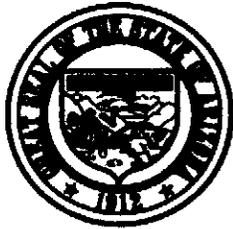


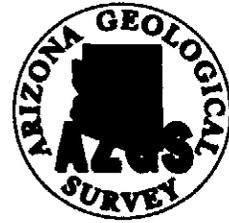
OIL & GAS CONSERVATION COMMISSION
MINUTES OF MEETING / JANUARY 28, 2005 —
STEVEN L RAUZI, OIL & GAS ADMINISTRATOR



Janet Napolitano
Governor

State of Arizona
Arizona Geological Survey

416 W. Congress, Suite 100
Tucson, Arizona 85701
(520) 770-3500
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Larry D. Fellows
Director and State Geologist

NOTICE OF COMBINED PUBLIC MEETING AND POSSIBLE EXECUTIVE SESSION

OIL AND GAS CONSERVATION COMMISSION

Pursuant to A.R.S. § 38-431.02, notice is hereby given to the members of the Oil and Gas Conservation Commission and to the general public that the Oil and Gas Conservation Commission will hold a meeting open to the public on January 28, 2005, at 10:00 a.m. in Room 321 of the State Land Department Building located at 1616 West Adams Street, Phoenix, Arizona 85007. As indicated in the agenda, pursuant to A.R.S. § 38-431.03(A)(3) or (4), the Oil and Gas Conservation Commission may vote to go into executive session, which will not be open to the public, for discussion or consultation with its attorney.

The agenda for the meeting is as follows:

1. Call to Order
2. Approval of Minutes of Meeting of October 22, 2004
3. Report of Director & State Geologist about the budget and related matters
4. Report of Oil & Gas Administrator about permits issued and wells drilled or plugged since the last meeting
5. Set date for oral hearing to amend A.A.C. R12-7-103.
6. Status of Holbrook Energy wells 35-1 Hortenstine (Permit 919) and 26-1 State (Permit 886) and possible motion to release forfeited bond on the 26-1 State.
7. Status of High Plains Petroleum 12-16-28 State (Permit 902), Apache County
8. Status of Ridgeway Arizona Oil Corporation 11-18 State (Permit 916), Apache County and possible decision concerning request for temporary abandonment
9. Status of Ridgeway Arizona Oil Corporation's proposed unit agreement
10. Election of Officers
11. Call to the public
 - This is the time for the public to comment. Members of the Commission may not discuss items that are not on the agenda. Therefore, action taken as a result of public comment will be limited to directing staff to study the matter or scheduling the matter for further discussion and decision at a later date.
12. Announcements
13. Adjournment

The Oil and Gas Conservation Commission may vote to go into Executive Session, pursuant to A.R.S. § 38-431.03(A)(3) or (4), which will not be open to the public, to consult with its attorney and receive legal advice with respect to any regular agenda item listed on this agenda.

A copy of the agenda background material provided to Commission members (with the exception of material relating to possible executive sessions) is available for public inspection at the Oil and Gas Administrator's office, 416 West Congress, Suite 100, Tucson, Arizona 85701.

The public may be afforded an opportunity to comment on any item on the agenda; however, at the beginning of the meeting, the Commission may vote to set up a time limit on individual comments.

Dated this 20th day of January 2005

OIL AND GAS CONSERVATION COMMISSION

Steven L. Rauzi
Oil and Gas Administrator

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, by contacting Steve Rauzi at (520) 770-3500. Requests should be made as early as possible to allow time to arrange the accommodation. This document is available in alternative formats by contacting Steve Rauzi at (520) 770-3500.

OIL AND GAS CONSERVATION COMMISSION
416 West Congress #100
Tucson, Arizona 85701

Minutes of Meeting
October 22, 2004

Present:

Dr. J. Dale Nations, Chairman
Mr. Robert L. Jones, Vice-Chairman
Mr. Joseph J. Lane, Member
Mrs. Michele P. Negley, Member
Mr. Robert L. Wagner, Member
Dr. Larry D. Fellows, Director and State Geologist
Mr. Steven L. Rauzi, Oil and Gas Administrator

Dr. J. Dale Nations, Chairman, called the regular Commission Meeting of October 22 to order at 10:00 a.m. in Room 321, State Land Department Building in Phoenix, Arizona.

