

MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(432) 682-3715
FAX (432) 685-4170

May 5, 2004

Kaiser-Francis Oil Company
Attn: Mr. Wayne A. Fields
P. O. Box 21468
Tulsa, Oklahoma 74121-1468

Re: Proposed Acreage Trade
Osudo Prospect,
Pierce Crossing Prospect, and
Tombstone Prospect
Lea and Eddy Counties, New Mexico

Dear Wayne,

To further our recent conversations, Mewbourne Oil Company (MOC) is interested in trading a portion of the leasehold rights owned by MOC more particularly described on the attached Exhibit "A" in exchange for a portion of the leasehold rights owned by Kaiser-Francis Oil Company (KFOC) more particularly described on the attached Exhibit "B". To keep it as simple as possible, MOC proposes the following:

1. MOC would assign to KFOC an undivided 25% of the leasehold rights owned by MOC in the lands described on Exhibit "A" (approximately 283 net acres of leasehold rights);
2. KFOC would assign to MOC an undivided 65% of the leasehold rights owned by KFOC in the lands described on Exhibit "B" (approximately 273 net acres of leasehold rights);
3. Both assignments would be for a period of three (3) years where such term exists with a 120 day continuous development option. Where lesser term exists, the assignments would be for the terms that are available; and
4. KFOC would support MOC becoming Operator under any existing JOAs and would agree to execute mutually acceptable JOAs naming MOC as Operator on a project-by-project basis as to those lands not subject to a JOA. Should either party choose to non-consent a well proposal made by the other party, the non-consenting party would be deemed to have farmed out to the proposing party delivering a 75% NRI with the option to convert any retained ORRI to a 25% working interest after payout.

This proposal is intended to be a non-binding outline of the general terms to be contained in a mutually acceptable binding agreement.

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Give me a call once you've had a chance to consider this proposal. My phone number is (432) 682-3715.

Sincerely,

MEWBOURNE OIL COMPANY

A handwritten signature in black ink, appearing to read "Steven J. Smith", written over the printed name below.

Steven J. Smith
Senior Landman

EXHIBIT "A"

Attached to and made a part of that certain
Acreage Trade Proposal dated May 5, 2004,
by and between Mewbourne Oil Company and
Kaiser-Francis Oil Company.

MEWBOURNE OIL COMPANY LEASEHOLD:

1. Pierce Crossing Prospect, Eddy County, New Mexico

- a) W/2 Section 35, T-24-S, R-29-E containing 320 acres m/l. MOC owns a 100% WI.
- b) Lots 3 & 4, S/2 NW/4 and SW/4 (W/2) of Section 1, T25-S, R-29-E containing 319.88 acres m/l. MOC owns a 100% WI.
- c) N/2 of Section 35, T-24-S, R-29-E containing 320 acres m/l. MOC has a Farmout from Devon covering a 62.1875% WI. Produce to earn Farmout with the option to backin after payout for a proportionately reduced 25% WI.

2. Tombstone Prospect, Eddy County, New Mexico

- a) Lots 1, 2, 3, 4, S/2 N/2 (N/2) of Section 5, T-20-S, R-25-E containing 320.60 acres m/l. MOC owns an approximate 93% WI.

EXHIBIT "B"

Attached to and made a part of that certain
Acreage Trade Proposal dated May 5, 2004,
by and between Mewbourne Oil Company and
Kaiser-Francis Oil Company.

KAISER FRANCIS OIL COMPANY LEASEHOLD:

1. Osudo Prospect, Lea County, New Mexico

- a) SE/4 of Section 4, T-21-S, R-35-E containing 160.00 acres m/l. KFOC owns an 87.5% WI.
- b) S/2 of Section 9, T-21-S, R-35-E containing 320.00 acres m/l. KFOC owns an 87.5% WI.