



Beach Exploration, Inc

January 14, 2008

Jones

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

Re: Eastland Queen Unit
OCD Order No. R-12833 dated 10/25/07
Certificate of Effectiveness

*Cases 13972
and 13973*

Gentlemen:

Beach Exploration, Inc., as operator of the Eastland Queen Unit has prepared the Certificate of Effectiveness for the subject unit that has been recorded in the Eddy County records in Volume 721, page 345; a copy of the same is enclosed for the Division's file.

Please contact me if you have any questions recording the enclosed.

Very truly yours,


Julie Beach LeMond

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING THE:

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

CASE NO. 13972

APPLICATION OF BEACH EXPLORATION, INC. FOR APPROVAL OF A
WATERFLOOD PROJECT AND TO QUALIFY THE PROJECT AREA FOR
THE RECOVERED OIL TAX RATE, EDDY COUNTY, NEW MEXICO

CASE NO. 13973

ORDER NO. R-12833

ORDER OF THE DIVISION

BY THE DIVISION:

These cases came on for hearing at 8:15 a.m. on October 12, 2007, at Santa Fe, New Mexico before Examiners William V Jones and David K. Brooks.

NOW, on this 25th day of October, 2007, the Division Director, having considered the testimony, the record and the recommendations of the Examiners,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.

(2) In Case No. 13972, Beach Exploration, Inc. ("Beach" or "applicant"), seeks the statutory unitization, pursuant to the Statutory Unitization Act, Sections 70-7-1 through 70-7-21, NMSA 1978, of 1040.1 acres, more or less, being portions of the Turkey Track-Seven Rivers- Queen-Grayburg-San Andres Pool (61020) and the East Turkey Track-Queen Pool (60920), in Eddy County, New Mexico, to be known as the Eastland Queen Unit, (the "Unit Area"). The applicant further seeks approval of the Unit Agreement and the Unit Operating Agreement; which were submitted in evidence as applicant's Exhibits No. 2 and 3, in this case.

(3) In Case No. 13973, Beach seeks approval of a waterflood project for the

injection of water into the Queen formation within portions of the Turkey Track-Seven Rivers-Queen-Grayburg-San Andres Pool and the East Turkey Track-Queen Pool, initially through conversion to injection of thirteen existing wells in Phase I, then conversion to injection of up to five additional wells as needed, said 18 proposed injection wells are shown on Exhibit "A" attached to this order. Beach also seeks to qualify the proposed project as an "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" (NMSA 1978 Sections 7-29A-1 through 7-29A-5, as amended).

(4) Cases No. 13972 and 13973 were consolidated at the hearing for the purpose of testimony. Because the cases involve the same property and subject matter, a single order is being issued for both cases.

(5) The proposed Unit Area consists solely of State of New Mexico leases on lands specifically described as follows:

Township 19 South, Range 29 East, NMPM, Eddy County, New Mexico

Section 1: N/2, W/2 SW/4, NE/4 SW/4, NW/4 SE/4
Section 2: SE/4 NE/4, SE/4 SW/4, SE/4
Section 11: N/2

(6) The proposed vertical extent of the Unitized Formation is that interval underlying the Unit Area extending from 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 2335 feet and 2408 feet as shown by Schlumberger's Compensated Neutron/Litho-Density open hole log dated 6/18/87, in the Eastland Oil Company PJ State "A" Well No. 5, located 2310 feet from the South line and 2310 feet from the East line of Section 1, Township 19 South, Range 29 East, NMPM, Eddy County, New Mexico.

(7) The proposed Unit Area lies wholly within the horizontal extent of the Turkey Track-Seven Rivers-Queen-Grayburg-San Andres Pool discovered in 1943, with the exception of that portion of the Unit Area in the S/2 of Section 1, which lands are contained within the East Turkey Track-Queen Pool. All Turkey Track pools, because of low productivity, were included in Commission Order No. R-199, issued November 13, 1952, which did not change well spacing or density but granted exemptions from Gas Oil Ratio ("GOR") reporting requirements and from any GOR based production limitations.

(8) Devon Energy Production Company, L.P. ("Devon"), Myco Industries, Inc. ("Myco"), and Snow Oil & Gas, Inc. ("Snow"), entered appearances in each of these cases. Devon and Myco appeared at the hearing and withdrew any opposition previously stated. Snow presented a statement at the end of the hearing expressing a concern about the effect of injection on its offsetting producing wells and gathered additional information at the hearing.

(9) Beach presented land, geology, and engineering testimony as follows:

(a) Approximately one year ago, Beach purchased some of Eastland Oil Company's ("Eastland") interests in this area. Eastland has agreed to participate with the remainder of its interests. Beach has been in negotiations with Myco since December of 2005 and with Devon since February of 2007. In May of 2007, Beach had a meeting of owners within the proposed unit.

(b) The proposed unit area contains five separate tracts owned by seven different working interest owners and ten royalty or overriding royalty owners. Each tract internally has identical ownership within the proposed Unitized Formation. Eastland is the Division's operator of record of four of these tracts and Myco operates the other tract. Beach now has controlling interests in four of the five total tracts or 880.1 acres of the 1040.1 total acres.

(c) All owners of interests within the proposed unit were notified of this application and of this hearing.