APPROVAL OF THE MINUTES OF THE MEETING OF APRIL 30, 2004

Mr. Jones moved, seconded by Mr. Lane:

THAT THE MINUTES OF THE MEETING OF APRIL 30, 2004, BE ACCEPTED
AS PRESENTED

Motion carried unanimously.

REPORT OF THE OIL AND GAS ADMINISTRATOR

The activity report of Mr. Rauzi was sent to the Commissioners and has been made a part of these minutes. Mr. Rauzi discussed the permits issued and wells drilled or plugged since the last meeting on April 30, 2004.

POSSIBLE ACTION TO INITIATE RULEMAKING PROCEEDINGS ON A.A.C. R12-7-103 TO AMEND THE BLANKET BOND AMOUNTS IN ARIZONA

Mr. Rauzi talked about the notice of rulemaking docket opening and the proposed change in language to A.A.C. R12-7-103 that was described in the April 30 meeting and which was previously mailed to the Commissioners.

Mrs. Negley moved, seconded by Mr. Wagner:

THAT THE ADMINISTRATOR INITIATE THE PROPOSED RULEMAKING
PROCEEDINGS TO AMEND A.A.C. R12-7-103

Motion carried unanimously.

REQUEST OF GRUY PETROLEUM FOR TEMPORARY ABANDONMENT OF PROPOSED WELLS

Mr. Rauzi discussed the written request of Gruy Petroleum to temporarily abandon its proposed wells for up to one year pending evaluation of commerciality of the proposed wells

and additional tests planned to determine if there is enough cumulative potential to rebuild a helium plant in the area

Mr. Jones moved, seconded by Mr. Lane:

TO GRANT TEMPORARY ABANDONMENT FOR A PERIOD OF ONE YEAR

Motion carried unanimously.

STATUS OF HOLBROOK ENERGY WELLS 35-1 HORTENSTINE (PERMIT 919) AND 26-1 STATE (PERMIT 886) AND POSSIBLE REQUEST OF HOLBROOK ENERGY FOR TEMPORARY ABANDONMENT

Mr. LeBlanc Jr. described the recent work at the 35-1 Hortenstine and the 26-1 State wells. He reported that the 26-1 State was plugged and abandoned and that Holbrook Energy planned to slim-hole complete the 35-1 Hortenstine to isolate a water zone above the potential Coconino pay. Mr. LeBlanc reported that Holbrook Energy also needed to prove enough cumulative potential from the 35-1 and additional wells to justify a helium processing plant in the area.

Mr. Lane moved, seconded by Mr. Wagner:

TO GRANT TEMPORARY ABANDONMENT TO THE HOLBROOK ENERGY 35-1 AND ADDITIONAL WELLS FOR A PERIOD OF SIX MONTHS PENDING RECEIPT OF WRITTEN REQUEST FROM HOLBROOK ENERGY

Motion carried unanimously.

STATUS OF HIGH PLAINS PETROLEUM 12-16-28 STATE (PERMIT 902), APACHE COUNTY

Mr. Rauzi reported that High Plains Petroleum planned to plug the 12-16-28 well by January 2005.

RIDGEWAY ARIZONA OIL CORPORATION WELLS 3-1 STATE (PERMIT 884), 22-1X STATE (888), 11-21 STATE (895), 10-22 STATE (896), 9-21 STATE (897), 12-15-30 STATE (900), AND 11-18 STATE (916), APACHE COUNTY

Mr. Rauzi reported that Ridgeway plugged the 3-1 State in late September. He reported that the only outstanding issue was the length of extension on the remaining wells.

Mr. Osborn reported that Ridgeway was evaluating the recently drilled 11-18 well and requested a six-month extension on the remaining wells to allow Ridgeway time to complete its evaluation of the 11-18 with respect to the overall project.

In response to a question by Ms. Woodall, counsel for the Commission, Mr. Osborn stated that Mr. Walter Ruck, CEO of Ridgeway Arizona Oil Corporation, and board member Steve Melzer specifically authorized him to request the extension.

