Can you tell me
20 what this is?

21 A. Exhibit Number 6 is a type log. This is the Hill
22 and Meeker State 22 well. It's located 1990 from the west
23 line and 660 from the north.

24 This is -- well was drilled in 1962 and came on
25 flowing for a rate of 324 barrels out of the Devonian

1 formation.

2 Q. Is Exhibit Number 7 a summary of your geologic
3 presentation?

4 A. Yes.

5 Q. What conclusions basically have you reached from
6 your study?

7 A. Based on the structural position and the apparent
8 oil-water contact on this feature, it becomes apparent the
9 structural crest of the feature's optimum location to
10 recover reserves on -- that are left in attic oil here.

11 Q. In your opinion, is this area one that can now be
12 best produced under a unit plan?

13 A. Yes, sir.

14 Q. How soon do you propose to drill the initial test
15 well?

16 A. We are planning to drill it September 1st of
17 1997.

18 Q. You have a two-year term assignment on the
19 property?

20 A. Yes, sir.

21 Q. In your opinion, would approval of this
22 Application and the development of the remaining reserves
23 in this Devonian pool under a unit plan be in the best
24 interest of conservation, the prevention of waste and the
25 protection of correlative rights?

1 A. Yes, sir.

2 Q. Were Exhibits 4 through 7 prepared by you?

3 A. They were.

4 MR. CARR: At this time, Mr. Catanach, I would
5 move the admission into evidence of Cobra Exhibits 4
6 through 7.

7 EXAMINER CATANACH: Exhibits 4 through 7 will be
8 admitted as evidence.

9 MR. CARR: That concludes my examination of Mr.
10 Wilson.

11 EXAMINATION

12 BY EXAMINER CATANACH:

13 Q. Mr. Wilson, have you guys determined a well
14 location for your proposed well?

15 A. Yes, sir, it's 1294 from the north, 39 feet from
16 the west line of Section 22.

17 Q. I'm sorry, 39 feet --

18 A. Yes.

19 Q. -- from the west line of Section 22.

20 What geologic data did you use to map that
21 structure?

22 A. We have 3-D seismic control across the area and
23 the subsurface.

24 Q. This is the first well that Cobra has drilled in
25 this Devonian field?

1 A. In this field, yes, sir.

2 Q. I believe you testified that the oil-water
3 contact is now at a point of minus 8200 feet?

4 A. Slightly above there. The well that's located in
5 the southwest quarter of 15, 330 from the section line, was
6 drilled in 1977.

7 That well produced -- I believe it was
8 approximately 22,000 barrels of oil, but it was making 90-
9 percent water cut at that time. So the oil-water contact
10 is above that point at this time.

11 Q. Is that the well that's marked minus 8193?

12 A. No, that's the well just south of it. I do not
13 have a log on that well. It was never released. It was
14 drilled by VF Petroleum.

15 Q. Are the -- Are generally the wells in this field
16 still producing?

17 A. No, sir.

18 Q. Is there any well still producing?

19 A. I don't believe so. These wells were drilled in
20 the period from 1952 to, say, 1970.

21 Q. Is it possible that that well you will drill,
22 will, in fact, drain that 160 acres?

23 A. Yes, sir, it is possible. Based on my mapping, I
24 think the structure is a little smaller, about 160 acres.
25 But recoverable oil is less than 160 acres, as you can see

1 from the map.

2 Q. Is spacing on -- Is this on 40 acres out here?

3 A. No, I believe the field was on 80 acres at the
4 time.

5 EXAMINER CATANACH: 80-acre spacing. Okay. I
6 have nothing further of this witness.

7 MR. CARR: That concludes our presentation in
8 this case. We will file a revised unit agreement with
9 preliminary Land Office approval.

10 EXAMINER CATANACH: Okay.

11 MR. CARR: And I would request the case be
12 continued for four weeks.

13 EXAMINER CATANACH: Okay, the case will be
14 continued and readvertised for the June 12th hearing.

15 (Thereupon, these proceedings were concluded at
16 9:26 a.m.)

17 * * *

18

19 I do hereby certify that the foregoing is
20 a complete record of the proceedings in
21 the Examiner hearing of Case No. _____,
heard by me on _____ 19____.

22

23

24

25

26

_____, Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL May 18th, 1997.

A handwritten signature in cursive script, appearing to read "Steven T. Brenner", written over a horizontal line.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
 THE OIL CONSERVATION DIVISION FOR THE)
 PURPOSE OF CONSIDERING:) CASE NO. 11,780
)
 APPLICATION OF COBRA OIL AND GAS)
 CORPORATION FOR A UNIT AGREEMENT,)
 LEA COUNTY, NEW MEXICO)
 _____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

June 12th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, June 12th, 1997, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

June 12th, 1997
Examiner Hearing
CASE NO. 11,780

PAGE

REPORTER'S CERTIFICATE

4

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A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:21 a.m.:

3 MR. CARR: Mr. Examiner, Case 11,780 on the first
4 page is an Application of Cobra Oil and Gas Corporation for
5 a unit agreement.

6 As you may recall, this case was presented you
7 four weeks ago, and there was a disagreement between us and
8 the Land Office as to what was the appropriate acreage for
9 the unit.

10 I do have an amended unit agreement, which will
11 provide for a larger unit. I have not yet received a
12 letter from the Land Office concurring, however, in the
13 expanded unit, and so for that purpose I would request that
14 the case be continued for an additional two weeks. We
15 believe at that time we can present to you a letter from
16 the State Land Office agreeing to a larger unit area.

17 EXAMINER CATANACH: Okay, Mr. Carr, at your
18 request Case 11,780 will be continued to June 26th.

19 (Thereupon, these proceedings were concluded at
20 8:22 a.m.)

21 * * *

22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
24 the Examiner hearing of Case No. 11780,
25 heard by me on June 12 1987.

David R. Catanach, Examiner
Oil Conservation Division

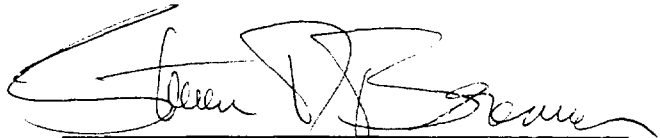
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL June 13th, 1997.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF COBRA OIL AND GAS)
CORPORATION FOR A UNIT AGREEMENT,)
LEA COUNTY, NEW MEXICO)

CASE NO. 11,780

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

June 26th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, June 26th, 1997, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

June 26th, 1997
Examiner Hearing
CASE NO. 11,780

PAGE

REPORTER'S CERTIFICATE

7

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E X H I B I T S

| Applicant's | Identified | Admitted |
|-------------|------------|----------|
| Exhibit 8 | 4 | 5 |

* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
117 N. Guadalupe
P.O. Box 2265
Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 8:16 a.m.:

3 EXAMINER STOGNER: For the record, I'm Michael
4 Stogner, appointed Hearing Examiner for today's docket,
5 which is Number 18-97. Please note today's date, Thursday,
6 June 26th, 1997.

7 At this time I will call Case Number 11,780.

8 MR. CARROLL: Application of Cobra Oil and Gas
9 Corporation for a unit agreement, Lea County, New Mexico.

10 EXAMINER STOGNER: Call for appearances.

11 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
12 the Santa Fe law firm of Kellahin and Kellahin, appearing
13 in association with William F. Carr of the Campbell, Carr,
14 Berge and Sheridan law firm of Santa Fe, New Mexico. We
15 are representing the Applicant in this case.

16 EXAMINER STOGNER: No other appearances?

17 Mr. Kellahin, could you bring me up to date on
18 this case, 11,780?

19 MR. KELLAHIN: Yes, Mr. Examiner.

20 Mr. Carr presented this with Cobra's witness to
21 Examiner Catanach on May 15th.

22 At the time that case was presented, Mr. Carr
23 advised Examiner Catanach that discussions with the
24 Commissioner of Public Lands have resulted in a request by
25 the Commissioner to increase the size of the acreage to be

1 dedicated to the unit.

2 If you have a copy of the case file there, and if
3 you would turn your attention to Exhibit Number 2, it will
4 give you a plat which illustrates the change.

