



January 28, 2003

Via Facsimile 915-682-4139 and US Mail

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

Re: Dirt Devil "8" State Com #1
Section 8, T17S, R35E
Vacuum Prospect
Lea County, New Mexico

Dear Mr. Arrington:

Ocean Energy, Inc., as operator, proposes drilling the Dirt Devil "8" State Com #1 development well to planned depth of 12,800' MD/TVD to test the Morrow formation.

Enclosed in duplicate, please find an AFE providing for a cost of \$1,700,850.00. In the event you elect to participate, please execute one (1) copy of the enclosed AFE and return it to my attention. If you wish to receive well reports, please provide a fax number or well requirement sheet.

If you wish to discuss options other than participation in this well, please call me at 713-265-6897.

Very truly yours,

OCEAN ENERGY, INC.

A handwritten signature in cursive script, reading "Derold Maney".

Derold Maney
Senior Land Advisor

Enclosures

_____ We elect to participate in drilling the Dirt Devil "8" State Com #1 well.

_____ We do not elect to participate in drilling the Dirt Devil "8" State Com #1 well.

DAVID H. ARRINGTON OIL & GAS, INC.

David H. Arrington, President

Date: _____

OIL CONSERVATION DIVISION
CASE NUMBER _____
Ocean EXHIBIT 2



February 12, 2003

David H. Arrington Oil & Gas, Inc.
P.O. Box 2071
Midland, Texas 79702
Attn: David H. Arrington

Re: E/2 of Section 8, T17S-R35E
Lea County, New Mexico

Dear Mr. Arrington:

Ocean has previously furnished well proposals to Mr. Doug Schutz and Arrington Oil & Gas covering the drilling of a 13,000' Atoka/Morrow test well to be drilled in the E/2 of the above referenced section.

To date we have had no response from either of you on our well proposal. Ocean has this well on its drilling schedule and would like to proceed in the near future. Please advise if you are considering participating in this well or if you would like to discuss other options.

Please call me at (713) 265-6897 to discuss either alternative.

Yours very truly,

OCEAN ENERGY, INC.

A handwritten signature in black ink that reads "Derold Maney". The signature is written in a cursive, flowing style.

Derold Maney
Senior Staff Landman

PRIOR OWNERSHIP

Oxy	W/2NE/4	B-1482-11	(05/09/01 OXY agreement)
Exxon	NW/4SE/4	B-2735-1	
Exxon	SW/4SE/4	B-1518-1	
Exxon	E/2E/2 Section 8	K-5926-1	(05/28/01 Exxon agreement)

11/22/00	1 st letter to Exxon requesting term assignment
01/22/02	Proposed well to Exxon
05/28/02	Exxon term assignment; E/2NE/4, SE/4 of Section 8 and NW/4 of Section 9
07/10/02	Proposed to Nadel & Gussman and McCombs
08/2002	Early August; Exxon called and said they were concerned as to status of lease K-5926-1; last produced 1/31/02
08/07/02	Withdrew well proposal
08/27/02	Newfield wrote letter to State of New Mexico said well shut-in and they would pay shut-in for 04/9/03
09/27/02	OEI requested lease status from State of New Mexico
10/08/02	State of New Mexico letter, K-5926 has expired 2/28/02
10/2002	Attempted to nominate E/2 of Section 8, T17S, R35E, Lea County and was told to wait 60 days and then could nominate for January 2003 Sale
12/2002	Nominated E/2 of Section 8, T17S, R35E, Lea County acreage for January Sale
01/21/03	Bid up to \$128,000 on V0-0-02; Doug Schutz purchased for \$130,000, \$812.50 per acre.

OIL CONSERVATION DIVISION

CASE NUMBER

Ocean EXHIBIT 3

OCEAN ENERGY, INC

DEVELOPMENT DRILLING & COMPLETION - OP

REGION: Permian

FIELD: Other Permian

PROSPECT: Vacuum 8 - 2

COUNTY/STATE: Lea Co., New Mexico

PROPERTY NO.: NA

OPERATOR: Ocean Energy Inc.

LEGAL DESCRIPTION: Sec 8, T17S, R35E

AFE DATE: 6/13/2002

LEASE/WELL: Dirt Devil "8" State Com. 1

WORK TYPE: Development Drill & Complete

SURFACE LOC: 660' FSL & 1980' FEL

BTM HOLE LOC: Same

GEOLOGIC OBJECTIVE: Brunson Atoka

AFE NO: 210629

EST. START DATE 08/10/02

ORIG. DEPT: Drilling

DEPTH: 12800' MD 12800' TVD

COORDINATOR: Robert Elliott/Enos Fanguie

Drill and complete the Dirt Devil "8" State Com #1 to 12,800' TVD/MD as a Brunson Atoka producer. The primary target objective is the Brunson Atoka, with a secondary objective in the Austin. The well plan calls for drilling a 17-1/2" hole to 500' and setting 13-3/8" casing. Then an 11" hole will be drilled to 4750' and 8-5/8" casing set. A 7-7/8" production hole will be drilled to TD. The well will be evaluated by mud logs and wireline logs and, if successful, 5-1/2" casing will be set. The mud logger will be operational below the intermediate casing point. The well will be completed conventionally with a packer and tubing after stimulation.

