



BAHLBURG EXPLORATION INC.

Post Office Box 866937 · Plano · Texas · 75086-6937 · (972) 867-2575 · Fax (972) 867-6745

Handwritten initials

Date: 10-27-99

FAX COVER SHEET

Time: _____

Please Deliver To: MR. DAVID CATANACH

Company: NMCCO - SANTA FE

Department/Location: _____

Telephone No.: 505/827-8184 Fax No.: 505/827-8177

Total number of pages (including cover sheet): 8

If you do not receive the number of pages shown above, please notify the sending party promptly.

Sending party: BILL BAHLBURG (972) 867-2575

Remarks: _____

REQUEST TO BE EXCLUDED FROM
COMPULSORY POOLING ~~ACTION~~ APPLICATION
BY DAVID ARINGTON O&G, INC. ON THE
BASIS THAT WE HAVE PREVIOUSLY
OFFERED TO FARMOUT OUR LEASEHOLD
INTEREST IN THE ~~SE~~ SE/NW OF SECTION
29 BUT HAVE NOT RECEIVED ANY
RESPONSE FROM ARINGTON.

**BAHLBURG EXPLORATION INC.**

Post Office Box 866937 · Plano · Texas · 75086-6937 · (972) 867-2575 · Fax (972) 867-6745

via Fax and US Mail
505/827-8177

October 27, 1999

Mr. David Catanach
NMOCD
2040 South Pacheco
Santa Fe, NM 87505

RE: Application of David H. Arrington Oil & Gas, Inc. for compulsory pooling, directional drilling, and an unorthodox well location, Lea County, New Mexico. (Case No. 12274, Hearing Date of November 4, 1999)

Dear Mr. Catanach:

We received notice today by Certified Mail of the above described compulsory pooling application by David H. Arrington Oil & Gas, Inc. Bahlburg Exploration, Inc. owns a 1.328125% of 8/8ths leasehold interest in the SE/NE of Section 29. We have previously offered to farmout our leasehold interest in the SE/NE of Section 29 to Arrington on industry standard terms (1/4 BIAPO), but have not received a response as of this date. Enclosed for your review are copies of all correspondence received from Arrington or sent to Arrington by us concerning this matter.

We will be unable to attend the hearing in Santa Fe on November 4th. We respectfully request that our interest be excluded from any compulsory pooling action as we intend to support Arrington's test well through a farmout of our interest per our letter dated October 19, 1999.

Please call me if you have any questions or comments.

Very truly yours,

BAHLBURG EXPLORATION, INC.

A handwritten signature in black ink, appearing to read 'William C. Bahlburg', written in a cursive style.

William C. Bahlburg
President

Enclosures (4)
cc: Bill Carr

BEI**BAHLBURG EXPLORATION INC.**

Post Office Box 866937 · Plano · Texas · 75086-6937 · (972) 867-2575 · Fax (972) 867-6745

via Certified Return-Receipt Mail

Z 196 351 915

October 19, 1999

FILE COPY

Mr. Dale Douglas
David H. Arrington Oil & Gas, Inc.
P.O. Box 2071
Midland, Texas 79702

RE: Prince Nymph #1 Sidetrack Proposal(Revised)
Section 29-T15S-R36E
Lea County, New Mexico

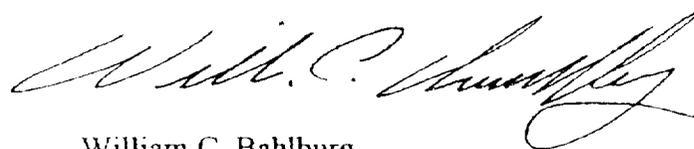
Gentlemen:

We received your letter dated October 11, 1999 yesterday revising your previous proposal dated September 8, 1999. We are in agreement with your new designation of the SE/NE of Section 29 as the proration unit for the proposed test. Therefore, please be advised that Bahlburg Exploration, Inc. will agree to support your proposed well through a Farmout of it's leasehold interest in the SE/NE of Section 29 on the basis of .75 NRI delivery and a proportionately reduced 25% Back-in After Payout of the well costs in favor of BEI. Our offer to farmout is subject to execution of a formal Farmout Agreement containing mutually acceptable terms and conditions. Please prepare and send us a Farmout Agreement for our review and execution.

