

Summary of Communications

Harvey E. Yates Company: Vernon Dyer and Melissa Randle

- 1) 5-30-01: Proposed well via certified mail with AFE and JOA enclosed for execution. Sent to Vernon Dyer's attention.
- 2) 6-11-01: Follow up telephone call to Vernon regarding well proposal. They've received proposal, currently reviewing their title.
- 3) 6-12-01: Melissa Randle called and said she was reviewing their title. I told her we would share our Drilling Title Opinion with them, sent same to her attention on 6-13-01.
- 4) 6-19-01: Follow up letter to Melissa.. Furnished her signature pages of the JOA regarding Marbob and Tenison.
- 5) 6-26-01: Melissa called this date & said they were still working on their title -- the title may be different than what we think it is. Melissa is aware we will be filing for pooling by the end of the month due to rig scheduling. I'm to get back with her and possibly meet in Roswell to work out the title questions after I return from vacation.
- 6) 7-11-01 Follow up letter to Melissa's attention advising her I would contact her next week to schedule a meeting with her and Vernon to discuss our proposal and to review their title.
- 7) 7-16-01: Called Melissa this date to set up meeting. She'll check around with her office. Tentatively we'll meet Thursday 7-19-01. I advised her to let us know is they have any requested revisions to the JOA if they participate.
- 8) 7-17-01: Melissa Randle called this date. They are still reviewing their title. Possibly they may farmout in lieu of joining. I advised her we would still name them in the pooling if no written agreement is executed prior to the hearing, however, we will dismiss them from pooling upon execution of any agreement. Advised Melissa I would see them in Roswell on Thursday, July 19th to discuss their title.
- 9) 7-19-01: Met with Melissa and Donita with Heyco on July 19th and discussed their title. Melissa said they would farmout @ 75% NRI with 1/3 BIAPO. I told her the 1/3 BIAPO was not acceptable for us that we could probably be agreeable to 1/4 BIAPO. She thought Shinnery Investments owns some interest also. Melissa is to send me their farmout offer for our response.

OIL CONSERVATION DIVISION

CASE NUMBER _____

Page 1 of 3

EXHIBIT 2A

- 10) 7-20-01: Received letter from Heyco wherein Heyco and Shinnery Investments offered to farmout their rights below the base of the Wolfcamp formation to 11,750' wherein MOC would be delivered a 75% net revenue interest. After payout Heyco, et al would have option to convert their retained overriding royalty interest to a 1/3 working interest.
- 11) 7-24-01: Advised Melissa that our management would not accept the farmout terms she offered. Faxed Melissa our formal response as to her letter and our proposed farmout terms for their acceptance wherein such offer would expire August 16th.
- 12) 8-08-01: Received Heyco's letter via fax wherein they would farmout their interest as to rights below base of Wolfcamp @ 75% NRI w/option to convert retained ORI to a 1/3 WIAPO wherein such offer was to expire August 24th.
- 13) 08-13-01 Sent letter via fax advising Heyco their farmout terms were not acceptable as MOC had to have rights above Wolfcamp and the WIBIAPO they proposed would not work for us.
- 14) 08-14-01 Faxed letter w/copy of Pooling Order w/AFE and sent same via certified mail for their further handling.
- 15) 08-21-01 Advised Melissa that we (Larry Cunningham and myself) would be agreeable to meeting with them in Roswell in an effort to work out an agreement on Thursday, August 23rd.
- 16) 08-23-01 Larry Cunningham and Bruce Insalaco met with Melissa, Vernon and their geologist (Steve Yates did not attend) to go over the geology to discuss the reasons why we needed all of the rights subject to the pooling. Again discuss farmout terms. Heyco maintained its position regarding their farmout terms which are still unacceptable.
- 17) 08-24-01 Received copy of application for hearing de novo which was filed the same date.
- 18) 08-27-01 Faxed Heyco our form of farmout agreement with the deadline for execution being 9-4-01.
- 19) 08-27-01 Received Heyco's form of farmout agreement for our review.
- 20) 08-29-01 Faxed Heyco their form of farmout agreement with our revisions subject to their acceptance by September 4th.

- 21) 08-29-01 Jim Bruce filed request w/NMOCD for the de novo case to be heard in September. Faxed Heyco a copy of same.
- 22) 08-31-01 Received letter via fax wherein Heyco again stated their position as to farmout terms which are still unacceptable to MOC.
- 23) 08-31-01 Melissa called to confirm that we received their letter. I advised her we had no response to same yet.
- 24) 09-03-01 Received fax from Jim Bruce wherein Feldewert had filed a letter dated August 31st w/NMOCD requesting the de novo hearing to be heard in October in lieu of September.
- 25) 10-02-01 Sent letter to Heyco with proposed Farmout Letter Agreement attached whereby MOC reiterated Heyco's position and whereby MOC reiterated its position regarding the proposed well.

MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

October 2, 2001

[Via Overnight Mail]

Harvey E. Yates Company
One Sunwest Centre
500 North Main
Roswell, New Mexico 88202-1933
Attn: Melissa Randle

Re: Esperanza "15" State Com. #1 Well
E/2 of Section 15, T21S, R27E
Eddy County, New Mexico

Ladies and Gentlemen:

Reference is made to our previous correspondence and communications and most recently as to your letter dated August 31, 2001 (see copy attached) regarding Harvey E. Yates Company's (hereinafter referred to as HEYCO(s)) interest in the captioned well and spacing unit. Mewbourne Oil Company (hereinafter referred to as MOC) appreciates receiving the referenced letter wherein HEYCO again stated its previous and current positions regarding its contribution of certain leasehold rights for the drilling, completion and operation of the captioned proposed well. MOC understands the HEYCO position as being described as follows:

- 1) HEYCO has elected not to participate in the proposed well.
- 2) Since MOC's meeting with HEYCO in Roswell on August 23rd, in lieu of HEYCO's participation, HEYCO would be agreeable to farming out its leasehold in the captioned land from below the base of the Yates formation through the base of the Morrow formation. As to such rights, HEYCO would retain an ORI equal to the difference of existing burdens and 25% as to all oil and gas produced and saved, to the extent that MOC would be delivered a 75% NRI, all subject to proportionate reduction.
- 3) Upon 100% payout of the captioned well, HEYCO would have the option to exchange its retained ORI to a proportionately reduced 33 1/3% WI in the well and associated equipment.
- 4) If such farmout terms were accepted by MOC, the Farmout Agreement was to be on HEYCO's form of agreement.
- 5) HEYCO has no current plans to develop production from the Wolfcamp and shallower formations until such time as payout might occur in the captioned proposed well attributable to Morrow production.

- 6) According to HEYCO, the proposed well will produce just enough from the Morrow to payout the cost to drill and complete the well (including costs associated with operating the well, less taxes and lease burdens?) within a projected length of time that is sufficient for HEYCO to plan to participate in the development of the Wolfcamp and other shallower formations.
- 7) HEYCO maintains that the leasehold rights from the base of the Yates formation through the base of the Wolfcamp formation should not be subject to force pooling, however, rights below the base of the Wolfcamp formation would be agreeable with HEYCO to force pool.
- 8) HEYCO maintains that the difference between a 33 1/3% WI BIAPO and a 25% WI BIAPO is quite small, regarding the HEYCO interest.
- 9) As compensation for HEYCO to include their rights from below the base of the Yates formation through the base of the Wolfcamp formation (in addition to the rights below the base of the Wolfcamp formation through the base of the Morrow formation) in a farmout agreement to MOC, HEYCO believes an option to convert their retained 12.5% ORI to a 33 1/3% WI APO is warranted as HEYCO has their own plans to develop the shallow rights (from the base of the Yates through the base of the Wolfcamp formations).

Regarding the above, MOC is not in agreement with HEYCO's position regarding the subject proposed well which unfortunately is the reason for the necessity for Case No. 12998 which was heard at the Examiner's Hearing on July 26, 2001 which resulted in the issuance of Compulsory Pooling Order No. R-11636 by the NMOCD on August 13, 2001.

In reference to the above, MOC hereby reiterates its position regarding HEYCO's contribution of its leasehold rights for the drilling, completion and operation of the captioned proposed well and applicable spacing unit:

- 1) Subject to the issuance of a De Novo Order by the Commission regarding the captioned well, the HEYCO interest is force pooled as of September 13, 2001 as to all leasehold rights from the base of the Yates formation through the base of the Morrow formation.
- 2) For the prevention of waste and to avoid the drilling of unnecessary wells, all of the formations and production therefrom as referenced in Order R-11636 are necessary in order to allow MOC's Morrow prospect to be economically viable given today's low gas prices and high drilling/completion costs.
- 3) HEYCO's contention to limit the rights to be force pooled is contrary to practices previously mandated by the NMOCD previous force pooling orders issued for the exploration and development of oil and gas pools in the State of New Mexico.

- 4) In the event HEYCO were allowed to limit the formations to be pooled as HEYCO suggests, every formation in the wellbore of a particular proposed well could be subject to a separate force pooling hearing in the event voluntary agreements between the parties could not be made. MOC adamantly opposes such possibility as it could cause economic waste and lost time as to all of the potentially affected parties as to the multitude of wells to be drilled, recompleted and/or re-entered. Should this occur, the delayment of such operations in a particular wellbore would be inevitable notwithstanding the possible loss of leases and/or operating rights in the event operations could not be conducted timely if voluntary agreements between all of the parties could not be made prior to conducting such operations.
- 5) HEYCO apparently has no immediate plans to develop the captioned property although HEYCO contends it has future plans to develop the Wolfcamp and other shallower formations. However, public records indicate that HEYCO has had leasehold in the subject land since 1964 as evidenced by an Operating Agreement dated December 23, 1964 which named Harvey E. Yates as Operator wherein the Harvey E. Yates Cedar Hills #1 and #2 wells were drilled under the terms thereof. MOC also notes that such agreement between the parties thereto covered rights from the base of the Yates formation through the base of the Morrow formation. The last productive well drilled thereunder was P&A in March, 1996. No further operations were conducted by Harvey E. Yates or his successors in interest thereafter.
- 6) HEYCO's latest proposal to deliver MOC a 75% NRI with the option to convert its retained 12.5% ORI to a 33 1/3% WIAPO is hereby declined as was previously advised HEYCO. Such proposal in MOC's opinion is inappropriate taken into consideration of the risk associated with drilling and completion of the subject well, the costs associated with such operations and current low gas prices.
- 7) Since MOC's well proposal letter dated May 30, 2001, MOC has made exhaustive efforts in negotiating a voluntary agreement (before and after the date Pooling Order R-11636 was issued) with HEYCO by virtue of some twenty (20) plus communications including two (2) trips to Roswell in the spirit of cooperation in an effort to resolve the trade term issues between MOC and HEYCO.
- 8) MOC further contends that Shinnery Investment Company owns no interest of public record under the captioned land. MOC believes the ownership as set forth in MOC's Drilling Opinion of Title dated March 28, 2001 is correct.
- 9) All previous offers by MOC to acquire the HEYCO interest are hereby rescinded.

