

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

**IN THE MATTER OF THE APPLICATION OF :
TMBR/SHARP DRILLING, INC. FOR AN ORDER :
STAYING DIVISION APPROVAL OF TWO :
APPLICATIONS FOR PERMITS TO DRILL :
BY DAVID H. ARRINGTON OIL & GAS, INC. :
LEA COUNTY, NEW MEXICO : CASE NO. 12731**

**IN THE MATTER OF THE APPLICATION OF :
TMBR/SHARP DRILLING, INC. APPEALING :
THE HOBBS DISTRICT SUPERVISOR'S :
DECISION DENYING APPROVAL OF TWO :
APPLICATIONS FOR PERMITS TO DRILL FILED :
BY TMBR/SHARP DRILLING, INC. :
LEA COUNTY, NEW MEXICO : CASE NO. 12744**

CEP:03/20 PM 1:57

FILED

PREHEARING STATEMENT

This prehearing statement is submitted by DAVID H. ARRINGTON OIL & GAS, INC. as required by the Oil Conservation Commission.

APPEARANCES OF PARTIES

APPLICANT

TMBR/Sharp Drilling, Inc.	W. Thomas Kellahin Kellahin and Kellahin P.O. Box 2265 Santa Fe, NM 87504 (505) 982-4285
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OPPOSITION

David H. Arrington Oil & Gas, Inc.	Ernest L. Carroll Losee, Carson, Haas & Carroll P.O. Box 1720 Artesia, NM 88211-1720 (505) 746-3505
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STATEMENT OF THE CASE

1. This matter has come before the Commission on TMBR/Sharp Drilling Inc.'s (TMBR/Sharp") Request for a De Novo Hearing before the New Mexico Oil Conservation Commission filed on January 7, 2002, which requested that the Commission review New Mexico Oil Conservation Division Cases 12731 and 12744 and Division Order R-11700.
2. The issue with respect to Cases 12731 and 12744 and Division Order R-11700 as alleged by TMBR/Sharp is which of the two contending parties is entitled to approved APDs for two spacing units where there is a dispute as to the rightful owner of the underlying oil and gas leasehold. The dispute as to the rightful owner of the underlying oil and gas leasehold is a matter which is the subject of pending litigation in the Fifth Judicial District Court, Lea County, New Mexico. Division Order R-11700 concluded that it had no jurisdiction to determine the validity of any title to and oil or gas lease, or whether an oil and gas lease was valid or continued in force and effect and that the exclusive jurisdiction of such matters resided in the courts of the State of New Mexico. Division Order R-11700 further concluded that since Arrington's APDs were filed at a time when no conflicting APDs had been filed, that the APDs conformed to applicable OCD Rules, and that Arrington had demonstrated at least a colorable claim of title conferring the right to drill the proposed wells, the Division denied TMBR/Sharp's Application appealing the denial of the TMBR/Sharp APDs (Case No. 12744) and denied TMBR/Sharp's Application for an order staying approval

of the Arrington APDs until final conclusion of the TMBR/Sharp lawsuit (Case No. 12731).

3. With respect to Case No. 12731, there is no final conclusion.
4. With respect to Case No. 12744, the APDs at issue are for the Triple-Hackle Dragon "25" Well No. 1 to be located in the W/2 of Section 25, Township 16 South, Range 35 East, Lea County, New Mexico and the Blue Drake "23" Well No. 1 to be located in the E/2 of Section 23, Township 16 South, Range 35 East, Lea County, New Mexico. At the time Arrington submitted its APDs, Arrington believed that it owned a right to drill the proposed wells. Arrington's belief that it owned a right to drill the proposed wells is still an issue before the Fifth Judicial District Court.
5. Presently Arrington has an undivided 15% of the operating rights in the proration unit designated for the Triple Hackle Dragon "25" No. 1 Well, pursuant to certain farmout agreements with Ocean Energy. The leases, with respect to the farmout agreements with Ocean Energy, are not at issue herein. Arrington's acquisition of these operating rights give Arrington an independent right to seek a permit to drill a well and to be the operator of such well which does not rely upon the disputed ownership of the Stokes and Hamilton leases which is before the Fifth Judicial District Court.
6. Arrington has advised TMBR/Sharp of its agreement to release the APD for the Blue Drake "23" Well No. 1 to allow TMBR/Sharp to drill the Leavelle "23" Well No. 1. To date TMBR/Sharp has not responded to Arrington's offer to release the APD.
7. There is presently scheduled before the New Mexico Oil Conservation Division on its March 21, 2002, docket, Case No. 12816 and Case No. 12841. Case No. 12816 is the Application of TMBR/Sharp Drilling, Inc. for compulsory pooling of all mineral

interests from the surface to the base of the Mississippian formation underlying the N/2 of Section 25, Township 16 South, Range 35 East, Lea County, to form a standard 320-acre gas spacing unit to be dedicated to TMBR/Sharp's Blue Fin "25" Well No. 1. Case No. 12841 is the Application of Ocean Energy, Inc. for compulsory pooling of all mineral interests from the surface to the base of the Mississippian formation underlying the W/2 of Section 25, Township 16 South, Range 35 East, Lea County, to form a standard 320-acre gas spacing unit to be dedicated to the Triple Hackle Dragon "25" Well No. 1. TMBR/Sharp's Blue Fin "25" Well No. 1 and the Triple Hackle Dragon "25" Well No.1 are the same APDs at issue in Case No 12744 which is sought to be reviewed de novo herein. The N/2 spacing unit designation of the Blue Fin "25" Well No. 1 and the W/2 spacing unit designation of the Triple Hackle Dragon "25" Well No. 1 are in direct conflict and the Division's order regarding compulsory pooling with respect to these wells will effectively resolve the issue before Commission with respect to whether the APD in question should or should not have been approved by the District Supervisor. Therefore any issue with respect to the Blue Fin "25" Well No. 1 and the Triple Hackle Dragon "25" Well No. 1 contained in Cases No. 12731 and 12744 and Division Order No. R-11700 will be moot once the Division has made its decision.

