

July 1, 1999

CERTIFIED MAIL P 555 884 320

Santa Fe Energy Resources, Inc.
Attn: Mr. Steve Smith
550 W. Texas, Suite 1330
Midland, Texas 79701

Re: Proposal to drill the Fat Albert #1 Well
Approximately 1980' FWL and 1650' FSL
Section 28, T20S, R24E
Eddy County, NM

Gentlemen:

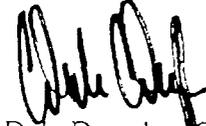
David H. Arrington Oil & Gas, Inc., PO Box 2071, Midland, Texas 79702 hereby proposes the drilling of the captioned well at the location referenced above to test the Canyon formation. This well will be drilled to an approximate depth of 7,800'. You will find enclosed an AFE for the drilling and completion of this well which sets forth the anticipated costs. We intend to commit the W/2 of Section 28, T20S, R24E, to the spacing unit for this well.

In the event you should desire to participate in the drilling of this test well, please so indicate by signing and returning one copy of the AFE to my attention as soon as possible. In the event you should elect to participate, we will forward for your review and execution a Joint Operating Agreement.

In the alternative, in the event you should wish to not participate in this test well, we would request that you grant a term assignment of your interest in your leasehold position in the SE/4SW/4 of said Section 28, which is to be included in this spacing unit, pursuant to the following terms and conditions: (i) \$75.00 per acre bonus, (ii) deliver an 81.25% NRI, retaining as an ORRI the difference if any between 18.75% and current leasehold burdens, and (iii) two (2) year primary term.

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

Yours very truly,


Dale Douglas, CPL
/dd

Enclosure

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 12297 Exhibit No. 2
Submitted by: David H. Arrington Oil & Gas
Hearing Date: December 2, 1999

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL
(See Reverse)

Sent to SANTA FE ENERGY	
Street and No. 550 W. WALL, STE 1330	
P.O., State and ZIP Code MIDLAND, TX 79701	
Postage	5
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	
Return Receipt showing to whom Date and Address of Delivery	
TOTAL Postage and Fees	5

U.S. G.P.C. 1985-234-555
June 1985

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. Show to whom delivered, date, and addressee's address. 2. Restricted Delivery (Extra charge)

3. Article Addressed to: SANTA FE ENERGY RESOURCES, INC. ATTN: STEVE SMITH 550 W. TEXAS, SUITE 1330 MIDLAND, TX 79701	4. Article Number P 555 884 320
Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input checked="" type="checkbox"/> Return Receipt for Merchandise	
Always obtain signature of addressee or agent and DATE DELIVERED.	
5. Signature - Addressee x Michelle Choate	8. Addressee's Address (ONLY if requested and fee paid) JUL 07 1999
6. Signature - Agent x M. Choate	
7. Date of Delivery 7-1-99	

DAVID H. ARRINGTON OIL AND GAS, INC.

AUTHORITY FOR EXPENDITURE (AFE)

AFE # 99-0616 Date: 6/15/99 Original
 Supplemental
 Lease: Fat Albert Well #: 1 Well Type: Gas
 Location: 1650' FSL & 1980' FWL Sec. 28 T20S-R24E County: Eddy State: New Mexico
 Prospect: Fat Albert Objective: Canyon Proposed TD: 7800'
 Purpose of Expenditure: Drill and complete as a Canyon gas well

