

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

October 3, 2000

*Keep for FR.
Pete Quintana*

CERTIFIED MAIL: 709932200005 11836378

Candy Christmas
C/O James R. Leeton
P. O. Box 10561
Midland, Texas 79702

Re: Proposal to drill the Royal Stimulator "31" Well
Legal Location in the NW/4 of Section 31, T15S,
R36E, Lea County, NM

Ladies and 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 Wolfcamp/Atoka/Morrow/Mississippian formations. This well will be drilled to an approximate total depth of 14,550'. You will find enclosed an AFE for the drilling and completion of this well which sets forth the anticipated costs, being \$1,565,000. We intend to commit Lots 1, 2, 3, 4, E/2NW/4, E/2SW/4 (W/2) of Section 31, T15S, R36E, to the spacing unit for this well.

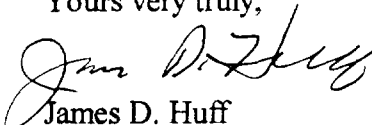
In the event you should desire to participate in the drilling of this test well, please so indicate by signing and returning one copy of the AFE to my attention as soon as possible. In the event you should elect to participate, we will forward for your review and execution a Joint Operating Agreement,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

In the alternative, in the event you should wish to not participate in this test well, we would request that you grant an oil and gas lease covering your mineral interest in Lots 3 & 4, Save and Except a 6.0 acre tract out of the SE/4SW/4SW/4 more fully described in that certain Mineral deed dated 5/10/51 and recorded in Volume 139, page 477, Deed records of Lea County, New Mexico, containing 74.14 acres of said Section 31, which is to be included in this spacing unit, pursuant to the following terms and conditions: (i) \$100.00 per acre bonus, (ii) 1/4th royalty, and (iii) three (3) year primary term.

Please respond to us within 30 days from your receipt of this letter, or due to time restraints we will necessarily have to initiate force pooling to drill the referenced well on a W/2 spacing unit.

Please feel free to contact me in the event that you should wish to discuss this matter.

Yours very truly,


James D. Huff

/dd

Enclosure

BEFORE THE OIL CONSERVATION DIVISION
SANTA FE, NEW MEXICO
Case No. 12560 Exhibit No. 3

Submitted by:
David H. Arrington Oil & Gas, Inc.
Hearing Date: December 21, 2000

DAVID H. ARRINGTON OIL AND GAS, INC.

AUTHORITY FOR EXPENDITURE (AFE)

AFE #: 00-0922 Date: 20-Sep-00 ☒ Original ☐ Supplemental

Lease: Royal Stimulator "31" Well #: 1 Well Type: Exploratory/Oil/Gas

Location: Legal Location in NW/4 Section 31, T15S-R36E County: Lea State: New Mexico

Prospect: Pato Ardiendo Objective: Wolfcamp/Atoka Morrow/Mississippian Proposed TD: 14,550' MD

Purpose of Expenditure: Drill and test Wolfcamp, Atoka, Morrow, and Mississippian Formation

CODE	INTANGIBLE EXPENSE	DRILLING	COMPLETION	TOTAL
	Surveying	800	0	800
	Staking & Permitting	100	0	100
	Location, Roads & Damages	18,000	2,000	20,000
	Lease Restoration	8,000	0	8,000
	Mobilization/Demobilization	25,000	0	25,000
	Drilling - Footage 9,000 @ \$27.00 /Ft	243,000	0	243,000
	Drilling - Daywork 25 @ \$7,400 /Day	185,000	0	185,000
	Drilling - Directional	130,000	0	130,000
	Completion Rig 12 @ \$1,500 /Day	0	18,000	18,000
	Fuel, Power & Lubricants	0	0	0
	Bits, Reamers & Stabilizers	20,000	0	20,000
	Drilling & Completion Fluids	50,000	2,000	52,000
	Water	20,000	2,000	22,000
	Mud Logging 40 @ \$600 /Day	24,000	0	24,000
	Drill Stem Tests (3 tests)	20,000	0	20,000
	Coring Services	0	0	0
	Logging - Open Hole & Sidewall Cores	53,000	0	53,000
	Cement & Services - Surface	5,000	0	5,000
	Cement & Services - Intermediate	15,000	0	15,000
	Cement & Services - Production	0	18,000	18,000
	Perforating & Cased Hole Logs	0	1,200	1,200
	Acidizing, Fracturing & Stimulation	0	95,000	95,000
	Rental Equipment	15,000	3,500	18,500
	Installation - Production Facilities	0	9,000	9,000
	Inspection & Testing	5,000	1,000	6,000
	Transportation	5,000	3,500	8,500
	Miscellaneous Labor	2,000	3,000	5,000
	Engineering & Geological Services	6,500	2,000	8,500
	Overhead	9,000	2,500	11,500
	Supervision	16,000	3,000	19,000
	Sand Blast & Coat Casing	0	5,000	5,000
	Contingencies	44,800	8,300	53,100
	Gross Receipts Tax	57,500	11,300	68,800
	TOTAL INTANGIBLE EXPENSE	977,200	190,300	1,168,000

