STATE/FEDERAL/FEE
EXPLORATORY UNIT

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

COTTONWOOD CANYON CARBON DIOXIDE GAS UNIT AREA

CATRON COUNTY, NEW MEXICO

APACHE COUNTY, ARIZONA

NO. _____

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COUNTY OF APACHE - STATE OF ARIZONA

NO. _____

THIS AGREEMENT is entered into as of the _____ day of _____, 1999, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil and gas interests in the unit area subject to this agreement; and

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Statute 437, as amended (30 U.S.C. Sections 181 *et. seq.*), authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating a unit plan of development or operation of any oil and gas pool, field, or like area, or any part thereof for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as the "Land Commissioner," is authorized by statute (NMSA 1978 Sections 19-10-45, 46, 47) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, hereinafter referred to as "Division," is authorized by statute (NMSA 1978 Sections 70-2-1 *et seq.*) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Cottonwood Canyon Carbon Dioxide Gas Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste, and secure other benefits obtainable through development and operation of the area subject to

this agreement under the terms, conditions, and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below-defined unit area, and agree severally among themselves as follows:

1. ENABLING ACT AND REGULATIONS: The Mineral Leasing Act of February 25, 1920, as amended, *supra*, and all valid, pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder, or valid, pertinent, and reasonable regulations hereafter issued thereunder, are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located, are hereby accepted and made a part of this agreement.

2. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area:

A. State of Arizona.

Township 12 North, Range 29 East, G.&S.R.M.
Section 24: All

Township 12 North, Range 30 East, G.&S.R.M.
Sections: S½ 9, 10, 11, 13, 14, 19-21, 23-29, 34, and 35

Township 12 North, Range 31 East, G.&S.R.M.
Sections: 18-21, 27-31, 33, and 34

Township 10 North, Range 31 East, G.& S.R.M.
Section 3: Lots 1, 2, 5, 6, 7, SW¼NE¼, SE¼NW¼, E½SW¼, W½SE¼
Section 10: All

Township 9 North, Range 31 East, G.& S.R.M.
Section 3: Lots 1, 2, 3, 5, 6, 7, SW¼NE¼, SE¼NW¼
Section 10: All
Section 15: Lots 1-4, W½NE¼
Section 22: Lots 3, 4, SE¼SW¼, SW¼SE¼
Section 27: Lots 1, 2, 3, W½NE¼, NE¼NW¼, NW¼SE¼

B. **State of New Mexico**.

Township 2 North, Range 20 West, N.M.P.M.
Sections: 30, 31, and 32

Township 2 North, Range 21 West, N.M.P.M.
Sections: 9, 14-16, 21-28, and 33-36

Township 1 North, Range 20 West, N.M.P.M.
Sections: 4-9, 16-21, S½ 26, S½ 27, and 28-35

Township 1 North, Range 21 West, N.M.P.M.
Sections: 1-4, 9-16, 21-28, and 33-36

Township 1 South, Range 20 West, N.M.P.M.
Sections: 2-10, 16-21, and 28-33

Township 1 South, Range 21 West, N.M.P.M.
Sections: 1-4, 9-16, 21-28, and 33-36

Township 2 South, Range 20 West, N.M.P.M.
Sections: 5-8, 18, and 19

Township 2 South, Range 21 West, N.M.P.M.
Sections: 1-4, 9-16, 21-28, and 33-36

Township 3 South, Range 21 West, N.M.P.M.
Sections: 3 and 4

Containing 109,309.33 acres, more or less.

Exhibit "A" shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage, percentage, and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in Exhibits "A," "B," and "C" shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in the Exhibits as owned by such party. Exhibits "A," "B," and "C" shall be revised by the Unit Operator whenever changes in the unit area or in the ownership interests in the individual tracts render such revision necessary, or when requested by the Authorized Officer of the Department of Interior, hereinafter referred to as "AO," and Land Commissioner, and not less than four (4) copies of the revised Exhibits shall be filed with the proper Bureau of Land Management office, and one (1) copy thereof shall be filed with each of the Land Commissioner and Division.