ESTIMATED INTANGIBLE EXPENSES

ACCOUNT	DESCRIPTION	DRILL	Supplement	COMPLETE	Supplement	TOTAL
221 / 222 - 010	LOCATION COSTS	\$73,000	\$0	\$1,400	\$0	\$74,400
221 / 222 - 020	RIG COSTS	\$262,500	\$0	\$63,000	\$0	\$325,500
221 / 222 - 025	MOB / DEMOB RIG COSTS	\$92,500	\$0	\$0	\$0	\$92,500
221-027	TURNKEY	\$0	\$0			\$0
221 / 222 - 030	SHOREBASE SERVICES	\$0	\$0	\$0	\$0	\$0
221 / 222 - 040	FUEL / LUBE / POWER / WTR	\$70,000	\$0	\$4,000	\$0	\$74,000
221-050	DIRECTIONAL SERVICES	\$0	\$0			\$0
222 - 060	DOWNHOLE COMPLETION SERVICES			\$215,200	\$0	\$215,200
221 / 222 - 070	FISHING	\$0	\$0	\$0	\$0	\$0
221 / 222 - 080	CEMENT AND SERVICES	\$25,500	\$0	\$15,000	\$0	\$40,500
222 / 222 - 090	FORMATION EVALUATION	\$15,400	\$0	\$10,300	\$0	\$25,700
221 - 093	OPEN HOLE LOG / LWD	\$57,100	\$0			\$57,100
221 / 222 - 097	CASED HOLE LOG / MECH WIRELINE	\$0	\$0	\$11,000	\$0	\$11,000
221 / 222 - 100	TRANSPORTATION - LAND	\$16,300	\$0	\$12,500	\$0	\$28,800
221-103/222-105	TRANSPORTATION - AIR	\$0	\$0	\$0	\$0	\$0
221-105/222-095	TRANSPORTATION - MARINE	\$0	\$0	\$0	\$0	\$0
221 / 222 - 110	BITS, REAMERS AND STABILIZERS	\$53,000	\$0	\$650	\$0	\$53,650
221 / 222 - 120	EQUIPMENT RENTAL	\$73,700	\$0	\$83,500	\$0	\$157,200
221 / 222 - 130	MUD / FLUIDS / CHEMICALS	\$55,000	\$0	\$2,800	\$0	\$57,800
221 / 222 - 140	CONTRACT LABOR	\$48,000	\$0	\$38,100	\$0	\$86,100
221 / 222 - 160	COMMUNICATIONS	\$5,300	\$0	\$500	\$0	\$5,800
221 / 222 - 170	OVERHEAD	\$11,600	\$0	\$6,000	\$0	\$17,600
221 / 222 - 180	INSURANCE	\$7,200	\$0	\$0	\$0	\$7,200
221 / 222 - 185	CASING / TUBING / HMR / EQ & SERVICE	\$11,000	\$0	\$10,000	\$0	\$21,000
221 / 222 - 200	MISCELLANEOUS	\$2,000	\$0	\$2,000	\$0	\$4,000
221 - 210	P&A EXPENSE	\$0	\$0			\$0
221 / 222 - 220	COMPANY LABOR	\$0	\$0	\$0	\$0	\$0
221 / 222 - 230	ENVIRONMENTAL	\$16,000	\$0	\$2,800	\$0	\$18,800
221 - 240	DRILL SITE G&G	\$0	\$0	\$0	\$0	\$0
221 / 222 - 250	WEATHER DELAY	\$0	\$0	\$0	\$0	\$0
	SUB-TOTAL INTANGIBLE	\$895,100	\$0	\$478,750	\$0	\$1,373,850
5100995	CONTINGENCIES	\$0	\$0	\$0	\$0	\$0
TOTAL INTANGIBLES:		\$895,100	\$0	\$478,750	\$0	\$1,373,850

ESTIMATED TANGIBLE EXPENSES

TUBULARS	SIZE	DEPTH	FOOTAGE				
		Caisson		\$0	\$0	\$0	\$0
	0.000	0	0	\$0	\$0		
	20.000	40	40	\$1,400	\$0		
	0.000	0	0	\$0	\$0		
	13.375	500	500	\$6,900	\$0		
	8.625	4750	4750	\$64,000	\$0		
	0.000	0	0	\$0	\$0		
	0.000	0	0	\$0	\$0		
226 - 010	TUBULARS - DRILLING			\$72,300	\$0		\$72,300
	0.000	0	0			\$0	\$0
	5.500	12800	12800			\$105,900	\$0
	2.375	0	12800			\$37,400	\$0
227 - 010	TUBULARS - COMPLETION					\$143,300	\$0
226 / 227 - 020	WELLHEAD EQUIPMENT			\$14,000	\$0	\$19,100	\$0
226 / 227 - 030	DOWNHOLE EQUIPMENT			\$5,000	\$0	\$13,300	\$0
227 - 050	LEASE SURFACE EQUIPMENT					\$60,000	\$0
227 - 080	VALVES, PIPES AND FITTINGS					\$0	\$0
227 - 100	ARTIFICIAL LIFT					\$0	\$0
227 - 200	MISCELLANEOUS					\$0	\$0
227 - 210	RECOMPLETION TANGIBLES					\$0	\$0
TOTAL TANGIBLES:				\$91,300	\$0	\$235,700	\$0

DRY HOLE AND COMPLETION COSTS

		\$986,400	\$0	\$714,450	\$0	\$1,700,850
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TIME AND COST TO P&A: 1 days \$50,000 <=== P&A time and cost not included in DHC estimate above

ESTIMATED DRILLING DAYS 35

COST/DAY \$28,183

COST/FT \$77

ESTIMATED COMPLETION DAYS 2

COST/DAY \$357,225

COST/FT \$55.82

For Non-Operator only:

I ELECT TO PARTICIPATE AND ACCEPT THE WELL CONTROL INSURANCE COVERAGE.

Approval

Company Name or Individual (PLEASE PRINT)

Date

I ELECT TO PARTICIPATE AND DO NOT ACCEPT THE WELL CONTROL INSURANCE COVERAGE.

Approval

Company Name or Individual (PLEASE PRINT)

Date

OCEAN CONSERVATION DIVISION

CASE NUMBER

EXHIBIT

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF OCEAN ENERGY,
INC. FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

Case No. 13,036

AFFIDAVIT REGARDING NOTICE

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

James Bruce, being duly sworn upon his oath, deposes and states:


1. I am over the age of 18, and have personal knowledge of the matters set forth herein.

2. I am an attorney for Applicant.

3. Applicant has conducted a good faith, diligent effort to find the names and correct addresses of the interest owners entitled to receive notice of the Application filed herein.


4. Notice of the Application was provided to the interest owner at its correct address by certified mail. Copies of the notice letter and certified return receipt are attached hereto as Exhibit A.

5. Applicant has complied with the notice provisions of Division Rule 1207.



James Bruce

SUBSCRIBED AND SWORN TO before me this 24th day of March, 2003, by James Bruce.