CODE	TANGIBLE EXPENSE	DRILLING	COMPLETION	TOTAL
	Casing - Conductor of @ /Ft		0	0
	Casing - Surface 470 of 13 3/8" @ \$18.30 /Ft	8,600	0	8,600
	Casing - Intermediate 950 of 8 5/8" @ \$13.20 /Ft	12,500	0	12,500
	Casing - Intermediate 4,000 of 8 5/8" @ \$10.90 /Ft	43,600	0	43,600
	Casing - Production 9,000 of 5 1/2" @ \$7.50 /Ft	0	67,500	67,500
	Casing - Production 5,550 of 5 1/2" @ \$7.70 /Ft	0	42,700	42,700
	Tubing 14,550 of 2 7/8" @ \$3.70 /Ft	0	53,900	53,900
	Float & Other Equipment	2,700	1,000	3,700
	Wellhead Equipment, Tree	4,600	10,400	15,000
	Sucker Rods	0	16,000	16,000
	Down Hole Pump	0	3,000	3,000
	Packer/TAC	0	4,300	4,300
	Pumping Unit & Prime Mover	0	50,000	50,000
	Tank Battery & Storage Facilities	0	22,700	22,700
	Separator/Heater Treater/Dehydrator	0	9,500	9,500
	Meters & Flowlines	0	6,000	6,000
	Miscellaneous Valves & Fittings	0	16,000	16,000
	Contingencies	4,500	17,500	22,000
	TOTAL TANGIBLE EXPENSE	76,500	320,500	397,000
	TOTAL WELL COST	1,054,200	510,800	1,565,000

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, Petroleum Engineer Company: _____

Approved By: _____ Approved By: _____

Title: _____ Title: _____

Date: _____ Date: _____

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:

Candy Christmas
c/o James Keeton
PO Box 10561
Midland, TX 79702

2. Article Number (Copy from service label)

7099 3220 0005 118 3 6378

PS Form 3811, July 1999

Domestic Return Receipt

102595-99-M-1789

COMPLETE THIS SECTION ON DELIVERYA. Received by (Please Print Clearly) **OCT 5 1999** Date of Delivery

C. Signature

X

☐ Agent
☐ Addressee

D. Is delivery address different from item 1?

If YES, enter delivery address below:

☐ Yes
☐ No

3. Service Type

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

4. Restricted Delivery? (Extra Fee)

☐ Yes**U.S. Postal Service
CERTIFIED MAIL RECEIPT**

(Domestic Mail Only; No Insurance Coverage Provided)

Article Sent To:

Candy Christmas

Postage

\$

Certified Fee

Return Receipt Fee
(Endorsement Required)Restricted Delivery Fee
(Endorsement Required)

Total Postage & Fees

\$

2.98

Postmark
Here

Name (Please Print Clearly) (To be completed by mailer)

Street, Apt. No.; or PO Box No.

City, State, ZIP+ 4

PS Form 3800, July 1999

See Reverse for Instructions

October 3, 2000

CERTIFIED MAIL: 709932200000511836422

Helen Jane Christmas Barby, Trustee of the
Helen Jane Christmas Trust dated 2-14-92
C/O James R. Leeton
P. O. Box 10561
Midland, Texas 79702

Re: Proposal to drill the Royal Stimulator "31" Well
Legal Location in the NW/4 of Section 31, T15S,
R36E, Lea County, NM

Ladies and 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 Wolfcamp/Atoka/Morrow/Mississippian formations. This well will be drilled to an approximate total depth of 14,550'. You will find enclosed an AFE for the drilling and completion of this well which sets forth the anticipated costs, being \$1,565,000. We intend to commit Lots 1, 2, 3, 4, E/2NW/4, E/2SW/4 (W/2) of Section 31, T15S, R36E, to the spacing unit for this well.

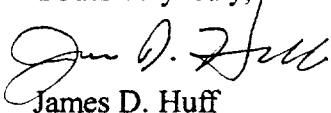
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James D. Huff

/dd

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DAVID H. ARRINGTON OIL AND GAS, INC.