Mr. Jones moved, seconded by Mrs. Negley:

TO GRANT A SIX-MONTH EXTENSION OF TEMPORARY ABANDONMENT
TO THE 22-1X, 11-21, 10-22, 9-21, AND 12-15-30 SUBJECT TO RECEIPT OF A
WRITTEN REQUEST FROM RIDGEWAY

Motion carried unanimously.

STATUS OF RIDGEWAY ARIZONA OIL CORPORATION'S PROPOSED UNIT AGREEMENT

Mr. Rice reported that the Land Department sent a draft unit agreement to Ridgeway in early August and received some general written comments from Ridgeway in late August. He reported that the department was currently waiting for written revisions to the agreement from Ridgeway.

CALL TO THE PUBLIC

None

ANNOUNCEMENTS

Dr. Nations announced that the Arizona Geological Survey received an award for one of its publications. Dr. Fellows reported that it was the John C. Fry Memorial Award for Environmental Geology for "A Homebuyers Guide to Geologic Hazards in Arizona." Mr. Rice acknowledged the work of the Arizona Geological Survey.

The Commission scheduled its next meeting at 10:00 a.m. on January 28, 2005, in Room 321 at the State Land Department Building in Phoenix.

ADJOURNMENT

Mr. Lane moved, seconded by Mr. Wagner:

THAT THE MEETING BE ADJOURNED

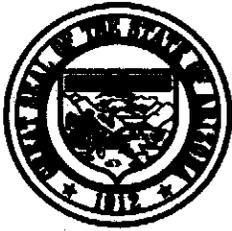
Motion carried unanimously. Time of adjournment was 11:00 a.m.

APPROVED


Dr. J. Dale Nations
Chairman

GUESTS IN ATTENDANCE

Richard Ahern	State Land Department
Theresa Craig	Assistant Attorney General
Gordon LeBlanc Jr.	Holbrook Energy
Marc Osborn	R & R Partners
Mike Rice	State Land Department
Laurie Woodall	Assistant Attorney General



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Larry D. Fellows
Director and State Geologist

January 21, 2005

To: Oil and Gas Conservation Commissioners

From: ^{SLR} Steven L. Rauzi, Oil and Gas Administrator

Re: Activity Report for the January 28, 2005, Meeting

One permit to drill was issued, three wells were drilled, and one well was plugged since your last meeting on October 22, 2004.

Unocal Picacho Peak Gas Storage LLC permitted a stratigraphic hole, the 1-27 Mesa in 27-7s-8e, in the Picacho basin in early January. Unocal is currently drilling the well.

Gruy Petroleum drilled two wells in November 2004 to test the helium potential south of Sanders. Gruy drilled the 12-11 Santa Fe Goodyear in 12-20n-28e to a depth of 1025 ft and the 24-6 Santa Fe Whispership in 24-20n-28e to a depth of 1213 ft. Both wells are shut in pending additional drilling to determine if there is enough helium to justify rebuilding a helium extraction plant in the area.

McCabe Energy permitted the 1 Babbitt north of Flagstaff in late October 2004. McCabe has not yet started drilling at the Babbitt hole, which is located in 9-27n-9e near Gray Mountain.

High Plains Petroleum plugged the 12-16-28 State well south of St. Johns in 16-12n-28e in December 2004 and early January 2005. This is the well that Ridgeway Arizona Oil Corporation drilled in 1997 and High Plains Petroleum re-entered and tested in 2003 and 2004.

Marc Osborn informed me that Ridgeway plans to submit a written request for temporary abandonment of the 11-18 State before the meeting and give a presentation on their proposed unit agreement.

proceeding on the proposed rule:

Date: May 13, 2005
Time: 10:00 a.m.
Location: 1616 W. Adams, Room 321
Phoenix Arizona 85007
Nature: Oral proceeding to adopt amended rules

11. **Any other matters prescribed by statute that are applicable to the specific agency or to any specific rule or class of rules:**
Not applicable.
12. **Incorporation by reference and their location in the rules:**
None.
13. **The full text of the rules follows:**

