



# NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

**BILL RICHARDSON**

Governor

**Joanna Prukop**

Cabinet Secretary

**Lori Wrotenbery**

Director

**Oil Conservation Division**

December 23, 2003

Mr. Paul R. Owen  
Montgomery & Andrews  
Box 2307  
Santa Fe, NM 87504

**Re: Case No. 13063; Application of Trilogy Operating Company for Compulsory Pooling, Lea County, New Mexico**

Dear Paul:

By copy of this letter, I am requesting Ms. Davidson to place your motion for reconsideration on the examiner's hearing docket for January 22, 2004. Please provide notification to all parties of the date, time and place of the new hearing.

Should you have questions, please feel free to call the undersigned at (505)-476-3450.

Very truly yours,

David K. Brooks  
Assistant General Counsel

cc. ~~Richard~~ Ezeanyim  
Florene Davidson

MONTGOMERY & ANDREWS  
PROFESSIONAL ASSOCIATION  
ATTORNEYS AND COUNSELORS AT LAW

Paul R. Owen  
Direct Dial: (505) 986-2538  
powen@montand.com

Post Office Box 2307  
Santa Fe, New Mexico 87504-2307  
325 Paseo de Peralta  
Telephone (505) 982-3873  
Fax (505) 982-4289  
www.montand.com

December 22, 2003  
**HAND-DELIVERED**

Lori Wrotenbery, Director  
Oil Conservation Division  
New Mexico Department of Energy,  
Minerals and Natural Resources  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

**RECEIVED**

DEC 22 2003

Oil Conservation Division  
1220 S. St. Francis Drive  
Santa Fe, NM 87505

Re: ***NMOCD Case No. 13063, Order No. R-12073***  
***Application of Trilogy Operating, Inc. for Compulsory Pooling, Lea County,***  
***New Mexico.***

Dear Ms. Wrotenbery:

Enclosed in triplicate a Motion for Reconsideration or, in the alternative, Application for *De Novo* hearing.

We believe this case was dismissed without authority by the Division, and request that it be reinstated to the Division's docket for proper disposition. If such is granted, please let us know as soon as possible so that we can provide notice to the affected parties.

Your assistance with this matter is greatly appreciated.

Very truly yours,



Paul R. Owen

Enclosures

cc: Mr. Jerry Weant  
Mr. David Brooks (via hand delivery)

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

RECEIVED

DEC 2 2 2003

IN THE MATTER OF THE APPLICATION  
OF TRILOGY OPERATING, INC. FOR  
COMPULSORY POOLING, LEA  
COUNTY, NEW MEXICO.

Oil Conservation Division  
1220 S. St. Francis Drive  
Santa Fe, NM 87505

NMOCD CASE NO. 13063  
CASE NO. \_\_\_\_\_ (*de novo*)

APPLICATION FOR RECONSIDERATION  
AND IN THE ALTERNATIVE, FOR *DE NOVO* REVIEW

TRILOGY OPERATING, INC. ("Trilogy"), through its undersigned attorneys, hereby makes application pursuant to the provisions of NMSA 1978, Section 70-2-25 (1935), and 19 NMAC 15.N.1222, for a rehearing of Order No. R-12073, in which the Division dismissed this case for lack of proper notification. In the alternative, and pursuant to NMSA 1978, Section 70-2-25 (1935) and 19 NMAC 15.N.1220.A., Trilogy applies for a hearing *de novo* before the New Mexico Oil Conservation Commission. In support of this Application, Trilogy states:

1. This matter was originally heard on May 8, 2003, before Examiner David K. Brooks.
2. At the hearing, proof of notice to all interest owners was presented by the Applicant, and no objection to the form of notice was received by any party present or by David Brooks, Esq., Assistant General Counsel and Hearing Examiner in this case.
3. The letter used to provide notice to the interest owners with an interest in the case at hand was identical to those used countless times by this applicant's attorney and other counsel before the Division, without objection from the Division.
4. By letter dated May 20, 2003, David Brooks, Esq., Assistant General Counsel and Hearing Examiner in this case notified counsel for Trilogy that the notice was inadequate because

it did not state the time and place of the hearing, although it did enclose a copy of the Application, which stated the date of the hearing and the place of the hearing (the Division hearing office). Presumably, as Assistant General Counsel and Hearing Examiner, Mr. Brooks also complied with the requirements of 19 NMAC 15N.1204 and 1205, and gave proper notice of the hearing.

5. The dismissal in this case is without authority. No provision for dismissal for failure to prosecute is available in the Rules applicable to the Oil Conservation Division.

6. No notice of the proposed dismissal was provided to Trilogy. In contrast, NMRA 2003, 1-041(E) permits a party to reinstate cases dismissed by the tribunal if the party files a request for reinstatement within 30 days. Similar provisions are available to litigants before the Magistrate Court (NMRA 2003, Rule 2-305) and the Municipal Court (NMRA 2003, Rule 3-305).

7. To comply with the requirements of due process, this case should be reinstated and Trilogy given the opportunity to provide what Mr. Brooks considers to be adequate notice.

8. Alternatively, and pursuant to 19 NMAC 15.N.1222, and as a party adversely affected by Order No. R-12073, Trilogy applies for a *de novo* proceeding before the New Mexico Oil Conservation Commission.

Respectfully submitted,

MONTGOMERY & ANDREWS, P.A.

By: 

PAUL R. OWEN

Post Office Box 2307

Santa Fe, New Mexico 87504-2307

Telephone: (505) 982-3873

ATTORNEYS FOR TRILOGY OPERATING  
INC.

TRILOGY OPERATING, INC.'S

SAPPHIRE #3

SE/4 NE/4 SECTION 24,  
T-19-S, R-38-E, NMPM,  
LEA COUNTY, NEW MEXICO

COMPULSORY POOLING  
REQUEST

Original

**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 PURPOSES OF CONSIDERING:**

**CASE NO. \_\_\_\_\_**

**APPLICATION OF TRILOGY OPERATING, INC.  
FOR COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.**

**AFFIDAVITS OF JERRY A. WEANT, GEORGE ULMO AND MICHAEL G. MOONEY**

STATE OF TEXAS            }}  
                                  }} ss.  
COUNTY OF MIDLAND    }}

Before me, the undersigned authority, personally appeared Jerry A. Weant, George Ulmo and Michael G. Mooney, who being fully sworn, stated:

A. Our names and our qualifications as experts are as follows:

**Jerry A. Weant**

Education:    BBA/PLM from the University of Texas at Austin - 1980.  
Experience:   Practicing Landman for 22 years in Texas and Southeast New Mexico.  
                  President of Trilogy Operating, Inc.