The above-described unit area shall, when practicable, be expanded to include therein any additional lands or shall be

contracted to exclude lands whenever such expansion or contraction is deemed to be necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

(a) Unit Operator, on its own motion (after preliminary concurrence by the AO and Land Commissioner), or on demand of the AO or Land Commissioner (after preliminary concurrence by the AO and Land Commissioner), shall prepare a Notice of Proposed Expansion or Contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefore, any plans for additional drilling, and the proposed effective date of the expansion or contraction, preferably the first day of a month subsequent to the date of the notice.

(b) Said notice shall be delivered to the proper Bureau of Land Management office, Land Commissioner, and Division, and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor whose interest are affected, advising them that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided for in the preceding paragraph (b) hereof, Unit Operator shall file with the AO, Land Commissioner, and Division evidence of mailing of the Notice of Expansion or Contraction and a copy of any objections thereto which have been filed with Unit Operator, together with an application (in triplicate) for approval of such expansion or contraction, and with appropriate joinders in the case of unit expansion.

(d) After due consideration of all pertinent information, the expansion or contraction shall, upon approval by the AO, Land Commissioner, and Division, become effective as of the date prescribed in the notice thereof or such other appropriate date.

(e) Within five (5) years after the first sales of Unitized Substances delivered into the pipeline described in Section 14, but in any event no later than ten (10) years after the Effective Date hereof, the tract participation of each tract shall be determined by working interest owners subject to approval of the AO and Land Commissioner. Any such tract which is then shown to be outside the then known productive limits of the unit area shall be automatically eliminated from the unit area; provided, however, that if drilling is then occurring on step-out locations from producing wells with not more than 90 days elapsing between the completion of one well and the beginning of the next well, such redetermination may be deferred for a period not to exceed two (2) years. The method of redetermining tract participation percentages shall be as follows:

The productive acres of each tract shall be determined by establishing a zero net pay isopachous line based on the extrapolated net pay intervals in all wells in the unit area in accordance with industry-wide acceptable practices for interpreting underground geologic features on maps. Where the zero net pay isopachous line falls outside the boundary line of the unit area, said unit area boundary line shall be considered to be the zero net pay isopachous line. Those tracts having no productive acres shall be automatically eliminated from the unit area, and no payments made to any of the royalty owners of such eliminated tracts under the initial tract participation shall be further accounted for.

The redetermined tract participation shall be calculated by dividing each tract's productive acres by the total productive acres contained in all tracts in the unit area remaining after exclusion of tracts under Section 2, and multiplying by one hundred (100). Unit Operator shall prepare revised Exhibits A, B, and C, and record such revised exhibits in Catron County, New Mexico. Two copies of such revised exhibits shall be provided the Land Commissioner and five copies provided the AO. All well spacing units which are 50% or more within the zero net pay isopachous line will be included in the unit area. Likewise, all well spacing units which are 49% or less within the zero net pay isopachous line will be excluded from the unit area unless a commercial well has been drilled within the portion of the spacing unit within the zero net pay isopachous line.

3. UNITIZED LAND AND UNITIZED SUBSTANCES: All land now or hereafter committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement". "Unitized Substances" are carbon dioxide gas and all associated and constituent liquid or liquefiable carbonates, including all non-commercial quantities of hydrocarbons or other combinations of elements, within or produced from the Unitized Formation.

4. UNIT OPERATOR: Ridgeway Arizona Oil Corporation is hereby designated as Unit Operator, and by its signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to Unit Operator, such reference means Unit Operator acting in that capacity and not as an owner of an interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest only when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit Operator shall have the right to resign at any time, but such resignation shall not become effective until a successor unit operator has been selected and approved in the manner provided in Section 6 of this agreement. The resignation of Unit Operator shall not release the Unit Operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the AO and Land Commissioner.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title, or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, equipment, materials, and appurtenances used in conducting the unit operations to the newly qualified successor Unit Operator or to the common agent, if no such new Unit Operator is selected, elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment, or appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR: Whenever Unit Operator shall resign as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests, according to their respective acreage interests in all unitized land, shall by a majority vote select a successor Unit Operator; provided that, if a majority but less than seventy-five percent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total working interests, shall be required to select a new operator. Such selection shall not become effective until:

(a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and

(b) the selection shall have been approved by the AO and Land Commissioner.

