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**900 Main Ave, Suite D  
Durango, CO 81301**

**Ph: 970-247-4126  
Fax: 970-247-1047**

Friday August 27, 2004

Division of Water Rights  
Mark Page  
Via Facsimile: 435-637-7937

Dear Mark,

Per our phone conversation, Tuesday August 24, 2004, the Ute Oil Company (dba, ACT Operating Company) will begin the drilling at least 5 wells in the Helper Field outside the town of Kenilworth, Utah in Carbon County. We are in the process of submitting APDs and are in need of evidence of approval from your office for use of water. We will be using water in the drilling process supplied from RN Industries out of Roosevelt, Utah.

We will also be using RN Industries to haul and dispose of the produced salt water, once the wells are complete.

Please let me know if you need any further information. If you could please mail for fax a copy of the approval to my attention at your earliest convenience.

Best Regards,

A handwritten signature in cursive script that reads "Mary Tesitor".

Mary Tesitor  
Engineering Technician, Oso Energy Resources  
Agent for ACT Operating Company

**STATE OF UTAH**  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL, GAS AND MINING

FORM 3

AMENDED REPORT   
(highlight changes)

**APPLICATION FOR PERMIT TO DRILL**

1A. TYPE OF WORK: DRILL <input checked="" type="checkbox"/> REENTER <input type="checkbox"/> DEEPEN <input type="checkbox"/>		5. MINERAL LEASE NO: <b>FEE-BH-61504</b>	6. SURFACE: Fee
8. TYPE OF WELL: OIL <input type="checkbox"/> GAS <input checked="" type="checkbox"/> OTHER <u>CBM</u> SINGLE ZONE <input checked="" type="checkbox"/> MULTIPLE ZONE <input type="checkbox"/>		7. IF INDIAN, ALLOTTEE OR TRIBE NAME:	
2. NAME OF OPERATOR: <b>Ute Oil Company (dba A.C.T. Operating Company)</b>		9. WELL NAME and NUMBER: <b>Kenilworth RR #2</b>	
3. ADDRESS OF OPERATOR: <b>201 W. Wall Street #806 Midland TX 79701</b>		PHONE NUMBER: <b>(432) 683-4640</b>	10. FIELD AND POOL, OR WILDCAT: <b>Helper Field</b>
4. LOCATION OF WELL (FOOTAGES) AT SURFACE: <b>1070.1 FEL and 3667.7 FSL</b> AT PROPOSED PRODUCING ZONE: <b>FERRON COALS</b>		11. QTR/QTR, SECTION, TOWNSHIP, RANGE, MERIDIAN: <b>SENE 16 13S 10E</b>	
14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE: <b>Adjacent to town of Kennilworth</b>		12. COUNTY: <b>Carbon</b>	13. STATE: <b>UTAH</b>
15. DISTANCE TO NEAREST PROPERTY OR LEASE LINE (FEET) <b>1070.1 FEL and 3667.7 FSL</b>	16. NUMBER OF ACRES IN LEASE:	17. NUMBER OF ACRES ASSIGNED TO THIS WELL: <b>160</b>	
18. DISTANCE TO NEAREST WELL (DRILLING, COMPLETED, OR APPLIED FOR) ON THIS LEASE (FEET)	19. PROPOSED DEPTH: <b>5,150</b>	20. BOND DESCRIPTION: <b>Irrevocable Letter of Credit</b>	
21. ELEVATIONS (SHOW WHETHER DF, RT, GR, ETC.): <b>GR = 6771'</b>	22. APPROXIMATE DATE WORK WILL START: <b>11/1/2004</b>	23. ESTIMATED DURATION: <b>1 Month</b>	

**PROPOSED CASING AND CEMENTING PROGRAM**

SIZE OF HOLE	CASING SIZE, GRADE, AND WEIGHT PER FOOT	SETTING DEPTH	CEMENT TYPE, QUANTITY, YIELD, AND SLURRY WEIGHT
12 1/4"	8 5/8" J-55 24 #/ft	320	Class G + 2% CACL2 240 sacks 1.15 cu.ft./sk 15.8 ppg, plus FL additive
7 7/8"	5 1/2" J-55 17 #/ft	5,150	Lead: Lite Wt. cement 160 sacks 3.36 cu.ft./sk 10.5 ppg Tail: Cem Crete blend 210 sacks 2.07 cu.ft./sk 10.5 ppg

**RECEIVED**  
**SEP 03 2004**

**ATTACHMENTS**

VERIFY THE FOLLOWING ARE ATTACHED IN ACCORDANCE WITH THE UTAH OIL AND GAS CONSERVATION GENERAL RULES:

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> WELL PLAT OR MAP PREPARED BY LICENSED SURVEYOR OR ENGINEER     | <input checked="" type="checkbox"/> COMPLETE DRILLING PLAN  |
| <input checked="" type="checkbox"/> EVIDENCE OF DIVISION OF WATER RIGHTS APPROVAL FOR USE OF WATER | <input checked="" type="checkbox"/> FORM 5, IF OPERATOR IS PERSON OR COMPANY OTHER THAN THE LEASE OWNER |

NAME (PLEASE PRINT) Mary Tesitor TITLE Engineering Tech, Oso Energy agent for A.C.T Op.  
SIGNATURE Mary Tesitor DATE 9/1/2004

(This space for State use only)

API NUMBER ASSIGNED: 43-007-31007

APPROVAL:

### NARRATIVE

THE PURPOSE OF THIS SURVEY IS TO LOCATE AND DESCRIBE A WELL SITE FOR OSO ENERGY RESOURCES CORP., AND IS SITUATED IN THE NORTHEAST QUARTER OF SECTION 16, TOWNSHIP 13 SOUTH, RANGE 10 EAST, SALT LAKE BASE AND MERIDIAN, CARBON COUNTY, UTAH.

THE BASIS OF BEARING USED FOR THIS SURVEY IS SOUTH 88°16'02" EAST BETWEEN THE SOUTHWEST CORNER AND THE SOUTHEAST CORNER OF SAID SECTION 16.

THE BASIS OF ELEVATION USED FOR THIS SURVEY IS 6561 FEET (NGVD 1929) AT THE SOUTHWEST CORNER OF SAID SECTION 16, AS SHOWN ON THE HELPER, UTAH 7.5' QUADRANGLE.

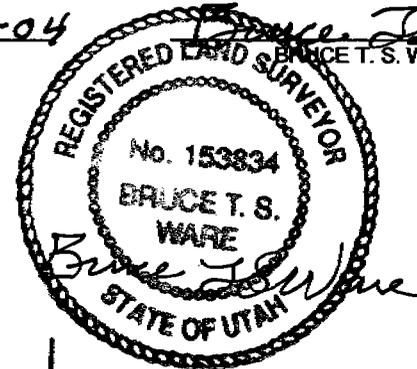
### SITE DESCRIPTION

A PROPOSED DRILL HOLE SITUATED IN THE NORTHEAST QUARTER OF SECTION 16, TOWNSHIP 13 SOUTH, RANGE 10 EAST, SALT LAKE BASE AND MERIDIAN, CARBON COUNTY, STATE OF UTAH, SAID DRILL HOLE IS LOCATED 1070.1 FEET WEST AND 3667.7 FEET NORTH FROM THE SOUTHEAST CORNER OF SAID SECTION 16.

### CERTIFICATE OF SURVEY

I, BRUCE T. S. WARE, DO HEREBY CERTIFY THAT I AM A REGISTERED LAND SURVEYOR, CERTIFICATE NO. 153834 AS PRESCRIBED BY THE LAWS OF THE STATE OF UTAH. I FURTHER CERTIFY THAT I HAVE MADE A SURVEY OF THE TRACT OF GROUND SHOWN AND THAT IT IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE. IT DOES NOT PURPORT TO SHOW ALL EASEMENTS OF RECORD, NOR IS IT PROOF OF OWNERSHIP.

DATE: 7-20-04



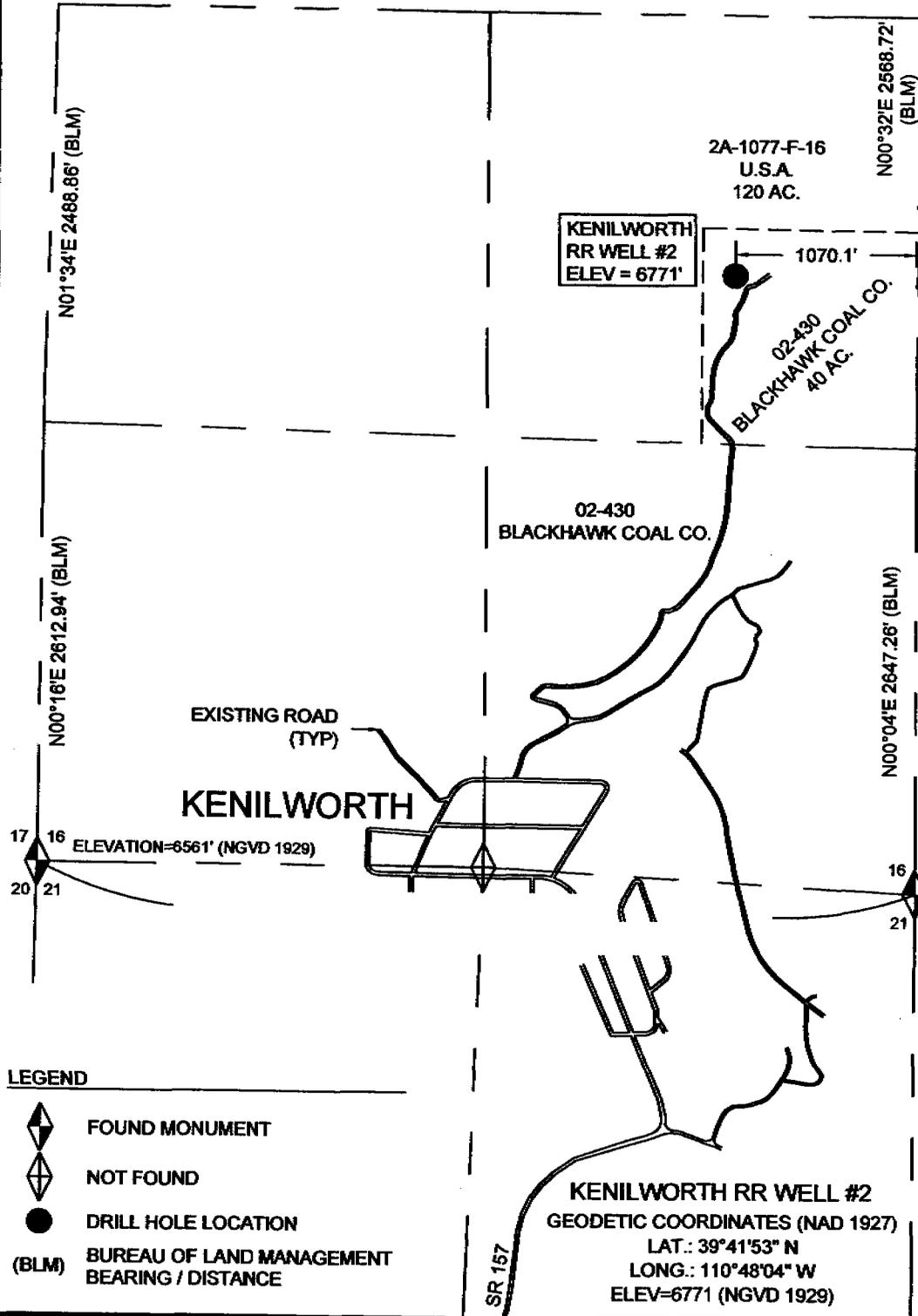
### WARE SURVEYING & ENGINEERING, L.L.C.