**George Ulmo**

Education:    Masters in Geology from University of Missouri - 1979.  
                  BS in Geology from University of New Orleans - 1976.  
Experience:   Practicing Geologist for 23 years in Permian Basin.  
                  Consulting Geologist for Stevens & Tull Development, LLC.

Michael G. Mooney

Education: BS in Chemical Engineering from University of New Mexico - 1979.

Experience: Practicing Petroleum Engineer for 23 years in Permian Basin.  
Vice President - Engineering of Trilogy Operating, Inc.

B. We are over the age of majority and are competent to make this Affidavit.

We have been responsible for and involved in preparing the necessary documents for submittal to the New Mexico Oil Conservation Division for this case.

We are each personally knowledgeable and familiar with the facts and circumstances of this case and the following factual statements.

This affidavit has been prepared in accordance with New Mexico Oil Conservation Division Rule 1207.A (1)(b).

C. Our expert opinions are based on the following facts and events:

### **CHRONOLOGICAL SUMMARY OF SIGNIFICANT EVENTS**

1. Trilogy Operating, Inc. ("Trilogy") has a working interest ownership in the oil and gas minerals underlying the SE/4 NE/4 of Section 24, T-19-S, R-38-E, NMPM, Lea County, New Mexico.
2. Trilogy proposes to drill and complete its Sapphire Well No.3 at a standard oil/gas well location to test any and all formations in the pooled interval from the surface to the base of the Abo formation.
3. Base upon an oil & gas title opinion, Trilogy believes that the individuals and entities listed on the attached Exhibit "A" are owners of an unleased mineral interest in the subject spacing unit.
4. Trilogy has submitted a written well proposal and AFE to the unleased mineral owners, and we have had the following additional contact:

Heirs or Devisees of W. E. McWilliams      0.025 MI  
Unable to locate.

Kenneth Cone      0.020 MI  
Letter submitted February 28, 2003. Certified receipt dated March 4, 2003. Mr. Cone has failed to respond on previous 2 wells drilled on this lease.

Bobby G. Bales 0.0208333 MI  
 Letter submitted February 28, 2003. Certified receipt dated March 11, 2003. Mr. Bales has failed to respond on previous 2 wells drilled on this lease.

John W. Coyle, III 0.00208333 MI  
 Letter submitted February 28, 2003. Certified receipt dated March 3, 2003. Mr. Coyle represents himself as well as Estate of Patrick Coyle, Shannon Coyle Manning and Michael Coyle and has failed to respond to proposals on previous 2 wells drilled on this lease.

John W. Coyle, III, Personal Rep. of Estate of Patrick Coyle 0.00208333 MI  
 Letter submitted February 28, 2003. Certified receipt dated March 3, 2003.  
Shannon Coyle Manning 0.00208333 MI  
 Letter submitted February 28, 2003. Certified receipt dated March 3, 2003.

Michael Coyle 0.00208333 MI  
 Letter submitted February 28, 2003. Certified receipt dated March 3, 2003.

J.H. Free 0.0208333 MI  
 Unable to locate.

Heirs or Devisees of G. W. McWilliams 0.0375 MI  
 Unable to locate.

The Long Trusts 0.0400 MI  
 Letter submitted February 28, 2003. Certified receipt dated March 4, 2003. Based upon previous conversations, the Long Trusts lease form is to burdensome to operate under. The Trust has advised us that if lease is unacceptable, then we should seek compulsory pooling on their interest.

Lana Carol Smith Shepherd 0.0008333 MI  
 Unable to locate.

Jo Ann Smith Parker 0.0008333 MI  
 Unable to locate.

Pamela Sue Reynolds Ortega 0.0005555 MI  
 Unable to locate.

Patricia Ann Reynolds 0.0005555 MI  
 Unable to locate.

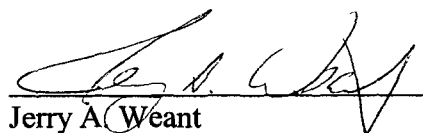
Larry Gene Reynolds 0.0005555 MI  
 Unable to locate.

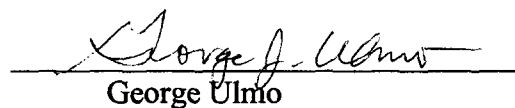


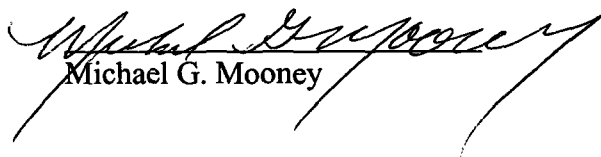
5. Despite its good faith efforts, Trilogy has been unable to obtain a voluntary agreement with the parties referenced herein.
6. Pursuant to Section 70-2-17(c) NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, Trilogy needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.
7. In accordance with Division Rule 1207.A(1)(b) attached are the following statements and exhibits in support of this case:
  - (i) no opposition for hearing is expected because several of the parties cannot be contacted and the balance have failed to respond to our repeated attempts to contact and negotiate agreements.
  - (ii) map: (a) outlining the spacing unit to be pooled which is the SE/4 NE/4 of Section 24, T-19-S, R-38-E, NMPM, Lea County, New Mexico and showing (b) the well location, and (c) percentage ownership interest.
  - (iii) a list of the names and last known addresses of all parties to be pooled with the nature and percent of their interest; I attest that a diligent search has been conducted of all public records in the county where the well is to be located and of phone directories, including the following computer searches: 88 million households CD, Yahoo People Search and World Pages People Search. Additionally, we have contacted any known family members for assistance.
  - (iv) the names of the formations and pools to be pooled are as follows:  
~~Nadine Seven-Rivers/Yates South; Nadine Blinbry; Nadine Tubb; Nadine Drinkard-Abo.~~
  - (v) the pooled unit is for oil.
  - (vi) written evidence of attempts to reach voluntary agreement including letters and summary of telephone calls are attached.
  - (vii) geologic displays of the Abo and Tubb formations to be tested which forms the basis for the opinion that the maximum 200% risk factor penalty is justified.
  - (viii) a copy of Ernest & Young average well costs overhead rates of \$4,500.00/month drilling and \$450.00/month producing well rates which we request be authorized for this case.