If no successor Unit Operator is selected and qualified as herein provided, the AO and Land Commissioner, at their election, may declare this unit agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT: If Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement." Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective, proportionate, and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between this agreement and the unit operating agreement, this agreement shall govern. Two copies of any unit operating agreement executed pursuant to this section shall be filed with the proper Bureau of Land Management office, and one copy shall be filed with each of the Land Commissioner and Division prior to approval of this unit agreement.

8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the unitized substances are hereby delegated to and shall be exercised by Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

9. DRILLING TO DISCOVERY. Notwithstanding anything in this unit agreement to the contrary, except Section 24, Unavoidable Delay, 3 wells shall be drilled with not more than 6 months time elapsing between the completion of the first well and commencement of drilling operations for the second well, and with not more than 6 months time elapsing between completion of the second well and the commencement of drilling operations for the third well,

regardless of whether a discovery has been made in any well drilled under this provision. Both the initial well and the second well most be drilled in compliance with the above specified formation or depth requirements in order to meet the dictates of this section; and the second well must be located a minimum of 1 mile from the initial well in order to be accepted by the AO and Land Commissioner as the second unit test well, within the meaning of this section. The third test well shall be diligently drilled, at a location approved by the AO and Land Commissioner to test the Riggs formation or to a depth of approximately 3200 feet, whichever is the lesser, and must be located a minimum of 1 mile from both the initial and the second test wells. Nevertheless, in the event of the discovery of unitized substances in paying quantities by any well, this unit agreement shall not terminate for failure to complete the 3 well program, but the unit area shall be contracted automatically, effective the first day of the month following the default, to eliminate by subdivisions (as defined in Section 2(e) hereof) all lands not than entitled to be in a well spacing unit.

The failure to commence a well subsequent to the drilling of the initial obligation well, or in the case of multiple wells, as provided for in this section, within the time allowed, including any extension of time granted by the AO and Land Commissioner, shall cause this agreement to terminate automatically. Upon failure to continue drilling diligently any well other than the obligation wells commended hereunder, the AO and Land Commissioner may, after 15 days notice to the Unit Operator, declare this unit agreement terminated. Failure to commence drilling the initial obligation well, or the first of multiple obligation wells, on time and to drill it diligently shall result in the unit agreement approval being declared invalid *ab initio* by the AO and Land Commissioner. In the case of multiple well requirements, failure to commence drilling the required multiple wells beyond the first well, and to drill them diligently, may result in the unit agreement approval being declared invalid ab initio by the AO and Land Commissioner.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION: Within six (6) months after completion of a well capable of producing unitized substances in paying quantities, or within six (6) months after the effective date of this agreement, whichever date is later, Unit Operator shall submit for the approval of the AO, Land Commissioner, and Division an acceptable plan of development and operation for the unitized land which, when approved by the AO, Land Commissioner, and Division, shall constitute the further drilling and development obligations of Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, Unit Operator shall submit for the approval of the AO, Land Commissioner, and Division a plan for an additional specified period for the development and operation of the unitized land. Subsequent plans should normally be filed on a calendar year basis not later than

March 1 of each year. Any proposed modification or addition to the existing plan should be filed as a supplement to the plan.

Any plan submitted pursuant to this section shall provide for the timely exploration of the unitized area, and for the diligent drilling necessary for determination of the area or areas capable of producing unitized substances in paying quantities in each and every productive formation. This plan shall be as complete and adequate as the AO, Land Commissioner, and Division may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall:

(a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and

(b) provide a summary of operations and production for the previous year.

Plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development and operation. The AO and Land Commissioner are authorized to grant a reasonable extension of the 6-month period herein prescribed for submission of an initial plan of development and operation where such action is justified because of unusual conditions or circumstances.

After completion of a well capable of producing unitized substances in paying quantities, no further wells, except such as may be necessary to afford protection against operations not subject to this agreement, and such wells as may be specifically approved by the AO, Land Commissioner, and Division, shall be drilled except in accordance with an approved plan of development and operation.

11. PARTICIPATION AFTER DISCOVERY: Upon completion of a well capable of producing unitized substances in paying quantities, the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the lessors, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease committed to this agreement bears to the total number of acres committed to this unit agreement.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to Unit Operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

12. ALLOCATION OF PRODUCTION: All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tract of said unitized area.

Allocation of production to each tract shall be recalculated upon the effective date of any expansion or contraction of the unit as provided in Section 2 hereof. In the event of such recalculation, there shall be no retroactive adjustments or accounting for the difference between tract participations or allocations before and after any expansion or contraction.