Notary Public

My Commission Expires:
3/14/05

OIL CONSERVATION DIVISION

CASE NUMBER

Ocean EXHIBIT 5

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

369 MONTEZUMA, NO. 213
SANTA FE, NEW MEXICO 87501

(505) 982-2043 (PHONE)
(505) 982-2151 (FAX)

jamesbruc@aol.com

March 3, 2003

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

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

Attention: Bill Baker

Ladies and Gentlemen:

Enclosed is a copy of an application for compulsory pooling, filed with the New Mexico Oil Conservation Division by Ocean Energy, Inc., regarding the E½ of Section 8, Township 17 South, Range 35 East, NMPM, Lea County, New Mexico. This application is scheduled to be heard at 8:15 a.m. on Thursday, March 27, 2003 at the Division's offices at 1220 South St. Francis Drive, Santa Fe, New Mexico 87505. As an interest owner in the well unit, you have the right to appear at the hearing and participate in the case. Failure to appear at the hearing will preclude you from contesting this matter at a later date.

You are required to notify the Division, and the undersigned, by Friday, March 21, 2003, if you intend to enter an appearance and participate in the case.

Very truly yours,


James Bruce

Attorney for Ocean Energy, Inc.



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:

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

2. Article Number
(Transfer from service label)

7002 2030 0004 5187 9929

PS Form 3811, August 2001

Domestic Return Receipt

102595-01-M-0381

COMPLETE THIS SECTION ON DELIVERY

A. Signature ☒ Agent ☐ Addressee
P. Kernaghan

B. Received by (Printed Name) C. Date of Delivery
P. KERNAGHAN *MAR 06 2003*

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

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

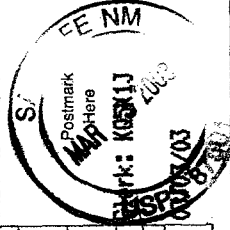
4. Restricted Delivery? (Extra Fee) ☐ Yes ☐ No

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

For delivery information visit our website at www.usps.com

MIDLAND, TX 79702 MAIL USE

Postage	\$ 0.03	UNIT ID: 0500
Certified Fee	2.23	
Return Receipt Fee (Endorsement Required)	1.71	
Restricted Delivery Fee (Endorsement Required)		
Total Postage & Fees	\$ 4.07	



Sent To

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

PS Form 3800, June 2002 See Reverse for Instructions



OIL CONSERVATION DIVISION

CASE NUMBER

Ocean EXHIBIT

Texaco 5-1 Monthly Production

Date	BO	Mcf	BW	Days on	Cum Mcf
7/31/2001	87	12,975	10	31	12,975
8/31/2001	308	43,227	13	29	56,202
9/30/2001	250	44,805	3	30	101,007
10/31/2001	223	46,689	-	31	147,696
11/30/2001	216	42,179	25	30	189,875
12/31/2001	238	41,300	24	31	231,175
1/31/2002	206	39,694	24	31	270,869
2/28/2002	190	34,459	17	28	305,328
3/31/2002	169	37,131	19	31	342,459
4/30/2002	207	33,792	25	30	376,251
5/31/2002	172	35,079	13	31	411,330
6/30/2002	114	31,202	12	30	442,532
7/31/2002	50	26,051	39	29	468,583
8/31/2002	80	20,300	19	26	488,883
9/30/2002	63	22,772	15	30	511,655
10/31/2002	55	20,036	13	31	531,691
11/30/2002	43	16,515	10	30	548,206
12/31/2002	64	14,651	16	31	562,857
	2,735	562,857	297		

OIL CONSERVATION DIVISION

CASE NUMBER _____

Ocean EXHIBIT 9

Texaco 5-1 BHP History

Date	SI (hrs)	BHP	Pavg	Z	P/Z	Cum
8/6/2001	72	2,981	3,210	0.88	3,648	17
8/25/2002	96	1,683	1,865	0.87	2,144	495