Phone: 435-637-2620 2223 North 1200 West  
Email: waresurveying@emerytelcom.net Helper, Utah 84526

SURVEY FOR:  
**OSO ENERGY RESOURCES CORP.**

**KENILWORTH RAILROAD WELL #2**  
KENILWORTH, CARBON COUNTY, UTAH  
SECTION 16, T. 13 S., R. 10 E., S.L.B. & M.

DRAWN BY:	MCW	SCALE:	1" = 1000'
CHECKED BY:	BTSW	JOB NO.:	OSO-2004-02
DATE:	07-19-04	DRAWING NO.	P-1
REVISIONS:	0		



- LEGEND**
- FOUND MONUMENT
  - NOT FOUND
  - DRILL HOLE LOCATION
  - (BLM) BUREAU OF LAND MANAGEMENT BEARING / DISTANCE

**KENILWORTH RR WELL #2**  
GEODETIC COORDINATES (NAD 1927)  
LAT.: 39°41'53" N  
LONG.: 110°48'04" W  
ELEV=6771 (NGVD 1929)

007



OLENH S. WALKER  
*Governor*  
GAYLE F. McKEACHNIE  
*Lieutenant Governor*

**State of Utah**  
DEPARTMENT OF NATURAL RESOURCES  
Division of Water Rights

ROBERT L. MORGAN      JERRY D. OLDS  
*Executive Director*      *State Engineer/Division Director*

September 2, 2004

Oso Energy Resources Corp.  
Attn: Mary Tesitor  
900 Main Avenue Suite D  
Durango Colorado 81301

Re:    Drilling Process Water  
       Helper Field – Carbon County, Utah

Dear Mary:

In response to your letter dated August 27, 2004, please be advised that if RN Industries will be using water from either Price City, or Price River Water Improvement District (PRWID), it will not be necessary to obtain a water right for the drilling of the five proposed wells.

I hope this will answer the questions about the need for a water right. Should you have further questions, please feel free to call.

Sincerely,

Mark P. Page  
Regional Engineer

MPP/mjk

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SEP 09 2004

DIV. OF OIL, GAS &amp; MINING

## Drilling Prognosis

Oso Energy Resources Corp.  
Agent for A.C.T. Operating Company

### Kenilworth Railroad Well #2

T13S-R10E – NE Qtr. Section 16  
Carbon County, Utah

Summary of Drilling Plan: Oso Energy Resources Corp. proposes to spud this well with a 12 ¼" bit and drill to 320' or to a competent shale bed where new 8 5/8" 24.0# J-55 ST&C surface casing will be set and cemented to the surface. After WOC for 12 hours, the BOP's will be installed and tested. Then a 7 7/8" hole will be drilled to a TD of approximately 5,150' with air mist. The well will be electric logged and then new 5 ½" 17.0 # J-55 LT&C production casing will be run to TD and cemented with approximately 1,000 cu. ft. of cement. The cement will cover from TD to the surface. The target zones are the Ferron Coals which will be perforated then fracture stimulated with sand and a gel carrying fluid. The well will be cleaned up using swabbing then put on a conventional beam pump with a downhole pump, rods and pumping unit. The unit will be powered with an electric motor.

#### IV. Geologic Marker Tops (Ground Elevation = 6,771')

<u>Formation</u>	<u>MD (TVD)</u>	<u>AMSL</u>
Mancos Shale	0	6,771'
Ferron Member	4,791	1,980
Cont. of Mancos Shale	4,991	1,621'

#### II. Specifications for Pressure Control.

- a. Annular preventer will be a rotating head.
- b. Location of hydraulic BOP controls is a remote unit on ground between doghouse and tool pusher's trailer.
- c. BOP's will be tested to 75% of their rated working pressures at the following times:
  - i. When installed
  - ii. Prior to drilling out surface casing
  - iii. Minimum of once per week

#### III. Casing and Cementing Programs

- a. Casing Program
  - i. Conductor  
TBD

- ii. Surface  
12 1/4" hole, 8 5/8", 24#, J-55, LT&C from surface to 320'.
- iii. Production  
7 7/8" hole, 5 1/2", 17#, J-55, LT&C from surface to TD of 5,150'
- iv. Tubing  
2 3/8", 4.7#, EUE

b. Cementing Program

i. Surface Casing

Well Data

Depth: 320'  
 Casing: 8 5/8"  
 Open Hole: 12 1/4"  
 Annulus Vol.: 0.4127 cu ft./ft.

Downhole Accessories

Casing guide shoe  
 Float collar  
 Centralizers to be run as specified

Cement Specifications

240 Sx. Class G + 2% calcium chloride  
 Density: 15.8 ppg  
 Yield: 1.15 cu.ft./sx.  
 Cmt. Top: Circulated to surface

ii. Production Casing

Well Data

Depth: 5,150'  
 Casing: 5 1/2"  
 Open Hole: 7 7/8"

Downhole Accessories

Casing guide shoe  
 Float collar  
 Centralizers to be run as specified

Cement Specifications

160 Sx. Lead of Liteweight Cmt.  
 Density: 10.5 ppg  
 Yield: 3.36 cu. ft./sk.

210 Sx. Tail of Chem Crete blend  
 Density: 10.5 ppg  
 Yield: 2.07 cu. ft./sk.

iii. Casing Test Pressures

Surface Casing: 600 psi for 30 minutes  
 Production Casing: 1,500 psi for 30 minutes

**IV. Drilling Fluids Program**

<u>Depth</u>	<u>Bit Size</u>	<u>Mud Wt.(ppg)</u>	<u>Viscosity (sec.)</u>	<u>Fluid Loss</u>
0 – 320'	12 1/4"	8.4	40-50	NA
320 – TD	7 7/8"	Air mist	NA	NA

**V. Logging, Coring and DST's**

- a. Electric log suite: Surface Csg. to TD: Platform Express: Array Induction, SP, GR, Caliper, Triple Litho Density, Compensated Neutron
- b. Mud Logger to be determined. To begin logging after surface casing set.
- c. Coring: None
- d. No DST's are planned.

**VI. Abnormal Conditions**

- a. No abnormal pressures are anticipated.
- b. Hydrogen sulfide is not present in offset wells and is not expected in this well.
- c. Abnormally high temperatures are not expected at this location.

**VII. Additional Information**

- a. Six coal zones are identified on the closest offset log and will be recommended for completion. They are 3', 4', 5', 2', 4' and 7' thick from 4,812' through 4,942'.
- b. A conventional formation core will be taken in this field at some point but not on this well.



September 30, 2004

Division of Oil, Gas & Mining  
1594 W.N. Temple, Suite 1210  
Salt Lake City, UT 84114-5801

To Whom It May Concern:

In reference to the State Oil and Gas Conservation rule R649-3-3, the A.C.T. Operating Well, Kenilworth RR #2, is an exception to this rule due to topography.

There are no additional lease owners within 460' of the proposed location. If you have any questions please contact either Mary Tesitor or Gary Trotter at 970-247-4126.

Thank you,

A handwritten signature in cursive script that reads "Mary Tesitor".

Mary Tesitor  
Engineering Technician  
Oso Energy Resources Corp.  
Agent for A.C.T. Operating Company



900 Main Ave, Suite D  
Durango, CO 81301

Ph: 970-247-4126  
Fax: 970-247-1047

Hello Mark --

I copied you on this letter to the residents of Kenilworth so that you could see we are communicating. I received a letter from Bill Hefner several days after our on-site inspection of the Ballpark well location. Do you think it would be possible for you to release your comments to Salt Lake regarding the Ballpark well? I would surely like to get our permit in January some time. I hope you see that we are doing all we can to work with the residents of Kenilworth. I appreciate your consideration.

*Darryl J. Trotter*  
12/15/04

RECEIVED  
DEC 20 2004  
OGM PRICE FIELD OFFICE



900 Main Ave, Suite D  
Durango, CO 81301

Ph: 970-247-4126  
Fax: 970-247-1047

Mr. Bill Heffner  
Ms. Virginia Shepherd  
Mr. Ray Hansen  
HCR 35, Box 93  
Kenilworth, UT 84529

December 15, 2004

Re: Gas Wells Near Kenilworth

Dear Residents of Kenilworth:

Thank you very much for your letter of December 13. I am pleased to hear that you came to a general consensus concerning the gas well issues. I know it has been challenging and I do understand your frustrations. As I stated on October 16, Oso Energy is committed to being a good corporate citizen and to creating as positive a public relations image as possible. I am writing this letter in response to your concerns and suggestions.

We agree that a progressing cavity pump is the smallest and quietest pump that is acceptable for use in coalbed methane production. We will agree to using this type pump in the Ballpark Canyon Well #1, the Kenilworth Railroad Well #1 and #2. These are the three wells you have expressed concerns about noise. It will be important to house the surface drive units to insure that they are quiet and we will agree to do this. It is our intent to paint the pump houses a color that will blend in with the surroundings. The houses will also be locked to prevent accidents or vandalism.

The next issue is the roads to access the well sites. As you state in your letter, accessing the Kenilworth Railroad Wells #1 and 2 by existing dirt roads will avoid using paved community streets. The only way to access the Ballpark well is to improve the old road that faces Kenilworth from the north (across the hillside) and come in to this road by way of the existing dirt road from the Kenilworth Railroad Well #1. If you would prefer, we could use the paved road (Second North Street?) rather than improving the old dirt road. Please let me know what you would prefer. We will agree to use magnesium chloride on all of our dirt roads and the well pads at the Ballpark and K. Railroad #1 wells for dust reduction.

The last issue is probably the most difficult. The manner in which you prioritized your list is an excellent method to communicate your desires. I would like to suggest that I contact

a local landscape design firm and discuss the redevelopment of the old town park in the southeast corner of Kenilworth. I have personally been there and understand clearly what you are addressing. We could put together a plan and present it to you for your comments and ultimate approval. I wouldn't want to commit to a specific plan of action at this time until we investigate the costs involved but I like the general idea very much. I also think that a "Welcome to Kenilworth" sign would be very worthwhile project. Perhaps we could offer some options for that and you could involve your community in deciding what they want.

Oso Energy is in the business of developing coalbed methane resources. We are a technical team not a public relations firm. But we do have strong values and I wanted very much to communicate that to you at our first meeting. I appreciate your willingness to work with us in an even tempered manner. With the attitude you present in your letter, I am confident that we can work together to come up with a mutually beneficial plan. Thanks again for your time and effort and I will contact you as soon as possible with a park redevelopment plan.

Very truly yours,



---

Gary L. Trotter  
Vice President

Cc: Carbon County Commissioners  
Ms. Gayla Williams, Carbon County  
Mr. Mark Jones, State of Utah

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**900 Main Ave, Suite D  
Durango, CO 81301**

**Ph: 970-247-4126  
Fax: 970-247-1047**

Division of Oil, Gas & Mining  
1594 W.N. Temple, Suite 1210  
Salt Lake City, UT 84114-5801

Attn: Mark Jones  
Cc: Diana Whitney

Re: Waste Management Plan for  
the **Kenilworth Railroad #1**

Dear Mr. Jones,

Per your request, the following is our Waste Management Plan to be submitted in accordance with our Drilling Prognosis previously submitted with the APD for the Kenilworth Railroad #1 in Carbon County, Utah:

Garbage - All garbage will be removed from site and disposed at the appropriate disposal facility.

Reserve pit contents – ECDC Environmental of Carbon County,(ph.435-888-4452) will haul and test as necessary all contents of reserve pit.

Produced Water - will be hauled from site and disposed of in the appropriate disposal facility, unless agreements with other operators can be made to dispose produced water in an existing disposal well.

Sanitation Facilities - will be supplied and cleaned as necessary during drilling operations.

Please let me know if you need any further details or supplemental information.

Sincerely,

Mary Tesitor  
Engineering Technician  
Oso Energy Resources Corp.  
Agent for A.C.T. Operating

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DEC 02 2004  
DIV. OF OIL, GAS & MINING

DESIGNATION OF AGENT OR OPERATOR

The undersigned is, on record, the holder of oil and gas lease

LEASE NAME: See Exhibit "A"

LEASE NUMBER: \_\_\_\_\_

and hereby designates

NAME: Oso Energy Resources Corp.