CODE	INTANGIBLE EXPENSE	DRILLING	COMPLETION	TOTAL
	Surveying	800	0	800
	Staking & Permitting	2,700	0	2,700
	Location, Roads & Damages	25,000	0	25,000
	Lease Restoration	3,500	1,000	4,500
	Mobilization/Demobilization	18,000	0	18,000
	Drilling - Footage 7800 @ \$13.50 /Ft	105,300	0	105,300
	Drilling - Daywork 6 @ \$55 /Day	33,000	0	33,000
	Drilling - Directional	0	0	0
	Completion Rig 5 @ \$1,500 /Day	0	7,500	7,500
	Pit Lining	3,000	0	3,000
	Bits, Reamers & Stabilizers	0	0	0
	Drilling & Completion Fluids & Oil	12,000	2,000	14,000
	Water	30,000	3,000	33,000
	Mud Logging 6 @ \$460 /Day	2,760	0	2,760
	Drill Stem Tests 3 @ 3000	9,000	0	9,000
	Coring Services	0	0	0
	Logging - Open Hole & Sidewall Cores	20,000	0	20,000
	Cement & Services - Surface	11,300	0	11,300
	Cement & Services - Intermediate	0	0	0
	Cement & Services - Production	0	10,000	10,000
	Perforating & Cased Hole Logs	0	4,000	4,000
	Acidizing, Fracturing & Stimulation	0	25,000	25,000
	Rental Equipment (Safety, Test Tk., Choke, ect.)	2,000	500	2,500
	Installation - Production Facilities	0	10,000	10,000
	Inspection & Well Testing	2,500	1,000	3,500
	Transportation	0	0	0
	Miscellaneous Labor	0	500	500
	Engineering & Geological Services	2,500	2,000	4,500
	Overhead	3,000	1,500	4,500
	Supervision	4,800	3,600	8,400
	Sand Blast & Coat Casing	0	2,000	2,000
	Contingencies	14,540	5,400	19,940
	Gross Receipts Tax	18,300	4,700	23,000
	TOTAL INTANGIBLE EXPENSE	324,000	83,700	407,700

CODE	TANGIBLE EXPENSE	DRILLING	COMPLETION	TOTAL
	Casing - Conductor 40 of 20 @ /Ft	1,000	0	1,000
	Casing - Surface 1100 of 9 5/8 @ \$9.10 /Ft	10,010	0	10,010
	Casing - Intermediate of @ /Ft	0	0	0
	Casing - Intermediate of @ /Ft	0	0	0
	Casing - Production 2,500 of 7 @ \$7.80 /Ft	0	19,500	19,500
	Casing - Production 5300 of 7 @ \$6.20 /Ft	0	32,860	32,860
	Tubing 7800 of 2 7/8 @ \$2.60 /Ft	0	20,280	20,280
	Float & Other Equipment	1,040	5,570	6,610
	Wellhead Equipment, Tree	2,000	3,000	5,000
	Sucker Rods	0	2,500	2,500
	Down Hole Pump	0	2,000	2,000
	Packer/TAC	0	4,100	4,100
	Pumping Unit & Prime Mover	0	9,000	9,000
	Tank Battery & Storage Facilities	0	8,950	8,950
	Separator/Heater Treater/Dehydrator	0	4,250	4,250
	Meters & Flowlines	0	0	0
	Miscellaneous Valves & Fittings	0	8,000	8,000
	Gross Receipts Tax	850	7,390	8,240
	TOTAL TANGIBLE EXPENSE	14,900	127,400	142,300
	TOTAL WELL COST	338,900	211,100	550,000

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

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

202 West Wall Street
Suite 1201 (2nd Floor)
P.O. Box 10167
Midland, Texas 79702

DALE DOUGLAS
Oil & Gas Properties

Area Code: 815
Phone: 682-6686
Fax: 682-4486

Orange Stimulator Caddis

September 1, 1999

CERTIFIED MAIL P 555 884 323

Santa Fe Energy Resources, Inc.
Attn: Mr. Steve Smith
550 W. Texas, Suite 1330
Midland, Texas 79701

Re: Proposal to drill the Orange Stimulator Caddis Fed Com #1 (formerly proposed as the Fat Albert #1 Well)
Approximately 1980' FWL and 1650' FSL
Section 28, T20S, R24E
Eddy County, NM
Our Fat Albert Prospect

Gentlemen:

Reference is herein made to our letter to you of July 1, 1999 proposing the drilling of the captioned well. As we have discussed, in addition to Santa Fe's interest in this proposed unit, Yates Petroleum also owns an interest. Yates has suggested and Arrington has agreed to drill this test well to a deeper depth than that proposed, in order to test the Morrow formation at approximately 9,200'.