OIL CONSERVATION DIVISION

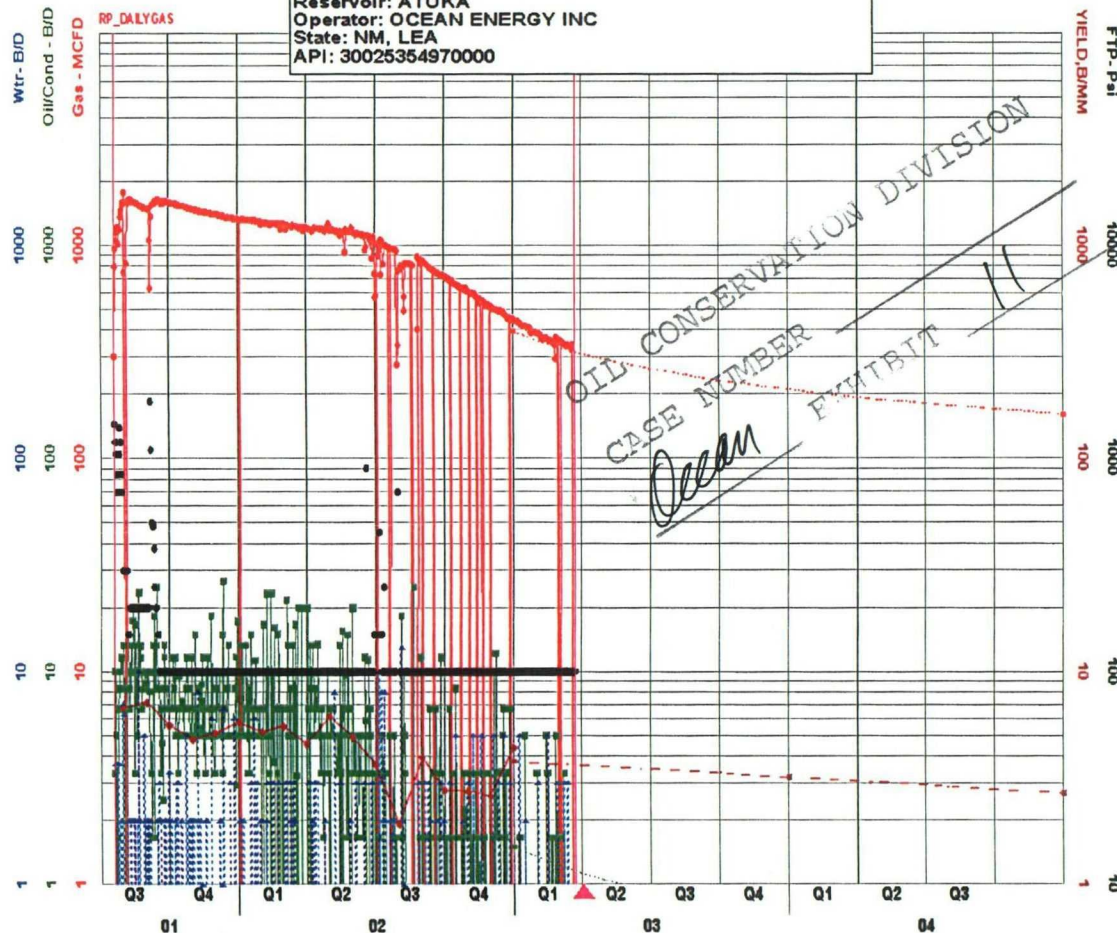
CASE NUMBER _____

Ocean EXHIBIT 10

Page 1

Entity: TEXACO STATE 5-1 (VACUUM)

Field: VACUUM
Reservoir: ATOKA
Operator: OCEAN ENERGY INC
State: NM, LEA
API: 30025354970000



Gas - MCFD
Qual= PDP
Ref= 1/2003
Cum= 570242
Rem= 711160
EUR= 1281402
Yrs= 23.496
Qref= 397.3
De= 46.860463
b= 2.000000
Qab= 26.0

Oil/Cond - B/D
Qual= PDP
Ref= 1/2003
Cum= 2743
Rem= 1142
EUR= 3826
Yrs= 23.678
Qref= 1.5
De= 0.000000
b= 0.000000
Qab= 0.0

Wtr - B/D
Ref= 1/2003
Cum= 372

YIELD, B/MM
Qual= PDP
Ref= 1/2003
Cum= 0
Rem= 0
EUR= 0
Yrs= 23.496
Qref= 3.8
De= 15.746484
b= 0.000000
Qab= 0.1