ARTICLE 1. OIL, GAS, HELIUM, AND GEOTHERMAL RESOURCES

R12-7-103. Bond

- A. An operator shall file a performance bond with the Commission prior to approval of a permit to drill a new well, re-enter an abandoned well, or assume responsibility as operator of existing wells. ~~The bond amount shall be \$10,000 for a well drilled to a total depth of 10,000 feet or less, \$20,000 for a well drilled deeper than 10,000 feet, or \$25,000 as a blanket bond to cover all wells and~~ The performance bond shall be payable to the Oil and Gas Conservation Commission, State of Arizona, and conditioned upon the faithful performance by the operator of the duty to drill each well in a manner to prevent waste, plug each dry or abandoned well, repair each well causing waste or pollution, and maintain and restore the well site.
1. ~~The bond amount shall be \$10,000 for a well drilled to a total depth of 10,000 feet or less or \$20,000 for a well drilled deeper than 10,000 feet.~~
 2. ~~A blanket bond may be used to cover all wells as follows:~~
 - a. ~~\$25,000 for 10 or fewer wells;~~
 - b. ~~\$50,000 for more than 10 but fewer than 50 wells; and~~
 - c. ~~\$250,000 for more than 50 wells.~~
- B. The Commission shall accept a bond in the form of a surety bond, executed by the operator as principal and a corporate surety authorized to do business in Arizona, a certified check, or a certificate of deposit at a federally insured bank authorized to do business in Arizona.
- C. Transfer of property does not release the bond. If a property is transferred and the principal desires to be released from the bond, the procedure shall be as follows:
1. The principal on the bond shall notify the Commission in writing of the proposed transfer, giving the location of each well, the date and number of each permit to drill, and the name, address, and telephone number of the proposed transferee.
 2. The transferee of any well or of the operation of any well shall declare to the Commission in writing acceptance of the transfer and of the responsibility of each well and shall submit a new bond or bonds unless the transferee's blanket bond applies to the well or wells.
 3. When the Commission approves the transfer, the transferor is released from all responsibility with respect to the well or wells, and the Commission shall notify the principal and the bonding company in writing that the transferor's applicable bond or bonds are subject to release.

7/8/2004

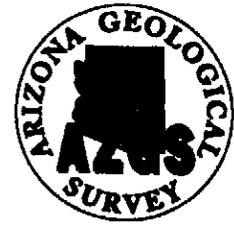


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Larry D. Fellows
Director and State Geologist

