

**TOM BROWN, INC.**Land Department  
Southern Region

September 27, 2002

David H. Arrington Oil & Gas, Inc.  
c/o Mr. Dale Douglas  
P.O. Box 10187  
Midland, TX 79702RE: Farmout Agreement  
USA NM-17444  
Lea County, New Mexico  
TBI's Eidson Prospect NM-020

Gentlemen:

This will evidence the agreement between Tom Brown, Inc. ("TBI"), whose address is 508 West Wall St., Suite 500, P.O. Box 2608, Midland, TX 79702 and David H. Arrington Oil & Gas, Inc. ("Arrington"), whose address is 214 West Texas, Suite 400, P. O. Box 2071, Midland, Texas, 79702. TBI is the owner of that certain Oil and Gas Lease bearing Serial No. 17444 effective February 1, 1973 between the United States of America, as Lessor, and A. D. Weatherly, as Lessee, insofar and only insofar as said lease covers the following lands in Lea County, New Mexico ("Lands"):

Township 15 South, Range 34 East

Section 33: NW/4 (160 acres, more or less)

Section 34: S/2 NE/4, N/2 SE/4 (160 acres, more or less)

Township 16 South, Range 34 East

Sec. 1: Lots 1, 2, 7, 8, 9, 10, 15, and 16 (328.34 acres, more or less)

And Insofar and only insofar as said Lands cover those depths from surface to base of the Morrow formation.

TBI agrees to assign an interest in the Lands to Arrington subject to the terms and conditions of this Agreement. In consideration of the premises and the mutual covenants and agreement hereinafter contained, and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, TBI and Arrington agree as follows:

1.

On or before September 20, 2003, Arrington agrees to commence or cause to be commenced the drilling of a well to be located at a legal location in the E/2 of Section 34, T-15-S, R-34-E, Lea County, New Mexico. The well shall be drilled in a good and workmanlike

manner and with due diligence to a total depth of approximately 14,000' or to a depth sufficient to test the Morrow formation (Contract Depth).

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 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) for any such well which has been lost or abandoned within thirty (30) days from the date the prior well was lost. 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.

3.

The cost, risk and expense of drilling, completing and equipping any well, and all other costs and expenses incurred in connection with developing and operating the Lands, shall be borne by Arrington or Arrington's successors and assigns, to the extent that those rights and interests have been farmed out to Arrington pursuant to this Agreement.

4.

**ARRINGTON SHALL INDEMNIFY, DEFEND AND HOLD HARMLESS TBI TOGETHER WITH TBI'S PRINCIPALS, AGENTS, OFFICERS, DIRECTORS, EMPLOYEES, REPRESENTATIVES, AFFILIATES, PARENTS, SUBSIDIARIES, SUCCESSORS AND ASSIGNS, FROM ANY AND ALL CLAIMS, LIABILITIES, DEMANDS AND CAUSES OF ACTION OF WHATEVER KIND OR CHARACTER AND COSTS THEREOF INCLUDING WITHOUT LIMITATION, JUDGMENTS, PENALTIES, INTERESTS, COURT COSTS AND ANY LEGAL FEES INCURRED BY ARRINGTON IN DEFENSE OF SAME (INCLUDING ATTORNEYS FEES INCURRED IN ENFORCING THIS INDEMNITY), WHICH ARISE OUT OF OR RELATE TO THE RIGHTS GRANTED TO ARRINGTON UNDER THIS AGREEMENT OR THE EXERCISE OF SUCH RIGHTS BY ARRINGTON, INCLUDING BUT NOT LIMITED TO DRILLING AND OTHER ACTIVITIES ON THE LANDS BY ARRINGTON, ITS AGENTS, EMPLOYEES, REPRESENTATIVES, AFFILIATES, PARENTS, SUBSIDIARIES, SUCCESSORS AND ASSIGNS.**

5.

