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SEP 26 2007

SECRETARY, BOARD OF OIL, GAS & MINING

BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF FLYING J OIL & GAS INC. FOR AN ORDER ESTABLISHING 80-ACRE (OR SUBSTANTIAL EQUIVALENT THEREOF) LAY-DOWN (HORIZONTAL) DRILLING UNITS FOR THE PRODUCTION OF OIL AND ASSOCIATED GAS AND HYDROCARBONS FROM THE LOWER GREEN RIVER FORMATION, COMPRISED OF PORTIONS OF SECTIONS 23-26 INCLUSIVE, 35 AND 36, TOWNSHIP 3 SOUTH, RANGE 1 EAST, USM, AND SECTIONS 19 AND 29-33 INCLUSIVE, TOWNSHIP 3 SOUTH, RANGE 2 EAST, USM, UINTAH COUNTY, UTAH	**FINDINGS OF FACT CONCLUSIONS OF LAW AND ORDER** Docket No. 2007-017 Cause No. 142-03

This Cause came on for hearing before the Utah Board of Oil, Gas and Mining (the "Board") on Wednesday, August 22, 2007, at approximately 10:30 a.m. The following Board members were present and participated at the hearing: Kent R. Petersen, Robert J. Bayer, Samuel C. Quigley, Jean Semborski and Jake Y. Harouny. Chairman Douglas E. Johnson and Ruland J. Gill, Jr. were unable to attend; Kent R. Petersen served as Acting Chairman in Mr. Johnson's stead. The Board was represented by Michael S. Johnson, Esq., Assistant Attorney General.

Testifying on behalf of Petitioner Flying J Oil & Gas Inc. ("Flying J") were Chris J. Malan – Vice-President, General Counsel and Manager of Lands; Carl F. Kendell – Chief Geologist and Exploration Manager; and James W. Wilson – Vice-President Operations,

Operations Manager and Petroleum Engineer. Frederick M. MacDonald, Esq., of and for Pruitt Gushee, a Professional Corporation, appeared as attorney for Flying J.

Testifying on behalf of the Division of Oil, Gas and Mining (the "Division") was Bradley G. Hill, Oil and Gas Permitting Manager. James P. Allen, Esq., Assistant Attorney General, appeared as attorney on behalf of the Division. The Division expressed its support for Flying J's Request for Agency Action dated July 10, 2007 (the "Request"), conditioned upon Flying J reappearing before the Board within one year's time to provide additional production and engineering data and a drainage analysis to confirm that the requested spacing remains appropriate. During the hearing, Flying J stipulated to this condition.

Three letters were received by the Board concerning this Cause. By Letter dated and received by the Board on August 21, 2007, the United States Bureau of Land Management ("BLM"), in an advisory capacity to the United States Bureau of Indian Affairs and in connection with the latter agency's trust obligation to the Ute Indian Tribe and Allottees (which are unleased mineral owners within the affected area), expressed concern that the requested spacing was premature at this time due to limited data. By Letter dated and received by the Board on August 21, 2007, the Ute Indian Tribe asserted, in addition to the same concerns expressed by the BLM, its concurrent jurisdictional rights and, in particular, its rights to establish spacing for the exploration and development of its mineral rights. Finally, by Letter dated and received by the Board on August 21, 2007, Ute Energy, LLC,

purportedly an integrated commercial energy company owned by the Ute Indian Tribe and purportedly the holder of certain leases within the area which is the subject of the Request, reiterated the same concerns expressed by the BLM.

At the conclusion of Flying J's and the Division's presentations, the Board invited statements from any party in attendance. Lynn Becker of Ute Energy LLC, with counsel, J. Preston Stieff, Esq., present, reiterated the points made in the three August 21, 2007 letters received by the Board. Max Eliason, Manager and Member of Eliason Eight, LLC, a leased mineral interest owner in the area which is the subject of the Request, expressed his support for the Request.

No other party filed a response to the Request and no other party appeared or participated at the hearing.

The Board, having considered the testimony presented and the exhibits received into evidence at the hearing as well as the aforementioned letters and statements, being fully advised, and for good cause, hereby makes the following findings of fact, conclusions of law and order.

FINDINGS OF FACT

1. Flying J is a Utah corporation in good standing, with its principal place of business in North Salt Lake. It is fully and appropriately bonded with all relevant Federal, Indian and State of Utah agencies.

