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RECEIVED

2007 NOV 14 AM 9 18

November 13, 2007

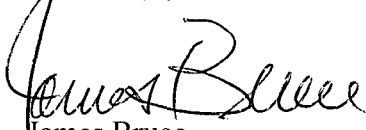
Florene Davidson
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Case 14043

Dear Florene:

Enclosed for filing, on behalf of Beach Exploration, Inc., are an original and one copy of an application for statutory unitization, together with a proposed advertisement. The advertisement has also been e-mailed to the Division. Please set this matter for the December 13, 2007 Examiner hearing. Thank you.

Very truly yours,


James Bruce

Attorney for Beach Exploration, Inc.

PARTIES BEING UNITIZED

Snow Operating Co., Inc.
5719 Airport Frwy.
Fort Worth, TX 76117

Chisos, Ltd.
670 S.W. Dona Ana Rd.
Deming, NM 88030

Pure Energy Group, Inc.
Suite 220
153 Treeline Park
San Antonio, TX 78209

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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APPLICATION OF BEACH EXPLORATION,
INC. FOR STATUTORY UNITIZATION,
EDDY COUNTY, NEW MEXICO.

Case No. 14043

APPLICATION

Beach Exploration, Inc., for its application, states:

1. Applicant is engaged in the business of producing and selling oil and gas as defined in the Statutory Unitization Act, NMSA 1978 §§70-7-1 *et seq.* (the "Act").

2. Applicant is a working interest owner in, and the operator of, the proposed Eastland Queen Unit Area (the "Unit Area"), which covers the following lands located in Eddy County, New Mexico:

Township 19 South, Range 29 East, N.M.P.M.

Section 1: N $\frac{1}{2}$, N $\frac{1}{2}$ SW $\frac{1}{4}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$, and NW $\frac{1}{4}$ SE $\frac{1}{4}$

Section 2: SE $\frac{1}{4}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$, and SE $\frac{1}{4}$

Section 11: N $\frac{1}{2}$

Containing 1,040.01 acres of state lands.

A plat of the Unit Area is attached hereto as Exhibit A.

3. The vertical limits of the unitized formation is defined as:

That stratigraphic interval occurring between a point 100 feet above the top of the Queen Sand and 100 feet below the base of the Queen Sand, said Queen Sand interval occurring between 2,335 feet and 2,408 feet as shown by Schlumberger's Compensated Neutron/Litho-Density open hole log, dated June 8, 1987, in the Eastland Oil Company PJ State "A" Well No. 5, located 2,310 feet from the south line and 2,310 feet from the east line of Section 1, Township 19 South, Range 29 East, N.M.P.M., Eddy County, New Mexico.

The Queen Sand reservoir underlying the Unit Area has been reasonably defined by development.

4. Applicant proposes to institute a waterflood project in the Unit Area, as further described in an injection application filed concurrently with this application.

5. The plan of unitization for the Unit Area is embodied in the Unit Agreement, which is attached hereto as Exhibit B. The plan of unitization is fair, reasonable, and equitable, and the participation formula contained therein allocates the produced and saved hydrocarbons to the separately owned tracts in the Unit Area on a fair, reasonable, and equitable basis.

6. The operating plan for the Unit Area, covering the manner in which the Unit Area will be supervised and managed, and costs allocated and paid, is embodied in the Unit Operating Agreement, which is attached hereto as Exhibit C.

7. The unitized management, operation, and further development of the Queen Sand reservoir underlying the Unit Area is reasonably necessary in order to effectively carry on waterflood operations and to substantially increase the ultimate recovery of oil and gas therefrom.

8. The waterflood project, as applied to the Queen Sand reservoir underlying the Unit Area, is feasible, will prevent waste, and will result with reasonable probability in the increased recovery of substantially more oil and gas from the Queen Sand reservoir than would otherwise be recovered.

9. The estimated additional costs of conducting unitized operations will not exceed the estimated value of the additional oil and gas recovered thereby, plus a reasonable profit.

10. Unitization and approval of the waterflood project will benefit the working interest owners and royalty owners in the Queen Sand reservoir underlying the Unit Area.

11. Applicant has made a good faith effort to secure the voluntary unitization of interest owners in the Unit Area.

12. Approval of this application will prevent waste and protect correlative rights.

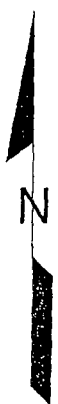
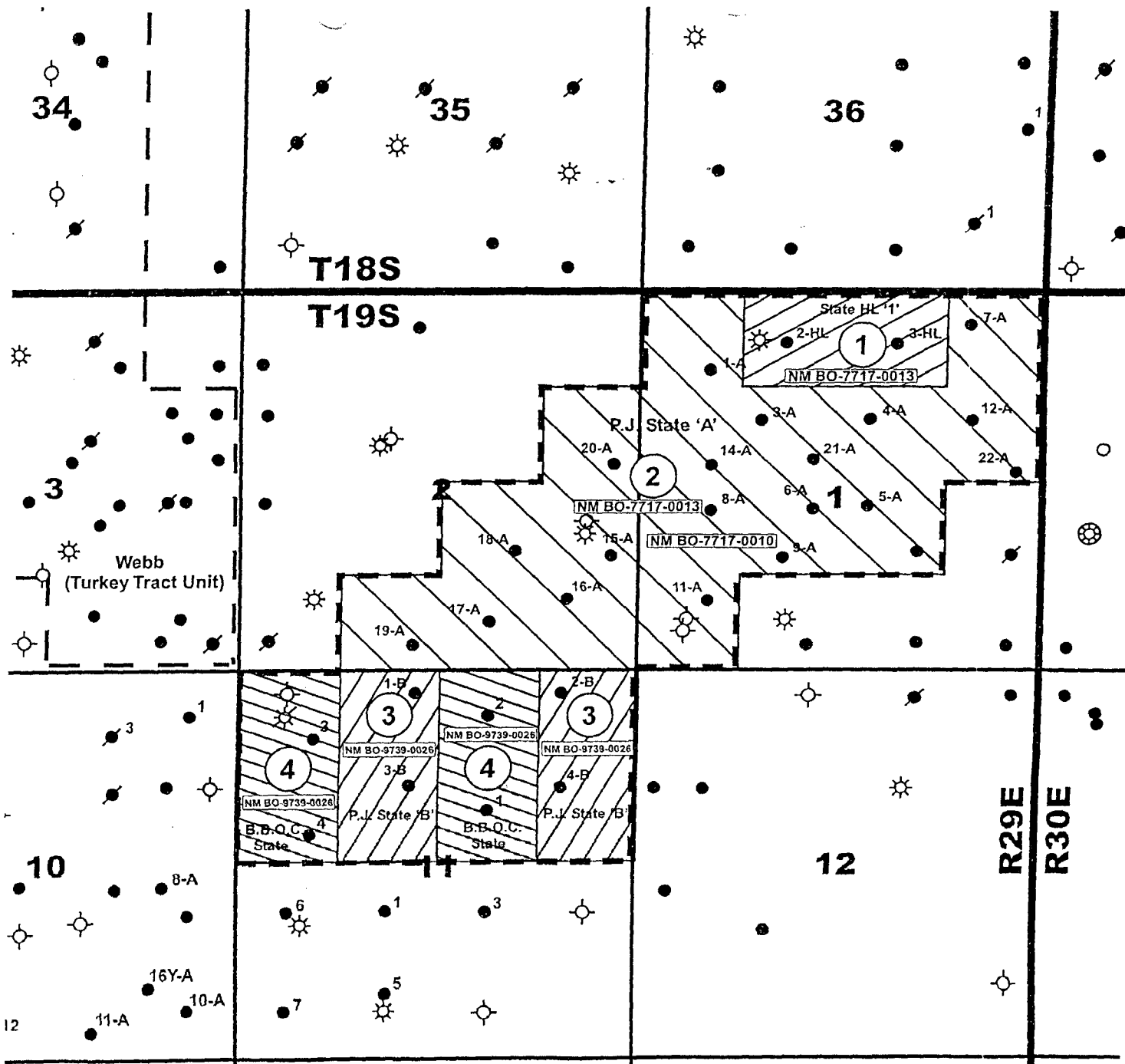
WHEREFORE, Beach requests that, after notice and hearing, the Division enter its order approving the injection application, and qualifying the project as an Enhanced Oil Recovery Project.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Bruce", written over a horizontal line.

James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Beach Exploration, Inc.



0 Acres Federal Lands
 Tract # ① -- ④ 1040 Acres State Lands
 0 Acres Fee Lands
 1040 Acres Total Unit



Beach Exploration, Inc.

Beach Exploration, Inc.
EASTLAND QUEEN UNIT
 EDDY COUNTY, NEW MEXICO

EXHIBIT "A"
 Proposed Unit Outline

Tract # Lease #

GEOLOGY :

ENGINEERING :

SCALE : 1 in. = 2000 ft.

ONLINE VERSION

STATE/FEE
WATERFLOOD UNIT

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

EASTLAND QUEEN UNIT AREA

EDDY COUNTY,
NEW MEXICO

EXHIBIT

B

ONLINE VERSION

STATE/FEE
WATERFLOOD UNITS

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
EASTLAND QUEEN UNIT
EDDY COUNTY, NEW MEXICO

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
EASTLAND QUEEN UNIT
Eddy County, NEW MEXICO

THIS AGREEMENT, entered into as of the 15th day of June, 2007, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto";

WITNESSETH THAT:

WHEREAS, the parties hereto are the owners of working, royalty or other oil and gas interests in the Unit Area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by law (Sec. 3, Chap. 88, Laws 1943) as amended by Dec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annotated), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162, Laws of 1951; Chap. 19, Art. 10, Sec. 47, N.M. Stats. 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico is authorized by law (Chap. 72, Laws 1935, as amended, being Sec. 70-2-1 et seq. N.M. Statutes 1978 Annotated) to approve this agreement and the conservation provision hereof; and

WHEREAS, the parties hereto hold sufficient interests in the **Eastland Queen** Unit Area, comprised of the land hereinafter designated, to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to enable institution and consummation of secondary and/or enhanced oil recovery operations, conserve natural resources, prevent waste and secure the other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth.

NOW THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the Unitized Formation underlying the Unit Area, and agree severally among themselves as follows:

SECTION 1. ENABLING ACT AND REGULATIONS: The oil and gas operating regulations in the effect as of the effective date hereof governing drilling and producing operations not inconsistent with the terms hereof or the laws of the State of New Mexico are hereby accepted and made a part of this agreement.

SECTION 2. DEFINITIONS: For the purpose of this agreement, the following terms and expressions are used herein shall mean:

- (a) "Unit Area" is defined as the land depicted on Exhibit "A" and described by Tracts in Exhibit "B" attached hereto and said land is hereby designated and recognized as constituting the Unit Area.
- (b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.
- (c) "Division" is defined as the Oil Conservation Division of the State of New Mexico.
- (d) "Unitized Formation" is defined as that stratigraphic interval occurring between a point 100 feet above the top of the Queen Sand and 100 feet below the base of the Queen Sand, said Queen Sand interval occurring between 2,335 feet and 2,408 feet as shown by Schlumberger's Compensated Neutron/Litho-Density open hole log dated 06/18/87, in the Eastland Oil Company - PJ State "A" #5, located 2,310 feet from the south line and 2,310 feet from the east line of Section 1, Township 19 South, Range 29 East, Eddy County, New Mexico
- (e) "Unitized Substances" is defined as all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.

- (f) "Working Interest" is defined as an interest in Unitized Substances by virtue of a lease, operating agreement or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes, ratifies or consents to this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.
- (g) "Royalty Interest" is defined as a right to or interest in any portion of the Unitized substances or proceed thereof other than a Working Interest.
- (h) "Working Interest Owner" is defined as a party hereto who owns a Working Interest.
- (i) "Royalty Owner" is defined as a party hereto who owns a Royalty Interest.
- (j) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".
- (k) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract during Phase I, as hereinafter defined. The Tract Participation of the Tracts within the Unit Area is shown on Exhibit "C" attached hereto.
- (l) "Unit Participation" is defined as the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract having Tract Participation by the Tract Participation of such Tract.
- ~~(m) "Phase I" means the period of time beginning as of 7:00 A.M. on the effective date hereof and continuing until the first day of the month following such time as the cumulative number of barrels of oil produced, saved and removed from the Unitized Formation underlying all Tracts described in the original Exhibit "B" equals 786,162 barrels, as determined from the official production reports filed with the New Mexico Oil Conservation Division. If less than all Tracts described in original Exhibit "B" qualify for inclusion in the Unit Area under the provisions of Section 13, Tracts Qualified for Unit Participation, said barrels shall be reduced by a percentage equal to the total Phase I Tract Participation, as shown on the original Exhibit "B" of all of the unqualified Tracts.~~
- ~~(n) "Phase II" means the remainder of the term of this agreement after the end of Phase I.~~
- (o) "Unit Operating Agreement" is defined as any agreement or agreements entered into, separately or collectively, by and between the Unit Operator and the Working Interest Owners as provided in Section 9, Accounting Provisions and Unit Operating Agreement, infra, and shall be styled "Unit Operating Agreement, Eastland Queen Unit, Eddy County, New Mexico".
- (p) "Unit Manager" is defined as the person or corporation appointed by the Unit Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 8, Successor Unit Operator, hereof.