ADDRESS: 900 Main Avenue, Suite D

city Durango state CO zip 81301

as his (check one) agent G / operator G, with full authority to act in his behalf in complying with the terms of the lease and regulations applicable thereto and on whom the Division Director or Authorized Agent may serve written or oral instructions in securing compliance with the Oil and Gas Conservation General Rules and Procedural Rules of the Board of Oil, Gas and Mining of the State of Utah with respect to:

(Describe acreage to which this designation is applicable. Identify each oil and gas well by API number and name. Attach additional pages as needed.)

See attached Exhibit "A"

It is understood that this designation of agent/operator does not relieve the lessee of responsibility for compliance with the terms of the lease and the Oil and Gas Conservation General Rules and Procedural Rules of the Board of Oil, Gas and Mining of the State of Utah. It is also understood that this designation of agent or operator does not constitute an assignment of any interest in the lease.

In case of default on the part of the designated agent/operator, the lessee will make full and prompt compliance with all rules, lease terms or orders of the Board of Oil, Gas and Mining of the State of Utah or its authorized representative.

The lessee agrees to promptly notify the Division Director or Authorized Agent of any change in this designation.

Effective Date of Designation: 7/1/2004

BY: (Name) Donald W. Raymond  
(Signature) Donald W. Raymond  
(Title) President  
(Phone) 432-683-4640

OF: (Company) Ute Oil Company (dba A.C.T. Operating Company)  
(Address) 201 W. Wall Street  
city Midland  
state TX zip 79701

**OIL, GAS AND COALBED METHANE LEASE**

This agreement ("Lease") is effective this 15<sup>th</sup> day of JUNE, 2004, by and between **BLACKHAWK COAL COMPANY**, a Utah corporation with an address at 700 Morrison Road, Gahanna, Ohio 43230 ("Lessor") and **UTE OIL COMPANY**, a Texas corporation, dba A.C.T. OPERATING COMPANY, whose address is 201 W. Wall Street, Suite 806, Midland, TX 79701 ("Lessee");

1. **GRANTING CLAUSE:** Lessor, for and in consideration of Ten Dollars (\$10.00) per net mineral acre and other valuable consideration, the receipt of which is hereby acknowledged, and for and in consideration of the covenants and agreements hereinafter contained on the part of Lessee, has granted, demised, leased and let and by these presents does grant, demise, lease and let exclusively unto Lessee all of Lessor's right, title and interest in the lands located in the Utah County of Carbon described in EXHIBIT A attached hereto and made a part hereof, consisting of 3,000 mineral acres and 480 surface acres, more or less, including any interests therein which Lessor may hereafter acquire in Township 13 South 10 East, Carbon County, Utah, by reversion, prescription or otherwise, and also including any accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the subject lands, (the "Leased Premises") for the purpose of exploring (including the right to conduct geophysical surveys), drilling, operating, producing, saving, taking care of, treating, processing, storing on the surface and transporting and marketing coalbed methane, oil, liquid hydrocarbons, gas, or any of their constituent products, including injecting gas, waters, other fluids and air into all subsurface, coal strata horizons and formations

without liability to Lessor for migration; and laying pipelines, storing hydrocarbons above ground in a manner that will not interfere with Lessor's use of the surface, building tanks, setting up pumping units, and constructing all improvements necessary in the production and transportation of coalbed methane, oil, liquid hydrocarbons, gas, or any of their constituent products (collectively the "Minerals"); together with water rights necessary for Lessee's activities and, on a non-exclusive basis, all the rights of ingress or egress, and all other appurtenant easements and right-of-way Lessor may hold to the surface, subject to all terms and conditions of this Lease. For the purposes of this Lease, "coalbed methane" means methane gas from coal formations, coal seams or abandoned coal mine workings and all zones in communication therewith.

2. **LEASE TERM:** Subject to the other provisions of this Lease and specifically but not limited to the provisions of paragraph 3, this Lease shall commence on the date hereof and remain in full force and effect for a primary term expiring at 11:59 p.m. on the date that is five (5) years from the date hereof (the "Primary Term"), during which time the Lessee shall use its best efforts to explore for Minerals on the Leased land, and produce and sell Minerals underlying the Leased Premises. The Primary Term may not be extended by payment of shut-in royalty.

3. **EXTENDED TERM:**

(a) Provided the Lessee has, during the Primary Term, diligently and in good faith explored the Leased Premises for Minerals and, where warranted, drilled and, where appropriate, completed a well or wells to commercially produce Minerals from the Leased Premises, Lessee

shall be granted the rights described in paragraph 1 for an extended term of ten (10) years (the "Extended Term", with the Primary Term plus the Extended Term, if any, being the "Lease Term"), except as hereinafter provided.

- (b) If at the expiration of said Extended Term there are one or more wells in production or in the process of being drilled on the Leased Premises, then this Lease shall continue for the retained acreage applicable to said well(s), as defined in Paragraph 3(c) with respect to each such well as long as drilling of the well(s) is continued with reasonable diligence, or as long as Minerals are produced in paying quantities, or both, as the case may be, subject, however, to the provisions of Paragraph 3(d) hereof. Retained acreage for individual wells, in production or in the process of being drilled, will not extend the term for any land other than the retained acreage for that well.
- (c) The retained acreage for each well at the end of the Extended Term shall be 640 acres. Provided, however, if at the end of the Extended Term, the State of Utah spacing regulations mandate a Production Unit size that is less than 640 acres, Lessee shall thereafter use reasonable diligence to continue drilling additional wells on the Leases Premises to adequately produce the Minerals in accordance with State spacing regulations.
- (d) If at the termination of the Extended Term of this Lease, State or Federal regulations require acreage in excess of the retained acreage

described in Paragraph 3(c), then with respect to the wells to which the Federal or State regulations apply, the acreage required by the Federal or State regulations shall supersede the acreage set forth in Paragraph 3(c).

4. **TERMINATION:** Failure of Lessee to comply with the terms set forth in Paragraph 3(a) above, shall cause this Lease to terminate at the end of the Primary Term as to all acreage not then being held by a Production Unit. If this Lease continues into the Extended Term, this Lease shall terminate if Minerals are not produced from the Leased Premises in paying quantities or drilling operations are not continuously prosecuted as hereinafter provided. "Drilling operations" include operations on the Leased Premises for the drilling of a new well, the reworking, deepening or plugging back of a well or hole or other operations conducted in an effort to obtain or reestablish production of Minerals. Drilling operations shall be considered to be "continuously prosecuted" if not more than sixty (60) days shall elapse between the completion or abandonment of one well or hole and the commencement of drilling operations on another well or hole, unless such operations are prevented or delayed by a force majeure event. In the event of a delay due to a force majeure event, Lessee shall have sixty (60) days following the end of the force majeure event within which to commence drilling operations. For the purposes of this paragraph and the succeeding paragraph, any well opened or remaining open in one or more coal seams or zones in communication with coal seams shall be deemed a coalbed methane well.

5. **ROYALTIES/MINIMUM ROYALTIES:** Lessee shall pay, or cause to be paid, to Lessor at the address stated in paragraph 22 below, on or before the 45th day from the end of a calendar month from which any Minerals were produced and sold from the Leased Premises in that previous calendar month and for which Lessee has been paid, a royalty equal to fifteen percent (15%) of the proceeds realized from the sale of all Minerals produced and sold from the Leased Premises, less 15% of ad valorem taxes and production, severance or other excise taxes and the cost incurred by Lessee in delivering and processing such Minerals. Lessee agrees to diligently seek to obtain the highest price available for all such Minerals. Notwithstanding the foregoing, Lessor shall have the right at any time, subject to fifteen (15) days prior notice to Lessee to take Lessor's proportionate share of produced Minerals at the wellhead and market or otherwise dispose of the same as Lessor may deem appropriate. All royalty checks shall be accompanied by a complete and full accounting of all royalty payments, including but not limited to all deductions from the proceeds. If Lessee shall not have timely paid to Lessor any sum of money payable under the provisions of this Lease and such non-payment shall continue for a period of 30 days, Lessee shall in addition thereto pay to Lessor interest on the delinquent amount, at the rate of two percent above the rate per annum equal to the prime interest rate charged by Bank One as quoted on the first day of the calendar month in which payment is due. This provision shall in no way constitute a waiver of the requirement to pay on time and shall be cumulative and in addition to Lessor's right to terminate this Lease under paragraph 19.

In the event Minerals are produced, the minimum Mineral royalty paid for any calendar year, beginning with 2005, shall be \$10,000.00. Beginning with the year 2005, for each calendar year in which royalties for Minerals paid under this Lease are less than \$10,000.00, then the difference between the Mineral royalty paid for that calendar year and \$10,000.00 shall be paid as a non-recoupable minimum royalty from Lessee to Lessor. Minimum royalty due for any calendar year shall be paid by February 15 of the ensuing year.

6. **ANNUAL SURFACE RENTAL FEE:** Lessee shall pay to Lessor an annual surface rental fee of \$2.00 per net surface acre beginning with 2005. Annual surface rental due for any calendar year shall be paid by February 15 of the ensuing year.
7. **LETTER OF CREDIT:** Lessee shall establish a letter of credit in the amount of FIFTY THOUSAND DOLLARS (\$50,000) and in the form of EXHIBIT B attached hereto and made a part hereof and with a bank acceptable to Lessor. All Bank fees shall be paid by Lessee. The purpose of the Letter of Credit is to secure the obligation of Lessee to perform its covenants hereunder. If Lessor determines in good faith that Lessee is in default of a covenant hereunder, Lessor shall deliver written notice specifying same to Lessee, and if such event of covenant default is not cured by Lessee within ten business days of receipt of Lessor's written notice, Lessor may draw from such Letter of Credit to the extent of Lessor's damages.
8. **SHUT-IN ROYALTY FOR MINERALS:** For any well drilled during the Lease term, if such well is capable of producing Minerals in paying quantities but there is no market, Lessee shall pay to Lessor a shut-in royalty of \$1,000.00 per well per year, or portion thereof, first payable within ninety days of such suspension of production

or failure to initiate sales. Notwithstanding any provisions hereof to the contrary, it is expressly agreed that Lessee shall have the right to maintain this Lease in force after the expiration of the Lease Term hereof by payment of shut-in royalty under this paragraph for so long as Lessee is diligently, continuously and in good faith attempting to sell the Minerals at the prevailing market price being paid to other producers in Township 13 South, Range 10 East, Carbon County, Utah. Any shut-in royalty paid under the provisions of this paragraph shall be in lieu of and not recoupable against royalties paid under paragraph 5.

9. **POOLING:** Lessee shall have authority to pool the Leased Premises or any portion thereof with other abutting lands, but only to the extent required by minimum spacing regulation or to create a tract of forty (40) acres, whichever is greater. Lessor shall receive written notification and, upon written request, copies of surveys for verification of royalty interest based on acreage, if portions of the Leased acreage are pooled. Royalties will be paid on the percentage royalty interest each lessor holds in the pooled or communitized land.
10. **UNITIZATION:** Lessee shall have the right but not the obligation to commit all or any part of the Leased Premises or interest therein to one or more unit plans or agreements for the cooperative development or operation of one or more oil, gas, or coalbed methane gas reservoirs or portions thereof, if in Lessee's judgement such plan or agreement will prevent waste and protect correlative rights, and if such plan or agreement is approved by the federal, state or local governmental authority having jurisdiction. When such a commitment is made, this Lease shall be subject

to the terms and conditions of the unit plan or agreement, including any reasonable formula prescribed therein for the allocation of production.

11. **MONTHLY REPORTS: AUDITS: INSPECTION:** Lessee shall keep full and accurate records for each well of drilling operations, production, and sale of Minerals and shall on the 45th day from the end of each calendar month for which there was production sold, deliver or cause to be delivered to Lessor at the address shown in paragraph 23, a written report describing and identifying, in such detail as Lessor may request, the quantities and qualities of Minerals produced and/or sold during the previous calendar month, the gross proceeds received by Lessee for Minerals sold during the previous month, the deductions from the gross proceeds referenced in paragraph 5, and payment of the royalties due. Lessee and Lessee's buyers shall measure all production accurately using standards established by the American Gas Association (AGA) and/or the American Petroleum Institute (API) and all measuring devices shall be tamper proof as nearly as practicable. Lessee shall provide promptly to Lessor upon request, copies of the run-tickets and other written results of all measurements, tests and samplings, including those performed by the Lessee's buyers, if available.