AUTHORITY FOR EXPENDITURE (AFE)

AFE #: 00-0922 Date: 20-Sep-00 ☒ Original
☐ Supplemental
 Lease: Royal Stimulator "31" Well #: 1 Well Type: Exploratory/Oil/Gas
 Location: Legal Location in NW/4 County: Lea State: New Mexico
Section 31, T15S-R36E
 Prospect: Pato Ardiendo Objective: Wolfcamp/Atoka Proposed TD: 14,550' MD
Morrow/Mississippian
 Purpose of Expenditure: Drill and test Wolfcamp, Atoka, Morrow, and Mississippian Formation

CODE	INTANGIBLE EXPENSE	DRILLING	COMPLETION	TOTAL
	Surveying	800	0	800
	Staking & Permitting	100	0	100
	Location, Roads & Damages	18,000	2,000	20,000
	Lease Restoration	8,000	0	8,000
	Mobilization/Demobilization	25,000	0	25,000
	Drilling - Footage 9,000 @ \$27.00 /Ft	243,000	0	243,000
	Drilling - Daywork 25 @ \$7,400 /Day	185,000	0	185,000
	Drilling - Directional	130,000	0	130,000
	Completion Rig 12 @ \$1,500 /Day	0	18,000	18,000
	Fuel, Power & Lubricants	0	0	0
	Bits, Reamers & Stabilizers	20,000	0	20,000
	Drilling & Completion Fluids	50,000	2,000	52,000
	Water	20,000	2,000	22,000
	Mud Logging 40 @ \$600 /Day	24,000	0	24,000
	Drill Stem Tests (3 tests)	20,000	0	20,000
	Coring Services	0	0	0
	Logging - Open Hole & Sidewall Cores	53,000	0	53,000
	Cement & Services - Surface	5,000	0	5,000
	Cement & Services - Intermediate	15,000	0	15,000
	Cement & Services - Production	0	18,000	18,000
	Perforating & Cased Hole Logs	0	1,200	1,200
	Acidizing, Fracturing & Stimulation	0	95,000	95,000
	Rental Equipment	15,000	3,500	18,500
	Installation - Production Facilities	0	9,000	9,000
	Inspection & Testing	5,000	1,000	6,000
	Transportation	5,000	3,500	8,500
	Miscellaneous Labor	2,000	3,000	5,000
	Engineering & Geological Services	6,500	2,000	8,500
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	Wellhead Equipment, Tree	4,600	10,400	15,000
	Sucker Rods	0	16,000	16,000
	Down Hole Pump	0	3,000	3,000
	Packer/TAC	0	4,300	4,300
	Pumping Unit & Prime Mover	0	50,000	50,000
	Tank Battery & Storage Facilities	0	22,700	22,700
	Separator/Heater Treater/Dehydrator	0	9,500	9,500
	Meters & Flowlines	0	6,000	6,000
	Miscellaneous Valves & Fittings	0	16,000	16,000
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	TOTAL TANGIBLE EXPENSE	76,500	320,500	397,000
	TOTAL WELL COST	1,054,200	510,800	1,565,000

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David H. Arrington Oil & Gas, Inc. Approval:

Partner Approval:

Prepared By:

Company:

Steve Scott, Petroleum Engineer

Approved By:

Approved By:

David H. Arrington, President

Title:

Title:

Date:

Date:

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:

Helen Jane Christmas, Barbby
Trustee of the Helen Jane Christmas
Trust dated 2-14-92
c/o James R. Lorton
PO Box 10561
Midland, TX 79702

2. Article Number (Copy from service label)

7099322000051183 6422

PS Form 3811, July 1999

Domestic Return Receipt

102595-99-M-1789

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)

B. Date of Delivery

JUL 1

5 2000

C. Signature

X

☐ Agent☐ Addressee

D. Is delivery address different from item 1?

☐ YesIf 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

U.S. Postal Service

CERTIFIED MAIL RECEIPT

(Domestic Mail Only; No Insurance Coverage Provided)

Article Sent To:

Helen Jane Christmas Barbby

Postage

\$

Certified Fee

Return Receipt Fee
(Endorsement Required)Restricted Delivery Fee
(Endorsement Required)

Total Postage & Fees

\$ 2.98

Postmark
Here

Name (Please Print Clearly) (To be completed by mailer)

Street, Apt. No.; or PO Box No.