In the event HEYCO chooses to dismiss its application for Hearing De Novo regarding the captioned land and well, MOC hereby offers HEYCO the following option in the spirit of cooperation:

Esperanza "15" State Com. #1
October 2, 2001
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- 1) Execute a farmout agreement in favor of MOC covering the HEYCO operating rights below the base of the Yates formation through the base of the Morrow formation in the captioned land wherein Mewbourne would be delivered a 80% NRI, subject to proportionate reduction.
- 2) Upon 150% payout of the initial or substitute well, HEYCO would have the option to exchange their retained ORI for a 30% WI, subject to proportionate reduction. Such option to convert to a WI would be on a well by well basis.
- 3) The form of farmout agreement shall be on the form enclosed herein.

In the event HEYCO elects the above option in lieu of participating in the subject well, please execute and return the copy of this letter with the executed applicable FARMOUT LETTER AGREEMENT to the undersigned on or before October 10, 2001 at 4:00 PM CDST. Failure to return same within such time period shall result in the automatic withdrawal by MOC of the above offered options.

Sincerely yours,

MEWBORNE OIL COMPANY



D. Paul Haden
Senior Landman

DPH/gb

Agreed and Accepted this _____ day of October, 2001.

HARVEY E. YATES COMPANY

By: _____

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P.O. BOX 1933

ONE SUNWEST CENTRE

505 / 623-6601

FAX 505 / 622-4221

ROSWELL, NEW MEXICO 88202-1933

SEP 04 2001

Via Telefax and U.S. Mail

August 31, 2001

Mewbourne Oil Company
500 West Texas, Suite 1020
Midland, Texas 79701

Attention: D. Paul Haden
Senior Landman

Re: Esperanza 15 State Com #1
T-21S, R-27E, N.M.P.M.
2232' FSL & 1980' FEL
Section 15: E/2
Eddy County, New Mexico
Farmout Terms

Ladies and Gentlemen:

In my telephone conversation with Paul Haden on August 14, 2001, Harvey E. Yates Company (HEYCO) and Shinnery Investment Company (HEYCO, et al) offered another counter proposal to MOC's offer of July 24, 2001. The terms were as follows:

- 1) HEYCO, et al would allow its rights below the base of the Wolfcamp to be force pooled, i.e. non-consent, in the captioned well until the well reaches payout of the force pool penalty from that depth.
- 2) At the same time, HEYCO, et al would retain and not include its rights from the base of the Yates to the base of the Wolfcamp formation under force pool and/or non-consent position. This would mean HEYCO, et al would have the option to participate with its interest in shallower zones in this well and subsequent wells in these formations in the future.
- 3) At such time HEYCO, et al were to receive a proposal from Mewbourne Oil Company (MOC) to recomplete the initial test well, HEYCO, et al would reimburse MOC its share of actual drilling costs from surface to the base of the Wolfcamp.

Mr. Haden stated in our August 14, 2001 telephone conversation that these terms would not be acceptable. On August 23, 2001, Larry Cunningham and Bruce Insalaco came to HEYCO's office to discuss trade terms and review geology for this prospect. In my telephone conversation with Mr. Cunningham on August 24, 2001, I stated HEYCO, et al would now agree to farmout its interest in all depths from the base of the Yates to the base of the Morrow based on a 33.33% back-in after payout, proportionately reduced. This offer is based on the fact that HEYCO, et al feels the proposed well will produce just enough from the Morrow to payout the cost to drill and complete the well within a projected length of time that is sufficient for HEYCO, et al to plan to participate in the development of the Wolfcamp or any other shallower formation.

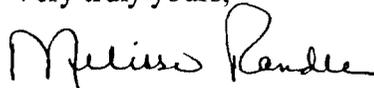
In my telephone conversation with Paul Haden on August 29, 2001, Mr. Haden informed me that HEYCO, et als latest proposal is unacceptable.

With HEYCO, et al owning approximately 16.65% WI in this well, the difference in a 33.33% back-in after payout (5.55%) and a 25% back-in after payout (4.16%) is quite small and does not make sense that a 33.33% back-in would render HEYCO, et als offer unreasonable or uneconomic to MOC.

In the event HEYCO, et als latest farmout offer is still unacceptable to MOC, HEYCO, et al will go forward with its application for Hearing DeNovo. HEYCO, et als position to the Oil Conservation Division will be we have no objection to MOC force pooling HEYCO, et al to explore the Morrow, but HEYCO, et al is not willing to give up its rights in shallower formations without proper compensation from MOC. Further, that HEYCO, et al has continued to negotiate in good faith with MOC in this prospect.

Please consider accepting any one of HEYCO, et als farmout offers and HEYCO, et al will dismiss its application for Hearing DeNovo.

Very truly yours,


Melissa Randle
Landman

/mvr

EsperanzaMewbourneFOTerms3.doc/Land:NonOp#4

MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

October 2, 2001

Harvey E. Yates Company
P.O. Box 1933
Roswell, New Mexico 88202-1933

Re: FARMOUT LETTER AGREEMENT
E/2 of Section 15, below the base of
the Yates formation through the base
of the Morrow formation
T21S, R27E
Eddy County, New Mexico

Ladies and Gentlemen:

This letter shall evidence Harvey E. Yates Company's (Heyco(s)) agreement to assign to Mewbourne Oil Company (Mewbourne) all of Heyco's, operating rights in the captioned land subject to the following terms and conditions:

I. INITIAL TEST WELL

At our sole cost and risk Mewbourne, as Operator agrees to commence or cause to be commenced operations for the drilling of an initial test well in search of oil and/or gas at a location 2232' FSL & 1980' FEL of the subject Section 15 within 180 days from Heyco's execution of this FARMOUT LETTER AGREEMENT. Said well once commenced, shall be prosecuted with due diligence and in a prudent manner to a depth sufficient to adequately test the Morrow formation, estimated total depth being 11,800' or to a depth at which mechanical difficulties arise or practically impenetrable substances are encountered which render further drilling impossible or impractical or any other condition or situation that may be encountered which would necessitate cessation of drilling operations in Mewbourne's opinion whichever of the foregoing depths is lesser.

II. SUBSTITUTE WELL

If in conducting any of the drilling operations herein described, permitted or provided for, Mewbourne encounters any conditions or difficulties, whether natural or mechanical, which in Mewbourne's opinion make further drilling and completion of any well impossible or impracticable, then Mewbourne shall have the option to commence operations for the drilling of a substitute well within sixty (60) days after cessation of operations on the well in which conditions or difficulties were encountered. Such substitute well shall be drilled at a location acceptable to Mewbourne and in the manner and to the depth specified for the well which it replaces.

III. TESTING

Mewbourne agrees to keep an accurate log of each well, to drill the same in a good faith effort to discover oil and/or gas and to test adequately all oil and gas shows encountered while drilling same in Mewbourne's opinion which warrant testing. Mewbourne agrees to comply with all reasonable requirements as may be specified in any "Geological Requirement" letter that Heyco might furnish Mewbourne.

IV. DRILLING AND COST OF WELLS

- 1) The entire cost, risk and expense of drilling, testing, completing, recompleting and/or plugging the Initial Test Well or, Substitute Well shall be borne exclusively by Mewbourne.
- 2) The operations conducted by Mewbourne for the Initial Test Well or any well drilled hereunder shall be drilled in compliance with all valid rules, orders, regulations and laws of state, local or federal authorities and in accordance with approved drilling and completion practices. Mewbourne agrees to save and hold Heyco harmless from any and all claims, liens, loss, cost and expense arising out of or as a result of our operations on the lands described in the captioned hereof or land pooled therewith.
- 3) There is no obligation upon Mewbourne to commence operations for any well or wells under the terms of this agreement, the only penalty for failure to commence any such operations for any such wells shall be the forfeiture of Mewbourne's rights hereunder.