Lessor shall have the right at any time, at Lessor's expense to:

- (a) Inspect by all appropriate means Lessee's facilities on the Leased Premises;
- (b) Test Lessee's meters and other measuring and testing devices; and,
- (c) Sample, test, measure and gauge production of the wells, including the right, but not the obligation, to install meters on lines; and

- (d) Observe Lessee in the performance of Lessee's obligations under this Lease; and
  - (e) By appointment, examine or audit, during the term of this Lease and three years thereafter, the books, records, supporting documents, files and correspondence of Lessee and Lessee's buyers possessed by Lessee and maintained in connection with the Lease and the production and/or sale of the Minerals from the land at Lessee's place of business.
12. TITLE: Lessor does not warrant its title to the Leased Premises or to the rights which Lessee may need for the enjoyment of this Lease, including the right of Lessee to tender assignments of interest as required. If Lessor owns a lesser interest in the Minerals than the entire and undivided estate, then royalties herein provided for shall be paid Lessor only in the proportion which Lessor's interest bears to the whole.
13. RESTRICTIONS: This Oil, Gas and Coalbed Methane Lease and the rights and privileges herein granted Lessee are expressly made subject to:
- (a) Any existing farming or pasturing rights which Lessor may have granted.
  - (b) Public or private roads, ways, uses, easements and ordinances.
  - (c) Exceptions, reservations, covenants and conditions, easements, rights of way and leases, if any, that may be of public record.
  - (d) Such state of facts that an examination of said tracts and/or an accurate survey thereof, or, without limiting the provisions of Paragraph 9, a title examination would disclose.

(e) Any existing or future electric transmission or distribution lines, telegraph lines, radio and microwave stations, poles, towers, guys and anchors and other facilities which may be appurtenant thereto with reasonable means of access thereto to service, renew, extend, patrol and to remove said facilities and appurtenances as Lessor may require; and Lessor shall have the right to construct any and all electric transmission and distribution lines, radio and microwave stations and other such electrical facilities, as it may deem appropriate, desirable or necessary in the future on any location on the Leased Premises, and operations under this Lease shall not endanger or interfere with any existing or future electric transmission or distribution lines and facilities, telegraph lines, radio and microwave stations, poles, towers, guys and anchors, and other facilities appurtenant thereto. No well shall be placed or be permitted to remain within 200 feet measured horizontally from any electric transmission line now existing or hereafter erected. In the event any action taken in the future by Lessor, its successors or assigns, pursuant to this Paragraph 13(e), causes any loss or damage to Lessee, its successors or assigns, Lessee, its successor or assigns shall be compensated in the manner and as provided in Paragraph 31 below.

14. GENERAL OPERATING CONDITIONS: Lessee shall:

- (a) Comply with all federal, state, and local laws, statutes, ordinances, regulations, and orders applicable to Lessee's operations and the

conditions created thereby, including but not limited to environmental and pollution control requirements; and

- (b) Not commit any waste, unnecessary damage, or the deposit of any materials, supplies, or litter on the Leased Premises;
- (c) Conduct lessee's operations under this Lease in accordance with the highest standard practices in the industry; and
- (d) Conduct all of its activities contemplated herein in a neat and orderly manner, so as not to permit unsightly, unsanitary, or dangerous conditions to exist and further not to disturb or interfere with Lessor's operations or facilities on the Leased Premises.

15. SPECIAL OPERATING METHODS: Lessee shall:

- (a) Obtain Lessor's approval of all proposed production facilities including but not limited to access roads, well locations, pipelines and compressor facilities prior to beginning any work on site. Lessor shall promptly respond to any request for approval pursuant to this Paragraph 15 so as not to unduly delay Lessee's work program. Failure by Lessor to respond to a written request for approval from Lessee, within thirty (30) days from receipt of such request by Lessor, shall be deemed an approval by Lessor.
- (b) Provide to Lessor upon request all survey information which Lessee may now have or hereafter obtain to inform Lessor fully as to the exact location of any well drilled and copies of all logs, drill stem test

records, core analysis, pressure tests, or any other information obtained by Lessee in the course of drilling any well, and the location of all access roads, pipelines, compressor facilities and all other associated facilities erected or installed on the surface or subsurface of the Leased Premises; and

- (c) Provide to the Lessor a copy of any and all permits obtained by Lessee and issued by any Federal, State or local authority for any operations conducted by it on the Leased Premises and shall also provide to Lessor a copy of any and all releases issued by any Federal, State or local authority which relate to any operations on the Leased Premises or the termination of the same. Releases issued by Federal, State or Local authorities shall not release Lessee of its obligations to Lessor under this Lease; and
- (d) Promptly pay Lessor, if Lessor owns the surface, or to the actual owner of the surface if Lessor does not own the surface, for actual damage to the surface, timber, growing crops, fences, livestock, and other property of Lessor and its tenants, upon completion of each such separate activity, Lessee shall promptly pay Lessor or the surface owner for any and all damages suffered by them from Lessee's activities not theretofore paid for; and

- (e) Bury all pipelines and conduits to an acceptable depth or as required by federal, state or county regulations, whichever governs surface use facilities; and
- (f) Use all pipelines and conduits on the Leased Premises for Minerals production from the Leased Premises and/or commingled Minerals from adjacent properties (if deemed necessary, by the Lessee for the economic production of Minerals from the Leased Premises); and
- (g) Upon written request by Lessor, Lessee, at its sole expense, shall enclose with an adequate fence all equipment and excavations, and either immediately repair any fence cut by Lessee or immediately install cattle guards or steel gates upon cutting a fence; and
- (h) Not drill, without prior written consent of Lessor, any well within 200 feet of any pond or other source of water, or any building or improvement which is now or may hereafter be constructed or located on the Leased Premises; and
- (i) Not use, without prior written consent of Lessor, any surface water from the Leased Premises, including the discharge of produced fresh water into existing surface impoundments at NPDES permitted points, and shall, if consent is granted, conduct all required sampling and monitoring at Lessee's own expense; and
- (j) Maintain in good condition all wells, drilling facilities, roads, pipelines, equipment, storage areas, and other improvements and, unless

otherwise requested in writing by Lessor, upon Lease termination, or in the event of a dry hole, remove all such materials and equipment to Lessor's satisfaction and plug any abandoned well, in accordance with all applicable laws and regulations; and return the surface to the same condition as it was prior to development, and

- (k) Notify Lessor or other representatives designated by Lessor from time to time, at Lessor's address shown in paragraph 22 below, or such other address that may be designated in writing by Lessor from time to time, at least 24 hours prior to the commencement of plugging or cementing operations that Lessee intends to do so and again after plugging has been completed. Lessee shall furnish Lessor with copies of each plugging affidavit. The notice of intended plugging under this paragraph (k) may be by telephone or other verbal communication provided that written confirmation is delivered to the address shown in paragraph 22 below within two (2) days of such oral notice.

To the extent that the terms and conditions of this paragraph apply to the surface, the same shall be operative notwithstanding the fact that Lessor does not own the surface.

16. **ENVIRONMENTAL MATTERS:** During the Lease, Lessee shall not, and shall not allow any other party to, bring upon, store, dispose of, or install in or upon the Leased Premises (i) any hazardous wastes, hazardous substances, hazardous

materials, toxic substances, hazardous air pollutants or toxic pollutants, as those terms are used in the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Hazardous Materials Transportation Act, the Toxic Substances Control Act, the Clean Air Act and the Clean Water Act, or any amendments thereto, or any regulations promulgated thereunder; (ii) any "PCB's" or "PCB items" (as defined in 40 C.F.R. Section 761.3); or (iii) any "asbestos" (as defined in 40 C.F.R. Section 763.83). (The materials mentioned in items (i), (ii) and (iii) shall be collectively referred to as hazardous materials for purposes of the Lease.) Lessee shall indemnify, defend and hold Lessor and any affiliated companies harmless from and against any liability, cost, damage, penalty, fine or expense incurred or sustained by Lessor or any affiliated companies (including, without limitation, reasonable attorneys' fees and expenses, court costs and costs incurred in the investigation, settlement and defense of claims) of whatsoever kind or nature, known or unknown, contingent or otherwise, as a result of or in connection with any violation of the preceding prohibition. It is specifically understood and agreed to by Lessee that the indemnity contained in this paragraph shall survive the expiration or earlier termination of the Lease.

17. **INDEMNIFICATION:** Lessee shall indemnify, defend, and save harmless Lessor from and against any and all liability, loss, damages, costs, claims, suits for damages, attorneys' fees, or other expenses of any kind resulting directly or

indirectly from Lessee's rights and operations under this Lease, unless such actions or negligence by Lessor shall have caused same.

18. **INSURANCE:** Lessee shall maintain in full force and effect during the term of this Lease:

- (a) Workers Compensation Insurance in statutory amounts; and
- (b) General Liability Insurance, with limits of at least \$1,000,000 combined Bodily Injury and Property Damage or equivalent, including Contractual, Protective Liability, Products/Completed Operations, and X, C, U, D and E coverages; and
- (c) Automobile Liability Insurance covering all owned, non-owned and hired vehicles with limits of at least \$500,000 each person and \$1,000,000 each occurrence Bodily Injury, sickness or death and \$1,000,000 Property Damage, or their equivalents.

All policies of insurance shall be endorsed to provide for waivers of subrogation in favor of Lessor, and except for Workers Compensation shall name Lessor as additional insured. Lessee shall provide a Certificate of Insurance to Lessor prior to beginning operations on the Leased premises, and Lessee shall require its insurer to notify Lessor if any change occurs in its policy.

19. **TERMINATION AND RELEASE OF LEASE:** In addition to other termination provisions set forth in this Lease, Lessor may terminate this Lease, as provided below in this paragraph 19, upon the occurrence of any one or more of the following conditions:

- (a) If Lessee shall fail to pay, or cause to be paid, fully and promptly any amount due to Lessor under this Lease after the expiration of 10 days following the demand via certified mail for payment by Lessor; or
- (b) If Lessee shall fail to correct or utilize commercially reasonable efforts to correct any breach of any other provision of this Lease within 30 days of the date on which Lessor shall have notified Lessee, via Certified Mail, a notice of default under this Lease; or
- (c) If Lessee shall file a voluntary petition in bankruptcy, or for the appointment of a receiver or shall be adjudicated bankrupt or insolvent, or shall seek, consent to or acquiesce in the appointment of any trustee, receiver or liquidator for all or for any substantial part of its properties or fail to meet its obligations to creditors as they come due; or
- (d) A writ of execution of attachment shall be levied or a mechanics' or materialmen's lien shall be filed against the Leased Premises and Lessee shall not have acted to contest or dissolve the same prior to execution sale thereon or for a period of ten (10) days after Lessor shall have made written demand upon Lessee to institute proceedings for the contest or dissolution of the same or in the event of the foreclosure of any mortgage against Lessee.

After the termination of this Lease, Lessee shall have an additional 90 days during which Lessee shall re-enter the land and remove all of Lessee's equipment and

related property from the land, and thereafter, as and when required by law, Lessee shall perform reclamation and environmental work on and respecting the land.

20. **ASSIGNMENT; SUBLETTING:** Lessee shall not assign this Lease or any interest therein, or sublet the Leased Premises or any part thereof, or license the use of all or any portion of the Leased Premises or business conducted thereon or therein, or encumber or hypothecate this Lease, without the written consent of Lessor. Lessor acknowledges that Lessee, in connection with obtaining necessary capital to develop the Leased Premises for the purposes contemplated herein, may be required to assign or encumber, in whole or in part, the rights of Lessee set forth herein. Lessor shall consent to the foregoing if the terms thereof are commercially reasonable. Provided, however, the foregoing notwithstanding, Lessee shall have the right, without Lessor's consent, to assign this Lease or any interest therein, to a subsidiary or affiliate of Lessee. No such assignment shall relieve Lessee of its obligations pursuant to this Lease.