City, State, ZIP+ 4

PS Form 3800, July 1999

See Reverse for Instructions

October 3, 2000

CERTIFIED MAIL: 7099 3220 0005 1183 6408

Joyce Ann Brown
C/O James R. Leeton
P. O. Box 10561
Midland, Texas 79702

Re: Proposal to drill the Royal Stimulator "31" Well
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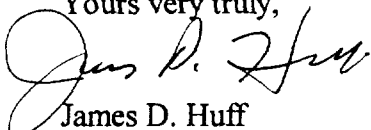
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 Prepared By: Steve Scott, Petroleum Engineer Company: _____
 Approved By: _____ Approved By: _____
 Title: David H. Arrington, President Title: _____
 Date: _____ Date: _____

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46 James R. Leeton
PO Box 10561
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7099 3220 0005 1183 6408

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(Domestic Mail Only; No Insurance Coverage Provided)

Article Sent To:

Joyce Ann Brown

Postage

\$

Certified Fee

Return Receipt Fee
(Endorsement Required)Restricted Delivery Fee
(Endorsement Required)

Total Postage & Fees

\$ 2.98

Postmark
Here

Name (Please Print Clearly) (To be completed by mailer)

Street, Apt. No.; or PO Box No.

City, State, ZIP+ 4

PS Form 3800, July 1999

See Reverse for Instructions

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

October 3, 2000

CERTIFIED MAIL: 7099 3220 0005 1183 6347

Bradford A. Christmas
C/O James R. Leeton
P. O. Box 10561
Midland, Texas 79702

Re: Proposal to drill the Royal Stimulator "31" Well
Legal Location in the NW/4 of Section 31, T15S,
R36E, Lea County, NM

Ladies and 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 Wolfcamp/Atoka/Morrow/Mississippian formations. This well will be drilled to an approximate total depth of 14,550'. You will find enclosed an AFE for the drilling and completion of this well which sets forth the anticipated costs, being \$1,565,000. We intend to commit Lots 1, 2, 3, 4, E/2NW/4, E/2SW/4 (W/2) of Section 31, T15S, R36E, to the spacing unit for this well.

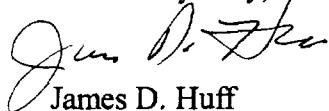
In the event you should desire to participate in the drilling of this test well, please so indicate by signing and returning one copy of the AFE to my attention as soon as possible. In the event you should elect to participate, we will forward for your review and execution a Joint Operating Agreement,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

In the alternative, in the event you should wish to not participate in this test well, we would request that you grant an oil and gas lease covering your mineral interest in Lots 3 & 4, Save and Except a 6.0 acre tract out of the SE/4SW/4SW/4 more fully described in that certain Mineral deed dated 5/10/51 and recorded in Volume 139, page 477, Deed records of Lea County, New Mexico, containing 74.14 acres of said Section 31, which is to be included in this spacing unit, pursuant to the following terms and conditions: (i) \$100.00 per acre bonus, (ii) 1/4th royalty, and (iii) three (3) year primary term.

Please respond to us within 30 days from your receipt of this letter, or due to time restraints we will necessarily have to initiate force pooling to drill the referenced well on a W/2 spacing unit.

Please feel free to contact me in the event that you should wish to discuss this matter.

Yours very truly,


James D. Huff

/dd

Enclosure

DAVID H. ARRINGTON OIL AND GAS, INC.

AUTHORITY FOR EXPENDITURE (AFE)

AFE #: 00-0922 Date: 20-Sep-00 ☒ Original
☐ Supplemental
 Lease: Royal Stimulator "31" Well #: 1 Well Type: Exploratory/Oil/Gas
 Location: Legal Location in NW/4 County: Lea State: New Mexico
Section 31, T15S-R36E
 Prospect: Pato Ardiendo Objective: Wolfcamp/Atoka Proposed TD: 14,550' MD
Morrow/Mississippian
 Purpose of Expenditure: Drill and test Wolfcamp, Atoka, Morrow, and Mississippian Formation