(d) Beach provided notice within the ½ mile area of review ("AOR") surrounding all proposed injection wells as required in Division Rule 701B.(2) to all affected parties of its intent to inject into the proposed unitized formation.

(e) At the date of this hearing, Beach still seeks to unitize interests owned by Myco, Devon, and Sharbro Oil Ltd, although verbal agreements with these parties had been reached.

(f) The New Mexico State Land Office ("SLO"), in August of 2007, granted Beach preliminary approval for unitization.

(g) As of the date of the hearing, the owners of 83.64% of the working interest and 73.36% of the royalty interest (not counting any SLO percentage) had balloted to support the unit.

(h) Beach is proposing a 200% non-participation penalty after the 100% cost recovery, to apply to parties unitized by order who do not elect to participate in subsequent operations.

(i) Within the unit area, the Queen formation trends northeast to southwest and dips to the southeast as shown on top-of-Queen structure maps. The upper Queen Sand formation's "Shattuck" member is being targeted for injection and is contiguous over the unit.

(j) The Shattuck member of the Queen formation is a well-sorted, shoreline sandstone that usually produces oil and gas at porosities above 15 percent. The Shattuck consists of alternating low permeability silts and higher permeability sands with grain size governing the ability to produce. Above and below the Shattuck are lower porosity, tighter anhydritic dolomites which form vertical barriers to injection water.

(k) The unit as proposed is horizontally bounded by a stratigraphic pinchout as shown on isopach maps, except in Section 11 where it seems to thin and transition into another more prolific reservoir pod located to the southwest. Beach mentioned that operators of production from the Queen formation southwest of its proposed unit should be free to drill the necessary wells and form a separate unit for purposes of waterflooding.

(l) From geologic studies performed over this area, the unit area is well suited for secondary recovery operations and all tracts within the unit area should contribute to secondary oil and gas production.

(m) Several wells are producing from the middle Queen and the Seven Rivers formations in addition to the Shattuck within this proposed unit. The value of oil and gas from these non-Shattuck intervals is insignificant compared to the value of secondary oil from the Shattuck member. Beach did say that ownership is identical - prior to formation of the unit - between formations in these wells.

(n) Eight wells produce from the Seven Rivers within the unit area and five of these are slated to become injection wells. Beach is prepared to squeeze off the Seven Rivers and plug back from the middle Queen as needed. There are producing wells outside the unit area completed in both the Shattuck and other formations.

(o) The proposed tract participation formula will be in effect during all future secondary recovery operations, and the formula best allocates unitized substances to the owners on a fair, reasonable and equitable basis. The formula is listed in Section 12 of the unit agreement and consists of only "ultimate primary recovery." Ultimate primary is being used due to the fact that this area has been uniformly drilled. The calculation of each tract's ultimate primary recovery is shown in Exhibit "C" of the Unit Agreement.

(p) Due to the tighter nature of this reservoir, the waterflood project will be initiated with thirteen peripherally placed injection wells to get water in the ground as soon as possible and to contain oil reserves within the sweet spot of the unit. As the project progresses, an additional 5 wells (phase II) will be converted to injectors as they are needed. Beach is asking for Division approval at this time to inject into all eighteen (Phase I and Phase II) wells.

(q) The production within the unit area is at an advanced state of depletion with wells averaging about 1 barrel of oil per day. Cumulative production is approximately 659,000 barrels of oil and remaining primary reserves is estimated at approximately 75,000 barrels of oil. The producing gas oil ratio has almost always been near 1,000. Primary recovery is estimated to be approximately 12.8 percent of the original oil in place.

(r) The estimated total capital costs associated with initiating the project is 2.5 million dollars.

(s) The Shattuck member of the upper Queen formation is also the primary target in several other waterfloods such as Webb Oil Company's Turkey Track Section 3 Unit located directly west and northwest of the proposed unit.

(t) Based on available reservoir parameters and on analogy with other Shattuck waterfloods and using a 1:1 secondary to primary recovery ratio, the projected secondary recovery from the waterflood project is estimated to be approximately 734,000 barrels of oil, with estimated net revenue of 38 million dollars.

(u) Each of the proposed injection wells is expected to initially take an average of 100 to 200 barrels of injection water per day. Additional makeup water will be initially needed, and other produced water sources do not exist in this area. Beach has a permit for two fresh water wells in this area that should supply all needed makeup water, until the reservoir reaches fillup. The fresh water will be treated with oxygen scavenger prior to injection.

(v) Due to the tighter nature of the Queen formation, injection wells are initially expected to require pressured injection operations. Based on analogy of other Queen injection projects, Beach is asking for an initial surface maximum injection pressure of 1250 psi – which is higher than the normally allowed 0.2 psi per foot gradient. In lieu of this, Beach is willing to quickly run step rate tests to verify formation fracturing pressures and apply for an increased maximum surface injection pressure. Due to the lenticular nature of this reservoir and the presence of streaks of higher permeabilities, Beach will be careful to remain below fracturing pressure while attempting to reach reservoir fillup as soon as possible.

(w) The fresh water interval in this area occurs at depths of up to 230 feet deep. Wells in this unit area have surface casing and cement across any fresh water. Primary cement normally only extended to within 50 feet of surface which was above any fresh water. Subsequent cement was normally pumped or placed behind surface casing, from ground level down to this primary cement top.