We wish you success in your proposed well and look forward to our participation through the above described farmout of our interest.

Very truly yours,

BAHLBURG EXPLORATION, INC.



William C. Bahlburg

cc: NMOCD

2 196 351 975



Receipt for Certified Mail

No Insurance Coverage Provided
Do not use for International Mail
(See Reverse)

PS Form 3800, March 1993

| | | |
|--|---|------|
| Sent to | ARLINGTON OIL & GAS INC. | |
| Street and No. | P.O. BOX 2071 | |
| P.O., State and ZIP Code | MIDLAND TX 79702 | |
| Postage | \$ | 2.33 |
| Certified Fee | | |
| Special Delivery Fee | | |
| Restricted Delivery Fee | | |
| Return Receipt Showing to Whom & Date Delivered | 6881 150 20 100 MIDLAND TX 25 | |
| Return Receipt Showing to Whom Date, and Addressee's Address | | |
| TOTAL Postage & Fees | \$ | 2.98 |
| Postmark or Date | LM | |

214 West Texas
Suite 400 (Zip 79701)
P.O. Box 2071
Midland, Texas 79702

DAVID H. ARRINGTON OIL & GAS, INC.

Area Code: 915
Phone: 682-6685
Fax: 682-4139

October 11, 1999

CERTIFIED MAIL: 2 470 962 353

Bahlburg Exploration, Inc.
C/O William C. Bahlburg
PO Box 866937
Plano, TX 75086

Re: Prince Nymph #1 Well
Surface Location 2446' FSL and 1006' FEL, Section 29-T15S, R36E
Lea County, New Mexico



Gentlemen:

Reference is herein made to that certain letter dated September 8, 1999 from David H. Arrington Oil & Gas, Inc. proposing the re-entry of the captioned wellbore.

At the request of one party, which represents several of the parties in the originally proposed spacing unit, in order to accommodate the requests of these parties, we would like to change the acreage which would be included in this spacing unit. As well, we have discovered that this well will be drilled on statewide rules which provide for 40 acre spacing. Therefore, the new spacing unit for this well will be the SE/4NE/4 of Section 29, T15S, R36E, Lea County, New Mexico.

In changing this spacing unit, the bottom hole location for this re-entry, will be at an unorthodox location.

Please consider this change in spacing unit in your evaluation of the September 8, 1999 proposal letter.

Should there be any questions or comments regarding this matter, please advise.

Yours very truly,

DAVID H. ARRINGTON OIL & GAS, INC.

Dale Douglas, CPL



BAHLBURG EXPLORATION INC.

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September 29, 1999

Mr. Dale Douglas
David H. Arrington Oil & Gas, Inc.
P.O. Box 2071
Midland, Texas 79702

FILE COPY

RE: Prince Nymph #1 Sidetrack Proposal
Section 29-T15S-R36E
Lea County, New Mexico

Gentlemen:

We received your letter dated September 8, 1999 yesterday outlining your proposal to drill a sidetrack hole in your Prince Nymph #1 well to a new bottom-hole location under our leasehold interest in the NE/4 of Section 29, T15S, R36E. Please be advised that we reject your proposal as being unfair and inequitable to lessors in the NE/4 of said section. When you drilled the Prince Nymph #1 well you located the well in the SE/4 only 194 ft. from our southern lease boundary and applied for an unorthodox location and 80 ac. spacing unit comprised of the E/2 SE/4 excluding our leasehold in the NE/4. We originally questioned your well location because it seemed unfair to drill the well so close to our lease without including our leasehold interest in the spacing or proration unit. However, Arrington was adamantly opposed to including our lease interest regardless of the proximity to our lease boundary. Now that you have drilled your Prince-Nymph #1 well at this unorthodox location and proven the well and surrounding leasehold in the SE/4 to be non-productive you now propose to form a new 80-ac. unit that includes only 40 acres of our leasehold interest with the other half being contributed from your non-productive leasehold in the SE/4. You condemned your leasehold in the SE/4 and it should not be included in the proration unit for your proposed sidetrack test of our lease interest in the NE/4.

