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PATRICK H. LYONS
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

310 OLD SANTA FE TRAIL
P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505
COMMISSIONER'S OFFICE
Phone (505) 827-5760
Fax (505) 827-5766
www.nmstatelands.org

January 18, 2007

James Bruce
P. O. Box 1056
Santa Fe, New Mexico 87504

Re: Preliminary Approval
Proposed Cottonwood Canyon Carbon Dioxide Gas Unit
Catron County, New Mexico

Dear Mr. Bruce:

This office has received the unexecuted copy of the unit agreement, which you have submitted on behalf of Ridgeway Oil Corporation for the proposed Cottonwood Canyon Carbon Dioxide Gas Unit area, Catron County, New Mexico. This agreement meets the general requirements of the Commissioner of Public Lands, who has this date granted you preliminary approval as to form and content.

Preliminary approval shall not be construed to mean final approval of this agreement in any way and will not extend any short term leases, until final approval and an effective date have been given.

When submitting your agreement for final approval, please submit the following:

1. Application for final approval by the Commissioner setting forth the tracts that have been committed and the tracts that have not been committed.
2. Pursuant to Rule 1.045, applications for approval shall contain a statement of facts showing:
 - a. That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy.
 - b. That under the proposed unit operation, the State of New Mexico will receive its fair share of the recoverable oil and gas in place under its lands in the proposed unit area.
 - c. That each beneficiary institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the unit area.
 - d. That such unit agreement is in other respects for the best interest of the trust.
3. All ratifications from the Lessees of Record and Working Interest Owners. All signatures should be acknowledged by a notary and one set must contain original signatures.
4. Order of the New Mexico Oil Conservation Division. Our approval will be conditioned upon subsequent favorable approval by the New Mexico Oil Conservation Division.
5. A designation from the Bureau of Land Management. Our approval will be conditioned upon subsequent favorable approval by the Bureau of Land Management.
6. Please submit two copies of the Unit Agreement.

-State Land Office Beneficiaries -

Carrie Tingley Hospital • Charitable Penal & Reform • Common Schools • Eastern NM University • Rio Grande Improvement • Miners' Hospital of NM • NM Boys School • NM Highlands University • NM Institute of Mining & Technology • New Mexico Military Institute • NM School for the Deaf • NM School for the Visually Handicapped • NM State Hospital • New Mexico State University • Northern NM Community College • Penitentiary of New Mexico • Public Buildings at Capital • State Park Commission • University of New Mexico • UNM Saline Lands • Water Reservoirs • Western New Mexico University


7. A copy of the Unit Operating Agreement.
8. Copies of all the well records for the initial unit well.
9. Your filing fee was previously submitted.
10. On Exhibit B, Tract No. S-01 is listed as "OPEN". Please update the information to include the following: Lease No. is LH-7579-1. The description is Lots 8, 9, 10, 11 and SE/4. The lessee of record is Ridgeway Arizona Oil Corp. The Acreage should be corrected to 330.35 acres. Please also update all appropriate exhibits to reflect the corrected acreage.
11. Article 15 of the unit agreement provides for an increase in rentals payments to \$1.50 per acre on all State leases upon approval of the unit. Please submit the appropriate rental payments.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

PATRICK H. LYONS
COMMISSIONER OF PUBLIC LANDS

BY:


JAMI BAILEY, Director
Oil, Gas and Minerals Division

PL/JB/pm

cc: OCD-Santa Fe, Attention: Mr. David Catanach
BLM-Roswell, Attention: Ms. Alexis Swoboda