V. ASSIGNMENT AND RESERVATIONS

- 1) If any of the operations conducted by Mewbourne under the terms of this agreement results in oil and/or gas production in a proration unit including Heyco's acreage in the captioned land and depths, Mewbourne will earn an assignment on a form acceptable to Mewbourne of all of Heyco's right, title and interest included in the proration unit prescribed by the applicable regulatory authority for such wells from the base of the Yates formation to 100' below total depth drilled.
- 2) Heyco shall retain an overriding royalty interest equal to the difference between 20% of all oil and gas produced and saved and the total of all royalty interests, overriding royalty interests and other similar lease burdens upon production to which Heyco's leases may be subject, to the extent Mewbourne will be assigned a 80% net revenue interest in the leasehold estate, operating rights and/or contractual interests that might have been created under a Operating Agreement effecting the captioned land to be assigned hereunder. The overriding royalty interest retained is to be subject to proportionate reduction (i) in the event Heyco owns less than the full interest in the leases insofar as they cover the land described above or land pooled therewith (ii) if the leases under the captioned land cover less than all of the oil and gas and/or (iii) if the contractual interest earned by Mewbourne under any existing Operating Agreement covers less than all of the oil and/or gas in the captioned land or land pooled therewith. The overriding royalty reserved herein shall bear its ratable portion of all treating, compression, gathering and transportation costs and applicable production taxes.
- 3) Mewbourne shall have the right to pool the lands in the E/2 of the captioned Section 15 covered by the oil and gas leases to be farmed out and assigned and any retained overriding royalty interests into any type of proration unit or other unit prescribed or approved by the State of New Mexico and/or the Bureau of Land Management, with such pooling to be accomplished without Heyco's further consent. In the event such pooling occurs, Heyco's overriding royalty interest retained hereunder will be proportionately reduced accordingly.
- 4) At payout of any well drilled by Mewbourne under the terms of this agreement which includes Heyco's acreage under the captioned land, Heyco would have the option to convert its retained overriding royalty interest to a 30% working interest, subject to proportionate reduction in the same manner as the overriding royalty interest described above, together with a like interest in all leasehold equipment and personal property in or used in connection therewith, subject to a proportionate part of any royalty, overriding royalty or similar lease burdens reserved and outstanding. Such

conversion option if exercised, shall be on a well by well basis upon payout and shall become effective as of the first day of the month following payout. Such payout option shall be exercisable by Heyco within 30 days after receipt of written notice of payout. Failure to elect within such 30 day period shall be deemed an election to continue the overriding royalty interest owned by Heyco as retained hereunder. If at any time any part of the farmout acreage or lands pooled or communitized therewith becomes jointly owned by Mewbourne and Heyco, said parties agree to be bound by the form of Operating Agreement dated April 25, 2001 as was previously furnished Heyco, subject to the revision of Exhibit "A" attached thereto regarding ownership. Mewbourne agrees to provide quarterly payout statements evidencing the payout status of each well drilled hereunder.

- 5) For purposes of this agreement, payout shall be deemed to have occurred when proceeds or market value of production from the subject well (after deducting production taxes, royalty, overriding royalty and similar lease burdens) shall equal 150% of Mewbourne's actual cost of drilling, testing, equipping, and completing the subject well, including the actual cost of any reworking, deepening or plugging back, plus 150% of the actual cost of operations of the well; the proceeds of production and the cost of such development and operations to be attributable only to the undivided interest subject hereto if less than the full interest in the oil and gas. The provisions of the 1984 COPAS Accounting Procedure attached as Exhibit "C" to the operating agreement described in paragraph No. 4 above shall govern the rates and charges during payout, as defined above.

VI. INDEMNIFICATION

- 1) Heyco shall indemnify, defend and hold Mewbourne harmless from any and all costs, obligations, claims, demands and causes of action of any kind or character with respect to the leases covering the captioned land arising, occurring or accruing prior to the execution date of this Farmout Letter Agreement.
- 2) Mewbourne shall indemnify, defend and hold Heyco harmless from any and all costs, obligations, claims, demands, and causes of action of any kind or character arising out of, incident to, directly or indirectly from Mewbourne's operations conducted on the captioned land pursuant to the terms of this Farmout Letter Agreement with respect to Heyco's leases covering the captioned land or land pooled therewith. All operations conducted by Mewbourne with respect to the captioned land shall be at Mewbourne's sole risk and cost and under Mewbourne's exclusive control pursuant to the terms of this Farmout Letter Agreement. Furthermore, all operations conducted by Mewbourne with respect to the captioned land (including without limitation, plugging and abandoning operations) shall be conducted in strict compliance with the leases and the statutes, rules, regulations, requirements and orders of any governmental agency having jurisdiction thereof.

VII. RENTAL PAYMENTS

Heyco agrees to pay any annual rentals or minimum royalties which may become due on the farmout acreage during the term of this agreement and upon receipt of Heyco's billing, we shall promptly reimburse you for 100% of such payments as to lands covered hereby. This provision shall not render Heyco liable for inadvertent failure to pay such rentals or minimum royalties.

VIII. FORCE MAJEURE

The performance by Mewbourne of any of the terms and provisions of this agreement shall be excused in the event such performance is prevented by strikes, fires, flood, tornado, lightning, explosion, acts of God or the public enemy, State or Federal rules or regulations or any things or happenings either similar or dissimilar beyond our control; provided, however, that such performance shall be resumed within thirty (30) days after such cause has been removed.

IX. TITLE INFORMATION

Upon Mewbourne's request, Heyco agrees to furnish Mewbourne at no cost whatsoever, all title and land information currently in your files pertaining to the captioned land including but not limited to title opinions, copies of leases, rental receipts, farmout or letter agreements and any gas contract currently in effect as to the captioned land. There shall be no obligation on Heyco's part to furnish any new or supplemental abstracts of title for the captioned land.

X. GEOLOGICAL REQUIREMENTS

Mewbourne agrees to furnish Heyco the following:

- 1) DAILY DRILLING REPORTS on the progress of the well which shall include drilling depth, name of any formation penetrated, shows of oil, gas or water.
- 2) One (1) copy of all forms furnished to any governmental authority.
- 3) One (1) copy of any open hole or cased hole logs, any surveys run in the well, DRILL STEM TEST, core analysis, mud log or hydrocarbon log run in the well.

XI. EFFECT OF AGREEMENT

This agreement shall not create, nor shall it be construed as creating a partnership or joint venture. The terms, covenants, and conditions hereof shall be binding upon and inure to the benefits of the parties hereto, their successors and assigns.

XII. ACCEPTANCE

If the above and foregoing is acceptable to you, please indicate such acceptance by signing in the space provided below and return one (1) fully executed agreement to the undersigned at the above address. Heyco's failure to return same on or before October 10, 2001 at 4:00 P.M. CDST shall render this agreement void at Mewbourne's sole option.

Sincerely

MEWBOURNE OIL COMPANY



D. Paul Haden
Senior Landman

DPH.gb

AGREED and ACCEPTED this _____ day of October, 2001.

HARVEY E. YATES COMPANY

By: _____

08-31-2001 11:23am From-HOLLAND AND HART LLP

5050036043

T-975 P.002/003 F-884

HOLLAND & HART^{LLP}
 and
 CAMPBELL & CARR
 ATTORNEYS AT LAW

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TELEPHONE (505) 885-4421
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Michael H. Feldewert

mhfeldewert@west101ps005.com

August 31, 2001

HAND-DELIVERED

Lori Wrotenbery, Director
 Oil Conservation Division
 New Mexico Department of Energy,
 Minerals and Natural Resources
 1220 South St. Francis Drive
 Santa Fe, NM 87505

**RE: Case No. 12698, de novo
 In the Matter of the Application of Mewbourne Oil Company for
 Compulsory Pooling, Eddy County, New Mexico**

Dear Ms. Wrotenbery,

I am in receipt of your August 30th letter. While I appreciate the Commission's desire to decide cases promptly, I respectfully request that the Commission follow its normal scheduling practices and hear the above referenced matter in October.

The *de novo* appeals were not due to be filed until September 11th. While the appeals were filed early, they were nonetheless filed after the deadline for placing the matter on the September 14th Commission docket because of counsel's schedule and the possibility that witnesses for the applicants could not be available until October. Indeed, I instructed my office to file the appeals after the deadline for the September 14th Commission docket because I have depositions scheduled on the 12th, 13th and 14th of September, and because Mr. Carr is unavailable for a September 14th hearing due to his recent surgery.

I see no prejudice to Mewbourne in following the Commission's regular scheduling practices and hearing this matter in October. The Division's order is not stayed, so Mewbourne is free to drill its well at any time. The only issue Heyco intends to raise at the Commission hearing concerns the formations which should be subject to the pooling order: Mewbourne intends to drill a Morrow well, yet seeks to tie up in its pooling order the shallower formations other working interest owners in the spacing unit desire to develop.

HOLLAND & HART LLP
ATTORNEYS AT LAW

Lori Wrotenbery, Director
New Mexico Oil Conservation Division
August 31, 2001
Page 2

For the above reasons, the applicants respectfully request that the Commission follow its normal scheduling practice and hear the *de novo* appeals at its October docket. Thank you for your attention to this request.

Very truly yours,



Michael H. Feldewert

MHF/ras

cc (via fax): Stephen Ross, Esq., Oil Conservation Division
James Bruce, Esq.

Melissa called this date to confirm that we received her fax. Advised her that we did, that we were reviewing same but had no response yet. I told her we'd talk to her next week after the holiday. *ft* 2/31

P.O. Box 1933, Roswell, New Mexico 88202
(505) 623-6601 Business
(505) 624-5321 Fax

**Harvey E. Yates
Company**

Fax

To: Paul Hadam
Membrosome Oil Co. From: Melissa Parker
Fax: 915/685-4170 Pages: 3
Phone: 915/682-3715 Date: August 31, 2001
Re: Esperanza 15 State CC:
Com #1

Urgent For Review Please Comment Please Reply Please Recycle

Attached is H8400, it also letter concerning
farmout terms in this well.

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P. O. BOX 1933

ONE SUNWEST CENTRE

505 / 623-6601

FAX 505 / 622-4221

ROSWELL, NEW MEXICO 88202-1933

SEP 04 2001

Via Telefax and U.S. Mail

August 31, 2001

Mewbourne Oil Company
500 West Texas, Suite 1020
Midland, Texas 79701

Attention: D. Paul Haden
Senior Landman

Re: Esperanza 15 State Com #1
T-21S, R-27E, N.M.P.M.
2232' FSL & 1980' FEL
Section 15: E/2
Eddy County, New Mexico
Farmout Terms

Ladies and Gentlemen:

In my telephone conversation with Paul Haden on August 14, 2001, Harvey E. Yates Company (HEYCO) and Shinnery Investment Company (HEYCO, et al) offered another counter proposal to MOC's offer of July 24, 2001. The terms were as follows:

- 1) HEYCO, et al would allow its rights below the base of the Wolfcamp to be force pooled, i.e. non-consent, in the captioned well until the well reaches payout of the force pool penalty from that depth.
- 2) At the same time, HEYCO, et al would retain and not include its rights from the base of the Yates to the base of the Wolfcamp formation under force pool and/or non-consent position. This would mean HEYCO, et al would have the option to participate with its interest in shallower zones in this well and subsequent wells in these formations in the future.
- 3) At such time HEYCO, et al were to receive a proposal from Mewbourne Oil Company (MOC) to recompleat the initial test well, HEYCO, et al would reimburse MOC its share of actual drilling costs from surface to the base of the Wolfcamp.