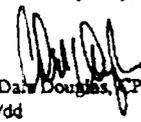
Thus, David H. Arrington Oil & Gas, Inc., PO Box 2071, Midland, Texas 79702 hereby proposes the drilling of the captioned well at the location referenced above to test the Canyon/Morrow formations. This well will be drilled to an approximate depth of 9,200'. You will find enclosed an AFE for the drilling and completion of this well which sets forth the anticipated costs. We intend to commit the W/2 of Section 28, T20S, R24E, to the spacing unit for this well.

In the event you should desire to participate in the drilling of this test well, please so indicate by signing and returning one copy of the AFE to my attention as soon as possible. In the event you should elect to participate, we will forward for your review and execution a Joint Operating Agreement.

In the alternative, in the event you should wish to not participate in this test well, we would request that you grant a term assignment of your interest in your leasehold position in the SE/4SW/4 of said Section 28, which is to be included in this spacing unit, pursuant to the following terms and conditions: (i) \$75.00 per acre bonus, (ii) deliver an 81.25% NRI, retaining as an ORRI the difference if any between 18.75% and current leasehold burdens, and (iii) two (2) year primary term.

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

Yours very truly,


Dale Douglas, CPL
/dd

Enclosure

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees or see box(es) for additional services requested.

1. Show to whom delivered, date, and addressee's address. 2. Restricted Delivery (Extra charge)

3. Article Addressed to:
SANTA FE ENERGY RESOURCES
550 W. TEXAS, SUITE 1330
MIDLAND, TX 79701

4. Article Number:
P 555-884-323

Type of Service:
 Registered Insured
 Certified COD
 Express Mail Return Receipt for Merchandise

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature _____ Address _____
6. Addressee's Address (ONLY if requested and fee paid)

Date of Delivery _____

PS Form 3811, Apr. 1989 U.S. G.P.O. 1989-386-618 DOMESTIC RETURN RECEIPT

203 West Wall Street
Suite 1201 (Zip 79701)
P.O. Box 10187
Midland, Texas 79702

DALE DOUGLAS
Oil & Gas Properties

Area Code: 915
Phone : 682-5565
Fax: 682-4498

September 1, 1999

CERTIFIED MAIL P 555 884 323

Santa Fe Energy Resources, Inc.
Attn: Mr. Steve Smith
550 W. Texas, Suite 1330
Midland, Texas 79701

Re: Proposal to drill the Orange Stimulator Caddis Fed Com #1 (formerly proposed as the Fat Albert #1 Well)
Approximately 1980' FWL and 1650' FSL
Section 28, T20S, R24E
Eddy County, NM
Our Fat Albert Prospect

Gentlemen:

Reference is herein made to our letter to you of July 1, 1999 proposing the drilling of the captioned well. As we have discussed, in addition to Santa Fe's interest in this proposed unit, Yates Petroleum also owns an interest. Yates has suggested and Arrington has agreed to drill this test well to a deeper depth than that proposed, in order to test the Morrow formation at approximately 9,200'.

Thus, David H. Arrington Oil & Gas, Inc., PO Box 2071, Midland, Texas 79702 hereby proposes the drilling of the captioned well at the location referenced above to test the Canyon/Morrow formations. This well will be drilled to an approximate depth of 9,200'. You will find enclosed an AFE for the drilling and completion of this well which sets forth the anticipated costs. We intend to commit the W/2 of Section 28, T20S, R24E, to the spacing unit for this well.

In the event you should desire to participate in the drilling of this test well, please so indicate by signing and returning one copy of the AFE to my attention as soon as possible. In the event you should elect to participate, we will forward for your review and execution a Joint Operating Agreement.

