



Mewbourne Oil Company

13806

3901 S. Broadway
Tyler, Texas 75701
Telephone: (903) 561-2900
Fax: (903) 561-1870

January 24, 2008

New Mexico Oil Conservation Division
Attn: Mr. Ed Martin
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Annual Plan of Development
Horseshoe State Exploratory Unit
S/2 Section 28 & W/2 Section 33
Township 23 South, Range 25 East
Eddy County, New Mexico

RECEIVED
2008 FEB 1 PM 12 35

Dear Mr. Martin,

Attached is the January, 2008 Annual Plan of Development for the Horseshoe State Exploratory Unit. Also included is a map of the unit showing the unit boundaries and the location of the initial well drilled, as well as, a production decline curve for that well.

We feel this plan will provide for an orderly development of the unit to obtain the greatest ultimate recovery of reserves in the most economical and efficient manner. Please advise us if you have any comments or questions with respect to our operational plans.

Sincerely,

MEWBOURNE OIL COMPANY

Bryan Montgomery,
Manager – Economics & Reservoir Engineering

The Horseshoe State Exploratory Unit

S/2 Section 28 & W/2 Section 33
Township 23 South, Range 25 East
Eddy County, New Mexico

Annual Plan of Development

January 24, 2008

The Horseshoe State Exploratory Unit (HSEU) was formed on February 7, 2007 and subsequently the Horseshoe State Unit 33 #1 well was drilled to the Morrow. That well was spudded March 12, 2007 and reached a total depth of 11,400 feet on April 24, 2007. After casing was run the well was tested in the Lower and Middle Morrow with a fracture stimulation and the well began producing at 250 Mcfpd and 10 bwpd. On May 31, 2007 an Upper Morrow zone was tested after setting a plug over the Middle Morrow perforations. The Upper Morrow was eventually acidized in September and in October the plug was drilled out and the Upper Morrow was commingled with the Middle and Lower Morrow. The well is now producing at 270 Mcfpd 0 Bopd and 5 bwpd on compression. The total production for the year for this unit is approximately 66,000 Mscf, 13 bo and 700 bw.

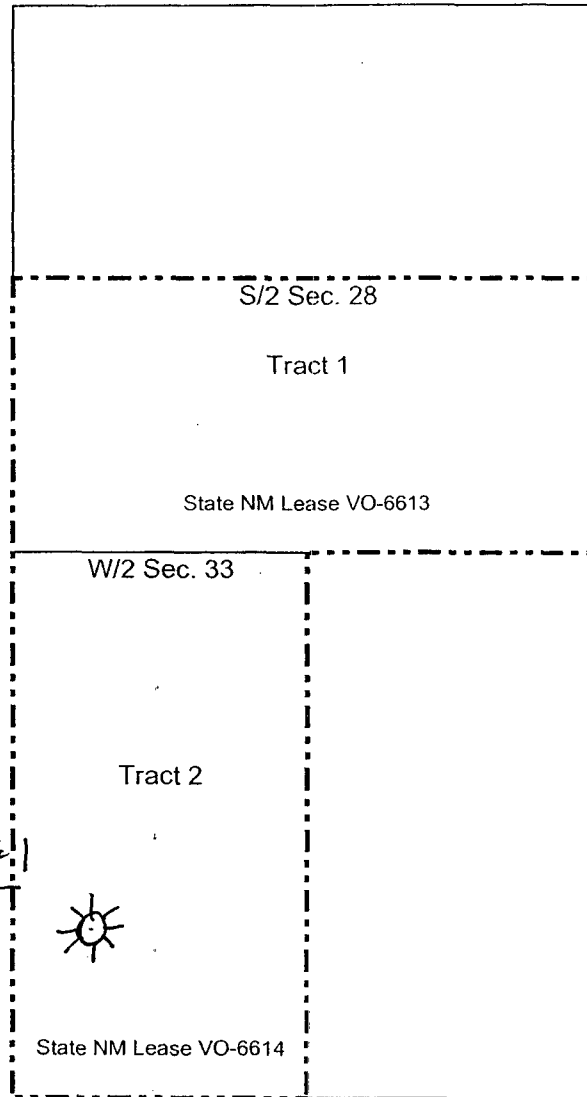
Mewbourne Oil Company plans to watch the performance of the Morrow this year and eventually set a plug over the Morrow and test the Strawn formation. The Strawn is productive in the area and the Horseshoe State Unit 33 #1 has indications on the open-hole logs that it would be productive. Anticipated rates from the Strawn are only 300 Mcfpd so we feel it is in the best interests of the owners of this well to wait until the Morrow is below 100 Mcfpd before temporarily plugging back the Morrow in favor of a Strawn test. The most economical and efficient way to recover both the Morrow and the Strawn will be to wait long enough to capture most of the reserves in the Morrow before risking the loss of any future Morrow production by killing the well and setting a plug over the Morrow in order to test the Strawn.

The HSEU has additional potential in the Morrow and the Strawn in the S/2 of section 28. Our plans are to monitor the Horseshoe State Unit 33 #1 long enough to test the Strawn before drilling the next well and therefore we are realistically planning on no wells drilled this year but have hopes to drill an additional well in 2009. There are no issues of drainage by offset producers to consider and if a new producer were to be drilled offsetting our unit, a geologic and engineering review would be promptly performed to assess drainage and the economics of drilling a new well.

Submitted by: Bryan Montgomery
Manager – Economics & Reservoir Engineering
Mewbourne Oil Company

EXHIBIT "A"
MAP OF UNIT AREA

HORSESHOE STATE EXPLORATORY UNIT
S/2 Section 28 & W/2 Section 33, T-23-S, R-25-E
Eddy County, New Mexico



Horseshoe St Unit 33 #1

1650 FSL
660 FWL
Spud 3-20-2007
Comp 5-4-2007
Morrow

----- Unit Outline
100% State of New Mexico Lands