2. The following Uintah County lands were, as of the date of the hearing, not subject to any spacing order of the Board:

Township 3 South, Range 1 East, USM

Section 23:	S½S½
Section 24:	S½SW¼, SE¼
Section 25:	All
Section 26:	All
Section 35:	N½
Section 36:	All

Township 3 South, Range 2 East, USM

Section 19:	Lots 2 (39.94) and 4 (39.68) [W½SW¼], E½SW¼, SE¼
Section 29:	Lots 1 (39.39) [SE¼NE¼] and 2 (39.50) [SE¼SW¼], NW¼, SE¼, N½NE¼, SW¼NE¼, N½SW¼, SW¼SW¼ [All]
Section 30:	Lots 1 (40.54), 2 (40.74), 3 (40.94) and 4 (41) [W½W½], E½W½, E½ [All]
Section 31:	Lots 1 (41.02), 2 (40.96), 3 (40.70) and 4 (40.55) [W½W½], E½W½, E½ [All]
Section 32:	Lots 1 (39.50) [NE¼NW¼] and 2 (40.04) [SE¼SW¼], NE¼, NW¼NW¼, S½NW¼, N½SW¼, SW¼SW¼
Section 33:	Lots 1 (41.12) and 2 (41.31) [W½NW¼], E½NW¼ [NW¼],

(hereinafter the "Subject Lands").

3. The Lower Green River formation, for purposes of this Cause, is defined as follows:

> that interval between the stratigraphic equivalent of 5,858 feet as shown on the Induction log of the Knight 14-30 Well, located in the SE¼SW¼ of Sec. 30, T3S, R2E, USM, and the stratigraphic equivalent of 7,610 feet as shown on the Laterolog of the Gulf Randlett #2 Well, located in the SW¼SE¼ of Sec. 31, T3S, R2E, USM,

(hereinafter the "Subject Formation").

4. The oil and associated gas and hydrocarbon ownership in the Subject Lands is a mixture of fee (private), Indian trust (Ute Tribal and allotted) and outright Ute Tribally owned. Flying J is a lessee of the majority of the fee owned lands and, as such, owns a majority of the operating rights in the Subject Formation. There are some fee lands which have several undivided interest owners, some of which have leased to Flying J but others of which have not. The Indian trust and Ute Tribal lands apparently are unleased and not otherwise subject to exploration and development agreements covering the Subject Formation. There apparently are no overriding royalty or other production interest owners in the Subject Formation as to the Subject Lands.

5. Flying J drilled the Knight 14-30 Well in the SE¼SW¼ (660 feet FSL and 2,180 feet FWL) of Section 30, T3S, R2E, USM (the "Knight Well") in accordance with an application for permit to drill approved by the Division. The Knight Well was drilled to a total depth of 6,913 feet and completed as a producing oil well on May 12, 2007, with

producing intervals between 6,222 feet and 6,228 feet; 6,514 feet and 6,517 feet; 6,599 feet and 6,603 feet; 6,684 feet and 6,690 feet; 6,697 feet and 6,701 feet; and 6,712 feet and 6,718 feet, all in the Subject Formation. First sales occurred on May 16, 2007.

6. The Subject Formation across the Subject Lands appears to be comprised of a thick shalely sandstone sequence of an off-shore pro-delta or turbidite origin. Reservoirs appear to consist of numerous individual sandstone bodies which, because of their depositional environment, may extend over a larger area than deltaic channel and other more marginal lacustrine systems which were deposited in near-shore environments. The Subject Formation as underlying the Subject Lands appears to be unique in relation to other areas of the greater Uintah Basin in that it reflects more lateral continuity due to the depositional nature. Notwithstanding, the porosities appear to be quite low; being approximately one-tenth of that of the Subject Formation as underlying the Monument Butte Field.

7. The Subject Formation constitutes a common source of supply of oil and associated gas and hydrocarbons in the Subject Lands.

8. Projected decline curve and economic analyses based upon the best available data gathered to date support the conclusion that one well producing from the Subject Formation will efficiently and economically drain more than 40, but not more than 80, acres or the substantial equivalent combination of lots and quarter-quarter sections.

9. While the data submitted is inconclusive as to whether a stand-up or lay-down orientation is more appropriate, the mineral ownership of the Subject Lands dictates that a lay-down orientation will be most protective of the correlative rights of Flying J and its lessors, while still allowing the Ute Tribe and/or Allottees the ability to develop their minerals as they see fit and in recognition of Tribal sovereignty, including the option to develop them on the same consistent 80-acre lay-down pattern.

