

DAVID H. ARRINGTON OIL & GAS, INC.

P.O. BOX 2071 , MIDLAND, TEXAS 79702
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HAND DELIEVER MARCH 28,2001

New Mexico Energy, Minerals, and
Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

March 27,2001

Attention: Mr. Michael Stogner

Re: Division Case 12560- Application of David H. Arrington Oil & Gas, Inc. for compulsory pooling, directional drilling, and an unorthodox well location, Lea County, New Mexico.

01 MAR 28 11 38:50
OIL CONSERVATION DIV

Dear Mr. Stogner,

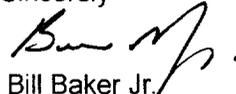
In response to your letter dated March 14, 2001, concerning the above mentioned Division Case and in order to supply the Division with the information needed to finish preparing an order in this case, I am writing this letter in an attempt to answer the questions and concerns that you expressed in your letter.

The David H. Arrington Oil & Gas, Inc. "Royal Stimulator" #1, which is the well in question, was originally permitted as a 14550' Wildcat Mississippian test(see enclosed C-102's). This well, which was originally staked on September 27, 2001 at a surface location of 1465' FNL & 1935' FWL, Section 31, T15S-R36E, but was subsequently amended to a surface location of 1485' FNL & 1890' FWL of Section 31 in order to protect the surface owners cattle pens and a high line. As shown in my testimony on December 21st, the "Royal Stimulator " #1 well was designed to test two(2) potential pay horizons, being the Morrow/Mississippian gas horizons and the 2nd Brother Lower Wolfcamp oil pay. The primary pay horizons were to be any Morrow and /or Mississippian gas pay intervals located in a geological graben low, which was to be located at an unorthodox well location of 2200' FSL & 933' FWL of Section 31, T15S-R36E, with the secondary oil target in the Wolfcamp to be located at a standard location of 1765' FNL & 1826' FWL of Section 31. The well was designed to be drilled with a 7 7/8ths hole and to be completed as a single producer with 51/2 casing. Upon drilling the well, we encountered our proposed Wolfcamp oil target as designed and tested commercial volumes of oil on drillstem test. Upon resuming drilling and almost immediately below our tested interval we encountered the Townsend Wolfcamp Reef system and due to the severe depletion of the interval we became differentially stuck. We attempted to free the drill pipe and directional motors and steering tools for a week to ten days, but were eventually unsuccessful and had to leave several drill collars and the directional equipment in the hole at a cost in excess of \$375,000.00. It was then decided that due to the fact that we had drilled a 7 7/8ths hole and we could not get through this depleted zone without setting casing through it, that we would simply drill a sidetrack wellbore to the Wolfcamp oil interval that had tested commercial and produce this interval. Arrington subsequently ran production casing to a depth of 10840' and completed the well as a Wolfcamp new pay oil well . This well was advertised as potential unorthodox Wolfcamp oil well located 1465' FNL and 1936' FWL, which would have been 185' feet too close to the northern boundary, because the well had to be sidetracked from our original well plan, our bottom-hole location is now located at a location of 1589' FNL & 1813' FWL, which is unorthodox to our inter-boundary unit line by 61', but less unorthodox to the northern boundary than advertised. The well is currently shut-in waiting on this order so that we may begin production, with the total cost of the well already in excess of \$1,300,000.00. This cost is approximately \$300,000.00 less than the original AFE cost of the

proposed deep test. It should also be noted that Arrington still desires to test the Morrow/Mississippian gas targets on this prospect and will be proposing a new well to be drilled for these deeper gas targets. Because this well was completed as a lower Wolfcamp producer and we are more than one mile from the Townsend Lower Wolfcamp field, this well should be spaced on a 40 acre wildcat oil proration unit until such a time as enough production information is acquired to determine if this is a new field discovery.

David H. Arrington Oil & Gas, Inc. hopes that the above description of what happened with the drilling of the "Royal Stimulator" #1, helps answer the questions that the Division may need to execute an order on this well as soon as possible. It is our hope that we could begin production soon while oil prices are at their current levels in order to help defer the high costs that were incurred while drilling this well. Thank you for your immediate attention in this matter and if you have any additional questions, please do not hesitate to call me at 915-682-6685

Sincerely

A handwritten signature in black ink, appearing to read "Bill Baker Jr.", written in a cursive style.