(x) There are 25 active and 12 plugged and abandoned wells, drilled to this depth, within the Areas of Review.

(y) The proposed injection operation will not pose a threat to protectible underground sources of drinking water.

The Division Concludes That:

(10) Beach already has over 75 percent of the working interest committed and after final approval by the New Mexico State Land Office Beach will have over 75 percent of the royalty interest committed to this proposed unit.

(11) The proposed Unit Agreement and Unit Operating Agreement, Exhibits 2 and 3 respectively, should be incorporated by reference into this order.

(12) Beach has made a good faith effort to secure voluntary unitization within the unit area.

(13) The participation formula contained in the proposed unit agreement allocates costs and revenue to the separately owned tracts in the unit area on a fair, reasonable, and equitable basis.

(14) The proposed unit agreement and unit operating agreement prescribe a plan for unit operation necessary in order to efficiently manage the Queen reservoir within the bounds of this proposed unit.

(15) Statutory unitization and adoption of applicant's proposed unitized method of operation is necessary to effectively carry on secondary recovery operations, to substantially increase the ultimate recovery of oil and gas from the unit area, will benefit the working interest and royalty interest owners within the proposed unit area, and will prevent waste and protect correlative rights of all parties.

(16) Beach Exploration, Inc. is in compliance with the Division's Rule 40 and should be approved as the operator of the proposed Eastland Queen Unit.

(17) The proposed Eastland Queen Unit should be approved for statutory unitization conditional on final approval by the State Land Office.

(18) The applicant proposes to institute a "waterflood project" within the Eastland Queen Unit area. The Queen reservoir has been depleted to "stripper" status by primary operations and it is prudent to apply waterflood operations to extend the life of the reservoir and to maximize the ultimate recovery of crude oil from this reservoir.

(19) The following three plugged wells should be re-entered and re-plugged as specified below in order to ensure high pressure injection is confined to the intended Shattuck Queen interval and prevented from entering other formations or the Salado (Salt) formation.

State B-7717 #1 (30-015-03544), 1980 FSL, 660 FEL, (Unit I) Sec 2, T19S, R29E

Re-enter to 2750 feet and re-plug to surface by perforating, squeezing, placing cement plugs above the Queen (2200 feet), the Seven Rivers (1620 feet), and the base of the Salt (1080 feet). From there place cement plugs across the base of the 8-5/8 casing (425 feet) and at surface.

Leonard State #3 (30-015-03580), 330 FNL, 2310 FWL, (Unit C) Sec 12, T19S, R29E

Re-enter to approximately 2578 feet and re-plug the open hole with verified plugs placed above the Queen (2300 feet), the Seven Rivers (1750 feet), and below the Salt (1187 feet), across the 7-5/8 casing shoe (375 feet), across the top of the 7-5/8 casing (130 feet), and at surface.

Elliot #1 (30-015-04554), 330 FSL, 330 FWL, (Unit M) Sec 31, T18S, R30E

Re-enter to approximately 2450 feet and re-plug the open hole with verified plugs placed above the Queen (2415 feet), the Seven Rivers (1750 feet), and below the Salt (1168 feet), across the 8-5/8 casing shoe (355 feet), across the top of the 8-5/8 casing (160 feet), and at surface.

(20) Beach reported that three producing wells and five injection wells contain completions in both the Shattuck and in the Seven Rivers formations. In addition, there are producing intervals lower than the Shattuck within the proposed unit. However, the bulk of the remaining value in these wells within the unit is secondary oil to be obtained from waterflooding the Shattuck member of the Queen formation. Prior to unitization, interests within the tracts are identical and the majority of the owners of those interests have agreed to unitize the Shattuck and use the existing wells as part of the Shattuck waterflood. After unitization, interests between the Shattuck and other producing intervals will no longer be identical. The unit injection and producing wells should be utilized only on the Shattuck waterflood in order to maximize recovery from the waterflood and to ensure protection of correlative rights.

(21) It is necessary to equip all injection wells in a manner to confine injection to only the Shattuck and provide means to measure mechanical integrity. Within all injection wells, existing perforations below the Shattuck should be plugged off with bridge plugs and cement. In addition in all injection wells, any open perforations above the Shattuck [i.e. Seven Rivers] should be squeezed with cement, drilled out and pressure tested.

(22) All producing wells within this unit should be dedicated only to the Shattuck production during the life of this waterflood. Remaining reserves from any other intervals should be isolated behind pipe with bridge plugs and/or squeeze cementing operations.

(23) The "project area" should comprise the entire area approved for statutory unitization as described in this order.

(24) The proposed waterflood within the project area is feasible and will, with reasonable probability, result in the recovery of substantially more oil and gas than would otherwise be recovered.

(25) The estimated additional costs of the proposed waterflood operations will not exceed the estimated value of the additional oil and gas recovered plus a reasonable profit.

(26) The proposed waterflood project will prevent waste, protect correlative rights, and should be approved.