FTP - Psi
Ref= 1/2003
Cum= 73910

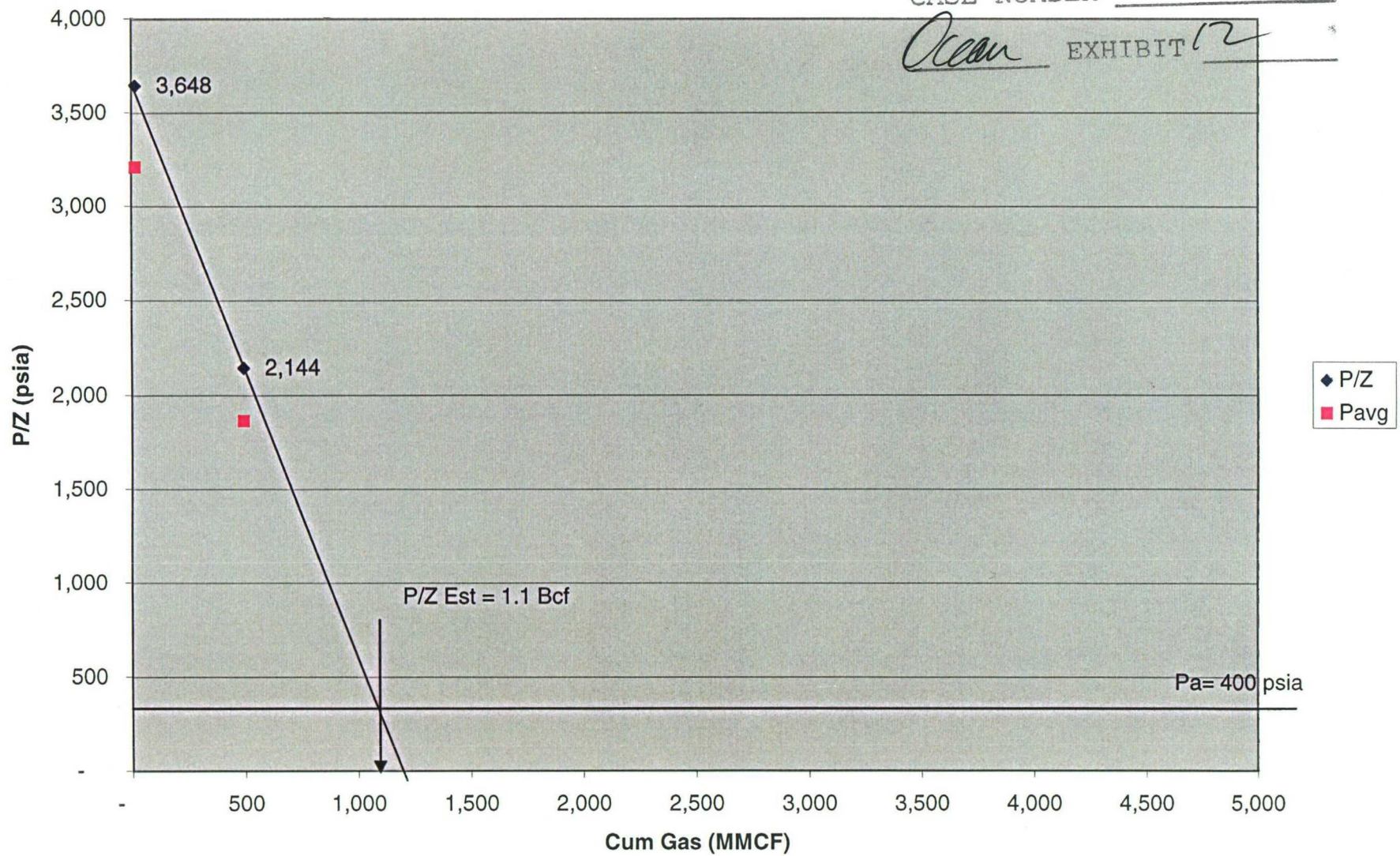
Page 1

Texaco 5 #1 P/Z Plot

OIL CONSERVATION DIVISION

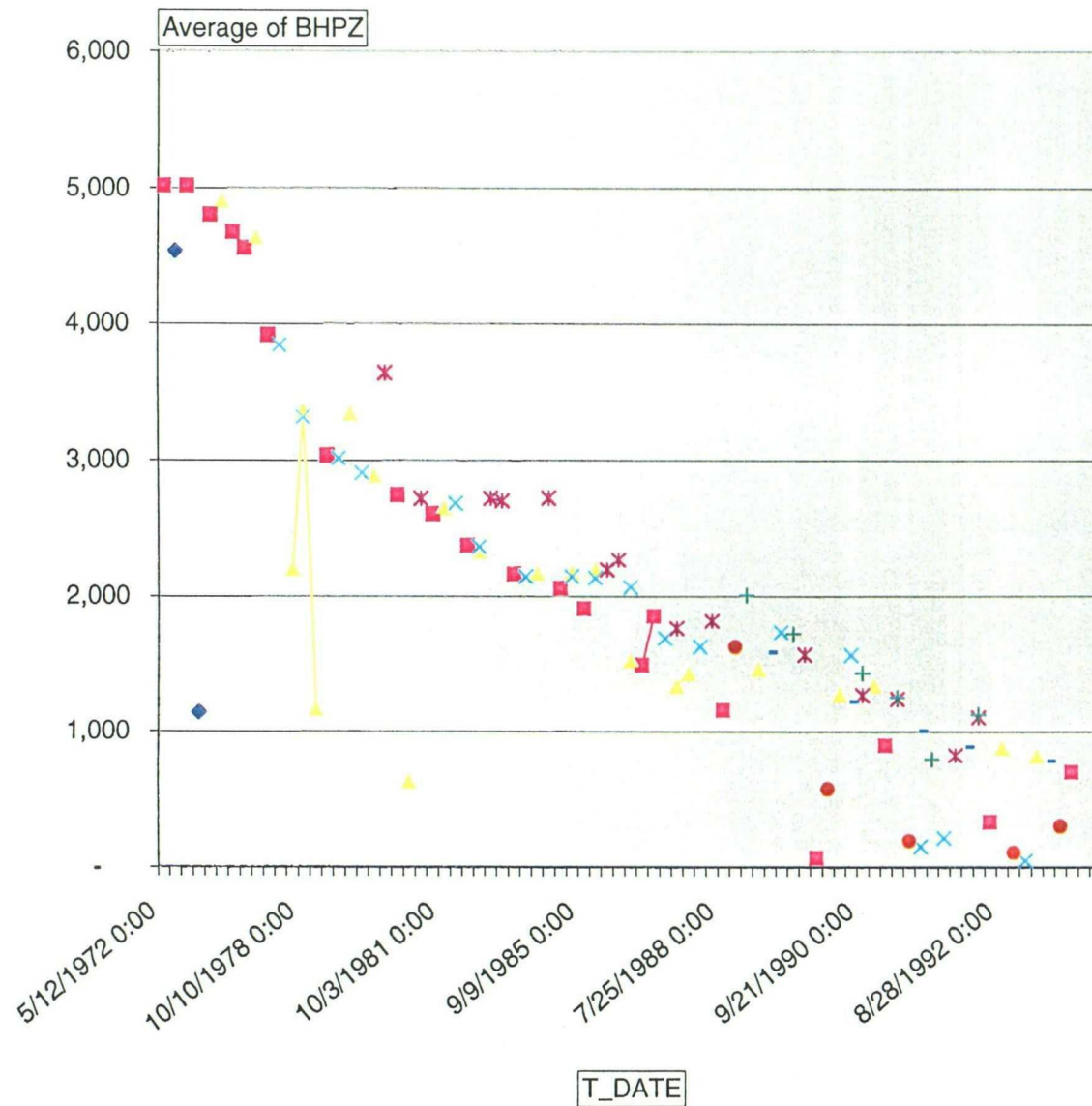
CASE NUMBER

Ocean EXHIBIT *12*



UWI (All) RRCD V3

*Plots pressure vs time
for various wells.*



FIRST_PROD
LEASE
WELL_ID
LOCATION
◆ 12/1/1972 0:00 - NEW MEXICO DN STATE COM - 001 - S 17.0 E 35.0 SEC 18.0
■ 7/1/1973 0:00 - NEW MEXICO DK STATE COM - 1 - S 17.0 E 35.0 SEC 18.0
▲ 8/1/1974 0:00 - STATE UU COM - 1 - S 17.0 E 35.0 SEC 7.0
✕ 10/1/1976 0:00 - NEW MEXICO NN STATE COM - 1 - S 17.0 E 35.0 SEC 8.0
✱ 11/1/1976 0:00 - STATE SECTION 7 COM - 1 - S 17.0 E 35.0 SEC 7.0
● 3/1/1988 0:00 - STATE 16 - 1 - S 17.0 E 35.0 SEC 16.0
+ 5/1/1988 0:00 - MARATHON SECTION 17 STATE COM - 2 - S 17.0 E 35.0 SEC 17.0
— 6/1/1989 0:00 - STATE SEC 17 COM - 3 - S 17.0 E 35.0 SEC 17.0

OIL CONSERVATION DIVISION

CASE NUMBER _____

Ocean EXHIBIT *13*



David H. Arrington Oil & Gas, Inc.
214 W. Texas, Suite 400, Midland, Texas 79701

LAND PLAT

SOUTH WILD ONION PROSPECT

LEA COUNTY, NEW MEXICO

0 2,000 4,000



FEET

By: Bill Baker, Jr.