8. Since the date the filing of TMBR/Sharp's request for de novo review before the Commission, TMBR/Sharp has filed a Motion of TMBR/Sharp Drilling, Inc. to Reopen Cases 12731 and 12744 and Amend Order R-11700 Based Upon New Evidence before the Division ("TMBR/Sharp's Motion"). Given the filing of TMBR/Sharp's Motion seeking to reopen the matter before the Division a de novo review by the

Commission, prior to a resolution of the pending motion by the Division, is premature.

PROPOSED EVIDENCE

DAVID H. ARRINGTON OIL & GAS, INC.:

<u>WITNESSES</u>	<u>EST. TIME</u>	<u>EXHIBITS</u>
Enich Diffie (landman)	15 min	
Jeff Bane (David H. Arrington Oil & Gas, Inc.)	45 min	1. Ocean Farmout 2. Agreement February 11, 2002, letter to Mr. Kellahin

PROCEDURAL MATTERS

TMBR has filed an Application of TMBR/Sharp Drilling, Inc. for compulsory pooling, Lea County, New Mexico, which is also on the docket for consideration on March 21, 2002, as Case 12816. Case 12416 is in direct conflict with the instant case because it proposes the drilling of the Blue Fin "25" Well No. 1 to be dedicated to the N/2 of Section 25, Township 16 South, Range 35 East, Lea County, New Mexico.

Respectfully submitted,

LOSEE, CARSON, HAAS & CARROLL, P.A.

By: 

Ernest L. Carroll

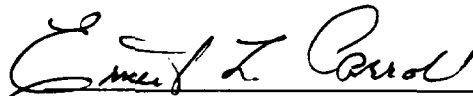
P.O. Box 1720

Artesia, NM 88211-1720

(505)746-3505

Attorneys for David H. Arrington Oil & Gas, Inc.

I hereby certify that I caused a true and correct copy of the foregoing to be mailed to counsel of record this March 18, 2002.


Ernest L. Carroll

Original - 2/26/02

214 West Texas
Suite 400, (Zip 79701)
P.O. Box 2071
Midland, Texas 79702

DAVID H. ARRINGTON OIL & GAS, INC.

Phone: (915) 682-6685
Fax: (915) 682-4139

September 10, 2001

Mr. Derold Maney
Ocean Energy, Inc.
1001 Fannin, Suite 1600
Houston, TX 77992

RECEIVED
SEP 20 PM 1:57

Re: Assignment Of Rights In And To Certain Farmout Agreements Concerning The
SW/4 Of Section 25, T16S, R35E, Lea County, New Mexico
South Payday "25" Prospect

Gentlemen:

When executed by the parties hereto, this letter agreement (this "Agreement") shall set forth the agreement between Ocean Energy, Inc. a Louisiana corporation ("Ocean") and David H. Arrington Oil & Gas, Inc. ("Arrington") concerning the assignment of thirty percent (30%) of Ocean's right in and to those certain farmout agreements covering the SW/4 of Section 25, T16S, R35E, Lea County, New Mexico, more particularly described on Schedule 1 hereto (such agreement, as may be amended, supplemented, restated or otherwise modified from time to time, a "Farmout Agreement", and collectively, the "Farmout Agreements"). For good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties do hereby agree as follows:

1. On or before July 1, 2002, but not earlier than January 10, 2002, time being of the essence, Arrington shall commence actual drilling of a test well (the "Test Well") to be located in the NW/4 of Section 25, T16S, R35E, Lea County, New Mexico, referred to as the Triple Hackle Dragon 25 #1 Well, and shall thereafter prosecute drilling of the Test Well to penetrate and test the lower Mississippian Lime formation (as hereinafter defined) or to a depth of approximately thirteen thousand two hundred feet (13,200'), whichever is the lesser depth (the "Contract Depth") and shall complete the Test Well as capable of producing oil and/or gas in paying quantities or plug and abandon the same. Ocean shall participate in the drilling of this Test Well for its proportionate share. The Lower Mississippian Lime formation is defined as that certain gas and condensate bearing zone encountered at the stratigraphic equivalent depth of twelve thousand four hundred and four feet (12,404'), as shown on that certain compensated neutron three detector density log measurement in the Mayfly "14" State Com # 1 Well, located in Section 14, Township 16 South, Range 35 East, Lea County, New Mexico.

ARRINGTON OIL & GAS, INC.
BEFORE THE COMMISSION
NMOCD CASE NO. 12731 & 12744
DATE: 03/26/02
EXHIBIT NO. 1

Mr. Derold Maney
Ocean Energy, Inc.
September 10, 2001
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In the event that the drilling title opinion rendered by a law firm licensed to do business in the State of New Mexico shall contain title requirements such that Arrington or Ocean as a reasonable and prudent operator is unable to commence drilling operations on the Test Well prior to July 1, 2002, Arrington or Ocean shall no later than January 5, 2002, initiate force pooling proceeding for a 320 acre unit comprised of the W/2 of Section 25, T16S, R35E, Lea County, New Mexico. Arrington or Ocean shall diligently and expeditiously pool such lands in order to cure such title requirements so that the Test Well may be drilled prior to July 1, 2002.

Should Arrington or Ocean fail to successfully cure such title defects through force pooling proceeding or otherwise and fail to timely commence drilling operations on the Test Well by July 1, 2002, then Ocean shall have the right, but not the obligation, to become the designated Operator under the Operating Agreement for the drilling of the Test Well through the point of first production; subsequently, Ocean shall relinquish operations under said Test Well to Arrington, and Arrington shall be the designated Operator under the Operating Agreement. Notwithstanding anything contained in this Agreement to the contrary Ocean shall not be obligated to participate in the drilling of the Test Well for a share of costs greater than thirty-five percent (35%) and Ocean is satisfied in its sole discretion that the remainder of the costs for the Test Well will be paid, either by Arrington or another third party with title to the leasehold interest in the lands contained within the pooling order issued by the New Mexico Oil Conservation Division.

