



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

July 1, 1998

Pogo Producing Company
c/o James Bruce
P. O. Box 1056
Santa Fe, New Mexico 87504

Re: Administrative application on behalf of Pogo Producing Company to drill its Coyote "21" Well No. 3 at an unorthodox oil well location in the Cedar Canyon-Delaware Pool 330 feet from the South line and 1300 feet from the West line (Unit M) of Section 21, Township 24 South, Range 29 East, NMPM, Eddy County, New Mexico.

Dear Mr. Bruce:

In order to assure that correlative rights will be fully protected within the SW/4 of said Section 21, please provide additional information on the two fee leases covering this area, including descriptions of the two leases and a detailed breakout of the ownership (WI, RI, and ORRI) in both.

Should you have any questions concerning this matter, please contact me in Santa Fe at (505) 827-8185. Thank you for your cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael E. Stogner", with a long, sweeping horizontal line extending to the right.

Michael E. Stogner
Chief Hearing Examiner/Engineer

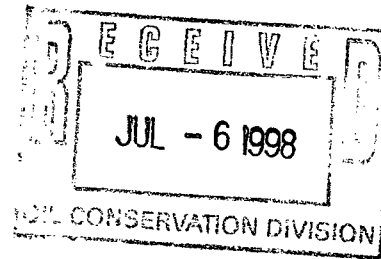
cc: New Mexico Oil Conservation Division - Artesia

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

SUITE B
612 OLD SANTA FE TRAIL
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)



July 2, 1998

Michael E. Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Administrative application of Pogo Producing Company for
an unorthodox oil well location; Coyote "21" Well No. 3,
Unit M of Section 21, Township 24 South, Range 29 East,
NMPM, Eddy County, New Mexico

Dear Mr. Stogner:

In response to your letter of July 1, 1998, enclosed is a title opinion on the entire SW $\frac{1}{4}$ of Section 21. There are two leases covering the SW $\frac{1}{4}$, each covering an undivided interest. See pages 3 and 5 of the opinion. Thus, royalty ownership is common. The working interest owners are Pogo Producing Company (75%) and Phillips Petroleum Company (25%), whose interests are uniform throughout the SW $\frac{1}{4}$. See pages 2 and 7. Finally, there are no overriding royalty interest owners. Please call me if you need anything further on this application.

Very truly yours,

A handwritten signature in cursive script that reads "James Bruce".

James Bruce

Attorney for Pogo
Producing Company

COTTON, BLEDSOE, TIGHE & DAWSONA PROFESSIONAL CORPORATION
ATTORNEYS AT LAW

500 W. ILLINOIS

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OF COUNSEL
ALLIANCE CERTIFIED
OIL, GAS AND MINERAL LAW
TEXAS BOARD OF LEGAL REGULATION
ALSO LICENSED IN NEW MEXICO**RECEIVED****FEB -9 1998****MIDLAND**

February 6, 1998

No. 9885-DD

Cedar Canyon Prospect NM-615

Coyote "21" No. 2 Well

Pogo Producing Company
300 North Marienfeld, Suite 600
Midland, Texas 79701

Attention: Terry Gant, Senior Landman

ORIGINAL DIVISION ORDER TITLE OPINION covering the following described lands located in Eddy County, New Mexico:

Township 24 South, Range 29 East, N.M.P.M.Section 21: SW/4, containing 160 acres,
more or less.

Gentlemen:

At your request and for the purpose of rendering an original division order title opinion covering the captioned lands, we have examined the following:

ABSTRACTS

The following abstracts of title certified by Currier Abstract Company as covering the captioned lands as follows:

- (1) Abstract of Title No. 94,085, in seven volumes, containing 1107 pages, certified as to the mineral estate only from inception of the records to April 8, 1994, at 8:00 a.m.
- (2) Supplemental Abstract of Title No. 96,195 certified from April 8, 1994, at 8:00 a.m., to June 25, 1996, at 8:00 a.m., containing 63 pages.
- (3) Supplemental Abstract No. 98,011 certified from June 25, 1996, at 8:00 a.m., to January 20, 1998, at 8:00 a.m., containing 34 pages.