CODE	INTANGIBLE EXPENSE	DRILLING	COMPLETION	TOTAL
	Surveying	800	0	800
	Staking & Permitting	100	0	100
	Location, Roads & Damages	18,000	2,000	20,000
	Lease Restoration	8,000	0	8,000
	Mobilization/Demobilization	25,000	0	25,000
	Drilling - Footage 9,000 @ \$27.00 /Ft	243,000	0	243,000
	Drilling - Daywork 25 @ \$7,400 /Day	185,000	0	185,000
	Drilling - Directional	130,000	0	130,000
	Completion Rig 12 @ \$1,500 /Day	0	18,000	18,000
	Fuel, Power & Lubricants	0	0	0
	Bits, Reamers & Stabilizers	20,000	0	20,000
	Drilling & Completion Fluids	50,000	2,000	52,000
	Water	20,000	2,000	22,000
	Mud Logging 40 @ \$600 /Day	24,000	0	24,000
	Drill Stem Tests (3 tests)	20,000	0	20,000
	Coring Services	0	0	0
	Logging - Open Hole & Sidewall Cores	53,000	0	53,000
	Cement & Services - Surface	5,000	0	5,000
	Cement & Services - Intermediate	15,000	0	15,000
	Cement & Services - Production	0	18,000	18,000
	Perforating & Cased Hole Logs	0	1,200	1,200
	Acidizing, Fracturing & Stimulation	0	95,000	95,000
	Rental Equipment	15,000	3,500	18,500
	Installation - Production Facilities	0	9,000	9,000
	Inspection & Testing	5,000	1,000	6,000
	Transportation	5,000	3,500	8,500
	Miscellaneous Labor	2,000	3,000	5,000
	Engineering & Geological Services	6,500	2,000	8,500
	Overhead	9,000	2,500	11,500
	Supervision	16,000	3,000	19,000
	Sand Blast & Coat Casing	0	5,000	5,000
	Contingencies	44,800	8,300	53,100
	Gross Receipts Tax	57,500	11,300	68,800
	TOTAL INTANGIBLE EXPENSE	1,033,200	190,300	1,168,000

CODE	TANGIBLE EXPENSE	DRILLING	COMPLETION	TOTAL
	Casing - Conductor of @ /Ft		0	0
	Casing - Surface 470 of 13 3/8" @ \$18.30 /Ft	8,600	0	8,600
	Casing - Intermediate 950 of 8 5/8" @ \$13.20 /Ft	12,500	0	12,500
	Casing - Intermediate 4,000 of 8 5/8" @ \$10.90 /Ft	43,600	0	43,600
	Casing - Production 9,000 of 5 1/2" @ \$7.50 /Ft	0	67,500	67,500
	Casing - Production 5,550 of 5 1/2" @ \$7.70 /Ft	0	42,700	42,700
	Tubing 14,550 of 2 7/8" @ \$3.70 /Ft	0	53,900	53,900
	Float & Other Equipment	2,700	1,000	3,700
	Wellhead Equipment, Tree	4,600	10,400	15,000
	Sucker Rods	0	16,000	16,000
	Down Hole Pump	0	3,000	3,000
	Packer/TAC	0	4,300	4,300
	Pumping Unit & Prime Mover	0	50,000	50,000
	Tank Battery & Storage Facilities	0	22,700	22,700
	Separator/Heater Treater/Dehydrator	0	9,500	9,500
	Meters & Flowlines	0	6,000	6,000
	Miscellaneous Valves & Fittings	0	16,000	16,000
	Contingencies	4,500	17,500	22,000
	TOTAL TANGIBLE EXPENSE	76,500	320,500	397,000
	TOTAL WELL COST	1,054,200	510,800	1,565,000

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:

Company

Steve Scott, Petroleum Engineer

Approved By:

Approved By:

David H. Arrington, President

Title:

Title:

Date:

Date:

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:

Bradford A. Christmas
c/o James R. Leeton
PO Box 10561
Midland, TX
19702

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)

B. Date of Delivery,

OCT

5 2000

C. Signature

X

☐ Agent☐ Addressee

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

2. Article Number (Copy from service label)

7099 3220 0005 1183 16347

PS Form 3811, July 1999

Domestic Return Receipt

102595-99-M-1789

U.S. Postal Service

CERTIFIED MAIL RECEIPT

(Domestic Mail Only; No Insurance Coverage Provided)

Article Sent To:

Bradford Christmas

Postage

\$

Certified Fee

Return Receipt Fee
(Endorsement Required)Restricted Delivery Fee
(Endorsement Required)

Total Postage & Fees

\$ 2.98

Postmark
Here

Name (Please Print Clearly) (To be completed by mailer)

Street, Apt. No., or PO Box No.

City, State, ZIP+ 4

PS Form 3800, July 1999

See Reverse for Instructions

October 3, 2000

CERTIFIED MAIL: 7099 3220 0005 1183 6323

Mary T. Christmas Holladay
C/O James R. Leeton
P. O. Box 10561
Midland, Texas 79702

Re: Proposal to drill the Royal Stimulator "31" Well
Legal Location in the NW/4 of Section 31, T15S,
R36E, Lea County, NM

Ladies and 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 Wolfcamp/Atoka/Morrow/Mississippian formations. This well will be drilled to an approximate total depth of 14,550'. You will find enclosed an AFE for the drilling and completion of this well which sets forth the anticipated costs, being \$1,565,000. We intend to commit Lots 1, 2, 3, 4, E/2NW/4, E/2SW/4 (W/2) of Section 31, T15S, R36E, to the spacing unit for this well.