SECTION 3. UNIT AREA: The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the Unit Area, containing 1040 acres, more or less.

Exhibit "A" to the extent known to Unit Operator shows the boundaries and identity of Tracts and leases in the Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to Unit Operator, the acreage comprising each Tract and the percentage of ownership of each Working Interest Owner in each Tract. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest as are shown in said map or schedule as being owned by such party. Exhibit "C" attached hereto is a schedule showing the Tract Participation of each Tract in the Unit Area, which Tract Participation has been calculated upon the basis of all tracts within the Unit Area being committed to this agreement as of the effective date hereof.

Exhibits "A", "B", and "C" shall be revised by Unit Operator whenever changes render such revision necessary and not less than two copies of such revision shall be filed with the Commissioner and the Division.

SECTION 4. EXPANSION: The Unit Area may, when practicable, be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this agreement. Such expansion shall be effected in the following manner.

- (a) The Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into the Unit Area shall file an application therefore with Unit Operator requesting such admission.
- (b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the tract or tracts proposed to be included in the Unit and/or affected by the proposed expansion setting out the basis for admission, the Tract Participation proposed to be allocated to such Tract or Tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if Working Interest Owners having a combined Unit Participation of

ninety percent (90%) or more have agreed to such Tract or Tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Commissioner and the Commission:

- (1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefore, the basis for admission of the additional Tract or Tracts, the Tract Participation to be allocated thereto, and the proposed effective date thereof; and
- (2) Furnish copies of said notice to the Commissioner and the Division, each Working Interest Owner and to the lessee and lessor whose interests are proposed to be committed, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such proposed expansion; and
- (3) File, upon the expiration of said thirty-day period as set out in Subsection (2) immediately above, with the Commissioner and Division the following: (a) Evidence of mailing copies of said notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the qualification requirements of Section 13, Tracts Qualified for Unit Participation, *infra*; and (d) Copies of any objections received.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commissioner and Division, become effective as of the date prescribed in the notice thereof. The revised Tract Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain in the same ratio one to another.

There shall never be any retroactive allocation or adjustment of operating expenses or of interest in the Unitized Substances produced (or the proceeds of the sale thereof) by reason of an expansion of the Unit Area; provided, however, this limitation shall not prevent any adjustment of investment necessitated by such expansion.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES: All land committed to this agreement as provided in Section 13, Tracts Qualified for Unit Participation, as to the Unitized Formation defined in Section 2, Definitions, shall constitute land referred to herein as "Unitized Land" or "land subject to this agreement". All oil and gas in the Unitized Formation in the Unitized Land are unitized under the terms of this agreement and herein are called "Unitized Substances".

SECTION 6. UNIT OPERATOR: BEACH EXPLORATION, INC. is hereby designated as Unit Operator, and by signing this instrument as Unit Operator it agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners and the Commissioner and Division unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The Unit Operator shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal only by unanimous vote of all Working Interest Owners other than Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner and Division.

In all such instances of resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, books and records, materials, appurtenances and other assets used in conducting the Unit operations and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unit Area) to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder from any liability or duties accruing to or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR: Whenever Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners, voting in the manner provided in the Unit Operating Agreement, shall select a successor Unit Operator; provided, however, that the voting interest of the outgoing Unit Operator shall not be considered for any purpose if such outgoing Unit Operator fails to vote or votes only to succeed itself. Such selection of a successor Unit Operator shall not become effective until: (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b)

the selection shall have been approved by the Commissioner and Division. If no successor Unit Operator is selected as herein provided, the Commissioner may declare this agreement terminated.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT: Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereunder in conformity with their underlying operating agreements, leases or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this agreement, and in case of any inconsistency or conflict between this agreement and the Unit Operating Agreement, this agreement shall prevail. One true copy of any Unit Operating Agreement executed Pursuant to this Section shall be filed with the Commissioner.

SECTION 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request therefore, acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this agreement shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. PLAN OF OPERATIONS: It is recognized and agreed by the parties hereto that all of the land subject to this agreement has been reasonably proven to be productive of Unitized Substances in paying quantities or is necessary for Unit Operations and that the object and purpose of this agreement is to formulate and to put into effect a secondary enhanced oil recovery project in order to effect a greater recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Division and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, steam and any other substances or a combination of any said substances, whether produced from the Unitized Formation or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geological and petroleum engineering practices and conservation methods. Reasonable diligence shall be exercised by Unit Operator in complying with the obligations of any approved plan of operation. The parties hereto, to the extent they have the right so to do, hereby grant Unit Operator the right to use brine or water (or both) produced from any formation underlying the Unit Area for injection into the Unitized Formation; provided, however, that this grant of said right shall not preclude the use of brine or water (or both) produced from any formation other than the Unitized Formation for injection into formations other than the Unitized Formation. After commencement of secondary and or enhanced oil recovery operations, Unit Operator shall furnish the Commissioner and the Division monthly injection and production reports for each well in the Unit. The Working Interest Owners, the Commissioner and the Division shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this agreement; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Commissioner and Division.

The initial plan of operation shall be filed with the Division and the Commissioner concurrently with the filing of this Unit Agreement for final approval. Reasonable diligence shall be exercised in complying with the obligations of said plan of operation.

Notwithstanding anything to the contrary herein contained, the Unit Operator shall commence, if not already having done so, secondary recovery operations and/or enhanced oil recovery operations on the Unit Area not later than six (6) months after the effective date of this Agreement, or any extension thereof approved by the Commissioner and Division or this Agreement, shall terminate automatically in which latter event the Unit Operator shall notify all interested parties. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

SECTION 12. TRACT PARTICIPATION: The percentages of Tract Participation set forth in Exhibit "C" for each Tract within the Unit Area have been calculated and determined in accordance with the following formulas:

$$\text{Tract Participation} = 100\% A / B$$

A = Tract ultimate primary oil reserves from the Unitized Formation

B = Unit total ultimate primary oil reserves from the Unitized Formation

Such percentages of Tract Participation have been calculated upon the basis of all of said Tracts within the Unit Area being committed to this agreement as of the effective date hereof, and such Tract Participation shall govern the allocation of all Unitized Substances produced after the effective date hereof, subject, however, to any revision or revisions of the Unit Area and Exhibit "C" in accordance with the provisions hereof.

In the event less than all of the Tracts are committed hereto as of the effective date hereof Unit Operator shall promptly file with the Commissioner and Division at least two copies of revised Exhibits "B" and "C" setting forth on Exhibit "C" the revised Tract Participations opposite each of the qualified tracts, which shall be calculated by using the tract factors and formula set forth hereinabove, but applying the same only to the qualified Tracts. The revised Exhibits "B" and "C" shall, effective as of the effective date of this agreement, supersede the original Exhibits "B" and "C" attached hereto and shall thereafter govern the allocation of Unitized Substances unless disapproved by the Commissioner and Division within 30 days after filing.

If, subsequent to the effective date of this agreement, any additional tract becomes committed hereto under the provisions of Section 3, Unit Area, or Section 28, Non-joinder and Subsequent Joinder, or any committed tract is excluded here from under the provisions of Section 27, Loss of Title, Unit Operator shall revise said Exhibits "B" and "C" or the latest revision thereof to show the new percentage participations of the then committed tracts, which revised exhibit shall, upon its approval by the Commissioner and the Division supersede, as of its effective date, the last previously effective Exhibits "B" and "C". In any such revision of Exhibit "C" the revised percentage participations of the respective tracts listed in the last previously effective Exhibit "C" shall remain in the same ratio one to another.

SECTION 13. TRACTS QUALIFIED FOR UNIT PARTICIPATION: On and after the effective date hereof, the Tracts within the Unit Area that shall be entitled to participate in the production of Unitized Substances therefrom shall be the Tracts within the Unit Area that are qualified as follows:

(a) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest therein have become parties hereto.

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties hereto and as to which royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest therein have become parties hereto and, further, as to which:

(i) All Working Interest Owners in any such Tract have joined in a request for the commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interest of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) hereof have voted in favor of the commitment of such Tract.

For the purposes of this Section 13 (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Unit Participation in all tracts qualifying under Section 13 (a) bears to the total Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a), as such Unit Participation is determined from the Tract Participation set out in Exhibit "C".

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest therein have become parties hereto, regardless of the percentage of Royalty Interest therein which is committed hereto and, further, as to which:

(i) The Working Interest Owner operating any such Tract and all of the other Working Interest Owners in such Tract who have become parties hereto have joined in a request for the commitment of such Tract to this agreement and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands which may be made by the owners of working interest in such Tract who are not parties hereto and which arise out of the commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) and (b) have voted in favor of the commitment of such Tract and acceptance of the indemnity agreement.

For the purpose of this Section 13 (c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Unit Participation in all Tracts qualifying under Section 13 (a) and 13 (b) bears to the total Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a) and 13 (b) as such Unit Participation is determined from the Tract Participations set out in Exhibit "C". Upon the commitment of such a Tract to this agreement, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements in proportion to their respective Working Interests in the Tract.

~~(d) Within Sixty (60) days after the requirements for commencement of Phase II or III have not been met, the Operator will notify the Oil and Gas Division of the New Mexico State Land Office of such conversion to Phase II or Phase III.~~

SECTION 14. ALLOCATION OF UNITIZED SUBSTANCES: All Unitized Substances produced and saved from the committed Tracts within the Unit Area (less, save and except any part of such Unitized Substances which is used in conformity with good operating

practices on the Unit Area for drilling, operating, camp and other production, development and pressure maintenance purposes, or which is unavoidably lost) shall be apportioned among and allocated to the committed Tracts within the Unit Area in accordance with the Tract Participation effective hereunder, in which such Unitized Substances were produced, as such Tract Participation is shown in Exhibit "C" or any revision thereof. The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract), shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among or accounted for to the parties hereto entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this agreement not been entered into, and with the same legal force and effect. No Tract committed to this Agreement and qualified for participation as heretofore provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances from such Tract.

If the Working Interest or the Royalty Interest in any Tract is, on or after the effective date hereof, divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participations assigned to such Tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on the Unit Area, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto or with operations upon or with regard to formations other than the Unitized Formation conducted within the Unit Area. Subject to Section 16, Royalty Settlement, hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party (excepting the State of New Mexico) receiving the same in kind.

If any party fails to take in kind or separately dispose of its proportionate share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share at not less than the prevailing market price in the area for like production; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract or receiving the proceeds therefrom shall be responsible for making payment of all royalty to the parties entitled thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

SECTION 15. OIL IN LEASE TANKAGE ON EFFECTIVE DATE: Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area in order to ascertain the amount of merchantable oil above the pipeline connection in such tanks as of 7:00 A.M. on the effective date hereof. All such oil which has then been produced legally shall be and remain the property of the Working Interest Owner entitled thereto the same as if the Unit had not been formed; and such Working Interest Owner shall promptly remove said oil from the Unit Area. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owner, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the Unit Agreement and any applicable lease or leases and other contracts. All such oil as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date, hereof, any Tract is overproduced with respect to the allowable of the well or wells on the Tract and the amount of such overproduction has been sold or otherwise disposed of, such overproduction shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such Tract as having been delivered to the persons entitled to Unitized Substances allocated to such Tract.

