

MEWBOURNE OIL COMPANY

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MIDLAND, TEXAS 79701

(432) 682-3715
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VIA FAX AND CERTIFIED MAIL NO. 5348

November 4, 2004

Mr. James D. Finley
1308 Lake Street, Suite 200
Fort Worth, TX 76102

OIL CONSERVATION DIVISION

Re: Proposed Morrow Test
Osudo "9" State COM #1 well
1,980' FNL & 660' FEL
N/2 Section 9, T-21-S, R-35-E
Lea County, New Mexico
Osudo Prospect

CASE NUMBER

EXHIBIT NUMBER B

Dear Mr. Finley:

After giving your letter of October 26, 2004 full consideration, Mewbourne Oil Company (Mewbourne) must respectfully decline your counterproposal. As I discussed with Mr. Scott Ramsey by telephone on Monday November 1st, your counterproposal is insufficient in two areas. First the offer of \$50,000 for the wellbore should you (Finley) elect to take over the well is grossly insufficient. Secondly, the offer provides that Finley is the only party who can propose operations above 10,000 feet and does not provide Mewbourne a means to proceed with operations in the wellbore above 10,000 feet should Finley choose not to take over the well.

Because Mewbourne successfully entered into a voluntary agreement with Chesapeake Exploration for the drilling of the referenced well that does not include acreage outside the wellbore above 10,000', Mewbourne's previous offer that would have allowed Finley to participate in the well on a pooled (320 acres) basis can no longer be honored and is hereby withdrawn. To facilitate moving forward towards drilling the well, the following is a summary of the offers and options Mewbourne continues to make available to Finley:

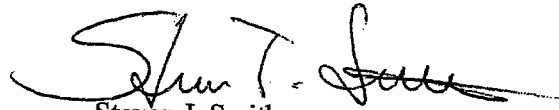
1. Purchase a one (1) year Term Assignment covering all of Finley's interest in New Mexico Lease E-1732-008 insofar only as it covers the NE/4 of Section 9, T21S, R35E, Lea County Mexico from the surface to a depth of 10,000' for \$150.00 per net acre. By way of compromise, Mewbourne would be willing to accept delivery of a 75% NRI rather than the previously proposed 80%.
2. Purchase a one (1) year Term Assignment covering all of Finley's interest in and to the production from proposed Osudo "9" State COM #1 well in the NE/4 of Section 9, T21S, R35E, Lea County Mexico from the surface to a depth of 10,000' for a one time bonus payment of \$5,812.50. Again, Mewbourne would be willing to accept delivery of a 75% NRI rather than the previously proposed 80%.

3. Allow Finley the opportunity to participate in the proposed well from the surface to 10,000' on a wellbore basis subject to entering into a 1989 Model Form Joint Operating Agreement naming Mewbourne as Operator and utilizing the attached Cost Allocation Formula. Please note that the attached Cost Allocation Formula has been revised to provide for adjustment from the surface to 100' below the deepest perforation in the initial completion attempt rather than surface to 10,000'.


We thank you for your consideration and cooperation. Feel free to call me if you have any questions or would like to discuss this proposal in greater detail. My phone number is (432) 682-3715.

Sincerely,

MEWBOURNE OIL COMPANY



Steven J. Smith
Senior Landman

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<ul style="list-style-type: none">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 mail piece, or on the front if space permits.		<p>A. Signature: </p> <p>B. Received by (Printed Name): P. FLORES</p> <p>C. Date of Delivery: 11-9-04</p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If YES, enter delivery address below:</p>	
1. Article Addressed to: Mr. James D. Finley 1308 Lake Street, Suite 200 Fort Worth, Texas 76102		3. Service Type: <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.	
2. Article Number: (Transfer from service label)		4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
		7002 2410 0000 1362 5348	
PS Form 3811, August 2001		Domestic Return Receipt 102595-02-M-1540	

Cost Allocation Formula

(To be made part of a Voluntary Agreement)

Osudo "9" State COM #1 Well

Shallow Unit - Surface of the earth down to 100 feet below the deepest perforation in the first completion effort proposed and attempted above a depth of 10,000 feet.

Deep Unit - All depths below the Shallow Unit.

A. If a well is proposed and drilled to the Shallow Unit, all costs will be borne by the working interest owners of the Shallow Unit.