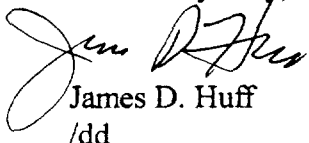
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/dd

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 Prospect: Pato Ardiendo Objective: Wolfcamp/Atoka Proposed TD: 14,550' MD
Morrow/Mississippian
 Purpose of Expenditure: Drill and test Wolfcamp, Atoka, Morrow, and Mississippian Formation

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	Surveying	800	0	800
	Staking & Permitting	100	0	100
	Location, Roads & Damages	18,000	2,000	20,000
	Lease Restoration	8,000	0	8,000
	Mobilization/Demobilization	25,000	0	25,000
	Drilling - Footage 9,000 @ \$27.00 /Ft	243,000	0	243,000
	Drilling - Daywork 25 @ \$7,400 /Day	185,000	0	185,000
	Drilling - Directional	130,000	0	130,000
	Completion Rig 12 @ \$1,500 /Day	0	18,000	18,000
	Fuel, Power & Lubricants	0	0	0
	Bits, Reamers & Stabilizers	20,000	0	20,000
	Drilling & Completion Fluids	50,000	2,000	52,000
	Water	20,000	2,000	22,000
	Mud Logging 40 @ \$600 /Day	24,000	0	24,000
	Drill Stem Tests (3 tests)	20,000	0	20,000
	Coring Services	0	0	0
	Logging - Open Hole & Sidewall Cores	53,000	0	53,000
	Cement & Services - Surface	5,000	0	5,000
	Cement & Services - Intermediate	15,000	0	15,000
	Cement & Services - Production	0	18,000	18,000
	Perforating & Cased Hole Logs	0	1,200	1,200
	Acidizing, Fracturing & Stimulation	0	95,000	95,000
	Rental Equipment	15,000	3,500	18,500
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	Casing - Production 9,000 of 5 1/2" @ \$7.50 /Ft	0	67,500	67,500
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	Sucker Rods	0	16,000	16,000
	Down Hole Pump	0	3,000	3,000
	Packer/TAC	0	4,300	4,300
	Pumping Unit & Prime Mover	0	50,000	50,000
	Tank Battery & Storage Facilities	0	22,700	22,700
	Separator/Heater Treater/Dehydrator	0	9,500	9,500
	Meters & Flowlines	0	6,000	6,000
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David H. Arrington Oil & Gas, Inc. Approval: _____ Partner Approval: _____
 Prepared By: Steve Scott, Petroleum Engineer Company: _____
 Approved By: _____ Approved By: _____
David H. Arrington, President
 Title: _____ Title: _____
 Date: _____ Date: _____

SENDER: COMPLETE THIS SECTION

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1. Article Addressed to:

Mary T. Christmas Holladay
c/o James R. Leeton
PO Box 10561
Midland, TX
79702

2. Article Number (Copy from service label)

7099 3220 0005 1183 6323

PS Form 3811, July 1999

Domestic Return Receipt

102595-99-M-1789

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)

B. Date of Delivery

OCT

5 2000

C. Signature

X

[Signature]

☐ Agent

☐ Addressee

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

**U.S. Postal Service
CERTIFIED MAIL RECEIPT**

(Domestic Mail Only; No Insurance Coverage Provided)

Article Sent To:

Mary T. Christmas Holladay

Postage

\$

Certified Fee

Return Receipt Fee
(Endorsement Required)

Restricted Delivery Fee
(Endorsement Required)

Total Postage & Fees

\$

2.98

Postmark
Here

Name (Please Print Clearly) (To be completed by mailer)

Street, Apt. No.; or PO Box No.