5 EXAMINER STOGNER: Exhibit Number 2. It appears
6 to be a blow-up copy of the Midland Map Company?

7 MR. KELLAHIN: Yes, sir.

8 EXAMINER STOGNER: Okay.

9 MR. KELLAHIN: At the time the case was filed,
10 the 80-acre standup unit configuration outlined in blue was
11 the proposal. As a result of the request from the
12 Commissioner of Public Lands, the area was expanded to
13 include the 160 acres outlined in red, and that was the
14 change.

15 The case was readvertised and continued for a
16 month to today's docket in order to change the exhibits
17 attached to the operating agreement and the unit agreement,
18 and to obtain a letter of preliminary approval from the
19 Commissioner of Public Lands.

20 Those things have been accomplished, and I have
21 as a supplemental exhibit for today's hearing what I've
22 marked as Cobra Exhibit 8, which is the approval from the
23 Commissioner of Public Lands.

24 Here is a -- I'm going to hand you an information
25 sheet to supplement the statements I've just made and to

1 support the fact that the change does not change the
2 identity of the parties or the type of acreage to be
3 committed to the unit. It still is state lands, and the
4 only parties involved are Cobra as the record title lessee
5 of both the leases involved and the Commissioner of Public
6 Lands. We believe the case is now complete and ready to
7 take under advisement for the issuance of an order.

8 EXAMINER STOGNER: At this time I'll admit
9 Exhibit Number 8 as evidence in this case. That additional
10 information will be made part of this record.

11 I'll just state also for the record, I don't
12 remember seeing an unorthodox location application, and
13 this is beyond that particular rule exception to the OCD
14 rules and regs. Perhaps when that is ready to be submitted
15 by Cobra, if they'll just refer to this case, because a lot
16 of the questions required for such an exception are already
17 covered in this, and it would make the processing of that
18 kind of application much easier.

19 MR. KELLAHIN: Mr. Examiner, I was unable to talk
20 to Mr. Carr about that topic. His case file does not
21 reflect what's occurring on that. It's obviously an
22 unorthodox location. I'll bring it to his attention when
23 he returns, and he may proceed to deal with that.

24 EXAMINER STOGNER: And it would make my
25 processing easier, as with his and yours.

1 Okay, is there anything further in Case Number
2 11,780?

3 MR. KELLAHIN: No, sir.

4 EXAMINER STOGNER: Then Case Number 11,780 will
5 be taken under advisement at this time.

6 (Thereupon, these proceedings were concluded at
7 8:19 a.m.)

8 * * *

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16
17 I do hereby certify that the foregoing is
18 a complete record of the proceedings in
19 the Examiner hearing of Case No. 11780,
20 heard by me on 26 June 19 97.
21 Michael E. Stogner, Examiner
22 Oil Conservation Division
23
24
25

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL June 26th, 1997.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998



COMMERCIAL RESOURCES
(505)-827-5724

SURFACE RESOURCES
(505)-827-5795

MINERAL RESOURCES
(505)-827-5744

ROYALTY
(505)-827-5772

State of New Mexico
Commissioner of Public Lands

Ray Powell, M.S., D.V.M.
310 Old Santa Fe Trail, P. O. Box 1148
Santa Fe, New Mexico 87504-1148
Phone (505)-827-5760, Fax (505)-827-5766

PUBLIC AFFAIRS
(505)-827-5765

ADMINISTRATIVE MGMT.
(505)-827-5700

LEGAL
(505)-827-5715

PLANNING
(505)-827-5752

June 19, 1997

Campbell, Carr, Berge & Sheridan, P.A.
P.O. Box 2208
Santa Fe, New Mexico 87504-2208

Attn: Mr. William F. Carr

Re: Preliminary Approval
Proposed Gainer Unit
Lea County, New Mexico

RECEIVED
JUN 19 1997
CAMPBELL, CARR, et al.

| | |
|---------------------------|---------------|
| BEFORE EXAMINER STOGNER | |
| OIL CONSERVATION DIVISION | |
| Cobra | EXHIBIT NO. 8 |
| CASE NO. | 11780 |

Dear Mr. Carr:

This office has received the unexecuted copy of the unit agreement which you have submitted on behalf of Cobra Oil & Gas Corporation for the proposed Gainer Unit area, Lea County, New Mexico. This agreement meets the general requirements of the Commissioner of Public Lands, who has this date granted you preliminary approval as to form and content.

Preliminary approval shall not be construed to mean final approval of this agreement in any way and will not extend any short term leases, until final approval and an effective date have been given.

When submitting your agreement for final approval, please submit the following:

1. Application for final approval by the Commissioner setting forth the tracts that have been committed and the tracts that have not been committed.
2. Pursuant to Rule 1.045, applications for approval shall contain a statement of facts showing:
 - a. That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy.
 - b. That under the proposed unit operation, the State of New Mexico will receive its fair share of the recoverable oil and gas in place under its lands in the proposed unit area.

Campbell, Carr, Berge & Sheridan, P.A.
June 19, 1997
Page 2

- c. That each beneficiary institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the unit area.
- d. That such unit agreement is in other respects for the best interest of the trust.
3. All ratifications from the Lessees of Record and Working Interest Owners. All signatures should be acknowledged by a notary and one set must contain original signatures.
4. Order of the New Mexico Oil Conservation Division. Our approval will be conditioned upon subsequent favorable approval by the New Mexico Oil Conservation Division.
5. Please submit two copies of the Unit Agreement.
6. A copy of the Unit Operating Agreement (if applicable).
7. The filing fee for a Unit Agreement is thirty (\$30.00) dollars for every section or partial section thereof. Please submit a filing fee in the amount of \$60.00 dollars.
8. On Page 5 of the agreement, Article 17, Effective Date & Term, please fill in the term (5 years and so long as).
9. Copies of all the well records for the initial unit well.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

RAY POWELL, M.S., D.V.M.
COMMISSIONER OF PUBLIC LANDS

BY: 

JAMI BAILEY, Director
Oil/Gas and Minerals Division
(505) 827-5744

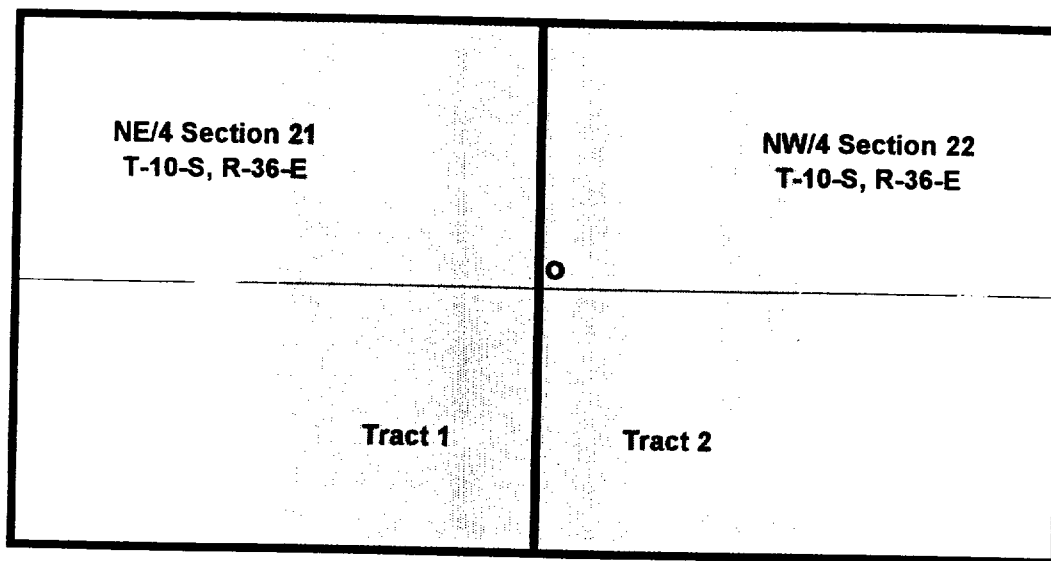
RP/JB/cpm

cc: Reader File

OCD--Attention: Mr. Roy Johnson
Mr. William F. Carr

EXHIBIT "A" MAP OF UNIT AREA

GAINER EXPLORATORY UNIT
LEA COUNTY, NEW MEXICO



TRACT 1: E/2 NE/4 Sec. 21 T-10-S, R-36-E (80 acres)

