



PATRICK H. LYONS
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

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COMMISSIONER'S OFFICE

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October 3, 2006

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

Attention: Mr. Steven Smith

Re: Preliminary Approval
Proposed Horseshoe State Exploratory Unit
Eddy County, New Mexico

Dear Mr. Smith:

Thank you for providing the unexecuted copy of the unit agreement for the proposed Horseshoe State Exploratory Unit area, Eddy County, New Mexico. This agreement meets the general requirements of the Commissioner of Public Lands, who has this date granted you preliminary approval as to form and content.

Preliminary approval should not be construed to mean final approval of this agreement in any way, and will not extend any short-term leases until final approval and an effective date have been given.

When submitting your agreement for final approval, please submit the following:

1. Application for final approval by the Commissioner stating the tracts that have been committed and the tracts that have not been committed.
2. Pursuant to 19.2.100.51 NMAC showing:
 - a. That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy.
 - b. That under the proposed unit operation, the State of New Mexico will receive its fair share of the recoverable oil and gas in place under its lands in the proposed unit area.
 - c. That each beneficiary institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the unit area.
 - d. That such unit agreement is in other respects for the best interest of the trust.
3. All ratifications from the Lessees of Record and Working Interest Owners. All signatures should be acknowledged by a notary and one set must contain original signatures.

Attachment 2

-State Land Office Beneficiaries -

Carrie Tingley Hospital • Charitable Penal & Reform • Common Schools • Eastern NM University • Rio Grande Improvement • Miners' Hospital of NM • NM Boys School • NM Highlands University • NM Institute of Mining & Technology • New Mexico Military Institute • NM School for the Deaf • NM School for the Visually Handicapped • NM State Hospital • New Mexico State University • Northern NM Community College • Penitentiary of New Mexico • Public Buildings at Capital • State Park Commission • University of New Mexico • UNM Saline Lands • Water Reservoirs • Western New Mexico University

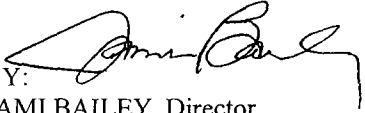
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4. Order of the New Mexico Oil Conservation Division (OCD). Our approval will be conditioned upon subsequent favorable approval by the OCD.
5. Please submit two copies of the Unit Agreement.
6. A copy of the Unit Operating Agreement (if applicable).
7. Copies of all the well records for the initial unit well and any subsequent well. Daily drilling reports will also be required for the initial well.
8. The filing fee for a unit agreement is \$30 per section or partial section thereof. Please submit a \$60 filing fee.
9. It is our understanding that the initial well will be drilled to test the Morrow formation. Please amend article 8 of the Unit Agreement to provide for the drilling of a Morrow well instead of Atoka and change the depth to 11,400'.
10. On your geologic maps please change the map legends to 23S-25E instead of 23S-24E. The initial well location should also be included in your maps.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

PATRICK H. LYONS
COMMISSIONER OF PUBLIC LANDS

BY: 

JAMI BAILEY, Director
Oil, Gas and Minerals Division
(505) 827-5744

PL/JB/pm

cc: OCD-Santa Fe, Attention: Mr. David Catanach