INSTRUMENTS

- (1) Exploration Agreement dated May 15, 1994, between Siete Oil & Gas Corporation and Phillips Petroleum Company.

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(2) Copies of delay rental receipts for the delay rentals payable under the leases analyzed herein.

(3) Copy of the Gayle and Arlene McDonald Living Trust Agreement dated July 14, 1991.

(4) Copy of letter from Pogo Producing Company dated September 24, 1997, addressed to Phillips Petroleum Company proposing the captioned well.

(5) Copy of letter dated September 29, 1997, from Phillips Petroleum Company to Pogo Producing Company advising that Phillips elected not to join in the drilling of the captioned well, thus choosing to go non-consent under the Operating Agreement.

(6) Copy of Well Completion Report for the captioned well reflecting that the well was commenced 11/28/97, completed 12/27/97, and drilled to a total depth of 6,800 feet subsurface, at a location 990 feet FSL and 2310 feet FWL of Section 21.

DIVISION OF INTEREST

Based upon our examination of the foregoing abstracts and materials, and subject to the requirements and comments hereinafter made, it is our opinion that title to the oil and gas produced from the captioned land is owned as follows:

Royalty Interest:

Mickey Gaines, for her life, with right to receive royalty, remainder in fee to

Robert Elton Gaines	(3/4 x 1/5)	.15 RI
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Gayle McDonald, as his separate property	(1/12 x 1/5)	.01666 RI
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James C. McDonald, Jr., as his separate property	(1/12 x 1/5)	.01667 RI
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Jo Alice Cranford, as her separate property	(1/12 x 1/5)	.01667 RI
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Working Interest:

Pogo Producing Company	(75% x 4/5)	.60 WI
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Phillips Petroleum Company	(25% x 4/5)	.20 WI*
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*Since Phillips elected not to join in the drilling of the captioned well, Pogo Producing Company is entitled to receive all of the working interest production owned by Phillips Petroleum Company until such time as payout is reached pursuant to the terms of the Operating Agreement attached as Exhibit "3" to the Exploration Agreement dated May 15, 1994.

OIL AND GAS LEASES

Lease 1:

Dated: February 19, 1994.

Recorded: Book 183, Page 999-1004, Eddy County Records.

Lessor: Mickey Gaines, formerly Lorena Derrick Crow, a widow.

FROM: POGO-PRODUCING TO

Pogo Producing Company

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Lessee: Avalon Energy Corporation.

Land Covered: Township 24 South, Range 29 East, N.M.P.M.
Section 21: SW/4 and S/2 SE/4
Section 22: S/2 SE/4, SE/4 SW/4
Section 23: The West 907.5 feet out of SW/4
SW/4, being the West 27.5 acres
of SW/4 SW/4
Section 27: N/2 NE/4, NE/4 NW/4, the North
990 feet of SE/4 NE/4 being the
North 30 acres of SE/4 NE/4
Section 28: N/2 NE/4

containing 617.5 acres, more or less.

Interest Covered: (a) An undivided 3/4 interest in SW/4 Section 21; S/2 SE/4, SE/4 SW/4 Section 22; The West 907.5 feet out of SW/4 SW/4, being the West 27.5 acres of SW/4 SW/4 Section 23; and N/2 NE/4, NE/4 NW/4, the North 990 feet of SE/4 NE/4 being the North 30 acres of SE/4 NE/4 Section 27.

(b) An undivided 3/8 interest in S/2 SE/4 Section 21 and N/2 NE/4 Section 28.

Primary Term: Three (3) years from date.

Royalty: 1/5 on oil and gas. In Para. 14 of the Addendum attached to the lease, lessor reserves the right to take royalty in kind.

Shut-In Gas

Royalty: Payable in a sum equal to the amount of delay rentals, beginning on or before 90 days after a well is shut in, and annually thereafter.

Delay Rentals: \$3,087.50.

Depository Bank: Commercial State Bank, Sinton, Texas.