TRACT 2: W/2 NW/4 Sec. 22 T-10-S, R-36-E (80 acres)

UNIT ACREAGE:



FEDERAL LANDS: 0 acres

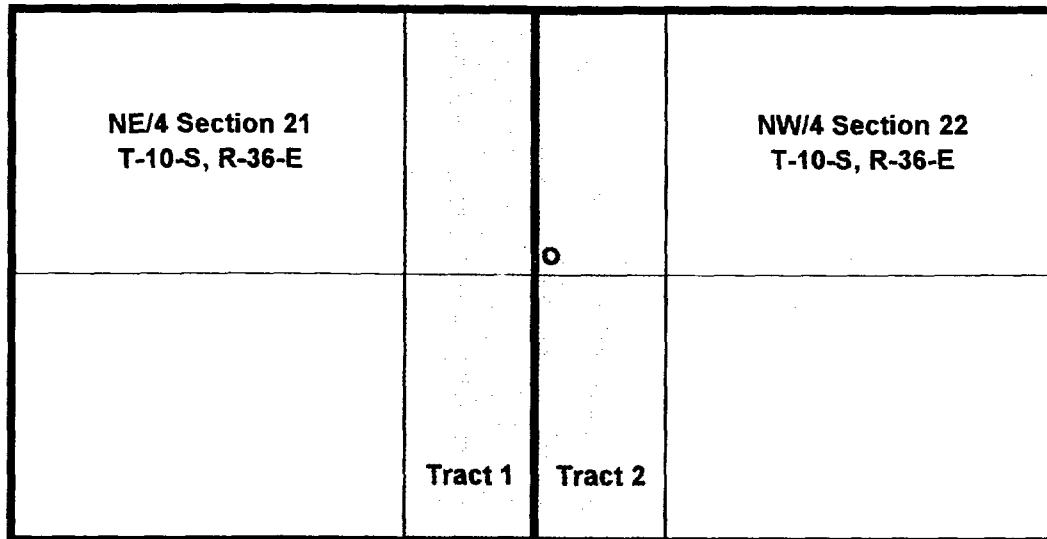
STATE LANDS: 160 acres

FEE LANDS: 0 acres

PROPOSED WELL LOCATION: 1294 feet from North Line and 39 feet from West Line
of Section 22, T-10-S, R-36-E, Lea County, New Mexico

EXHIBIT "A" MAP OF UNIT AREA

GAINER EXPLORATORY UNIT
LEA COUNTY, NEW MEXICO



TRACT 1: E/2 E/2 NE/4 Sec. 21 T-10-S, R-36-E (40 acres)

TRACT 2: W/2 W/2 NW/4 Sec. 22 T-10-S, R-36-E (40 acres)

UNIT ACREAGE:

FEDERAL LANDS: 0 acres

STATE LANDS: 80 acres

FEE LANDS: 0 acres

PROPOSED WELL LOCATION: 1294 feet from North Line and 39 feet from West Line
of Section 22, T-10-S, R-36-E, Lea County, New Mexico

UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE

NO. _____

Hearing Date: May 15, 1997

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

 GAINER UNIT AREA
 LEA COUNTY, NEW MEXICO
NO.

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

GAINER UNIT AREA

LEA COUNTY, NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the 9th day of May
19 97, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "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 Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943) as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annot.), to consent to and approve the development or operation of State Lands under agreements made by lessees of State Land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951, Chap. 19, Art. 10, Sec. 47, N.M. Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State Lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico (hereinafter referred to as the "Division"), is authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being Section 70-2-1 et seq. New Mexico Statutes Annotated, 1978 Compilation) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Gainer 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. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area:

Township 10 South, Range 36 East, N.M.P.M.

Sections: 21: E/2 E/2 NE/4 and 22: W/2 W/2 NW/4

Containing 80 acres, more or less,

Lea County, New Mexico

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 lands 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 on said map or schedule as owned by such party. Exhibit "A" and "B" shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR: Cobra Oil & Gas Corporation
whose address is P. O. Box 8206, Wichita Falls, Texas 76307 is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit "B", 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.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit operator shall have the right to resign at any time but such resignation shall not become effective until a successor unit operator has been selected and approved in the manner provided for in Section 5 of this agreement. The resignation of the unit operator shall not release the unit operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

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 Commissioner and the Division.

The resignation or removal of the unit operator under this agreement shall not terminate his 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 wells.

5. SUCCESSOR UNIT OPERATOR: Whenever the unit operator shall resign as unit operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor unit operator; provided that, if a majority but less than seventy-five percent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total working interests, shall be required 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 Commissioner. If no successor unit operator is selected and qualified as herein provided, the Commissioner at his election, with notice to the Division, may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS: The unit operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned among the owners of the unitized working interests in accordance with an operating agreement entered into by and between the unit operator and the owners of such 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 "Operating Agreement". No such 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 inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

7. 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.

8. DRILLING TO DISCOVERY: The unit operator shall, within sixty (60) days after the effective date of this agreement, commence operations upon an adequate test well for oil and gas upon some part of the lands embraced within the unit area and shall drill said well with due diligence to a depth sufficient to attain the ~~top of the~~ base of the Devonian formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of unit operator, be determined that the further drilling of said well shall 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 12,500 feet. Until a discovery of a deposit of unitized substances

capable of being produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling and producing operations with a reasonable profit) 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 the Commissioner or until it is reasonably proven to the satisfaction of the unit operator that the unitized land is incapable of producing unitized substances in paying quantities in the formation drilled hereunder.

Any well commenced prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted. Upon failure to comply with the drilling provisions of this article the 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, and all rights privileges and obligations granted and assumed by this unit agreement shall cease and terminate as of such date.

9. OBLIGATIONS OF UNIT OPERATOR AFTER DISCOVERY OF UNITIZED SUBSTANCES: Should unitized substances in paying quantities be discovered upon the unit area, the unit operator shall on or before six months from the time of the completion of the initial discovery well and within thirty days after the expiration of each twelve months period thereafter, file a report with the Commissioner and Division of the status of the development of the unit area and the development contemplated for the following twelve months period.

It is understood that one of the main considerations for the approval of this agreement by the Commissioner of Public Lands is to secure the orderly development of the unitized lands in accordance with good conservation practices so as to obtain the greatest ultimate recovery of unitized substances.

After discovery of unitized substances in paying quantities, unit operator shall proceed with diligence to reasonably develop the unitized area as a reasonably prudent operator would develop such area under the same or similar circumstances.

If the unit operator should fail to comply with the above covenant for reasonable development this agreement may be terminated by the Commissioner as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units, but in such event, the basis of participation by the working interest owners shall remain the same as if this agreement had not been terminated as to such lands; provided, however, the Commissioner shall give notice to the unit operator and the lessees or record in the manner prescribed by (Sec. 19-10-20 N.M. Statutes 1978 Annotated), of intention to cancel on account of any alleged breach of said covenant for reasonable development and any decision entered thereunder shall be subject to appeal in the manner prescribed by (Sec. 19-10-23 N.M. Statutes 1978 Annotated), and, provided further, in any event the unit operator shall be given a reasonable opportunity after a final determination within which to remedy any default, failing in which this agreement shall be terminated as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units.

Notwithstanding any of the provisions of this Agreement to the contrary, all undeveloped regular well spacing or proration unit tracts within the unit boundaries embracing lands of the State of New Mexico shall be automatically eliminated from this Agreement and shall no longer be a part of the unit or be further subject to the terms of this agreement unless at the expiration of five (5) years after the first day of the month following the effective date of this agreement diligent drilling operations are in progress on said tracts.

10. PARTICIPATION AFTER DISCOVERY: Upon completion of a well capable of producing unitized substances in paying quantities the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the State of New Mexico and other lessors, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed hereto.

Notwithstanding any provisions contained herein to the contrary, 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.