March 21, 2003

31

32

6

5

4

OCEAN ENERGY - 28.44%
TEXACO - 25%
NADEL & GUSSMAN - 20%
McCOMB ENERGY - 26.56%

TEXACO
100%

7

8

9

OCEAN ENERGY - 53.33%
McCOMBS ENERGY - 26.67%
NADEL & GUSSMAN - 20%

DHAOG
PINK CAHILL ST. "B" #1
DHAOG
100%

18

17

16

T17S-R35E

OCEAN ENERGY
DIRT DEVIL #1

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

January 27, 2003

CERTIFIED MAIL: 7002 2410 0001 5839 5304

Ocean Energy, Inc.
Attn: Derold Maney
1001 Fannin, Suite 1600
Houston, TX 77002

Re: Well Proposal
Pink Cahill State "8" #1 Well
E/2 of Section 8, T17S, R35E
Lea County, New Mexico
Our S. Wild Onion 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' FNL and 990' FEL of Section 8, T17S, R35E, Lea County, New Mexico. This well is proposed to be drilled to a depth of approximately 12,800' to test the Mississippian formation. The proposed spacing unit for this well will be the E/2 of said Section 8.

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

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
<ul style="list-style-type: none">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.	A. Signature <input checked="" type="checkbox"/> T. Davis <input type="checkbox"/> Agent <input type="checkbox"/> Addressee
Article Addressed to: Ocean Energy, Inc. Attn: Derold Maney 1001 Fannin, Suite 1600 Houston, TX 77002	B. Received by (Printed Name) C. Date of Delivery JAN 30 2003
	D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No FEB 03 2003
	3. Service Type <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.
	4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes
Article Number (Transfer from service label) <u>7002 2410 0001 5839 5304</u>	

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 13039 Exhibit No. 2
Submitted by:
DAVID H. ARRINGTON OIL AND GAS, INC.
Hearing Date: March 27, 2003

DAVID H. ARRINGTON OIL AND GAS, INC.

AUTHORITY FOR EXPENDITURE (AFE)

AFE #: _____ Date: 01/22/03 ☒ Original
☐ Supplemental
 Lease: Pink Cahili State "8" Well #: 1 Well Type: Exploratory/Gas
 Location: 1,980' FNL & 990' FEL of Sec 8 County: Lea State: New Mexico
T17S-R36E
 Prospect: South Wild Onion Objective: Mississippian Proposed TD: 12,800'

Purpose of Expenditure: Drill and Test Wolfcamp, Atoka & Austin 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 45 @ \$7,300 /Day	328,500	0	328,500
	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 25 @ \$650 /Day	16,250	0	16,250
	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	18,000	18,000
	Casing Crews/Laydown Machine	5,000	6,000	11,000
	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	3,000	5,000	8,000
	Engineering & Geological Services	4,000	2,000	6,000
	Overhead	7,400	1,800	9,200
	Supervision	29,000	6,000	35,000
	Sand Blast & Coat Casing	0	5,000	5,000
	Contingencies	51,800	12,500	64,300
	Gross Receipts Tax	44,400	10,650	55,050
	TOTAL INTANGIBLE EXPENSE	838,350	202,450	1,040,800

CODE	TANGIBLE EXPENSE	DRILLING	COMPLETION	TOTAL
	Casing - Conductor of @ /Ft	0	0	0
	Casing - Surface 500 of 13 3/8" @ \$18.30 /Ft	9,200	0	9,200
	Casing - Intermediate 1500 of 9 5/8" @ \$14.00 /Ft	21,000	0	21,000
	Casing - Intermediate 3,500 of 9 5/8" @ \$12.00 /Ft	42,000	0	42,000
	Casing - Production 9,000 of 5 1/2" @ \$7.70 /Ft	0	69,300	69,300
	Casing - Production 3,800 of 5 1/2" @ \$8.00 /Ft	0	30,400	30,400
	Tubing 12,700' of 2 7/8" @ \$3.80 /Ft	0	48,280	48,280
	Floot & Other Equipment	2,700	1,500	4,200
	Wellhead Equipment, Tree	5,000	20,000	25,000
	Sucker Rods	0	0	0
	Down Hole Pump	0	0	0
	Packer/TAC/Misc Downhole	0	16,000	16,000
	Pumping Unit & Prime Mover	0	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	5,600	15,800	21,200
	TOTAL TANGIBLE EXPENSE,	85,500	275,080	360,580
	TOTAL WELL COST	923,850	477,530	1,401,380

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 Company: _____
Chuck Sledge, Petroleum Engineer
 Approved By: _____ Approved By: _____
David H. Arrington, President
 Title: _____ Title: _____
 Date: _____ Date: _____

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

February 27, 2003

CERTIFIED MAIL: 7002 2410 0001 5839 5328

McCombs Energy, LLC
5599 San Felipe, Suite 1200
Houston, TX 77056

Re: Well Proposal
Pink Cahill State "8" #1 Well
E/2 of Section 8, T17S, R35E
Lea County, New Mexico
Our S. Wild Onion 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' FNL and 990' FEL of Section 8, T17S, R35E, Lea County, New Mexico. This well is proposed to be drilled to a depth of approximately 12,800' to test the Mississippian formation. The proposed spacing unit for this well will be the E/2 of said Section 8.

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

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:

McCombs Energy, LLC
5599 San Felipe, suite 1200
Houston, Texas 77056

COMPLETE THIS SECTION ON DELIVERY

- A. Signature
X C. BOURN ☐ Agent ☐ Addressee
- B. Received by (Printed Name) C. BOURN C. Date of Delivery 3/3/03
- D. Is delivery address different from item 1? ☐ Yes ☐ No
If YES, enter delivery address below:

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

4. Restricted Delivery? (Extra Fee) ☐ Yes

2. Article Number
(Transfer from service label)

7002 2410 0001 5839 5328

DAVID H. ARRINGTON OIL AND GAS, INC.