13. ROYALTY SETTLEMENT: The United States, the State of New Mexico, and any royalty owner who is entitled to take in kind a share of the substances unitized hereunder, shall hereafter be entitled to the right to take in kind its share of the unitized substances, and Unit Operator shall make deliveries of such royalty share taken in kind in conformity with applicable contracts, laws, and regulations. Settlement for royalty interest not taken in kind shall be made by working interest owners responsible therefor under existing contracts, laws, and regulations, or by Unit Operator, on or before the time for payment specified in existing contracts, laws, and regulations; provided, however, nothing in this section shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any producing formation for use in repressuring, stimulation of production, or increasing ultimate recovery in conformity with a plan of development and operation approved by the AO, Land Commissioner, and Division, a like amount of gas, with appropriate deduction for loss from any cause, may be withdrawn from the formation into which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted

therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of development and operation or as may otherwise be consented to by the AO, Land Commissioner, and Division as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

Royalty due the United States shall be computed as provided in 30 CFR Part 200 and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized Federal land at the rates specified in the respective Federal leases, or at such other rate or rates as may be authorized by law or regulation and approved by the AO; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

Royalty due on account of State of New Mexico lands shall be computed and paid on the basis of all unitized substances allocated to such lands.

It is recognized by the parties hereto that there are few arm's-length sales for carbon dioxide gas. It is further recognized by the parties that it is the responsibility of the working interest owners to place the carbon dioxide gas in a marketable condition, free of costs to the royalty owners. Therefore, the parties hereto agree that, as further consideration for entering into this agreement, royalties paid upon carbon dioxide allocated to each tract shall be based on the greatest of the following:

(a) the market value at the unit boundary, free of any costs of production and market preparation including, but not limited to, compression, dehydration, and gathering;

(b) a minimum value of twenty-two cents per thousand cubic feet ($0.22/mcf). At the beginning of the calendar year after the first delivery to the pipeline is made, and each year thereafter, said value shall be adjusted in accordance with the average monthly rate of change in the Consumer Price Index for the preceding year as published by the Bureau of Labor Statistics of the U.S. Department of Commerce; however, no adjustment below twenty-two cents per thousand cubic feet ($0.22/mcf) shall ever be made; or

(c) in no case shall the royalties paid under this agreement for any calendar year after the first delivery of carbon dioxide to the pipeline be less than the annual rentals or minimum royalties paid for the year preceding the first delivery of carbon dioxide gas to the pipeline. In the case of any such occurrence, an appropriate retroactive payment

shall be made.

14. ALLOCATION OF CARBON DIOXIDE GAS FOR USE IN NEW MEXICO: It is recognized that in fields located in the State of New Mexico there are oil reservoirs in which the use of carbon dioxide gas (*i.e.*, Unitized Substances produced under this agreement) as an injection fluid may be necessary or desirable to increase the ultimate recovery of oil from such oil reservoirs as part of enhanced or tertiary recovery operations. If any such use develops, and if at that time there are no other reasonably available sources of carbon dioxide gas for such use either within the State of New Mexico or from sources outside the State of New Mexico within the geographic area reasonably accessible which may be utilized as a source of such injection fluid more economically than the allocated volume of carbon dioxide gas under this agreement, there then is allocated by the working interest owners for primary use in the State of New Mexico a maximum not to exceed ten percent (10%) of the then total daily production of carbon dioxide gas under this agreement; provided, that the use thereof shall be only as an injection fluid into suitable oil reservoirs located in the State of New Mexico as a part of enhanced or tertiary recovery operations.

Any operator or operators of leases in oil fields in the State of New Mexico shall have the right to apply to Unit Operator hereunder for purchaser from the working interest owners of all or part of such allocated volume of carbon dioxide gas by giving at least one (1) year's advance written notice, by certified mail, directed to Unit Operator hereunder of the date such carbon dioxide gas will be needed and the anticipated volumes of such carbon dioxide gas along with the details related to the proposed use. Upon receipt of any and every such application, Unit Operator shall promptly so advise the working interest owners by certified mail setting forth the details of each application which has been made. Unit Operator, after the one (1) year period mentioned above, may commence delivery of such gas to any applicant then ready and willing to accept such delivery.