- (ix) copy of APD and Division form C-102 showing the well location and the proposed depth of the well.
  - (x) copy of the AFE in the amount of \$594,931.00 completed well costs for this well which we conclude is fair, reasonable and current for wells of this type in this area.
8. We recommend that a compulsory pooling order be entered which provides that:
- (a) Trilogy Operating, Inc. be named Operator;
  - (b) Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping and operating the well;
  - (c) In the event a working interest owner fails to elect to participate, then provision be made to recover out of production the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty of 200%; and
  - (d) Provision for overhead rates of \$4,500.00 per month drilling and \$450.00 per month operating and a provision for an adjustment method of the overhead rates as provided by COPAS;
- D. We have formed the following opinions based upon our respective expertise and upon the foregoing chronology of events:
- (1) That Trilogy is unable to locate all of the owners of interest to be pooled and the application is unopposed by those whom Trilogy has located.
  - (2) That approval of Trilogy's application in this case is necessary in order to consolidate the interest ownership within this spacing unit for the drilling, completing and producing the subject well, will not violate correlative rights and will help prevent waste and promote the conservation of natural resources.
  - (3) That the New Mexico Oil Conservation Division should enter an order pooling all mineral interests from the surface to the base of the Abo formation underlying the SE/4 NE/4 Section 24, T-19-S, R-38-E, NMPM, Lea County, New Mexico, forming a standard 40 acre spacing and proration unit for any and all formations and/or pools developed on 40 acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Nadine Drinkard-Abo Pool, to dedicate this pooled unit to its Sapphire Well No.3, to be drilled and completed at a standard oil well location within said spacing unit including the costs of drilling and completing said well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a 200% charge for risk involved in drilling and completing said well.

**FURTHER AFFIANTS SAYETH NOT:**

  
Jerry A. Weant

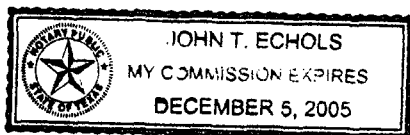
  
George Ulmo

  
Michael G. Mooney

STATE OF TEXAS       )  
                                  )  
COUNTY OF MIDLAND   )

SUBSCRIBED AND SWORN TO before me this 4<sup>th</sup> day of April 2003, by Jerry A. Weant, George Ulmo and Michael G. Mooney.

My Commission Expires:



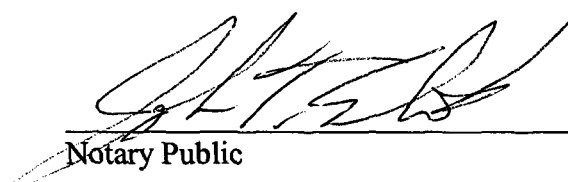
  
Notary Public

EXHIBIT "A"

SE/4 NE/4 SECTION 24, T-19-S, R-38-E, NMPM, LEA COUNTY, NEW MEXICO

UNLEASED MINERAL OWNERS:

MINERAL INTEREST

Heirs or Devisees of W. E, McWilliams Address Unknown	0.025
Kenneth Cone (No Response) P.O. Box 11310 Midland, TX 79702	0.020
Bobby G. Bales (No Response) R.R. 1, Box 308 Sperry, OK 74073	0.0208333
John W. Coyle, III (No Response) 119 N. Robinson, Suite 320 Oklahoma City, OK 73102	0.00208333
John W. Coyle, III, Personal Rep of Est of Patrick Coyle (No Response) 119 N. Robinson, Suite 320 Oklahoma City, OK 73102	0.00208333
Shannon Coyle Manning (No Response) 119 N. Robinson, Suite 320 Oklahoma City, OK 73102	0.00208333
Michael Coyle (No Response) 0.00208333 119 N. Robinson, Suite 320 Oklahoma City, OK 73102	
The Long Trusts P.O. Box 3096 Kilgore, TX 75663	0.04000
J.H. Free Address Unknown	0.0208333
Heirs or Devisees of G. W. McWilliams Address Unknown	0.0375

Lana Carol Smith Shepherd

0.0008333

Address Unknown

Jo Ann Smith Parker

0.0008333

Address Unknown

Pamela Sue Reynolds Ortega

0.0005555

Address Unknown

Patricia Ann Reynolds

0.0005555

Address Unknown

Larry Gene Reynolds

0.0005555

Address Unknown

EVERY

LAND



[illegible]



8



P.O. Box 7606  
Midland, Texas 79708

**TRILOGY OPERATING, INC.**

915/686-2027  
FAX 915/686-2040

February 28, 2003

Kenneth Cone  
P.O. Box 11310  
Midland, Texas 79702

Re: Oil and Gas Lease  
E/2 NE/4 Section 24,  
T-19-S, R-38-E, NMPM,  
Lea County, New Mexico  
Emerald Prospect

Dear Mr. Cone:

Trilogy Operating, Inc. offers to purchase an Oil and Gas Lease covering the captioned lands for \$50.00 per net acre, 6 month primary term and a 1/4th royalty. We are preparing to drill our third well in the NE/4 of Section 24.


We have attempted to acquire a lease from you in the past for similar terms, but you have previously elected not to lease. We currently have producing wells in the W/2 NE/4 of Section 24 in which we subjected your interest to Compulsory Pooling Orders. As an alternative, I have enclosed a copy of our proposed AFE for drilling a well on said lands. The State of New Mexico provides that mineral owners have the following 3 options for developing their minerals:

1. Lease Minerals
2. Participate in the development of the minerals with your interest.
3. Have your minerals subjected to Compulsory Pooling which provides for a 1/8th royalty until a penalty is recouped against said interest. The maximum penalty is cost plus 200%.