Delay Rental

Instructions: Para. 23 provides that the delay rentals and/or shut-in gas royalties will be calculated by multiplying \$5.00 times the net mineral acres owned by the lessor, being 403.13 acres. Therefore, the net amount payable for delay rentals and shut-in gas royalties is \$2,015.65. This sum should be deposited to the credit of the lessor in the depository bank on or before each anniversary date of the lease during the primary term in the absence of drilling or production. We have examined a copy of a delay rental receipt reflecting the timely and proper payment of delay rentals under this lease for the lease year commencing February 19, 1995.

Pooling Clause: Para. 5 grants to the lessee the right to pool with units not to exceed the standard proration unit fixed by law or by the New Mexico Oil Conservation Commission, plus 10% tolerance. Para. 15 provides that after the expiration of the primary term production or operations on a pooled unit will not maintain the lease as to lands not included in the pooled unit.

Lease Form: Producers 88 (Revised 1972) New Mexico Form 342P, being a printed commercial form lease containing a 60-day additional drilling or reworking provision.

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Lease Rider:

Attached to the lease as an "Addendum" is a lease rider consisting of Paras. 12-24. Paras. 14, 15, and 23 have been noted above in the lease analysis.

Para. 12 provides that the lease covers only oil, gas and associated hydrocarbons.

Para. 13 provides that payment of shut-in gas royalty will not maintain the lease for more than three years after the end of the primary term.

Para. 16 provides that at the end of the primary term if lessee is not then engaged in drilling operations, lessee shall release all acreage not included in a proration unit for a producing well or shut-in gas well and shall further surrender all rights below 100 feet below deepest depth drilled on the leased premises or lands pooled therewith. If lessee is engaged in drilling operations at the end of the primary term, the lease may be maintained as to all of the leased lands so long as continuous operations are conducted with no more than 120 days between wells.

Para. 17 provides that lessee agrees to pay to the surface owner actual damages resulting from lessee's operations.

Para. 18 provides that the royalty shall be 1/5, and Para. 19 provides that after executing a division order, royalties to lessor shall be due and payable within 60 days from the sale of production.

Para. 20 provides for certain well information to be furnished to lessor.

Para. 21 provides that if a producing well is brought in on adjacent lands and draining a portion of the leased lands as to which this lease is then effective, lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill in the same or similar circumstances, provided that lessee shall not be required to offset any gas wells on adjacent lands unless the gas therefrom is being marketed. In lieu of drilling an offset well lessee has the option to pay lessor, as royalty, a sum equal to the payments which would be payable under this lease on production from such well had the same been produced from the leased lands, or of executing and delivering to lessor a release of this lease as to the offsetting proration unit.

Para. 22 provides that it is the intent of the lessor to include in this lease all interest that she owns in T-24-S, R-29-E, Eddy County, New Mexico.

Para. 24 grants to the lessee the right to extend the primary term of this lease for an additional two years by paying or tendering to lessor or to her credit in the depository bank the sum of \$90,704.25 on or before February 19, 1997.

Ratification:

Robert Elton Gaines ratified this lease by Ratification of Oil and Gas Lease dated March 28, 1994, recorded Book 186, Page 773.

Amendment:

By Amendment of Oil and Gas Lease dated December 15, 1996, executed by Mickey Gaines and Robert Elton Gaines, as lessor, and Pogo Producing Company, as lessee, Para. 13 of the lease was amended to read as follows:

"13. Anything to the contrary notwithstanding, it is expressly understood and agreed that the privilege of paying shut-in gas well royalty as provided herein shall be

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effective and continue only through the primary term and for a total aggregate period thereafter of three (3) years and no longer; provided further, however, that after three (3) years from the end of the primary term, that the amount of the shut-in royalty required to maintain this lease in force and effect shall increase from \$5.00 to \$100.00 per acre per year."

Lease 2:

Dated: February 21, 1994.

Recorded: Book 184, Pages 1116-1118, Records of Eddy County.