2. In the event any well is lost for any reason prior to being drilled to Contract Depth or Arrington has encountered, during the drilling of any well, mechanical difficulty or a formation or condition which would render further drilling impracticable or impossible, Arrington may plug and abandon that well and may continue its rights under this agreement by commencing a substitute well (or wells) ("Substitute Well(s)") for any such well which has been lost or abandoned within sixty (60) days from the date the drilling rig is removed from the location of the prior well. Any Substitute Well drilled shall be drilled subject to the same terms and conditions and to the same depth as provided for the well so lost or abandoned. Any reference in this agreement to the Test Well shall be deemed to be a reference to any well or wells, which may be drilled as a Substitute Well. In the event that either party elects to drill a Substitute Well as provided herein, the other party must participate in same, or forfeit to the participating party any interest which it would have otherwise earned by virtue of its participation in such Substitute Well.
3. Contemporaneously herewith, Arrington and Ocean shall have entered into that certain Operating Agreement attached hereto as Exhibit A (the "Operating Agreement"), covering the W/2 of Section 25, T16S, R35E, Lea County, New Mexico (the "Contract Area"). Exhibit "A" to the Operating Agreement shall be completed based upon the results of the drillsite title opinion being prepared covering the W/2 of said Section 25.
4. Subject to the terms and conditions (i) of this agreement, (ii) each Farmout Agreement and (iii) the Joint Operating Agreement, Ocean hereby assigns unto Arrington, an undivided

Mr. Derold Maney
Ocean Energy, Inc.
September 10, 2001
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thirty percent (30%) of Ocean's right in and to each Farmout Agreement. In the event that any Farmout Agreement contains a requirement that the Farmor (as defined in such Farmout Agreement) thereunder consent to any such assignment, Ocean shall use its best efforts to obtain such consent, provided, however, that in the event that Ocean is unable to acquire such Farmor's consent to assign, then Ocean shall assign additional interest(s) from such other of the Farmout Agreements as Ocean may elect in its discretion such that the aggregate of Arrington's right to earn rights under all Farmout Agreements will entitle Arrington to an assignment of Ocean's interest in the Contract Area equal to an undivided thirty percent (30%), proportionately reduced to Ocean's interest in the Contract Area. The terms and conditions of this letter agreement shall apply to any extensions or renewals of each Farmout Agreement acquired by either Arrington or Ocean within 180 days of the expiration of the farmout agreement.

5. Arrington has acquired proprietary 3D seismic data across certain lands, including, without limitation; T16S, R35E, Lea County, New Mexico (i) Section 23: E/2E/2; (ii) Section 24: All that Arrington has in the SW/4; (iii) Section 25: W/2, W/2E/2; (iv) Section 26: E/2E/2; (v) Section 35: NE/4NE/4; and (vi) Section 36: N/2NW/4, NW/4NE/4 (such 3D seismic data, collectively, the "Arrington 3D Data"). Arrington agrees (and represents to Ocean that Arrington has the right to so agree) that Ocean shall (i) have access to the Arrington 3D Data in Arrington's offices during normal business hours, in order to work and interpret the Arrington 3D Data and (ii) have access to and copies of, Arrington's interpretations of the Arrington 3D Data (the Arrington 3D Data together with such interpretations thereof, the "Arrington Evaluation Material"). Arrington shall retain full ownership rights to the Arrington 3D Data, and no ownership or license to the Arrington 3D Data shall be conveyed to Ocean. Except as provided for in this Paragraph 5, Arrington makes no representations or warranties to Ocean (i) as to the Arrington 3D Data (ii) or in respect of Ocean's reliance upon the Arrington Evaluation Material. Ocean shall keep the Arrington Evaluation Material confidential; provided however, that such obligation of confidentiality shall not apply to information which (i) was or becomes available to the public other than as a result of a disclosure by Ocean, (ii) was or becomes available to Ocean on a non-confidential basis from a source other than Arrington, provided that such source is not known by Ocean to be bound by a confidentiality agreement with Arrington or otherwise prohibited from transmitting the information by a contractual, legal or fiduciary obligation, (iii) was within Ocean's possession prior to its being furnished by Arrington, (iv) is developed or derived without the aid, application or use of the Arrington Evaluation Material, (v) is disclosed following receipt of the written consent of Arrington to such disclosure being made, or (vi) is disclosed pursuant to Paragraph 6 hereof.
6. In the event that Ocean is requested or required (by oral questions, interrogatories, requests for information or documents, subpoena civil investigative demand or other process) to disclose any of the Arrington Evaluation Material, Ocean agrees that it will provide Arrington with prompt notice of any such request or requirement (written if practical) so that Arrington may seek an appropriate protective order or waive compliance with the provisions of this Agreement. If, failing the entry of a protective order or the receipt of a waiver hereunder prior to the time such disclosure is required to be made, Ocean may disclose that

Mr. Derold Maney
Ocean Energy, Inc.
September 10, 2001
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portion of the Arrington Evaluation Material which Ocean's counsel advises that it is compelled to disclose and will exercise reasonable efforts to obtain assurance that confidential treatment will be accorded to that portion of the Arrington Evaluation Material which is being disclosed. Arrington agrees that Ocean shall have no liability hereunder for any disclosure of the Arrington Evaluation Material made in compliance with this Paragraph 6.