(27) The project should be governed by Division Rules No. 701 through 708. The eighteen listed wells in the attached Exhibit "A" should be initially approved for

conversion and use as injection wells in the two phases as proposed. The permit to inject should terminate within one year for each of the Phase I wells, if that well is not converted to injection. To prevent premature conversion of the wells listed in Phase II prior to the need for these wells, each of these Phase II wells should be allowed up to five years before the individual well permits expire. Provisions should be made for the operator of the Eastland Queen Unit to apply administratively for additional or different injection wells as needed.

(28) In order to reach fillup of this Shattuck Queen reservoir as soon as possible, but also prevent fracturing and damage of this formation, Beach should be allowed an initial maximum surface injection pressure of 1000 psi to apply to each injection well. Additional injection pressure increases should be approved only after a proper showing that such increase would not fracture the formation and after notice is provided by the operator to offsetting operators of producing wells within the Shattuck formation.

(29) The evidence establishes that the proposed waterflood project meets all the criteria for certification by the Division as a qualified "Enhanced Oil Recovery (EOR) Project" pursuant to the "Enhanced Oil Recovery Act" (NMSA 1978 Sections 7-29A-1 through 7-29A-5).

(30) To be eligible for the EOR credit, the operator should advise the Division when water injection commences in the project area and at such time request the Division review project performance and recommend certification of the project to the New Mexico Taxation and Revenue Department.

(31) The project area within the waterflood project and/or the producing wells within such area eligible for the recovered oil tax rate may be contracted and reduced dependent upon the evidence presented by the applicant in its demonstration of the occurrence of a positive production response.

IT IS THEREFORE ORDERED:

(1) The application of Beach Exploration, Inc., ("Beach") for the statutory unitization of 1040.1 acres, more or less, being portions of the Turkey Track-Seven Rivers-Queen-Grayburg-San Andres Pool (61020) and the East Turkey Track-Queen Pool (60920), in Eddy County, New Mexico, to be known as the Eastland Queen Unit (the "Unit Area"), is hereby approved for statutory unitization pursuant to the Statutory Unitization Act, Sections 70-7-1 through 70-7-21, NMSA 1978.

(2) The Eastland Queen Unit shall be operated by Beach Exploration, Inc. (OGRID 1903) and shall comprise the following described 1040.1 acres, more or less, of State of New Mexico lands, all in Eddy County, New Mexico:

Township 19 South, Range 29 East, NMPM

Section 1: N/2, W/2 SW/4, NE/4 SW/4, NW/4 SE/4

Section 2: SE/4 NE/4, SE/4 SW/4, SE/4

Section 11: N/2

(3) The Unitized Formation shall comprise that interval underlying the Unit Area, the vertical limits of which extend from 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 2335 feet and 2408 feet as shown by Schlumberger's Compensated Neutron/Litho-Density open hole log dated 6/18/87, in the Eastland Oil Company PJ State "A" Well No. 5, located 2310 feet from the South line and 2310 feet from the East line of Section 1, Township 19 South, Range 29 East, NMPM, Eddy County, New Mexico.

(4) The Eastland Queen Unit Agreement and Eastland Queen Unit Operating Agreement submitted to the Division at the time of the hearing as Exhibits No. 2 and 3 are hereby incorporated by reference.

(5) This order shall not become effective unless and until the owners of 75% of the royalty interest in the Unit Area approve the plan for unit operations as required by Section 70-7-8 NMSA 1978. If the persons owning the required percentage of royalty interest in the Unit Area do not approve the plan for unit operations within a period of six months from the date of this order, this order shall cease to be effective, unless the Division shall extend the time for ratification for good cause. When the persons owning the required percentage of royalty interest in the Unit Area have approved the plan for unit operations, the interests of all persons in the unit area are unitized whether or not such persons have approved the plan of unitization in writing.

(6) The applicant, as Unit Operator, shall notify the Division in writing of its removal or the substitution of any other working interest owner within the Unit Area as Unit Operator. In the event an entity other than Beach assumes operation of the unit established hereby, such entity shall comply with all the terms and provisions of this order.

(7) ~~The unit established hereby shall terminate upon the plugging and abandonment of the last well in the unit area completed in the unitized formation.~~

(8) Beach is hereby authorized to institute waterflood operations within the Eastland Queen Unit area by the injection of water into the unitized formation through the eighteen wells shown on Exhibit "A" attached to this order.

(9) The waterflood project authorized by this order shall be known as the Eastland Queen Unit Waterflood Project.

(10) Each well is specifically permitted for injection only within the depth intervals ("permitted injection intervals") specified on Exhibit "A" attached to this order.

(11) As preparation and prior to injection:

(a) In all injection wells, existing perforations below the Shattuck shall be plugged off with bridge plugs and cement. In addition, any open perforations above the Shattuck [i.e. Seven Rivers] shall be squeezed with cement, drilled out and pressure tested.

(b) All producing wells within this unit shall be dedicated only to the Shattuck production during the life of this waterflood. Remaining reserves from any other intervals shall be isolated behind pipe with bridge plugs and/or squeeze cementing operations.

(12) As preparation and prior to injection within any well located within 1/2 mile:

the following three plugged wells shall be re-entered and re-plugged as follows and under supervision of the Division's Artesia district office:

State B-7717 #1 (30-015-03544), 1980 FSL, 660 FEL, (Unit I) Sec 2, T19S, R29E

Re-enter to 2750 feet and re-plug to surface by perforating, squeezing, placing cement plugs above the Queen (2200 feet), the Seven Rivers (1620 feet), and the base of the Salt (1080 feet). From there place cement plugs across the base of the 8-5/8 casing (425 feet) and at surface.