Arrington shall, at all times while operations are conducted under this Agreement, maintain insurance of the types and in the amounts as follows:

<u>KIND</u>	<u>POLICY FORM</u>	<u>MINIMUM LIMITS OF LIABILITY</u>
Workmen's Compensation	Statutory	\$500,000
Comp. General Liability	Comprehensive	\$1,000,000 General Aggregate
Motor Vehicle	Comprehensive (including non-ownership liability & hired automobile coverage)	\$1,000,000 Combined Single Limit
Excess Liability	Umbrella	\$5,000,000 Aggregate

All such insurance shall be maintained in full force and effect during the term of this Agreement. If requested by TBI, Arrington agrees to have its insurance carrier furnish certificates of insurance evidencing such insurance coverages. Arrington shall require all third party contractors performing work in or on the premises covered hereby to carry insurance in amounts similar to those noted above.

## 6.

In the event a well is completed by Arrington under the terms of this Agreement as a producer of oil and/or gas in paying quantities or as a well capable of producing oil and/or gas in paying quantities and, if Arrington has otherwise complied with the terms and conditions of this Agreement, TBI will assign to Arrington one hundred percent (100%) of TBI's operating rights and rights to working interest production in the Lands insofar and only insofar as the Lands cover the proration unit for the well and shall be limited in depth to cover those horizons from the surface of the earth down to and including 100' below the deepest producing perforation in the proration unit for the well, but in no event deeper than the base of the Morrow formation. TBI shall reserve an overriding royalty interest equal to the difference between existing lease burdens as of the date of this Agreement and twenty-five percent (25%) of all oil and gas produced, saved and marketed from the Lands, proportionately reduced. The reserved overriding royalty shall be free and clear of all costs, charges and expenses of development and production, including, without limitation, gathering, transportation and marketing, but will be subject to its proportionate share of any and all applicable taxes.

Furthermore in the event Arrington completes the well in accordance with the terms of this Agreement, Arrington shall have the option, but not the obligation, of continuously developing the Lands by commencing a development well at a legal location of its choice on the unearned lands within 180 days from the date of drilling rig release of a well drilled on previously earned lands. In the event Arrington timely commences and drills a well under this continuous development provision and Arrington completes a well capable of producing oil

and/or gas in paying quantities, TBI shall assign to Arrington one hundred percent (100%) of TBI's operating rights and working interest production in the Lands insofar and only insofar as the Lands cover the proration unit for such well and shall be limited in depth to cover those horizons from the surface of the earth down to and including 100' below the deepest producing perforation in the proration unit for the well, but in no event deeper than the base of the Morrow formation. TBI shall reserve an overriding royalty interest equal to the difference between existing lease burdens as of the date of this Agreement and twenty-five percent (25%) of all oil and gas produced, saved and marketed from the Lands, proportionately reduced. The reserved overriding royalty shall be free and clear of all costs, charges and expenses of development and production, including, without limitation, gathering, transportation and marketing, but will be subject to its proportionate share of any and all applicable taxes.

The overriding royalty interest reserved herein to TBI, shall be reduced proportionately if the Lands assigned to Arrington cover less than the full undivided interest in the oil, gas, and associated hydrocarbons in the assigned Lands, if TBI does not own all leasehold rights in said lease(s), and/or if all or any part of the assigned Lands is pooled or communitized with other lands.

7.

For any wells drilled on the Lands, Arrington agrees to abide by the terms and conditions in the above-described lease.

8.

In the event that Arrington receives delivery from TBI of an assignment described above in Section 6, then Arrington shall make a bona fide effort to pay minimum royalty and/or shut-in gas well royalty payments, if any, that thereafter shall become due and payable under the terms and provisions of the above-described lease.

9.

It is not the intention, nor purpose, of this Agreement to create, and nothing herein contained shall be construed as creating, a mining or other partnership or association for any purpose, or to render the parties hereto liable as partners and no party hereto shall be liable or responsible for any act, either omission or commission, of any party hereto.

10.