AUTHORITY FOR EXPENDITURE (AFE)

AFE #: _____ Date: 01/22/03 ☒ Original
☐ Supplemental

Lease: Pink Cahill State "G" Well #: 1 Well Type: Exploratory/Gas

Location: 1,980' FNL & 990' FEL of Sec 8 County: Lea State: New Mexico
T17S-R36E

Prospect: South Wild Onion Objective: Mississippi Proposed TD: 12,800'

Purpose of Expenditure: Drill and Test Wolfcamp, Atoka & Austin 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 45 @ \$7,300 /Day	328,500	0	328,500
	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 25 @ \$650 /Day	16,250	0	16,250
	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	18,000	18,000
	Casing Crews/Laydown Machine	5,000	6,000	11,000
	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	3,000	5,000	8,000
	Engineering & Geological Services	4,000	2,000	6,000
	Overhead	7,400	1,800	9,200
	Supervision	29,000	6,000	35,000
	Sand Blast & Coat Casing	0	5,000	5,000
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	Float & Other Equipment	2,700	1,500	4,200
	Wellhead Equipment, Tree	5,000	20,000	25,000
	Sucker Rods	0	0	0
	Down Hole Pump	0	0	0
	Packer/TAC/Misc Downhole	0	15,000	15,000
	Pumping Unit & Prime Mover	0	0	0
	Tank Battery & Storage Facilities	0	17,000	17,000
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	TOTAL TANGIBLE EXPENSE	85,800	275,080	360,580
	TOTAL WELL COST	923,850	477,510	1,401,360

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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)
P.O. Box 2071
Midland, Texas 79702

DAVID H. ARRINGTON OIL & GAS, INC.

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

January 27, 2003

CERTIFIED MAIL: 7002 2410 0001 5839 5281

Nadel and Gussman Permian, LLC
Attn: Sam Jolliffe
601 N. Marienfeld, Suite 508
Midland, TX 79701

Re: Well Proposal
Pink Cahill State "8" #1 Well
E/2 of Section 8, T17S, R35E
Lea County, New Mexico
Our S. Wild Onion 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' FNL and 990' FEL of Section 8, T17S, R35E, Lea County, New Mexico. This well is proposed to be drilled to a depth of approximately 12,800' to test the Mississippian formation. The proposed spacing unit for this well will be the E/2 of said Section 8.

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.

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For the entire period should you have any questions or

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<ul style="list-style-type: none">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.		<p>A. Signature <input checked="" type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>B. Received by (Printed Name) EMERALD JOHNSON</p> <p>C. Date of Delivery 1/29/03</p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No</p> <p>JAN 30 2003</p>	
1. Article Addressed to: Nadel & Gussman Permian Attn: Sam Jolliffe 601 N. Marienfeld Suite 508 Midland, TX 79701		3. Service Type <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.	
2. Article Number (Transfer from service label) 7002 2410 0001 5839 5281		4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes	

DAVID H. ARRINGTON OIL AND GAS, INC.

AUTHORITY FOR EXPENDITURE (AFE)

AFE #: _____ Date: 01/22/03 ☒ Original
☐ Supplemental
 Lease: Pink Cahill State "8" Well #: 1 Well Type: Exploratory/Gas
 Location: 1,980' FNL & 990' FEL of Sec 8 County: Lea State: New Mexico
T17S-R36E
 Prospect: South Wild Onion Objective: Mississippian Proposed TD: 12,800'

Purpose of Expenditure: Drill and Test Wolfcamp, Atoka & Austin Intervals

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	Drilling - Footage @ /Ft	0	0	0
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	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 25 @ \$650 /Day	16,250	0	16,250
	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	18,000	18,000
	Casing Crews/Laydown Machine	6,000	6,000	11,000
	Perforating & Cased Hole Logs	0	15,000	15,000
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	Rental Equipment	14,000	5,000	19,000
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	Sucker Rods	0	0	0
	Down Hole Pump	0	0	0
	Packer/TAC/Misc Downhole	0	15,000	15,000
	Pumping Unit & Prime Mover	0	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	5,600	15,600	21,200
	TOTAL TANGIBLE EXPENSE,	85,500	275,060	360,560
	TOTAL WELL COST	923,850	477,510	1,401,360

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David H. Arrington Oil & Gas, Inc. Approval: _____ Partner Approval: _____
 Prepared By: Chuck Sledge, Petroleum Engineer Company: _____
 Approved By: _____ Approved By: _____
 Title: David H. Arrington, President Title: _____
 Date: _____ Date: _____

DAVID H. ARRINGTON OIL & GAS, INC.

P.O. BOX 2071 , MIDLAND, TEXAS 79702
OFF (915) 682-6685
FAX (915) 682-4139

February 28, 2003

CERTIFIED MAIL: 7002-1000-0004-8578-4697

Ocean Energy, Inc.
1001 Fannin, Suite 1600
Houston, Texas 77002-6794

RE: Revised Well Proposal
Pink Cahill State "8" #1 Well
E/2 of Section 8, T17S-R35E
Lea County, New Mexico
Our S. Wild Onion Prospect

Gentlemen:

By previous letter, David H. Arrington Oil & Gas, Inc. proposed the drilling of the above referenced well at a location of 1980' FNL and 990' FEL of Section 8, T17S-R35E, Lea County, New Mexico. Upon further review of all the technical information on the wells in the immediate area, it was determined that the acreage in the NE/4 of Section 8 is in a competitive drainage situation with the two (2) direct north offset wells. To that end, we are currently losing reserves to these competitive wells. Based on this determination, David H. Arrington Oil & Gas, Inc. is revising the well proposal to a standard location of 1300' FNL and 990' FEL of Section 8, T17S-R35E, Lea County, New Mexico. Further, as a result of this drainage situation, this well will be drilled as soon as possible. The well is proposed to be drilled to a depth of 12,800' to test the Lower Atoka, Morrow and Mississippian formations. The proposed spacing unit for this well will be the E/2 of said section 8.

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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:

Ocean Energy
1001 Fannin, Ste. 1600
Houston, TX 77002-
6794

PINK CAMILL 2.28.03

2. Article Number

(Transfer from service label)

7002-1000-0004-8578-4697

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X T. Davis

☐ Agent

☐ Addressee

B. Received by (Printed Name)

C. Date of Delivery

MAR 04 2003

D. Is delivery address different from item 1? ☐ Yes

If YES, enter delivery address below: ☐ No

3. Service Type

☒ Certified Mail

☐ Express Mail

☐ Registered

☐ Return Receipt for Merchandise

☐ Insured Mail

☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

test well, Arrington would be
spacing unit.

period should you have any

DAVID H. ARRINGTON OIL & GAS, INC.