21. **FORCE MAJEURE:** Lessee's obligation to drill, develop and operate the Leased Premises, and to market Minerals shall be excused hereunder only if any such drilling, development, operating and marketing is interrupted, delayed or prevented by a force majeure event. The term "force majeure" as used herein shall mean any of the following causes beyond the control and without the fault or negligence of Lessee which could not have been foreseen or avoided through ordinary diligence, namely: acts of God, including earthquakes, epidemics, fires, flood, hurricanes, landslides, lightning, storms, washouts, freezing of wells or lines of pipe necessary for Lessee's operations described in this Lease, and other similar severe natural

calamities; acts of the public enemy, wars blockades, sabotage insurrections, riots, civil disturbances and arrests; strikes, lockouts, work stoppages or other industrial disturbances; explosions or other similar accidents, refusal or inability of any transporting pipeline to transport gas pursuant to a firm transportation agreement, breakage, or failure of pipelines or equipments, and withdrawal of pipelines or equipment from service for unscheduled maintenance; any government statute, rule, regulation or order concerning the production, purchase, sale or transportation of natural gas that prohibits Lessee from performing under this Lease; or any other occurrence or cause of a similar nature not reasonably within the control of Lessee.

If an event of force majeure renders Lessee unable to perform, in whole or in part, its obligations under this Lease, Lessee shall as soon as possible notify Lessor, and if such initial notice is oral, shall follow as soon as possible thereafter with written notice and full particulars of the occurrence. Lessee shall not be in violation of this Lease due to a suspension of performance attributable to an event of force majeure.

Lessee shall act in a commercially reasonable manner and with due diligence to recommence performance; provided, however, that the course of action to be taken in response to any work stoppage shall be left to the sole discretion of Lessee.

22. **ENTIRE AGREEMENT:** This Lease contains the entire agreement by and between Lessor and Lessee, and no oral agreement, promise, statement, or representation, which is not herein contained, shall be binding on Lessor or Lessee. No amendment or modification of this Lease shall become effective unless and until the same shall have been reduced to writing and signed and acknowledged by both parties.

23. **NOTICES:** Any notice or communication required by this Lease shall be in writing addressed to the address of each of the parties respective as follows:

**TO LESSOR:**

Blackhawk Coal Company  
700 Morrison Road \_\_\_\_\_  
Gahanna, OH 43230  
Attention: Director, Land Management  
Facsimile: 614 883 7299

**TO LESSEE:**

A.C.T. Operating Company  
201 W. Wall Street, Suite 806  
Midland, TX 79701  
Attention: Marshall Watson  
Facsimile:

At any time, either party may specify in writing a new address for notification hereunder.

24. **RECORDING:** Lessee shall only record a short form memorandum of this Lease with the recorder of deeds in the county(ies) in which the land is situated.
25. **TAX CREDIT:** Lessee shall not intentionally undertake or knowingly allow any transaction pertaining to this Lease which would create a disallowance in whole or in part of the tax credit which may be authorized under Section 29 and/or Section 45 of the Internal Revenue Code, or any present or similar future provisions of the Internal Revenue Code, for production of non-conventional fuel. Lessor shall be entitled to exclusive rights to all such tax credits as are authorized and allocated to Lessor under such laws as may be related to the production of Minerals.
26. **TAXES AND FARM TAP:** Lessee reserves the right to make any such payments to avoid possible forfeiture of this Lease, and any such payment shall be recovered

as a charge against royalties due Lessor, but Lessee shall not be construed as having a duty nor an obligation to tender such payment. Further, for and in consideration of \$1.00, the receipt of which is also hereby acknowledged, the Lessor agrees that Lessee may provide, at no expense to Lessor, a "farm tap" for use of free gas by the surface owner for domestic or household use only, and/or the attainment of easement right-of-ways if deemed necessary by Lessee, and/or for the operation for compressors or equipment necessary to produce gas from the land. Except as provided in paragraph 5 of this Lease, all ad valorem and/or production taxes, assessments or increases in any such charges on or resulting from Lessee's ownership of Minerals in the Leased Premises shall be borne by Lessee. Copies of all such tax bills will be provided to Lessor within thirty (30) days of the receipt of the same by Lessee. Lessee shall pay all taxes assessed on property and fixtures placed by Lessee on the Leased Premises.

27. **AVOIDANCE:** Nothing in this Lease is intended to breach or be in violation of state or federal statute. Any such provisions that are in contradiction or violation thereof, are duly voided and shall not cause failure to the remaining provisions of this Lease.
28. **WAIVER OF RIGHT OR CLAIM:** No waiver, forbearance or other failure to assert any right or claim by Lessor prior to the execution of this Lease shall restrict, diminish or otherwise affect in any way Lessor's rights under the Lease and previous conduct of the parties shall not constitute any future waiver or forbearance of the claim or right. No waiver of any right or claim shall hereafter be effective unless set forth in writing and signed by the party waiving such right or claim. This

Lease constitutes the entire agreement of the parties with regard to the Leased Premises as of the date of this Lease. All previous negotiations, correspondence and other documents between Lessor and Lessee pertaining to the Leased Premises shall have no effect from this date forward.

29. **SEVERALTY OWNERSHIP:** If the Leased Premises is hereafter subdivided and owned in severalty or in separate tracts, royalties accruing hereunder shall be divided among, and paid to, such separate owners in the proportion that the acreage owned by each such separate owner bears to the entire Leased Premises; provided that this paragraph shall not apply in the case of non-abutting tracts, pooled acreage, or if seller and buyer otherwise agree. Lessee shall not be required to install new transportation facilities or drill off-set wells. In the event Lessee would agree to install or rearrange measuring devices, any associated expense shall be reimbursed to Lessee. A land division shall not, in any event, have the effect of terminating this Lease as to any of the Leased Premises.
30. **COAL DEVELOPMENT:** This Lease is subject to the right of the Lessor, its affiliates, successors and assigns, to investigate, explore, prospect, drill, produce, mine and market coal seams, whether or not such seams produce coalbed gas, and is subject to the terms and provisions of any valid present or future coal leases. Nothing herein shall prevent Lessor, or a Lessee under a coal lease, from venting coal seam gas out of the coal mine, or taking other reasonable safety precautions; provided that in such event, Lessee shall be given sixty (60) days' written notice of such intention. Lessor shall keep Lessee reasonably apprised of intended coal development projects, and shall give Lessee at least six (6) months' written notice

of any need to take out of production and/or abandon and plug wells to enable mining through. In the event any action taken in the future by Lessor, its successors or assigns, pursuant to this Paragraph 30, causes any loss or damages to Lessee, its successors or assigns, Lessee shall be compensated as provided in Paragraph 31 below.

31. **LESSOR'S RIGHT TO CONSTRUCT FACILITIES:** This Lease is subject to the right of the Lessor to construct facilities on the surface of the Leased Premises. Lessor shall keep Lessee reasonably apprised of intended construction projects and shall give Lessee at least six (6) months' notice of any need to permanently take out of production and/or abandon and plug wells which may interfere with any of Lessor's construction projects or facilities. In the event that Lessor requires that Lessee permanently take out of production and/or abandon and plug a well or wells (hereinafter a "well", whether one or more than one), Lessor shall, at Lessor's election, either pay reasonable costs of drilling a replacement well, or compensate Lessee for the Fair Market Value of such well and associated equipment. As used herein, "Fair Market Value" shall mean the net present value of the anticipated net income to Lessee from the sale of the Minerals to be produced from the well during the remaining life of the well. In the event Lessor elects to compensate Lessee, Lessee shall notify Lessor of Lessee's determination of the Fair Market Value of the well and Lessor shall have thirty (30) days after receipt of Lessee's notice in which to accept such determination or request appointment of appraisers, as follows. If Lessor elects to appoint appraisers, the Fair Market Value of the well shall be determined by a board of three appraisers, each of whom (i) shall be

knowledgeable and experienced in determining such valuations, (ii) shall be knowledgeable and experienced in the development or evaluation of coalbed methane, oil & gas or other minerals at the time of the appointment, and (iii) shall be in all respects independent of the parties and impartial. Within ten (10) days after Lessee receives Lessor's notice requesting appointment of appraisers, each party shall name one appraiser and provide such name to the other party. These two appraisers shall jointly name a third appraiser similarly qualified within ten (10) days following the selection of the second of the two appraisers. Each party shall pay the fee of the appraiser appointed by such party. The parties shall share equally the fee of the third appraiser. The appraisers shall make such examinations and investigations as they may deem necessary. Within thirty (30) days of the appointment of the third appraiser, each of the three appraisers shall render a written opinion of the appropriate Fair Market Value. For a period of two (2) weeks following issuance of the last appraisal, the three appraisers shall attempt to agree upon the Fair Market Value. If the three (3) appraisers agree upon the Fair Market Value, such determination shall be binding upon Lessor and Lessee. If the three (3) appraisers cannot agree among themselves, the Fair Market Value shall be established by the appraisers by ranking the three (3) Fair Market Values, and eliminating either the high or low Fair Market Value (whichever is further from the middle value), with the binding Fair Market Value being the average of the remaining two (2) Fair Market Values.

32. **RIGHT OF FIRST REFUSAL:** Lessor hereby grants to Lessee a right of first refusal to lease all or part of the oil and gas (including coalbed methane gas) now owned

or controlled by Lessor, its subsidiaries, and/or affiliates, located in Township 13 South, Range 11East, or in Township 12 South, Range 10East, Carbon County, Utah (the "First Refusal Property"). If Lessor, its subsidiaries, and /or affiliates, receives a bona fide written offer from a non-affiliate third party ("Third Party Offer") to lease all or any part of the First Refusal Property, and if Lessor desires to accept such offer, it shall first notify and present the offer to Lessee ("First Refusal Notice"), which notice shall include the Basic Economic Terms (as hereinafter defined) of such Third Party Offer.

Lessee shall have a period of thirty (30) days ("Acceptance Period") following the effective date of the First Refusal Notice to give notice to Lessor that Lessee will lease such First Refusal Property on the same Basic Economic Terms as contained in the First Refusal Notice or on substantially similar terms, reasonably acceptable to Lessor ("Acceptance Notice"). If Lessee gives the Acceptance Notice, Lessee shall be deemed to have agreed to consummate the transaction within thirty (30) days of the effective date of the Acceptance Notice.

If Lessee either waives the right of first refusal or fails to give the Acceptance Notice to Lessor within the Acceptance Period, Lessor shall be free for a period of 180 days following the last day of the Acceptance Period to enter into a lease with any third party, including, without limitation, the third party who made the Third Party Offer, to lease all or any portion of the First Refusal Property on substantially the same Basic Economic Terms and any additional terms and conditions not inconsistent with the Basic Economic Terms as contained in the original Third Party Offer and without further notice to or consent from Lessee. For purposes of this

paragraph 32, "**Basic Economic Terms**" of any Third Party Offer shall mean the following terms:

- (a) the portion or portions of the First Refusal Property to be leased to the third party;
- (b) lease payments, royalties, exchange property, assumption of obligations, or other consideration or benefits and the terms of payment including timetable for payment and interest charges, if any;
- (c) security arrangements, if any, including without limitation, any third party guaranty to be given in favor of Lessor or the affiliate transferee to secure the payment of the consideration referred to in paragraph (b) above; and
- (d) any other material terms of the Third-Party Offer.

If only a part of the First Refusal Property is leased, this right of first refusal shall continue in effect for that part of the First Refusal Property not previously transferred.

For each transaction Lessee fails or elects not to exercise its right of first refusal in accordance with this paragraph 32, Lessee shall, upon Lessor's written request, prepare, execute and provide to Lessor a Waiver of Right of First Refusal as to the applicable First Refusal Property included in Lessor's First Refusal Notice.

***IN WITNESS WHEREOF***, the parties have caused this instrument to be duly executed as of the day and year first written above.