7. Ocean has acquired proprietary 3D seismic data across certain lands, including, without limitation, T15S, R35E, Lea County, New Mexico (i) Section 7: W/2, W/2NE/4, W/2SE/4, SE/4SE/4; (ii) Section 17: W/2NW/4, NW/4SW/4; and (iii) Section 18: N/2, N/2S/2 (such 3D seismic data, collectively, the "Ocean 3D Data"). Ocean agrees (and represents to Arrington that Ocean has the right to so agree) that Arrington shall (i) have access to the Ocean 3D Data in Ocean's offices during normal business hours, in order to work and interpret the Ocean 3D Data and (ii) have access to and copies of, Ocean's interpretations of the Ocean 3D Data (the Ocean 3D Data together with such interpretations thereof, the "Ocean Evaluation Material"). Ocean shall retain full ownership rights to the Ocean 3D Data, and no ownership or license to the Ocean 3D Data shall be conveyed to Arrington. Except as provided for in this Paragraph 7, Ocean makes no representations or warranties to Arrington (i) as to the Ocean 3D Data (ii) or in respect of Arrington's reliance upon the Ocean Evaluation Material. Arrington shall keep the Ocean Evaluation Material confidential; provided however, that such obligation of confidentiality shall not apply to shall not apply to information which (i) was or becomes available to the public other than as a result of a disclosure by Arrington, (ii) was or becomes available to Arrington on a non-confidential basis from a source other than Ocean, provided that such source is not known by Arrington to be bound by a confidentiality agreement with Ocean or otherwise prohibited from transmitting the information by a contractual, legal or fiduciary obligation, (iii) was within Arrington's possession prior to its being furnished by Ocean, (iv) is developed or derived without the aid, application or use of the Ocean Evaluation Material, (v) is disclosed following receipt of the written consent of Ocean to such disclosure being made, or (vi) is disclosed pursuant to Paragraph 8 hereof.
8. In the event that Arrington is requested or required (by oral questions, interrogatories, requests for information or documents, subpoena civil investigative demand or other process) to disclose any of the Ocean Evaluation Material, Arrington agrees that it will provide Ocean with prompt notice of any such request or requirement (written if practical) so that Ocean may seek an appropriate protective order or waive compliance with the provisions of this Agreement. If, failing the entry of a protective order or the receipt of a waiver hereunder prior to the time such disclosure is required to be made, Arrington may disclose that portion of the Ocean Evaluation Material which Arrington's counsel advises that it is compelled to disclose and will exercise reasonable efforts to obtain assurance that confidential treatment will be accorded to that portion of the Ocean Evaluation Material which is being disclosed. Ocean agrees that Arrington shall have no liability hereunder for any disclosure of the Ocean Evaluation Material made in compliance with this Paragraph 8.

Mr. Derold Maaney
Ocean Energy, Inc.
September 10, 2001
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9. It is not the intention of the parties to create a partnership, nor shall this agreement be construed as creating a mining or other partnership, joint venture, agency relationship or other association, or to render the parties liable as partners, co-venturers or principals. Unless provided for to the contrary in the Operating Agreement, (i) the liability of the parties shall be several, not joint or collective and (ii) each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs, if any, to be incurred hereunder. No party shall have any liability hereunder to third parties to satisfy the default of any other party in the payment of any expense or obligation.
10. This Agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the State of Texas. **THE PARTIES HEREBY CONSENT TO THE EXCLUSIVE VENUE OF THE PROPER STATE OR FEDERAL COURT LOCATED IN MIDLAND COUNTY, TEXAS, AND HEREBY WAIVE ALL OTHER VENUES.**
11. This Agreement, the Exhibits and Schedules hereto and the Operating Agreement set forth all understandings between the parties respecting the subject matter of this transaction, and all prior agreements, understandings and representations, whether oral or written, respecting this transaction are merged into and superseded by this written agreement.
12. This agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors and permitted assigns and the terms hereof shall be deemed to run with the lands described herein. If any transfer is effected by a party pursuant to the terms of this agreement, or by any of its successors or assigns, the transfer will be made expressly subject to this agreement, and the transferor shall remain responsible for the obligations of the transferee until the transferee expressly assumes in writing all of the existing duties and obligations of the transferor.
13. This agreement may not be altered or amended, nor any rights hereunder waived, except by an instrument, in writing, executed by the party to be charged with such amendment or waiver. No waiver of any other term, provision or condition of this agreement, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such term, other provision or condition or as a waiver of any other term, provision or condition of this agreement.
14. **EACH PARTY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY SUIT, ACTION OR PROCEEDING RELATING TO THIS AGREEMENT.**
15. If any provision of this agreement is invalid, illegal or incapable of being enforced, all other provisions of this agreement shall nevertheless remain in full force and effect, so long as the economic or legal substance of the transactions contemplated hereby is not affected in a materially adverse manner with respect to either party.

Mr. Derold Mancy
Ocean Energy, Inc.
September 10, 2001
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If this properly sets forth your understanding of our agreement, please so indicate by signing in the space provided below, and returning to my attention.

Mr. Derold Mancy
Ocean Energy, Inc.
September 10, 2001
Page 7 of 6

Yours truly,

DAVID H. ARRINGTON OIL & GAS, INC.

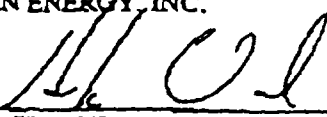


David H. Arrington
President

DD/trd

ACCEPTED AND AGREED THIS 14th DAY OF November ~~SEPTEMBER~~, 2001

OCEAN ENERGY, INC.