City, State, ZIP+ 4

PS Form 3800, July 1999

See Reverse for Instructions

7099 3220 0005 1183 6323

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

October 3, 2000

CERTIFIED MAIL: 7099 3220 0005 1183 6293

Thelma Champion
4932 Lyndon Drive
Ft. Worth, Texas 76116

Re: Proposal to drill the Royal Stimulator "31" Well
Legal Location in the NW/4 of Section 31, T15S,
R36E, Lea County, NM

Ladies and Gentlemen:

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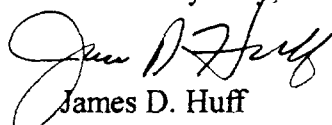
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	Fuel, Power & Lubricants	0	0	0
	Bits, Reamers & Stabilizers	20,000	0	20,000
	Drilling & Completion Fluids	50,000	2,000	52,000
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	Mud Logging 40 @ \$600 /Day	24,000	0	24,000
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	Coring Services	0	0	0
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	Cement & Services - Surface	5,000	0	5,000
	Cement & Services - Intermediate	15,000	0	15,000
	Cement & Services - Production	0	18,000	18,000
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David H. Arrington Oil & Gas, Inc. Approval: _____ Partner Approval: _____
 Prepared By: _____ Company: _____
 Approved By: _____ Approved By: _____
 Title: _____ Title: _____
 Date: _____ Date: _____

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- 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.

Article Addressed to:

Thelma Champion
4932 Lyndon Dr.
Ft. Worth, TX
76116

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) Thelma Champion B. Date of Delivery 10-6-00
C. Signature X Thelma Champion ☐ Agent ☐ Addressee
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

2. Article Number (Copy from service label)

7099322000051183 6293

PS Form 3811, July 1999

Domestic Return Receipt

102595-99-M-1789

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

Article Sent To:

Thelma Champion

Postage \$

Certified Fee

Return Receipt Fee
(Endorsement Required)

Restricted Delivery Fee
(Endorsement Required)

Total Postage & Fees

\$ 2.98

Postmark
Here

Name (Please Print Clearly) (To be completed by mailer)

D. Douglas

Street, Apt. No., or PO Box No.

City, State, ZIP+4

PS Form 3800, July 1999

See Reverse for Instructions

7099 3220 0005 1183 6293

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

October 3, 2000

CERTIFIED MAIL: 7099 3220 0005 1183 16284

Mattie Pou
3313 Homer Street
Dallas, Texas 76206

Re: Proposal to drill the Royal Stimulator "31" Well
Legal Location in the NW/4 of Section 31, T15S,
R36E, Lea County, NM

Ladies and 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 Wolfcamp/Atoka/Morrow/Mississippian formations. This well will be drilled to an approximate total depth of 14,550'. You will find enclosed an AFE for the drilling and completion of this well which sets forth the anticipated costs, being \$1,565,000. We intend to commit Lots 1, 2, 3, 4, E/2NW/4, E/2SW/4 (W/2) of Section 31, T15S, R36E, to the spacing unit for this well.

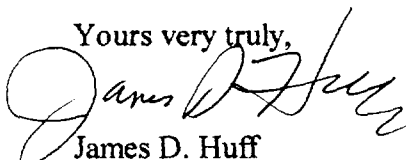
In the event you should desire to participate in the drilling of this test well, please so indicate by signing and returning one copy of the AFE to my attention as soon as possible. In the event you should elect to participate, we will forward for your review and execution a Joint Operating Agreement,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

In the alternative, in the event you should wish to not participate in this test well, we would request that you grant an oil and gas lease covering your mineral interest in Lots 1, 2, E/2NW/4 (NW/4) of said Section 31, which is to be included in this spacing unit, pursuant to the following terms and conditions: (i) \$100.00 per acre bonus, (ii) 3/16ths royalty, and (iii) three (3) year primary term.

Please respond to us within 30 days from your receipt of this letter, or due to time restraints we will necessarily have to initiate force pooling to drill the referenced well on a W/2 spacing unit.

Please feel free to contact me in the event that you should wish to discuss this matter.

Yours very truly,


James D. Huff
/dd

Enclosure

DAVID H. ARRINGTON OIL AND GAS, INC.

AUTHORITY FOR EXPENDITURE (AFE)

AFE #: 00-0922 Date: 20-Sep-00 ☒ Original
☐ Supplemental
 Lease: Royal Stimulator "31" Well #: 1 Well Type: Exploratory/Oil/Gas
 Location: Legal Location in NW/4 County: Lea State: New Mexico
Section 31, T15S-R36E
 Prospect: Pato Ardiendo Objective: Wolfcamp/Atoka Proposed TD: 14,550' MD
Morrow/Mississippian
 Purpose of Expenditure: Drill and test Wolfcamp, Atoka, Morrow, and Mississippian Formation