**LESSORS**

BLACKHAWK COAL COMPANY

By: Gerald M. Dimmerling

Name: Gerald M. Dimmerling

Title: President, Blackhawk Coal Company

**LESSEE**

A.C.T. Operating Company

By: Donald W. Raymond

Name: DONALD W. RAYMOND

Title: *President*

ACKNOWLEDGMENT

STATE OF Louisiana, <sup>Parish</sup> COUNTY OF Desoto, SS:

I, the undersigned Notary Public, in and for said County and State, personally appeared Gary M. Dimmerling as President of Blackhawk Coal Company, and acknowledged the execution of the above and foregoing instrument on behalf of and by authority of **BLACKHAWK COAL COMPANY**.

Given under my hand and notarial seal this 15<sup>th</sup> day of June, 2004.

Name)

Cynthia Freeman  
Cynthia Freeman (Printed

Notary Public  
Residing in Desoto Parish ~~Co.~~ Louisiana

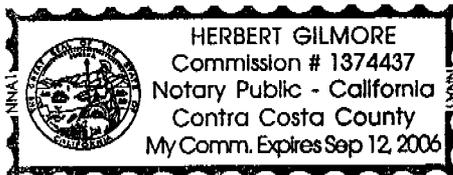
My commission expires: at Death

STATE OF California, COUNTY OF Contra Costa, SS:

I, the undersigned Notary Public, in and for said County and State, personally appeared Donald W. Raymond as President, and acknowledged the execution of the above foregoing instrument on behalf of and by authority of **A.C.T. OPERATING COMPANY**.

Given under my hand and notarial seal this 3<sup>rd</sup> day of June, 2004.

Name)



Herbert Gil  
Herbert Gilmore (Printed

Notary Public  
Residing in Pleasant Hill <sup>HE</sup> ~~Co.~~ CA ~~Co.~~

My commission expires: Sept 12, 2006

**EXHIBIT "A"**

Listing of lands owned by Blackhawk Coal Company as related to the Mineral  
Exploration & Development Agreement

Dated JUNE 15, 2004

Between

**Blackhawk Coal Company**

&

**Ute Oil Company (A.C.T. Operating Company)**

All Lands are in Carbon County, Utah.

Township 13 South, Range 10East 100% Surface, 100% Coal, 100% Oil & Gas

	<u>Comments</u>	<u>Acres</u>
Section 2	All	640
Section 4	S/2SW, SWSE	120
Section 8	S/2S/2	160
Section 9	All less SWNW	600
Section 10	SE, E/2SW	240
Section 11	SW	160
Section 16	NW, SW, SE, SENE	520
Section 17	NE, N/2NW	240
Section 18	N/2NE	80

Total Acres of 100% Surface, 100% Coal, 100% Oil & Gas **2,760**

Township 13 South, Range 10East 100% Surface, 100% Coal, 50% Oil & Gas

	<u>Comments</u>	<u>Acres</u>
Section 5	N/2N/2	160
Section 6	N/2NE, NW, S/2SE	320
		480 * 50%

Net Oil & Gas Acres @ 50% **240**

Township 13 South, Range 10East 100% Surface Only-No Minerals

	<u>Comments</u>	<u>Acres</u>
Section 14	NWNW	40
Section 15	E/2NE, SE	240
Section 20	SESE	40
Section 22	N/2NE	80
Section 28	NWNW	40
Section 29	NENE	40

Total Acres of 100% Surface Only-No Minerals **480**

**EXHIBIT "B"**

**IRREVOCABLE STANDBY LETTER OF CREDIT FORMAT**  
**DATE OF ISSUANCE: \_\_\_\_\_**

[Address]

RE: Credit No. \_\_\_\_\_

We hereby establish our Irrevocable Standby Letter of Credit in your favor for the account of \_\_\_\_\_ (the "Account Party"), for the aggregate amount not exceeding \_\_\_\_\_ United States Dollars (\$ \_\_\_\_\_), available to you for payment at sight upon demand at our counters at (Location) on or before the expiration hereof against presentation to us of the following document, dated and signed by a representative of the beneficiary:

"The Account Party has not performed in accordance with an agreement with us. Wherefore, the undersigned does hereby demand payment of USD [Beneficiary fills in the amount not to exceed the full value of the letter of credit]"

Partial and multiple drawings are permitted hereunder.

We hereby agree with you that documents drawn under and in compliance with the terms of this Letter of Credit shall be duly honored upon presentation as specified.

This Letter of Credit shall be governed by the Uniform Customs and Practice for Documentary Credits, 1993 Revision, International Chamber of Commerce Publication No. 500 (the "UCP"), except to the extent that the terms hereof are inconsistent with the provisions of the UCP, including but not limited to Articles 13(b) and 17 of the UCP, in which case the terms of this Letter of Credit shall govern.

In the event of an Act of God, riot, civil commotion, insurrection, war or any other cause beyond our control that interrupts our business (collectively, an "Interruption Event") and causes the place for presentation of this Letter of Credit to be closed for business on the last day for presentation, the expiry date of this Letter of Credit will be automatically extended without amendment to a date thirty (30) calendar days after the place for presentation reopens for business.

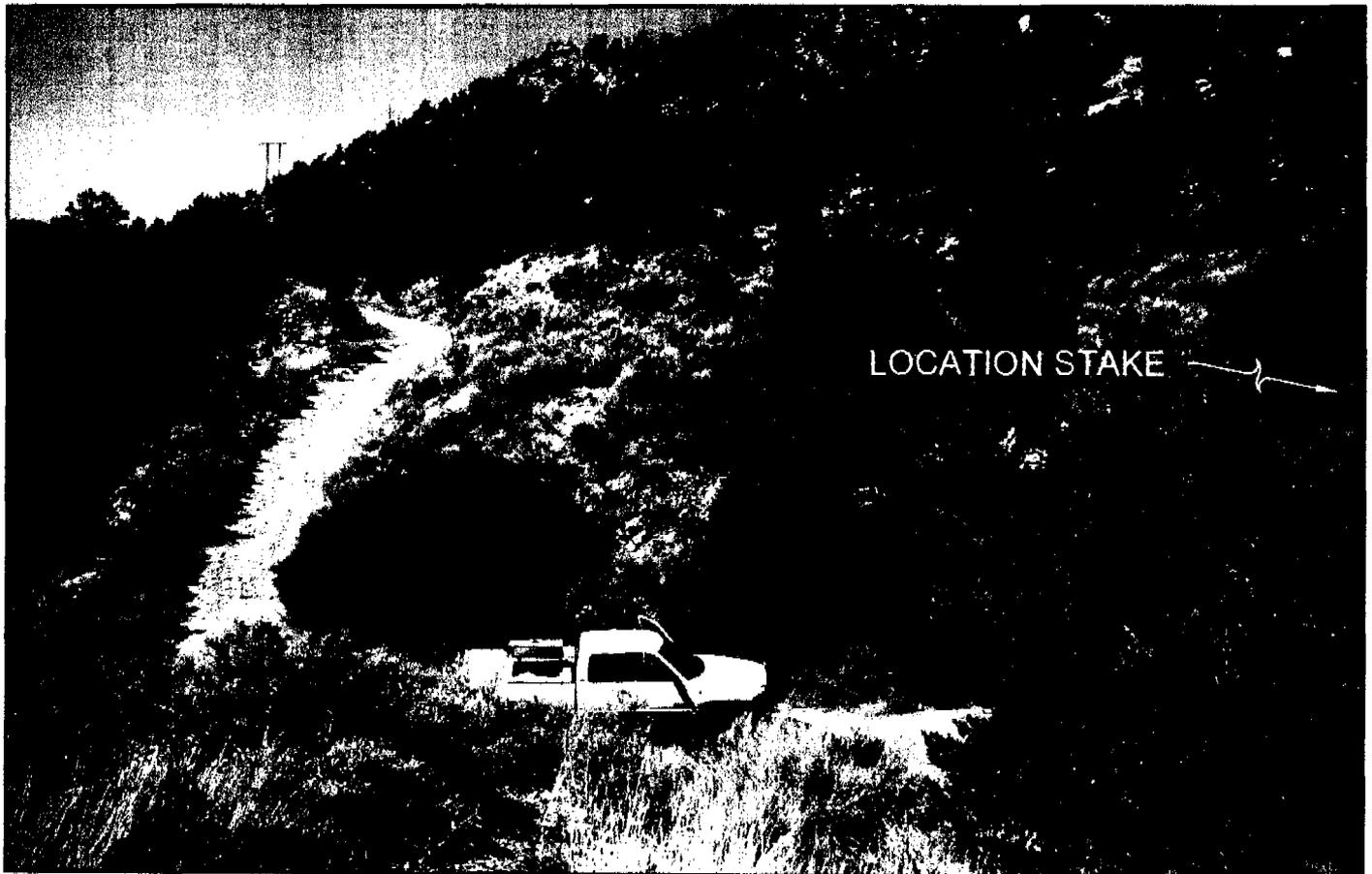
All commissions, expenses and charges incurred with this Letter of Credit are for the account of the Account Party.

{Note: Must note the Expiry Date in the format}

[BANK SIGNATURE]



CAMERA ANGLE: WESTERLY



CAMERA ANGLE: SOUTHERLY

**WARE SURVEYING & ENGINEERING, L.L.C.**

Phone: 435-637-2620  
Email: [waresurveying@emerytelcom.net](mailto:waresurveying@emerytelcom.net)

2223 North 1200 West  
Helper, Utah 84526

**UTE OIL COMPANY**  
KENILWORTH RAILROAD WELL #2  
KENILWORTH, CARBON COUNTY, UTAH  
SECTION 16, T. 13 S., R. 10 E., S.L.B. & M.