The price and the terms of any such sale of carbon dioxide gas shall be a matter of bargaining and negotiations between the working interest owners of such gas and each purchaser thereof. There shall not be, in any event, an obligation on the part of the working interest owners thereof to sell and deliver any such carbon dioxide gas either for any use which is not in conformity with the provisions hereof or at any point other than either at the wellhead or wellheads in the field covered by this agreement or at any central manifold, measuring, or delivery point of such gas maintained by the working interest owners.

At the option of the working interest owners, the volume of gas so taken by an initial purchaser, under the allocation as well as subsequent purchasers, shall be subject to diminution and

reduction by the proportionate allocation thereof between purchasers and fields located in the State of New Mexico so as not to exceed a total allocation of ten percent. Proportionate allocation shall be made by Unit Operator for the working interest owners of the carbon dioxide gas. However, anything to the contrary notwithstanding, the owners of carbon dioxide gas under this agreement expressly reserve and retain a prior, preferred, and continuing right, exercisable at any and all times without notice, to use all or a part of this allocated gas in oil fields which they operate in whole or part in the State of New Mexico. Any amount of such carbon dioxide gas so used by such working interest owners shall be counted against the ten percent (10%) volume of allocated gas hereunder.

15. RENTAL SETTLEMENT: Rental or minimum royalties due on leases committed hereto shall be paid by appropriate working interest owners under existing contracts, laws, and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective leases unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary of Interior or his duly authorized representative.

Unless rentals are calculated pursuant to the following paragraph, rentals on State of New Mexico lands subject to this agreement shall be paid at the rate specified in the respective leases.

Gas expected to be produced from the unit area cannot be marketed until a pipeline and field facilities can be built and sales and delivery of carbon dioxide gas to such facilities will not begin until sometime after the Effective Date hereof. Therefore, as part of the consideration for execution of this agreement, working interest owners will pay to royalty owners, and the royalty owners hereby will accept, an additional rental payment of fifty percent (50%) of the annual rental as prescribed in their respective leases due during the calendar year in which the unit agreement becomes effective. On paid-up leases covering fee and patented lands, the amount paid shall be fifty (50) cents per acre. The additional annual payment shall increase the annual rental payment of the leases of the State of New Mexico and the annual minimum royalty payment on leases of the United States to $1.50 per acre. In each succeeding year in which there is no delivery of unitized substances to the pipeline constructed for the primary market, rentals paid by working interest owners to royalty owners shall be increased an additional five percent (5%) over those paid in the preceding year. For State of New Mexico leases and other leases that require rental payments throughout the life of the lease, the annual rentals after the first delivery of carbon

dioxide gas to a pipeline shall equal the annual rental due under this paragraph for the lease year immediately prior to the lease year in which delivery commenced.

16. CONSERVATION: Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of unitized substances without waste, as defined by or pursuant to State or Federal law or regulation.

17. DRAINAGE: In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the unit area draining unitized substances from the lands embraced therein, unit operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED: The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto consent that the Secretary of Interior, as to Federal leases, and the Land Commissioner, as to State of New Mexico leases, each by his approval hereof, or by the approval hereof by his duly authorized representative, shall and does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of the Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all Federal, State, and fee leases, subleases, and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every separately owned tract subject to this agreement, regardless of whether there is any development of any particular tract of this unit area.

(b) Drilling and producing operations performed hereunder upon any tract of unitized land will be accepted and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to the direction or consent of the AO

and Land Commissioner, or his duly authorized representative, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land. A suspension of drilling or producing operations limited to specified lands shall be applicable only to such lands.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development, or operation for oil or gas of lands other than those of the United States or State of New Mexico committed to this agreement which, by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such terms so provided therein so that it shall be continued in full force and effect for and during the term of this agreement.

(e) Any Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto, provided that production of unitized substances in paying quantities is established under this unit agreement prior to the expiration date of the term of such lease, or in the event actual drilling operations are commenced on unitized land, in accordance with provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such lease shall be extended for two years, and so long thereafter as oil or gas is produced in paying quantities in accordance with the provisions of the Mineral Leasing Act, as amended.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Section 17(j) of the Mineral Leasing Act, as amended by the Act of September 1, 1960 (74 Stat. 781-784): "Any (Federal) lease heretofore or hereafter committed to any such (Unit) plan embracing lands that are in part within and in part outside the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization. Provided, however that any such lease as to non-unitized portion shall continue in force and effect for the term thereof, but for not less than two years from the date of

such segregation and so long thereafter as oil or gas is produced in paying quantities." 30 U.S.C. 226(j).