11. ALLOCATION OF PRODUCTION: All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tracts of said unitized area.

12. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES: All rentals due to the State

of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

All royalties due to the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the unit operator shall make deliveries of such royalty share in accordance with the terms of the respective leases.

All rentals, if any, due under any leases embracing lands other than the State of New Mexico, shall be paid by the respective lease owners in accordance with the terms of their leases and all royalties due under the terms of any such leases shall be paid on the basis of all unitized substances allocated to the respective leases committed hereto.

If the unit operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, 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 a plan of operation consented to by the Commissioner and approved by the Division as conforming to good petroleum engineering practices; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED INsofar AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA: The terms, conditions and provision of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling development or operation for oil or gas of the lands committed to this agreement, shall as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the terms of this agreement and the approval of this agreement by the Commissioner and the respective lessors and lessees shall be effective to conform the provisions and extend the terms of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein as long as this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the unit operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The commencement, completion, continued operation or production on each of the leasehold interests committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operations upon and production from each leasehold interest committed hereto and there shall be no obligation on the part of the unit operator or any of the owners of the respective leasehold interests committed hereto to drill offset to wells as between the leasehold interests committed to this agreement, except as provided in Section 9 hereof.

Any lease embracing lands of the State of New Mexico of which only a portion is committed hereto shall be segregated as to the portion committed and as to the portion not committed and the terms of such leases shall apply separately as two separate leases as to such segregated portions, commencing as of the effective date hereof. 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 term provided therein as to all lands embraced within the unitized area and committed to this agreement, in accordance with the terms of this agreement. If oil and gas, or either of them, are discovered and are being produced in paying quantities from some part of the lands embraced in such lease which part is committed to this agreement at the expiration of the fixed term of such lease, such production shall not be considered as production from lands embraced in such lease which are not within the unitized area, and which are not committed thereto, and drilling or reworking operations upon some part of the lands embraced within the unitized area and committed to this agreement shall be considered as drilling and reworking operations only as to lands embraced within the unit agreement and not as to lands embraced within the lease and not committed to this unit agreement; provided, however, as to any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto upon which oil and gas, or either of them, has been discovered is discovered upon that portion of such lands not committed to this agreement, and are being produced in paying quantities prior to the expiration of the fixed term of such lease, such production in paying quantities shall serve to continue such lease in full force and effect in accordance with its terms as to all of the lands embraced in said lease.

14. 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 laws or regulations.

15. DRAINAGE: In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the unit area draining unitized substances from the lands embraced therein, unit operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

16. **COVENANTS RUN WITH LAND:** The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer 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 to the grantee, transferee or other successor in interest. No assignment or transfer or any working, royalty, or other interest subject hereto shall be binding upon unit operator until the first day of the calendar month after the unit operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

17. **EFFECTIVE DATE AND TERM:** This agreement shall become effective upon approval by the Commissioner and the Division and shall terminate in 5 years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances are being produced in paying quantities from the unitized land 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 are being produced as aforesaid. This agreement may be terminated at any time by not less than seventy-five percent (75%) on an acreage basis of the owners of the working interests, signatory hereto, with the approval of the Commissioner and with notice to the Division. Likewise, the failure to comply with the drilling requirements of Section 8 hereof, may subject this agreement to termination as provided in said section.

18. **RATE OF PRODUCTION:** All production and the disposal thereof shall be in conformity with allocations, allotments, and quotas made or fixed by the Division, and in conformity with all applicable laws and lawful regulations.

19. **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 Commissioner of Public Lands and the Division, and to appeal from orders issued under the regulations of the Commissioner or Division, or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Commissioner or Division; provided, however, that any other interest party shall also have the right at his own expense to appear and to participate in any such proceedings.

20. **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 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.

21. **LOSS OF TITLE:** In the event title to any tract of unitized land or substantial interest therein shall fail, and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement, or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working, or other interest subject hereto, the unit operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof, without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit Operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder.

22. **SUBSEQUENT JOINDER:** Any oil or gas interest in lands within the unit area not committed hereto, prior to the submission of the agreement for final approval by the Commissioner and the Division, may be committed hereto by the owner or owners of such rights, subscribing or consenting to this agreement, or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for the allocation of costs of exploration, development, and operation. A subsequent joinder shall be effective as of the first day of the month following the approval by the Commissioner and the filing with the Division of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties, before participating in any benefits hereunder, shall be required to assume and pay to unit operator, their proportionate share of the unit expenses incurred prior to such party's or parties joinder in the unit agreement, and the unit operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment of revenue.

23. **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 undersigned parties hereto have caused this agreement to be executed as of the respective dates set forth opposite their signatures.

UNIT OPERATOR AND WORKING INTEREST OWNER

Cobra Oil & Gas Corporation

OPERATOR

DATE: 5-9-97

ATTEST: PHILIP R. RUELEY

BY: [Signature]
ASSISTANT SECRETARY
OTHER WORKING INTEREST OWNERS

DATE: 5-9-97

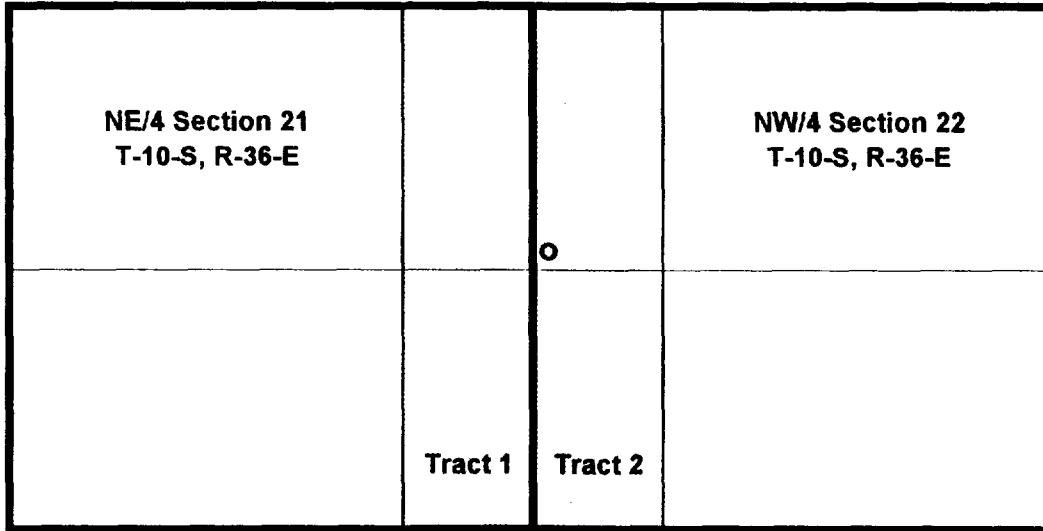
BY: [Signature] PM
Jeff R. Dillard PRESIDENT

Cobra Exploration Company PM
COMPANY

BY: [Signature]
Jeff R. Dillard, a Managing Partner

EXHIBIT "A" MAP OF UNIT AREA

**GAINER EXPLORATORY UNIT
LEA COUNTY, NEW MEXICO**



TRACT 1: E/2 E/2 NE/4 Sec. 21 T-10-S, R-36-E (40 acres)

TRACT 2: W/2 W/2 NW/4 Sec. 22 T-10-S, R-36-E (40 acres)

UNIT ACREAGE:

FEDERAL LANDS: 0 acres

STATE LANDS: 80 acres

FEE LANDS: 0 acres

PROPOSED WELL LOCATION: 1294 feet from North Line and 39 feet from West Line
of Section 22, T-10-S, R-36-E, Lea County, New Mexico