10. Given the irregular lots within certain sections of the Subject Lands within Township 3 South, Range 2 East, USM, the following special drilling units for the Subject Formation are appropriate:

Section 19: Lot 4 and the NE¼SW¼;
Section 19: Lot 2 and the SE¼SW¼;
Section 29: Lot 1 and the SW¼NE¼;
Section 29: Lot 2 and the SW¼SW¼;
Section 30: Lot 1 and the NE¼NW¼;
Section 30: Lot 2 and the SE¼NW¼;
Section 30: Lot 3 and the NE¼SW¼;
Section 30: Lot 4 and the SE¼SW¼;
Section 31: Lot 1 and the NE¼NW¼;
Section 31: Lot 2 and the SE¼NW¼;
Section 31: Lot 3 and the NE¼SW¼;
Section 31: Lot 4 and the SE¼SW¼;
Section 32: Lot 1 and the NW¼NW¼;
Section 32: Lot 2 and the SW¼SW¼;
Section 33: Lot 1 and the NE¼NW¼; and
Section 33: Lot 2 and the SE¼NW¼.

11. The requested set-off limitations will allow flexibility in well location to address geologic conditions and/or topographic or other surface restrictions while still protecting correlative rights of all affected parties.

12. There are no communitization or pooling agreements currently in effect covering any portion of the Subject Lands as to the Subject Formation.

13. Acknowledging the limited data available to date, Flying J has stipulated to reappearing before the Board within one year's time of entry of this Findings of Fact, Conclusions of Law and Order to provide additional production and engineering data and a drainage analysis to confirm that 80-acre lay-down spacing for the Subject Lands as to the Subject Formation remains appropriate.

14. A copy of the Request was mailed certified, postage pre-paid and properly addressed to their last addresses as disclosed by the appropriate Indian and County realty records to all royalty and working interest owners within the Subject Lands. In addition, a copy of the Request was mailed certified, postage pre-paid and properly addressed to all governmental agencies having any supervisory jurisdiction over the Subject Lands.

15. Notice of the filing of the Request and of the hearing thereon was duly published in the Salt Lake Tribune and Deseret Morning News on August 5, 2007, and in the Vernal Express on August 1, 2007.

16. The vote of the Board members present in the hearing and in this Cause was unanimous in favor of granting the Request.

CONCLUSIONS OF LAW

1. Due and regular notice of the time, place and purpose of the hearing was properly given to all parties whose legally protected interests are affected by the Request in the form and manner as required by law and the rules and regulations of the Board and Division.

2 The Board has jurisdiction over all matter covered by the Request and all interested parties therein, and has the power and authority to render the order herein set forth pursuant to Utah Code Ann. §§ 40-6-5(3)(b) and 40-6-6.

3. The three letters received by the Board on August 21, 2007 were not timely filed so as to constitute responses to the Request in accordance with Utah Admin. Code Rule R641-105-200.

4. The establishment of 80-acre lay-down drilling units (but accounting for the special units described in Paragraph 10 of the Findings of Fact) for the production of oil and associated gas and hydrocarbons from the Lower Green River formation (as defined in Paragraph 3 of the Findings of Fact) for the Subject Lands will be in furtherance of the public policies of this State to promote greater recovery of said resources without waste and with protection of the correlative rights of all affected owners, will allow for the orderly

development of the Subject Lands, and is just and reasonable under the circumstances; provided, however, that Flying J be required to reappear before the Board within one year's time of the entry of this Findings of Fact, Conclusions of Law and Order to provide additional production and engineering data and a drainage analysis to confirm such units remain appropriate.

5. The declaration that the Knight Well is the authorized well for the respective drilling unit upon which it is located as established hereby is just and reasonable under the circumstances.

6. The requested set-off limitations of 460 feet from a drilling unit boundary and 920 feet from a well producing from the Subject Formation are just and reasonable under the circumstances and protective of correlative rights.

7. Flying J has sustained its burden of proof, demonstrated good cause, and satisfied all legal requirements for the granting of the Request.

ORDER

Based upon the Request, testimony and evidence submitted, and the findings of fact and conclusions of law stated above, the Board hereby orders:

1. The Request in this Cause is granted.

2. 80-acre (or substantial equivalent) lay-down (horizontal) drilling units for the production of oil and associated gas and hydrocarbons from the Lower Green River formation, defined as follows:

> that interval between the stratigraphic equivalent of 5,858 feet as shown on the Induction log of the Knight 14-30 Well, located in the SE¼SW¼ of Sec. 30, T3S, R2E, USM, and the stratigraphic equivalent of 7,610 feet as shown on the Laterolog of the Gulf Randlett #2 Well, located in the SW¼SE¼ of Sec. 31, T3S, R2E, USM,

for the following described lands:

<u>Township 3 South, Range 1 East, USM</u>

Section 23:	S½S½
Section 24:	S½SW¼, SE¼
Section 25:	All
Section 26:	All
Section 35:	N½
Section 36:	All

<u>Township 3 South, Range 2 East, USM</u>

Section 19:	Lots 2 (39.94) and 4 (39.68) [W½SW¼], E½SW¼, SE¼
Section 29:	Lots 1 (39.39) [SE¼NE¼] and 2 (39.50) [SE¼SW¼], NW¼, SE¼, N½NE¼, SW¼NE¼, N½SW¼, SW¼SW¼ [All]
Section 30:	Lots 1 (40.54), 2 (40.74), 3 (40.94) and 4 (41) [W½W½], E½W½, E½ [All]
Section 31:	Lots 1 (41.02), 2 (40.96), 3 (40.70) and 4 (40.55) [W½W½], E½W½, E½ [All]

Section 32:	Lots 1 (39.50) [NE¼NW¼] and 2 (40.04) [SE¼SW¼], NE¼, NW¼NW¼, S½NW¼, N½SW¼, SW¼SW¼
Section 33:	Lots 1 (41.12) and 2 (41.31) [W½NW¼], E½NW¼ [NW¼],

expressly providing, however, for the establishment of the special units described in Paragraph 10 of the Findings of Fact to account for the irregular lots contained therein, are hereby established.

3. The Knight 14-30 Well is hereby declared as the authorized well for the drilling unit comprised of Lot 4 and SE¼SW¼ of Section 30, T3S, R2E, USM, so established.

4. The authorized well for all other such units so established shall be located no closer than 460 feet from a drilling unit boundary and no closer than 920 feet from another well producing from the Lower Green River formation as defined in (1) above without an exception location approval from the Division in accordance with Utah Admin. Code Rule R649-3-3.

5. Flying J shall, within one year's time of the entry of this Findings of Fact, Conclusions of Law and Order, reappear before the Board to provide additional production and engineering data and a drainage analysis to confirm the drilling units established hereby remain appropriate.

6. Pursuant to Utah Admin. Code Rule R641 and Utah Code Ann. § 63-46b-6 to 10, the Board has considered and decided this matter as a formal adjudication.

7. This Order is based exclusively on evidence of record in the adjudicative proceeding or on facts officially noted, and constitutes the signed written order stating the Board's decision and the reasons for the decision, all as required by the Administrative Procedures Act, Utah Code Ann. § 63-46b-10 and Utah Admin. Code Rule R641-109.

8. Notice re: Right to Seek Judicial Review by the Utah Supreme Court or to Request Board Reconsideration: As required by Utah Code Ann. § 63-46b-10(e) to - 10(g), the Board hereby notifies all parties in interest that they have the right to seek judicial review of this final Board Order in this formal adjudication by filing a timely appeal with the Utah Supreme Court within 30 days after the date that this Order is issued. Utah Code Ann. § 63-46b-14(3)(a) and - 16. As an alternative to seeking immediate judicial review, and not as a prerequisite to seeking judicial review, the Board also hereby notifies parties that they may elect to request that the Board reconsider this Order, which constitutes a final agency action of the Board. Utah Code Ann. § 63-46b-13, entitled, "Agency Review - Reconsideration," states:

> (1)(a) Within 20 days after the date that an order is issued for which review by the agency or by a superior agency under Section 63-46b-12 is unavailable, and if the order would otherwise constitute final agency action, any party may file a written request for reconsideration with the agency, stating the specific grounds upon which relief is requested.

> (b) Unless otherwise provided by statute, the filing of the request is not a prerequisite for seeking judicial review of the order.
>
> (2) The request for reconsideration shall be filed with the agency and one copy shall be sent by mail to each party by the person making the request.
>
> (3)(a) The agency head, or a person designated for that purpose, shall issue a written order granting the request or denying the request.
>
> (b) If the agency head or the person designated for that purpose does not issue an order within 20 days after the filing of the request, the request for reconsideration shall be considered to be denied.

Id. The Board also hereby notifies the parties that Utah Admin. Code Rule R641-110-100, which is part of a group of Board rules entitled, "Rehearing and Modification of Existing Orders," states:

> Any person affected by a final order or decision of the Board may file a petition for rehearing. Unless otherwise provided, a petition for rehearing must be filed no later than the 10th day of the month following the date of signing of the final order or decision for which the rehearing is sought. A copy of such petition will be served on each other party to the proceeding no later than the 15th day of the month.