We propose that you form an 80-ac. proration unit for your new bottom-hole location on our leasehold using the S/2 NE/4 of Section 29 and conduct your sidetrack operation as you described in your September 8th letter. We will either join in this operation, farmout, or sell you a term lease for \$200.00 per net acre and .75 NRI. We will oppose any attempt to combine our leasehold in the NE/4 with your proven non-productive lease interest in the SE/4. In the event you have any questions, please contact the undersigned.

Very truly yours,
BAHLBURG EXPLORATION, INC.

A handwritten signature in black ink, appearing to read 'William C. Bahlburg', written in a cursive style.

William C. Bahlburg
President

214 West Texas
Suite 400 (Zip 79701)
P.O. Box 2071
Midland, Texas 79702

DAVID H. ARRINGTON OIL & GAS, INC.

Area Code: 915
Phone: 682-6685
Fax: 682-4139

September 8, 1999

CERTIFIED MAIL: P 700 120 771

Bahlburg Exploration, Inc.
C/O William C. Bahlburg
PO Box 866937
Plano, TX 75086



Re: Prince Nymph #1 Well
Surface Location 2446' FSL and 1006' FEL, Section 29, T15S, R36E
Lea County, New Mexico

Gentlemen:

David H. Arrington Oil & Gas, Inc. ("Arrington") drilled the captioned well to an approximate depth of 12,050' and plugged and abandoned this well as a dry hole in the fourth quarter of 1998. Arrington is proposing to re-enter and sidetrack this wellbore to an approximate bottomhole location of 2440' FNL and 866' FEL of Section 29 to test the Wolfcamp zone at a depth of approximately 11,000'. Utilizing this wellbore shall effect a savings to all parties electing to participate in evaluating the potential of this Wolfcamp zone. Arrington is proposing that the spacing unit for this wellbore encompass the NE/4SE/4 and the SE/4NE/4 of Section 29, T15S, R36E, Lea County, New Mexico.

In this regard, please find enclosed Arrington's AFE for this proposed operation. In the event that you should elect to participate in this operation, please so indicate by signing and returning one copy of the AFE. Upon receipt of your signed AFE, we will furnish a Joint Operating Agreement for your review and execution.

In the event that you should wish to not participate in this proposed operation, Arrington hereby submits for your review the following proposal for a term assignment covering your leasehold estate under the SE/4NE/4 of Section 29:

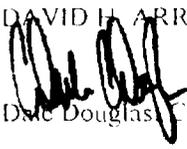
1. One (1) year term
2. \$100.00 per leasehold acre bonus
3. You would retain an ORRI equal to difference between 22.5% and leasehold burdens

In the event you elect to grant a term assignment, please advise, and we will prepare and furnish for your review and execution such term assignment

Should there be any questions or comments regarding this matter, please advise

Yours very truly,

DAVID H. ARRINGTON OIL & GAS, INC.


Dale Douglas, CPL.

DAVID H. ARRINGTON OIL AND GAS, INC.

AUTHORITY FOR EXPENDITURE (AFE)

AFE # 99-0709 Date: 7/8/99 Original
 Supplemental
 Lease: Prince Nymph Well #: 1 Well Type: Oil
 Location: NE/SE Section 29, T15N-R36E County: Lea State: New Mexico
 Prospect: West Dean Objective: Wolfcamp Proposed TD: 11,000'
 Purpose of Expenditure: Re-enter, Drill, Complete Wolfcamp Oil Test