By: 

Hank Wood
Attorney-in-Fact



Schedule 1 to that certain Letter Agreement,
by and between Ocean Energy, Inc., a Louisiana corporation
and David H. Arrington Oil & Gas, Inc.,
dated as of September 10, 2001

1. Farmout Agreement, dated as July 23, 2001, by and between Ocean Energy, Inc., a Louisiana corporation, as Farmor, and Branex Resources, Inc., as Farmor, as amended by that certain Letter Agreement, dated as of August 14, 2001, attached hereto as Exhibits B-1 and B-2;
 2. Farmout Agreement, dated as July 23, 2001, by and between Ocean Energy, Inc., a Louisiana corporation, as Farmor, and States, Inc. and B.B.L., Ltd., as Farmor, as amended by that certain Letter Agreement, dated as of August 22, 2001, attached hereto as Exhibits C-1 and C-2;
 3. Farmout Agreement, dated as July 23, 2001, by and between Ocean Energy, Inc., a Louisiana corporation, as Farmor, and Judith White, Trustee¹, as Farmor, as amended by that certain Letter Agreement, dated as of August 15, 2001, attached hereto as Exhibit D-1 and D-2;
 4. Farmout Agreement, dated as July 23, 2001, by and between Ocean Energy, Inc., a Louisiana corporation, as Farmor, and Slash Four Enterprises, Inc., as Farmor, as amended by that certain Letter Agreement, dated as of August 15, 2001, attached hereto as Exhibit D-1 and D-2;
 5. Farmout Agreement, dated as July 23, 2001, by and between Ocean Energy, Inc., a Louisiana corporation, as Farmor, and Pabo Oil & Gas, as Farmor, as amended by that certain Letter Agreement, dated as of August 15, 2001, attached hereto as Exhibit D-1 and D-2;
 6. Farmout Agreement, dated as July 23, 2001, by and between Ocean Energy, Inc., a Louisiana corporation, as Farmor, and Phelps White, III, as Farmor, attached hereto as Exhibit E;
 7. Farmout Agreement, dated as July 23, 2001, by and between Ocean Energy, Inc., a Louisiana corporation, as Farmor, and David R. Gannaway, as Farmor, attached hereto as Exhibit F; and
 8. Farmout Agreement, dated as July 23, 2001, by and between Ocean Energy, Inc. a Louisiana corporation, as Farmor, and ICA Energy, Inc., as Farmor, as amended by that certain Letter Agreement, dated as of August 15, 2001, attached hereto as Exhibit G-1 and G-2.
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LAW OFFICES

LOSEE, CARSON, HAAS & CARROLL, P. A.

ERNEST L. CARROLL
JOEL M. CARSON
JANE SHULER GRAY
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311 WEST QUAY AVENUE
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11 February 2002

W. Thomas Kellahin
Kellahin and Kellahin
117 North Guadalupe
P.O. Box 2265
Santa Fe, NM 87504-2265

RECEIVED
FEB 20 PM 1:57

Re: Oil Conservation Commission Hearings Case 12744 and Case 12731

Dear Tom:

The purpose of this letter is to memorialize our last telephone conversations concerning the above two referenced cases. As you will recall I sought continuances in the above two cases in order to allow us time to reach some sort of an agreement with respect to the two applications for permit to drill ("APDs") at issue. The APD in Section 23, I advised you that Arrington would be willing to release and to allow TMBR/Sharp to drill the well in that section. With respect to the APD in Section 25, Arrington has other lease hold acreage thus entitling it to operate a well. Arrington would not release that APD but would proceed with preparations to drill the well.

I have also been informed of the fact that you have recently had a stroke and that these two cases were put off from their February 14th date until the following Commission date in March. If it is necessary and if we are unable to reach some sort of an agreement, then I will work with you in whatever way necessary to allow you to recover from the stroke. As you are well aware I have gone through the same thing recently and am in a position to most appreciate your predicament. I wish you well and hope that you are able to recover as quickly as I have. Best wishes to you Tom.

Very truly yours,

LOSEE, CARSON, HAAS & CARROLL, P.A.

Ernest L. Carroll

ELC:ct
cc: Rick Montgomery

ARRINGTON OIL & GAS, INC.
BEFORE THE COMMISSION
NMOCD CASE NO. 12731 & 12744
DATE: 03/26/02
EXHIBIT NO. 2

mailed out 2-11-02

December 12, 2000

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

Ocean Energy, Inc.

Re: Eldson Ranch / Wild Onion
T16S, R35E
Lea County, New Mexico

Ocean Energy Resources, Inc. (Ocean) and David H. Arrington Oil & Gas, Inc. (Arrington) have agreed to jointly participate in the Eldson Ranch/Wild Onion Prospect as described on the attached Exhibit "A" (The Prospect) under the following terms and conditions.

1. Subject to rig availability Arrington shall commence drilling operations prior to the latter to occur of (1) thirty (30) days from the delivery of the final processed 3D data set referenced below, or (2) March 1, 2001, on the Lord Baltimore #1 Well to be located at a mutually acceptable location in the SW/4 of Section 20, T16S, R35E, Lea County, New Mexico, the "Initial Test Well" and drill same to a total depth of 13,100' TVD or a depth sufficient to test the Morrow Sand, whichever is the lesser depth.
2. The unit designation for the Morrow spacing unit shall be the W/2 of Section 20, T16S, R35E, Lea County, New Mexico, unless mutually agreed otherwise.
3. All operations on the Lord Baltimore #1 Well and future wells drilled on acreage in the AMI (hereinafter defined) owned by the parties hereto prior to August 14, 2000 the "Effective Date" shall be conducted in accordance with the terms and provisions of the form Operating Agreement, attached hereto as Exhibit "B". Arrington shall be designated operator for the Initial Test Well. In the event Arrington fails to commence actual drilling operations on the Initial Test Well within the above time limitations, Ocean at its option may assume drilling operations and drill the Initial Test Well under the terms of this agreement. In this event, and Ocean drills and completes the Initial Test Well either as a dry hole or as a producer of oil and gas, Arrington shall immediately become the designated operator under the Operating Agreement for the Initial Test Well, if and only if Arrington is a consenting party in the completion attempt of said Initial Test Well. In the event that the Initial Test Well is completed as a producer of oil and gas, and if Arrington is a consenting party in the completion attempt of said Initial Test Well, Arrington shall be responsible for the filing of any and all completion reports with the New Mexico Oil Conservation Division (NMOCD) regarding the Initial Test Well at such time as the Initial Test Well is completed as a producer of oil and gas. In the event that the Initial Test Well is completed as a dry hole, then Ocean shall be responsible for the filing of any and all completion reports with the NMOCD.