Id. *See* Utah Admin. Code Rule R641-110-200 for the required contents of a petition for Rehearing. If there is any conflict between the deadline in Utah Code Ann. § 63-46b-13 and the deadline in Utah Admin. Code Rule R641-110-100 for moving to rehear this matter, the

Board hereby rules that the later of the two deadlines shall be available to any party moving to rehear this matter. If the Board later denies a timely petition for rehearing, the party may still seek judicial review of the Order by perfecting a timely appeal with the Utah Supreme Court within 30 days thereafter.

9. The Board retains continuing jurisdiction over all the parties and over the subject matter of this Cause, except to the extent said jurisdiction may be divested by the filing of a timely appeal to seek judicial review of this order by the Utah Supreme Court.

10. For all purposes, the Acting Chairman's signature on a faxed copy of this Order shall be deemed the equivalent of a signed original.

DATED this 26 day of Sept., 2007.

STATE OF UTAH
BOARD OF OIL, GAS AND MINING

By: Kent R. Petersen
Kent R. Petersen, Acting Chairman

CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing "Findings of Fact, Conclusions of Law and Order" for Docket No. 2007-017, Cause No. 142-03 to be mailed, postage prepaid, on this 4th day of October, 2007, to those as listed on this page and on the following attachment:

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FILED

JUL 17 2008

SECRETARY, BOARD OF OIL, GAS & MINING

BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF FLYING J OIL & GAS INC. FOR AN ORDER ESTABLISHING 80-ACRE (OR SUBSTANTIAL EQUIVALENT THEREOF) LAY-DOWN (HORIZONTAL) DRILLING UNITS FOR THE PRODUCTION OF OIL AND ASSOCIATED GAS AND HYDROCARBONS FROM THE LOWER GREEN RIVER FORMATION, COMPRISED OF PORTIONS OF SECTIONS 23-26 INCLUSIVE, 35 AND 36, TOWNSHIP 3 SOUTH, RANGE 1 EAST, USM, AND SECTIONS 19 AND 29-33 INCLUSIVE, TOWNSHIP 3 SOUTH, RANGE 2 EAST, USM, UINTAH COUNTY, UTAH	**ORDER GRANTING EXTENSION OF TIME TO PROVIDE ADDITIONAL DATA AND DRAINAGE ANALYSIS** Docket No. 2007-017 Cause No. 142-03

The Board of Oil, Gas and Mining (the "Board"), having fully considered the Joint Stipulation and Motion of Flying J Oil & Gas Inc. ("Flying J") and the Utah Division of Oil, Gas and Mining filed July 7, 2008, and finding good cause therefore, hereby grants said Motion. Flying J shall have an additional one year period (by September 26, 2009) in which to reappear before the Board to provide additional production and engineering data and a drainage analysis to confirm the drilling units established by the Board in its September 26, 2007 Order entered in this Cause remain appropriate.

For all purposes, the Chairman's signature on a faxed copy of this Order shall be deemed the equivalent of a signed original.

DATED this 17 day of July, 2008.

STATE OF UTAH
BOARD OF OIL, GAS AND MINING

By: _____
Douglas E. Johnson
Chairman

Approved as to form:

_____
James P. Allen, Esq.
Assistant Attorney General
Counsel for Utah Division of Oil, Gas and Mining

00103142

For all purposes, the Chairman's signature on a faxed copy of this Order shall be deemed the equivalent of a signed original.

DATED this _____ day of July, 2008.

STATE OF UTAH
BOARD OF OIL, GAS AND MINING

By: _____
Douglas E. Johnson
Chairman

Approved as to form:

James P. Allen, Esq.
Assistant Attorney General
Counsel for Utah Division of Oil, Gas and Mining

00103142

CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing "Order Granting Extension of Time to Provide Additional Data and Drainage Analysis" for Docket No. 2007-017, Cause No. 142-03 to be mailed, postage prepaid, on this 22nd day of July, 2008, to the following:

Frederick M. MacDonald
BEATTY & WOZNIAK, PC
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Assistant Attorney General
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Flying J Oil & Gas, Inc.
Attn: Chris J. Malan
333 West Center St.
North Salt Lake, UT 84054

Bureau of Land Management
Attn: Becky J. Hammond
Chief, Branch of Fluid Minerals
P.O. Box 45155
Salt Lake City, UT 84145-0155

Bureau of Land Management
Attn: Howard Cleavinger
170 South 500 East
Vernal, UT 84078

Bureau of Indian Affairs
Uintah & Ouray Reservation
P.O. Box 130
Fort Duchesne, UT 84026

Ute Indian Tribe
P.O. Box 190
Fort Duchesne, UT 84026

Ute Energy LLC
P.O. Box 789
Fort Duchesne, UT 84026

Diane Holland