Bill Baker Jr.
Exploration Manager

DISTRICT I
 P. O. Box 1980
 Hobbs, NM 88241-1980

State of New Mexico
 Energy, Minerals, and Natural Resources Department

Form C-102
 Revised 02-10-94
 Instructions on back

DISTRICT II
 P. O. Drawer DD
 Artesia, NM 88211-0719

OIL CONSERVATION DIVISION
 P. O. Box 2088
 Santa Fe, New Mexico 87504-2088

Submit to the Appropriate
 District Office
 State Lease - 4 copies
 Fee Lease - 3 copies

DISTRICT III
 1000 Rio Brazos Rd.
 Aztec, NM 87410

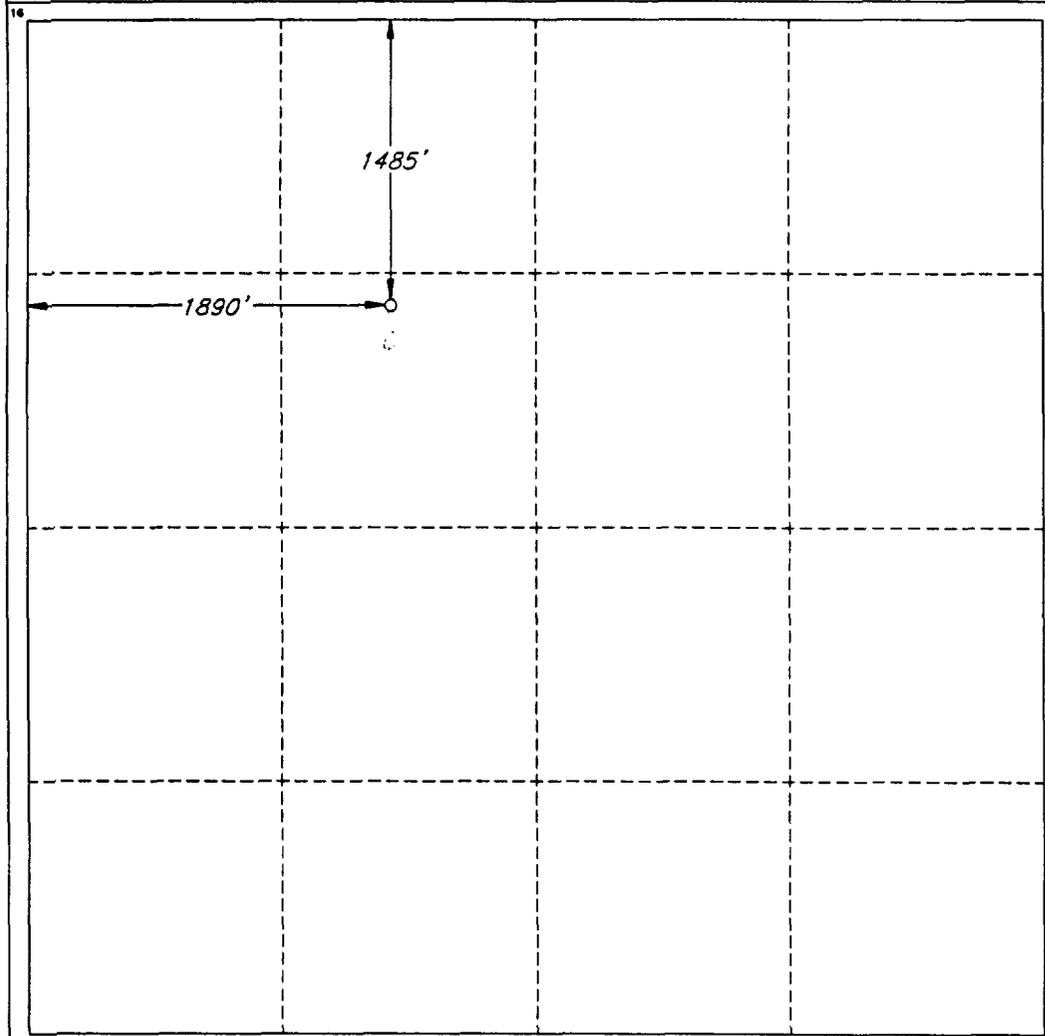
AMENDED REPORT

DISTRICT IV
 P. O. Box 2088
 Santa Fe, NM 87507-2088

WELL LOCATION AND ACREAGE DEDICATION PLAT

| | | | | | | | | | |
|--|---------------|---|----------------------------|-----------------------|------------------------|---------------------------|------------------------|------------------------|---------------|
| 1 API Number | | 2 Pool Code | | 3 Pool Name | | | | | |
| 4 Property Code | | 5 Property Name ROYAL STIMULATOR | | | | | | 6 Well Number 1 | |
| 7 OGRID No. | | 8 Operator Name DAVID H. ARRINGTON OIL & GAS | | | | | | 9 Elevation 3928' | |
| 10 SURFACE LOCATION | | | | | | | | | |
| UL or lot no. F | Section 31 | Township 15 SOUTH | Range 36 EAST, N.M.P.M. | Lot Ida | Feet from the 1485' | North/South line NORTH | Feet from the 1890' | East/West line WEST | County LEA |
| "BOTTOM HOLE LOCATION IF DIFFERENT FROM SURFACE" | | | | | | | | | |
| UL or lot no. | Section | Township | Range | Lot Ida | Feet from the | North/South line | Feet from the | East/West line | County |
| 12 Dedicated Acres | | 13 Joint or Infill | | 14 Consolidation Code | | 15 Order No. | | | |

NO ALLOWABLE WELL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



OPERATOR CERTIFICATION
I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature _____
 Printed Name _____
 Title _____
 Date _____

SURVEYOR CERTIFICATION
I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

Date of Survey
NOVEMBER 27, 2000

Signature and Seal of Professional Surveyor

Certificate No.
V. L. BEZNER R.P.S. #7920

JOB #73077 / 96 NE / JCP

New Mexico Oil Conservation Division
C-102 Instructions

IF THIS IS AN AMENDED REPORT, CHECK THE BOX LABELED
"AMENDED REPORT" AT THE TOP OF THIS DOCUMENT.

Surveyors shall use the latest United States government survey or dependent resurvey. Well locations will be in reference to the New Mexico Principal Meridian. If the land is not surveyed contact the appropriate OCD district office. Independent subdivision surveys will not be acceptable.