We are contacting our attorney to commence Compulsory Pooling, because there are some mineral owners who cannot be found. Please give this letter careful consideration and call me if you have questions.

If the lease is acceptable, please execute it before a Notary Public and return it to our office promptly. Upon receipt of same, we will route a check for \$80.00 for your 1.6 net undeveloped acres. If you decide to join, please return the executed AFE. Thereafter, we will furnish your an Operating Agreement for execution. Thank you for your prompt attention to this matter.

Yours very truly,

  
Jerry A. Weant, CPL  
President

Emerald: Sapphire: Kenneth Con

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Kenneth Cone  
P.O. Box 11310  
Midland, Tx. 79702

2. Article Number  
(Transfer from service label)

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature  
 ☐ Agent ☐ Addressee

B. Received by (Printed Name)  
Jerry A. Weant  
C. Date of Delivery  
MO 3-4-03

D. Is delivery address different from item 1? ☐ Yes  
If YES, enter delivery address below: ☐ No

3. Service Type  
☒ Certified Mail ☐ Express Mail  
☐ Registered ☐ Return Receipt for Merchandise  
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

7099 3220 0005 7562 2801

February 28, 2003

Bobby G. Bales  
R.R. 1, Box 308  
Sperry, OK 74073

Re: Oil and Gas Lease  
E/2 NE/4 Section 24,  
T-19-S, R-38-E, NMPM,  
Lea County, New Mexico  
Emerald Prospect

Dear Mr. Bales:

Trilogy Operating, Inc. offers to purchase an Oil and Gas Lease covering the captioned lands for \$50.00 per net acre, 6 month primary term and a 1/4th royalty. We are preparing to drill our third well in the NE/4 of Section 24.

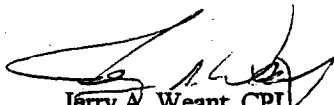
We have attempted to acquire a lease from you in the past for similar terms, but you have previously elected not to lease. We currently have producing wells in the W/2 NE/4 of Section 24 in which we subjected your interest to Compulsory Pooling Orders. As an alternative, I have enclosed a copy of our proposed AFE for drilling a well on said lands. The State of New Mexico provides that mineral owners have the following 3 options for developing their minerals:

1. Lease Minerals
2. Participate in the development of the minerals with your interest.
3. Have your minerals subjected to Compulsory Pooling which provides for a 1/8th royalty until a penalty is recouped against said interest. The maximum penalty is cost plus 200%.

We are contacting our attorney to commence Compulsory Pooling, because there are some mineral owners who cannot be found. Please give this letter careful consideration and call me if you have questions.

If the lease is acceptable, please execute it before a Notary Public and return it to our office promptly. Upon receipt of same, we will route a check for \$83.50 for your 1.67 net undeveloped acres. If you decide to join, please return the executed AFE. Thereafter, we will furnish your an Operating Agreement for execution. Thank you for your prompt attention to this matter.

Yours very truly,

  
Jerry A. Weant, CPI  
President

Emerald: Sapphire: Bobby Bales

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
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- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Bobby G. Bales  
RR 1 Box 308  
Sperry OK 74073

2. Article Number

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature

X  ☐ Agent  
☐ Addressee

B. Received by (Printed Name)

C. Date of Delivery

3-11-03

D. Is delivery address different from item 1? ☐ Yes  
If YES, enter delivery address below: ☐ No

3. Service Type

☒ Certified Mail ☐ Express Mail  
☐ Registered ☐ Return Receipt for Merchandise  
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

P.O. Box 7606  
Midland, Texas 79708

**TRILOGY OPERATING, INC.**

915/686-2027  
FAX 915/686-2040

February 28, 2003

The Long Trusts  
P.O. Box 3096  
Kilgore, Texas 75663

Re: Oil and Gas Lease  
E/2 NE/4 Section 24,  
T-19-S, R-38-E, NMPM,  
Lea County, New Mexico  
Emerald Prospect

Dear Mr. Long:

Trilogy Operating, Inc. offers to purchase an Oil and Gas Lease covering the captioned lands for \$50.00 per net acre, 6 month primary term and a 1/4th royalty. We are preparing to drill our third well in the NE/4 of Section 24.

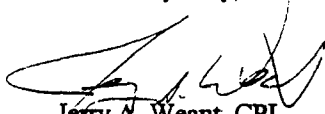
We have attempted to acquire a lease from you in the past for similar terms, but you have previously elected not to lease. We currently have producing wells in the W/2 NE/4 of Section 24 in which we subjected your interest to Compulsory Pooling Orders. As an alternative, I have enclosed a copy of our proposed AFE for drilling a well on said lands. The State of New Mexico provides that mineral owners have the following 3 options for developing their minerals:

1. Lease Minerals
2. Participate in the development of the minerals with your interest.
3. Have your minerals subjected to Compulsory Pooling which provides for a 1/8th royalty until a penalty is recouped against said interest. The maximum penalty is cost plus 200%.

We are contacting our attorney to commence Compulsory Pooling, because there are some mineral owners who cannot be found. Please give this letter careful consideration and call me if you have questions.

If the lease is acceptable, please execute it before a Notary Public and return it to our office promptly. Upon receipt of same, we will route a check for \$160.00 for your 3.2 net undeveloped acres. If you decide to join, please return the executed AFE. Thereafter, we will furnish your an Operating Agreement for execution. Thank you for your prompt attention to this matter.