Mr. Haden stated in our August 14, 2001 telephone conversation that these terms would not be acceptable. On August 23, 2001, Larry Cunningham and Bruce Insalaco came to HEYCO's office to discuss trade terms and review geology for this prospect. In my telephone conversation with Mr. Cunningham on August 24, 2001, I stated HEYCO, et al would now agree to farmout its interest in all depths from the base of the Yates to the base of the Morrow based on a 33.33% back-in after payout, proportionately reduced. This offer is based on the fact that HEYCO, et al feels the proposed well will produce just enough from the Morrow to payout the cost to drill and complete the well within a projected length of time that is sufficient for HEYCO, et al to plan to participate in the development of the Wolfcamp or any other shallower formation.

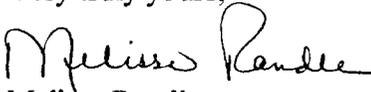
In my telephone conversation with Paul Haden on August 29, 2001, Mr. Haden informed me that HEYCO, et als latest proposal is unacceptable.

With HEYCO, et al owning approximately 16.65% WI in this well, the difference in a 33.33% back-in after payout (5.55%) and a 25% back-in after payout (4.16%) is quite small and does not make sense that a 33.33% back-in would render HEYCO, et als offer unreasonable or uneconomic to MOC.

In the event HEYCO, et als latest farmout offer is still unacceptable to MOC, HEYCO, et al will go forward with its application for Hearing DeNovo. HEYCO, et als position to the Oil Conservation Division will be we have no objection to MOC force pooling HEYCO, et al to explore the Morrow, but HEYCO, et al is not willing to give up its rights in shallower formations without proper compensation from MOC. Further, that HEYCO, et al has continued to negotiate in good faith with MOC in this prospect.

Please consider accepting any one of HEYCO, et als farmout offers and HEYCO, et al will dismiss its application for Hearing DeNovo.

Very truly yours,


Melissa Randle
Landman

/mvr

EsperanzaMewbourneFOTerms3.doc/Land:NonOp#4

MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

FACSIMILE TRANSMITTAL COVER SHEET

Date: 8-29-01

Time: _____

Page 1 of 2 Pages

TO: MELISSA RANDEL

FACSIMILE NO.: _____ PHONE NO.: _____

FROM: PAUL HADEN

TYPE OF DOCUMENT: RE: JIM BRUCE'S LETTER

ORIGINAL TO FOLLOW IN MAIL (Y/N): (N)

MESSAGE: _____

IF YOU DO NOT RECEIVE ALL PAGES CLEARLY, PLEASE CALL US AS SOON AS POSSIBLE.

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JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA
HYDE PARK ESTATES
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

August 28, 2001

Via Fax and U.S. Mail

Lori Wrotenbery
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Case No. 12698 de novo; application of Mewbourne Oil Company ("Mewbourne") for compulsory pooling, Eddy County, New Mexico

To be heard de novo at the request of Harvey E. Yates Company and Jalapeno Corporation

Dear Ms. Wrotenbery:

The applications for hearing de novoin this matter were filed after the deadline to place the cases on the September 14, 2001 Commission docket. The only party affected by the de novo applications is Mewbourne. Mewbourne hereby expressly waives the notice period set forth in the Division's rules, and this matter need not wait until the October Commission docket to be heard. In addition, Mewbourne has rig scheduling problems which will impose upon it an undue burden if this matter is not heard until October. Therefore, Mewbourne requests that the above matter be heard at the September 14, 2001 Commission hearing.

Thank you for your consideration of this request.

Very truly yours,


James Bruce
Attorney for Mewbourne Oil Company
cc: Michael H. Feldewert (via fax)

MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

FACSIMILE TRANSMITTAL COVER SHEET

Date: 8-29-01

Time: _____

Page 1 of 8 Pages

TO: MELISSA RANDEL

FACSIMILE NO.: (505) 627-2427 PHONE NO.: _____

FROM: PAUL HADEN

TYPE OF DOCUMENT: _____

ORIGINAL TO FOLLOW IN MAIL (Y/N): (N)

MESSAGE: AS TO YOUR FORM OF FARMOUT AGREEMENT, ATTACHED ARE OUR REQUESTED REVISIONS. SUCH FARMOUT AGREEMENT MUST BE SIGNED BY HEYCO ON OR BEFORE SEPT. 4, 2001 @ 5:00 P.M. HOWEVER, WE PREFER OUR FORM AS WAS PREVIOUSLY FAXED TO YOU. IN ADDITION, HEYCO WILL NEED TO DISMISS THE ^{*****} DE NOVO HEARING.

IF YOU DO NOT RECEIVE ALL PAGES CLEARLY, PLEASE CALL US AS SOON AS POSSIBLE.

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FARMOUT AGREEMENT

Between

HARVEY E. YATES COMPANY

and

LEASE #

INSOFAR AS SAID LEASE COVERS THE FOLLOWING DESCRIBED LANDS:

(See attached Exhibit "A")

Township South, Range East, N.M.P.M.

Section :

containing acres, more or less

County, New Mexico

Dated:

lands, depths and Oil and Gas Leases described in Exhibit "A" attached hereto (hereinafter referred to as the "Lease Acreage")

Page 2

Harvey E. Yates Company (HEYCO), a New Mexico Corporation, P. O. Box 1933, Roswell, New Mexico 88202-1933; (hereinafter referred to as "HEYCO"), represents, but does not warrant, that HEYCO owns an interest in the following oil and gas lease covering lands in Eddy County, New Mexico and desires to farm out their interest to Morrow Oil Company (hereinafter referred to as "MOC") as to said Lease Acreage

Federal Lease Number MOG original lease, dated 1956 insofar as said lease covers the following described lands:

Township 15 South, Range 21 East, N.M.P.M. Section: 15

Esperanza's State Com # 111111

subject to the royalty reserved in said lease by the Lessor, and all other burdens on production which have been created prior to the date of this agreement, and the overriding royalty reserved herein by the HEYCO. Said Oil and Gas Lease covering the above described lands shall be committed to proration unit for the well. Said Oil and Gas Lease, covering the above described lands from to total depth drilled plus 100' in the well (hereinafter referred to as "Initial Test Well") to be drilled at a legal location in the SE 1/4 of Section 15, Township 15 South, Range 21 East, N.M.P.M. 21 27 subject to the said burden on production, is hereinafter referred to as the "Lease Acreage".

If MOC complies with all the terms, covenants and conditions of this agreement by drilling the Initial Test Well provided for herein, HEYCO will execute and deliver to MOC without warranty of title, either express or implied, an appropriate instrument conveying operating rights under the Lease Acreage as to the terms, conditions, and rights set forth below. Upon MOC written request, HEYCO will prepare all appropriate instruments.

The terms, covenants and conditions to which this agreement is subject are as follows:

1. WORKING INTEREST AREA

MOC is forming a 320-acre working interest area covering Township 15 South, Range 21 East, N.M.P.M., Section 15, Eddy County, New Mexico (hereinafter referred to as "WIA"). In support of the formation of the WIA, HEYCO is contributing its rights in the Lease Acreage. Therefore, any interest HEYCO owns by virtue of this agreement will be proportionately reduced by HEYCO's net acre position under the 320-acre WIA. All operations conducted under the WIA will be governed by the terms and conditions of an existing 1956 A.A.L. Model Form Operating Agreement covering the Section 15, Township 15 South Range 21 East.

2. INITIAL TEST WELL

On or before November 1, 2000, MOC shall commence or cause to be commenced, the actual drilling of the Initial Test Well for oil and/or gas and shall thereafter drill said Initial Test Well without unnecessary delay and in a workmanlike manner to a depth sufficient to adequately test the formation, to a depth of 320 below the surface, whichever shall occur first.

3. SUBSTITUTE WELL

If, in the drilling of the Initial Test Well, MOC loses the hole, or mechanical difficulties arise, or practically impenetrable substances are encountered which render further drilling impossible or impracticable, MOC shall have the right, but not the obligation, to abandon the Initial Test Well and, within thirty (30) days, commence a Substitute Well, therefore, at a legal location within the same quarter-quarter section of the Initial Proration Unit. Any Substitute Well so commenced shall be drilled to the same depth and in the same manner as is required for such well provided for hereinabove, and the drilling and completion thereof shall have the same effect hereunder as would the drilling and completing of the Initial Test Well. If MOC elects not to commence the drilling of a Substitute Well, MOC must notify HEYCO.

4. FAILURE TO PERFORM

If MOC does not commence said Initial Test Well, or does not complete within the terms of this agreement in the time and in the manner required, at HEYCO's election, all of MOC's right, title and interest in and to the Lease Acreage and the rights set forth under this agreement shall ipso facto terminate. The ipso facto termination of this agreement shall be the only consequence/liability for failure to perform.

dated April 25, 2001 Yates formation

the base of the Eddy

MOC's Esperanza's

that certain

estimated total depth being 11,800' beneath the surface.

in MOC's opinion

MOC's

the base of the Yates formation
→ within sixty (60) days

5. ASSIGNMENT OF RIGHTS

Upon completion of the Initial Test Well as a well capable of producing oil and/or gas in commercial quantities, HEYCO shall (upon *MOC's* written request accompanied by an approved completion report) deliver an appropriate instrument conveying, without warranty of title, either express or implied, all of its operating rights in, to and under the Lease Acreage, limited in depth from terms and conditions of this agreement. to 100' below total depth drilled in the Initial Test Well subject to the *→ the stratigraphic equivalent*

The term "commercial quantities" as used herein shall mean the production of oil and/or gas from a well in sufficient quantities to pay a profit over operating expenses after payment of the Lessor's royalty.