1. The OCD assigned API number for this well
2. The pool code for this (proposed) completion
3. The pool name for this (proposed) completion
4. The property code for this (proposed) completion
5. The property name (well name) for this (proposed) completion
6. The well number for this (proposed) completion
7. Operator's OGRID number
8. The operator's name
9. The ground level elevation of this well
10. The surveyed surface location of this well measured from the section lines NOTE: If the United States government survey designates a Lot Number for this location use that number in the "UL or lot no." box. Otherwise use the OCD unit letter.
11. Proposed bottom hole location. If this is a horizontal hole indicate the location of the end of the hole,
12. The calculated acreage dedicated to this completion to nearest hundredth of an acre
13. Put a Y if more than one completion will be sharing this same acreage or N if this is the only completion on this acreage
14. If more than one lease of different ownership has been dedicated to the well show the consolidation code from the following table:

| | |
|---|-----------------------|
| C | Communitization |
| U | Unitization |
| F | Forced pooling |
| O | Other |
| P | Consolidation pending |
15. Write in the OCD order(s) approving a non-standard location, non-standard spacing, or directional or horizontal drilling
16. This grid represents a standard section. You may superimpose a non-standard section over this grid. Outline the dedicated acreage and the separate leases within that dedicated acreage. Show the well surface location and bottom hole location, if it is directionally drilled, with the dimensions from the section lines in the cardinal directions. (Note: A legal location is determined from the perpendicular distance to the edge of the tract.) If this is a high angle or horizontal hole show that portion of the well bore that is open within this pool.

Show all lots, lot numbers, and their respective acreage.

If more than one lease has been dedicated to this completion, outline each one and identify the ownership as to both working interest and royalty.
17. The signature, printed name, and title of the person authorized to make this report, and the date this document was signed.
18. The Registered surveyors certification. This section does not have to be completed if this form has been previously accepted by the OCD and is being filed for a change of pool or dedicated acreage.

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 P. O. Box 1980
 Hobbs, NM 88241-1980

