

## SETTLEMENT AND RELEASE AGREEMENT

This Settlement and Release Agreement is entered into by and between Pogo Producing Company, a Delaware corporation ("Pogo"), Bonnie Resler Karlsrud, individually and as beneficiary of Resler and Sheldon, Wayne Resler, individually and as beneficiary of Resler and Sheldon and Jimmy D. Evans, joined by his spouse Linda B. Evans, individually and as beneficiary of Resler and Sheldon (sometimes Bonnie Resler Karlsrud, Wayne Resler and Jimmy Dale Evans and his spouse Linda B. Evans are individually and collectively referred to as "Resler and Sheldon").

WHEREAS, the parties own certain interests in the oil & gas leasehold estate covering the following land (hereinafter referred to as "Lands") in Lea County, New Mexico: Township 23 South, Range 37 East N.M.P.M, Section 20: NE/4 SW/4 and, SE/4 containing 200 acres more or less; and

WHEREAS, Pogo obtained its interest in and to the Lands under (a) that certain Term Assignment of Oil and Gas Leasehold Estate dated effective the 15th day of August 2003, made and entered into between Bonnie Resler Karlsrud, et al and Eagle-K Production Co., which is recorded at Book 1263, Page 850 of the Records of Lea County, New Mexico, and (b) that certain Term Assignment of Oil and Gas Leasehold Estate dated effective the 15th day of August 2003, made and entered into between Gretchen Nearburg and Eagle-K Production Co., which is recorded at Book 1263, Page 857 of the Records of Lea County, New Mexico ("Term Assignments"), whereupon Eagle-K Production Co. assigned its interest under the Term Assignments to Arch Petroleum, Inc. ("Arch"), and Arch thereafter was merged into Pogo on December 31, 2005; and

WHEREAS, Resler and Sheldon through Westbrook Oil Corporation, is the operator of the South Half of Section 20, Township 23 South, Range 37 East dedicated to the Steeler A No. 1 Well producing from the depth intervals defined in the Special Pool Rules for the JALMAT GAS POOL, established by the New Mexico Oil and Conservation Division (Case No. 12563, Order No. R-8170-P), which are defined in such rules as the depth interval from the top of the Tansill formation to a point 100 feet above the base of the Seven Rivers formation, thereby including all of the Yates formation (the South Half of Section 20 from the surface to 3,100 feet is consolidated pursuant to February 1, 1958 Declaration of Pooling or Unitization as approved by NMOCDD order No. NSP 420); and

WHEREAS, Arch drilled the Resler B No. 1 Well to 3,100 feet located 1980 FSL and 1980 FEL, Section 20, Township 23 South, Range 37 East N.M.P.M., Lea County, New Mexico ("Resler B. No. 1 Well"); and

WHEREAS, Arch, after drilling the Resler B. No. 1 Well sought to establish a nonstandard proration unit consisting of the Southeast Quarter of Section 20 in order to produce from the depth intervals defined in the Special Pool Rules for the JALMAT GAS POOL, established by the New Mexico Oil and Conservation Division (Case No. 12563, Order No. R-8170-P), which are defined in such rules as the depth interval from the top of the Tansill formation to a point 100 feet above the base of the Seven Rivers formation, thereby including all of the Yates formation Township 23 South, Range 37 East, and

WHEREAS, Arch applied to the New Mexico Oil Conservation Division ("NMOCD") for a non standard proration unit consisting of the SE/4 of Section 20 in order to produce from the JALMAT GAS POOL; and

WHEREAS, the NMOCD on June 13, 2005, denied Arch's application for a non standard unit such denial being confirmed on May 17, 2007, by the NMOCD;

WHEREAS, on May 25, 2007, Pogo submitted to Resler and Sheldon a well proposal for the Resler B No. 1 Well allegedly under the authority of a August 25, 1956 Operating Agreement, although Resler and Sheldon disputes the authority of Pogo to submit such proposal; and

WHEREAS, as a result of such dispute, certain controversies have arisen concerning operation of the S/2 of Section 20

WHEREAS, the parties desire to settle their differences and enter into certain agreements concerning the development of the South Half, Section 20.