EXHIBIT "B" SCHEDULE OF OWNERSHIP

Schedule Showing All Lands and Leases
Within the GAINER EXPLORATORY UNIT
LEA COUNTY, NEW MEXICO

| TRACT NO. | DESCRIPTION OF LANDS | ACRES | SERIAL NO. and EXPIRATION DATE | BASIC ROYALTY PERCENTAGE | LESSEE OF RECORD | OVERRIDING ROYALTY PERCENTAGE | WORKING INTEREST PERCENTAGE | BENEFICIARY |
|-----------|--|-------|--------------------------------|--------------------------|---------------------------|-------------------------------|-----------------------------|-------------|
| 1 | E/2 E/2 NE/4 Sec. 21 T-10-S, R-36-E | 40 | V-4402 Exp. 7/1/99 | 16.6667% | Cobra Exploration Company | 8.3333% | 75.0000% | N. M. Tech |
| 2 | W/2 W/2 NW/4 Sec. 22 T-10-S, R-36-E | 40 | V-4206 Exp. 10/1/98 | 16.6667% | Cobra Exploration Company | 8.3333% | 75.0000% | N. M. Tech |

RECAPITULATION

| | | |
|-------|------------------------------------|------|
| 80 | Acres of State of New Mexico Lands | 100% |
| | Acres of Fee Lands | % |
| | Acres of Federal Lands | % |
| Total | | 100% |

EXHIBIT "C" SCHEDULE OF TRACT PARTICIPATION

**Schedule Showing Working Interest Ownership by Tract
Within the GAINER EXPLORATORY UNIT
LEA COUNTY, NEW MEXICO**

| TRACT NO. | DESCRIPTION OF LANDS | SERIAL NO. and EXPIRATION DATE | LESSEE OF RECORD | ALLOCATED WORKING INTEREST PERCENTAGE |
|----------------------|--|---|---------------------------------|--|
| 1 | E/2 E/2 NE/4 Sec. 21 T-10-S, R-36-E | V-4402 Exp. 7/1/99 | Cobra Exploration Company | 50.0000% |
| 2 | W/2 W/2 NW/4 Sec. 22 T-10-S, R-36-E | V-4206 Exp. 10/1/98 | Cobra Exploration Company | 50.0000% |
| TOTAL | | | | <u>100.0000%</u> |

[illegible]