Leonard State #3 (30-015-03580), 330 FNL, 2310 FWL, (Unit C) Sec 12, T19S, R29E

Re-enter to approximately 2578 feet and re-plug the open hole with verified plugs placed above the Queen (2300 feet), the Seven Rivers (1750 feet), and below the Salt (1187 feet), across the 7-5/8 casing shoe (375 feet), across the top of the 7-5/8 casing (130 feet), and at surface.

Elliot #1 (30-015-04554), 330 FSL, 330 FWL, (Unit M) Sec 31, T18S, R30E

Re-enter to approximately 2450 feet and re-plug the open hole with verified plugs placed above the Queen (2415 feet), the Seven Rivers (1750 feet), and below the Salt (1168 feet), across the 8-5/8 casing shoe (355 feet), across the top of the 8-5/8 casing (160 feet), and at surface.

(13) The operator shall provide written verification and completed sundry forms to the Division showing that the required work specified in Paragraphs (11) and (12) has been completed.

(14) Beach shall take all steps necessary to ensure that the injected water enters only the permitted injection intervals and is not permitted to escape to other formations or onto the surface from injection, production, or plugged and abandoned wells.

(15) Injection into each of the wells shown on Exhibit "A" shall be accomplished through lined tubing installed in a packer located within 100 feet of the uppermost injection perforation. The casing-tubing annulus shall be filled with an inert fluid, and a gauge or approved leak-detection device shall be attached to the annulus in order to determine leakage in the casing, tubing, or packer.

(16) The injection wells or pressurization system shall be equipped with a pressure control device or acceptable substitute that will limit the surface injection pressure to 1000 psi.

(17) The Division Director may administratively authorize a pressure limitation in excess of the above upon a showing by the operator that such higher pressure will not result in the fracturing of the injection formation or confining strata AND after notice is provided of such application to all offsetting operators of producing wells within the Shattuck formation located within ½ mile of the injection well(s) and those operators are given 15 days in which to protest the pressure increase.

(18) The Division Director may administratively authorize additional injection wells within the unit area as provided in Division Rule 701.F(3).

(19) Prior to commencing injection operations, casing shall be installed and cemented if not present in any well, and the casing in each well shall be pressure tested throughout the interval from the surface down to the proposed packer setting depth to assure the integrity of such casing.

(20) The unit operator shall give 72 hours advance notice to the supervisor of the Division's Artesia District Office of the date and time (i) injection equipment will be installed, and (ii) the mechanical integrity pressure test will be conducted on the proposed injection wells, so that these operations may be witnessed.

(21) The unit operator shall immediately notify the supervisor of the Division's Artesia District office of any failure of the tubing, casing or packer in any of the injection wells or the leakage of water, oil or gas from or around any producing or plugged and abandoned well within the project area, and shall promptly take all steps necessary to correct such failure or leakage.

(22) The unit operator shall conduct injection operations in accordance with Division Rules No. 701 through 708, and shall submit monthly progress reports in accordance with Division Rules No. 706 and 1115.

(23) The injection authority granted herein for each Phase I well shown on Exhibit "A" shall terminate one year after the date of this order if the unit operator has not commenced injection operations into that well; provided, however, the Division, upon written request for that well, may grant an extension for good cause if such request for extension is received prior to the end of that year.

(24) The injection authority granted herein for each of those Phase II wells shown on Exhibit "A" shall terminate five years after the date of this order if the unit operator has not commenced injection operations into that well; provided, however, the Division, upon written request for that well, may grant an extension for good cause if such request for extension is received prior to the end of five years.

(25) The Eastland Queen Unit Waterflood Project is hereby certified as an "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" (NMSA 1978 Sections 7-29A-1 through 7-29A-5). The project area shall comprise the entire Eastland Queen Unit; provided the area and/or the producing wells eligible for the enhanced oil recovery (EOR) tax rate may be contracted and reduced based upon the evidence presented by the unit operator in its demonstration of a positive production response.

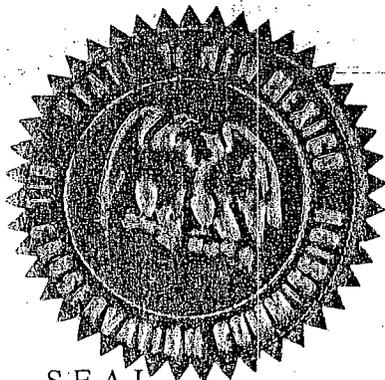
(26) To be eligible for the EOR tax rate, the unit operator shall advise the Division of the date and time water injection commences into the project area and at such time, request the Division certify the project to the New Mexico Taxation and Revenue Department.

(27) At such time as a positive production response occurs, and within five years from the date the project was certified to the New Mexico Taxation and Revenue Department, the unit operator must apply to the Division for certification of a positive production response. This application shall identify the area benefiting from enhanced oil recovery operations and the specific wells eligible for the EOR tax rate. The Division may review the application administratively or set it for hearing. Based upon the evidence presented, the Division will certify to the New Mexico Taxation and Revenue Department those wells that are eligible for the EOR tax rate.