P.O. BOX 2071, MIDLAND, TEXAS 79702
OFF (915) 682-6685
FAX (915) 682-4139

February 28, 2003

CERTIFIED MAIL: 700 2- 1000 - 0004 - 8578- 4710

Nadel and Gussman Permian, LLC
601 N. Marienfeld, Suite 508
Midland,, TX 79701

RE: Revised Well Proposal
Pink Cahill State "8" #1 Well
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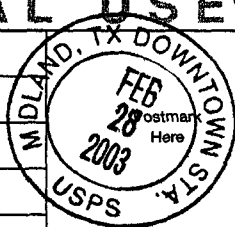
U.S. Postal Service

CERTIFIED MAIL RECEIPT

(Domestic Mail Only; No Insurance Coverage Provided)

OFFICIAL USE

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



Sent To	Nadel and Gussman
Street, Apt. No., or PO Box No.	601 N. Marienfeld Ste 508
City, State, ZIP+4	Midland TX 79701 (Nancy)

DAVID H. ARRINGTON OIL & GAS, INC.

P.O. BOX 2071, MIDLAND, TEXAS 79702

OFF (915) 682-6685

FAX (915) 682-4139

February 28, 2003

CERTIFIED MAIL: 7002-1000-0004-8578-4703

McCombs Energy, LLC
5599 San Felipe, Suite 1200
Houston, TX 77056

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- Attach this card to the back of the mailpiece, or on the front if space permits.

Article Addressed to:

McCombs Energy
5599 San Felipe, Ste. 1200
Houston, TX 77056

Pink Cahill 2.28.03

Article Number

(Transfer from service label)

7002-1000-0004-8578-4703

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X *C. Borden*

☐ Agent

☐ Addressee

B. Received by (Printed Name)

C. Borden

C. Date of Delivery

3/3/03

D. Is delivery address different from item 1? ☐ Yes

If YES, enter delivery address below: ☐ No

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)

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☐ Supplemental
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T17S-R35E
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	Mobilization/Demobilization	40,000	0	40,000
	Drilling - Footage @ /Ft	0	0	0
	Drilling - Daywork 45 @ \$7,300 /Day	328,500	0	328,500
	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 25 @ \$650 /Day	16,250	0	16,250
	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	18,000	18,000
	Casing Crews/Laydown Machine	5,000	6,000	11,000
	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	3,000	5,000	8,000
	Engineering & Geological Services	4,000	2,000	6,000
	Overhead	7,400	1,800	9,200
	Supervision	29,000	6,000	35,000
	Sand Blast & Coat Casing	0	5,000	5,000
	Contingencies	51,800	12,500	64,300
	Gross Receipts Tax	44,400	10,650	55,050
	TOTAL INTANGIBLE EXPENSE	838,350	202,450	1,040,800

CODE	TANGIBLE EXPENSE	DRILLING	COMPLETION	TOTAL
	Casing - Conductor of @ /Ft	0	0	0
	Casing - Surface 500 of 13 3/8" @ \$18.30 /Ft	9,200	0	9,200
	Casing - Intermediate 1500 of 9 5/8" @ \$14.00 /Ft	21,000	0	21,000
	Casing - Intermediate 3,500 of 9 5/8" @ \$12.00 /Ft	42,000	0	42,000
	Casing - Production 9,000 of 5 1/2" @ \$7.70 /Ft	0	69,300	69,300
	Casing - Production 3,800 of 5 1/2" @ \$8.00 /Ft	0	30,400	30,400
	Tubing 12,700' of 2 7/8" @ \$3.80 /Ft	0	48,260	48,260
	Float & Other Equipment	2,700	1,500	4,200
	Wellhead Equipment, Tree	5,000	20,000	25,000
	Sucker Rods	0	0	0
	Down Hole Pump	0	0	0
	Packer/TAC/Misc Downhole	0	15,000	15,000
	Pumping Unit & Prime Mover	0	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	5,600	15,600	21,200
	TOTAL TANGIBLE EXPENSE	85,500	275,060	360,560
	TOTAL WELL COST	923,850	477,510	1,401,360

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:

Company:

Chuck Sjedge, Petroleum Engineer

Approved By:

Approved By:

David H. Arrington, President

Title:

Title:

Date:

Date:

BEFORE THE OIL CONSERVATION DIVISION
 Santa Fe, New Mexico
 Case No. 13039 Exhibit No. 3
 Submitted by:
DAVID H. ARRINGTON OIL AND GAS, INC.
 Hearing Date: March 27, 2003

EXHIBIT

Attached to and made a part of _____

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the Parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at _____ on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 13039 Exhibit No. 4
Submitted by:
DAVID H. ARRINGTON OIL AND GAS, INC.
Hearing Date: March 27, 2003

5. Audits

A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. Approval By Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. Rentals and Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

3. Labor

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First Level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

6. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

8. Equipment and Facilities Furnished By Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed _____ percent (____%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

11. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- () Fixed Rate Basis, Paragraph 1A, or
() Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

- () shall be covered by the overhead rates, or
() shall not be covered by the overhead rates.

- iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

- () shall be covered by the overhead rates, or
() shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

- (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ _____
(Prorated for less than a full month)

Producing Well Rate \$ _____

- (2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.
- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

- (1) Operator shall charge the Joint Account at the following rates:

(a) Development

_____ Percent (_____ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.

(b) Operating

_____ Percent (_____ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$ _____:

- A. _____ % of first \$100,000 or total cost if less, plus
- B. _____ % of costs in excess of \$100,000 but less than \$1,000,000; plus
- C. _____ % of costs in excess of \$1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.

3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

- A. _____ % of total costs through \$100,000; plus
- B. _____ % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. _____ % of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

4. Amendment of Rates

The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2½ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2½ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (b) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
 - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

At seventy-five percent (75%) of current new price, as determined by Paragraph A.

(2) Material used on and moved from the Joint Property

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or
- (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

(3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

- (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished By Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.