March 16, 2005

Memo: Rose Ellen McDonnell, Assistant Director Administration

From: ^{SLR} Steven L. Rauzi, Oil and Gas Administrator

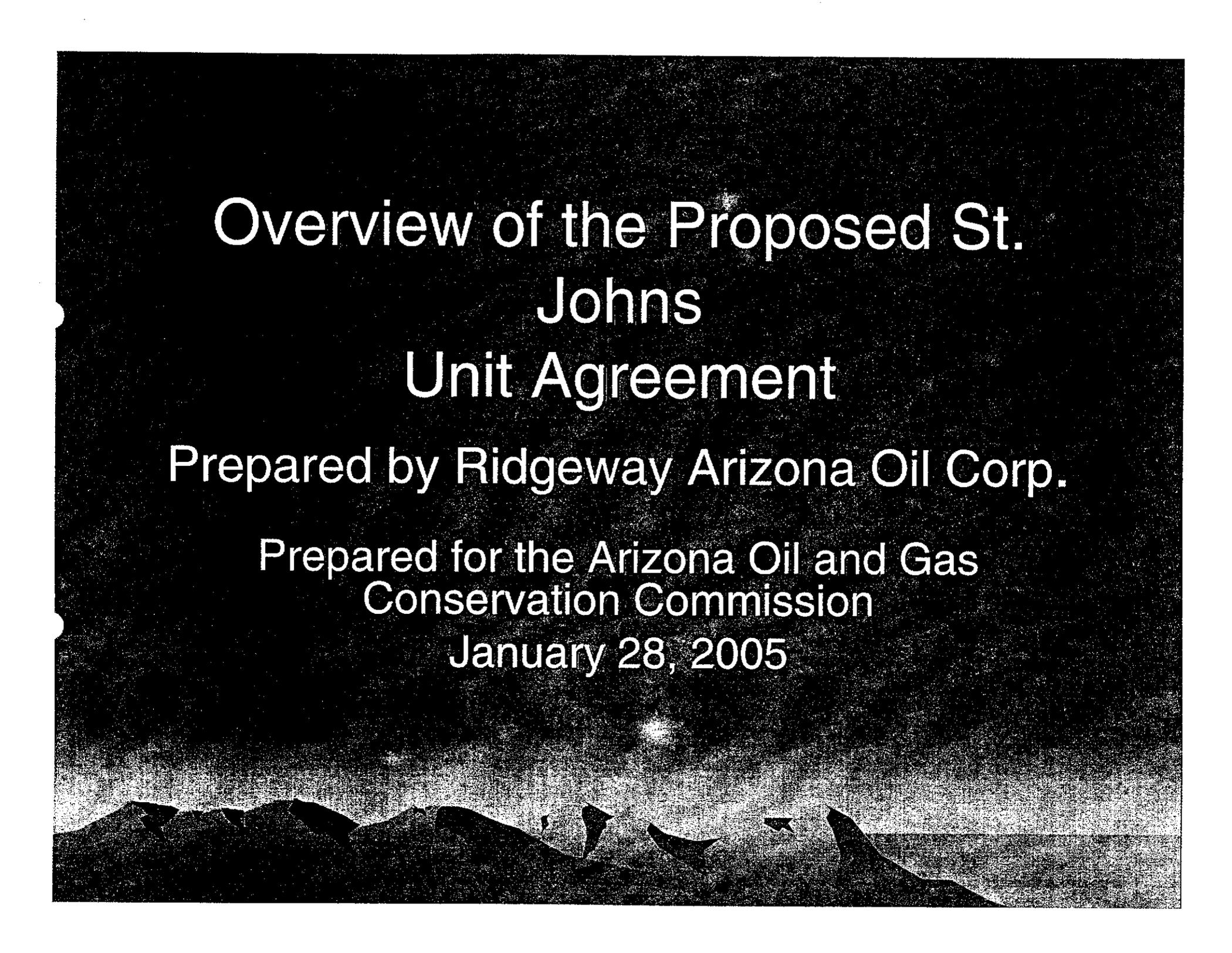
Re: Request for release of \$10,000 forfeited Gus Berry bond to Holbrook Energy LLC

I am writing this memo to request payment of the \$10,000 forfeited Gus Berry bond to Holbrook Energy LLC in accordance with motion of the Arizona Oil and Gas Conservation Commission in its meeting of January 28, 2005.

Background. The Arizona Oil and Gas Conservation Commission forfeited the \$10,000 Gus Berry bond for failure to plug and abandon the 26-1 State hole pursuant to A.R.S. §27-524(E) in its meeting of January 23, 2004. The Commission released the \$10,000 forfeited Gus Berry bond to Holbrook Energy for properly plugging and abandoning the 26-1 State hole in its January 28, 2005 meeting. Actual plugging costs exceeded \$10,000. Supporting documents attached to this memo include:

- A.R.S. §27-524 Enforcement
- Letter of October 6, 2003 from Mr. Rauzi to Mr. English, attorney for the Gus Berry estate, describing the responsibility of an operator to plug and abandon wells
- Letter of November 6, 2003 from Mr. English, attorney for the Gus Berry estate, to Mr. Rauzi acknowledging need to apply bond to the plugging liability
- Minutes of Arizona Oil and Gas Conservation Commission meeting of January 23, 2004
- Letter of January 26, 2004 from Mr. Rauzi to Mr. English, attorney for the Gus Berry estate, confirming forfeiture of bond in the January 23, 2004 meeting
- Letter of February 20, 2004 from Mr. LeBlanc to Mr. Rauzi regarding intent of Holbrook Energy to reenter and plug the 26-1 State hole
- Approved application of Holbrook Energy to reenter, plug and abandon the 26-1 State hole dated October 14, 2004
- Plugging record for the 26-1 State hole submitted by Holbrook Energy LLC January 22, 2005
- Minutes of Arizona Oil and Gas Conservation Commission meeting of January 28, 2005
- Halliburton cement charges dated October 18, 2004; Jet West Wireline charges dated October 14 and 15, 2004; and Key Energy Services rig charges dated October 15, 2004 related to properly plugging and abandoning the 26-1 State hole submitted by Holbrook Energy LLC

c J. Dale Nations, Chairman, Oil & Gas Conservation Commission
Larry D. Fellows, Director and State Geologist, Arizona Geological Survey
Gordon LeBlanc Jr., Holbrook Energy LLC



Overview of the Proposed St. Johns Unit Agreement

Prepared by Ridgeway Arizona Oil Corp.

