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MEWBOURNE OIL

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MEWBOURNE OIL COMPANY500 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.

EX. A

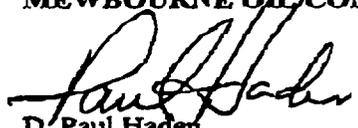
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- 5) The farmout agreement shall be on a form acceptable to MOC and the JOA to be used APO shall be on the form as previously furnished to you subject to reasonable revisions if necessary.

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: _____