SECTION 16. ROYALTY SETTLEMENT: The State of New Mexico and all Royalty Owners who, under existing contracts, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall hereafter be entitled to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interests not taken in kind shall be made by Working Interest Owners responsible therefore under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

If gas obtained from lands not subject to this Agreement is introduced into the Unitized Formation for use in pressure maintenance, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Commissioner and the Division a like amount of gas, less appropriate deductions for loss from any cause may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not to the products extracted therefrom; provided that such withdrawal shall be pursuant to such conditions and formula as may be prescribed or approved by the Commissioner; and Division

provided further, that such right of withdrawal shall terminate on the termination of this agreement. If liquefied petroleum gases obtained from lands or formations not subject to this agreement be injected into the Unitized Formation for the purpose of increasing ultimate recover, which shall be in conformance with a plan first approved by the Commissioner and Division; part or all of such liquefied petroleum gases may be withdrawn royalty free pursuant to such conditions and formula as may be prescribed or approved by the Commissioner and Division.

Royalty due on account of State lands shall be computed and paid on the basis of all Unitized Substances allocated to such lands.

SECTION 17. RENTAL SETTLEMENT: Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefore under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for payment of any rental or minimum royalty in lieu thereof due under their leases. Rental for lands of the State of New Mexico subject to this agreement shall be paid at the rate specified in the respective leases from the State of New Mexico, or may be reduced or suspended under order of the Commissioner pursuant to applicable laws and regulations.

SECTION 18. CONSERVATION: Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by State laws and regulations. The use of fresh water in waterflood operations is prohibited unless expressly approved by the Commissioner of Public Lands on the basis of excessive technological or financial burden.

SECTION 19. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from unitized lands by wells on land not subject to this agreement, or, with consent of the Commissioner and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Commissioner.

SECTION 20. LEASES AND CONTRACTS CONFORMED AND EXTENDED: The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Commissioner, as to State leases, shall by his approval hereof or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental minimum royalty and royalty requirements of State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement. Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned Tract subject to this agreement, regardless of whether there is any development of any particular part or Tract of the Unit Area, notwithstanding anything to the contrary in the lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Drilling, producing secondary recovery or enhanced oil operations performed hereunder upon any Tract of unitized lands shall be accepted and deemed to be performed upon and for the benefit of each and every Tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.

(c) Suspension of drilling or producing operations on all unitized land pursuant to direction or consent of the Division and Commissioner or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of unitized lands.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil and gas which by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the terms of this agreement.

(e) Termination of this agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.

(f) Any lease which is made subject to this agreement shall continue in force beyond the term provided therein as to the lands committed hereto as long as such lands remain subject hereto.

(g) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however that notwithstanding any of the provisions of this agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is, or has heretofore been discovered in paying quantities on some part of the lands embraced in such lease committed to this agreement or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this agreement, allocated to the portion of the lands covered by such lease committed to this agreement, or at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bonafide drilling, reworking, or secondary recovery operations on any part of the

lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

SECTION 21. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the record instrument of transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefore until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

SECTION 22. EFFECTIVE DATE AND TERM: This agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 A.M. of the first day of the month next following:

- (a) The execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners having a combined Unit Participation of at least eighty-five percent (85%), and the execution or ratification of this agreement by Royalty Owners owning a combined interest of at least seventy percent (70%) of the Royalty Interest in said Unit Area; and
- (b) The approval of this agreement by the Commissioner and the Commission; and
- (c) The filing of at least one counterpart of this agreement for record in the office of the County Clerk of Eddy County, New Mexico, by the Unit Operator; and
- (d) The filing in the office of the County Clerk of Eddy County, New Mexico, of a certificate by Unit Operator to the effect that (a), (b) and (c) above have been accomplished, and stating the effective date hereof;

and provided, further, that if (a), (b), (c) and (d) above are not accomplished on or before **September 15, 2009**, this agreement shall terminate ipso facto on said date (hereinafter called "termination date") and thereafter be of no further force or effect, unless prior thereto this agreement has been executed or ratified by Working Interest Owners having a combined Unit Participation of at least sixty-five percent (65%) committed to this agreement have decided to extend said termination date for a period not to exceed one (1) year (hereinafter called "extended termination date"). If said termination date is so extended and (a), (b), (c) and (d) above are not accomplished on or before said extended termination date this agreement shall terminate ipso facto on said extended termination date and thereafter be of no further force or effect.

The term of this agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as diligent drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and as long thereafter as Unitized Substances are produced as aforesaid, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated at any time with the approval of the Commissioner by Working Interest Owners having at least ninety percent (90%) Unit Participation, as determined from Exhibit "C". The Unit Operator shall give notice of such termination to all parties hereto.

Unit Operator shall within thirty (30) days after the termination date of this agreement, file for record in the office where a counterpart of this agreement is recorded, a certificate to the effect that this agreement has terminated according to its terms and stating further the termination date.

If not otherwise covered by the leases unitized under this agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after termination of this agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

SECTION 23. APPEARANCES: Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner and the Commission, and to appeal from any order issued under the rules and regulations of the Commissioner or the Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceedings.

SECTION 24. NOTICES: All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 25. NO WAIVER OF CERTAIN RIGHTS: Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as the validity or invalidity of any law of the State wherein said unitized lands are located, or rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, that each party hereto covenants that during the existence of this agreement such party will not resort to any action at law or in equity to partition the Unit Area or the facilities used in the development or operation hereof and to that extent waives the benefits of all laws authorizing such partition.

SECTION 26. LOSS OF TITLE: In the event that any Tract ceases to have sufficient Working Interest Owners committed to this agreement to meet the conditions of Section 13, Tracts Qualified for Unit Participation, because of failure of title of any party hereto, such Tract shall be automatically regarded as not committed to this agreement effective as of 7:00 A.M. on the first day of the calendar month in which the failure of title is finally determined; provided, however, that such Tract shall not be so regarded if said Tract can be requalified for admission under Section 13 within ninety (90) days after the date on which such title failure was finally determined.

If any such Tract cannot be so requalified, Unit Operator shall revise the schedule previously filed with the Commissioner setting forth the Tracts committed hereto, and Unit Operator shall revise Exhibit "C" to show the tracts in the Unit Area that remain committed hereto and the Tract Participation of each of said Tracts, which revised Tract Participation shall be calculated and determined on the basis that the Tract Participation shall be calculated and determined on the basis that the Tract Participation of each of said Tracts shall remain in the same ratio one to the other. Copies of the revised schedule and exhibit shall be filed with the Commissioner and same shall be effective as of 7:00 A.M. on the first day of the calendar month in which such failure of title is finally determined.

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of such failure shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains committed to this agreement, the party whose title failed shall not be entitled to participate hereunder insofar as its participation is based on such lost Royalty Interest.

In the event of a dispute as to the title to any Working Interest or Royalty Interest subject hereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to the State land or leases, no payments of funds due the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the Commissioner to be held as unearned money pending final settlement of title dispute, and then applied as earned or returned in accordance with such final settlement.

Unit Operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder.

SECTION 27. NONJOINDER AND SUBSEQUENT JOINDER: As the objective of this Unit Agreement is to have lands in the Unit Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this Unit Agreement unless the Tract involved is qualified under Section 13 hereof, Tracts Qualified for Unit Participation. Joinder in the Unit Agreement by a Working Interest Owner, at any time must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement. Joinder by any owner of a Royalty Interest at any time must be accompanied by appropriate joinder by the owner of the corresponding Working Interest in order for the interest to be regarded as committed hereto.

Any oil or gas interest in the Unitized Formation in lands within the Unit Area not committed hereto prior to final approval of this agreement by the Commissioner may thereafter be committed hereto upon compliance with the applicable provisions of Section 13, Tracts Qualified for Unit Participation, hereof, within a period of two (2) months thereafter, on the same basis of participation as provided for in Section 12, Tract Participation, and set forth in Exhibit "C", by the owner or owners thereof subscribing or consenting in writing to this agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after two (2) months from the effective date hereof, the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners having a combined Unit Participation of not less than ninety percent (90%), provided that the Tract Participation of each previously committed Tract shall remain in the same ratio one to the other. Such joinder by a Working Interest Owner must be evidenced by its execution or ratification of this Unit Agreement and the Unit Operating Agreement. Such joinder by a Royalty Owner must be evidenced by its execution or ratification of this Unit Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner. Except as may be otherwise herein provided, subsequent joinders shall be effective at 7:00 A.M. of the first day of the month following the filing with the Commissioner, of duly executed documents necessary to establish effective commitment unless reasonable objection to such joinder by the Commissioner is duly made within sixty (60) days after such filing. Notwithstanding any of the provisions to the contrary, all commitments of State of New Mexico land must be approved by the Commissioner.

SECTION 28. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described Unit Area.

SECTION 29. JOINDER COMMITMENT: Execution as herein provided by any party either as a Working Interest Owner or as a Royalty Owner shall commit all interests that may be owned or controlled by such party.

SECTION 30. TAXES: Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefore by the parties hereto, including Royalty Owners, who may be responsible for taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the State of New Mexico, or to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 31. PERSONAL PROPERTY EXCEPTED: All lease and well equipment, materials and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. The rights and interest therein as among Working Interest Owners are covered by the Unit Operating Agreement.

SECTION 32. NO PARTNERSHIP: The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

SECTION 33. CORRECTION OF ERRORS: It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners having a combined Unit Participation of fifty percent (50%) or more, and the Commissioner.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed as of the first above written date and have set opposite their respective names the date of execution.

UNIT OPERATOR AND WORKING INTEREST OWNER

BEACH EXPLORATION, INC.
800 N. Marienfeld, Suite 200
Midland, Texas 79701

By _____
OFFICER SIGNATURE

DATE OF EXECUTION

STATE OF TEXAS

)ss

COUNTY OF MIDLAND

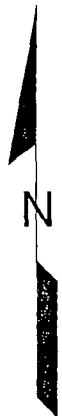
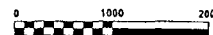
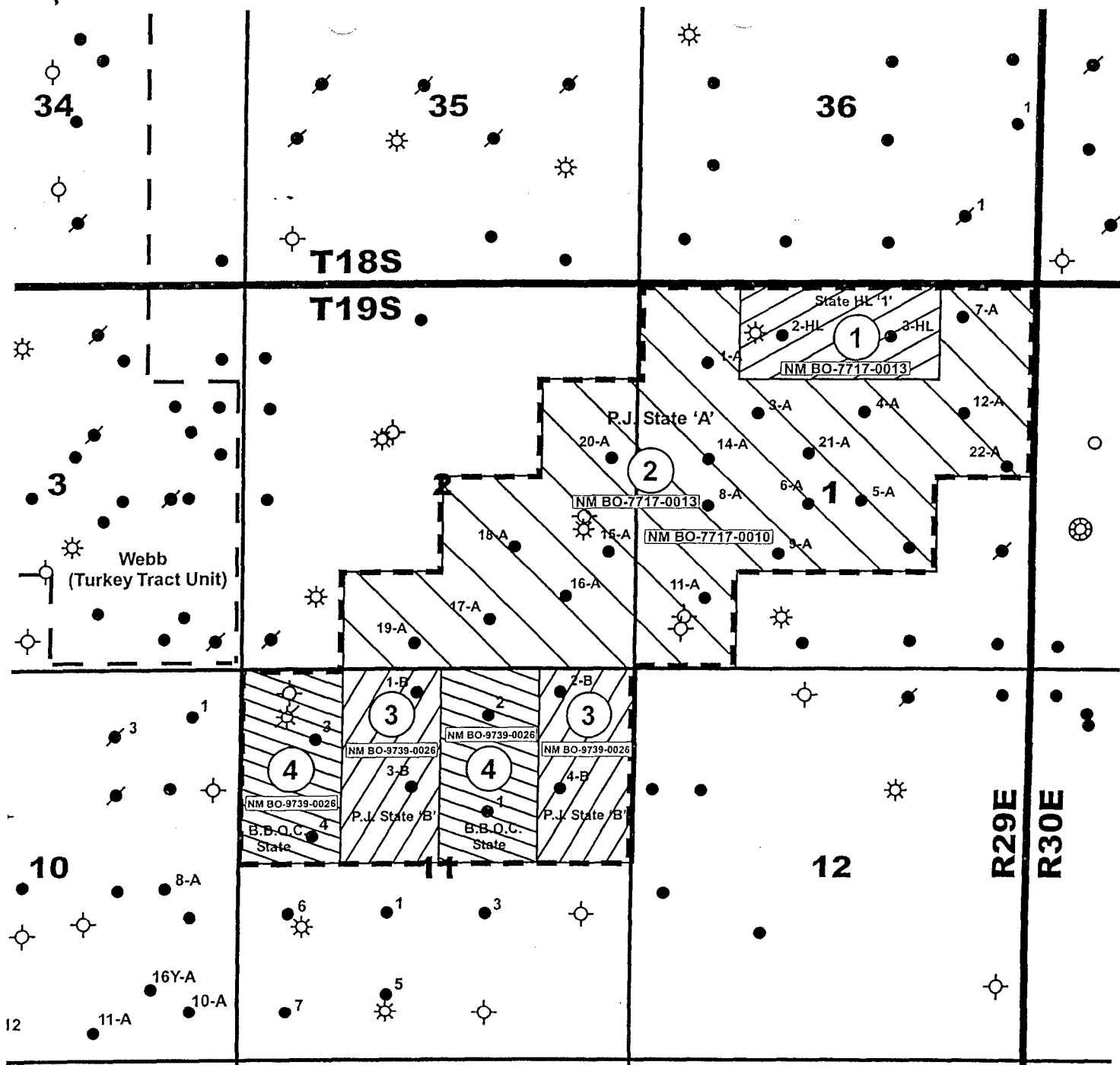
Acknowledgment

This instrument was acknowledged before me on this _____ day of _____, 2007.