Cobra Oil & Gas Corporation

Proposed Gainer Unit #1

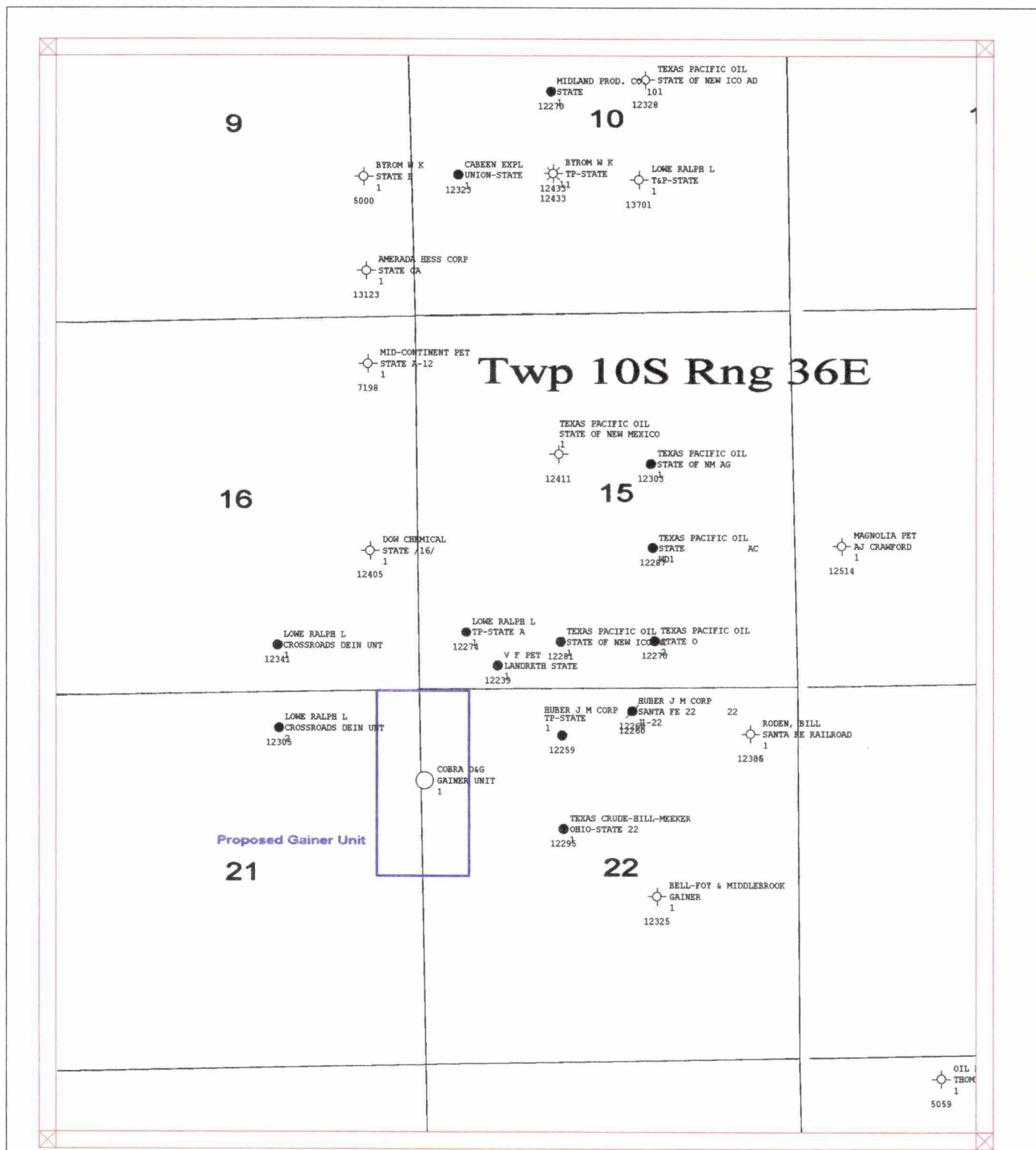
Table of Contents

Exhibit 4 : Base Map

Exhibit 5: Base of Woodford / Top of Devonian Structure Map

Exhibit 6: Type Log and scout ticket

Exhibit 7: Geologic Summary



BEFORE THE
OIL CONSERVATION DIVISION
Santa Fe, New Mexico

Case No. 11780 Exhibit No. 4

Submitted by: Cobra Oil & Gas Corporation

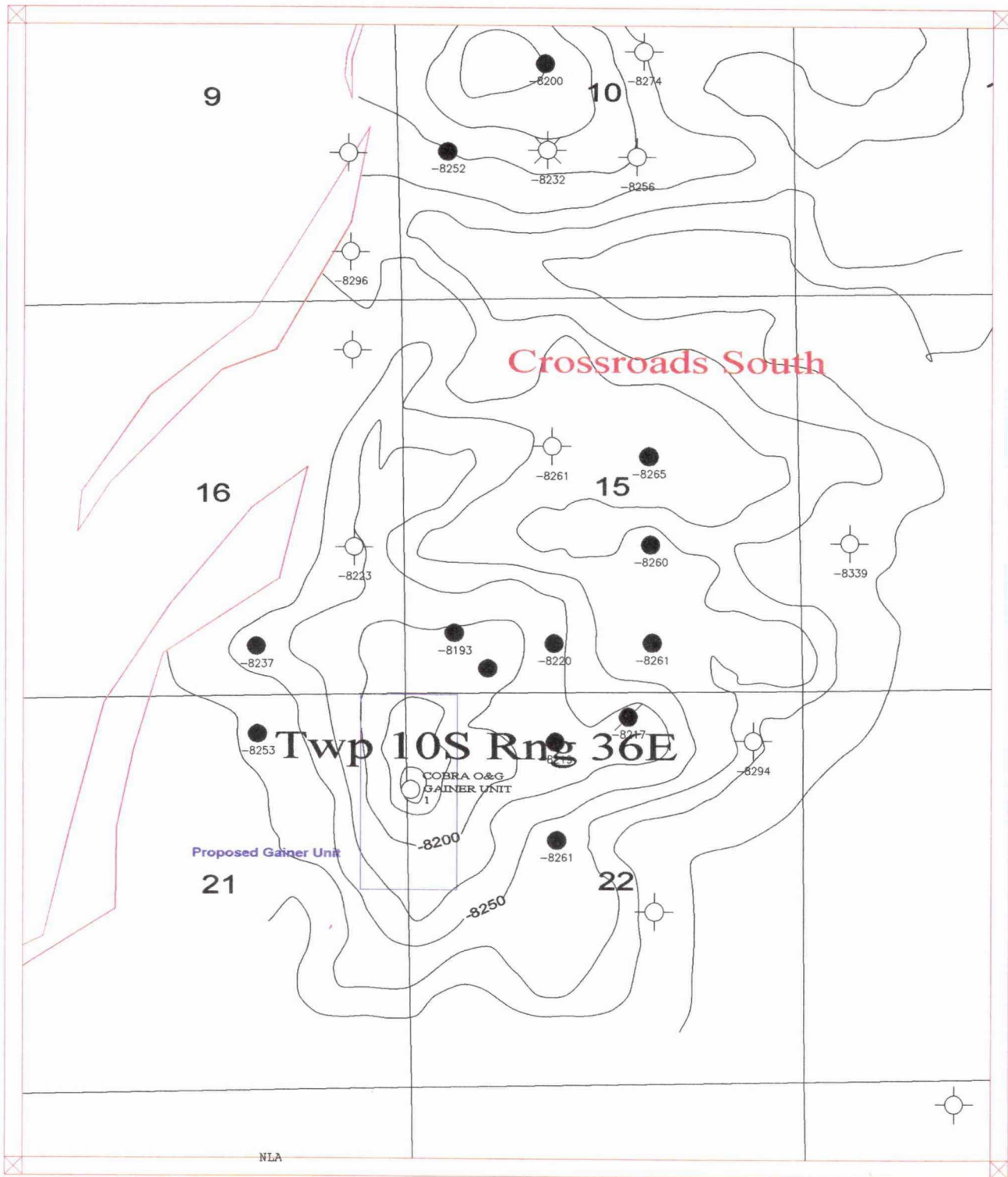
Hearing Date: May 15, 1997



Cobra Oil & Gas Corporation

Proposed Gainer Unit
Exhibit 4
Base Map (Well T.D. noted)

| | | |
|-------------------|-----------|--------------------------|
| GEO: Frank Wilson | 1"=2,000' | GAINER, GPF 5/12/1997 |
|-------------------|-----------|--------------------------|



**BEFORE THE
OIL CONSERVATION DIVISION**
Santa Fe, New Mexico

Case No. 11780 Exhibit No. 5

Submitted by: Cobra Oil & Gas Corporation

Hearing Date: May 15, 1997



Cobra Oil & Gas Corporation

**Proposed Gainer Unit
Exhibit 5
Base of Woodford Structure**

| | | |
|-------------------|-----------|------------|
| | | GAINER.GPF |
| GEO: Frank Wilson | 1"=2,000' | 5/12/97 |

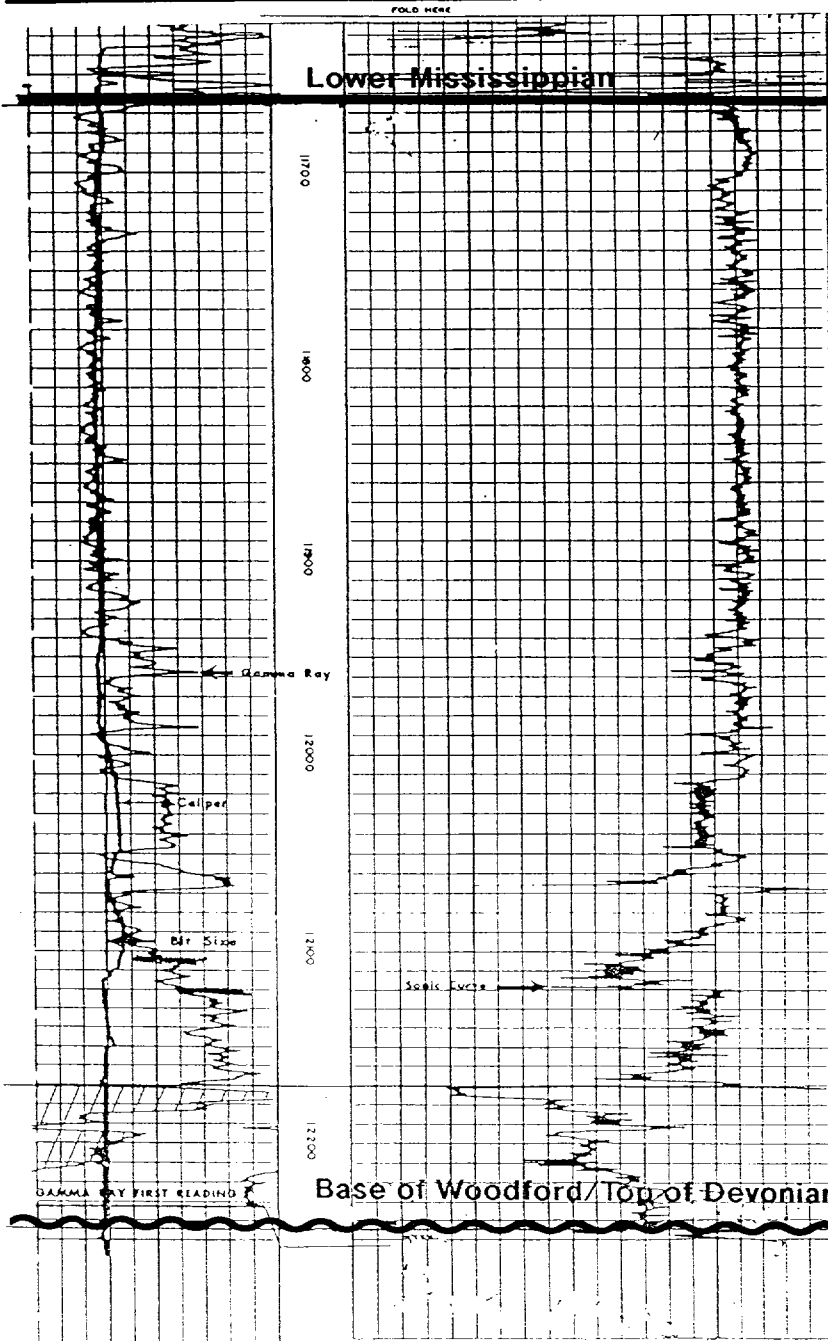
**BEFORE THE
OIL CONSERVATION DIVISION
Santa Fe, New Mexico**