Yours very truly,

  
Jerry A. Weant, CPL  
President

Emerald: Sapphire: Long Trust O:

**SENDER: COMPLETE THIS SECTION**

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- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

The Long Trusts  
P.O. Box 3096  
Kilgore, Tx. 75663

2. Article Number  
(Transfer from service label)

7000 0520 0020 9191 6572

PS Form 3811, August 2001

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature

 ☐ Agent  
☐ Addressee

B. Received by (Printed Name)

ELISABETH STOUT

C. Date of Delivery

3-4-03

D. Is delivery address different from item 1? ☐ Yes  
If YES, enter delivery address below: ☐ No

3. Service Type

☒ Certified Mail ☐ Express Mail  
☐ Registered ☐ Return Receipt for Merchandise  
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

Domestic Return Receipt

102595-01-M-250

P.O. Box 7606  
Midland, Texas 79708

**TRILOGY OPERATING, INC.**

915/686-2027  
FAX 915/686-2040

February 28, 2003

Michael Coyle  
119 N. Robinson, Suite 320  
Oklahoma City, OK 73102

Re: Oil and Gas Lease  
E/2 NE/4 Section 24,  
T-19-S, R-38-E, NMPM,  
Lea County, New Mexico  
Emerald Prospect

Dear Mr. Coyle:

Trilogy Operating, Inc. offers to purchase an Oil and Gas Lease covering the captioned lands for \$50.00 per net acre, 6 month primary term and a 1/4th royalty. We are preparing to drill our third well in the NE/4 of Section 24.

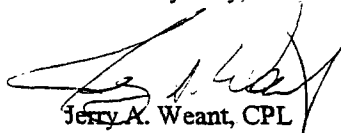
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1. Lease Minerals
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3. Have your minerals subjected to Compulsory Pooling which provides for a 1/8th royalty until a penalty is recouped against said interest. The maximum penalty is cost plus 200%.

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If the lease is acceptable, please execute it before a Notary Public and return it to our office promptly. Upon receipt of same, we will route a check for \$25.00 for your 0.1667 net undeveloped acres. If you decide to join, please return the executed AFE. Thereafter, we will furnish your an Operating Agreement for execution. Thank you for your prompt attention to this matter.

Yours very truly,

  
Jerry A. Weant, CPL  
President

Emerald: Sapphire: M. Coyle 02:

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

**1. Article Addressed to:**

John W. Coyle, III  
Estate of Patrick Coyle  
Shannon Coyle Manning  
Michael Coyle  
119 N. Robinson, Ste. 320  
Oklahoma City, OK 73102

**2. Article Number**

(Transfer from service label)

7099 3220 0005 7562 2795

**COMPLETE THIS SECTION ON DELIVERY**

**A. Signature**

X 

☐ Agent  
☐ Addressee

**B. Received by (Printed Name)**

C. Bolton

**C. Date of Delivery**

3-3-03

**D. Is delivery address different from item 1?** ☐ Yes  
If YES, enter delivery address below: ☐ No

**3. Service Type**

☒ Certified Mail ☐ Express Mail  
☐ Registered ☐ Return Receipt for Merchandise  
☐ Insured Mail ☐ C.O.D.

**4. Restricted Delivery? (Extra Fee)**

☐ Yes

P.O. Box 7606  
Midland, Texas 79708

**TRILOGY OPERATING, INC.**

915/686-2027  
FAX 915/686-2040

February 28, 2003

John W. Coyle III, Personal Representative  
of the Estate of Patrick Coyle  
119 N. Robinson, Suite 320  
Oklahoma City, OK 73102

Re: Oil and Gas Lease  
E/2 NE/4 Section 24,  
T-19-S, R-38-E, NMPM,  
Lea County, New Mexico  
Emerald Prospect

Dear Mr. Coyle:

Trilogy Operating, Inc. offers to purchase an Oil and Gas Lease covering the captioned lands for \$50.00 per net acre, 6 month primary term and a 1/4th royalty. We are preparing to drill our third well in the NE/4 of Section 24.

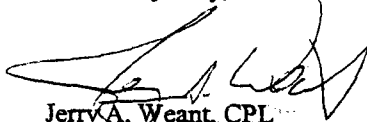
We have attempted to acquire a lease from you in the past for similar terms, but you have previously elected not to lease. We currently have producing wells in the W/2 NE/4 of Section 24 in which we subjected your interest to Compulsory Pooling Orders. As an alternative, I have enclosed a copy of our proposed AFE for drilling a well on said lands. The State of New Mexico provides that mineral owners have the following 3 options for developing their minerals:

1. Lease Minerals
2. Participate in the development of the minerals with your interest.
3. Have your minerals subjected to Compulsory Pooling which provides for a 1/8th royalty until a penalty is recouped against said interest. The maximum penalty is cost plus 200%.

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Yours very truly,

  
Jerry A. Weant, CPL  
President

Emerald: Sapphire: Est of Patrick Coyle 022803

February 28, 2003

Shannon Coyle Manning  
119 N. Robinson, Suite 320  
Oklahoma City, OK 73102

Re: Oil and Gas Lease  
E/2 NE/4 Section 24,  
T-19-S, R-38-E, NMPM,  
Lea County, New Mexico  
Emerald Prospect

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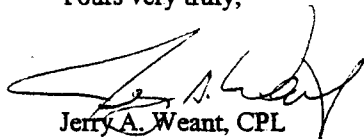
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Jerry A. Weant, CPL  
President

Emerald: Sapphire: Manning 022803

February 28, 2003

John W. Coyle III  
119 N. Robinson, Suite 320  
Oklahoma City, OK 73102

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T-19-S, R-38-E, NMPM,  
Lea County, New Mexico  
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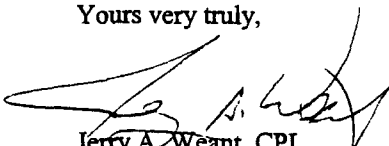
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Yours very truly,



Jerry A. Weant, CPL  
President

Emerald: Sapphire: J. Coyle III 022803





THE JOINT OPERATING AGREEMENT THAT  
WILL BE USED WILL BE THE SAME  
OPERATING AGREEMENT APPROVED UNDER  
CASE NO.'S 12697 AND 12925 FOR ORDER NO.  
R-11659 AND R-11843 FOR TRILOGY  
OPERATING, INC.'S SAPPHIRE NO. 1 AND NO.  
2 WELLS.

ADDITIONALLY, THE RATES PROPOSED FOR  
DRILLING AND PRODUCING OVERHEAD ARE  
ALSO THE SAME RATES PROPOSED AND  
APPROVED UNDER ORDER NO. R-11659 AND  
R-11843.