By Robert N. Hinson, as Vice President of Beach Exploration, Inc. a Texas Corporation, on behalf of said corporation.

(SEAL)

SIGNATURE OF NOTARIAL OFFICER
My commission expires: _____



0 Acres Federal Lands
 Tract # ① -- ④ 1040 Acres State Lands
 0 Acres Fee Lands
 1040 Acres Total Unit



Beach Exploration, Inc.
EASTLAND QUEEN UNIT
 EDDY COUNTY, NEW MEXICO

EXHIBIT "A"
 Proposed Unit Outline

Tract # Lease #

GEOLOGY :
 ENGINEERING : SCALE : 1in. = 2000 ft.

EXHIBIT "B"
SCHEDULE OF OWNERSHIP
 Eastland Queen Unit
 Eddy County, New Mexico

Tract Number	Description of Land	Acres	Serial No. & Exp. Date	Basic Royalty Owner and Percentage	Lessee of Record	ORRI and Percentage	WI Owners and Percentage	Participation of Tract in Unit
1	State HL "1" Section 1: NW/4 NE/4 and NE/4 NW/4 T-19-S, R-29-E	80	NM BO-7717-0013	State 0.12500000	Chisos, Ltd. & Pure Energy Group, Inc.	100%	Beach Exploration, Inc. The Eastland Oil Company	0.85000000 0.01500000 4.275248%
2	PJ State "A" Section 1: W/2 NW/4, SE/4 NW/4, NW/4 SW/4 SW/4 NE/4 and E/2 NE/4 T-19-S, R-29-E Section 1: NE/4 SW/4, SW/4 SW/4, NW/4 SE/4 T-19-S, R-29-E Section 2: SE/4 NE/4, SE/4 and SE/4 SW/4 T-19-S, R-29-E	640	NM BO-7717-0013 NM BO-7717-0010 NM BO-7717-0013	State 0.12500000	Chisos, Ltd. & Pure Energy Group, Ltd. Snow Operating Company Inc. Chisos, Ltd. & Pure Energy Group, Ltd.	100% 100% 100%	Southwest Royalties Inc. James D. Morgan Laura L. Morgan	0.0910000 0.0072000 0.0018000 0.85000000 0.01500000 64.413223%
3	PJ State "B" Section 11: E/2 NE/4 and E/2 NW/4 T-19-S, R-29-E	160	NM BO-9739-0026	State 0.12500000	Chisos, Ltd. & Pure Energy Group, Inc.	100%	A N Muncy Martin E. Muncy Dominion Oklahoma Texas Exploration Joel R. Miller Energy LP Floyd Energy Ltd	0.0002500 0.0002500 0.1137500 0.0056250 0.0056250 0.80750000 0.14250000 0.05000000 14.959824%
4	B.B.O.C. State Section 11: W/2 NE/4 and W/2 NW/4 T-19-S, R-29-E	160	NM BO-9739-0026	State 0.12500000	Chisos, Ltd. & Pure Energy Group, Inc.	100%	Sharbro Oil Ltd Co. Devon Energy Production Company LP Joel R. Miller Energy LP Floyd Energy Ltd	0.0150000 0.0568750 0.0028125 0.0028125 0.48000000 0.02000000 0.45500000 0.02250000 0.02250000 16.351705%

1040 Acres of State of New Mexico Lands
 0 Acres of Fee Lands
 1040 TOTAL ACRES

100
 = 0 %
 = 100.00 %

TRACT - WORKING INTEREST

Beach Exploration, Inc.
Eastland Queen Unit
Eddy County, New Mexico

Tract Number

1	2	3	4
State HL	P.J. State A	P.J. State B	B.B.O.C. State
0.85000000	0.85000000	0.80750000	
0.15000000	0.15000000	0.14250000	
			0.02250000
			0.02250000
		0.05000000	0.48000000
			0.02000000
			0.45500000
1.00000000	1.00000000	1.00000000	1.00000000

Beach Exploration, Inc.
The Eastland Oil Company
Joel R. Miller Energy LP
Floyd Energy Ltd.
MYCO Industries, Inc.
Sharbro Oil Ltd Co.
Devon Energy Production Company LP

EASTLAND QUEEN UNIT - WORKING INTEREST

Tract Number

	1 State HL	2 P.J. State A	3 P.J. State B	4 B.B.O.C. State
Total				
0.70465260	0.03633961	0.54751240	0.12080058	
0.12435045	0.00641287	0.09661983	0.02131775	
0.00367913				0.00367913
0.00367913				0.00367913
0.08596809			0.00747991	0.07848818
0.00327034				0.00327034
0.07440026				0.07440026

Beach Exploration, Inc.
The Eastland Oil Company
Joel R. Miller Energy LP
Floyd Energy Ltd.
MYCO Industries, Inc.
Sharbro Oil Ltd Co.
Devon Energy Production Company LP

1.00000000

EXHIBIT "B-1"

TRACT - NET REVENUE INTEREST

Beach Exploration, Inc.
Eastland Queen Unit
Eddy County, New Mexico

Tract Number

	1 State HL	2 P.J. State A	3 P.J. State B	4 B.B.O.C. State
3 Southwest Royalties		0.09100000		
3 James D. Morgan		0.00720000		
3 Laura L. Morgan		0.00180000		
1 Beach Exploration, Inc.	0.74375000	0.65875000	0.60522125	
1 The Eastland Oil Company	0.13125000	0.11625000	0.10680375	
3 A. N. Muncy			0.00025000	
3 Martin E. Muncy			0.00025000	
3 Dominion Oklahoma Texas Exploration			0.11375000	
3 Joel R. Miller Energy LP			0.00562500	0.00281250
1 Joel R. Miller Energy LP				0.01968750
3 Floyd Energy Ltd.			0.00562500	0.00281250
1 Floyd Energy Ltd.				0.01968750
1 MYCO Industries, Inc.			0.03747500	0.36000000
1 Sharbro Oil Ltd. Co.				0.01500000
3 Devon Energy Production Company LP				0.05687500
1 Devon Energy Production Company LP				0.39812500
2 State of New Mexico	0.12500000	0.12500000	0.12500000	0.12500000
	1.00000000	1.00000000	1.00000000	1.00000000

EXHIBIT "B-1"

EASTLAND QUEEN UNIT - NET REVENUE INTERST

Beach Exploration, Inc.
Eastland Queen Unit
Eddy County, New Mexico

Tract Number

	1	2	3	4
	State HL	P.J. State A	P.J. State B	B.B.O.C. State
Total				
Southwest Royalties	0.05861603	0.05861603		
James D. Morgan	0.00463775	0.00463775		
Laura L. Morgan	0.00115944	0.00115944		
Beach Exploration, Inc.	0.03179716	0.42432211	0.09054003	
The Eastland Oil Company	0.00561126	0.07488037	0.01597765	
A. N. Muncy	0.00003740		0.00003740	
Martin E. Muncy	0.00003740		0.00003740	
Dominion Oklahoma Texas Exploration	0.01701680		0.01701680	
Joel R. Miller Energy LP	0.00130138		0.00084149	0.00045989
Joel R. Miller Energy LP	0.00321924			0.00321924
Floyd Energy Ltd.	0.00130138		0.00084149	0.00045989
Floyd Energy Ltd.	0.00321924			0.00321924
MYCO Industries, Inc.	0.06447233		0.00560619	0.05886614
Sharbro Oil Ltd. Co.	0.00245276			0.00245276
Devon Energy Production Company LP	0.00930003			0.00930003
Devon Energy Production Company LP	0.06510023			0.06510023
State of New Mexico	0.00534406	0.08051653	0.01869978	0.02043963

Total
1.00000000

Beach Exploration, Inc.

EXHIBIT "C"

TRACT PARTICIPATION

EASTLAND QUEEN UNIT
Eddy County, New Mexico

UNITIZATION PARAMETER:

Ultimate Primary Oil Recovery from Unitized Queen Interval

<u>TRACT</u>	<u>LEASE NAME</u>	<u>OPERATOR</u>	<u>CUM PROD</u> Sep-06 <u>(BO)</u>	<u>REMAINING</u> <u>PRIMARY</u> <u>(BO)</u>	<u>PROVED</u> <u>DEVELOPED</u> <u>NON-PRODUCING</u> <u>(BO)</u>	<u>ULTIMATE</u> <u>PRIMARY</u> <u>RECOVERY</u> <u>(BO)</u>	<u>TRACT</u> <u>PARTICIPATION</u> <u>(%)</u>
1	State HL 1	Eastland Oil Co.	20,330	0	11,046	31,376	4.275248%
2	P. J. State "A"	Eastland Oil Co.	425,938	46,790	0	472,728	64.413223%
3	P. J. State "B"	Eastland Oil Co.	102,771	7,019	0	109,790	14.959824%
4	B.B.O.C. State	Myco Industries	<u>110,179</u>	<u>9,826</u>	<u>0</u>	<u>120,005</u>	<u>16.351705%</u>
TOTAL			659,218	63,635	11,046	733,899	100.000000%

UNIT OPERATING AGREEMENT

EASTLAND QUEEN UNIT

EDDY COUNTY, NEW MEXICO

JUNE 15, 2007

EXHIBIT

C

UNIT OPERATING AGREEMENT
EASTLAND QUEEN UNIT
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UNIT OPERATING AGREEMENT
WEST HIGH LONESOME UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 15th day of June, 2007, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto;

WITNESSETH:

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, an agreement entitled "UNIT AGREEMENT, EASTLAND QUEEN UNIT", herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for Unit Operations as therein defined.

NOW, THEREFORE, in consideration of the mutual agreements herein set forth, it is agreed as follows:

ARTICLE 1
CONFIRMATION OF UNIT AGREEMENT

- 1.1 CONFIRMATION OF UNIT AGREEMENT. The Unit Agreement is hereby confirmed and by reference made a part of this agreement. The definitions in the Unit Agreement are adopted for all purposes of this agreement. If there is any conflict between the Unit Agreement and this agreement, the Unit Agreement shall govern.

ARTICLE 2
EXHIBITS

- 2.1 EXHIBITS. The following exhibits are incorporated herein by reference:

- 2.1.1 EXHIBITS "A", "B" and "C" of the Unit Agreement.
- 2.1.2 EXHIBIT "D", attached hereto, is a schedule showing the Working Interest of each Working Interest Owner in each Tract, each Working Interest Owner's Unit Participation attributable to each such interest, and the total Unit Participation of each Working Interest Owner. The Unit Participation shall be applicable for the respective periods of time provided in Section 24 of the Unit Agreement except where a different phase Tract Participation, Unit Participation, or voting interest is herein stated. Exhibit "D", or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participations of Working Interest Owners for purposes of this agreement until shown to be in error and revised as herein authorized.
- 2.1.3 EXHIBIT "E", attached hereto, is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this agreement and Exhibit "E", this agreement shall govern.
- 2.1.4 EXHIBIT "F", attached hereto, contains insurance provisions applicable to Unit Operations.
- 2.1.5 EXHIBIT "G", attached hereto, contains provisions regarding Equal Opportunity Employment.
- 2.2 REVISION OF EXHIBITS. Whenever Exhibits "A", "B" and "C" are revised, Exhibit "D" shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit "D" from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.
- 2.3 REFERENCE TO EXHIBITS. When Reference is made herein to an exhibit, it is to the exhibit as originally attached, or, if revised, to the last revision.