(28) This order does not relieve the operator of responsibility should its operations cause any damage or threat of damage to protectible fresh water, human health or the environment, nor does it relieve the operator of responsibility for complying with applicable Division rules or other federal, state or local laws or regulations.

(29) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated



SEAL

Attachments: Exhibit "A"

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire", is written over a horizontal line.

MARK E. FESMIRE, P.E.
Director

CASE NO. 13973

EXHIBIT "A"
INJECTION WELLS
EASTLAND QUEEN UNIT
WELL NAMES AND LOCATIONS

Phase I (13 Injection Wells)

WELL NAME	API	N-S	E-W	Unit	Sec	Tsp	Rge	Shattuck Perfs
STATE 004 (P&A)	30-015-03541	1650 FSL	1650 FEL	J	1	19S	29E	Approx 2400
STATE HL 1 002	30-015-24911	660 FNL	1980 FWL	C	1	19S	29E	2328-2370
P.J. A STATE 001	30-015-25655	990 FNL	990 FWL	D	1	19S	29E	2306-2341
P.J. A STATE 007	30-015-25794	330 FNL	990 FEL	A	1	19S	29E	2398-2418
P.J. A STATE 008	30-015-25856	2310 FSL	990 FWL	L	1	19S	29E	2272-2311
P.J. A STATE 011	30-015-25887	990 FSL	990 FWL	M	1	19S	29E	2326-2336
P.J. A STATE 018	30-015-26190	1650 FSL	1650 FEL	J	2	19S	29E	2270-2290
P.J. A STATE 020	30-015-26444	2310 FNL	330 FEL	H	2	19S	29E	2244-2294
P.J. A STATE 022	30-015-03542	2310 FNL	330 FEL	H	1	19S	29E	2414-2452
P.J. B STATE 001	30-015-26095	330 FNL	2310 FWL	C	11	19S	29E	2229-2247
P.J. B STATE 002	30-015-26120	330 FNL	990 FEL	A	11	19S	29E	2268-2301
B B O C STATE 001	30-015-22957	1980 FNL	1980 FEL	G	11	19S	29E	2261-2314
B B O C STATE 003	30-015-26235	990 FNL	990 FWL	D	11	19S	29E	2216-2237

Phase II (5 Injection Wells as Needed)

WELL NAME	API	N-S	E-W	Unit	Sec	Tsp	Rge	Shattuck Perfs
STATE HL 1 003	30-015-24912	660 FNL	1980 FEL	B	1	19S	29E	2351-2415
P.J. A STATE 009	30-015-10235	1470 FSL	2420 FWL	K	1	19S	29E	2360-2388
P.J. A STATE 012	30-015-25888	1650 FNL	990 FEL	H	1	19S	29E	2400-2428
P.J. A STATE 017	30-015-26148	660 FSL	1980 FEL	O	2	19S	29E	2257-2278
P.J. A STATE 021	30-015-30846	2310 FNL	2310 FWL	F	1	19S	29E	2304-2354

EXHIBIT 2**NEW MEXICO STATE LAND OFFICE****CERTIFICATE OF APPROVAL**

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

BEACH EXPLORATION, INC.
 EASTLAND QUEEN UNIT
 EDDY COUNTY, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, a Unit Agreement for the development and operation of acreage which is described within the referenced Agreement, dated June 15, 2007 which said Agreement has been executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the State, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 19-10-45, 19-10-46, 19-10-47, New Mexico Statutes Annotated, 1978 Compilation, I, the undersigned Commissioner of Public Lands of the State of New Mexico, do hereby consent to and approve the said Agreement; however, such consent and approval being limited and restricted to such lands within the Unit Area, which are effectively committed to the Unit Agreement as of this date, and further, that leases insofar as the lands covered thereby committed to this Unit Agreement shall be and the same are hereby amended to conform with the terms of such Unit Agreement, and said leases shall remain in full force and effect in accordance with the terms and conditions of said Agreement. This approval is subject to all of the provisions of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 4TH day of DECEMBER, 2007.

Patrick H. Lyons / JAB
 COMMISSIONER OF PUBLIC LANDS
 of the State of New Mexico

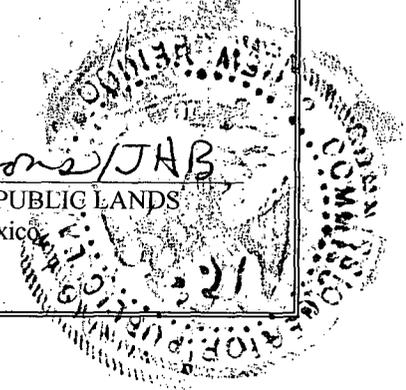


EXHIBIT 3RATIFICATION Eastland Queen Unit
Working Interest Owners

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

<u>WIO</u>	<u>Unit WI Ratified</u>
Eastland Oil Company	0.12435045
Joel R. Miller Energy LP	0.00367913
Floyd Energy Ltd	0.00367913
Beach Exploration, Inc.	0.86829129
	1.00000000

