

**MEMORANDUM OF UNDERSTANDING BETWEEN
SANDOVAL COUNTY, NEW MEXICO
AND
RECORP**

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I. PARTIES

This document constitutes an agreement between the County of Sandoval (the "County"), a political subdivision of New Mexico, and Recorp, ("Recorp"), an Arizona Corporation.

II. PURPOSE

Recorp is the owner(s) of certain real property in the Puerco Basin, consisting of approximately 11,673.3 acres, as described in Exhibit "A."

The real property is generally located west of the City of Rio Rancho as depicted in Exhibit "B" and received approval by the County for a Master Planned Development District on October 5, 2006. This is otherwise known as the "Project."

Furthermore, Recorp has approached the New Mexico Office of State Engineer ("OSE") for an "application for permit to drill an exploratory well." This permit (RG-88934) has been approved with 6 Points of Diversion (POD's 1-6). Conditions of approval attached to this permit by the OSE apply to appropriation and beneficial use.

Upon completion of the exploratory wells analyses will be performed to determine the suitability of the water source to allow production of 18,000 (EIGHTEEN THOUSAND) acre feet of water per year that Recorp expects to pump and apply to beneficial use at the time of build-out (expected to be around 2031).

It is the intention of this agreement to identify and memorialize the parties' understanding as to the next steps in securing and supplying the nonpotable water to the Rio West project.

III. AGREEMENT

1. The County and Recorp shall jointly set up a water entity that shall control the 18,000 (EIGHTEEN THOUSAND) acre feet a year of nonpotable water. Recorp agrees to transfer all State Engineer permits to the water entity.
2. The ownership of said entity shall be 66% owned by the County and 34% owned by Recorp;
3. Recorp shall be ~~guaranteed~~ the 18,000 (EIGHTEEN THOUSAND) acre feet of water per year as long as it is physically available. Both the County and Recorp are proceeding under the assumption that the non-potable water resource is renewable. In

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the event that the resource is found to be non-renewable, the water entity shall develop a plan for transition to renewable resources. The plan shall be developed no later than 20 years after the formation of the water entity, and the transition to the renewable source shall be complete no later than 100 years after the formation of the water entity.

4. Profits generated from sale of water shall be split per the ownership interest of the parties (all sales of water are limited to entities exclusively in Sandoval County), as mentioned herein. ** See ltr of Agent for Hill's Data*
5. The County has started the process to create a Public Improvement District ("PID") to help with the funding of the Project; Recorp expects to sign the approval of the PID following recognition and approval by the County Commission. The PID shall be the primary entity for funding the development of potable water resources. The County shall make application to State and Federal agencies for matching funds to assist in the costs associated with producing potable water. The County shall be credited with its administrative costs associated with securing said funds and funds obtained from State and Federal sources.
6. It is the intention of the County to fund the PID with \$6,000,000 (SIX MILLION DOLLARS), for the right to drill for the non-potable water below 2500 feet, upon approval and written acceptance of said PID by both the County Commission and Recorp. Said funds may be used to pay for costs associated with initial administrative, legal, engineering, and exploratory well and feasibility study costs, and the costs associated with Phase I construction of the desalination plant.
7. Recorp shall have the value of the permits/intellectual property and the water rights for 18,000 acre feet of non-potable water appraised by a third party appraiser (selection of which shall be agreed to by Recorp and the County) within 60 days of signature of this agreement;
8. Recorp shall be credited towards their 34% ownership interest in said jointly owned entity and, should there be a deficit between the appraised value and the 34%, Recorp shall make up the short-fall with cash; conversely, if there is a value more than the 34%, then the difference shall be made up by the County with cash, not to exceed the County's total \$6,000,000 (SIX MILLION DOLLARS) contribution within this phase;
Note: Intera's hydrology contract costs come from this \$6Mil, and are already "obligated".
9. The County shall also have the right of first refusal on any portion of the 18,000 (EIGHTEEN THOUSAND) acre feet per year not directly used by Rio West, and the fact that, upon signature, the County will pursue funding on a State and Federal level for the water program until the program is complete;

10. All bills authorized by, and from, both the County and Recorp are to be paid within 45 days of invoice;
11. Recorp will fund its proportionate share as demanded from the County from time to time;
12. Recorp shall have the right to all the effluent water (concentrate) produced by the desalinization plant. This effluent water can be disposed of by Recorp at Recorp's sole discretion (so long as approved methods, i.e. EPA, NMED, etc., are met) and as long as it is used for the Rio West Project;
13. Recorp shall fund the driller mobilization cost once this Memorandum of Understanding is accepted and approved by the County Commission. Once the PID is formed Recorp expects reimbursement within 3 weeks after formation per County agreement. If the PID is not formed, the County will reimburse Recorp for said driller mobilization fee within 30 days from Recorp's payment.

This Memorandum of Understanding is effective as of the last date it is executed by the second party and shall continue in effect until such time as both parties mutually agree to terminate it.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the 19 day of April 2007.

RECORP:

By: *DM*

David Maniatis

SANDOVAL COUNTY COMMISSION

By: *Don Leonard*

Don Leonard, Chairman

APPROVED AS TO FORM:

David Mathews
David Mathews, County Attorney

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ATTEST:

Sally Padilla
Sally Padilla, County Clerk

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