

Plan of Operations

Reeves(Queen) Waterflood unit
T-18-S, R-35-E Sections 22, 27 and 28
Lea County, New Mexico

The Reeves(Queen) field is located in central Lea County New Mexico approximately twenty miles west of city of Hobbs. There were 17 wells completed in the Reeves(Queen) field. However, several of these completions reflect single well or two well separate porosity developments. Sundown Energy has extensively mapped the area, and Sundown has identified the largest structure for the Reeves(Queen) field. There are twelve well penetrations through this Queen reservoir. To date, there are 5 wells that were completed in Sundown Energy's mapped Reeves(Queen) field. It is Sundown Energy's opinion that this is the largest contiguous Reeves(Queen) field as designated by the NMOCD. It is Sundown's intention to unitize and waterflood this single structure. To date, this field has produced 234,000 Bbls and 767,000 Mcf. The Reeves (Queen) has exhibited a typical solution gas drive with no water drive mechanism. Sundown Energy believes this field is an excellent candidate for a small periphery waterflood.

Sundown Energy plans to convert the following wells to injection: Arco State 28-1 (API# 30-025-29340) and the Arco State #28-2 (API# 30-025-29526). Sundown plans to use available Devonian water from the offsetting Paladin operated Devonian producers. This water has been found to be compatible with Reeves(Queen) water. Sundown will build the injection station next to the existing Lea 403 tank battery on the same location. This will reduce physical footprint for surface facilities. Sundown plans to inject 500 bwpd per injector till fill up is reached. Sundown will start injection on the Arco State 28-2. Initially, Sundown will continue to produce the Reeves 21-1. Sundown Energy will then re-enter the Arco State #28-2, and the wellbore will be monitored for oil response. If there is favorable response, Sundown may produce this well to catch the initial banked oil response. Ultimately, the Arco State 28-2 will be converted to injection after recovering the initial flush production. The main producers will ultimately be the Reeves 21-1 and the Lea 403 State #2.

Waterflood response will ultimately determine the final injectors and producers in the field. Sundown realizes that injection support will be required from either the Tamarack Arco State #1 or the Sinclair State Lea 405 #1. Sundown will either convert the Lea 403 #3 to a producer in the Queen or drill a replacement well. This will depend on the success of Paladin completing the subject well in the Devonian. The Lea 403-3 has good potential in the Devonian and secondary reserves in the Queen. Project economics for the field were run assuming the Lea 403-3 would have to be re-drilled since there would be commercial production in the Devonian. Sundown Energy has made the assumption that secondary to primary reserves will be close to 1.0 (Actual economics were run assuming a secondary to primary ratio of 0.9).

Sundown estimates the Reeves(Queen) waterflood unit to cost a total of \$1,585,000 with the following cost breakdown:

Arco State 28-1	Convert to injection	\$75,000
Arco State 28-2	Re-enter and convert to injection	\$255,000
Reeves (Queen)	Facility and injection line work	\$250,000
Arco State 27-1	Re-enter and convert to injection	\$255,000
Lea 403-3R	Drill and complete replacement well	\$750,000
Total for Reeves (Queen) waterflood unit		\$1,585,000

Sundown Energy has modeled a waterflood response curve based on primary production and typical response for a small Queen waterflood (see attached production curve and Annual Cash Flow Report). Sundown estimates economic flood response in one year. Peak production is anticipated in 2016 through 2017. Economic payout is estimated at three years with an internal rate of return of 51%. Secondary reserves for the project are estimated at 214,000 Bbls. The Reeves(Queen) field will unitize several State of New Mexico leases. These secondary reserves recovered in this project will also be beneficial to the State of New Mexico from royalties paid on the unitized state leases. It is imperative that Sundown move quickly on this project due to the extremely depleted pressure in the Queen reservoir.