EXHIBIT 4RATIFICATION Eastland Queen Unit
Overriding Royalty & Royalty Interest OwnersBeach Exploration, Inc.
Eastland Queen Unit
Eddy County, New Mexico

<u>ORRI & RI Ratified</u>	<u>Unit NRI Ratified</u>
Southwest Royalties Inc.	0.05861603
James D. Morgan	0.00463775
Laura L. Morgan	0.00115944
A. N. Muncy	0.00003740
Lobos Energy Partners, LLC	0.01701680
Joel R. Miller Energy LP	0.00452062
Floyd Energy Ltd	0.00452062
Beach Exploration, Inc.	0.67868462
Eastland Oil Company	0.09646929
State of New Mexico	0.12500000
	0.99066257

EXHIBIT 5

RATIFICATION AND JOINDER OF UNIT AGREEMENT AND
UNIT OPERATING AGREEMENT

In consideration of the execution or ratification of that certain Unit Agreement dated, June 15, 2007, for the Development and Operation of the Eastland Queen Waterflood Unit Area, County of Eddy, State of New Mexico, in form approved on behalf of the Commissioner of Public Lands of the State of New Mexico, and in consideration of the execution or ratification by other working interest owners of the contemporary Unit Operating Agreement which relates to said Unit Agreement, the Undersigned hereby expressly ratifies, approves, and adopts said Unit Agreement and Unit Operating Agreement as fully as though the undersigned had executed the original agreements.

This Ratification and Joinder shall be effective as to all of undersigned's interests in any lands and leases within the Unit Area, including Royalty Interests, presently held or which may arise under existing option agreements, or other interests in Unitized Substances covering the lands within the Unit Area in which the undersigned may be found to have Oil and Gas Rights.

This Ratification and Joinder shall be binding upon the undersigned, and his, her, or its heirs, devisees, executors, personal representatives, assigns, or successors in interest.

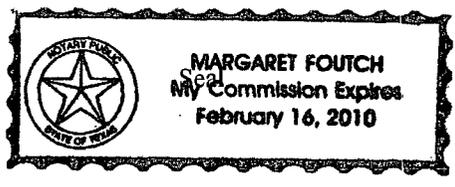
EXECUTED this the 7th day of September, 2007.

BY: Robert R. Donnelly
Signature
THE EASTLAND OIL COMPANY
ROBERT R. DONNELLY
Print or type name
P.O. Box 3488
Street address
MIDLAND TEXAS 79702
City State Zip

ACKNOWLEDGEMENT

STATE OF Texas §
§
COUNTY OF Midland §
§

SUBSCRIBED AND SWORN TO before me this the 7th day of September, 2007, by
(interest owner's name) Robert R. Donnelly, President



By: Margaret Futch
Notary Public in and for the State of Texas
My Commission Expires 2-16-10

RATIFICATION AND JOINDER OF UNIT AGREEMENT AND
UNIT OPERATING AGREEMENT

In consideration of the execution and ratification of that certain Unit Agreement dated, June 15, 2007, for the Development and operation of the Eastland Queen Waterflood Unit Area, County of Eddy, State of New Mexico, in form approved by the Commissioner of Public Lands of the State of New Mexico, and in consideration of the execution or ratification by other working interest owners of the contemporary Unit Operating Agreement which relates to said Unit Agreement, the Undersigned hereby expressly ratifies, approves, and adopts said Unit Agreement and Unit Operating Agreement as fully as though the undersigned had executed the original agreements.

This Ratification and Joinder shall be effective as to all of undersigned's interests in any lands and leases within the Unit Area, including Royalty Interests, presently held or which may arise under existing option agreements, or other interests in Unitized Substances covering the lands within the Unit Area in which the undersigned may be found to have Oil and Gas Rights.

This Ratification and Joinder shall be binding upon the undersigned, and his, her, or its heirs, devisees, executors, personal representatives, assigns, or successors in interest.

EXECUTED this the 21st day of August, 2007.

JOEL R. MILLER ENERGY, L. P.

By: Joel R. Miller Management, LLC as General Partner

By: Joel R. Miller
Joel R. Miller, Manager

P.O. Box 3003
Street address

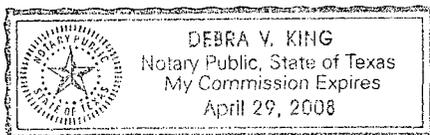
Midland TX 79702-3003
City State Zip

ACKNOWLEDGEMENT

STATE OF TEXAS δ
 δ
COUNTY OF MIDLAND δ

SUBSCRIBED AND SWORN TO before me this the 21st day of August, 2007, by Joel R. Miller, Manager of Joel R. Miller Management, LLC, a Texas limited liability company, on behalf of said limited liability company, as General Partner of Joel R. Miller Energy, L.P., a Texas limited partnership.

SEAL



Debra V. King
Notary Public, State of Texas

RATIFICATION AND JOINDER OF UNIT AGREEMENT AND
UNIT OPERATING AGREEMENT

In consideration of the execution or ratification of that certain Unit Agreement dated, June 15, 2007, for the Development and Operation of the Eastland Queen Waterflood Unit Area, County of Eddy, State of New Mexico, in form approved on behalf of the Commissioner of Public Lands of the State of New Mexico, and in consideration of the execution or ratification by other working interest owners of the contemporary Unit Operating Agreement which relates to said Unit Agreement, the Undersigned hereby expressly ratifies, approves, and adopts said Unit Agreement and Unit Operating Agreement as fully as though the undersigned had executed the original agreements.

