

HEYCO

PETROLEUM PRODUCERS

**HARVEY E. YATES COMPANY**

P.O. BOX 1933

ONE SUNWEST CENTRE

505 / 623-6601

FAX 505 / 622-4221

ROSWELL, NEW MEXICO 80202-1933

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.

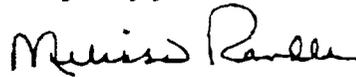
Ex. 13

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- 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: _____