


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

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IN THE MATTER OF DAVID H. ARRINGTON OIL & GAS, INC.,

Respondent.

AGREED ORDER DIRECTING COMPLIANCE

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act"), the Director of the Oil Conservation Division ("OCD") issues this Order to David H. Arrington Oil & Gas, Inc. ("Arrington" or "Operator"), directing compliance with the Act and the OCD Rules.

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act and OCD rules.
2. Arrington is a foreign profit corporation registered with the New Mexico Public Regulation Commission under SCC number 1452689.
3. Arrington has been assigned OGRID #5898.

Royal Stimulator #2:

4. Arrington is the operator of record of the Royal Stimulator #2, API #30-025-35975, Unit Letter "E," Section 31, Township 15 South, Range 36E, in Lea County, New Mexico.
5. On August 21, 2002 the NMOCD Hobbs District 1 office approved a form C-101 (Application for Permit to Drill, Re-enter, Deepen, Plugback or Add a Zone) submitted by Arrington to drill the Royal Stimulator #2 well. Stamped on the approved form is the following: "Permit Expires 1 Year From Approval Date Unless Drilling Underway."
6. By letter dated November 3, 2003 NMOCD Hobbs District I office notified Arrington that it had not received any progress reports on the Royal Stimulator #2 well, that the permit to drill had expired and that no drilling operations could be commenced without further notice to and approval by the OCD. The letter further provided, "If

drilling has been done, please file subsequent reports of this work immediately to bring this file into current status."

7. One year later, on November 8, 2004, the NMOCD Hobbs District I office received the following from Arrington, all dated 10/29/04:

- a. A form C-103 indicating that the Royal Stimulator #2 well was drilled and completed between 8/21/03 and 11/7/03.
- b. A form C-105 indicating a date of first production of 1-22-04.
- c. A form C-104 requesting an allowable and authorization to transport.

8. On November 8, 2004, the NMOCD Hobbs District I office also received the well logs for the Royal Stimulator #2.

Bill's Hopper #2:

9. Arrington is the operator of record for the Bill's Hopper #2, API #30-025-36081, Unit Letter "J," Section 18, Township 15 South, Range 35 East, in Lea County, New Mexico.

10. On December 20, 2002 the NMOCD Hobbs District 1 office approved a form C-101 (Application for Permit to Drill, Re-enter, Deepen, Plugback or Add a Zone) submitted by Arrington to drill the Bill's Hopper #2. Stamped on the approved form is the following: "Permit Expires 1 Year From Approval Date Unless Drilling Underway."

11. By letter dated January 29, 2004 NMOCD Hobbs District I office notified Arrington that it had not received any progress reports on the Bill's Hopper #2 well, that the permit to drill had expired and that no drilling operations could be commenced without further notice to and approval by the OCD. The letter further provided, "If drilling has been done, please file subsequent reports of this work immediately to bring this file into current status."

12. Nine months later, on October 28, 2004, the NMOCD Hobbs District I office received the following from Arrington, all dated 10/19/04:

- a. A form C-103 indicating that the Bill's Hopper #2 well was drilled and completed between 7-13-2003 and 9/19/2003.
- b. A form C-105 indicating a date of first production of 9/23/03.
- c. A form C-104 requesting an allowable and authorization to transport.

13. On January 31, 2005, the NMOCD Hobbs District I office received the well logs for the Bill's Hopper #2.

14. On February 2, 2005, the NMOCD Hobbs District I office approved the request for allowable and authorization to transport.

Relevant Rules and Statutes:

15. Rule 1103.C states, in relevant part: "Within ten days following the commencement of drilling operations, the operator of the well shall file a report thereof on form C-103 in triplicate. Such report shall indicate the hour and the date the well was spudded."

16. Rule 1103.D states, in relevant part: "A report of casing and cement test shall be filed by the operator of the well within ten days following the setting of each string of casing or liner. Said report shall be filed in triplicate on form C-103 and shall present a detailed description of the test method employed and the results obtained by such test and any other pertinent information required by 19.15.1.107 NMAC. The report shall also indicate the top of the cement and the means by which such top was determined. It shall also indicate any changes from the casing program previously authorized for the well."

17. Rule 1105.A states: "Within 20 days following the completion or recompletion of any well, the operator shall file form C-105 with the division. It must be filed in quintuplicate and each copy accompanied by a summary of all special tests conducted on the well, including drill stem tests. In addition, one copy of all electrical and radio-activity logs run on the well must be filed with form C-105. If the form C-105 with attached log(s) and summaries is not received by the division within the specified 20-day period, the allowable for the well will be withheld until this rule has been complied with."

18. NMSA 1978, §70-2-31(A) provides in relevant part, "Any person who knowingly and willfully violates any provision of the Oil and Gas Act or any provision of any rule or order issued pursuant to that act shall be subject to a civil penalty of not more than one thousand dollars (\$1,000) for each violation."

19. NMSA 1978, §70-2-33(A) defines "person" in relevant part as "any individual, estate, trust, receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity..."

CONCLUSIONS

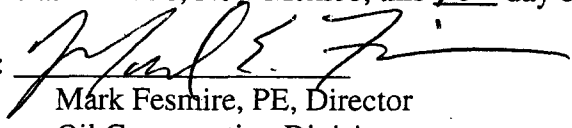
1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. Arrington is a person as defined by NMSA 1978, §70-2-33(A) subject to civil penalties under NMSA 1978, §70-2-31(A) for knowing and willful violations of the Oil and Gas Act or OCD Rules.
3. Arrington is subject to civil penalties under NMSA 1978, §70-2-31(A) for violating the following rules with regard to both the Royal Stimulator #2 and the Bill's Hopper #2:

- a. Rule 1103.C: Arrington failed to file a form C-103 within ten days following the commencement of drilling operations indicating the hour and date the well was spudded.
- b. Rule 1103.D: Arrington failed to file a form C-103 within ten days following the setting of each string of casing or liner, containing the information required by Rule 1103.D.
- c. Rule 1105.A: Arrington failed to file a form C-105 within 20 days following completion of the well, containing the information required by Rule 1105.A and accompanied by a copy of all electrical and radio-activity logs run on the well.

ORDER

1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty totaling two thousand dollars (\$2,000) against David H. Arrington Oil & Gas, Inc.
2. David H. Arrington Oil & Gas, Inc. has paid the \$2,000 civil penalty assessed in this Order.
3. By signing this Order, Arrington expressly:
 - a. acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - b. agrees to comply with ordering paragraph 2.
 - c. waives any right, pursuant to the Oil and Gas Act or otherwise, to a hearing either prior to subsequent to the entry of this Order or to an appeal from this Order;
 - d. agrees that if it fails to comply with this Order, the Order may be enforced by suit or otherwise to the same extent and with the same effect as a final Order of the Division entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act (NMSA 1978, § 70-2-1 through 70-2-38, as amended);
 - e. agrees that if it fails to pay penalties assessed pursuant to this Order, upon application by the OCD the district court may enter judgment against Arrington in the amount of the penalties assessed.


Done at Santa Fe, New Mexico, this 15th day of Aug, 2005.

By: 
Mark Feshire, PE, Director
Oil Conservation Division

ACCEPTANCE

David H. Arrington Oil & Gas Inc. hereby accepts the foregoing order, and agrees to all of the terms and provisions set forth in the order.

David H. Arrington Oil & Gas Inc.

By: 
Title: President
Date: 08-09-05