Lessor: Gayle McDonald and Arlene McDonald, as Co-Trustees of the Gayle and Arlene McDonald Living Trust, and Ethelbert Lagow, aka Mrs. C. E. Lagow, by her agent and attorney-in-fact, Gayle McDonald.

Lessee: Avalon Energy Corporation.

Land Covered: This lease covers the same lands as Lease 1 above, recited to contain 617.5 acres, more or less.

Interest Covered: (a) Undivided 1/4 interest in SW/4 Section 21, S/2 SE/4, SE/4 SW/4 Section 22; The West 907.5 feet out of SW/4 SW/4, being the West 27.5 acres of SW/4 SW/4 Section 23; and N/2 NE/4, NE/4 NW/4, the North 990 feet of SE/4 NE/4 being the North 30 acres of SE/4 NE/4 Section 27.

(b) Undivided 1/8 interest in S/2 SE/4 Section 21 and N/2 NE/4 Section 28.

Primary Term: Three (3) years from date.

Royalty: 1/5 on oil and gas.

Shut-In Gas Royalty: Payable in an amount equal to annual delay rentals beginning on or before 90 days after a well is shut in and annually thereafter. Para. 14 of the lease rider provides that after the expiration of the primary term the lease may not be maintained in force for more than two years solely by payment of shut in gas royalty.

Delay Rentals: \$617.50.

Depository Bank: Texas Commerce Bank-San Angelo, 301 West Beauregard, San Angelo, Texas 76903.

Delay Rental Instructions: Rental payments of \$134.38 should be deposited to the credit of the lessor in the depository bank on or before each anniversary date of the lease during the primary term in the absence of drilling or production. We have examined a copy of delay rental receipt reflecting the timely and proper payment of delay rentals under this lease for the lease year commencing February 21, 1995.

Pooling Clause: Para. 5 grants to the lessee the right to pool with units for oil not to exceed the standard proration unit fixed by law or by the New Mexico Oil Conservation Commission, plus 10% tolerance. Para. 13 of the lease rider provides that production from a pooled unit covering a portion of the

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leased lands will not maintain the lease in effect as to lands covered by this lease not included in the pooled unit.

Lease Form:

Producers 88 (Revised 1965) New Mexico Form 342, being a printed commercial form lease containing a 60-day additional drilling or reworking provision.

Lease Rider:

Attached to the lease as an "Addendum" are Paras. 12, 13 and 14. Paras. 13 and 14 have been discussed above in the lease analysis. Para. 12 provides for a continuous drilling program at the expiration of the primary term with no more than 120 days between wells, and upon cessation of drilling the lease will terminate except as to lands within a producing proration unit, the size of which is to be determined by governmental regulations, and if none, proration units are to be 40 acres for oil wells and 160 acres for gas wells.

Ratification:

Jo Alice Cranford executed a Ratification of Oil and Gas Lease dated March 30, 1994, recorded Book 184, Page 1119, Eddy County Records, ratifying this lease and providing that she shall not be paid any portion of the delay rentals payable under the lease. Jo Alice Cranford also executed a Ratification and Amendment of Oil and Gas Lease dated May 11, 1996, recorded Book 250, Page 442, ratifying this lease as amended by the Amendment of Oil and Gas Lease dated July 27, 1994, recorded Book 207, Page 521, and providing that she shall not be paid any portion of the delay rentals payable under this lease.

Amendment:

The lessors executed an Amendment of Oil and Gas Lease dated July 27, 1994, recorded Book 207, Page 521, amending Para. 12 of the Addendum to the Lease to read as follows:

"12 Notwithstanding any other provision herein contained to the contrary, it is understood and agreed that upon the expiration of the primary term hereof, Lessee shall thereafter conduct a continuous drilling program on the lands covered by this lease, or on lands pooled therewith, and this lease shall remain in full force and effect during such time as said continuous drilling program is being conducted by Lessee. 'Continuous drilling program' is defined herein to mean the continuous development of the leased premises, or lands pooled therewith, by Lessee with not more than 120 days elapsing between the completion of one well and the commencement of operations for the drilling of the next succeeding well. The time for the commencement of the first well under the continuous drilling program shall be the later of (a) 120 days after the end of the primary term, if this Lease is maintained in force pursuant to its terms and provisions upon the expiration of the primary term hereof, or (b) 120 days after the completion of any well being drilled by Lessee over the expiration of the primary term. For the purposes of interpretation of this provision, a well shall be determined to be commenced when such well is spudded, and a well shall be determined to be completed on the date certified to the Oil Conservation Division of the State of New Mexico as the date a well has been completed as a producing well, or the date on which a dry hole is plugged. The time period between wells shall be cumulative, so that if Lessee uses less than 120 days between the completion of one well and the commencement of the next succeeding well, the accumulated time may be used by Lessee to extend the 120-day interval for commencing subsequent wells. The re-entry of any well now located on the Lands and the drilling of such a re-entry well shall be considered compliance with the obligation to drill any well required or permitted under the terms of this Lease. The termination of rights hereunder shall be the sole liability or penalty for the failure of Lessee to drill any well or wells required or permitted hereunder. Upon cessation of the continuous drilling program this lease shall terminate as to all lands covered hereby, save and except as to each well then capable of producing oil and/or gas in paying quantities together with the proration unit allocated to such well pursuant to the rules and regulations of applicable governmental authority upon the date of termination of

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the continuous drilling program. Thereafter Lessee shall promptly execute and deliver to Lessor a release of the Lease as to all Lands as to which the Lease has terminated. If, during the drilling or reworking of any well in compliance with this lease, Lessee loses or junks the hole or well or encounters any other mechanical or technical or other difficulties incident to drilling and after diligent effort in good faith is unable to complete said operations, then within 30 days after the abandonment of said operations, Lessee may commence a substitute well and drill the same with due diligence, in which case the operations for the substitute well shall be deemed compliance with the continuous drilling program defined herein. Notwithstanding the termination of this Lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress and egress from the lands still subject to this lease for all purposes described herein, together with easements and rights-of-way for roads, pipelines and other facilities on, over and across all of the leased premises, for access to and from the lands still subject to this lease and for the gathering or transportation of oil, gas and other minerals produced from the retained lands."

ASSIGNMENT OF LEASES 1 AND 2

By Assignment dated November 22, 1994, recorded Book 207, Page 755, Avalon Energy Corporation assigned all of its interest in Leases 1 and 2 to Pogo Producing Company, as to all lands covered by these leases, without reservation.

By Partial Assignment of Oil and Gas Leases dated February 10, 1995, recorded Book 212, Page 177, Pogo Producing Company assigned to Phillips Petroleum Company 25% of Pogo's interest in Leases 1 and 2 as to SW/4 Section 21 only, subject to the terms and conditions of Letter Agreement dated December 28, 1994, between Pogo Producing Company, Phillips Petroleum Company and Siete Oil & Gas Corporation. This Assignment provides that Leases 1 and 2, as to SW/4 Section 21, shall be subject to the Operating Agreement attached as Exhibit "3" to Exploration Agreement dated May 15, 1994, between Phillips Petroleum Company and Siete Oil & Gas Corporation.

LIENS AND ENCUMBRANCES

None reflected of record

TAXES

A tax statement contained in the last supplemental abstract reflects that taxes assessed against the captioned lands have been paid through 1997.

TITLE REQUIREMENTS

1.

This opinion does not cover such matters as area, boundaries, the location or depth of wells, the time of commencement of drilling operations nor production in paying quantities.

REQUIREMENT

- (a) The purchaser of production should be furnished with a survey plat showing the well location on the captioned land.
- (b) Division orders should be executed by all parties owning an interest in production.

Pogo Producing Company

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No. 9835-DD
February 6, 1998COMMENTS

The supplemental abstract is returned herewith.

Very truly yours,

COTTON, BLEDSOE, TIGHE & DAWSON

By:


Tevis HerdTH:cm
Encls.cc:
Pogo Producing Company
Attn: Gina Gresham
P. O. Box 2504
Houston, Texas 77252-2504