State of New Mexico
 Energy, Minerals, and Natural Resources Department

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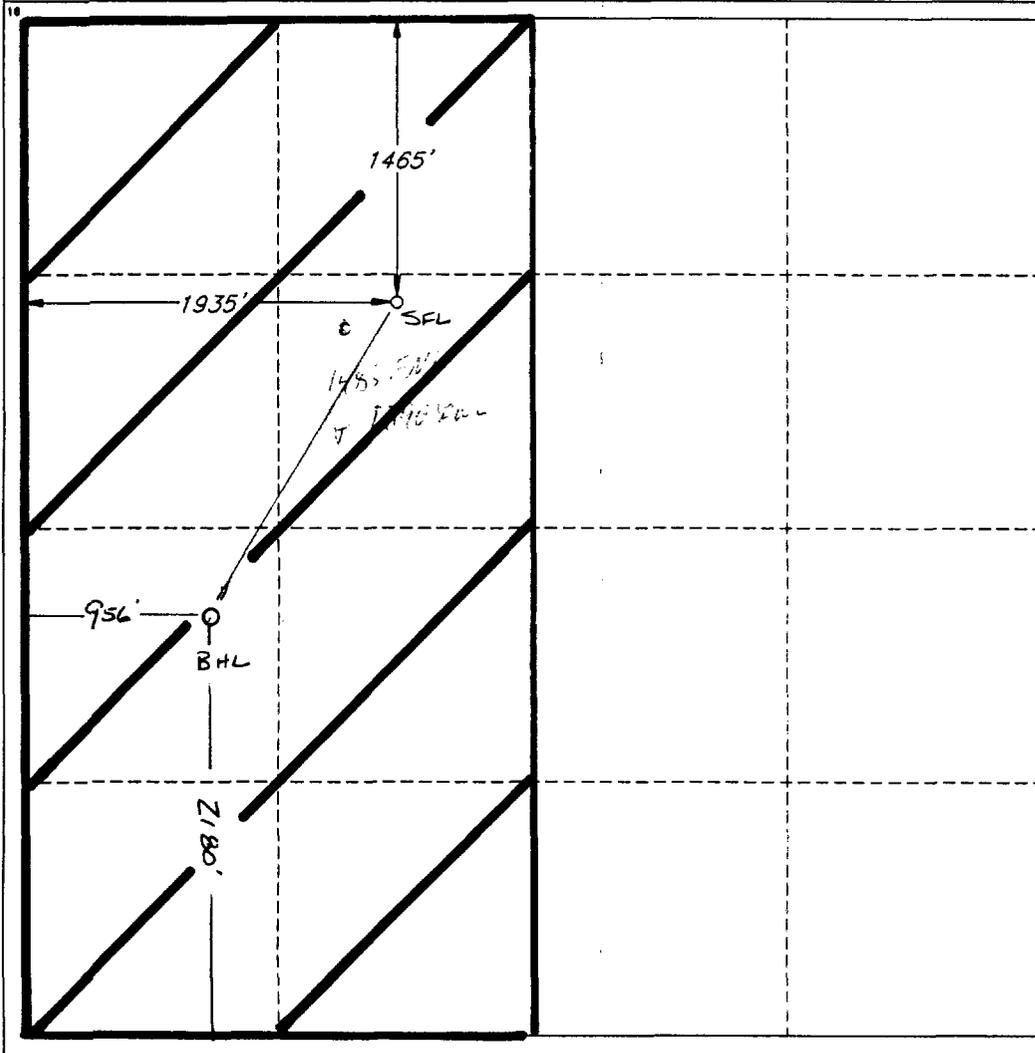
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| 4 Property Code | | 5 Property Name ROYAL STIMULATOR | | | | | | 6 Well Number 1 | |
| 7 OGRID No. | | 8 Operator Name DAVID H. ARRINGTON OIL & GAS | | | | | | 9 Elevation 3926' | |
| 10 SURFACE LOCATION | | | | | | | | | |
| UL or lot no. F | Section 31 | Township 15 SOUTH | Range 36 EAST, N.M.P.M. | Lot Ida | Feet from the 1465' | North/South line NORTH | Feet from the 1935' | East/West line WEST | County LEA |
| 11 BOTTOM HOLE LOCATION IF DIFFERENT FROM SURFACE | | | | | | | | | |
| UL or lot no. L | Section 31 | Township 15 SOUTH | Range 36 EAST | Lot Ida | Feet from the 2180' | North/South line SOUTH | Feet from the 956' | East/West line WEST | County LEA |
| 12 Dedicated Acres 320 | | 13 Joint or Infill | | 14 Consolidation Code | | 15 Order No. | | | |

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OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature: *[Signature]*
 Printed Name: Bill Baker Jr
 Title: Exploration Manager
 Date: 10-6-00

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

Date of Survey: SEPTEMBER 27, 2000
 Signature and Seal of Professional Surveyor: *[Signature]*

Certificate No. V. L. BEZNER R.P.S. #7920
 JOB #71877 / 96 NE / JCP

New Mexico Oil Conservation Division
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O Other
P Consolidation pending

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