CODE	INTANGIBLE EXPENSE	DRILLING	COMPLETION	TOTAL
	Surveying	800	0	800
	Staking & Permitting	100	0	100
	Location, Roads & Damages	18,000	2,000	20,000
	Lease Restoration	8,000	0	8,000
	Mobilization/Demobilization	25,000	0	25,000
	Drilling - Footage 9,000 @ \$27.00 /Ft	243,000	0	243,000
	Drilling - Daywork 25 @ \$7,400 /Day	185,000	0	185,000
	Drilling - Directional	130,000	0	130,000
	Completion Rig 12 @ \$1,500 /Day	0	18,000	18,000
	Fuel, Power & Lubricants	0	0	0
	Bits, Reamers & Stabilizers	20,000	0	20,000
	Drilling & Completion Fluids	50,000	2,000	52,000
	Water	20,000	2,000	22,000
	Mud Logging 40 @ \$600 /Day	24,000	0	24,000
	Drill Stem Tests (3 tests)	20,000	0	20,000
	Coring Services	0	0	0
	Logging - Open Hole & Sidewall Cores	53,000	0	53,000
	Cement & Services - Surface	5,000	0	5,000
	Cement & Services - Intermediate	15,000	0	15,000
	Cement & Services - Production	0	18,000	18,000
	Perforating & Cased Hole Logs	0	1,200	1,200
	Acidizing, Fracturing & Stimulation	0	95,000	95,000
	Rental Equipment	15,000	3,500	18,500
	Installation - Production Facilities	0	9,000	9,000
	Inspection & Testing	5,000	1,000	6,000
	Transportation	5,000	3,500	8,500
	Miscellaneous Labor	2,000	3,000	5,000
	Engineering & Geological Services	6,500	2,000	8,500
	Overhead	9,000	2,500	11,500
	Supervision	16,000	3,000	19,000
	Sand Blast & Coat Casing	0	5,000	5,000
	Contingencies	44,800	8,300	53,100
	Gross Receipts Tax	57,500	11,300	68,800
	TOTAL INTANGIBLE EXPENSE	1,032,100	190,300	1,168,000

CODE	TANGIBLE EXPENSE	DRILLING	COMPLETION	TOTAL
	Casing - Conductor of @ /Ft		0	0
	Casing - Surface 470 of 13 3/8" @ \$18.30 /Ft	8,600	0	8,600
	Casing - Intermediate 950 of 8 5/8" @ \$13.20 /Ft	12,500	0	12,500
	Casing - Intermediate 4,000 of 8 5/8" @ \$10.90 /Ft	43,600	0	43,600
	Casing - Production 9,000 of 5 1/2" @ \$7.50 /Ft	0	67,500	67,500
	Casing - Production 5,550 of 5 1/2" @ \$7.70 /Ft	0	42,700	42,700
	Tubing 14,550 of 2 7/8" @ \$3.70 /Ft	0	53,900	53,900
	Float & Other Equipment	2,700	1,000	3,700
	Wellhead Equipment, Tree	4,600	10,400	15,000
	Sucker Rods	0	16,000	16,000
	Down Hole Pump	0	3,000	3,000
	Packer/TAC	0	4,300	4,300
	Pumping Unit & Prime Mover	0	50,000	50,000
	Tank Battery & Storage Facilities	0	22,700	22,700
	Separator/Heater Treater/Dehydrator	0	9,500	9,500
	Meters & Flowlines	0	6,000	6,000
	Miscellaneous Valves & Fittings	0	16,000	16,000
	Contingencies	4,500	17,500	22,000
	TOTAL TANGIBLE EXPENSE	76,500	320,500	397,000
	TOTAL WELL COST	1,054,200	510,800	1,565,000

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:

Company

Approved By:

Approved By:

Title:

Title

Date:

Date

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:

Mattie Poul
3313 Homer St.
Dallas, TX
76206

2. Article Number (Copy from service label)

7099 3220 0005 1183 6286

PS Form 3811, July 1999

Domestic Return Receipt

102595-99-M-1789

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) B. Date of Delivery

C. Signature

X Mattie Poul

☐ Agent
☐ Addressee

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

**U.S. Postal Service
CERTIFIED MAIL RECEIPT**

(Domestic Mail Only; No Insurance Coverage Provided)

Article Sent To:

Mattie Poul

Postage

\$1.65

Certified Fee

1.40

Return Receipt Fee
(Endorsement Required)

1.25

Restricted Delivery Fee
(Endorsement Required)

Total Postage & Fees

\$4.30

Postmark
Here

Name (Please Print Clearly) (To be completed by mailer)

Dale Douglas

Street, Apt. No., or PO Box No.

PO Box 10187

City, State, ZIP+4

Midland TX 79702

PS Form 3800, July 1999

See Reverse for Instructions

7099 3220 0005 1183 6286