NOW, therefore for and in Consideration of the foregoing premises and other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Resler and Sheldon will provide all reasonable necessary consents and approvals (including that of Westbrook Oil Corporation) for the establishments of 2 one hundred and sixty acres non standard Jalmat gas spacing units in the South Half of Section 20, the SE/4 Operated by Pogo and the SW/4 operated by Resler and Sheldon, or its designee. The two units will be effective July 1, 2007.
2. Pogo waives any and all claims to any production from the Steeler A No. 1 Well and the well and all equipment associated with the well.
3. Resler and Sheldon will provide all necessary consents and approvals (including that of Westbrook Oil Corporation) for the restoration of the Resler B No. 1 Well to production.
4. Resler and Sheldon waive any claim to their share of working interest production proceeds from and any interest in the Resler B No. 1 Well and the well and all equipment associated with the well.
5. Pogo will reassign its working interest, net revenue interest and overriding royalty interest effective as of August 15, 2003, related solely to the rights in the JALMAT GAS POOL in the NE/4 SW/4, Section 20. Such interests will be assigned 40.34% to Bonnie Resler Karlsrud, 38.36% to Wayne Resler and 21.30% to Jimmy Dale Evans and his wife, Linda Evans.

LM, QGB

Pogo will retain rights to all other depths in the NE/4 SW/4 of Section 20 and ownership of the Resler A Well No 1, together with all equipment associated with such well.

6. Resler and Sheldon will execute a Correction Term Assignment of Oil & Gas Leasehold Estate covering the Lands which will amend paragraph "a) OVERRIDING ROYALTY RESERVATION " in the Term Assignments to delete the words "save and except any gas produced from the Yates formation" and replacing same with the words "any oil and gas that may be produced from the depth intervals defined in the Special Pool Rules for the JALMAT GAS POOL, established by the New Mexico Oil and Conservation Division (Case No. 12563, Order No. R-8170-P), which are defined in such rules as the depth interval from the top of the Tansill formation to a point 100 feet above the base of the Seven Rivers formation , thereby including all of the Yates formation, and further deleting the words "gas and condensate produced and sold from the unitized Yates formation" and replacing same with the words "any oil and gas that may be produced from the depth intervals defined in the Special Pool Rules for the JALMAT GAS POOL, established by the New Mexico Oil and Conservation Division (Case No. 12563, Order No. R-8170-P), which are defined in such rules as the depth interval from the top of the Tansill formation to a point 100 feet above the base of the Seven Rivers formation , thereby including all of the Yates formation".
7. Resler and Sheldon will use its best efforts to obtain the consent of Fulfer Oil & Cattle Company, LLC to the actions set forth in paragraphs 1 and 3.
8. Pogo will pay Bonnie Karlsrud and Wayne Resler all overriding royalties currently held in suspense for the Resler B. Well No. 1 from date of first production through June 30, 2007.
9. Pogo will assign Resler and Sheldon an additional overriding royalty in the SE/4 of Section 20 equal to the difference between the existing leasehold burdens and 30% (proportionately reduced to the leasehold interest owned by Resler and Sheldon at the time of execution of the Term Assignment), which will give Pogo a 70% net revenue interest in the SE/4 as to the production from the JALMAT GAS POOL, effective as of July 1, 2007. Such interests will be assigned 40.34% to Bonnie Resler Karlsrud, 38.36% to Wayne Resler and 21.30% to Jimmy Dale Evans and his wife, Linda Evans. The additional overriding royalty interest will be calculated based on the Title Opinion No. 33,610 dated February 5, 2004, prepared by the law firm of Hinkle Hensley, Shanor & Martin, L.L.P. addressed to Arch Petroleum, Inc. (the "Title Opinion").
10. Resler and Sheldon will execute division orders for pre July 1, 2007 and post July 1, 2007 interests in the Resler B Well No. 1 provided such division orders are corrected and relate solely to the SE/4 of Section 20, Township 23 South Range, 37 East N.M.P.M. The overrides will be

computed and paid from the date of first production and thereafter based upon a 160 acre unit.