This Agreement shall extend to, and be binding upon, not only the parties hereto, but their respective successors and assigns. Provided, however, the rights of Arrington under this Agreement or rights and interests earned pursuant hereto may not be assigned without the written consent of TBI, which shall not be unreasonably withheld. It is agreed and understood that any and all assignments made pertaining to all or a part of the interests covered by the Lands will specifically refer and be subject to this Agreement. Any assignment without TBI's consent in violation of this provision shall be null and void and of no force or effect. Consent by TBI to

any one assignment or transfer shall not be construed as consent to any further or future assignment or transfer, it being expressly understood that TBI's prior written consent shall be required for any assignment or transfer by Arrington or any of its successors or assigns.

11.

Prior to the plugging and abandoning of any producing well or well formerly capable of producing in paying quantities that has been drilled hereunder, Arrington and its successors and assigns shall give TBI and its successors and assigns thirty (30) days advance notice prior to plugging and abandoning the well. TBI thereupon shall have the right and option to take over the well in its then condition, by paying to Arrington the reasonable salvage value of all recoverable well equipment (except surface casing), less the reasonable estimated cost of salvaging same and the reasonable estimated cost of plugging and abandoning the well and surface restoration. Should TBI elect to take over the well hereunder, Arrington will assign 100% of its interest to TBI. This reassignment shall cover all Leasehold rights within the spacing or proration unit. If TBI or its successor and assigns elect not to take over the well, Arrington or its successors and assigns shall plug and abandon same at its sole cost, risk and expense.

12.

Arrington agrees to furnish to TBI the notices and reports provided in Exhibit I attached hereto and to conduct the tests and surveys provided therein. TBI shall be afforded the opportunity to witness such tests and surveys and the results thereto.

13.

In the event any party hereto is prevented from complying with any of the obligations imposed upon it hereunder, or from exercising any of the rights granted to it hereunder, as a result of an act of God, or any other cause, whether similar or dissimilar, which is beyond the control of such party, the time within which said party may perform such obligations or exercise such rights shall be extended for a period equal to the time during which said party was prevented from the performance of such obligations or the exercise of such right. The party having the difficulty shall take all reasonable steps to remedy such condition as rapidly as possible.

14.

In the event Arrington fails to commence, drill, test or complete any well in the manner and within the time herein provided, or fails to comply with and perform any terms, provisions and conditions of this Agreement, TBI may cancel this Agreement and terminate the right of Arrington to earn further rights and interests hereunder.

15.

Upon execution of this Agreement, the parties hereto agree to take such further actions and to execute, acknowledge and deliver all such further documents that are necessary or useful

in carrying out the purposes of this Agreement or of any document delivered pursuant to this Agreement.

16.

This Agreement is executed by TBI without warranty of any kind, either expressed or implied.

If the terms and conditions hereinabove set forth are acceptable to you, please so indicate by executing and returning one (1) copy to TBI within twenty (20) days from the date received by you.

Sincerely,

TOM BROWN, INC.

*TM* 

Peter R. Scherer, Executive Vice President

Dated: 9-27-02

DAVID H. ARRINGTON OIL & GAS INC.

  
Printed Name: DAVID H. ARRINGTON

Title: PRESIDENT

Dated: 10-2-02

Exhibit I

Listed below is the information TBI requires on the drilling of a well. We will appreciate the information as it becomes available. Send to John Southwell at the letterhead address unless instructed otherwise below:

<u>Copies</u>	<u>Information</u>
1	Drilling reports e-mailed to HYPERLINK "mailto:southreports@tombrown.com" or telecopied (915/682-9171) daily to Sheila Shanks.
1	All regulatory forms to Kelli Werner.
2	Field prints of all logging surveys run in hole.
2	Final prints of all logging surveys run in hole.
1	Core Analysis, preliminary and final reports.
1	Drill Stem Test charts and reports. Samples and analysis of fluid recovered.
2	Daily and Final Mud logs.
1	Gas/Oil Ratios, if taken.
1	Bottom hole pressure tests, if taken.
1	Open-flow tests and shut-in tests, if a gas well.
1	Potential tests and completion data.
1	Any title information acquired to Thena Anderson.
1	Monthly production reports to Kelli Werner.

