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DAVID H. ARRINGTON OIL & GAS, INC.

Area Code: 915
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August 21, 2002

Tom Brown, Inc.
Attn: Turk McDonald
508 W. Wall Street
Midland, TX 79701

BEFORE EXAMINER CATANACH	
OIL CONSERVATION DIVISION	
<i>Grant Weston</i>	EXHIBIT NO. <u>1</u>
CASE NO. <u>12922</u>	

Re: Lots 1,2,7,8,9,10,15,16 of Section 1, from surface to base of Morrow (328.34 gross acres)
T16S, R34E
S/2NE/4, N/2SE/4 of Section 34, and NW/4 of Section 33, from the surface to base of Morrow
(320 gross acres)
T15S, R34E
Lea County, New Mexico
Our Bulldog Prospect

Gentlemen:

Tom Brown, Inc. ("TBI") is the apparent owner of an undivided interest in the leasehold estate covering the above captioned lands. A review of the records indicates that TBI owns an undivided 14.36% leasehold interest under BLM lease number NM-17444, dated 2-1-73. This lease appears to be burdened by a 12.5% royalty to the BLM, and a 5% ORRI.

Pursuant to our discussions, David H. Arrington Oil & Gas, Inc. is interested in acquiring from TBI a term assignment covering this leasehold interest for the purposes of drilling an initial Test Well to be located in the E/2 of Section 34, T15S, R34E, Lea County, NM.

TBI has indicated that it might wish to participate in the drilling of the Test Well, and as such, you have requested that we reveal certain geological information supporting our proposal to drill this well. We are willing to comply with this request. Therefore the purpose of this letter is to set forth the agreement under which we will reveal this geological information. For valuable consideration, David H. Arrington Oil & Gas, Inc. ("Arrington") and Tom Brown, Inc. ("TBI") do hereby agree as follows:

- 1) Arrington shall present its complete geologic presentation to TBI in your offices at a mutually acceptable time.
- 2) After said geologic presentation, TBI shall have a period of ten (10) days to notify Arrington in writing of its decision to either elect (i) to participate with Arrington as to its leasehold interest under the proposed spacing unit, or (ii) elect to grant unto Arrington a term assignment of TBI's leasehold interests under the captioned acreage. Failure to respond in writing within said time period provided shall be deemed an election by TBI to grant said term assignment and not participate in the drilling of the proposed well. Said term assignment shall be for a primary term of one (1) year from the end of the ten (10) day review period and shall be delivered to Arrington on a mutually acceptable form. TBI shall deliver to Arrington a 75% net revenue, retaining unto itself an overriding royalty.

equal to the difference in which 25% exceeds current leasehold burdens, proportionately reduced. Further, the term assignment will provide for a 180-day continuous development between wells, with all acreage not committed to a spacing unit reverting to TBI at the end of such continuous development. As well, all rights lying 100 feet below the stratigraphic equivalent of the deepest producing perforation shall revert to TBI in all spacing units earned by Arrington. In the event TBI elects to participate, TBI shall support Arrington as the operator for this well, and the parties shall negotiate in good faith a Joint Operating Agreement naming Arrington as operator.

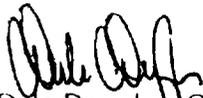
- 3) Any geological, or other information, provided by Arrington to TBI hereunder shall be treated as confidential information, and TBI shall not reveal same to any third party without first obtaining the express written consent of Arrington.
- 4) Arrington represents that the geological, or other information, so provided is correct to its best knowledge; however, ARRINGTON MAKES NO REPRESENTATIONS OR WARRANTIES. AS TO ITS ACCURACY OR COMPLETENESS TO THE EXTENT THAT TBI RELIES ON ANY GEOLOGICAL, OR OTHER INFORMATION, PROVIDED BY ARRINGTON TO TBI HEREUNDER FOR ANY PURPOSE, TBI SHALL DO SO AT ITS SOLE RISK, WITHOUT ANY RECOURSE TOWARD ARRINGTON.

Notwithstanding the foregoing, there is some question as to whether or not TBI actually owns a leasehold ownership in this acreage. In the event that a Drilling Title Opinion should reveal that TBI does not own any leasehold ownership in this acreage, then any such election that TBI may have made pursuant to this letter regarding participation in the Test Well shall be of no force or effect. Further, TBI's interest in any well which either elects to participate or to grant a term assignment shall be as actually reflected in a Drilling Title Opinion

In the event that this letter sets forth the complete understanding between the parties hereto, please so indicate by signing and returning one copy of this letter to the attention of the undersigned.

Yours very truly,

DAVID H. ARRINGTON OIL & GAS, INC.


Dale Douglas, CPL.

TRD/dd

AGREED TO AND ACCEPTED this 21st day of August, 2002.

TOM BROWN, INC.

By 
Name/Title: Tuck McDonald
Landman