

UNIT OPERATING AGREEMENT

EASTLAND QUEEN UNIT

EDDY COUNTY, NEW MEXICO

JUNE 15, 2007

Oil Conservation Division

Case No. 3

Exhibit No. 2

UNIT OPERATING AGREEMENT
EASTLAND QUEEN UNIT
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UNIT OPERATING AGREEMENT
EASTLAND QUEEN 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 22 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:

- 3.2.1 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 14. 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

DEVON ENERGY PRODUCTION COMPANY LP

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.

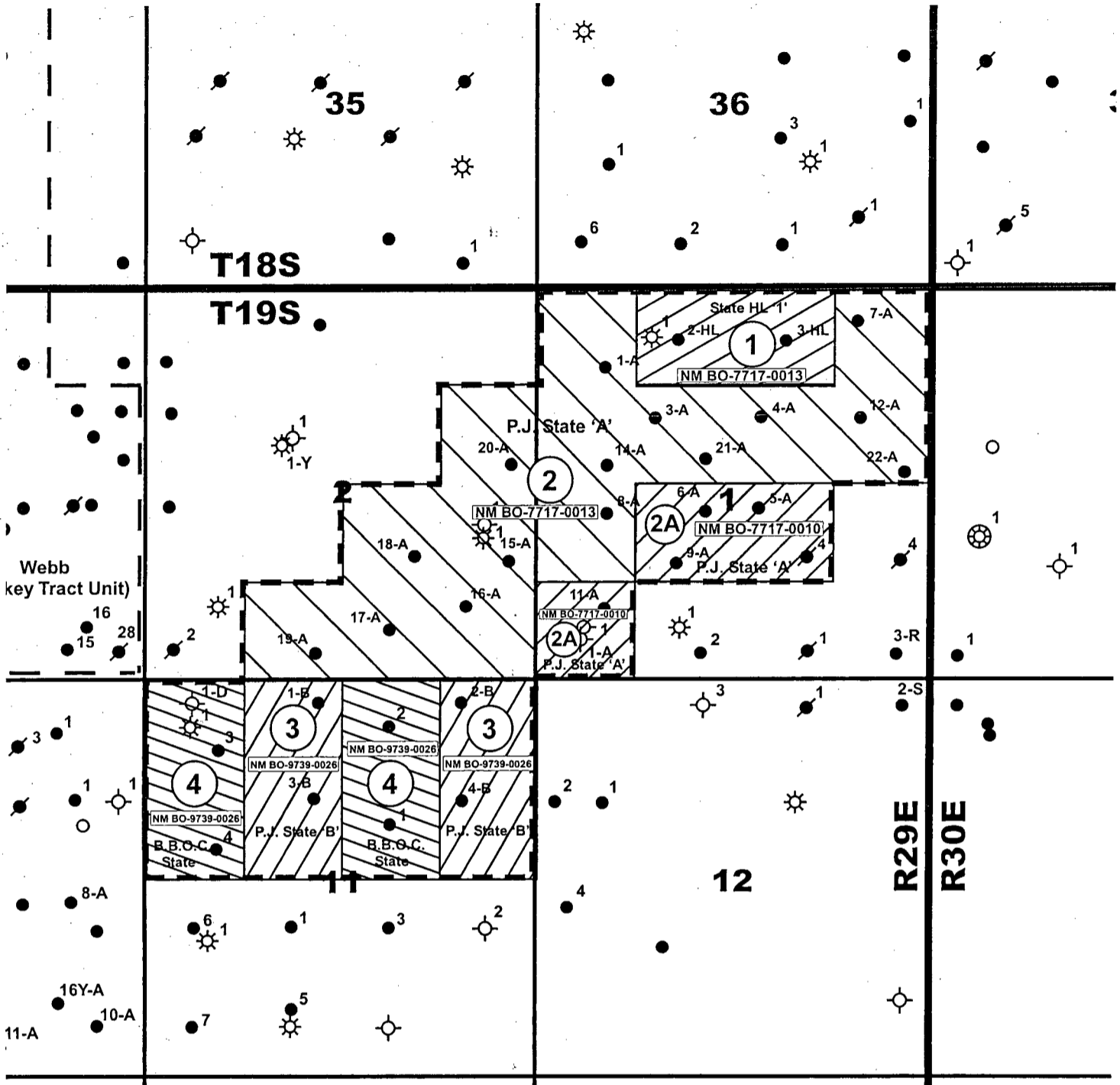
Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID



0.0 Acres Federal Lands
 Tract # ① -- ④ 1040.1 Acres State Lands
 0.0 Acres Fee Lands
 1040.1 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.

