

KF ENERGY, L.L.C.

March 8, 2005

Mr. Larry Cunningham
Mewbourne Oil Company
500 W. Texas, Suite 1020
Midland, Texas 79701

Fax No. (432) 685-4170

Re: Exchange of Leasehold Interests
33 acres in S/2 Section 33-T21S-R26E
Eddy County, New Mexico for
33 acres in the South 320 acres of
Section 4-T21S-R35E
Lea County, New Mexico

Gentlemen:

It is the understanding of the parties hereto that Mewbourne represents without warranty of title that it owns 33 acres of leasehold in the E/2SW/4 and the W/2 SE/4 of Section 33-T21S-R26E, Eddy County, New Mexico and KF Energy L.L.C. represents without warranty of title that it owns ~~33~~ acres of leasehold in the E/2 of the most southerly 320 acres of the oversized Section 4-T21S-R35E, Lea County, New Mexico. The parties hereto agree to exchange on an acre-for-acre basis, assignments of leasehold covering ~~33~~ net acres, at the net revenue interest presently owned by Mewbourne, which ~~we understand averages between 80% and 81.25%~~. If the net revenue interest presently owned by KF Energy L.L.C. is greater than the net revenue interest owned by Mewbourne, KF Energy L.L.C. will reserve and retain the difference as an overriding royalty in the assignment that it delivers to Mewbourne. The said assignments shall be delivered within twenty (20) days after the execution of this agreement.

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Within ten (10) days after execution of this letter, Mewbourne hereby agrees to deliver a copy of all the well logs for its Osudo # 1-9 well located in Section 9-T21S-R35E, Eddy County, New Mexico, along with a full copy of the daily drilling reports and all completion and test data for the well, as same becomes available. It is further understood and agreed that based upon its evaluation of the logs and test well data from the Osudo # 1-9 well, should ~~Mewbourne~~ propose to drill a Morrow test well in the south 320 acres of Section 4-T21S-R35E, Eddy County, New Mexico, KF Energy L.L.C. shall have thirty (30) days from the date of its receipt of the well proposal letter from Mewbourne to elect to participate in the said well. If KF Energy L.L.C. chooses not to participate and wishes to farmout the remainder of its leasehold in the E/2 of the most southerly 320 acres of Section 4-T21S-R35E, Eddy County, New Mexico, Mewbourne shall have the first right of refusal to take a ~~wellbore-limited~~ farmout from KF Energy L.L.C. for such acreage. The terms of the said

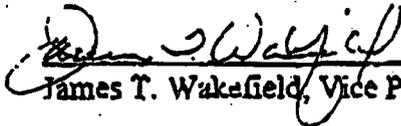
any party

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farmout shall provide in part for the delivery of a ~~wellbore-limited~~ ^{for} assignment, if production in commercial quantities is established in the said wellbore of the said Morrow test. The assignment shall deliver a 75% net revenue interest, with KF Energy L.L.C. retaining an overriding royalty interest equal to the difference between 25% and lease burdens of record on this date. KF Energy L.L.C. also reserves the option at payout of the said test well to convert its retained overriding royalty interest to a proportionately reduced 25% "backin" working interest in the said well. If the well covered by the said Farmout Agreement is not commenced within ¹⁸⁰ ~~120~~ days of execution of the formal Farmout Agreement it will terminate, with no further action. _{for}

If this letter sets forth terms acceptable to Mewbourne please sign and return one copy by fax to the undersigned at (918) 491-4387.

KF Energy L.L.C.


James T. Wakefield, Vice President

AGREED TO AND ACCEPTED ON THIS 10 DAY OF MARCH, 2005

MEWBOURNE OIL COMPANY

By: 
Name: Larry Cunningham