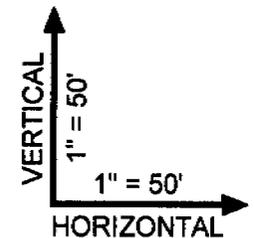
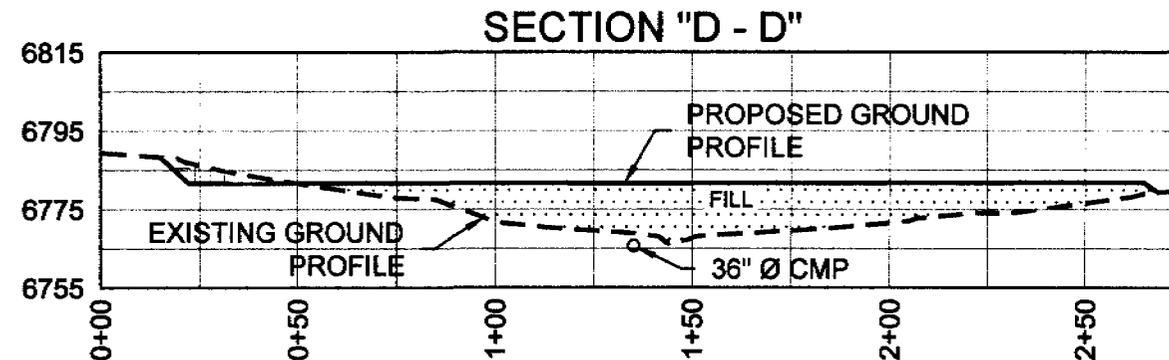
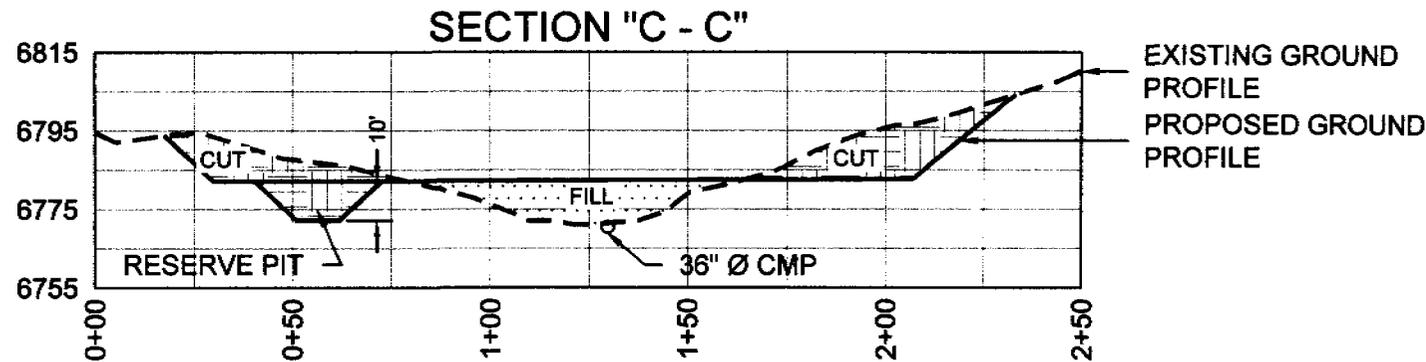
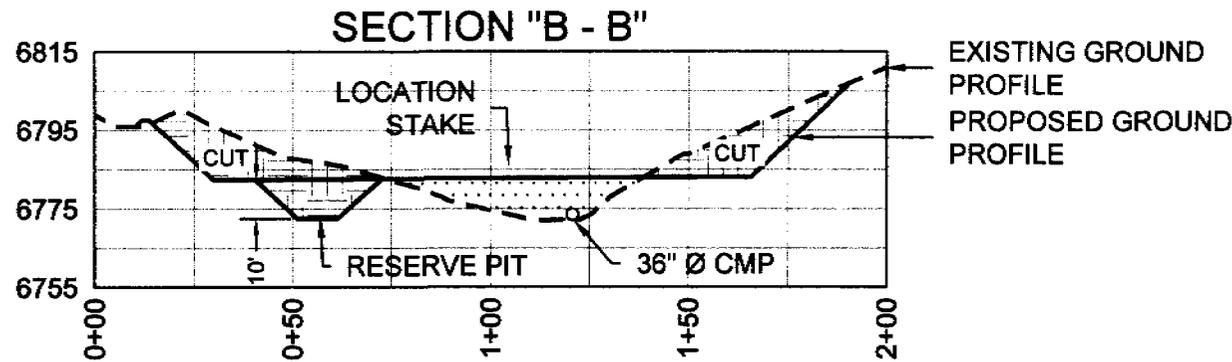
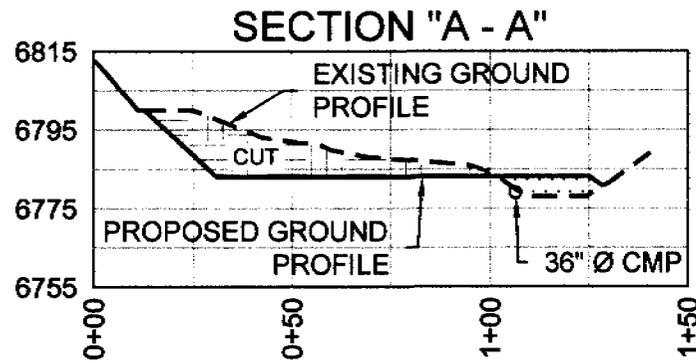
DATE: 12-15-04  
PHOTO



UTE OIL COMPANY  
KENILWORTH RAILROAD #2

NOTES

- APPROXIMATE EARTHWORK VOLUMES  
6" TOPSOIL STRIPPING = 750 CU. YDS.  
PIT CUT = 530 CU. YDS.  
TOTAL CUT = 6,600 CU. YDS.  
TOTAL FILL = 6,000 CU. YDS.
- FILL SLOPES ARE 1 1/2 : 1
- CUT SLOPES ARE 1 : 1
- PIT CUT SLOPES ARE 1 : 1
- PIT CAPACITY WITH 2' OF FREEBOARD IS 1,770 Bbbs.
- CULVERT IS 36"Ø CMP W/ 6% SLOPE
- RIP RAP AT INLET/OUTLET
- INSTALL DEBRIS GUARD AT INLET



**WARE SURVEYING & ENGINEERING, L.L.C.**

Phone: 435-837-2620 2223 North 1200 West  
Email: waresurveying@emerytelcom.net Helper, Utah 84526

SURVEY FOR:  
**UTE OIL COMPANY**

**KENILWORTH RAILROAD WELL #2**  
KENILWORTH, CARBON COUNTY, UTAH  
N.E. 1/4, SECTION 16, T. 13 S., R. 10 E., S.L.B. & M.

DRAWN BY: MCW SCALE: 1" = 50'

CHECKED BY: BTSW JOB NO.: UTE-2004-03

DATE: 12-17-04

REVISIONS: 0 CROSS SECTIONS

**PROPOSED LOCATION  
KENILWORTH RAILROAD WELL #2**

16

15

KENILWORTH

GRAPHIC SCALE

1" = 1000' FT

**WARE SURVEYING & ENGINEERING, L.L.C.**

Phone: 435-637-2620

222-3 North 1200 West

Email: waresurveying@emerytelcom.net

Helper, Utah 84526

SURVEY FOR:

**UTE OIL COMPANY**

**KENILWORTH RAILROAD WELL #2  
KENILWORTH, CARBON COUNTY, UTAH  
SECTION 16, T. 13 S., R. 10 E., S.L.B. & M.**

DRAWN BY: MCW

SCALE: 1" = 1000'

CHECKED BY: BTSW

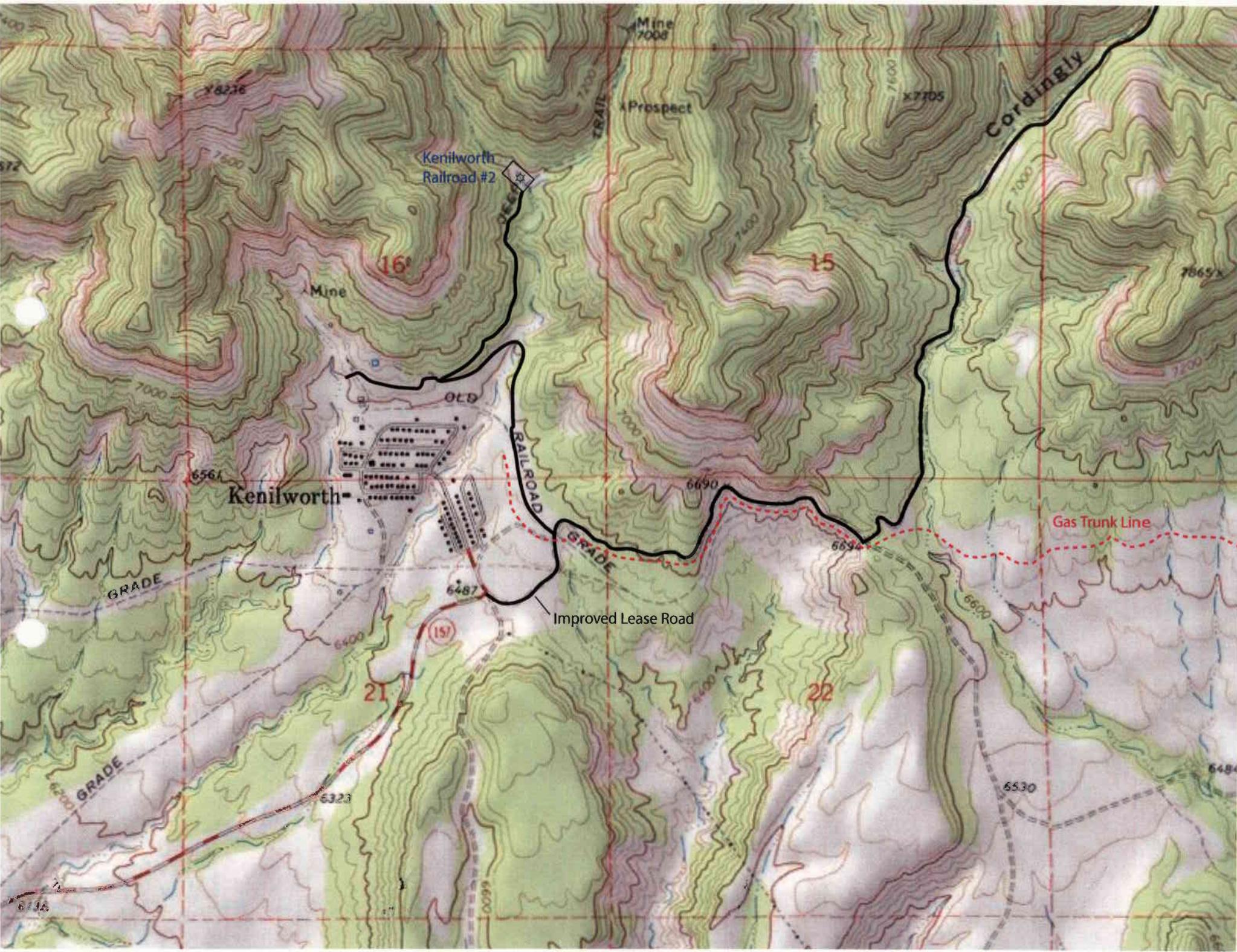
JOB NO.: UTE-2004-03

DATE: 12-15-04

REVISIONS: 0

**AERIAL**





Kenilworth  
Railroad #2

Kenilworth

Improved Lease Road

Gas Trunk Line

Cordingly

16

15

21

22

Mine  
7000

Prospect

6561

6690

6694

6487

6323

6530

6484

GRADE

RAILROAD  
GRADE

GRADE

TRAIL

OLD

6434

6099

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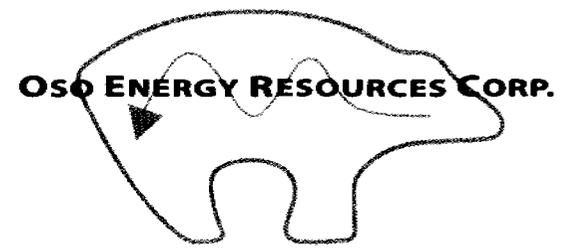
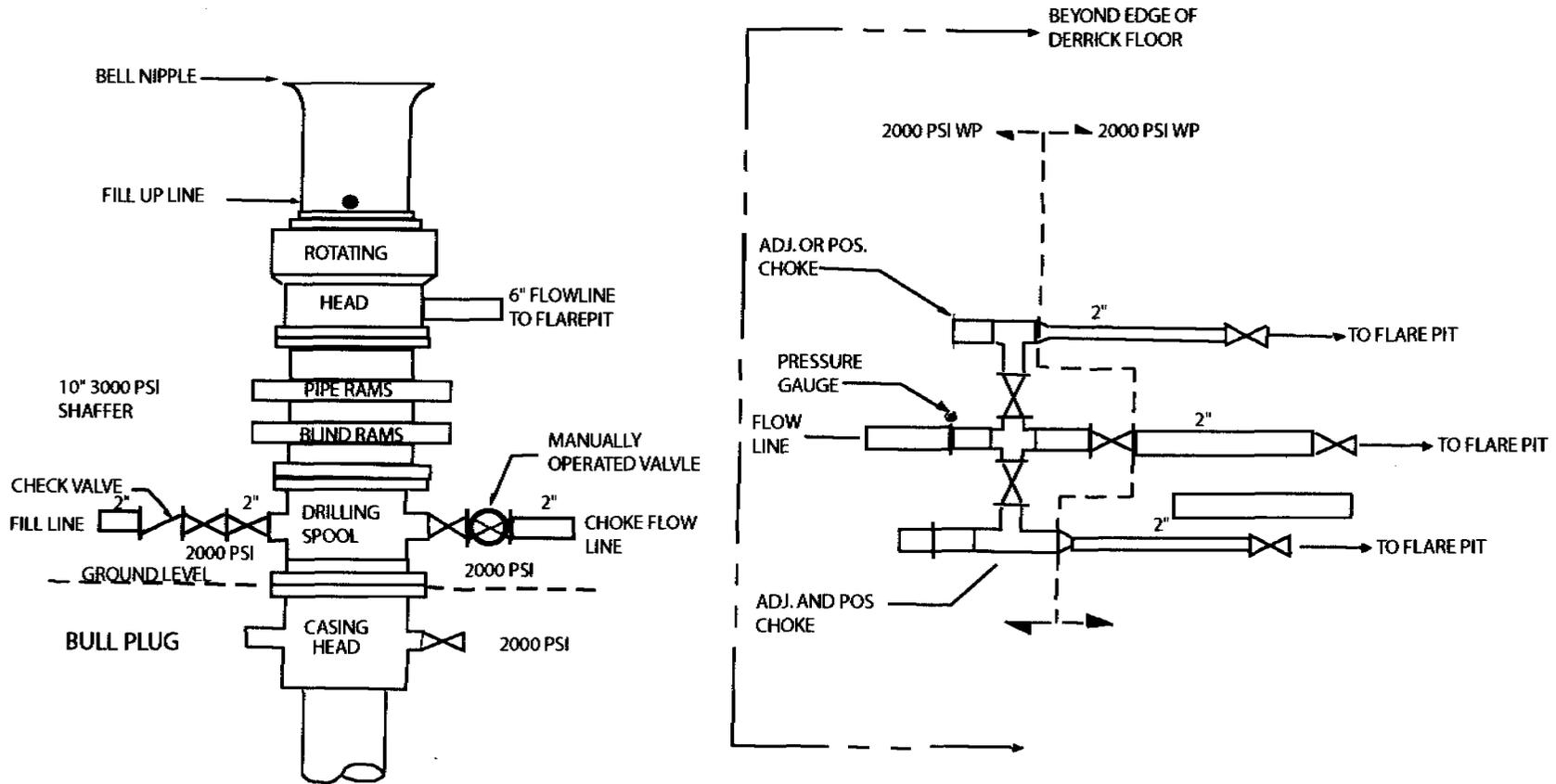
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BOP EQUIPMENT AND CHOKE MANIFOLD  
 2000 PSI WORKING PRESSURE  
 Kenilworth Railroad Well #2