ARTICLE 3
SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

- 3.1 OVERALL SUPERVISION. Working Interest Owners shall exercise overall supervision and control of all matters pertaining to Unit Operations pursuant to this agreement and the Unit Agreement. In the exercise of such authority, each Working Interest Owner shall act solely on its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.
- 3.2 SPECIFIC AUTHORITY AND DUTIES. The matters with respect to which Working Interest Owners shall decide and take action shall include, but not be limited to, the following:

- 3.2 SPECIFIC AUTHORITY AND DUTIES. The matters with respect to which Working Interest Owners shall decide and take action shall include, but not be limited to, the following:
- 3.2.1 METHOD OF OPERATION. The method of operations, including the type or types of pressure maintenance, secondary recovery, or other enhanced recovery program to be employed on the Unit Area.
- 3.2.2 DRILLING OF WELLS. The drilling of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.
- 3.2.3 WELL RECOMPLETIONS AND CHANGE OF STATUS. The recompletion, abandonment, or change of status of any well, or the use of any well for injection or other purposes.
- 3.2.4 EXPENDITURES. The making of any single expenditure in excess of fifty thousand dollars (\$50,000); however, approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefore, and for completing, testing, and equipping the well, including necessary flow lines, separators, and lease tankage.
- 3.2.5 DISPOSITION OF UNIT EQUIPMENT. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current price of new equipment similar thereto is fifty thousand dollars (\$50,000) or more. All dispositions will be made in accordance with Exhibit "E".
- 3.2.6 APPEARANCE BEFORE A COURT OR REGULATORY AGENCY. The designating of a representative to appear before any court or regulatory agency in matters pertaining to unit operations; however, such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf and at its own expense.
- 3.2.7 AUDITS. The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder provided that the audits shall:
- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator; and
 - (b) be made upon the approval of the owner or owners of a majority of Working Interest other than that of Unit Operator, at the expense of all Working Interest Owners other than Unit Operator; or,
 - (c) be made at the expense of those Working Interest Owners requesting such audit, if owners of less than a majority of Working Interest, other than that of Unit Operator, request such an audit; and,
 - (d) be made upon not less than thirty (30) days written notice to Unit Operator; and
 - (e) be conducted in accordance with the Accounting Procedure, Exhibit "E", attached hereto.
- 3.2.8 INVENTORIES. The taking of periodic inventories under the terms of Exhibit "E".
- 3.2.9 TECHNICAL SERVICES. The authorizing of charges to the Joint Account for services by consultants or Unit Operator's technical personnel over fifteen thousand dollars (\$15,000) per occasion if not covered by the overhead charges provided by Exhibit "E".
- 3.2.10 ASSIGNMENT TO COMMITTEE. The appointment of committees to study any problems in connection with Unit Operations.
- 3.2.11 REMOVAL OF UNIT OPERATOR. The removal of Unit Operator and the selection of a successor.
- 3.2.12 ENLARGEMENT OF UNIT AREA. The enlargement of the Unit Area.
- 3.2.13 ADJUSTMENT AND READJUSTMENT OF INVESTMENTS. The adjustment and readjustment of investments.
- 3.2.14 TERMINATION OF UNIT AGREEMENT. The termination of the Unit Agreement.
- 3.2.15 AUDIT EXCEPTION. The settlement of unresolved audit exceptions.

ARTICLE 4
MANNER OF EXERCISING SUPERVISION

- 4.1 DESIGNATION OF REPRESENTATIVES. Each Working Interest Owner shall inform Unit Operator in writing of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.
- 4.2 MEETING. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Participation of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.
- 4.3 VOTING PROCEDURE. Working Interest Owners shall decide all matters coming before them as follows:
- 4.3.1 VOTING INTEREST. Each Working Interest Owner shall have a voting interest equal to its Unit Participation, which is in effect at the time the vote is taken.
- 4.3.2 VOTE REQUIRED. Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of three or more Working Interest Owners having a combined voting interest of at least fifty percent (50%).
- 4.3.3 VOTE AT MEETING BY NONATTENDING WORKING INTEREST OWNER. Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the vote at the meeting.
- 4.3.4 POLL VOTES. Working Interest Owners may vote on and decide, by letter or telegram, any matter after submitted in writing to Working Interest Owners. If a meeting is not requested, as provided in Section 4.2, within seven (7) days after a written proposal is sent to Working Interest Owners, the vote taken by letter or telegram shall become final. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5
INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

- 5.1 RESERVATION OF RIGHTS. Working Interest Owners severally reserve to themselves all their rights, except as otherwise provided in this agreement and the Unit Agreement.
- 5.2 SPECIFIC RIGHTS. Each Working Interest Owner shall have, among others, the following specific rights:
- 5.2.1 ACCESS TO UNIT AREA. Access to the Unit Area at such Working Interest Owner's own risk at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.
- 5.2.2 REPORTS. The right to receive from Unit Operator, upon written requests, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner that requests information.
- 5.2.3 PREFERENTIAL RIGHT TO PURCHASE. Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Unit Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. Notwithstanding anything herein to the contrary, there shall be no preferential right to purchase in those cases where any party wishes to (a) mortgage or encumber its interests, (b) dispose of its interests by merger, reorganization or consolidation, (c) sell all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any such party owns a majority of the

stock, or (d) sell all or substantially all of its assets in an arms length transaction to an unrelated third party.

ARTICLE 6 UNIT OPERATOR

- 6.1 UNIT OPERATOR. Beach Exploration, Inc., is hereby designated as the Initial Unit Operator.
- 6.2 RESIGNATION OR REMOVAL/SELECTION OF SUCCESSOR. Sections 7 and 8 of the Unit Agreement shall govern the resignation or removal of Unit Operator and the selection of a successor Unit Operator and are incorporated herein by reference for all purposes.
- 6.3 [INTENTIONALLY LEFT BLANK].

ARTICLE 7 AUTHORITY AND DUTIES OF UNIT OPERATOR

- 7.1 EXCLUSIVE RIGHT TO OPERATE UNIT. Subject to the provisions of this agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.
- 7.2 WORKMANLIKE CONDUCT. Unit Operator shall conduct Unit Operations in good and workmanlike manner, as would a reasonably prudent Operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters, which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for any liability or damage, unless such resulted from gross negligence or willful misconduct.
- 7.3 LEINS AND ENCUMBRANCES. Unit Operator shall endeavor to keep the lands and leases in the Unit Area and Unit Equipment free from all liens and encumbrances occasioned by Unit Operations, except the lien and security interest of Unit Operator granted hereunder.
- 7.4 PROCEEDS OF PRODUCTION. Unit Operator shall have the right to receive one hundred percent (100%) of the proceeds attributable to production from the purchasers and disburse these proceeds to the Working Interest Owners and Royalty Owners; provided however, this provision shall not apply to any unitized substances taken in kind under Section 15 D. of the Unit Agreement.
- 7.5 EMPLOYEES. The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by Unit Operator. Such employees may be the employees of Unit Operator.
- 7.6 RECORDS. Unit Operator shall keep correct books, accounts and record of Unit Operations.
- 7.7 REPORTS TO WORKING INTEREST OWNERS. Unit Operator shall furnish Working Interest Owners periodic reports of Unit Operations.
- 7.8 REPORTS TO GOVERNMENTAL AUTHORITIES. Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.
- 7.9 ENGINEERING AND GEOLOGICAL INFORMATION. Unit Operator shall furnish to a Working Interest Owner, upon written request, a copy of all logs and other engineering and geological data pertaining to wells drilled for Unit Operations.
- 7.10 EXPENDITURES. Unit Operator is authorized to make single expenditures not in excess of fifty thousand dollars (\$50,000) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.
- 7.11 WELLS DRILLED BY UNIT OPERATOR. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefore shall not exceed the usual rates prevailing in the area, and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in contracts with independent contractors doing work in a similar nature.
- 7.12 MATHEMATICAL ERRORS. It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical errors which might exist in the exhibits to this agreement.

7.13 BORDER AGREEMENTS. Unit Operator may, after approval by the Working Interest Owners, enter into border agreements with respect to land adjacent to the Unit Area for the purpose of coordinating operations.

7.14 INDEMNITIES. As to all contracts executed by the Unit Operator with an independent contractor governing operation or services to be performed in connection with unit operations, Unit Operator shall require that any indemnification provision in favor of Unit Operator contained therein shall extend to and inure to the benefit of Working Interest Owners in the same manner as Unit Operator.

Article 8

TAXES

8.1 AD VALOREM TAXES. Beginning with the first calendar year after the Effective Date hereof, Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account of all Working Interest Owners; however, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for the reduction in taxes paid resulting therefrom.

8.2 OTHER TAXES. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, and other taxes imposed upon or with respect to the production or handling of its share of Unitized Substances.

ARTICLE 9

INSURANCE

9.1 INSURANCE. Unit Operator, with respect to Operations shall:

- (a) comply with the Workmen's Compensation law of the State; and,
- (b) carry Employer's Liability and other insurance required by the laws of the State; and,
- (c) provide other insurance as set forth in Exhibit "F".

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

10.1 PERSONAL PROPERTY TAKEN OVER. Upon the Effective Date, Working Interest Owners shall deliver to Unit Operator the following:

10.1.1 WELLS. All wells, standing completions, abandoned wells and wells used for injection, completed in the Unitized Formation.

10.1.2 WELL AND LEASE EQUIPMENT. The casing and tubing in each such well, the wellhead connections thereon, and all other lease and operating equipment that is used in the operation of such wells which Working Interest Owners determine is necessary or desirable for conduction Unit Operations.

10.1.3 RECORDS. A copy of all production and well records for such wells.

10.2 INVENTORY AND EVALUATION OF PERSONAL PROPERTY. Working Interest Owners shall, at Unit Expense, inventory and evaluate, as determined by Working Interest Owners, the personal property taken over. Such inventory shall include and be limited to those items of equipment considered controllable under Exhibit "E" except upon determination of Working Interest Owners, items considered noncontrollable may be included in the inventory in order to ensure a more equitable adjustment of investment.

10.3 INVESTMENT ADJUSTMENT. Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with value of its interest in all personal property taken over under Section 10.1.2, and shall be charged with an amount equal to that obtained by multiplying the total value of all personal property taken over under Section 10.1.2 by such Working Interest Owner's Unit Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be an item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be

paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.4 GENERAL FACILITIES. The acquisition of warehouses, warehouse stocks, facility systems, and office buildings necessary for Unit Operations shall be by negotiation by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

10.5 OWNERSHIP OF PERSONAL PROPERTY AND FACILITIES. Each Working Interest Owner, individually, shall by virtue hereof, own an undivided interest equal to its Unit Participation in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this agreement.

ARTICLE 11 UNIT EXPENSE

11.1 BASIS OF CHARGE TO WORKING INTEREST OWNER. Unit Operator initially shall pay all expenses incurred in the development and operation of the Unit (herein sometimes referred to collectively as "Unit Expense"). Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share shall be the same as its Unit Participation in effect at the time the expense was incurred. Working Interest Owners agree to reimburse Unit Operator for their proportionate part of all expenses incurred in the unitization process; i.e., engineering study, land services and legal fees, etc. (both related and third party charges at prevailing industry rates¹). All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit "E".

11.2 BUDGETS. Before or as soon as practical after the Effective Date, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and, on or before the first day of each December thereafter, shall prepare a estimated Unit Expense by quarterly periods. Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall be furnished promptly to each Working Interest Owner if requested.

11.3 ADVANCE BILLINGS. Unit Operator shall have the right without prejudice to other rights or remedies, to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within thirty (30) days after receipt of the estimate, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each quarter, and the accounts of Working Interest Owners shall be adjusted accordingly. Unit Operator shall not be required to commence any work on the Unit Area until the estimated Unit Expense has been paid in full.

11.4 COMMINGLING OF FUNDS. Any funds received by Unit Operator under this agreement need not be segregated or maintained by it as a separate fund, but may be commingled with its own funds.

11.5 LIEN AND SECURITY INTEREST OF UNIT OPERATOR. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and a security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment, in order to secure payment of its share of Unit Expense, together with interest thereon at the rate of prime plus two (2%) percent per annum. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State of New Mexico, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgement by Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any defaults. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

11.6 UNPAID UNIT EXPENSE. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement thereof by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner. Any Working Interest Owner so paying a defaulting

¹ See Copas for details.

Working Interest Owner's share of Unit Expense shall, to obtain reimbursement thereof, be subrogated to the lien and other rights herein granted Unit Operator.