6. RESERVATIONS

A. Overriding Royalty Interests

HEYCO shall reserve and retain as an overriding royalty interest the difference between existing burdens and %. HEYCO's share of the retained overriding royalty interest shall be proportionately reduced by its net-acre position under the Leased Acreage. Said retained overriding royalty interest shall be payable out of the net proceeds received from the sale of all of the oil, gas and other hydrocarbon substances which may be produced, saved and marketed from the Lease Acreage. Said override shall be free of all costs of drilling, development, production, operations, gathering, processing, treating, separating, marketing and all other liens and encumbrances, but will bear its proportionate part of production and severance taxes.

B. Payout of Initial Test Well

Upon payout of the Initial Test Well, and at HEYCO's election, the overriding royalty interest previously reserved by HEYCO will be converted to a proportionately reduced 25% working interest. This conversion will be effective ~~7:00 P.M. on the day~~ following actual payout of the Initial Test Well. During the payout period, shall furnish to HEYCO current monthly statements summarizing income and expenses properly chargeable to payout.

shall notify HEYCO when the Initial Test Well has reached payout. Within thirty (30) days of receipt of such notice, HEYCO will confirm in writing whether it elects to a) convert its retained overriding royalty interest to a working interest, or b) continue to retain its overriding royalty interest. If HEYCO elects to convert its overriding royalty interest, will promptly provide HEYCO with the appropriate instruments to reflect that decision. This agreement will terminate and HEYCO's interest will automatically be subject to the terms and conditions of Operating Agreement controlling the operations of the well.

"Payout" is defined to be the date on which the net proceeds of production from the Initial Test Well equal the total costs and expenses, both tangible and intangible, of drilling, equipping, testing, completing and operating the Initial Test Well. "Net Proceeds" is defined to be the total proceeds received, less severance, production, windfall profits and other taxes payable on production together with all royalties, overriding royalties, including the overriding royalty interest reserved by HEYCO, hereunder, and payments out of production, including lease operating expenses, presently in effect or created by this agreement.

~~C. Subsequent Operations~~

~~Regardless of whether or not payout has occurred in the Initial Test Well, in the event ~~proposes a~~ subsequent operation under the WIA, HEYCO will be asked to make a decision to a) be a working interest owner, or b) retain an overriding royalty interest position under the Operating Agreement covering the of the Section . HEYCO's election will be separate from its opportunity to convert or retain under the Initial Test Well~~

D. Other

HEYCO shall reserve and except in any assignment due hereunder, all rights not specifically set out in this agreement or any assignment.

and Subsequent Wells

or subsequent well on a well by well basis

of the top of the
as of the first day of the month

→ MOC

7. ASSIGNABILITY AND EFFECT OF AGREEMENT

Any such assignment of this agreement, either in whole or in part, shall make specific reference to this agreement, and the assignee shall agree in writing to be bound by the provisions of this agreement. This agreement shall not create, nor shall it be construed as creating a partnership or joint venture. The terms, covenants and conditions hereof shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, personal representatives, successors and assigns.

8. RISK, COST AND EXPENSE OF OPERATIONS

The entire cost, risk and expense of drilling, testing, completing and/or plugging any well drilled hereunder shall be borne exclusively by _____.

Such well shall be drilled and/or plugged and abandoned in compliance with all valid rules, orders, regulations and laws of state, local or federal authorities and in accordance with approved drilling practices. _____ agrees to save and hold HEYCO harmless from any and all claims, liens, loss, cost and expense, including the cost of investigation and litigation, arising out of or as a result of _____ operations on the Lease Acreage. _____ shall comply with all the terms and provisions of the oil and gas lease which is the subject of this agreement.

_____ shall test all formations which would appear promising of being productive of oil or gas to a reasonably prudent operator. HEYCO shall, at its sole cost and risk, at all times have full and complete access to the derrick floor and to all information obtained in the drilling and testing of any well drilled hereunder.

shall:

- (a) Notify HEYCO when any well is staked;
 - (b) Notify HEYCO when the actual drilling is commenced;
 - (c) Furnish HEYCO a copy of the geologist's report and a copy of all forms filed with the proper state authorities;
 - (d) Provide HEYCO with a daily drilling report and any completion or plugging reports.
- ~~HEYCO shall hold any non-public reports not as confidential.~~

9. EXTENSIONS OR RENEWALS

During the time this Farmout Agreement is effect, all interests, reservations and rights of HEYCO in and to the described Lease Acreage and the production therefrom will extend not only to the oil and gas lease now owned or controlled by HEYCO covering said lands, but also to any extensions by which said lease is continued in force, or renewals of the Lease Acreage, which may be acquired by HEYCO. HEYCO agrees to grant to _____, under any such extension or renewal, the same rights and interests in the Lease Acreage, and the production therefrom, as are reserved by, or granted to, HEYCO under the provisions of this agreement. _____ will pay its proportionate share of any renewal costs.

10. GEOLOGICAL DATA

_____ will allow HEYCO or its representatives full access to the derrick floor, access to all cores, cuttings, logs, testing and completion data and all other information pertaining to any wells drilled on the Lease Acreage.

11. APPLICATION OF LAWS

This agreement is subject to all valid, applicable Federal, State and Local laws, rules, orders and regulations of any duly constituted Federal, State or Local regulatory body or authority having jurisdiction thereof, and all development and operations hereunder shall be conducted in conformity thereof.

12. INSURANCE

shall carry or cause to be carried the following insurance, protecting HEYCO against loss by reason of operations hereunder:

- (i) Workmen's Compensation and Employer's Liability Insurance as required by the laws of the State of New Mexico;
- (ii) Liability Insurance in the amount of \$200,000 per person and \$500,000 per accident for personal injury and \$100,000 for property damage.

shall furnish, upon written request from the HEYCO, certificates of such insurance.

13. DELAY RENTALS, SHUT-IN PAYMENTS, MINIMUM ROYALTY PAYMENTS

It is further agreed that HEYCO will use its best effort to pay the rentals, if any, to the lessor of the lease which is the subject of this agreement. Nevertheless, HEYCO shall not be held liable for damages for failure to pay said rentals through mistake, clerical error or oversight. agrees to reimburse HEYCO for its pro-rata share of the rentals paid on the lease. pro-rata share will be calculated according to the rights is entitled to earn through this agreement.

After earns an interest in the Lease Acreage and an assignment is actually made hereunder, shall be responsible for the payment of shut-in royalty and minimum royalty. hereby agrees to timely notify HEYCO at any time a well drilled herein is shut in and when shut-in royalty payments may be due and payable thereby. HEYCO agrees to reimburse for its proportionate share of such payments.

14. WELL TAKE-OVER AT ANY TIME

subject to the rights of the joint interest owners

After any well on the Lease Acreage has been drilled to the depth provided for and a final log has been run, shall notify HEYCO in writing as to whether or not it elects to attempt to complete the well as a producer of oil and/or gas. If elects not to attempt a completion, HEYCO shall have the right to take over said well and attempt to complete and/or deepen the same at its sole cost, risk and expense by notifying in writing or by wire to be confirmed in writing of its election to do so within forty eight (48) hours, exclusive of Saturday, Sunday and legal holidays, after receipt.

HEYCO shall take over said well as provided for in the foregoing paragraph, and its completion and/or deepening attempt does not result in a well capable of producing oil and/or gas, HEYCO shall plug and abandon said well at its sole cost and risk. If HEYCO's operations result in a well capable of producing oil and/or gas, then notwithstanding any provisions herein to the contrary, HEYCO shall own said well. rights hereunder as to said proration unit of the well shall terminate and MOC agrees to promptly furnish HEYCO with an assignment of the proration unit free and clear of any burdens not in existence at the time of this agreement. HEYCO shall pay to, upon completion of a well by HEYCO under this provision, the reasonable value of any salvageable materials or equipment in or on said well at the time HEYCO took over said well.

MOC

shall

X HEYCO does not notify MOC of its election to take over the well within the time herein provided shall plug and abandon the well in accordance with the applicable governmental rules and regulations.

15. FORCE MAJEURE

The performance by and HEYCO of any of the terms and provisions of this agreement shall be excused in the event such performance is prevented by strikes, fire, flood, tornado, lightning, explosion, acts of God or the public enemy, State or Federal rules or regulations or any things or happenings either similar or dissimilar beyond control, provided, however, that such performance shall be resumed within reasonable time after such cause has been removed.

Should HEYCO elect not to take over the well, MOC

(as to the rights to be earned hereunder)

16. NOTICES

All notices, reports, samples, logs or other information required hereunder shall be given, postage and charges fully prepaid. Any such notice delivered by certified mail to a party at its above address shall be deemed given two (2) days after the postmark date of the returned receipt.

17. TITLE

HEYCO does not warrant title to the Lease Acreage in any manner nor does it make any representation with regard to any presence or lack of federal jurisdiction and/or regulation of the Lease Acreage or the oil, gas and minerals sold therefrom. _____ will, upon request, furnish HEYCO with a true copy of title opinions and curative data which cover or affect title to lands subject to this agreement. There shall be no obligation on the part of HEYCO to furnish any new or supplemental abstracts of title nor to do any curative work in connection with title to said acreage or in connection with any previous contracts affecting the Lease Acreage not reflected in HEYCO's files. Abstracts and other title material owned or controlled by _____ that cover such lands shall, upon request, be made available to HEYCO for examination.

18. RESTORATION OF PREMISES

_____ agrees to fill in all pits which may be dug in connection with any operations hereunder, to restore the surface of the lands on which such operations are conducted as nearly as possible to its original condition, and to plug and abandon any of the wells provided for herein at _____ sole cost, risk and expense and to do so in accordance with the rules and regulations of any governmental body having jurisdiction thereof. All operations should be conducted with due diligence in a proper and workmanlike manner.

19. PRODUCTION IN KIND

HEYCO shall have the continuing option to purchase or to designate a purchaser of all of HEYCO's share of the oil, gas, casinghead gas or other hydrocarbon substances that may be produced from or allocated to the Lease Acreage assigned pursuant to this agreement. In the event HEYCO elects to exercise this option, as provided herein, HEYCO must give _____ written notice of its election on or before ten (10) days prior to the first day of the month in which ~~to~~ HEYCO will be purchasing or designating a purchaser of all of the production. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. This option may be exercised whether such interest, or a portion thereof, is included in any pool or in any pooling agreement or unit, planned or otherwise. This option applies to any and all extensions and renewals of the Lease Acreage.