Case No. 11780 Exhibit No. 6

Submitted by: Cobra Oil & Gas Corporation

Hearing Date: May 15, 1997

| | | | |
|--|-------------------------------------|---|---|
| COUNTY <u>LEA</u> | | FIELD or LOCATION <u>S. CROSSROADS DEV.</u> | |
| WELL <u>1 P. STATE 22 " 1</u> | | WELL <u>1 P. STATE 22 " 1</u> | |
| COMPANY <u>HILL AND MECKE</u> | | COMPANY <u>HILL AND MECKE</u> | |
| FIELD <u>S. CROSSROADS DEV.</u> | | FIELD <u>S. CROSSROADS DEV.</u> | |
| LOCATION SEC. <u>42-10S-36E</u> | | LOCATION SEC. <u>42-10S-36E</u> | |
| COUNTY <u>LEA</u> | STATE <u>NEW MEXICO</u> | Other Surveys I.L. HLL | Location of Well 1980' FROM W/L 600' FROM N/L |
| Log Depth Measured From <u>KB</u> | | Elevation K.B. <u>4029</u> D.F. <u>4027</u> or O.L. <u>4013</u> | |
| Log Depth Measured From <u>16 Ft. above GL</u> | | | |
| RUN No. <u>ONE</u> | Date <u>2-14-62</u> | | |
| First Reading <u>12253</u> | Log Reading <u>12253</u> | | |
| Feet Measured <u>12253</u> | Feet Measured <u>12253</u> | | |
| Log Depth <u>4208</u> | Log Depth <u>4208</u> | | |
| Depth Reached <u>12253</u> | Depth Reached <u>12253</u> | | |
| Bottom Diller <u>12253</u> | Bottom Diller <u>12253</u> | | |
| Mud No. <u>SAI 1 GEL STARCH OIL</u> | Mud No. <u>SAI 1 GEL STARCH OIL</u> | | |
| Dens. <u>9.5</u> | Dens. <u>9.5</u> | | |
| Mud Resist. <u>0.12</u> | Mud Resist. <u>0.12</u> | | |
| Rel. BH <u>0.03</u> | Rel. BH <u>0.03</u> | | |
| W/L <u>101</u> | W/L <u>101</u> | | |
| W/L <u>0.082</u> | W/L <u>0.082</u> | | |
| Bit Size <u>7 7/8"</u> | Bit Size <u>7 7/8"</u> | | |
| Spacing <u>13 R. 3 R.</u> | Spacing <u>13 R. 3 R.</u> | | |
| 13 R. 3 R. <u>10100 to 12253</u> | 13 R. 3 R. <u>10100 to 12253</u> | | |
| Oper. Log Time <u>5 HOURS</u> | Oper. Log Time <u>5 HOURS</u> | | |
| Log No. <u>3701-H0885</u> | Log No. <u>3701-H0885</u> | | |
| Recorded by <u>SCHIFFER</u> | Recorded by <u>SCHIFFER</u> | | |
| Well No. <u>3701-H0885</u> | Well No. <u>3701-H0885</u> | | |
| Well No. <u>3701-H0885</u> | Well No. <u>3701-H0885</u> | | |

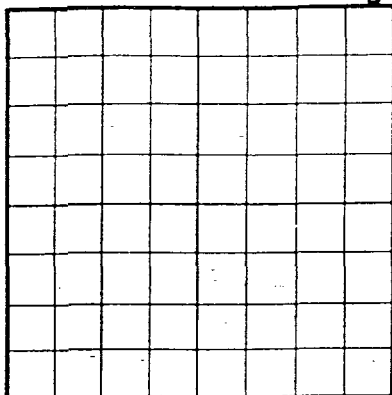


| | | |
|---|--|-------------|
| Cobra Oil & Gas Corporation | | |
| Proposed Gainer Unit Exhibit 6 Type Log | | |
| GEO: Frank Wilson | | GAINERL.GPF |
| | | 5/11/97 |

SCOUT TICKET

MAR 7 1962

N.L.L.



COUNTY Lea FIELD S. Crossroads
 SECTION 22 TWP. 10-S RANGE 36-E
 SEC. BLK. SUR. ABST.
 OPERATOR Hill & Meeker
 WELL NUMBER #1 FARM NAME T. P. State
 FEET FROM LINE N 660' E S W 1980'
 ELEVATION 4027 DF METHOD
 CONTRACTOR SCOUT C. A. Schellinger

| CASING | DEPTH | CEMENT |
|--------|-------|--------|
| 13 3/8 | 313 | 300 |
| 8 5/8 | 4208 | 250 |
| 5 1/2 | 12248 | 500 |
| | | |
| | | |
| | | |

| SHOT & ACID RECORD | | PERFORATIONS |
|---------------------|----|--------------|
| QTS. | TO | OH 12248-259 |
| QTS. | TO | |
| QTS. | TO | |
| GALS. | | |
| GALS. | | |
| GALS. | | |
| Lse: N/2 NW | | |
| F/O fr. T.P.C. & O. | | |
| 12,300' Dev. | | |

MARKERS

"4"

| | |
|------------------------|-------|
| SA | 4180 |
| G10 | 5630 |
| Abd | 7760 |
| Miss ls | 11700 |
| WdF | 12180 |
| Dev | 12246 |
| The Subsurface Library | |
| P. Box 943 | |
| d, Texas | |

COMPLETION DATA

| | | |
|------------|---------------------|----------------|
| TD | 12259 | PB |
| TP | 12248 (Dev) | BP |
| IP | FLOW 324 Bbl, 24 hr | |
| | PUMP | |
| CHOKED | 10/64" | |
| GAS | | |
| GOR | 525 | |
| TBG. PRES. | 825 | CSG. PRES. PKR |
| BHP | | GRAVITY 42 |
| D & A | | |
| COMPLETED | 2-22-62 | |

| DATE | | DATE | |
|------------|--------------------------------|--------|-----------------------------------|
| | FIRST REPORT: 12-20-61 | FEB 21 | TD 12259 test, OH 12248-59 |
| | SPUDDED: 12-23-61 | | F/20,620, 9/64", 2 hr TP 900 |
| | LOC. | | NAT |
| JAN 3 1962 | 4561 ls | FEB 28 | TD - si storage |
| JAN 10 | 4720 ls | | F/28100, 24 hr TP 850 |
| JAN 17 | 4872 ls | | F/24200, 19 hr TP 900 |
| JAN 24 | 47849 ls | MAR 7 | F/28900, 24 hr 9/64", TP 900, 445 |
| JAN 31 | 411020 ls | | |
| FEB 7 | 41712 ls sketch | | |
| FEB 14 | TD 12259 ls Pump log | | |
| | DST 12125-159, (600' WB) 1/14" | | |
| | GTS 30" WBTS 56" GTS 1 1/4" in | | |
| | Flow 25 Bbl PA, 1/4", 10" | | |
| | SFP 600 | | |
| | RO full dry oil | | |
| | Res. 500 Oil bed sub, no water | | |
| | 30"/4625 SFP 1570-4050 | | |
| | 30"/4560 | | |

Exhibit 7

Geological Summary

Frank E. Wilson

The Cobra Oil & Gas Corporation Gainer Unit #1 is to be drilled in September 1997 at a location of 1294' FNL & 39' FWL of Section 22 -Township 10S - Range 36 E. Due to 3D seismic control and subsurface mapping, it is apparent that this is the optimum location for recovering the maximum reserves in the most efficient manner and thereby prevent the drilling of unnecessary locations.

The Gainer Unit location is situated on the structural crest of the South Crossroads feature. The Gainer well will penetrate the Devonian at approximately -8145' subsea. Although there are minor discrepancies, the approximate original oil water contact on this feature was -8275'. Subsequent production would have raised the water contact and the current anticipated oil/water contact is above -8200'. Due to this fact, it is imperative that the Gainer unit well be drilled on the crest of the structure.

In the interest of preventing waste and protecting the correlative rights of all parties involved, this area is best produced under a unit plan. Under Cobra's suggested unit boundary, it will only be necessary to drill one well to recover the maximum recoverable oil.

**BEFORE THE
OIL CONSERVATION DIVISION**
Santa Fe, New Mexico

Case No. 11780 Exhibit No. 7

Submitted by: Cobra Oil & Gas Corporation

Hearing Date: May 15, 1997

Exhibit 8 and the
attached plat were submitted
at the June 26th hearing.

J. H. Shuman



COMMERCIAL RESOURCES
(505)-827-5724

SURFACE RESOURCES
(505)-827-5793

MINERAL RESOURCES
(505)-827-5744

ROYALTY
(505)-827-5772

State of New Mexico
Commissioner of Public Lands

Ray Powell, M.S., D.V.M.
310 Old Santa Fe Trail, P. O. Box 1148
Santa Fe, New Mexico 87504-1148
Phone (505)-827-5760, Fax (505)-827-5766

PUBLIC AFFAIRS
(505)-827-5765

ADMINISTRATIVE MGMT.
(505)-827-5700

LEGAL
(505)-827-5713

PLANNING
(505)-827-5752

June 19, 1997

Campbell, Carr, Berge & Sheridan, P.A.
P.O. Box 2208
Santa Fe, New Mexico 87504-2208

Attn: Mr. William F. Carr

Re: Preliminary Approval
Proposed Gainer Unit
Lea County, New Mexico

RECEIVED
JUN 19 1997
CAMPBELL, CARR, et al.

BEFORE EXAMINER STOGNER

OIL CONSERVATION DIVISION

Cobra EXHIBIT NO. 8
FILE NO. 11780

Dear Mr. Carr:

This office has received the unexecuted copy of the unit agreement which you have submitted on behalf of Cobra Oil & Gas Corporation for the proposed Gainer Unit area, Lea County, New Mexico. This agreement meets the general requirements of the Commissioner of Public Lands, who has this date granted you preliminary approval as to form and content.