Prepared for the Arizona Oil and Gas
Conservation Commission

January 28, 2005

Status of the Unit Development Process

- Ridgeway and the State Land Department (SLD) are finalizing the draft unit agreement
- The only remaining substantive issue relates to royalties
- Once the royalty provisions are agreed to, Ridgeway will present the unit and related operating agreement to potential third party working interests
- Participation in the unit will be strictly voluntary
- Based on the level of working interest participation, the unit boundaries may be modified
- After offering other potential working interests an opportunity to participate, Ridgeway will submit the unit agreement to the SLD for formal approval
- Ridgeway may request a formal hearing before the OGCC for the purpose of informing OGCC's position regarding the unit agreement

State Land Dept.

Why a Unit is Needed

- Unitization combines the royalty and working interest rights in the affected area so that unit operations can be conducted as though the unit area is included in only one lease
- By providing that drilling and production consistent with the unit agreement constitutes drilling and production throughout the unit, unitization allows for extension of leases, and hence, orderly and economical exploration and development of multiple leases
- Unitization promotes conservation of gas resources
- Unitization is a prerequisite to future phases of development, including entering into long term gas sale agreements and financing necessary infrastructure
- Unitization will afford all stakeholders (including royalty owners) the requisite level of certainty regarding their interests in the project

Some of the Key Provisions

- The unit agreement is based on the New Mexico and BLM unit agreement form, customized to Arizona law and this particular project
- The unit will be a voluntary unit
- The unit agreement has provisions that allow parties to join and leave the unit
- The unit may include multiple working interests or a single working interest
- The unitized substances are Helium and Carbon Dioxide
- Ridgeway will be the unit operator
- The unit agreement includes customary provisions to ensure conservation and reclamation of the land
- Tract participation is based on per-acre distribution

To Ensure Timely Development of the Field, the Unit Agreement Requires an Enforceable Plan of Development

- The unit agreement mandates that a detailed plan of development be approved by the Land Commissioner within two years
- The unit agreement requires that within five years, production of CO₂ and helium must commence or the unit is terminated
- The unit agreement requires submission and approval of annual plans of development