~~20. SALES CONTRACT~~

~~Before _____ enters into any contract for the sale, purchase or processing of gaseous hydrocarbons from the interests involved herein, it shall submit to HEYCO, in writing, the contract it proposes to execute. HEYCO shall have the right and the option to (1) take in kind or otherwise dispose of its share of the gas on such terms and conditions as deemed advisable, or (2) allow EOL to dispose of all the gas and account to HEYCO, all in accordance with the terms of the proposal submitted.~~

21. ACCEPTANCE

This agreement is not binding upon _____ until such time as it has been accepted by HEYCO. _____ must then accept this agreement within ten (10) days after acceptance by HEYCO, and return one fully executed copy to HEYCO.

22. COUNTERPART EXECUTION

This instrument may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing, specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all such parties had signed the same instrument.

EXECUTED as of the dates shown below.

~~ATTEST:~~

HARVEY E. YATES COMPANY

By: _____
Steven M. Yates, Vice-President

Date: _____

~~ATTEST:~~

Menbourn Oil Company

By: _____
D. Paul Haden, Senior Landman
Date: _____

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN FARMOUT AGREEMENT
DATED , BETWEEN HARVEY E. YATES COMPANY,
AND

Percentage of
Ownership In
Leased Acreage

Farmer

Harvey E. Yates Company

Exhibit "A" will be the description
of the leases contributed and rights
from the base of the Yates formation
through the base of the Morrow
formation.

P O Box 1933, Roswell, New Mexico 86202
(505) 623-6601 Business
(505) 624-5321 Fax



Fax

Paul Haden
 To: *Newhouse Oil Company* From: *Melissa Randle*
 Fax: *915/685-4170* Pages: *9*
 Phone: *915/682-3715* Date: *August 27, 2001*
 Re: *Form Tarmout Agreement* CC:
Esperanza 15 State Com #1

- Urgent
- For Review
- Please Comment
- Please Reply
- Please Recycle

*Per our telephone conversation this afternoon,
 attached is HEYCO's form Tarmout Agreement
 for your review. The details of legal description,
 leases and details of the terms of the trade
 have not been filled in. I will work
 toward a draft with all this information
 and get to you as soon as possible.*

MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

FACSIMILE TRANSMITTAL COVER SHEET

Date: 8-27-01

Time: _____

Page 1 of 5 Pages

TO: MELISSA RANDE

FACSIMILE NO.: 505-622-4221 PHONE NO.: _____

FROM: PAUL HADEN

TYPE OF DOCUMENT: _____

ORIGINAL TO FOLLOW IN MAIL (Y/N): (N)

MESSAGE: IF HEYCO IS AGREEABLE TO OUR FORM, I'LL SEND THE ORIGINAL UPON FINAL NEGOTIATIONS OF THE PROPOSED FARMOUT TERMS.

IF YOU DO NOT RECEIVE ALL PAGES CLEARLY, PLEASE CALL US AS SOON AS POSSIBLE.

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MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

August 27, 2001

Harvey E. Yates Company
and Shinnery Investment Company
P.O. Box 1933
Roswell, New Mexico 88202-1933

Re: FARMOUT LETTER AGREEMENT
E/2 of Section 15, below the base of
the Yates formation through the base
of the Morrow formation
T21S, R27E
Eddy County, New Mexico

Ladies and Gentlemen:

This letter shall evidence Harvey E. Yates Company and Shinnery Investment Company's (Heyco, et al) agreement to assign to Mewbourne Oil Company (Mewbourne) all of Heyco, et al operating rights in the captioned land subject to the following terms and conditions:

I. INITIAL TEST WELL

At our sole cost and risk Mewbourne, as Operator agrees to commence or cause to be commenced operations for the drilling of an initial test well in search of oil and/or gas at a location 2232' FSL & 1980' FEL of the subject Section 15 within 180 days from Heyco, et al execution of this FARMOUT LETTER AGREEMENT. Said well once commenced, shall be prosecuted with due diligence and in a prudent manner to a depth sufficient to adequately test the Morrow formation, estimated total depth being 11,800' or to a depth at which mechanical difficulties arise or practically impenetrable substances are encountered which render further drilling impossible or impractical or any other condition or situation that may be encountered which would necessitate cessation of drilling operations in Mewbourne's opinion whichever of the foregoing depths is lesser.

II. SUBSTITUTE WELL

If in conducting any of the drilling operations herein described, permitted or provided for, Mewbourne encounters any conditions or difficulties, whether natural or mechanical, which in Mewbourne's opinion make further drilling and completion of any well impossible or impracticable, then Mewbourne shall have the option to commence operations for the drilling of a substitute well within sixty (60) days after cessation of operations on the well in which conditions or difficulties were encountered. Such substitute well shall be drilled at a location acceptable to Mewbourne and in the manner and to the depth specified for the well which it replaces.

III. TESTING

Mewbourne agrees to keep an accurate log of each well, to drill the same in a good faith effort to discover oil and/or gas and to test adequately all oil and gas shows encountered while drilling same in Mewbourne's opinion which warrant testing. Mewbourne agrees to comply with all reasonable requirements as may be specified in any "Geological Requirement" letter that Heyco, et al might furnish Mewbourne.

IV. DRILLING AND COST OF WELLS

- 1) The entire cost, risk and expense of drilling, testing, completing, recompleting and/or plugging the Initial Test Well or, Substitute Well shall be borne exclusively by Mewbourne.
- 2) The operations conducted by Mewbourne for the Initial Test Well or any well drilled hereunder shall be drilled in compliance with all valid rules, orders, regulations and laws of state, local or federal authorities and in accordance with approved drilling and completion practices. Mewbourne agrees to save and hold Heyco, et al harmless from any and all claims, liens, loss, cost and expense arising out of or as a result of our operations on the lands described in the captioned hereof or land pooled therewith.
- 3) There is no obligation upon Mewbourne to commence operations for any well or wells under the terms of this agreement, the only penalty for failure to commence any such operations for any such wells shall be the forfeiture of Mewbourne's rights hereunder.

V. ASSIGNMENT AND RESERVATIONS

- 1) If any of the operations conducted by Mewbourne under the terms of this agreement results in oil and/or gas production in a proration unit including Heyco, et al acreage in the captioned land and depths, Mewbourne will earn an assignment on a form acceptable to Mewbourne of all of Heyco, et al right, title and interest included in the proration unit prescribed by the applicable regulatory authority for such wells from the surface to 100' below total depth drilled.
- 2) Heyco, et al shall retain an overriding royalty interest equal to the difference between 25% of all oil and gas produced and saved and the total of all royalty interests, overriding royalty interests and other similar lease burdens upon production to which Heyco, et al leases may be subject, to the extent Mewbourne will be assigned a 75% net revenue interest in the leasehold estate, operating rights and/or contractual interests that might have been created under a Operating Agreement effecting the captioned land to be assigned hereunder. The overriding royalty interest retained is to be subject to proportionate reduction (i) in the event Heyco, et al own less than the full interest in the lease insofar as it covers the land described above or land pooled therewith (ii) if the lease under the captioned land covers less than all of the oil and gas and/or (iii) if the contractual interest earned by Mewbourne under any existing Operating Agreement covers less than all of the oil and/or gas in the captioned land or land pooled therewith. The overriding royalty reserved herein shall bear its ratable portion of all treating, compression, gathering and transportation costs and applicable production taxes.
- 3) Mewbourne shall have the right to pool the lands in the E/2 of the captioned Section 15 covered by the oil and gas lease to be farmed out and assigned and any retained overriding royalty interests into any type of proration unit or other unit prescribed or approved by the State of New Mexico and/or the Bureau of Land Management, with such pooling to be accomplished without Heyco, et al further consent. In the event such pooling occurs, Heyco, et al overriding royalty interest retained hereunder will be proportionately reduced accordingly.
- 4) At payout of any well drilled by Mewbourne under the terms of this agreement which includes Heyco, et al acreage under the captioned land, Heyco, et al would have the option to convert its retained overriding royalty interest to a 25% working interest, subject to proportionate reduction in the same manner as the overriding royalty interest described above, together with a like interest in all leasehold equipment and personal property in or used in connection therewith, subject to a proportionate part

of any royalty, overriding royalty or similar lease burdens reserved and outstanding. Such conversion option if exercised, shall be on a well by well basis upon payout and shall become effective as of the first day of the month following payout. Such payout option shall be exercisable by Heyco, et al within 30 days after receipt of written notice of payout. Failure to elect within such 30 day period shall be deemed an election to continue the overriding royalty interest owned by Heyco, et al as retained hereunder. If at any time any part of the farmout acreage or lands pooled or communitized therewith becomes jointly owned by Mewbourne and Heyco, et al, said parties agree to be bound by the joint operating agreement attached hereto as Exhibit "A". Mewbourne agrees to provide quarterly payout statements evidencing the payout status of the well.

- 5) For purposes of this agreement, payout shall be deemed to have occurred when proceeds or market value of production from the subject well (after deducting production taxes, royalty, overriding royalty and similar lease burdens) shall equal 100% of Mewbourne's actual cost of drilling, testing, equipping, and completing the subject well, including the actual cost of any reworking, deepening or plugging back, plus 100% of the actual cost of operations of the well; the proceeds of production and the cost of such development and operations to be attributable only to the undivided interest subject hereto if less than the full interest in the oil and gas. The provisions of the 1984 COPAS Accounting Procedure attached as Exhibit "C" to the operating agreement described in paragraph No. 4 above shall govern the rates and charges during payout, as defined above.