11.7 DEEMED NON-CONSENT ELECTION. Should Operator propose to drill any well on the Unit Area to the unitized zone(s), or to rework, deepen, or plug back an existing well located thereon to the unitized zone(s) and a minimum of fifty percent (50%) of the Working Interest Owners approve such proposed operation, then Operator shall render a statement to all Working Interest Owners setting out their estimated share of the proposed operations cost. Working Interest Owners shall then remit payment for their share of the proposed operations cost within thirty (30) days after receipt of the statement. Should any Working Interest Owner fail or refuse to remit payment for their proportionate share of any proposed operations cost within the time limit above, then, in lieu of its right to seek recovery of such costs directly from such Working Interest Owner and the other parties under the provisions of this Article 11, Operator may, at its election by written notice to the other parties to this Agreement, declare the party failing or refusing to pay its share of such costs a non-consenting Working Interest Owner in the applicable operation(s), in which event the non-consenting Working Interest Owner shall be deemed to have relinquished to the consenting Working Interest Owners, and the consenting Working Interest Owners shall own and be entitled to receive, in proportion to their respective interests, all of such non-consenting Working Interest Owner's interest in the well and share of production therefrom. Such relinquishment shall be effective until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting applicable ad valorem, production, severance, and excise taxes, royalty, overriding royalty, and other interests not excepted by Section 11.8, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) equals the following:

- (a) three hundred percent (300%) of each such non-consenting Working Interest Owner's share of the costs of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment, and pipe), plus three hundred percent (300%) of each such non-consenting Working Interest Owner's share of the cost of operation of the well commencing with first production and continuing until each such non-consenting party's relinquished interest shall revert to it under other provisions of this article, it being agreed that each non-consenting party's share of such costs and equipment will be that interest which would have been chargeable to such non-consenting Working Interest Owner had it paid its share of cost from the beginning of the operations; and,
- (b) three hundred percent (300%) of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received, and three hundred percent (300%) of that portion of the cost on newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such non-consenting Working Interest Owner if it had paid its share of costs.

A party who is deemed a non-consenting Working Interest Owner in an operation, as provided herein, shall be deemed a non-consenting party in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial default applied that is conducted at any time prior to full recovery by the consenting parties of the non-consenting party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and the shall be added to the sums to be recouped by the consenting parties three hundred percent (300%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such non-consenting party if it paid as provided herein. If such a reworking plugging back operation is proposed during such recoupment period, the provisions of this article shall be applicable as between said consenting parties in said well.

During the period of time consenting parties are entitled to receive a non-consenting party's share of production, or the proceeds therefrom, the consenting parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to said non-consenting party's share of production (other than subsequently created burdens, as provided in Section 11.8).

If and when the consenting parties recover from a non-consenting party's relinquished interest in amounts provided for above, the relinquished interest of such non-consenting party shall automatically revert to it, and from and after such reversion, such non-consenting party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such non-consenting party would have been entitled to had it paid as provided hereinabove for the drilling, reworking, deepening, or plugging back of said well. Thereafter, such non-consenting party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting procedure attached hereto.

11.8 CARVED-OUT INTEREST. If any Working Interest Owner shall, after executing this agreement, create an overriding royalty, production payment, net profits interest, carried interest, or any other

interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this agreement, specifically including, but without limitation, Sections 11.5 and 11.7 hereof. If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, (b) withdraws from this agreement under the terms and provisions of Article 17 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though such carved-out interests were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Sections 11.5 and 11.7 for the purpose of collecting the Unit Expense chargeable to the carved-out interest, or (c) if such carved-out interest is conveyed to more than four parties, one of said parties shall be appointed as agent for all of said parties under this agreement and Unit Operator shall be furnished the name of the designated agent in writing.

- 11.9 UNCOMMITTED ROYALTY. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreements, the difference to be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Unit Participations at the time the Unitized Substances were produced; however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one-fourth (1/4) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the Tract. Such adjustments shall be made by charges and credits to the Joint Account.

ARTICLE 12 NONUNITIZED FORMATIONS

- 12.1 RIGHT TO OPERATE. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas or other minerals, from a formation underlying the Unit Area other than the Unitized Formation, shall have the right to do so notwithstanding this agreement or the Unit Agreement. In exercising the right, however, such Working Interest owner shall exercise care to prevent unreasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not be affected adversely.

ARTICLE 13 TITLE

- 13.1 WARRANTY AND INDEMNITY. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interests set forth opposite its name in Exhibit "D", and agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising because of Unit Operations; however, such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net proceeds that have been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this agreement is concerned, as of 7:00 A.M. on the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of a title failure.
- 13.2 FAILURE BECAUSE OF UNIT OPERATIONS. The failure of title to any Working Interest Owner in any Tract because of Unit Operations, including nonproduction from such Tract, shall not change the Unit participation of the Working Interest Owner whose title failed in relation to the Unit Participations of the Working Interest Owners at the time of the title failure.
- 13.3 TITLE EXAMINATION. Unit Operator is hereby authorized to conduct such title examination and title curative work on any Tract or Tracts (whether owned by Unit Operator or any other Working Interest Owner) as it deems necessary or advisable from time to time for purposes of preventing any title failure because of Unit Operations; and each Working Interest Owner who owns any interest in any such Tract agrees to cooperate in such title examination and agrees to furnish to Unit Operator all records affecting title, including and not limited to Title Opinions and Abstracts of Title, that may be in such Working Interest Owner's possession or control. All costs and expenses incurred in such title examination and curative work conducted for said purposes shall be treated as a direct charge to the Joint Account under Unit Expense.

ARTICLE 14 LIABILITY, CLAIM AND SUITS

14.1 INDIVIDUAL LIABILITY. The duties, obligations and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein shall ever be construed as creating a partnership of any kind, joint venture, association, or trust among Working Interest Owners. Each party hereto shall be individually responsible for its own obligations as herein provided.

14.2 SETTLEMENTS. Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed thirty thousand dollars (\$30,000), provided the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, Working Interest Owners shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item or Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner sued on account of any matter arising from Unit Operations over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify Unit Operator and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

14.3 INDEMNIFICATION OF UNIT OPERATOR. The Working Interest Owners agree to indemnify and hold harmless the Unit Operator from each of the following losses:

- (a) bankruptcy or misappropriation of funds by a drilling contractor to whom a prepayment of intangible drilling costs has been paid for a well to be drilled in a subsequent year. The loss of such prepayment shall constitute an individual loss to the parties making such prepayment;
- (b) any adverse loss or tax consequence incurred as a result of a tax court or any other governmental agency not allowing the deduction of any intangible investment, for any reason.

ARTICLE 15 LAWS AND REGULATIONS

15.1 INTERNAL REVENUE PROVISION. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this agreement and the operations hereunder shall not constitute a partnership, if for federal income tax purposes this agreement and the operations hereunder are regarded as a Partnership, then each of the parties hereto hereby elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by the way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761-1 (a). Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Unit Area is located, or any future income tax law of the United States, contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each of the parties agree to make such election as may be permitted or required by such laws. In making this election, each of the parties states that the income derived by such party from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

15.2 GOVERNMENTAL FINES, PENALTIES. All fines, interest, penalties, etc., leveled by the Department of Energy or other governing authority shall be paid for out of the Joint Account. Furthermore, if the DOE determines an overcharge has occurred, each party agrees to pay to Unit Operator his share of the overcharge. Unit Operator shall forward this payment to the Agency. If any Overriding Royalty Interest or Royalty Interest Owner refuses to pay his share of the overcharge; then (1) his share of the overcharge shall be charged to the Joint Account; and, (2) if he later pays his share, either with cash or production, the Joint Account will be reimbursed.

ARTICLE 16 NOTICES

16.1 NOTICES. All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail or telegram to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4.1 of this agreement.

ARTICLE 17
WITHDRAWAL OF WORKING INTEREST OWNER

- 17.1 WITHDRAWAL. A Working Interest Owner may withdraw from this agreement by assigning, without warranty of title, either express or implied, to the other Working Interest Owners all its Oil and Gas Leasehold Estate as to the Unitized Formation, together with its interest in all Unit Equipment and in all wells used in Unit Operations. The instrument of assignment may be delivered to Unit Operator for the transferees. Such assignment shall not relieve the withdrawing Working Interest Owner from any obligation or liability incurred prior to the date of the delivery of the assignment. The interest assigned shall be owned by the remaining Working Interest Owners in proportion to their respective Unit Participation. The assignees, in proportion to their respective interest so acquired, shall pay assignor, for its interest in Unit Equipment, the net salvage value thereof as determined by Working Interest Owners. After the date of delivery of the assignment, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement, and the rights of such Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest assigned.

ARTICLE 18
ABANDONMENT OF WELLS

- 18.1 RIGHTS OF FORMER OWNERS. If Working Interest Owners decide to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within thirty (30) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount determined by Working Interest Owners to be the net salvage value of the casing and equipment in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off and protect the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations of the Oil Conservation Division of the State of New Mexico.
- 18.2 PLUGGING. If the Working Interest Owners of a Tract do not elect to take over a well located within the Unit Area that is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations of the Oil Conservation Division of the State of New Mexico with the expense of plugging be charged to the joint account.

ARTICLE 19
EFFECTIVE DATE AND TERM

- 19.1 EFFECTIVE DATE. This agreement shall become effective when the Unit Agreement becomes effective. Upon its effective date, this Unit Operating Agreement shall supercede and supplant any and all previously existing operating agreements covering the Unitized Formation, or any portion thereof.
- 19.2 TERM. This agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all Unit wells have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 18 and Article 20; and, (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners; and, (c) there has been a final accounting.

ARTICLE 20
ABANDONMENT OF OPERATIONS

- 20.1 TERMINATION. Upon termination of the Unit Agreement, the following will occur:
- 20.1.1 OIL AND GAS RIGHTS. Oil and Gas Rights in and to each separate Tract shall no longer be affected by this agreement, and thereafter the parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts.
- 20.1.2 RIGHT TO OPERATE. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value, as determined by Working Interest Owners, of the casing and equipment in and on the wells taken over and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations of the Oil Conservation Division of the State of New Mexico.

20.1.3 SALVAGING WELLS. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged.

20.1.4 PLUGGING AND ABANDONING WELLS. The responsibility and expense of plugging and abandoning all wells not taken over by individual Working Interest Owners pursuant to Paragraph 20.1.2 hereof, shall be borne by the Working Interest Owners. It is expressly understood that upon termination of this Unit Agreement, the responsibility and expense of plugging wells in compliance with all applicable laws and regulations shall rest with all of the Working Interest Owners of the Unit.

20.1.5 DISTRIBUTION OF ASSETS. Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof, in proportion to their Unit Participation.

ARTICLE 21
RIGHTS OF WAY AND EASEMENTS

21.1 ASSIGNMENT TO UNIT OPERATOR. Each Working Interest Owner having rights of way, easements or leasehold interest in surface sites necessary for Unit Operations hereby agrees to assign, to the extent of its right and interest, to Unit Operator for the benefit of the Working Interest Owners, a non-exclusive right and interest in and to such interest. A Working Interest Owner having such an interest shall, within one hundred eighty (180) days after the Effective Date execute and deliver to Unit Operator, in recordable form, an assignment of such rights and interests, together with copies of the instruments creating such interests and any maps or plats further describing and depicting the affected premises.

21.2 RENTAL PAYMENTS. The owners of such interest agree to make any rental payments or other payments which may become due to avoid termination of any such interest for failure to make such payment prior to thirty (30) days beyond the date formal assignment of such interest to Unit Operator is accomplished as described in Section 21.1 above. Any payments made under this paragraph shall be a direct charge under Unit Expense.

21.3 RIGHTS OF UNIT OPERATOR. Such interest described in Section 21.1 above, shall continue in Unit Operator for so long as such are used for Unit Operators and Units released by recordable instrument. In the event the initial Unit Operator ceases to be such Unit Operator, it shall assign such rights and interests to the succeeding Unit Operator.

ARTICLE 22
EXECUTION

22.1 ORIGINAL, COUNTERPART OR OTHER INSTRUMENT. An owner of a Working Interest may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto. The signing of any such instrument shall have the same effect as if all parties had signed the same instrument.

ARTICLE 23
SUCCESSORS AND ASSIGNS

23.1 SUCCESSORS AND ASSIGNS. This agreement shall extend to, be binding upon, and inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns, and shall constitute a covenant running with the lands, leases, and interests covered hereby.

