

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

DNA needed.

December 18, 2002

CERTIFIED MAIL: 7002 1000 0004 8578 4604

McMillan Ventures, LLC
Permian Exploration Corporation
McMillan Production Company, Inc.
Michael A. and Teresa L. McMillan
118 West 1st
Roswell, NM 88203

Re: Well Proposal
Steve's Hopper #1 Well
S/2 of Section 25, T15S, R34E
Lea County, New Mexico
Our W. Salty Dog Prospect

Gentlemen:

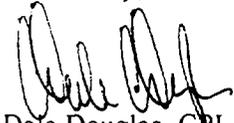
David H. Arrington Oil & Gas, Inc., PO Box 2071, Midland, Texas 79702, hereby proposes the drilling of the captioned well to be drilled at a location approximately 1980' FSL and 660' FEL of Section 25, T15S, R34E, Lea County, New Mexico. This well is proposed to be drilled to a depth of approximately 12,850' to test the Mississippian formation. The proposed spacing unit for this well will be the S/2 of said Section 25.

You will find enclosed Arrington's AFE which sets forth the anticipated costs for the drilling and completing of this test well. In the event that you should elect to participate in the drilling of this test well, please so indicate by signing and returning one copy of the AFE to my attention at the letterhead address. Upon receipt of same, we will forward for your review and execution Arrington's proposed Joint Operating Agreement.

In the event that you should elect to not participate in the drilling of this test well, Arrington would be willing to discuss with you a farmout covering your interest in the proposed spacing unit.

Please review this proposal at your earliest convenience, and in the interim period should you have any questions or comments, please advise.

Yours truly,



Dale Douglas, CPL
Enclosure

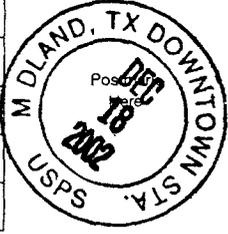
NMOCD CASE NO. 13012
FEBRUARY 20, 2003
ARRINGTON EXHIBIT NO. 2

7002 1000 0004 8578 4604

U.S. Postal Service
CERTIFIED MAIL RECEIPT
(Domestic Mail Only; No Insurance Coverage Provided)

[Redacted area]

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$



Sent To **McMillan Ventures et al**
 Street, Apt. No., or PO Box No.
 City, State, ZIP+4 **Steves Hopper**

PS Form 3800, April 2002 See Reverse for Instructions

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:

McMillan Ventures, LLC
118 West 1st
Roswell, NM 88203

2. Article Number
(Transfer from service lat)

7002 1000 0004 8578 4604

COMPLETE THIS SECTION ON DELIVERY

A. Signature *Victor Powell* Agent Addressee
 B. Received by (Printed Name) C. Date of Delivery **12-20-02**

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

DEC 21 2002

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

4. Restricted Delivery? (Extra Fee) Yes

DAVID H. ARRINGTON OIL AND GAS, INC.

AUTHORITY FOR EXPENDITURE (AFE)

Original
 Supplemental

AFE #: _____ Date: 12/06/02

Lease: Steve's Hopper Well #: 1 Well Type: Exploratory/Gas

Location: 1,980' FSL & 660' FEL of Sec 25 County: Lea State: New Mexico
T15S-R34E

Prospect: West Salty Dog Objective: Mississippian Proposed TD: 12,850'