VI. INDEMNIFICATION

- 1) Heyco, et al shall indemnify, defend and hold Mewbourne harmless from any and all costs, obligations, claims, demands and causes of action of any kind or character with respect to the leases covering the captioned land arising, occurring or accruing prior to the execution date of this Farmout Letter Agreement.
- 2) Mewbourne shall indemnify, defend and hold Heyco, et al harmless from any and all costs, obligations, claims, demands, and causes of action of any kind or character arising out of, incident to, directly or indirectly from Mewbourne's operations conducted on the captioned land pursuant to the terms of this Farmout Letter Agreement with respect to Heyco, et al lease covering the captioned land or land pooled therewith. All operations conducted by Mewbourne with respect to the captioned land shall be at Mewbourne's sole risk and cost and under Mewbourne's exclusive control pursuant to the terms of this Farmout Letter Agreement. Furthermore, all operations conducted by Mewbourne with respect to the captioned land (including without limitation, plugging and abandoning operations) shall be conducted in strict compliance with the leases and the statutes, rules, regulations, requirements and orders of any governmental agency having jurisdiction thereof.

VII. RENTAL PAYMENTS

Heyco, et al agrees to pay any annual rentals or minimum royalties which may become due on the farmout acreage during the term of this agreement and upon receipt of Heyco, et al billing, we shall promptly reimburse you for 100% of such payments as to lands covered hereby. This provision shall not render Heyco, et al liable for inadvertent failure to pay such rentals or minimum royalties.

VIII. FORCE MAJEURE

The performance by Mewbourne of any of the terms and provisions of this agreement shall be excused in the event such performance is prevented by strikes, fires, flood, tornado, lightning, explosion, acts of God or the public enemy, State or Federal rules or regulations or any things or happenings either similar or dissimilar beyond our control; provided, however, that such performance shall be resumed within thirty (30) days after such cause has been removed.

IX. TITLE INFORMATION

Upon Mewbourne's request, Heyco, et al agrees to furnish Mewbourne at no cost whatsoever, all title and land information currently in your files pertaining to the captioned land including but not limited to title opinions, copies of leases, rental receipts, farmout or letter agreements and any gas contract currently in effect as to the captioned land. There shall be no obligation on Heyco, et al part to furnish any new or supplemental abstracts of title for the captioned land.

X. GEOLOGICAL REQUIREMENTS

Mewbourne agrees to furnish Heyco, et al the following:

- 1) DAILY DRILLING REPORTS on the progress of the well which shall include drilling depth, name of any formation penetrated, shows of oil, gas or water.
- 2) One (1) copy of all forms furnished to any governmental authority.
- 3) One (1) copy of any open hole or cased hole logs, any surveys run in the well, DRILL STEM TEST, core analysis, mud log or hydrocarbon log run in the well.

XI. EFFECT OF AGREEMENT

This agreement shall not create, nor shall it be construed as creating a partnership or joint venture. The terms, covenants, and conditions hereof shall be binding upon and inure to the benefits of the parties hereto, their successors and assigns.

XII. ACCEPTANCE

If the above and foregoing is acceptable to you, please indicate such acceptance by signing in the space provided below and return one (1) fully executed agreement to the undersigned at the above address. Heyco, et al failure to return same on or before September 4, 2001 at 5:00 P.M. CDST shall render this agreement void at Mewbourne's sole option.

Sincerely

MEWBOURNE OIL COMPANY



D. Paul Haden
Senior Landman

DPH:gb

AGREED and ACCEPTED this _____ day of August, 2001.

HARVEY E. YATES COMPANY

SHINNERY INVESTMENT COMPANY

By: _____

By: _____

**BEFORE THE OIL CONSERVATION DIVISION
NEW MEXICO ENERGY, MINERALS
AND NATURAL RESOURCES DEPARTMENT**

**IN THE MATTER OF THE APPLICATION
OF MEWBOURNE OIL COMPANY FOR
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.**

CASE NO. 12698

APPLICATION FOR HEARING DE NOVO

Comes now HARVEY E. YATES COMPANY, a party adversely affected by Order No. R-11636, and hereby applies for a hearing *De Novo* before the full Commission, pursuant to NMSA 1978, Section 70-2-13.

Respectfully submitted,

HOLLAND & HART and
CAMPBELL & CARR

By: 

Michael H. Feldewert
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

ATTORNEYS FOR HARVEY E. YATES
COMPANY

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Application for Hearing *De Novo* was faxed and mailed this 24 day of August, 2001 to the following:

James Bruce, Esq.
Post Office Box 1056
Santa Fe, New Mexico 87504
Fax No. 505 982-2151


Michael H. Feldewert

Advised Melissa
this date that we
(Larry & me) would meet
them in Roswell Thurs.
Aug. 23rd @ 11:30 to
discuss.

PH.
8/21/01

Larry & Bruce met with
Aleyco in Roswell & discussed
geology and trade terms. on
Aug. 23rd.

PH.

Enclosure 15 State Com #1

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:

Harvey E. Yates Company
 and Shinnery Investment Co.
 P.O. Box 1933
 Roswell, N.M. 88202-1933
 Attention: Vernon Dyer

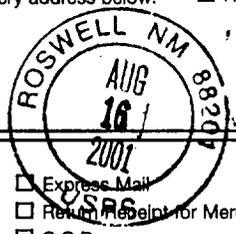
AUG 17 2001

COMPLETE THIS SECTION ON DELIVERY

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

C. Signature: *Amy P. Cross* 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)
 2471130680

MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

August 14, 2001

Via Fax 505-622-4221 and
Certified U.S. Mail-Return Receipt Requested

Harvey E. Yates Company
and Shinnery Investment Company
P.O. Box 1933
Roswell, New Mexico 88202-1933

Attn: Vernon Dyer

Re: Order No. R-11636
Esperanza "15" State Com. #1 Well
E/2 of Section 15, T21S, R27E
Eddy County, New Mexico

Ladies and Gentlemen:

Pursuant to the terms of Ordering Paragraph (6) of the referenced Order, enclosed for your further handling is a copy of our AFE dated May 31, 2001 (an estimated well cost) for the captioned well.

In the event you elect to participate in the drilling and completion of the captioned well, please forward the undersigned your proportionate part of the estimated well cost within thirty (30) days of receipt of this letter.

Enclosed for your information regarding the above is a copy of the referenced Order.

Sincerely yours,

MEWBOURNE OIL COMPANY



D. Paul Haden
Senior Landman

DPH/gb

MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

August 13, 2001

[Via Fax 505-622-4221 and First Class Mail]

Harvey E. Yates Company
P.O. Box 1933
Roswell, New Mexico 88202-1933

Attn: Melissa Randle

Re: Esperanza "15" State Com. #1 Well
E/2 of Section 15, T21S, R27E
Eddy County, New Mexico

Ladies and Gentlemen:

Reference is made to the farmout terms offered in your letter dated August 8, 2001 and our previous correspondence and conversations regarding the captioned proposed well. Please be advised, Mewbourne respectfully declines to accept the terms offered as such rights do not include all rights below the base of the Yates formation. We must have rights below the base of the Yates formation as such rights are in the contract area of the JOA we previously furnished you and signed by others and such rights are currently associated with the recent pooling hearing.

In the event Harvey E. Yates Company decides to grant Mewbourne a farmout of its rights below the base of the Yates formation through the base of the Morrow formation as to the captioned proposed well, please forward your form of farmout agreement for our review. Should you have any further questions, concerns or ideas regarding a trade as to the captioned land and well, please do not hesitate to call me.

Your cooperation in connection with the above is greatly appreciated.

Sincerely yours,

MEWBOURNE OIL COMPANY

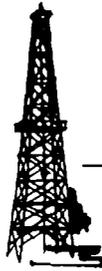


D. Paul Haden
Senior Landman

DPH/gh

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P. O. BOX 1933

ONE SUNWEST CENTRE

505 / 623-6601

FAX 505 / 622-4221

ROSWELL, NEW MEXICO 88202-1933

Via Telefax and U.S. Mail

August 8, 2001

Mewbourne Oil Company
500 West Texas, Suite 1020
Midland, Texas 79701

Attention: D. Paul Haden
Senior Landman

Re: Esperanza 15 State Com #1
T-21S, R-27E, N.M.P.M.
2232' FSL & 1980' FEL
Section 15: E/2
Eddy County, New Mexico
Farmout Terms

Ladies and Gentlemen:

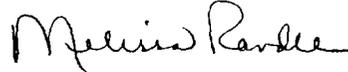
In reference to your letter, dated July 24, 2001, the terms offered in your letter are unacceptable to Harvey E. Yates Company (HEYCO) and Shinnery Investment Company (HEYCO, et al) in part. HEYCO, et al has had its own ideas for depths between the base of the Yates formation to the base of the Wolfcamp formation. HEYCO, et al will farmout their interest in the captioned lands based on the following terms and conditions:

- 1) HEYCO, et al will farmout its operating rights in the proration unit for the Esperanza 15 State Com #1 well (initial test well), limited in depth from the base of the Wolfcamp formation down to the base of the Morrow formation or 11,750', whichever is shallower, retaining an overriding royalty interest equal to the difference in present burdens and 25%.
- 2) HEYCO, et al will have the option at payout of the initial test well to convert its retained overriding royalty interest to a 25% working interest, proportionately reduced.
- 3) HEYCO, et al's interest in subsequent wells will be based on its after payout interest.

- 4) HEYCO, et al's interest in the initial test well and any subsequent wells will be subject to a mutually acceptable joint operating agreement.
- 5) All rental or shut-in royalty payments due on any of the leases under the farmout agreement will be paid by HEYCO and billed 100% to MOC.
- 6) MOC must commence the drilling of the initial test well by November 1, 2001.

Please acknowledge your acceptance of these terms by signing, dating and returning one copy of this letter to HEYCO by August 24, 2001. HEYCO, et al will prepare and forward to you its form farmout agreement for MOC to execute and return one original to HEYCO.

Very truly yours,



Melissa Randle
Landman

/mvr

EsperanzaMewbourneFOTerms2.doc/Land:NonOp#4

AGREED and ACCEPTED THIS _____ DAY OF _____, 2001.