ADAM

○

○

○

**GEOLOGIC REPORT**  
**For**  
**Application for Compulsory Pooling**

Trilogy Operating, Inc.  
"Sapphire" No. 3  
990' FEL & 2310' FNL  
Section 24, Unit "H", T-19-S, R-38-E  
Lea County, New Mexico

**INTRODUCTION**

The Sapphire Lease (NE/4 Section 24) is part of the Emerald Prospect, located in eastern Lea County, New Mexico one mile east of the Nadine (Drinkard-Abo) Field. The field has produced more than 608,000 BO and 3,260,000 MCFG from 22 wells since its discovery in 1950. Other pay zones in the Nadine Field include the Seven Rivers, Blinebry (Upper Clearfork), and Tubb. In most cases the Drinkard and Abo intervals have been commingled, so it is impossible to determine how much each zone has produced in individual wells. Structural position seems to be more critical to the Drinkard than to the Abo. In the Nadine Field the average cumulative production on a per well basis has been 30,000 BO and 163,000 MCFG. New hydraulic fracturing techniques may allow increased drainage areas per well, thereby increasing the ultimate recoverable reserves on a per well basis.

Trilogy Operating, Inc. has drilled ten wells on the Emerald Prospect in Sections 24 and 25 since the Emerald No.1 well (Unit "J") was drilled in April, 2000. Most of the wells are currently producing from commingled Drinkard and Abo pay zones. Through the end of February, 2003 the wells have produced a total of 95,023 BO, 1,226,985 MCFG, and 83,138 BW. The total current daily production from the ten producing wells is 120 BOPD and 2,603 MCFGPD with 114 BWPD.

Each well holds only 40 acres. In order to preserve leasehold, Trilogy proposes to drill the Sapphire No. 3 in Unit "H" of Section 24, as an east offset location to the No. 1 Sapphire well, to a depth sufficient to test the Drinkard and Abo Formations.

**STRUCTURE**

Based on interpretation of seismic data, the Emerald Prospect is believed to be part of a large low-relief structural platform, which is associated with the Hobbs Field structural complex. The platform contains the Nadine (Drinkard-Abo) Field and a few key wells in the East Nadine Drinkard and Abo Fields. (See Structural Cross Section A-A', previously submitted with the Application for Compulsory Pooling for the Ruby No. 1 well). The prospect is considered an extension of the Nadine Field. The structural interpretation for the prospect incorporates well control for the Yates, Tubb, Glorieta and Abo horizons with the seismic data. A well drilled at the proposed location for the Sapphire No. 3 is expected to encounter the Abo at a subsea elevation that is 35 feet low to the Sapphire No. 1 well.

## RESERVOIR DEVELOPMENT and RISK FACTORS

All of the carbonate reservoir-forming sediments of the Tubb, Blinebry, Drinkard, and Abo were deposited on a shallow water platform overlying a buried structural platform. Subtidal pelletal packstones and intertidal mudstones are the typical commercial reservoir facies where they have been dolomitized. Many exposure surfaces are evident on logs, indicating that deposition was frequently interrupted by periods of low sea level. Alternating periods of deposition and exposure have resulted in the development of a heterogeneous reservoir composed of many individual cycles within a vertical interval of only a few hundred feet. This is evident within all the producing reservoirs. In the Drinkard Reservoir, impermeable layers, composed of either dense limestone or anhydritic limestone, often separate porosity zones. These layers act as barriers to vertical fluid migration, suggesting that each porosity zone could have its own oil-water contact. Several of these cycles have been correlated in the three Emerald wells. They have been arbitrarily been named zones "A" through "F", from the bottom of the Drinkard to the top, as shown on Structural Cross Section B-B' (previously submitted with Application for Compulsory Pooling for the Ruby No. 1 well).

**Drinkard-Abo** - In the Nadine Field production has been established throughout the entire Abo section wherever dolomite porosity is encountered. Production occurs over an interval that is approximately 600 feet in overall thickness. Down structure from the field the lower porosity intervals in the Abo appear to be wet and only the upper half of the reservoir is considered productive. The No. 2 Emerald well encountered better porosity and permeability in the Abo than either the No. 1 or No. 3 wells. However, the Ruby No. 2 well and the Topaz No. 1 well encountered an Abo section that contained very little reservoir quality rock. In those wells the Abo is non-commercial. Abo porosity development is less continuous, and less predictable than porosity trends in the Drinkard. Log analysis is also less reliable for the Abo Reservoir than for the Drinkard. The Sapphire No. 3 well is expected to be 35 feet structurally low to the Sapphire No. 1 well which is productive, but only marginally commercial, from only the upper portion of the Abo.

Within the Drinkard reservoir the "A" zone (bottom zone) is a subtidal pelletal packstone facies. Having much better porosity and permeability than the overlying zones, the "A" zone produces most of the oil (and water) in the field. The overlying porosity zones, "B" through "F" are developed mostly in an intertidal dolomite facies and are gas-prone. Of the ten wells drilled by Trilogy, only the No. 1 Emerald produces from the entire "A" zone. The "A" zone is wet in all the other wells except for the Ruby No. 2 well, where the upper half of the zone is productive. All of these wells are slightly low to the No. 1 Emerald well. Based on log analysis, mudlog shows and core data, the oil-water contact in the "A" zone is believed to be at an elevation of approximately -3518.

The Emerald No. 2 well is completed in shallower zones "B" and "C". The Emerald No. 3 well is the lowest of the Emerald wells and is completed in zones "C" and "D". Zone "D" grainstone porosity is better developed in the Emerald No. 3, Sapphire No. 1 and No. 2 wells than in any other wells in the area. If not for the fortuitous porosity development in zone "D", the Emerald No. 3 and Sapphire No. 2 wells would probably have been only marginally commercial. Although it is not yet proven, it appears that the "D" zone develops basinward to the northeast. By moving down dip, there is the likelihood that the "D" zone will be commercial even though zone "A" will

be entirely wet. The Sapphire No. 3 well is expected to be wet in zones "A" and "B" and productive in zones "C" and "D".