This Ratification and Joinder shall be effective as to all of undersigned's interests in any lands and leases within the Unit Area, including Royalty Interests, presently held or which may arise under existing option agreements, or other interests in Unitized Substances covering the lands within the Unit Area in which the undersigned may be found to have Oil and Gas Rights.

This Ratification and Joinder shall be binding upon the undersigned, and his, her, or its heirs, devisees, executors, personal representatives, assigns, or successors in interest.

EXECUTED this the 10th day of September, 2007.

FLOYD ENERGY, LTD.

By: Floyd Operations, LLC., as
General Partner

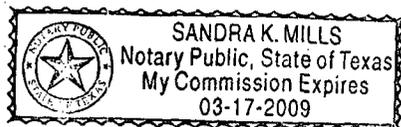
By: 
Jay E. Floyd, Manager
P. O. Box 52107
Midland, Texas 79710

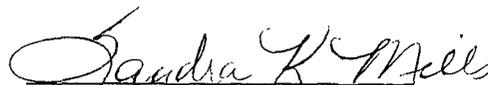
THE STATE OF TEXAS}

COUNTY OF MIDLAND}

This instrument was acknowledged before me on this 10th day of September, 2007 by Jay E. Floyd, Manager of Floyd Operations, LLC., a Texas limited liability company, on behalf of said limited liability company, as General Partner of Floyd Energy, Ltd., a Texas limited partnership.

SEAL




Notary Public, State of Texas

RATIFICATION AND JOINDER OF
UNIT AGREEMENT

In consideration of the execution of that certain Unit Agreement, dated June 15, 2007, for the Development and Operation of the Eastland Queen Waterflood Unit Area, County of Eddy, State of New Mexico, in form approved on behalf of the Commissioner of Public Lands of the State of New Mexico, the undersigned owner of lands or leases, or Royalty Interests therein, presently held or which may arise under existing option agreements, or other interests in production, consents to the inclusion of said lands and interests within the Unit and expressly ratifies, approves, and adopts said Unit Agreement, and agrees that the terms of any lease given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the terms of said Unit Agreement, and further agrees that the drilling, development and producing requirements of all leases and other contracts under which his, her, or its several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement.

This Ratification and Joinder shall be binding upon the undersigned, and his, her, or its heirs, devisees, executors, personal representatives, assigns, or successors in interest.

EXECUTED this the 30 day of Nov, 2007.

BY: [Signature]
Signature

Print name GENE M. SNOW

Street address 5719 AIRPORT FRWY

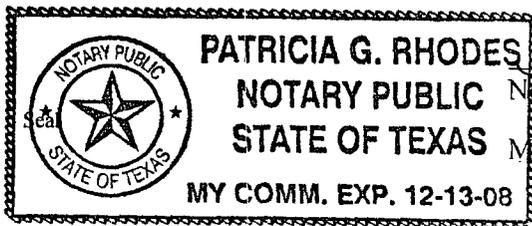
City FT WORTH, TX State TX Zip 76117

ACKNOWLEDGEMENT

STATE OF TEXAS

COUNTY OF TARRANT

SUBSCRIBED AND SWORN TO before me this the 30 day of Nov, 2007, by (name of signatory party) GENE M. SNOW



[Signature]
Notary Public in and for the State of TEXAS
My Commission Expires 12-13-08

RATIFICATION AND JOINDER OF
UNIT AGREEMENT

In consideration of the execution of that certain Unit Agreement, dated June 15, 2007, for the Development and Operation of the Eastland Queen Waterflood Unit Area, County of Eddy, State of New Mexico, in form approved on behalf of the Commissioner of Public Lands of the State of New Mexico, the undersigned owner of lands or leases, or Royalty Interests therein, presently held or which may arise under existing option agreements, or other interests in production, consents to the inclusion of said lands and interests within the Unit and expressly ratifies, approves, and adopts said Unit Agreement, and agrees that the terms of any lease given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the terms of said Unit Agreement, and further agrees that the drilling, development and producing requirements of all leases and other contracts under which his, her, or its several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement.

This Ratification and Joinder shall be binding upon the undersigned, and his, her, or its heirs, devisees, executors, personal representatives, assigns, or successors in interest.

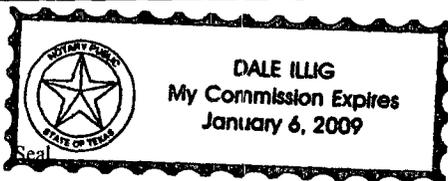
EXECUTED this the 25th day of June, 2007.

BY: James D Morgan
Signature
James D Morgan
Print name
P.O. Box 151
Street address
Georgetown, TX 78627
City State Zip

ACKNOWLEDGEMENT

STATE OF Texas §
COUNTY OF Williamson §

SUBSCRIBED AND SWORN TO before me this the 25th day of June, 2007, by (name of signatory party) James D. Morgan



Dale Illig
Notary Public in and for the State of _____
My Commission Expires _____