MEWBOURNE OIL COMPANY

By: _____

Title: _____

MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

July 24, 2001

[Via Fax 505-622-4221 and U.S. Mail]

Harvey E. Yates Company
P.O. Box 1933
Roswell, New Mexico 88202-1933

Attn: Melissa Randle

Re: Esperanza "15" State Com. #1 Well
E/2 of Section 15, T21S, R27E
Eddy County, New Mexico

Ladies and Gentlemen:

In reference to our meeting on Thursday, July 19th and your letter dated July 20, 2001, regarding Harvey E. Yates Company and Shinnery Investment Company's (Heyco, et al) interest in the captioned land and well, the terms offered in the referenced letter are unacceptable to Mewbourne Oil Company (MOC). Economics for MOC's proposed well will not support a 1/3 BIAPO as referenced in your letter. Also, MOC would require rights commencing at the base of the Yates formation since our JOA covers rights below the base of the Yates formation through the base of the Morrow formation.

Regarding the above, MOC would consider acquiring a farmout from Heyco, et al on the following general terms:

- 1) 75% NRI delivered to MOC with Heyco, et al having the option APO to convert its retained ORI to a 25% WI, subject to proportionate reduction on a well by well basis.
- 2) Rights to be farmed out would include the Heyco, et al interest in the captioned land from the base of the Yates formation to the stratigraphic equivalent of a depth of 11,750 feet beneath the surface but in no event below the base of the Morrow formation.
- 3) MOC agrees to commence the captioned well by November 1, 2001.
- 4) In the event MOC completes the captioned well as a commercial producer, MOC would earn rights from the base of the Yates formation to 100' below TD drilled but in no event below the base of the Morrow formation.

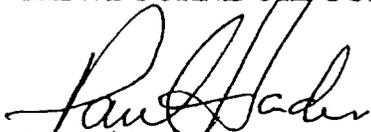
Esperanza "15" State Com. #1 Well
July 24, 2001
Page -2-

- 5) The farmout agreement shall be on a form acceptable to MOC and the JOA to be used APO shall be on the form as previously furnished to you subject to reasonable revisions if necessary.

If the above terms are acceptable to Heyco, et al, please indicate same by signing and returning the copy of this letter to me with your form of Farmout Agreement within fifteen (15) days. Heyco, et al's failure to return same within such time period shall render MOC's farmin offer as referenced above void at MOC's sole option.

Sincerely yours,

MEWBOURNE OIL COMPANY



D. Paul Haden
Senior Landman

DPH/gb

Agreed and Accepted this _____ day of _____, 2001.

HARVEY E. YATES COMPANY

SHINNERY INVESTMENT COMPANY

By: _____

By: _____

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P. O. BOX 1933

ONE SUNWEST CENTRE

505 / 623-6601

FAX 505 / 622-4221

ROSWELL, NEW MEXICO 88202-1933

Via Telefax and U.S. Mail

July 20, 2001

Mewbourne Oil Company
500 West Texas, Suite 1020
Midland, Texas 79701

Attention: D. Paul Haden
Senior Landman

Re: Esperanza 15 State Com #1
T-21S, R-27E, N.M.P.M.
2232' FSL & 1980' FEL
Section 15: E/2
Eddy County, New Mexico
Farmout Terms

Ladies and Gentlemen:

Pursuant to your May 30, 2001 proposal to drill the Esperanza 15 State Com #1, Harvey E. Yates Company (HEYCO) and Shinnery Investment Company (HEYCO, et al) will farmout their interest in the captioned lands under the following terms and conditions:

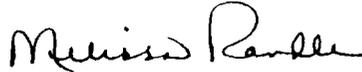
- 1) HEYCO, et al will farmout its operating rights in the proration unit for the Esperanza 15 State Com #1 well (initial test well), limited in depth from the base of the Wolfcamp formation down to the base of the Morrow formation or 11,750', whichever is shallower, retaining an overriding royalty interest equal to the difference in present burdens and 25%.
- 2) HEYCO, et al will have the option at payout of the initial test well to convert its retained overriding royalty interest to a 33.33% working interest, proportionately reduced.
- 3) HEYCO, et al's interest in subsequent wells will be based on its after payout interest.
- 4) HEYCO, et al's interest in the initial test well and any subsequent wells will be subject to a mutually acceptable joint operating agreement.

JUL 23 2001

- 5) All rental or shut-in royalty payments due on any of the leases under the farmout agreement will be paid by HEYCO and billed 100% to MOC.
- 6) MOC must commence the drilling of the initial test well by November 1, 2001.

Please acknowledge your acceptance of these terms by signing, dating and returning one copy of this letter to HEYCO by July 25, 2001. HEYCO will prepare and forward to you its form farmout agreement for MOC to execute and return one original to HEYCO.

Very truly yours,



Melissa Randle
Landman

/mvr

EsperanzaMewbourneFOTerms.doc/Land:NonOp#4

AGREED and ACCEPTED THIS _____ DAY OF _____, 2001.

MEWBOURNE OIL COMPANY

By: _____

Title: _____

Called Melissa this date to set up meeting date. She said she would check with her office to see what date would be good. She's to get back with me. Tentatively we'll meet on Thursday, 7-19-01.

RL

7/16/01

7-17-01: Melissa called and said they could meet with me on Thurs., July 19th. They didn't want to be force pooled. I told her that if we would dismiss them from hearing upon our making an agreement with them (either joint or fallback).

7-19-01: Met w/ Melissa & Donita and discussed their title. Advised them they needed to file something of record between themselves which would clear up their title if they didn't agree with the title ownership we've credited to them. Advised them they could do this with a Stipulation of Interest. Melissa said they would forward to us along with Shinnery Investments

MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

July 11, 2001

Harvey E. Yates Company
P.O. Box 1933
Roswell, New Mexico 88202
Attn: Melissa Randle

Re: Esperanza "15" State Com. #1 Well
E/2 of Section 15, T21S, R27E
Eddy County, New Mexico

Dear Melissa:

Regarding the captioned proposed well, you should have received notice of our application for compulsory pooling by now. As indicated in Mr. James Bruce's letter of July 3, 2001, we have scheduled the pooling hearing for the July 26, 2001 Examiner's docket. Accordingly, we would appreciate receiving a decision from your firm regarding participation in the captioned proposed well in sufficient time prior to such hearing date.

In reference to the above, I tentatively have made plans to be in Roswell next week either Wednesday or Thursday (July 18th or 19th) to meet with you and Vernon Dyer to discuss any title issues or concerns you might have regarding Heyco's participation in the subject well. In this regard, I will call you Monday, July 16th to set up a meeting time.

Sincerely yours,

MEWBOURNE OIL COMPANY



D. Paul Haden
Senior Landman

DPII/gb

MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

June 19, 2001

Harvey E. Yates Company
P.O. Box 1933
Roswell, New Mexico 88202-1933

Attn: Melissa Randle

Re: Esperanza "15" State Com. #1 Well
E/2 of Section 15, T21S, R27E
Eddy County, New Mexico

Dear Melissa:

Regarding the captioned proposed well, enclosed for your file is a copy of the signature pages of that certain JOA dated April 25, 2001 as executed by Marbob Energy Corporation and Tenison Oil Company.

In the event Harvey E. Yates Company elects to participate in the subject well as proposed, we would appreciate receiving the executed JOA and AFE as was previously furnished you at the earliest possible date.

Should you have any questions regarding the proposed well, please call me.

Sincerely yours,

MEWBOURNE OIL COMPANY



D. Paul Haden
Senior Landman

DPH/gb

MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

June 13, 2001

Harvey E. Yates Company
P.O. Box 1933
Roswell, New Mexico 88202-1933

Attn: Melissa Randle

Re: Esperanza "15" State Com. #1 Well
E/2 of Section 15, T21S, R27E
Eddy County, New Mexico

Dear Melissa:

Per your request, enclosed for your information is a copy of our Drilling Opinion of Title dated March 28, 2001 for the captioned land and proposed well. Please call should you have any questions.

Sincerely yours,

MEWBOURNE OIL COMPANY



D. Paul Haden
Senior Landman

DPIH/gb

FOLLOW UP CALL THIS
DATE W/ VERNON DYER.
HE SAYS MELISSA RANDLE
OF THEIR OFFICE IS
REVIEWING THEIR TITLE.

PH.

6-11-01

Melissa Randle w/ Heyco
called & said they're reviewing
their title. I told her I
would send her a copy of our
Title Opinion, PH. 6/12/01

Esqueranza "15" State Com #1

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:

Harvey E. Yates Company
 P.O. Box 1933
 Roswell, N.M. 88202-1933
 Attention: Vernon Dyer

JUN 04 2001

2. Article Number (Copy from service label)

2471138630

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)

B. Date of Delivery

6/1/01

C. Signature

X *Vernon Dyer*

- 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

MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

May 30, 2001

[Certified Mail-Return Receipt Requested Z471130632]

Harvey E. Yates Company
P.O. Box 1933
Roswell, N.M. 88202-1933

Attn: Vernon Dyer

Re: Esperanza "15" State Com. #1 Well
2232' FSL & 1980' FEL
Section 15, T21S, R27E
Eddy County, New Mexico

Gentlemen:

Mewbourne Oil Company (Mewbourne), as Operator hereby proposes drilling the captioned well at the captioned location to a depth sufficient to adequately evaluate the Morrow formation, estimated total depth being 11,800' beneath the surface. The E/2 of the captioned Section 15 will be dedicated to the well.

Enclosed for your further handling regarding the above well proposal are two (2) copies of our AFE dated April 23, 2001 and duplicate originals of our Operating Agreement dated April 25, 2001. In the event you elect to join Mewbourne in the proposed well, please sign and return one (1) copy of the enclosed AFE and one (1) original of the Operating Agreement to me at your earliest convenience.

In the event Harvey E. Yates Company (Heyco) elects not to participate in the proposed well, Mewbourne would be interested in acquiring a two (2) year term assignment from Heyco on the basis of \$200.00 per acre wherein Mewbourne would be delivered a 80% net revenue interest. Should you have any questions regarding the above, please do not hesitate to call.

Sincerely yours,

MEWBOURNE OIL COMPANY



D. Paul Haden
Senior Landman