In the alternative, in the event you should wish to not participate in this test well, we would request that you grant a term assignment of your interest in your leasehold position in the SE/4SW/4 of said Section 28, which is to be included in this spacing unit, pursuant to the following terms and conditions: (i) \$75.00 per acre bonus, (ii) deliver an 81.25% NRI, retaining as an ORRI the difference if any between 18.75% and current leasehold burdens, and (iii) two (2) year primary term.

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

Yours very truly,


Dale Douglas, CPL
/dd

Enclosure

DAVID H. ARRINGTON OIL AND GAS, INC.

AUTHORITY FOR EXPENDITURE (AFE)

AFE #: 99-0616 Date: 8/13/99 Original
 Supplemental
 Lease: Orange Stimulator Caddis Fed Com #1 Well #: 1 Well Type: Gas
 Location: 1650' FSL & 1980' FWL Sec. 28 T20S-R24E County: Eddy State: New Mexico
 Prospect: Fat Albert Objective: Canyon/Morrow Proposed TD: 9200'
 Purpose of Expenditure: Drill and complete as a Canyon/Morrow gas well

CODE	INTANGIBLE EXPENSE	DRILLING	COMPLETION	TOTAL
	Surveying	800	0	800
	Staking & Permitting	2,700	0	2,700
	Location, Roads & Damages	25,000	0	25,000
	Lease Restoration	3,500	1,000	4,500
	Mobilization/Demobilization	18,000	0	18,000
	Drilling - Footage 9200 @ \$13.50 /Ft	124,200	0	124,200
	Drilling - Daywork 6 @ \$5,500 /Day	33,000	0	33,000
	Drilling - Directional	0	0	0
	Completion Rig 8 @ \$1,500 /Day	0	12,000	12,000
	Pit Lining	3,000	0	3,000
	Bits, Reamers & Stabilizers	0	0	0
	Drilling & Completion Fluids & Oil	17,000	3,000	20,000
	Water	35,000	3,000	38,000
	Mud Logging 15 @ \$460 /Day	6,900	0	6,900
	Drill Stem Tests 3 @ 3000	9,000	0	9,000
	Coring Services	0	0	0
	Logging - Open Hole & Sidewall Cores	25,000	0	25,000
	Cement & Services - Surface	11,300	0	11,300
	Cement & Services - Intermediate	0	0	0
	Cement & Services - Production	0	15,000	15,000
	Perforating & Cased Hole Logs	0	6,000	6,000
	Acidizing, Fracturing & Stimulation	0	40,000	40,000
	Rental Equipment (Safety, Test Tk., Choke, ect.)	3,000	500	3,500
	Installation - Production Facilities	0	10,000	10,000
	Inspection & Well Testing	2,500	1,000	3,500
	Transportation	0	0	0
	Miscellaneous Labor	0	500	500
	Engineering & Geological Services	4,000	3,000	7,000
	Overhead	3,000	1,500	4,500
	Supervision	5,500	4,500	10,000
	Sand Blast & Coat Casing	0	2,000	2,000
	Contingencies	15,500	6,400	21,900
	Gross Receipts Tax	21,000	6,600	27,600
	TOTAL INTANGIBLE EXPENSE	368,900	116,000	484,900

CODE	TANGIBLE EXPENSE	DRILLING	COMPLETION	TOTAL
	Casing - Conductor 40 of 20 @ /Ft	1,000	0	1,000
	Casing - Surface 1100 of 9 5/8 @ \$10.50 /Ft	11,550	0	11,550
	Casing - Intermediate of @ /Ft	0	0	0
	Casing - Intermediate of @ /Ft	0	0	0
	Casing - Production 3,200 of 7 @ \$8.40 /Ft	0	26,880	26,880
	Casing - Production 6000 of 7 @ \$7.40 /Ft	0	44,500	44,500
	Tubing 9200 of 2 7/8 @ \$2.80 /Ft	0	25,760	25,760
	Float & Other Equipment	1,040	5,570	6,610
	Wellhead Equipment, Tree	4,000	5,000	9,000
	Sucker Rods	0	2,500	2,500
	Down Hole Pump	0	2,000	2,000
	Packer/TAC	0	4,100	4,100
	Pumping Unit & Prime Mover	0	9,000	9,000
	Tank Battery & Storage Facilities	0	8,950	8,950
	Separator/Heater Treater/Dehydrator	0	4,250	4,250
	Meters & Flowlines	0	0	0
	Miscellaneous Valves & Fittings	0	8,000	8,000
	Gross Receipts Tax	1,000	8,800	9,800
	TOTAL TANGIBLE EXPENSE	18,590	155,310	173,900
	TOTAL WELL COST	387,490	271,310	658,800