| CODE | INTANGIBLE EXPENSE | DRILLING | COMPLETION | TOTAL |
|------|--|----------------|---------------|----------------|
| | Surveying | 0 | 0 | 0 |
| | Staking & Permitting & City of Lovington | 0 | 0 | 0 |
| | Location, Roads & Damages | 5,000 | 5,000 | 10,000 |
| | Lease Restoration | 4,500 | 0 | 4,500 |
| | Mobilization/Demobilization | 20,000 | 0 | 20,000 |
| | Drilling - Footage @ /ft | 0 | 0 | 0 |
| | Drilling - Daywork 10 @ \$5,500 /Day | 55,000 | 0 | 55,000 |
| | Drilling - Directional | 70,000 | 0 | 70,000 |
| | Completion Rig 7 @ \$2,000 /Day | 0 | 14,000 | 14,000 |
| | Pit Lining | 0 | 0 | 0 |
| | Bits, Reamers & Stabilizers | 24,500 | 0 | 24,500 |
| | Drilling & Completion Fluids & Oil | 20,000 | 0 | 20,000 |
| | Water | 5,000 | 0 | 5,000 |
| | Mud Logging 7 @ \$500 /Day | 3,500 | 0 | 3,500 |
| | Drill Stem Tests (1) | 3,000 | 0 | 3,000 |
| | Coring Services | 0 | 0 | 0 |
| | Logging - Open Hole & Sidewall Cores | 20,000 | 0 | 20,000 |
| | Cement & Services - Surface | 0 | 0 | 0 |
| | Cement & Services - Intermediate | 0 | 0 | 0 |
| | Cement & Services - Production | 0 | 15,000 | 15,000 |
| | Perforating & Cased Hole Logs | 0 | 8,000 | 8,000 |
| | Acidizing, Fracturing & Stimulation | 0 | 10,000 | 10,000 |
| | Rental Equipment (Safety, Test Tk., Choke, ect.) Rot. Head | 7,000 | 0 | 7,000 |
| | Installation - Production Facilities | 0 | 9,000 | 9,000 |
| | Inspection & Well Testing | 1,000 | 2,000 | 3,000 |
| | Transportation | 3,000 | 1,000 | 4,000 |
| | Miscellaneous Labor | 1,000 | 2,000 | 3,000 |
| | Engineering & Geological Services | 2,500 | 1,500 | 4,000 |
| | Overhead | 2,000 | 1,000 | 3,000 |
| | Supervision | 6,000 | 4,000 | 10,000 |
| | Sand Blast & Coal Coaling | 0 | 2,000 | 2,000 |
| | Contingencies | 17,000 | 3,500 | 20,500 |
| | Gross Receipts Tax | 13,500 | 3,900 | 17,400 |
| | TOTAL INTANGIBLE EXPENSE | 283,500 | 81,900 | 366,400 |

| CODE | INTANGIBLE EXPENSE | DRILLING | COMPLETION | TOTAL |
|------|--|----------------|----------------|----------------|
| | Casing - Conductor of @ /ft | 0 | 0 | 0 |
| | Casing - Surface of @ /ft | 0 | 0 | 0 |
| | Casing - Intermediate of @ /ft | 0 | 0 | 0 |
| | Casing - Intermediate of @ /ft | 0 | 0 | 0 |
| | Casing - Production 8000 of 5 1/2 @ \$5.70 /ft | 0 | 51,300 | 51,300 |
| | Casing - Production 2000 of 5 1/2 @ \$5.90 /ft | 0 | 11,800 | 11,800 |
| | Tubing 11,000 of 2 7/8 @ \$2.85 /ft | 0 | 31,400 | 31,400 |
| | Float & Other Equipment | 0 | 1,500 | 1,500 |
| | Wellhead Equipment, Tree | 0 | 12,000 | 12,000 |
| | Sucker Rods | 0 | 18,000 | 18,000 |
| | Down Hole Pump | 0 | 3,000 | 3,000 |
| | Packer/TAC | 0 | 4,300 | 4,300 |
| | Pumping Unit & Prime Mover | 0 | 50,000 | 50,000 |
| | Tank Battery & Storage Facilities | 0 | 19,000 | 19,000 |
| | Separator/Heater/Treater/Dehydrator | 0 | 8,500 | 8,500 |
| | Meters & Flow lines | 0 | 1,000 | 1,000 |
| | Miscellaneous Valves & Fittings | 0 | 8,000 | 8,000 |
| | Gross Receipts Tax | 0 | 10,800 | 10,800 |
| | TOTAL TANGIBLE EXPENSE | 0 | 230,700 | 230,700 |
| | TOTAL WELL COST | 283,500 | 312,600 | 596,100 |

NOTE: THIS AFE IS ONLY AN ESTIMATE. BY RETURNING ONE APPROVED COPY, YOU AGREE TO PAY YOUR SHARE OF THE ACTUAL COSTS INCURRED.

David H. Arrington Oil & Gas, Inc. Approval: _____ Partner Approval: _____
 Prepared By: Steve Scott *Steve Scott* Company: _____
 Approved By: David H. Arrington *David H. Arrington* Approved By: _____
 Title: President Title: _____
 Date: _____ Date: _____