Ocean Energy, Inc. 1001 Fannin, Suite 1600 Houston, Texas 77002-6794 (713) 265-6000

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ARRINGTON OIL & GAS, INC.
BEFORE THE COMMISSION
NMOCD CASE NO. 12731 & 12744
DATE: 03/26/02
EXHIBIT NO. 3

4. The Operator for all subsequent wells to the Initial Test Well drilled within the area of mutual interest as hereinafter identified shall be determined as follows:

- i) Party Owning the drill site acreage for the initial well in the 320-acre unit shall operate such well and unit.
- ii) The first party proposing the first well on jointly owned drill site acreage shall be the operator of such well and unit. The other party shall operate the second well and the unit drilled on jointly owned drill site acreage and all subsequent operations shall be determined by alternating operatorship of each new well proposed in a new unit on jointly owned drill site acreage, unless mutually agreed to the contrary.
- iii) Operations within the AMI on jointly owned acreage shall be covered by an Operating Agreement identical to the agreement attached hereto as Exhibit "B"
- iv) It is understood that Arrington is the current owner of the oil and gas leasehold estate in the W/2 of Section 22, T16S, R35E, Lea County, New Mexico, and Arrington and Ocean jointly own the oil and gas leasehold estate in the E/2 of said Section 22. Arrington anticipates that it will establish a spacing unit covering the W/2 of Section 22. Notwithstanding anything contained herein to the contrary, without the consent of Arrington, Ocean shall not propose the drilling of a test well in Section 22 which will include in its unit, a portion of the W/2 of Section 22 with a portion of the E/2 of Section 22.

5. Arrington and Ocean have agreed to conduct a 3-D Seismic Survey (Seismic) on the Prospect. Arrington shall operate the Seismic. A copy of the contract with Trace Geophysical is attached as Exhibit "C". Actual cost of the 3-D Seismic Survey shall be shared equally between Arrington and Ocean. Each party shall have complete ownership of the raw and processed data, and except as restricted for the confidentiality period below, each party shall have no further obligation to the other regarding said seismic data other than those obligations expressly set forth in this agreement. All seismic data shall be kept confidential by both parties to this agreement for a period expiring on December 31, 2002.

- a. An area of mutual interest (AMI) is hereby created and is identified on Exhibit "A". Any and all producing and non-producing oil and gas leasehold or mineral interests (including royalty and overriding royalty interests) owned by either party within the AMI prior to the Effective Date of this Agreement are specifically excluded from the AMI. Except as otherwise provided herein, the parties agree that all oil and gas leasehold interests (and non-producing mineral interests where appropriate), and any geological and geophysical information acquired jointly hereunder and subsequent to the Effective Date, shall be owned, and all costs, liabilities and expenses incurred hereunder shall be borne by the Parties in their Proportionate Shares as follows:

Arrington	50%
Ocean	50%

The Proportionate Shares of the Parties as set forth in this Article shall be subject to modification if a Party elects not to participate in oil and gas

leasehold or non-producing mineral interest acquisitions, or rental payments, as further herein provided.

6. Any party acquiring an interest within the AMI (the "acquiring party") on or after the effective date of this agreement shall offer to the other party (non-acquiring party) the option to acquire 50% of the interest the acquiring party has purchased by paying 50% of the cost paid by the acquiring party and assuming 50% of the obligations and commitments made by the acquiring party related thereto. The non-acquiring party shall make its election within 15 (fifteen) days of receipt of written notice from the acquiring party to either (i) participate fully in the purchase of the interest acquired subject to all obligations agreed to by the acquiring party, or (ii) not to participate in the interest acquired. Failure to respond within the 15 (fifteen) day election period shall be deemed to be an election not to participate.

If electing to participate in the interest acquired the non-acquiring party shall pay to the acquiring party its prorata share of all costs that have been paid by the acquiring party within 15 (fifteen) days of its election to participate in the acquisition of the acquired acreage. In the event a party fails to timely pay their costs as provided, it shall be deemed that the non-acquiring party elected not to participate in said interest.

NOTWITHSTANDING anything contained herein to the contrary the provisions of this Area of Mutual Interest shall not apply to producing property acquisitions made by either party within the Area of Mutual Interest if such acquisitions are a part of a larger acquisition or the result of the purchase of all or a portion of a Company or merger with a company owning acreage within the AMI.

The acquiring party shall identify all interests acquired within 10 days after acquisition of the interests. All such notices of acquisition shall be in writing and include (i) a full description of the interests so acquired (ii) a copy of the instrument(s) by which such interests were acquired or can be earned, (iii) copies of all title data in its possession relative to the acquisition and (iv) the acquisition price paid or to be paid, including all brokerage and related acquisition costs. The acquiring party will make a reasonable effort to cure all significant acquisition title defects in a timely manner.

If the acquisition is in the form of an agreement whereby an interest may be earned by conducting seismic, drilling and/or other exploration operations, then the election to participate in the acquisition shall also constitute an election by the Party to participate in said seismic, drilling and or other exploration operations and to undertake its share of the obligations required to earn should such operations be conducted. In order for a Party to be entitled to its Proportionate Share of the interest to be earned by conducting such seismic, drilling and/or other exploration operations such Party must have participated (according to its Proportionate Share) in all operations (including completion operations if required by the agreement), and in all other costs and expenses incurred, which are necessary to comply with the terms and conditions of the agreement governing the interest to be earned by seismic, drilling and or other exploration operations, including previous seismic, drilling and/or other exploration operations within the AMI if the earning operations are in the form of an option or obligation conditioned on such previous operations are conducted under the terms of this Agreement. By not participating in the acquisition of an option for an oil and gas leasehold interest or non-producing mineral interest, the non-acquiring Party

waives its right to participate in such acquisition in the event the option is exercised by the acquiring Party.