Purpose of Expenditure: Drill and Test Wolfcamp, Cisco & Morrow Intervals

CODE	INTANGIBLE EXPENSE	DRILLING	COMPLETION	TOTAL
	Surveying	800	0	800
	Staking & Permitting	200	0	200
	Location, Roads & Damages	30,000	2,000	32,000
	Lease Restoration	6,000	0	6,000
	Mobilization/Demobilization	40,000	0	40,000
	Drilling - Footage @ /Ft	0	0	0
	Drilling - Daywork 48 @ \$7,300 /Day	350,400	0	350,400
	Drilling - Directional @	0	0	0
	Completion Rig 10 @ \$2,000 /Day	0	20,000	20,000
	Fuel, Power & Lubricants	35,000	0	35,000
	Bits, Reamers & Stabilizers	75,000	0	75,000
	Drilling & Completion Fluids	45,000	2,000	47,000
	Water	18,000	2,000	20,000
	Mud Logging 33 @ \$650 /Day	21,450	0	21,450
	Drill Stem Tests (2 tests)	12,000	0	12,000
	Coring Services	0	0	0
	Logging - Open Hole & Sidewall Cores	40,000	0	40,000
	Cement & Services - Surface	6,000	0	6,000
	Cement & Services - Intermediate	18,000	0	18,000
	Cement & Services - Production	0	16,000	16,000
	Casing Crews/Laydown Machine	4,500	5,500	10,000
	Perforating & Cased Hole Logs	0	15,000	15,000
	Acidizing, Fracturing & Stimulation	0	70,000	70,000
	Rental Equipment	14,000	5,000	19,000
	Installation - Production Facilities/Electrical	0	15,000	15,000
	Inspection & Testing	5,000	1,000	6,000
	Transportation	4,000	3,500	7,500
	Miscellaneous Labor	2,000	3,000	5,000
	Engineering & Geological Services	4,000	2,000	6,000
	Overhead	7,600	1,700	9,300
	Supervision	29,000	6,000	35,000
	Sand Blast & Coat Casing	0	5,000	5,000
	Contingencies	53,200	12,000	65,200
	Gross Receipts Tax	45,600	10,000	55,600
	TOTAL INTANGIBLE EXPENSE	866,750	196,700	1,063,450

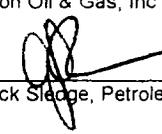
CODE	TANGIBLE EXPENSE	DRILLING	COMPLETION	TOTAL
	Casing - Conductor of @ /Ft		0	0
	Casing - Surface 470 of 13 3/8" @ \$18.30 /Ft	8,600	0	8,600
	Casing - Intermediate 2000 of 9 5/8" @ \$14.00 /Ft	28,000	0	28,000
	Casing - Intermediate 4,000 of 9 5/8" @ \$12.00 /Ft	48,000	0	48,000
	Casing - Production 9,000 of 5 1/2" @ \$7.70 /Ft	0	69,300	69,300
	Casing - Production 4,000 of 5 1/2" @ \$8.00 /Ft	0	32,000	32,000
	Tubing 12,900 of 2 7/8" @ \$3.80 /Ft	0	49,000	49,000
	Float & Other Equipment	2,700	1,500	4,200
	Wellhead Equipment, Tree	5,000	20,000	25,000
	Sucker Rods	0		0
	Down Hole Pump	0		0
	Packer/TAC/Misc Downhole	0	15,000	15,000
	Pumping Unit & Prime Mover	0		0
	Tank Battery & Storage Facilities	0	17,000	17,000
	Separator/Heater Treater/Dehydrator	0	30,000	30,000
	Meters & Flowlines	0	8,000	8,000
	Miscellaneous Valves & Fittings	0	20,000	20,000
	Contingencies	6,400	18,000	24,400
	TOTAL TANGIBLE EXPENSE	98,700	279,800	378,500
	TOTAL WELL COST	965,450	476,500	1,441,950

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:


 Chuck Sledge, Petroleum Engineer

Company:

Approved By:

David H. Arrington, President

Approved By:

Title:

Title:

Date:

Date:

214 West Texas
Suite 400 (Zip 79701)
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Keith E. and Kay Ann McKamey
William B. Owen
Edward N. David
David Petroleum Corporation
116 West 1st
Roswell, NM 88203

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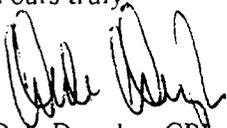
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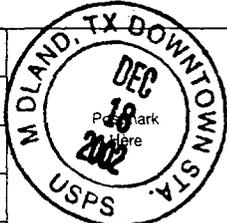


Dale Douglas, CPE
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Restricted Delivery Fee (Endorsement Required)	
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Stevie Hopper

Street, Apt. No.,
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City, State, ZIP+4

PS Form 3800, April 2002 See Reverse for Instructions

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116 West 1st
Roswell, NM 88203

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 David DeLuca Agent
 Addressee

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If YES, enter delivery address below: No

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Partner Approval:

Prepared By

CS

Company:

Chuck Sledge, Petroleum Engineer

Approved By

Approved By:

David H. Arrington, President

Title:

Title:

Date:

Date:

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DAVID H. ARRINGTON OIL & GAS, INC.

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January 31, 2003

McMillan Ventures, LLC
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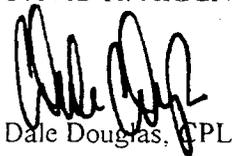
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Should you have any questions or comments, please advise.

Yours truly,

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Dale Douglas, CPL

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