B. If a well is drilled to the Deep Unit and the initial casing point election provides for a completion attempt in the Deep Unit:

The entire cost of drilling the well will be initially borne by the working interest owners of the Deep Unit with no right to be reimbursed by the working interest owners of the Shallow Unit, unless and until the well is to be recompleted in the Shallow Unit at which time the working interest owners of the Shallow Unit shall reimburse the working interest owners of the Deep Unit in accordance with the following formula:

1. Drilling Costs:

All pre-casing point drilling costs that are Formation-Specific and can be isolated to the Shallow Unit or the Deep Unit (i.e. logging, testing coring, fishing, etc.) will be paid for by the participating working interest owners of those particular units with no right of adjustment between units. All other pre-casing point drilling costs ("Remaining Costs") shall be borne by the various participating working interest owners according to their respective interests as follows:

Participants in the Shallow Unit:

$$\frac{1}{2} \times \frac{\text{Footage to the base of Shallow Unit}}{\text{Total Depth}} \times \text{Remaining Costs.}$$

Participants in the Deep Unit:

$$\frac{1}{2} \times \frac{\text{Footage to the base of Shallow Unit}}{\text{Total Depth}} \times \text{Remaining Costs,}$$

PLUS

$$100\% \times \frac{\text{Footage from base of Shallow unit to Total Depth}}{\text{Total Depth}} \times \text{Remaining Costs.}$$

2. Completion Costs Less Casing, Tubing and Surface Equipment:

In the event of a completion attempt in a single zone or interval, all associated completion costs less and except down hole equipment and surface equipment shall be borne by the participating working interest owners in the applicable unit in which the completion attempt is made with no right of adjustment between units.

In the event a dual completion attempt is made in both the Deep Unit and Shallow Unit, all completion costs that are Formation-Specific and can be isolated to the Deep or Shallow Units shall be paid for by the participating working interest owners of those units with no right of adjustment between units. All other costs, with the exception of casing, tubing and surface equipment shall be paid for equally by the participants in the Shallow Unit and Deep Unit.

3. Down Hole Equipment

Average per foot cost of casing, tubing and down hole equipment from the surface to the base of the Shallow Unit shall be borne:

Participants in the Shallow Unit - 2/3

Participants in the Deep Unit - 1/3

Average per foot cost of casing, tubing and down hole equipment below the base of the Shallow Unit shall be borne:

Participants in the Deep Unit - 100%

4. Surface Equipment

The cost of all surface equipment shall be borne equally (50/50) between the Shallow Unit and the Deep Unit, provided however, any surface equipment that is Formation-Specific and can be isolated to the Deep Unit or Shallow Unit (i.e., tanks, separation units, pumping units, etc) shall be paid for by the participating working interest owners of those particular units.

C. If a well is drilled as a Deep Unit test but for whatever reason the initial casing point election provides for a completion attempt in the Shallow Unit:

The entire cost of drilling the well will be initially borne by the working interest owners of both the Shallow Unit and the Deep Unit in accordance with the following formula:

1. Drilling Costs:

All pre-casing point drilling costs that are Formation-Specific and can be isolated to the Shallow Unit or the Deep Unit (i.e. logging, testing coring, fishing, etc.) will be paid for by the participating working interest owners of those particular units with no right of adjustment between units. All other pre-casing point drilling costs ("Remaining Costs") shall be borne by the various participating working interest owners according to their respective interests as follows:

Participants in the Shallow Unit:

$$100\% \times \frac{\text{Footage to the base of Shallow Unit}}{\text{Total Depth}} \times \text{Remaining Costs.}$$

Participants in the Deep Unit:

$$100\% \times \frac{\text{Footage from base of Shallow unit to Total Depth}}{\text{Total Depth}} \times \text{Remaining Costs.}$$

2. Completion Costs Including Casing, Tubing and Surface Equipment:

All completion costs including down hole equipment and surface equipment shall be borne by the participating working interest owners in the Shallow Unit with no right of adjustment between units.

D. Non-Consent Elections

Any cost adjustments resulting from the provisions hereof that are attributable to the interest of a party hereto who elects to non-consent a proposed recompletion in the well shall be applied to that party's non-consent penalty.