It is understood that any election to participate or not participate in an individual acquisition shall apply to all of the lands covered thereby, including any interests in such lands lying adjacent to and partially outside the AMI. Any interest to be earned from other parties in the AMI by seismic, drilling and/or other exploration operations conducted by either Party on lands entirely outside the AMI shall not be subject to the provisions of this Agreement. If notice shall be made of more than one acquisition at the same time, the Party receiving the notices shall have the right to elect to acquire an interest in one or more or all or none of said interests. Each separate lease or agreement to earn an interest shall be considered a separate acquisition for election purposes. However, if an acquisition is made conditioned upon acquiring all of such interests involved in the particular transaction, then the Party receiving the notice shall have no right of selection but shall be required to participate or not participate in the acquisition in its entirety.

7. This AMI shall expire two (2) years from, the Effective Date, being August 14, 2000. Upon termination, the lands within the AMI shall no longer be subject to the provisions of this Agreement, except as to any jointly acquired interest which are in still in effect, or as to any proration unit covered by a Joint Operating Agreement as referred to in Sections 3 and 4 of this Agreement, whichever is applicable. The provisions of Section 6 of this agreement shall survive the termination of this Agreement until all described interest have been offered in accordance with the provisions hereof.
8. EACH PARTY SHALL FULLY PROTECT, INDEMNIFY AND DEFEND THE OTHER PARTY, ITS OFFICERS, AGENTS, EMPLOYEES AND/OR AFFILIATED COMPANIES AND HOLD THEM HARMLESS FROM ANY AND ALL CLAIMS, LOSSES, DAMAGES, DEMANDS, SUITS, CAUSES OF ACTION, AND LIABILITIES (INCLUDING ATTORNEYS' FEES, COSTS OF LITIGATION AND/OR INVESTIGATION AND OTHER COSTS ASSOCIATED THEREWITH) (COLLECTIVELY REFERRED TO HEREFTER AS "CLAIMS") RELATING TO INJURY OR DEATH OF ANY PERSON OR PERSONS WHOMSOEVER, AND/OR DAMAGE TO OR LOSS OF PROPERTY OF RESOURCE ARISING OUT OF OR CONNECTED, DIRECTLY OR INDIRECTLY, WITH THAT RESPECTIVE PARTY'S ACTIVITIES DURING THE TERM OF THIS AGREEMENT.
9. This Agreement cancels and supersedes all previous verbal and written agreements affecting the AMI made between the Parties. In the event any provision of this Agreement is in conflict with any of its Exhibits, this Agreement shall govern.
10. This Agreement shall be binding on all successors and assigns of the parties hereto, and the obligations herein shall be covenants running with the land.
11. No waiver or non-enforcement by either Party of any one or more provisions in the performance of this Agreement shall operate or be construed as a waiver or non-enforcement of any subsequent breach or default of the same or other provision similar in nature.
12. This Agreement has been prepared by the joint efforts of each of the Parties.

13. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED UNDER THE LAWS OF THE STATE OF TEXAS.
14. Neither Party shall have any right, power, or authority to assume, create or incur any expense, liability or obligation, expressed or implied, on behalf of the other Party, except as expressly provided herein. This Agreement is not intended to be nor shall it be construed as a joint venture, association, partnership or other form of a business organization or agency relationship.
15. This Agreement, including its Exhibits, may be amended or modified only by an instrument of equal formality signed by duly authorized representatives of the respective Parties and specifically referencing this Agreement.
16. If any part, term or provision of this Agreement shall be held illegal, unenforceable or in conflict with any law of a federal, state or local government having jurisdiction over this Agreement, the validity of the remaining portion or portions shall not be affected thereby.

Please sign in the space provided below indicating your acceptance of the above terms and conditions, and return one signed copy to the undersigned within ten (10) days of receipt of this letter.

Yours very truly,

OCEAN ENERGY, INC.




Hank Wood
Vice President, Land



AGREED TO AND ACCEPTED this _____ day of December 2000.

DAVID H. ARRINGTON OIL & GAS, INC.