(h) In the event the initial test well is commenced prior to the expiration date of the shortest term State lease within the Unit Area, any lease embracing lands of the State of New Mexico which is made subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(i) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall be segregated as to the portion committed and the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as the effective date hereof; provided, however, that notwithstanding any of the provisions of this agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if oil or gas is being produced in paying quantities from some part of the lands embraced in such lease at the expiration of the fixed term of such lease; or if, at the expiration of the fixed term, the lessee or Unit Operator is then engaged in *bona fide* drilling or reworking operations on some part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

19. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance of interest in land or lease subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any working interest, royalty interest, or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

20. EFFECTIVE DATE AND TERM: This agreement shall become effective upon approval by the AO and Land Commissioner, or their duly authorized representatives, and the Division, and shall automatically terminate five (5) years from the effective date unless:

(a) Upon application by Unit Operator such date of expiration is extended by the AO and Land Commissioner; or

(b) it is reasonably determined prior to the expiration of the fixed terms or any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder, and after notice of intention to terminate this agreement on such ground is given by Unit Operator to all parties in interest at their last known addresses, this agreement is terminated with approval of the AO and Land Commissioner; or

(c) a valuable discovery of unitized substances in paying quantities has been made or accepted on unitized land during said initial term or any extension thereof, in which event this agreement shall remain in effect for such term and so long thereafter as unitized substances can be produced as to Federal lands and are being produced as to State lands in quantities sufficient to pay for the cost of producing same from wells on unitized land; provided, however, that, notwithstanding any lease provision allowing a lower payment, the amount of shut-in royalty paid in order to constitute constructive production and thereby keep this agreement in effect shall equal twice the sum of the rentals paid pursuant to Section 15 of this agreement for all state leases within the unit area. Should production cease, and diligent drilling or reworking operations to restore production or obtain new production are not in progress within sixty (60) days thereof, and production is not restored or should new production not be obtained in paying quantities on committed lands within this unit area as a result of said operations, this agreement will automatically terminate effective the last day of the month in which the last unitized production occurred; or

(d) it is voluntarily terminated as provided in this agreement. Except as noted herein, this agreement may be terminated at any time prior to the discovery of unitized substances which can be produced in paying quantities by not less than 75 percent, on an acreage basis, of the working interest owners signatory hereto, with the approval of the AO and Land Commissioner. Unit Operator shall give notice of any such approval to all parties hereto. Voluntary termination may not occur during the first six (6) months of this agreement unless at least one obligation well shall have been drilled in conformance with Section 9.

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION: The AO is hereby vested with authority to alter or modify from time to time, in his discretion, the quantity and rate of production under this agreement when such quantity and rate are not fixed pursuant to Federal or State law, or do not conform to any State-wide voluntary conservation or allocation program which is established,

recognized, and generally adhered to by the majority of operators in such State. The above authority is hereby limited to alteration or modifications which are in the public interest. The public interest to be served and the purpose thereof, must be stated in the order of alteration or modification. Without regard to the foregoing, the AO is also hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law; provided, further, that no such alteration or modification shall be effective as to any lands of the State of New Mexico, as to the rate of prospecting and developing, in the absence of the specific written approval thereof by the Land Commissioner, and also as to any lands of the State of New Mexico or privately owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Division.

Powers in this section vested in the AO shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than 15 days from the date notice is received by Unit Operator.

22. APPEARANCES: Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interest affected hereby before the Department of Interior, Land Commissioner, and Division, and to appeal from orders issued under the regulations of said agencies or to apply for relief from any of said regulations, or in any proceedings relative to operations before the Department of Interior, Land Commissioner, and Division, or any other legally constituted authority; provided, however, that any other interested party shall also have the right, at its own expense, to be heard in any such proceeding.