IN WITNESS WHEREOF, the parties hereto have executed this agreement on the dates opposite their respective signatures.

OPERATOR:

BEACH EXPLORATION, INC.

Dated: _____

Julie B. LeMond, Secretary

Attest

By: _____

Robert N. Hinson

Vice President Land

NON-OPERATORS:

THE EASTLAND OIL COMPANY

Dated: _____
Attest _____

By: _____
Name & Title _____
SS or Tax ID _____

MYCO INDUSTRIES INC.

Dated: _____
Attest _____

By: _____
Name & Title _____
SS or Tax ID _____

DOMINION OKLAHOMA TEXAS EXPLORATION

Dated: _____
Attest _____

By: _____
Name & Title _____
SS or Tax ID _____

JOEL R. MILLER ENERGY LP

Dated: _____
Attest _____

By: _____
Name & Title _____
SS or Tax ID _____

FLOYD ENERGY LTD.

Dated: _____
Attest _____

By: _____
Name & Title _____
SS or Tax ID _____

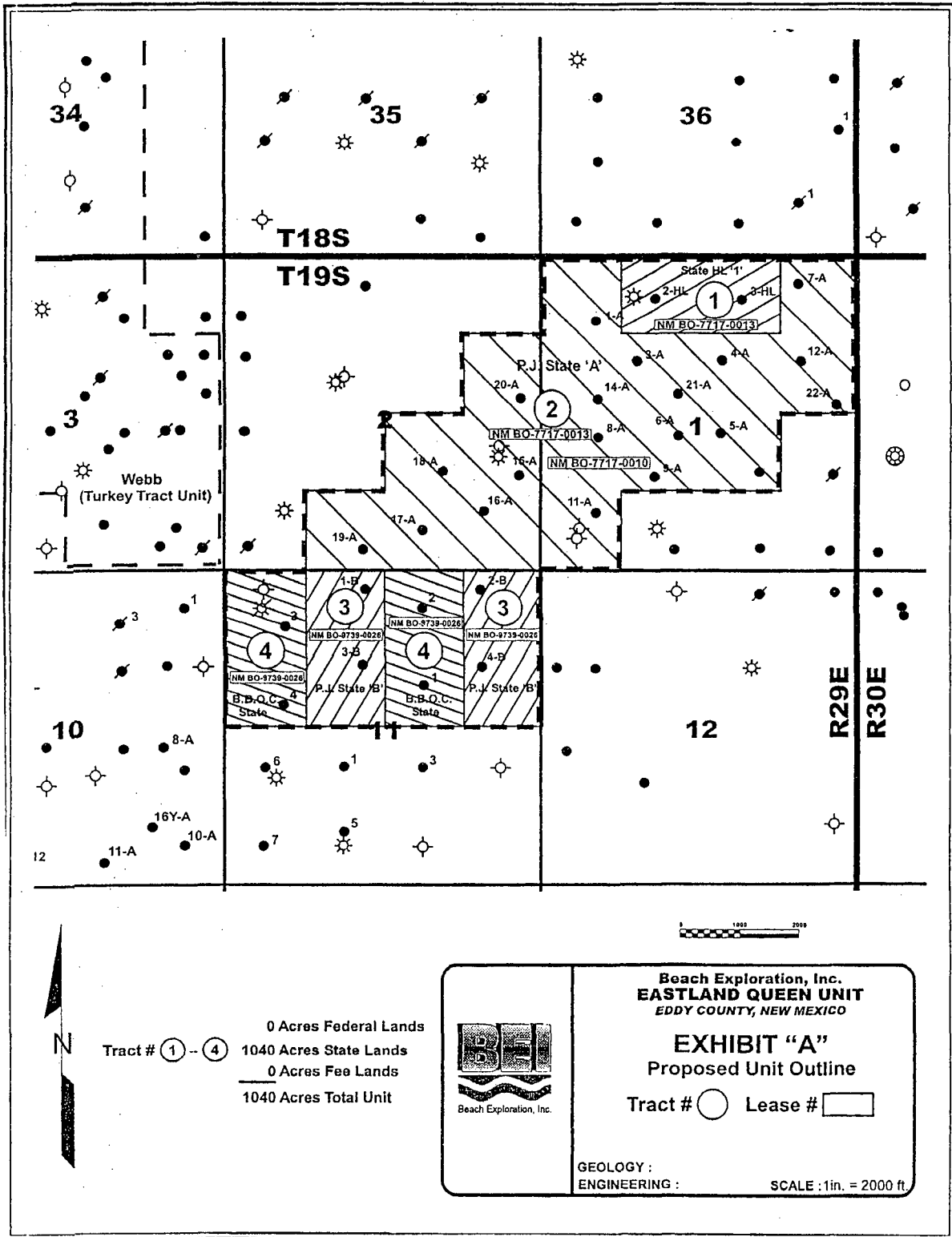


EXHIBIT "B"
SCHEDULE OF OWNERSHIP
Eastland Queen Unit
Eddy County, New Mexico

Tract Number	Description of Land	Acres	Serial No. & Exp. Date	Basic Royalty Owner and Percentage	Lessee of Record	ORRI and Percentage	WI Owners and Percentage	Participation of Tract in Unit
1	State HL '1' Section 1: NW/4 NE/4 and NE/4 NW/4 T-19-S, R-29-E	80	NM BO-7717-0013	State 0.12500000	Chisos, Ltd. & Pure Energy Group, Inc.	100%	Beach Exploration, Inc. The Eastland Oil Company	0.85000000 0.01500000 4.275248%
2	PJ State 'A' Section 1: W/2 NW/4, SE/4 NW/4, NW/4 SW/4 SW/4 NE/4 and E/2 NE/4 T-19-S, R-29-E Section 1: NE/4 SW/4, SW/4 SW/4, NW/4 SE/4 T-19-S, R-29-E Section 2: SE/4 NE/4, SE/4 and SE/4 SW/4 T-19-S, R-29-E	640	NM BO-7717-0013 NM BO-7717-0010 NM BO-7717-0013	State 0.12500000	Chisos, Ltd. & Pure Energy Group, Ltd. Snow Operating Company Inc. Chisos, Ltd. & Pure Energy Group, Ltd.	100% 100% 100%	Southwest Royalties Inc. James D. Morgan Laura L. Morgan Beach Exploration, Inc. The Eastland Oil Company	0.0910000 0.0072000 0.0018000 0.85000000 0.01500000 64.413223%
3	PJ State 'B' Section 1: E/2 NE/4 and E/2 NW/4 T-19-S, R-29-E	160	NM BO-9739-0026	State 0.12500000	Chisos, Ltd. & Pure Energy Group, Inc.	100%	A N Muncy Martin E. Muncy Dominion Oklahoma Texas Exploration Joel R. Miller Energy LP Floyd Energy Ltd	0.0002500 0.0002500 0.1137500 0.0056250 0.0056250 14.959824%
4	B.O.C. State Section 1: W/2 NE/4 and W/2 NW/4 T-19-S, R-29-E	160	NM BO-9739-0026	State 0.12500000	Chisos, Ltd. & Pure Energy Group, Inc.	100%	Sharbro Oil Ltd Co. Devon Energy Production Company LP Joel R. Miller Energy LP Floyd Energy Ltd MYCO Industries Inc. Sharbro Oil Ltd Co. Devon Energy Production Comp Joel R. Miller Energy LP Floyd Energy Ltd	0.0150000 0.0568750 0.0028125 0.0028125 0.48000000 0.02000000 0.45500000 0.02250000 0.02250000 16.351705%
1040	Acres of State of New Mexico Lands	100						
0	Acres of Fee Lands	= 0 %						
1040	TOTAL ACRES	= 100.00 %						

Beach Exploration, Inc.

EXHIBIT "C"

TRACT PARTICIPATION

EASTLAND QUEEN UNIT
Eddy County, New Mexico

Ultimate Primary Oil Recovery from Unitized Queen Interval

UNITIZATION PARAMETER:

<u>TRACT</u>	<u>LEASE NAME</u>	<u>OPERATOR</u>	<u>CUM PROD</u> <u>Sep-06</u> <u>(BO)</u>	<u>REMAINING</u> <u>PRIMARY</u> <u>(BO)</u>	<u>PROVED</u> <u>DEVELOPED</u> <u>NON-PRODUCING</u> <u>(BO)</u>	<u>ULTIMATE</u> <u>PRIMARY</u> <u>RECOVERY</u> <u>(BO)</u>	<u>TRACT</u> <u>PARTICIPATION</u> <u>(%)</u>
1	State HL 1	Eastland Oil Co.	20,330	0	11,046	31,376	4.275248%
2	P.J. State "A"	Eastland Oil Co.	425,938	46,790	0	472,728	64.413223%
3	P.J. State "B"	Eastland Oil Co.	102,771	7,019	0	109,790	14.959824%
4	B.B.O.C. State	Myco Industries	<u>110,179</u>	<u>9,826</u>	<u>0</u>	<u>120,005</u>	<u>16.351705%</u>
	TOTAL		659,218	63,635	11,046	733,899	100.000000%

EXHIBIT "D"
TRACT - WORKING INTEREST

Beach Exploration, Inc.
Eastland Queen Unit
Eddy County, New Mexico

Tract Number

Beach Exploration, Inc.
The Eastland Oil Company
Joel R. Miller Energy LP
Floyd Energy Ltd.
MYCO Industries, Inc.
Sharbro Oil Ltd Co.
Devon Energy Production Company LP

1	2	3	4
State HL	P.J. State A	P.J. State B	B.B.O.C. State
0.85000000	0.85000000	0.80750000	
0.15000000	0.15000000	0.14250000	
			0.02250000
			0.02250000
		0.05000000	0.48000000
			0.02000000
			0.45500000
1.00000000	1.00000000	1.00000000	1.00000000

EXHIBIT "D"
EASTLAND QUEEN UNIT - WORKING INTEREST

Beach Exploration, Inc.
 Eastland Queen Unit
 Eddy County, New Mexico

Tract Number	1				4			
	State	HL	P.J. State A	P.J. State B	B.B.O.C.	State		
Total	0.03633961	0.54751240	0.12080058					
Beach Exploration, Inc.	0.00641287	0.09661983	0.02131775					
The Eastland Oil Company					0.00367913			
Joel R. Miller Energy LP					0.00367913			
Floyd Energy Ltd.			0.00747991		0.07848818			
MYCO Industries, Inc.					0.00327034			
Sharbro Oil Ltd Co.					0.07440026			
Devon Energy Production Company LP								

1.00000000

EXHIBIT "D"

TRACT - NET REVENUE INTEREST

Beach Exploration, Inc.
Eastland Queen Unit
Eddy County, New Mexico

Tract Number

	1 State HL	2 P.J. State A	3 P.J. State B	4 B.B.O.C. State
Southwest Royalties		0.09100000		
James D. Morgan		0.00720000		
Laura L. Morgan		0.00180000		
Beach Exploration, Inc.	0.74375000	0.65875000	0.60522125	
The Eastland Oil Company	0.13125000	0.11625000	0.10680375	
A. N. Muncy		0.00025000		
Martin E. Muncy		0.00025000		
Dominion Oklahoma Texas Exploration		0.11375000		
Joel R. Miller Energy LP		0.00562500		0.00281250
Joel R. Miller Energy LP				0.01968750
Floyd Energy Ltd.		0.00562500		0.00281250
Floyd Energy Ltd.				0.01968750
MYCO Industries, Inc.		0.03747500		0.36000000
Sharbro Oil Ltd. Co.				0.01500000
Devon Energy Production Company LP				0.05687500
Devon Energy Production Company LP				0.39812500
State of New Mexico	0.12500000	0.12500000	0.12500000	0.12500000
	1.00000000	1.00000000	1.00000000	1.00000000

Beach Exploration, Inc.
Eastland Queen Unit
Eddy County, New Mexico

EXHIBIT "D"

EASTLAND QUEEN UNIT - NET REVENUE INTEREST

Beach Exploration, Inc.
West High Lonesome Unit
Eddy County, New Mexico

Tract Number

	1	2	3	4
	State HL	P.J. State A	P.J. State B	B.B.O.C. State
Total				
Southwest Royalties	0.05861603	0.05861603	0.00000000	0.00000000
James D. Morgan	0.00463775	0.00463775	0.00000000	0.00000000
Laura L. Morgan	0.00115944	0.00115944	0.00000000	0.00000000
Beach Exploration, Inc.	0.54665930	0.42432211	0.09054003	0.00000000
The Eastland Oil Company	0.09646929	0.07488037	0.01597765	0.00000000
A. N. Muncy	0.00003740	0.00000000	0.00003740	0.00000000
Martin E. Muncy	0.00003740	0.00000000	0.00003740	0.00000000
Dominion Oklahoma Texas Exploration	0.01701680	0.00000000	0.01701680	0.00000000
Joel R. Miller Energy LP	0.00130138	0.00000000	0.00084149	0.00045989
Joel R. Miller Energy LP	0.00321924	0.00000000	0.00000000	0.00321924
Floyd Energy Ltd.	0.00130138	0.00000000	0.00084149	0.00045989
Floyd Energy Ltd.	0.00321924	0.00000000	0.00000000	0.00321924
MYCO Industries, Inc.	0.06447233	0.00000000	0.00560619	0.05886614
Sharbro Oil Ltd. Co.	0.00245276	0.00000000	0.00000000	0.00245276
Devon Energy Production Company LP	0.00930003	0.00000000	0.00000000	0.00930003
Devon Energy Production Company LP	0.06510023	0.00000000	0.00000000	0.06510023
State of New Mexico	0.12500000	0.08051653	0.01869878	0.02043963
Total	1.00000000			
Tract Participation Factor	0.04275248	0.64413223	0.14959824	0.16351705

EXHIBIT " E "

Attached to and made a part of Eastland Queen Unit Operating Agreement, dated June 15, 2007, by and between Beach Exploration, Inc., Operator and The Eastland Oil Company, et. al., Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the Parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at _____ on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof, provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

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5. Audits

A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. Approval By Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. Rentals and Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

3. Labor

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.