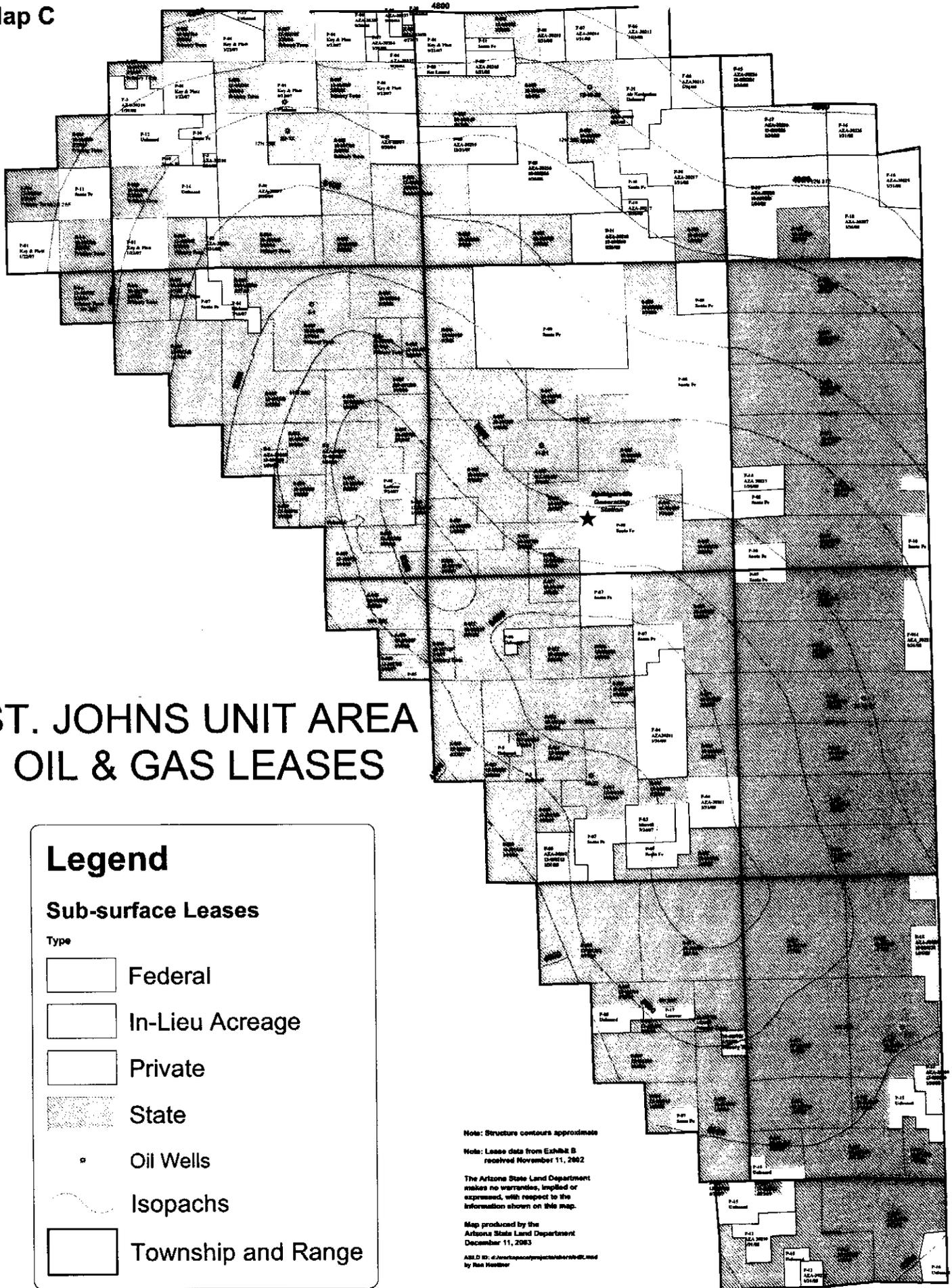
paper - 3/20/12



Expansion or Contraction

- The unit agreement requires tract participation to be readjusted within 10 years after the first sales of CO₂ into a pipeline
- At that time, lands determined to lie outside of the productive area will be eliminated from the unit
- The productive area is determined by setting a zero net pay isopachous line based on extrapolated net pay intervals in accordance with accepted industry practices
- The unit can be enlarged as determined by the working interest owners and the State Land Commissioner

Map C

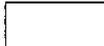


ST. JOHNS UNIT AREA OIL & GAS LEASES

Legend

Sub-surface Leases

Type

-  Federal
-  In-Lieu Acreage
-  Private
-  State
-  Oil Wells
-  Isopachs
-  Township and Range

Note: Structure contours approximate

Note: Lease data from Exhibit B received November 11, 2002

The Arizona State Land Department makes no warranties, implied or expressed, with respect to the information shown on this map.

Map produced by the Arizona State Land Department December 11, 2003

ASLD ID: 4:Assetmap\project\stjohns\stjohns.dwg
By: Ron Heister

AOGCC Mtg 1-28-05

Name	Representing
John Somers	High Plains Petroleum
Scott Somers	High Plains Petroleum
Richard Ahern	State Land Dept
Gordon LaBlanc, Jr.	Holbrook Energy
Jim Lee	Public
Mike Rice	State Land
Theresa Craig	Act AG for State Land Dept
Ken Michael Brandon	Ridgeway AZ Oil Corp.
Thayne Lowe	Osborn Maledon, P.A. to Ridgeway AZ
Steve Melzer	RIDGEWAY PETROLEUM
Max Osborn	" "