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

David H. Arrington Oil & Gas, Inc. Approval: Partner Approval:
 Prepared By: Steve Scott, Petroleum Engineer Company: _____
 Approved By: [Signature] David H. Arrington Approved By: _____
 Title: President Title: _____
 Date: _____ Date: _____

203 West Wall Street
Suite 1201 (Zip 79701)
P.O. Box 10187
Midland, Texas 79702

DALE DOUGLAS
Oil & Gas Properties

Area Code: 915
Phone : 682-5565
Fax: 682-4498

November 2, 1999

Santa Fe Energy Resources, Inc.
Attn: Ms. Meg Muhlinghause
550 W. Texas, Suite 1330
Midland, Texas 79701

Re: Proposal to drill the Orange Stimulator Caddis Fed Com #1 (formerly proposed as the Fat Albert #1 Well)
Approximately 1980' FWL and 1650' FSL
Section 28, T20S, R24E
Eddy County, NM
Our Fat Albert Prospect

Dear Meg:

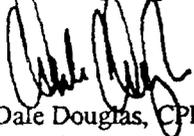
Reference is herein made to our letters to you of July 1, 1999 and September 1, 1999 proposing the drilling of the captioned well.

You have verbally indicated that Santa Fe does not wish to participate in this well and would agree to grant to Arrington a term assignment covering Santa Fe's interest for in exchange for \$200 per acre, with Santa Fe retaining an ORRI equal to the difference between 25% and leasehold burdens.

The purpose of this letter is to advise you that these terms as proposed by Santa Fe are unacceptable; however, Arrington is ready to accept a two year term assignment under the terms it originally proposed being \$75 per acre, with Santa Fe retaining an ORRI equal to the difference between 25% and leasehold burdens. Arrington would still welcome your participation in this well in the event that you should so elect.

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

Yours very truly,



Dale Douglas, CPL
/dd

203 West Wall Street
Suite 1201 (Zip 79701)
P.O. Box 10187
Midland, Texas 79702

DALE DOUGLAS
Oil & Gas Properties

Area Code: 915
Phone: 682-5565
Fax: 682-4498

November 30, 1999

VIA FACSIMILE 915-686-6714

Santa Fe Energy Resources, Inc.
Attn: Ms. Meg Muhlinghaus
550 W. Texas, Suite 1330
Midland, Texas 79701

Re: Proposal to drill the Orange Stimulator Caddis Fed Com #1 (formerly proposed as the Fat Albert #1 Well)
Approximately 1980' FWL and 1650' FSL
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Eddy County, NM
Our Fat Albert Prospect

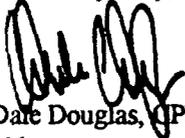
Dear Meg:

Reference is herein made to our letters to you of July 1, 1999, September 1, 1999 and November 2, 1999, and our phone conversations regarding the drilling of the captioned well.

Arrington would still welcome your participation in this well in the event that you should so elect. In the alternative, Arrington would propose a compromise of the various terms we have previously discussed, as follows: (i) \$100.00 per acre bonus, (ii) deliver an 80% NRI, retaining as an ORRI the difference if any between 20% and current leasehold burdens, and (iii) one (1) year primary term.

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

Yours very truly,


Dale Douglas, CPL
/dd