SEE PAGE 8

~~(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.~~

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

4. Employee Benefits

Operator's current costs or established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. **Material**

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

6. **Transportation**

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. **Services**

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

8. **Equipment and Facilities Furnished By Operator**

~~A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed _____ percent (____%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.~~

B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. **Damages and Losses to Joint Property**

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

10. **Legal Expense**

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

11. **Taxes**

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- (X) Fixed Rate Basis, Paragraph 1A, or
() Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. ~~The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.~~

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

- () shall be covered by the overhead rates, or
(X) shall not be covered by the overhead rates.

iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

- () shall be covered by the overhead rates, or
(X) shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 4,500.00
(Prorated for less than a full month)

Producing Well Rate \$ 450.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

(1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever

is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

~~B. Overhead - Percentage Basis~~

- ~~(1) Operator shall charge the Joint Account at the following rates:~~

~~(a) Development~~

~~Percent () of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.~~

~~(b) Operating~~

~~Percent () of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.~~

- (2) Application of Overhead - Percentage Basis shall be as follows:

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint

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Account for overhead based on the following rates for any Major Construction project in excess of \$ 100,000.00

- A. 5 % of first \$100,000 or total cost if less, plus
- B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. 2 % of costs in excess of \$1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.

3. Catastrophe Overhead TO BE NEGOTIATED

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

- A. _____ % of total costs through \$100,000; plus
- B. _____ % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. _____ % of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

4. Amendment of Rates

The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.

- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000

1 pound Oil Field Haulers Association interstate truck rate shall be used.

2
3 (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston,
4 Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate,
5 to the railway receiving point nearest the Joint Property.

6
7 (d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices
8 f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate
9 per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

10
11 (2) Line Pipe

12
13 (a) Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) 30,000 pounds or
14 more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above.
15 Freight charges shall be calculated from Lorain, Ohio.

16
17 (b) Line Pipe movements (except size 24 inch OD) and larger with walls 3/4 inch and over) less than 30,000
18 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment,
19 plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular
20 goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain,
21 Ohio.

22
23 (c) Line pipe 24 inch OD and over and 3/4 inch wall and larger shall be priced f.o.b. the point of
24 manufacture at current new published prices plus transportation cost to the railway receiving point
25 nearest the Joint Property.

26
27 (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall
28 be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at
29 prices agreed to by the Parties.

30
31 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable
32 supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the
33 railway receiving point nearest the Joint Property.

34
35 (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current
36 new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or
37 point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint
38 Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

39
40 B. Good Used Material (Condition B)

41
42 Material in sound and serviceable condition and suitable for reuse without reconditioning:

43
44 (1) Material moved to the Joint Property

45
46 At seventy-five percent (75%) of current new price, as determined by Paragraph A.

47
48 (2) Material used on and moved from the Joint Property

49
50 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was
51 originally charged to the Joint Account as new Material or

52
53 (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was
54 originally charged to the Joint Account as used Material

55
56 (3) Material not used on and moved from the Joint Property

57
58 At seventy-five percent (75%) of current new price as determined by Paragraph A.

59
60 The cost of reconditioning, if any, shall be absorbed by the transferring property.

61
62 C. Other Used Material

63
64 (1) Condition C

65
66 Material which is not in sound and serviceable condition and not suitable for its original function until
67 after reconditioning shall be priced at fifty percent (50%) of current new price as determined by
68 Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition
69 C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

(1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished By Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

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1 overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

2
3 3. Special Inventories

4
5 Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint
6 Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of
7 interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases
8 involving a change of Operator, all Parties shall be governed by such inventory.

9
10 4. Expense of Conducting Inventories

11
12 A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the
13 Parties.

14
15 B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except
16 inventories required due to change of Operator shall be charged to the Joint Account.

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18
19
20
21 3. Labor (Continued from page 2. hereof)

22
23 A. (4) The charges for Operator's first level supervisor and technical employees temporarily assigned to the joint property
24 will be as follows:

- 25 (a) Field Foremen (drilling or production) at \$300.00 per day plus expenses.
26 (b) Engineer, Geologists or other degreed professionals at \$350 per day plus expenses.

27 Should any conflict arise between the rates charged in the foregoing paragraph and any other portion of Exhibit 'C' hereof, the rates prescribed
28 in the above Paragraph 3.A. (4)(a) and (b) shall prevail.

29
30 Said rates shall be subject to the escalation clauses described in Article III., paragraph 1.A. (3), at Page 4 of this Exhibit "

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EXHIBIT "F"

Attached to and made a part of the Eastland Queen Unit Operating Agreement, dated, June 15, 2007, by and between Beach Exploration, Inc. as, Operator and The Eastland Oil Company, et.al., as Non-Operators.

INSURANCE PROVISIONS

- 1) At all times during the conduct of operations hereunder, Beach Exploration, Inc. (Operator) shall maintain in force the following minimum limits of insurance at the expense of, and for the benefit of the joint account:
 - A) Workers' Compensation Insurance in accordance with the laws of the states in which operations are conducted under this Agreement.
 - B) Comprehensive General Public Liability with \$1,000,000 for general aggregate, \$1,000,000 for each occurrence and \$1,000,000 products-completed operations liability.
 - C) Automobile Liability Insurance covering owned, non-owned and hired automobiles with a combined single limit of \$1,000,000 per occurrence.
 - D) Excessive Liability (Umbrella) Policy with \$5,000,000 limit.
 - E) Control of Well Insurance.
- 2) Operator shall carry no other Insurance for the benefit of the joint account.
- 3) Any Participant may at its own expense acquire such insurance as it deems necessary to protect itself against any claims, losses, damages or destruction arising out of operations of the joint property.
- 4) In the event of a loss not covered by the insurance provided for in Number 1) above, such loss shall be charged to the joint account and borne by the parties in proportion to their respective interest in the joint property.
- 5) Operator shall require all contractors and sub-contractors working or performing services hereunder to carry workers compensation, employers' liability, auto liability and general liability and such other insurance, as Operator deems necessary.

EXHIBIT "G"

Attached to and made a part of the Eastland Queen Unit Operating Agreement, dated, June 15, 2007, by and between Beach Exploration, Inc. as, Operator and The Eastland Oil Company, et.al., as Non-Operators.

NON-DISCRIMINATION AND CERTIFICATION OF NON-SEGREGATED FACILITIES

EQUAL EMPLOYMENT OPPORTUNITY

During the performance of the contract described above, Contractor agrees to the following additional terms and conditions to the extent they may be applicable to the work to be performed under such contract in accordance with the provisions of the following described Executive Orders, Acts and implementing rules and regulations issued thereunder.

A. **E.O. 11246, as amended by E.O. 11375** (Race, Color, Religion, Sex and National Origin)

1. If the contract is in excess of \$10,000, the Contractor agrees to comply with the provisions of Section 202 of such Order (the "Equal Opportunity Clause") which clause is incorporated herein by reference pursuant to the regulations promulgated under such Order (41 C.F.R. Sec. 60-1.4(d)).

2. If the contract is in excess of \$10,000 the Contractor certifies that it does not maintain or provide, nor will it maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not permit nor will it permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. * Contractor agrees that a breach of this certification is a violation of the Equal Opportunity Clause of Executive Order 11246. Contractor further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontractors exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that it will retain such certifications in its files; and that it will forward the prescribed notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods).**

* As used in this certification, the term "Segregated facilities" means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color or national origin because of habit, local custom or otherwise.

** The form of prescribed notice is as follows: NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES. A Certificate of Nonsegregated Facilities, as required by the May 9, 1967 order on Elimination of Segregated Facilities, by the Secretary of Labor (32 Fed. Reg. 7439, May 19, 1967), must be submitted prior to the award of a subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semiannually or annually). Note: The penalty for making false statements in offers is prescribed in 18 U.S.C. 1001.

3. If the contract is in excess of \$50,000 and the Contractor has more than 50 employees, the Contractor agrees (1) to file annually, on or before March 31 of each year, (or within 30 days after the award of such contract if not filed within 12 months preceding the date of the award), complete and accurate reports on Standard Form 100 (EEO-1) with the appropriate governmental agency, in accordance with the regulations issued by the Secretary of Labor (41 C.F.R. Sec. 60-1.7), and (b) to develop a written affirmative action compliance program for each of its establishments in accordance with the regulations issued by the Secretary of Labor (41 C.F.R. Sec. 60-1.40).

B. **E.O. 11701** (Section 402-Veterans Readjustment Act of 1974)

If the contract is in excess of \$10,000, the Contractor agrees to comply with the affirmative action clause and regulations promulgated under such Order (41 C.F.R. Part 60-250) which clause is incorporated herein by reference pursuant to Section 60-250.22 of such regulations.

C. **E.O. 11758** (Section 503 -Rehabilitation Act of 1973)

If the contract is in excess of \$2,500, the Contractor agrees to comply with the affirmative action clause and the regulations promulgated under such Order (41 C.F.R. Part 60-741), which clause is incorporated herein by reference pursuant to Section 60-741.22 of such regulations.

D. **E.O. 11625** (Minority Business Enterprises)

1. If the contract is in excess of \$10,000, the Contractor agrees to use its best efforts to provide minority business enterprises with the maximum practicable opportunity to participate in the performance of such contract to the fullest extent consistent with the efficient performance thereof (41 C.F.R. Sec. 11. 1310-2(a)).

2. If the contract is in excess of \$500,000, the Contractor agrees to comply with the Minority Business Enterprises Subcontracting Program clause promulgated under such Order (41 C.F.R. Sec. 11. 13 10-2(b)), which clause is incorporated herein by reference.

E. **Section 905-Railroad Revitalization and Regulatory Reform Act of 1976**

1. The contractor agrees to comply with the requirements of Title 49 C.F.R. 265 Subpart B of the regulations promulgated under such Act regarding "Nondiscrimination in Federally assisted Railroad Programs" and the nondiscrimination clauses therein are incorporated herein by reference.

2. If the contract is for \$50,000 or more, the Contractor agrees to comply with and implement the Affirmative Action Program established pursuant to Section 265.11 of 49 C.F.R.

PROPOSED ADVERTISEMENT

Case No. 14043: **Application of Beach Exploration, Inc. for statutory unitization, Eddy County, New Mexico.** Applicant seeks an order unitizing all mineral interests in the Queen Sand member of the Turkey Track Seven Rivers-Queen-Grayburg-San Andres Pool underlying parts of Sections 1, 2, and 11, Township 19 South, Range 29 East, N.M.P.M., comprising 1040.01 acres of state lands for its proposed Eastland Queen Unit. Among the matters to be considered at hearing, pursuant to the New Mexico Statutory Unitization Act, NMSA 1978 §§70-7-1 *et seq.*, will be: The necessity of unit operations; the determination of horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investments, to each of the tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate. The unit area is centered approximately 10 miles south-southwest of Loco Hills, New Mexico.

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