Preliminary approval shall not be construed to mean final approval of this agreement in any way and will not extend any short term leases, until final approval and an effective date have been given.

When submitting your agreement for final approval, please submit the following:

1. Application for final approval by the Commissioner setting forth the tracts that have been committed and the tracts that have not been committed.
2. Pursuant to Rule 1.045, applications for approval shall contain a statement of facts showing:
 - a. That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy.
 - b. That under the proposed unit operation, the State of New Mexico will receive its fair share of the recoverable oil and gas in place under its lands in the proposed unit area.

Campbell, Carr, Berge & Sheridan, P.A.

June 19, 1997

Page 2

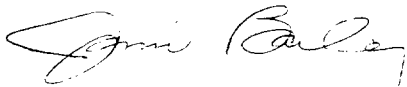
- c. That each beneficiary institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the unit area.
- d. That such unit agreement is in other respects for the best interest of the trust.
3. All ratifications from the Lessees of Record and Working Interest Owners. All signatures should be acknowledged by a notary and one set must contain original signatures.
4. Order of the New Mexico Oil Conservation Division. Our approval will be conditioned upon subsequent favorable approval by the New Mexico Oil Conservation Division.
5. Please submit two copies of the Unit Agreement.
6. A copy of the Unit Operating Agreement (if applicable).
7. The filing fee for a Unit Agreement is thirty (\$30.00) dollars for every section or partial section thereof. Please submit a filing fee in the amount of \$60.00 dollars.
8. On Page 5 of the agreement, Article 17, Effective Date & Term, please fill in the term (5 years and so long as).
9. Copies of all the well records for the initial unit well.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

RAY POWELL, M.S., D.V.M.
COMMISSIONER OF PUBLIC LANDS

BY:



JAMI BAILEY, Director
Oil/Gas and Minerals Division
(505) 827-5744

RP/JB/cpm

cc: Reader File

OCD--Attention: Mr. Roy Johnson
Mr. William F. Carr



COMMERCIAL RESOURCES
(505)-827-5724

SURFACE RESOURCES
(505)-827-5795

MINERAL RESOURCES
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Proposed Gainer Unit
Lea County, New Mexico

RECEIVED
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Campbell, Carr, Berge & Sheridan, P.A.

June 19, 1997

Page 2

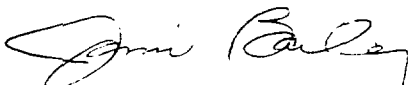
- c. That each beneficiary institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the unit area.
- d. That such unit agreement is in other respects for the best interest of the trust.
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Very truly yours,

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COMMISSIONER OF PUBLIC LANDS

BY:


JAMI BAILEY, Director
Oil/Gas and Minerals Division
(505) 827-5744

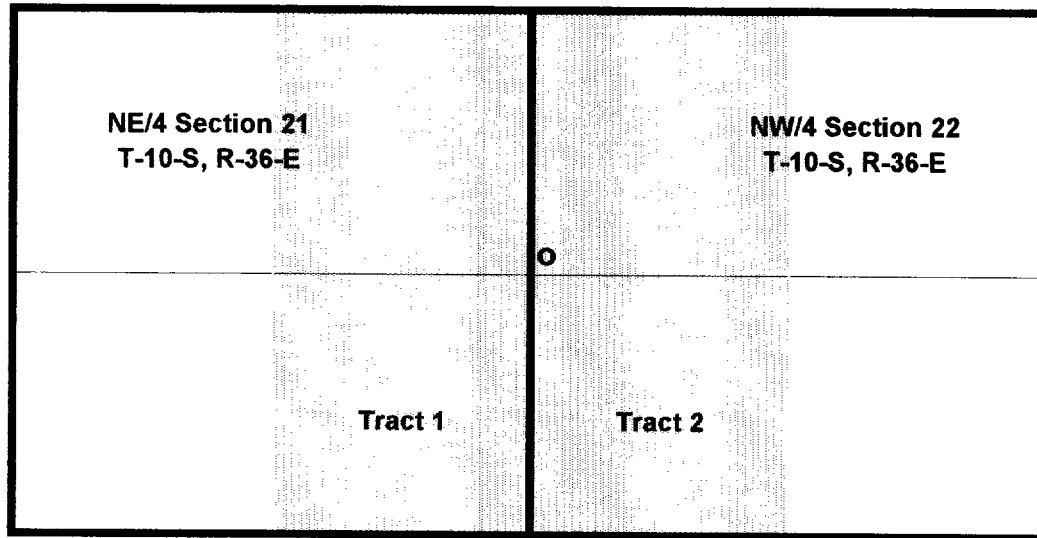
RP/JB/cpm

cc: Reader File

OCD—Attention: Mr. Roy Johnson
Mr. William F. Carr

EXHIBIT "A" MAP OF UNIT AREA

GAINER EXPLORATORY UNIT
LEA COUNTY, NEW MEXICO



TRACT 1: E/2 NE/4 Sec. 21 T-10-S, R-36-E (80 acres)

TRACT 2: W/2 NW/4 Sec. 22 T-10-S, R-36-E (80 acres)

UNIT ACREAGE:



FEDERAL LANDS: 0 acres

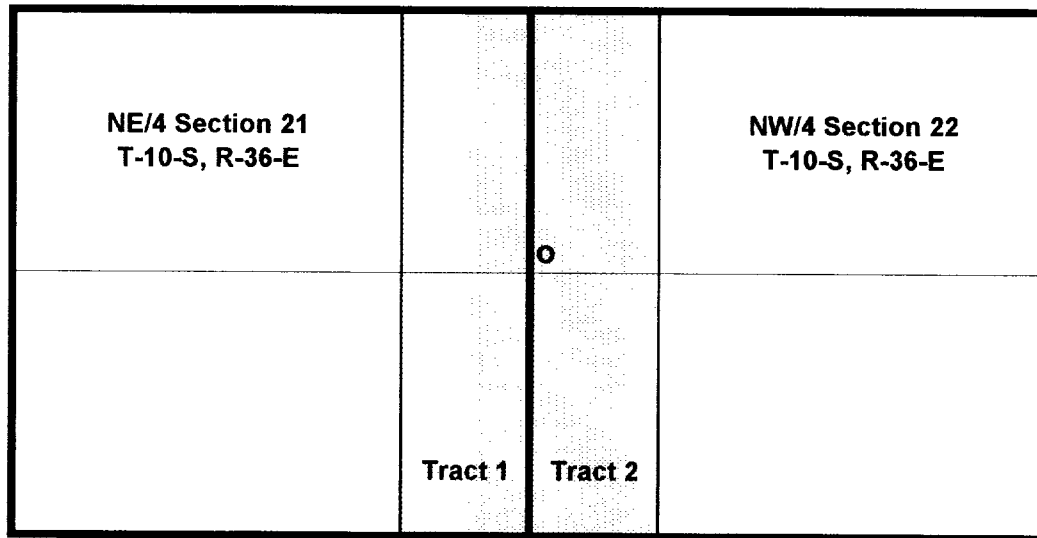
STATE LANDS: 160 acres

FEE LANDS: 0 acres

PROPOSED WELL LOCATION: 1294 feet from North Line and 39 feet from West Line
of Section 22, T-10-S, R-36-E, Lea County, New Mexico

EXHIBIT "A" MAP OF UNIT AREA

GAINER EXPLORATORY UNIT
LEA COUNTY, NEW MEXICO



TRACT 1: E/2 E/2 NE/4 Sec. 21 T-10-S, R-36-E (40 acres)

TRACT 2: W/2 W/2 NW/4 Sec. 22 T-10-S, R-36-E (40 acres)

UNIT ACREAGE:

FEDERAL LANDS: 0 acres

STATE LANDS: 80 acres

FEE LANDS: 0 acres

PROPOSED WELL LOCATION: 1294 feet from North Line and 39 feet from West Line
of Section 22, T-10-S, R-36-E, Lea County, New Mexico