Logs needing to be telecopied should be sent to the attention of John Southwell at (915/688-9497).

Prior to any drill stem testing, coring, logging, or abandonment, please notify John Southwell (915/688-9478 - office) or (915/687-1520 - home) so our representative may be present. If no representative is present, please report the results by telephone to Sheila Shanks at (915) 688-9451.

Samples will be taken to a commercial sample cut so that TBI can have access to the samples if they so desire. Ten foot samples and drilling time should be kept from the surface casing point to total depth if drilled with mud. Thirty foot samples if drilled with air.

New Mexico Oil Conservation Division  
1625 N. French Drive  
Hobbs, NM 88240

Form 3160-3  
(August 1999)

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

FORM APPROVED  
OMB No. 1004-0136  
Expires November 30, 2000

5. Lease Serial No.  
USANMUM 17444

6. If Indian, Allottee or Tribe Name  
N/A

7. If Unit or CA Agreement, Name and No.  
N/A

8. Lease Name and Well No.  
HUMU HUMU FED. COM. 34

9. API Well No.  
30-025-35998

10. Field and Pool, or Exploratory  
Wildcat Miss.

11. Sec., T., R., M., or Blk. and Survey or Area  
Sec. 34, T15S-R34E

1a. Type of Work:  DRILL  REENTER

1b. Type of Well:  Oil Well  Gas Well  Other  Single Zone  Multiple Zone

2. Name of Operator  
David H. Arrington Oil & Gas Inc.

3a. Address  
214 W. Texas, Midland, Tx 79701

3b. Phone No. (include area code)  
915. 682. 6685

4. Location of Well (Report location clearly and in accordance with any State requirements. \*)  
At surface 1700' F&L + 950' FEL, Sec. 34, T15S-R34E, Lea Co., NM

At proposed prod. zone  
SAN I

14. Distance in miles and direction from nearest town or post office\*  
6 m.s. west of Louington, NM

12. County or Parish  
Lea

13. State  
NM

15. Distance from proposed location\* to nearest property or lease line, ft. (Also to nearest drig. unit line, if any)  
950'

16. No. of Acres in lease  
320

17. Spacing Unit dedicated to this well  
320

18. Distance from proposed location\* to nearest well, drilling, completed, applied for, on this lease, ft.

19. Proposed Depth  
14.200'

20. BLM/BIA Bond No. on file  
VIB 000 5938

21. Elevations (Show whether DF, KDB, RT, GL, etc.)  
GL 4060'

22. Approximate date work will start\*  
ASAP

23. Estimated duration  
45 days

24. Attachments  
Lea County Controlled Water Basin

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No.1, shall be attached to this form:

- 1. Well plat certified by a registered surveyor.
- 2. A Drilling Plan.
- 3. A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office).
- 4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
- 5. Operator certification.
- 6. Such other site specific information and/or plans as may be required by the authorized officer.

25. Signature  
*Denny Hedford*

Name (Printed/Typed)  
Denny Hedford

Date  
8.02.02

Title  
Geologist, Operations & Development

Approved by (Signature)  
/S/ JOE G. LARA

Name (Printed/Typed)  
/S/ JOE G. LARA

Date  
SEP 05 2002

Title  
FIELD MANAGER

Office  
CARLSBAD FIELD OFFICE

Application approval does not warrant or certify the the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.

Conditions of approval, if any, are attached.

APPROVAL FOR 1 YEAR

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

\*(Instructions on reverse)

APPROVAL SUBJECT TO  
GENERAL REQUIREMENTS AND  
SPECIAL STIPULATIONS  
ATTACHED

OPER. GRID NO. 5898  
PROPERTY NO. 30500  
POOL CODE  
EFF. DATE 9-9-02  
API NO. 30-025-35998

SEE ATTACHED FOR  
CONDITIONS OF  
APPROVAL

KEP