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: Lots 2 and 3 T-19-S, R-29-E	80.1	NM BO-7717-0013	State 0.12500000	Chisos, Ltd. & Pure Energy Group, Inc.	100%	Beach Exploration, Inc. The Eastland Oil Company	0.85000000 0.15000000	4.275248%		
2	PJ State 'A' Section 1: Lots 1 and 4, S/2 N/2, NW/4 SW/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	280.1 240	NM BO-7717-0013	State 0.12500000	Chisos, Ltd. & Pure Energy Group, Ltd.	100%	Southwest Royalties Inc. James D. Morgan Laura L. Morgan	0.0910000 0.0072000 0.0018000	Beach Exploration, Inc. The Eastland Oil Company 0.85000000 0.15000000	46.548640%	
2A	PJ State 'A' Section 1: NE/4 SW/4, SW/4 SW/4, NW/4 SE/4 T-19-S, R-29-E	119.9	NM BO-7717-0010	State 0.1250000	Snow Operating Company Inc.	100%	Beach Exploration, Inc. The Eastland Oil Company	0.85000000 0.15000000	17.864583%		
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 Lobos Energy Partners, LLC Joel R. Miller Energy LP Floyd Energy Ltd	0.0002500 0.0002500 0.1137500 0.0056250 0.0056250	Beach Exploration, Inc. The Eastland Oil Company MYCO Industries Inc. 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%	Devon Energy Production Company LP Joel R. Miller Energy LP Floyd Energy Ltd	0.0568750 0.0028125 0.0028125	MYCO Industries Inc. Sharbro Oil Ltd Co. Devon Energy Production Comp Joel R. Miller Energy LP Floyd Energy Ltd	0.48000000 0.02000000 0.45500000 0.02250000 0.02250000	16.351705%
1040.1	Acres of State of New Mexico Lands									100 %	
0	Acres of Fee Lands									0 %	
1040.1	TOTAL ACRES									= 100.00 %	

Beach Exploration, Inc.

EXHIBIT "C"

TRACT PARTICIPATION
EASTLAND QUEEN UNIT
Eddy County, New Mexico

UNITIZATION PARAMETER:

Ultimate Primary Oil Recovery from Unitized Queen Interval

TRACT	LEASE NAME	OPERATOR	CUM PROD	REMAINING	PROVED	ULTIMATE	TRACT
			Sep-06 (BO)	PRIMARY (BO)	DEVELOPED NON-PRODUCING (BO)	PRIMARY RECOVERY (BO)	PARTICIPATION (%)
1	State HL 1	Eastland Oil Co.	20,330	0	11,046	31,376	4.275248%
2	P.J. State "A"	Eastland Oil Co.	307,807	33,813	0	341,620	46.548640%
2A	P.J. State "A"	Eastland Oil Co.	118,131	12,977	0	131,108	17.864583%
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	110,179	9,826	0	120,005	16.351705%
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

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

Tract Number	1 State HL	2 P.J. State A	2A P.J. State A	3 P.J. State B	4 B.B.O.C. State
	0.85000000	0.85000000	0.85000000	0.80750000	
	0.15000000	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	1.00000000