11. Pogo will make a cash payment to Bonnie Karlsrud of \$50,425, to Wayne Resler of \$47,950 and to Jimmy Dale Evans of \$26,625.
12. Pogo hereby indemnifies and holds harmless Resler and Sheldon for any and all claims of any nature whatsoever related to Arch's and Pogo's permitting, drilling, completion, operation and the reporting and handling of production proceeds and severance taxes for the Resler B No. 1 Well.
13. For and in consideration of the agreements set forth herein, and except for the agreements to be carried out herein, Resler and Sheldon do hereby release and forever discharge Pogo and its employees, agents, successors and assigns from any and all actions, causes of action, claims, demands, damages, costs, loss of services, expenses and compensation on account of or in any way growing out of operations on the Lands prior to the date hereof. Bonnie Resler hereby indemnifies and holds harmless Pogo for any claims of any nature whatsoever related to the acquisition of Gretchen Nearburg's interest in any of the properties described herein.
14. For and in consideration of the agreements contained herein and except for the agreements to be carried out herein, Pogo does hereby release, and forever discharge Resler and Sheldon, Bonnie Karlsrud, Wayne Resler, Jimmy Dale Evans and his spouse, Linda B. Evans and their employees, agents, successors and assigns from any and all actions, causes of action, claims, demands, damages, cost, loss of services, expenses and compensation on account of or in any way growing out of its operations on the Lands.
15. The parties further declare and represent that in making this agreement, the parties have relied upon the advice of counsel and their own judgment, belief and knowledge in making this agreement.
16. It is further agreed that this is a settlement and compromise of doubtful and disputed claims and that any payments and agreements made under this settlement is not to be construed as an admission of liability on the part of any party hereto all of whom deny any liability.
17. This agreement contains the entire agreement between the parties and the terms of this agreement are contractual and not mere recitals.
18. This agreement shall be construed in accordance with New Mexico Law.

19. In the event of a breach of this agreement the prevailing party in any action brought to enforce the terms thereof shall be entitled to recover attorney fees and costs from the other party.
20. Any and all actions to enforce the terms of this agreement shall be in Lea County, New Mexico.
21. This agreement may be executed in separate counterparts, each of which when so executed and delivered shall be an original and all of which shall constitute one and the same instrument.

Dated as of the date of the last acknowledgement set forth below.

POGO PRODUCING COMPANY

BY: \_\_\_\_\_

ITS: \_\_\_\_\_

\_\_\_\_\_  
BONNIE KARLSRUD, individually  
and as beneficiary of Resler and  
Sheldon

Wayne Resler  
\_\_\_\_\_  
WAYNE/RESLER, individually and  
as beneficiary of Resler and Sheldon

\_\_\_\_\_  
JIMMY D. EVANS, individually  
and as beneficiary of Resler and  
Sheldon

\_\_\_\_\_  
LINDA B. EVANS, individually  
and as beneficiary of Resler and  
Sheldon

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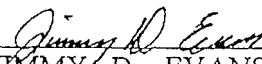
POGO PRODUCING COMPANY


BY: \_\_\_\_\_

ITS: \_\_\_\_\_

\_\_\_\_\_  
BONNIE KARLSRUD, individually  
and as beneficiary of Resler and  
Sheldon

\_\_\_\_\_  
WAYNE RESLER, individually and  
as beneficiary of Resler and Sheldon

  
\_\_\_\_\_  
JIMMY D. EVANS, individually  
and as beneficiary of Resler and  
Sheldon

  
\_\_\_\_\_  
LINDA B. EVANS, individually  
and as beneficiary of Resler and  
Sheldon

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POGO PRODUCING COMPANY

BY: \_\_\_\_\_

ITS: \_\_\_\_\_

Bonnie Karlsruud  
BONNIE KARLSRUD, individually  
and as beneficiary of Resler and  
Sheldon

\_\_\_\_\_  
WAYNE RESLER, individually and  
as beneficiary of Resler and Sheldon

\_\_\_\_\_  
JIMMY D. EVANS, individually  
and as beneficiary of Resler and  
Sheldon

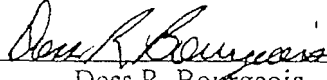
\_\_\_\_\_  
LINDA B. EVANS, individually  
and as beneficiary of Resler and  
Sheldon

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Dated as of the date of the last acknowledgement set forth below.

POGO PRODUCING COMPANY LLC,  
Successor to Pogo Producing Company  
thru Merger

BY:

  
Doss R. Bourgeois  
Vice President

\_\_\_\_\_  
BONNIE KARLSRUD, individually and as  
beneficiary of Resler and Sheldon

\_\_\_\_\_  
WAYNE RESLER, individually and as  
beneficiary of Resler and Sheldon

\_\_\_\_\_  
JIMMY D. EVANS, individually and as  
beneficiary of Resler and Sheldon

\_\_\_\_\_  
LINDA B. EVANS, individually and as  
beneficiary of Resler and Sheldon