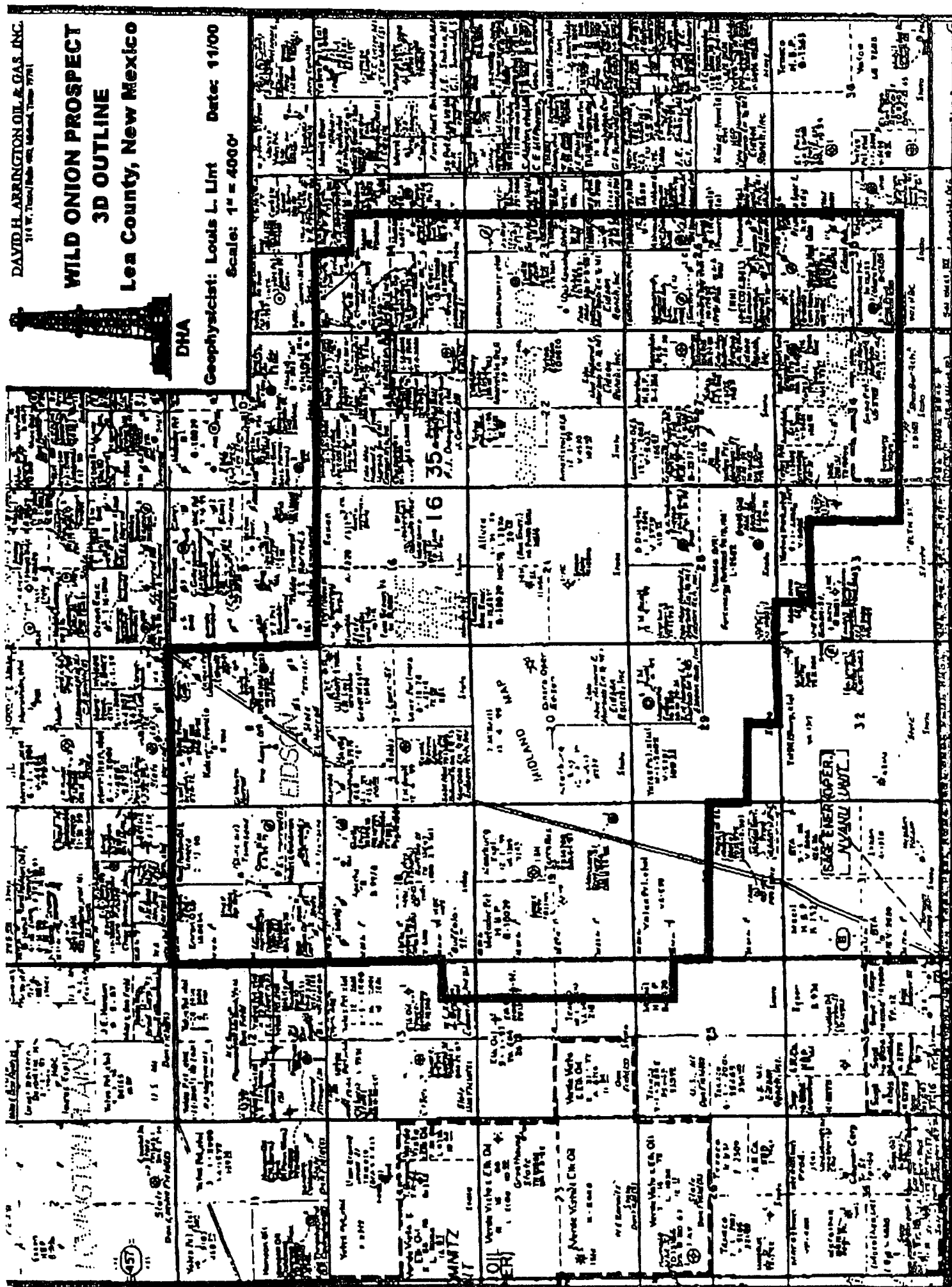
By:  _____

Its: _____

Date: _____

EXHIBIT "A"

Attached to and made a part of that certain Letter Agreement dated December 12, 2000, by and between Ocean Energy, Inc. a Louisiana Corporation and David H. Arrington Oil & Gas.



FIFTH JUDICIAL DISTRICT COURT
COUNTY OF LEA
STATE OF NEW MEXICO

TMBR/SHARP DRILLING, INC.,
Plaintiff,

FIFTH JUDICIAL DISTRICT
LEA COUNTY NM
FILED IN MY OFFICE
02 MAR 12 PM 3:16
JANIE G. HERNANDEZ
DISTRICT COURT CLERK

vs.

No. CV2001-315C

DAVID H. ARRINGTON OIL & GAS,
INC., JAMES D. HUFF, MADELINE
STOKES, ERMA STOKES HAMILTON,
JOHN DAVID STOKES, and TOM STOKES,
Defendants.

ORDER DENYING PARTIAL SUMMARY JUDGMENT REGARDING TORTIOUS
INTERFERENCE

THIS MATTER HAVING come before the Court upon the Plaintiff's Motion for Partial Summary Judgment Regarding Tortious Interference. The Defendant, David H. Arrington Oil and Gas, Inc. raises the defense of justification and privilege and asserts it "had a reasonable belief that the original Stokes Leases had expired by their own term and that Arrington had the right to seek such permits pursuant to the terms of the Huff Top Leases." (see affidavit of Jeffery G. Bane ¶ 7 which is Exhibit 1 to Defendant's Response filed February 12, 2002) It should be noted Bane does not set forth specific admissible facts supporting what gave rise to this "reasonable belief." In argument, counsel asserted that the "reasonableness" of this "belief" would be proved at trial by introducing industry standards and expert testimony to the jury. Counsel further asserted that Defendant's good faith and reasonable belief created genuine material issues of fact for the jury to resolve. For purposes of this Motion the Court will assume Defendant acted upon a good faith "reasonable belief."


The Defense has not cited to the Court any authority from New Mexico or any other jurisdiction in support of his position that reasonableness and good faith equate justification or privilege. The Court can find no decision from New Mexico stating that reasonable people acting in good faith are privileged to commit this tort or that the laws of New Mexico are such that reasonable people acting in good faith to advance their own business fortunes have a lawful excuse to commit the tort. The Court however does not resolve this motion on that basis.

ARRINGTON OIL & GAS, INC.
BEFORE THE COMMISSION
NMOCD CASE NO. 12731 & 12744
DATE: 03/26/02
EXHIBIT NO. 4

The pivotal issue is whether the first element of the tort, that Arrington had knowledge of the TMBR/Sharp-Stokes lease, is at issue. Plaintiff asserts that Arrington knew that TMBR/Sharp had a valid lease to drill on the property when Arrington obtained the permit to drill. Arrington denies such knowledge asserting it reasonably believed that the TMBR/Sharp-Stokes lease (and Plaintiff's rights thereunder ceased to exist) had expired and that the Huff Top Leases were valid and in effect. Herein exists a genuine issue of material facts as to this element which can only be resolved by a jury. Whether the remaining elements of the tort are controverted need not be addressed by the Court at this time.

Plaintiff's Motion for Partial Summary Judgement Regarding Tortious Interference is not well taken and IS DENIED.

IT IS SO ORDERED.


Gary L. Clingman
District Judge

CERTIFICATE

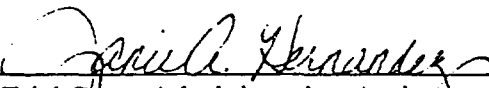
I HEREBY CERTIFY that a true and correct copy of the foregoing Notice was mailed to all parties on the 13th day of March, 2002:

Richard Montgomery, Esquire
P.O. Box 2776
Midland, Texas 79702-2776

Phil Brewer, Esquire
P.O. Box 298
Roswell, NM 88202-0298

Ernest L. Carroll, Esquire
P.O. Box 1720
Artesia, NM 88221-1720

Michael J. Canon, Esquire
303 W. Wall, Suite 1100
Midland, Texas 79701

By: 
Trial Court Administrative Assistant