23. NOTICES: All notices, demands, or statements required hereunder to be given or rendered to the parties hereto shall be in writing and shall be personally delivered to the party or parties, or sent by postpaid registered or certified mail, to the last known address of the party or parties.

24. NO WAIVER OF CERTAIN RIGHTS: Nothing contained in this agreement shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State where unitized lands are located, or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

25. UNAVOIDABLE DELAY: All obligations under this agreement requiring Unit Operator to commence or continue drilling, or to

operate on, or produce unitized substances from any of the lands covered by this agreement, shall be suspended while Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials or equipment in open market, or other matters beyond the reasonable control of Unit Operator whether similar to matters herein enumerated or not.

26. NONDISCRIMINATION: In connection with the performance of work under this agreement, Unit Operator agrees to comply with all the provisions of Section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319), as amended which are hereby incorporated by reference in this agreement.

27. LOSS OF TITLE: In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, such tract shall be automatically regarded as not committed hereto, and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title to any royalty, working interest, or other interests subject hereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal and State lands or leases, no payments of funds due the United States and the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the AO or Land Commissioner, as appropriate, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

28. NON-JOINDER AND SUBSEQUENT JOINDER: If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw the tract from this agreement by written notice delivered to the proper Bureau of Land Management office, Land Commissioner, and Division, and Unit Operator prior to the approval of this agreement by the AO and Land Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest only subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approval(s), if any, pertaining to such joinder, as

may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit agreement unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, in order for the interest to be regarded as committed to this agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the date of the filing with the AO, Land Commissioner, and Division of duly executed counterparts of all or any papers necessary to establish effective commitment of any interest and/or tract to this agreement.

29. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the unit area.

30. SURRENDER: Nothing in this agreement shall prohibit the exercise by any working interest owner of the right to surrender vested in such party by any lease, sublease, or operating agreement as to all or any part of the lands covered thereby, provided that each party who will or might acquire such working interest by such surrender or by forfeiture as hereafter set forth, is bound by the terms of this agreement.

If, as a result of any such surrender, the working interest rights as to such lands become vested in any party other than the fee owner of the unitized substances, said party may forfeit such rights and further benefits from operation hereunder as to said land to the party next in the chain of title who shall be and become the owner of such working interest.

If, as a result of any such surrender or forfeiture, working interest rights become vested in the fee owner of the unitized substances, such owner may:

(a) accept those working interest rights subject to this agreement and the unit operating agreement; or

(b) lease the portion of such land as is included in the unit area subject to this agreement and the unit operating agreement.

If the fee owner of the unitized substances does not accept the working interest rights subject to this agreement and the unit operating agreement, or lease such lands as above provided within six (6) months after the surrender or forfeited working interest rights become vested in the fee owner, the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective working interest ownerships, and such owners of working interests shall compensate the fee owner of unitized substances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized.

An appropriate accounting and settlement shall be made for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interest subsequent to the date of surrender or forfeiture, and payment of any monies found to be owing by such an accounting shall be made as between the parties within thirty (30) days.

The exercise of any right vested in a working interest owner to reassign such working interest to the party from whom obtained shall be subject to the same conditions as set forth in this section in regard to the exercise of a right to surrender.

31. TAXES: The working interest owners shall render and pay for their account and the account of the royalty owners all valid taxes on or measured by the unitized substances in and under or that may be produced, gathered, and sold from the land covered by this agreement after its effective date, or upon the proceeds derived therefrom. The working interest owners on each tract may charge the proper proportion of said taxes to royalty owners having interest in said tract, and may currently retain and deduct a sufficient amount of the unitized substances or derivative products, or net proceeds thereof, from the allocated share of each royalty owner to secure reimbursement for the taxes so paid. However, no such taxes shall be charged to the United States, the State of New Mexico, or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

32. NO PARTNERSHIP: It is expressly agreed that the relationship of the parties hereto is that of independent contractors, and nothing contained in this agreement, express or implied, nor any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

33. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS: Nothing in this agreement shall modify or change either the special Federal lease stipulations relating to surface management or such special stipulations relating to surface and environmental

protection, attached to and made a part of any federal leases covering lands within the Unit Area.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed and have set opposite their respective names the date of execution.

UNIT OPERATOR AND WORKING INTEREST OWNER

Ridgeway Arizona Oil Corporation

_____

OTHER WORKING INTEREST OWNER

_____