EXHIBIT "D"
EASTLAND QUEEN UNIT - WORKING INTEREST

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

Tract Number	1 State HL	2 P.J. State A	2A P.J. State A	3 P.J. State B	4 B.B.O.C. State
Total					
Beach Exploration, Inc.	0.70465260	0.03633961	0.39566344	0.15184896	0.12080058
The Eastland Oil Company	0.12435045	0.00641287	0.06982296	0.02679687	0.02131775
Joel R. Miller Energy LP	0.00367913				0.00367913
Floyd Energy Ltd.	0.00367913				0.00367913
MYCO Industries, Inc.	0.08596809			0.00747991	0.07848818
Sharbro Oil Ltd Co.	0.00327034				0.00327034
Devon Energy Production Company LP	0.07440026				0.07440026

1.00000000

Tract Participation

1.00000000	0.04275248	0.46548640	0.17864583	0.14959824	0.16351705
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EXHIBIT "D"

TRACT - NET REVENUE INTEREST

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

Tract Number

1 2 2A 3 4
State HL P.J. State A P.J. State A P.J. State B B.B.O.C.
State

Southwest Royalties	0.09100000	0.09100000		
James D. Morgan	0.00720000	0.00720000		
Laura L. Morgan	0.00180000	0.00180000		
Beach Exploration, Inc.	0.65875000	0.65875000	0.60522125	
The Eastland Oil Company	0.11625000	0.11625000	0.10680375	
A. N. Muncy			0.00025000	
Martin E. Muncy			0.00025000	
Lobos Energy Partners, LLC			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 1.00000000

EXHIBIT "D"

EASTLAND QUEEN UNIT - NET REVENUE INTEREST

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

Tract Number

Southwest Royalties
James D. Morgan
Laura L. Morgan
Beach Exploration, Inc.
The Eastland Oil Company
A. N. Muncy
Martin E. Muncy
Lobos Energy Partners, LLC
Joel R- Miller Energy LP
Joel R. Miller Energy LP
Floyd Energy Ltd.
Floyd Energy Ltd.
MYCO Industries, Inc.
Sharbro Oil Ltd. Co.
Devon Energy Production Company LP
Devon Energy Production Company LP
State of New Mexico

	1	2	2A	3	4
	State HL	P.J. State A	P.J. State A	P.J. State B	B.B.O.C. State

Total

0.05861603	0.00000000	0.04235926	0.01625677	0.00000000	0.00000000
0.00463775	0.00000000	0.00335150	0.00128625	0.00000000	0.00000000
0.00115944	0.00000000	0.00083788	0.00032156	0.00000000	0.00000000
0.54665930	0.03179716	0.30663917	0.11768294	0.09054003	0.00000000
0.09646929	0.00561126	0.05411279	0.02076758	0.01597765	0.00000000
0.00003740	0.00000000	0.00000000	0.00000000	0.00003740	0.00000000
0.00003740	0.00000000	0.00000000	0.00000000	0.00003740	0.00000000
0.01701680	0.00000000	0.00000000	0.00000000	0.01701680	0.00000000
0.00130138	0.00000000	0.00000000	0.00000000	0.00084149	0.00045989
0.00321924	0.00000000	0.00000000	0.00000000	0.00000000	0.00321924
0.00130138	0.00000000	0.00000000	0.00000000	0.00084149	0.00045989
0.00321924	0.00000000	0.00000000	0.00000000	0.00000000	0.00321924
0.06447233	0.00000000	0.00000000	0.00000000	0.00560619	0.05886614
0.00245276	0.00000000	0.00000000	0.00000000	0.00000000	0.00245276
0.00930003	0.00000000	0.00000000	0.00000000	0.00000000	0.00930003
0.06510023	0.00000000	0.00000000	0.00000000	0.00000000	0.06510023
0.12500000	0.00534406	0.05818580	0.02233073	0.01869978	0.02043963

Total 1.00000000

Tract Participation Factor	0.04275248	0.46548640	0.17864583	0.14959824	0.16351705
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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 or 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

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.
70

(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

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

3. Special Inventories

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

4. Expense of Conducting Inventories

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

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

3. Labor (Continued fro page 2. hereof)

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

(a) Field Foremen (drilling or production) at \$300.00 per day plus expenses.

(b) Engineer, Geologists or other degreed professionals at \$350 per day plus expenses.

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

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

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.