

OIL CONSERVATION DIV

1106 N Country Club
Carlsbad, NM 88220
August 22, 2001

Mr. Robert Hinson
Beach Exploration
800 N. Marienfeld, Suite 200
Midland, Texas 79701-3382

Re: M & W Well &
W. Hi Lonesome Waterflood

Dear Mr. Hinson:

Thank you for your rapid correction of Beach's July 31, 2001, billings to Bill and Harvey Taylor.

I am sure Beach intends to use some of the existing equipment associated presently with the wells within the proposed waterflood. Beach's July 31, 2001 billing helpfully established Beach's prices for used equipment, including our share of the M & W Well's equipment we still own. I had an operator who furnished barely salvageable equipment for a well, but sought to charge the working interest owners for new tanks and equipment, etc.

We have been unable to obtain a satisfactory owner for the Taylor's working interest, although I have spoken to some who are presently associated with the water flood, others who have been in partnership with Beach in the past but no longer, and several who just don't want to partnership with Beach.

We would like to disassociate ourselves from Beach, and have a couple solutions in mind. However, we would like to propose consideration of a possible solution for Beach and the Taylors. Retroactive to the date Beach obtained the H & S Oil etals 75% working interest, convert the Taylor's 15% working interest (including equipment), by 50% to over-riding royalty, which, when the waterflood becomes active, will also be 50% of our presently contemplated working interest share of the flood unit, with no additional or operating costs to the Taylors. This royalty will be secured, non-reducible for minimum production or any other reason. If for any unforeseen reason the royalty ceases, we will have the option of again reverting to a full 100% value of our original working interest with all costs paid up through the date of the reversion.

This proposal would provide Beach our share of the equipment in the M & W well, and 50% of our working interest share of production in the M & W and the waterflood, to pay all our costs associated with the well and waterflood. If Beach cannot operate on this 50%, then they are not intending to establish income from production, but make their money from operating costs.

Sincerely,

Bill & Harvey Taylor
Bill & Harvey Taylor

copy: NMOCD