**Secondary Objectives** - The Tubb and Blinebry are secondary objectives for the prospect. In the Nadine Field Cross Timbers Operating Co. has identified pay behind pipe in dolomites within the Tubb Formation. Their net pay map of the Tubb shows 8 to 15 feet of net porosity in most of their wells. No commercial pay has been identified in either the Tubb or Blinebry in any of the wells drilled by Trilogy. Hydrocarbon shows have been encountered in scattered intervals within the upper Drinkard, but those zones have not yet been proven productive.

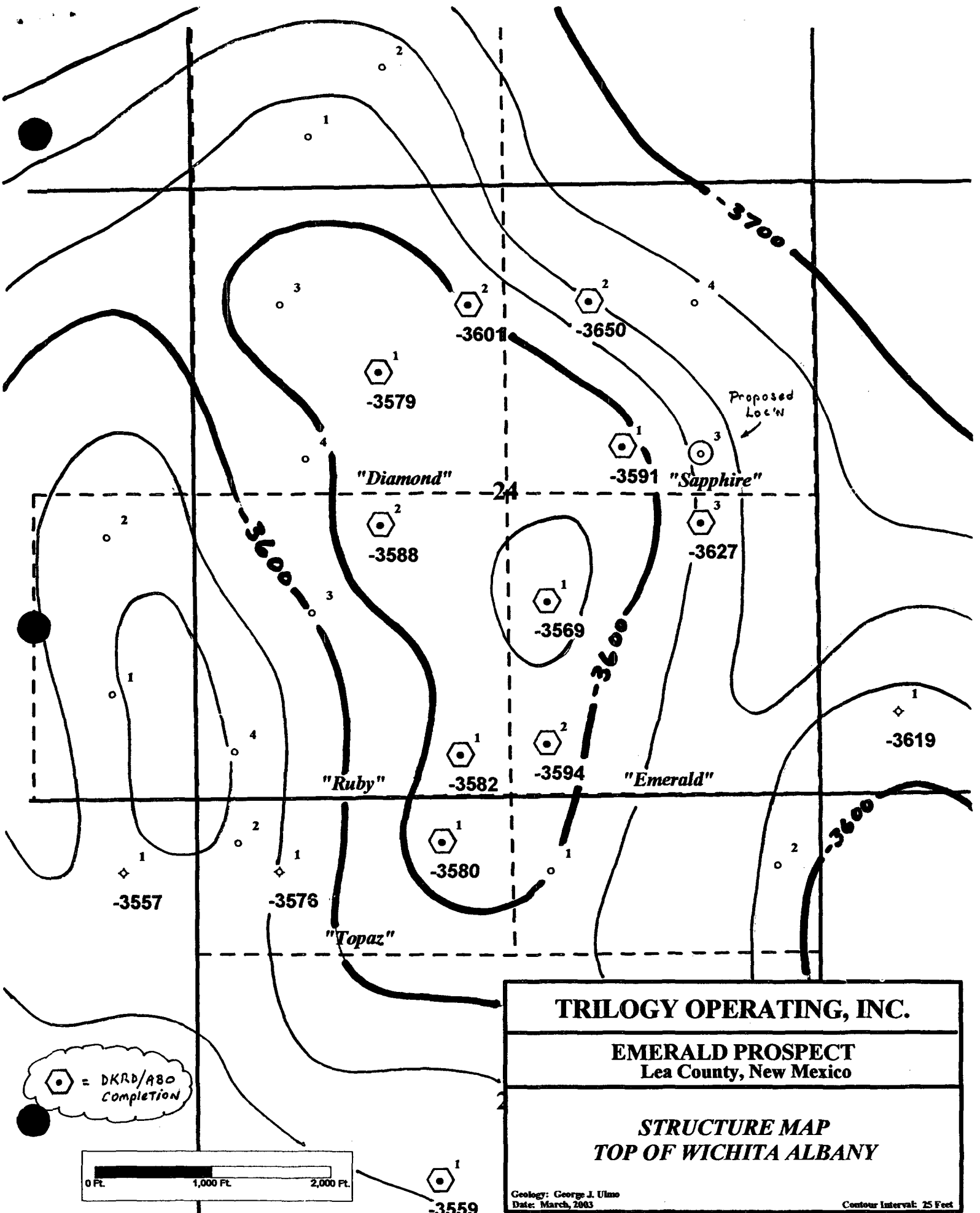
The San Andres is a prolific producer in the nearby Hobbs Field. Two and one-half mile northwest of the prospect, seven of the San Andres wells in section 15 produced more than 150,000 BO. Several of them produced in excess of 400,000 BO. Only three of the ten wells drilled by Trilogy have encountered any significant porosity or shows in the San Andres. These wells are confined to a small area in Units "B", "C", and "F". The San Andres is not considered prospective at the location of the Sapphire No. 3 well.

### SUMMARY

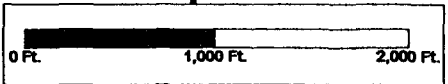
In order to preserve the "Sapphire" leasehold in the NE ¼ of Section 24, Trilogy Operating, Inc. proposes to drill the Sapphire No. 3 well at the proposed location to a depth sufficient to test the Drinkard and Abo Formations.



George J. Ulmo  
Consulting Geologist



○ = DKRD/ABO Completion



<b>TRILOGY OPERATING, INC.</b>
<b>EMERALD PROSPECT</b> Lea County, New Mexico
<b>STRUCTURE MAP</b> <b>TOP OF WICHITA ALBANY</b>
Geology: George J. Ulmo Date: March, 2003
Contour Interval: 25 Feet

AVARY

Date: 02/18/03

AFE No.: \_\_\_\_\_

Category: New Drill

Type: Oil

Well: Sapphire #3  
 Operator: Trilogy Operating, Inc  
 Location: Nadine Field  
 Prospect: \_\_\_\_\_

Depth: 7800  
 Fm.: Abo  
 County: Lea  
 State: New Mexico

Description	DH	Producer	Total
Permit, Surveying	700		700
Surf. Damage, ROW	35,000		35,000
Roads, Location, Pits	10,000		10,000
Drilling: Footage \$ 16.00 / ft	124,800		124,800
Daywork	15,000		15,000
Turnkey			0
Rig Mobilization			0
Fuel, Boiler			0
Completion Rig 8 days @ \$ 2500/day		20,000	20,000
Mud & Chemicals	10,000		10,000
Water, Water Hauling	10,500		10,500
Transportation, Hauling	3,000		3,000
Bits, Reamers, Stab.			0
Coring			0
Drill Stem Testing			0
Equipment Rental	2,500	3,000	5,500
Special Services			0
Directional Drig.			0
Contract Labor	12,000	10,000	22,000
Mud Logging, Geological	12,500		12,500
Cementing	14,000	21,000	35,000
Logging	30,000		30,000
Perforating		7,000	7,000
Stimulation		35,000	35,000
Wellsite Supervision			0
Abandonment Expense	6,000		6,000
Legal Exp., Insurance	2,000		2,000
COPAS Overhead	3,000	2,000	5,000
			0
Contingency 10%	29,100	9,800	38,900
<b>Total Intangible</b>	<b>320,100</b>	<b>107,800</b>	<b>427,900</b>
<b>TUBULARS</b>			
Conductor ft.	1,400		1,400
Surface 1700 ft. \$8.46/ft	14,416		14,416
Intermediate ft.			0
Liner ft.			0
Production 7800 ft. \$4.85/ft		37,830	37,830
Tubing 2 7/8" @ \$3.01		23,400	23,400
<b>PRODUCTION FACILITIES</b>			
Tanks			0
Separator			0
Heater/Treater			0
Dehydrator			0
Buildings			0
Flowline/Pipeline		1,600	1,600
Valves/Fittings		2,500	2,500
<b>ARTIFICIAL LIFT EQUIP</b>			
Pumping Unit Low Profile		50,000	50,000
Fndn./Base			0
Prime Mover			0
Sucker Rods		16,000	16,000
Bottom Hole Pump		2,000	2,000
Wellhead Equip.	650	550	1,200
Packer/Anchor		500	500
Other Equip.		1,000	1,000
Non-Controllable Equip.			0
Contingency 10%	1,647	13,538	15,185
<b>Total Tangibles</b>	<b>18,113</b>	<b>148,918</b>	<b>167,031</b>
<b>TOTAL WELL COST</b>	<b>338,213</b>	<b>256,718</b>	<b>594,931</b>

Accepted this \_\_\_\_ day of \_\_\_\_\_, 2002

By: \_\_\_\_\_

Company: \_\_\_\_\_

Print Name: \_\_\_\_\_



District I

1625 N. French Dr., Hobbs, NM 88240

District II

1301 W. Grand Ave., Artesia, NM 88210

District III

1000 Rio Brazos Rd., Aztec, NM 87410

District IV

1220 S. St Francis Dr., Santa Fe, NM 87505

State of New Mexico  
Energy, Minerals and Natural Resources  
Oil Conservation Division  
1220 S. St Francis Dr.  
Santa Fe, NM 87505

Form C-101

**APPLICATION FOR PERMIT TO DRILL**

Operator Name and Address Trilogy Operating, Inc PO Box 7606 Midland, TX 79708		OGRID Number 21602
		API Number 30-25-36142
Property Code 28066	Property Name SAPPHIRE	Well No. 003

**Surface Location**

UL or Lot	Section	Township	Range	Lot Idn	Feet From	N/S Line	Feet From	E/W Line	County
H	24	19S	38E		2310	N	990	E	Lea

**Proposed Pools**

NADINE;DRINKARD-ABO 47510

Work Type New Well	Well Type Oil	Cable/Rotary	Lease Type Private	Ground Level Elevation 3580
Multiple N	Proposed Depth 8000	Formation Abo Formation	Contractor	Spud Date 2/15/2003

**Proposed Casing and Cement Program**

Type	Hole Size	Casing Size	Casing Weight/ft	Setting Depth	Sacks of Cement	Estimated TOC
Surf	12.25	8.625	24	1700	900	0
Prod	7.875	5.5	17	8000	1200	0

**Casing/Cement Program: Additional Comments**

Cement used to circulate will be determined by open hole logs

**Proposed Blowout Prevention Program**

Type	Working Pressure	Test Pressure	Manufacturer
Double Ram	3000	3000	Shaffer

I hereby certify that the information given above is true and complete to the best of my knowledge and belief.

Electronically Signed By: Michael Mooney

Title: Vice-President

Date: 2/3/2003

Phone: 915-686-2027

### OIL CONSERVATION DIVISION

Electronically Approved By: Paul Kautz

Title: Geologist

Approval Date: 2/4/2003

Expiration Date: 2/4/2004

Conditions of Approval:

No Conditions

## DISTRICT I

P.O. Box 1980, Hobbs, NM 88241-1980

## DISTRICT II

P.O. Drawer DD, Artesia, NM 88211-0719

## DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

## DISTRICT IV

P.O. Box 2088, Santa Fe, N.M. 87504-2088

## State of New Mexico

Energy, Minerals and Natural Resources Department

## OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

Form C-102

Revised February 10, 1994

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

## WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code	Pool Name
Property Code	Property Name <b>SAPPHIRE</b>	Well Number <b>3</b>
OCRID No.	Operator Name <b>TRILOGY OPERATING, INC.</b>	Elevation <b>3580'</b>

## Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
<b>H</b>	<b>24</b>	<b>19-S</b>	<b>38-E</b>		<b>2310</b>	<b>NORTH</b>	<b>990</b>	<b>EAST</b>	<b>LEA</b>

## Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres	Joint or Infill	Consolidation Code	Order No.						

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED  
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	<b>OPERATOR CERTIFICATION</b>  I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.  Signature _____  Printed Name _____  Title _____  Date _____
	<b>SURVEYOR CERTIFICATION</b>  I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.  JANUARY 10, 2003  Date Surveyed _____ L.A.  Signature & Seal of Professional Surveyor   <b>RONALD J. EIDSON</b> <b>GARY EIDSON</b>  Certificate No. <b>RONALD J. EIDSON 3239</b> <b>GARY EIDSON 12641</b>