OLENE S. WALKER  
Governor  
GAYLE F. McKEACHNIE  
Lieutenant Governor

State of Utah  
DEPARTMENT OF NATURAL RESOURCES  
Division of Water Rights

ROBERT L. MORGAN      JERRY D. OLDS  
Executive Director      State Engineer/Division Director

January 13, 2005

Ware Surveying & Engineering  
Attn: Cody Ware  
2223 North 1200 West  
Helper, Utah 84526

Re: Ute Oil Company  
Kenilworth Railroad #2 Well  
NE¼ Section 16, T13S, R10E, SLB&M

Dear Cody:

After having reviewed the drawings you dropped by my office of the location development, and the cross sections of the wash, and having visited the site with you earlier, it is the opinion of this Division that a Joint Permit Application will not be required for the proposed work at this site.

Obviously there are other permits that need to be obtained, which you should pursue. However, regardless of those permits, it is appropriate that the best engineering and management practices should be utilized with this project to minimize any adverse affects on the environment.

If you have any questions or further concerns in regard to this matter, please feel free to contact me.

Sincerely,

Mark P. Page  
Regional Engineer

MPP/mjk



February 1, 2005

Utah Division of Oil, Gas and Mining  
1594 West North Temple, Suite 1210  
Salt Lake City, UT 84114-5801

Attn: Diana Whitney

Dear Diana,

Please find the enclosed drawings and photos as supplements to our APD for the Kenilworth Railroad Well #2. Mark Page has approved the drawings and we just need to get them included with the rest of our application.

Please let me know if you need additional information

Best regards,

A handwritten signature in cursive script that reads "Mary Tesitor".

Mary Tesitor  
Engineering Technician  
Oso Energy Resources Corp.  
Agent for A.C.T. Operating

RECEIVED

FEB 02 2005

DIV. OF OIL, GAS & MINING

WORKSHEET  
APPLICATION FOR PERMIT TO DRILL

APD RECEIVED: 02/02/2005

API NO. ASSIGNED: 43-007-31007

WELL NAME: KENILWORTH RR #2  
OPERATOR: UTE OIL COMPANY ( N2675 )  
CONTACT: MARY TESITOR

PHONE NUMBER: 432-683-4640

PROPOSED LOCATION:

SENE 16 130S 100E  
SURFACE: 3610 FSL 1081 FEL  
BOTTOM: 3610 FSL 1081 FEL  
CARBON  
HELPER ( 18 )

INSPECT LOCATN BY: / /		
Tech Review	Initials	Date
Engineering	DUD	3/4/05
Geology		
Surface		

LEASE TYPE: 4 - Fee  
LEASE NUMBER: FEE  
SURFACE OWNER: 4 - Fee  
PROPOSED FORMATION: PRSD  
COALBED METHANE WELL? YES

LATITUDE: 39.69811  
LONGITUDE: -110.8007

RECEIVED AND/OR REVIEWED:

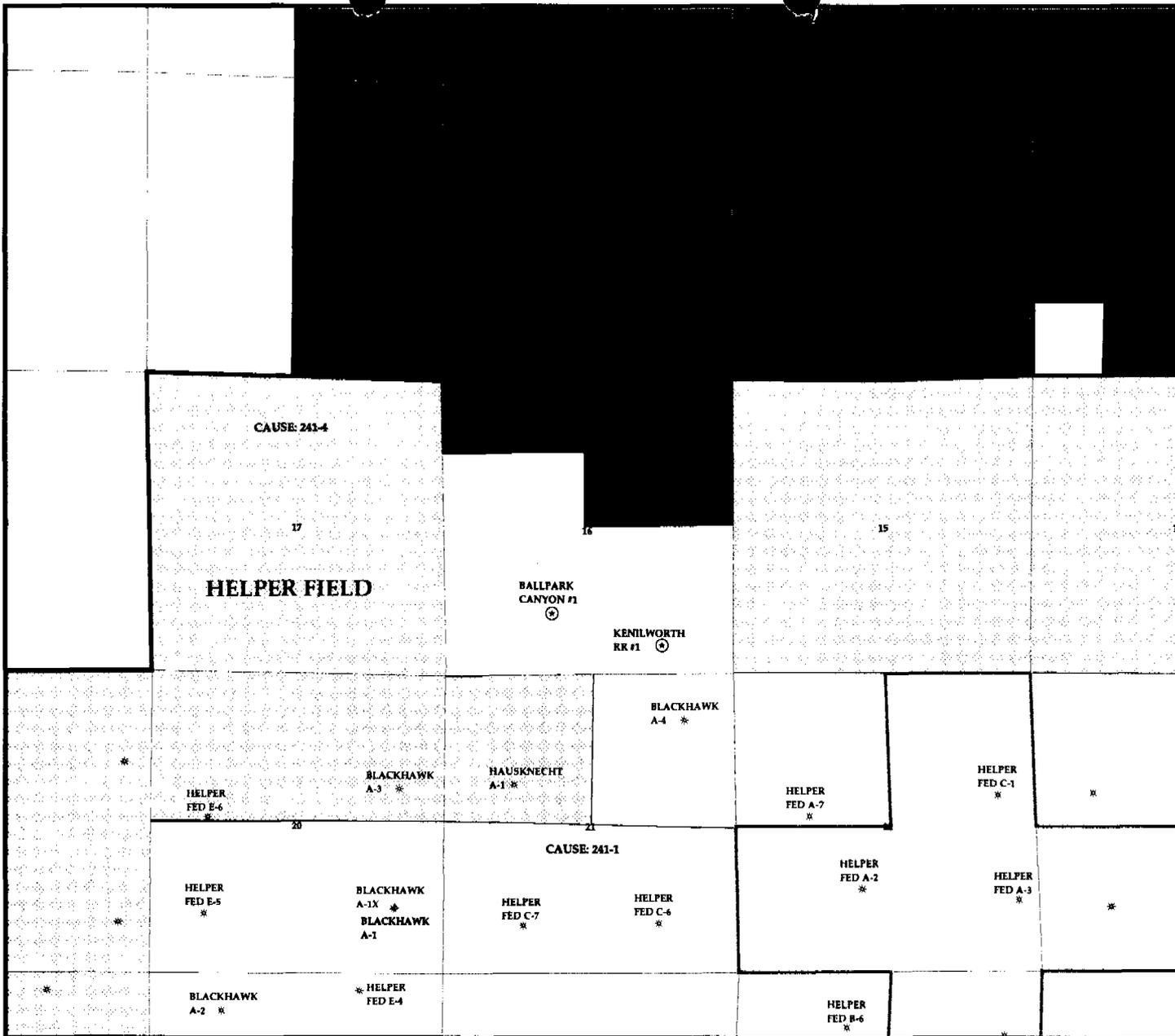
- Plat
- Bond: Fed[] Ind[] Sta[] Fee[]  
(No. 1153 )
- Potash (Y/N)
- Oil Shale 190-5 (B) or 190-3 or 190-13
- Water Permit  
(No. PRRV )
- RDCC Review (Y/N)  
(Date: \_\_\_\_\_ )
- Fee Surf Agreement (Y/N)

LOCATION AND SITING:

- \_\_\_ R649-2-3.  
Unit \_\_\_\_\_
- \_\_\_ R649-3-2. General  
Siting: 460 From Qtr/Qtr & 920' Between Wells
- R649-3-3. Exception
- \_\_\_ Drilling Unit  
Board Cause No: \_\_\_\_\_  
Eff Date: \_\_\_\_\_  
Siting: \_\_\_\_\_
- \_\_\_ R649-3-11. Directional Drill

COMMENTS: Needs Permit (2-18-05)

STIPULATIONS: 1-Spacing Strip



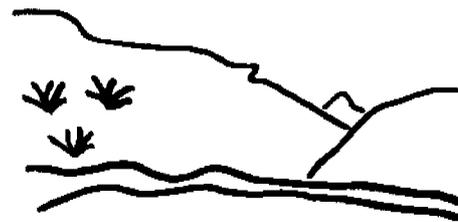
OPERATOR- UTE OIL COMPANY (N2675)

SEC. 16 T.13S R.10E

FIELD: HELPER (18)

COUNTY: CARBON

SPACING: R649-3-3 / EXCEPTION LOCATION



Utah Oil Gas and Mining

**Wells**

- ∩ GAS INJECTION
- ⊕ GAS STORAGE
- × LOCATION ABANDONED
- ⊙ NEW LOCATION
- ⊖ PLUGGED & ABANDONED
- \* PRODUCING GAS
- PRODUCING OIL
- ⊛ SHUT-IN GAS
- ⊛ SHUT-IN OIL
- × TEMP. ABANDONED
- TEST WELL
- △ WATER INJECTION
- ⬥ WATER SUPPLY
- ∩ WATER DISPOSAL

**Units.shp**

- EXPLORATORY
- GAS STORAGE
- NF PP OIL
- NF SECONDARY
- PENDING
- PI OIL
- PP GAS
- PP GEOTHERML
- PP OIL
- SECONDARY
- TERMINATED

**Fields.shp**

- ABANDONED
- ACTIVE
- COMBINED
- INACTIVE
- PROPOSED
- STORAGE
- TERMINATED



PREPARED BY: DIANA WHITNEY  
DATE: 1-MARCH-2005



OLENE S. WALKER  
*Governor*  
GAYLE F. McKEACHNIE  
*Lieutenant Governor*

State of Utah  
DEPARTMENT OF NATURAL RESOURCES  
Division of Water Rights

ROBERT L. MORGAN      JERRY D. OLDS  
*Executive Director*      *State Engineer/Division Director*

January 13, 2005

Ware Surveying & Engineering  
Attn: Cody Ware  
2223 North 1200 West  
Helper, Utah 84526

Re: Ute Oil Company  
Kenilworth Railroad #2 Well  
NE $\frac{1}{4}$  Section 16, T13S, R10E, SLB&M

Dear Cody:

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Sincerely,

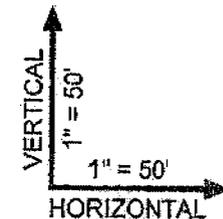
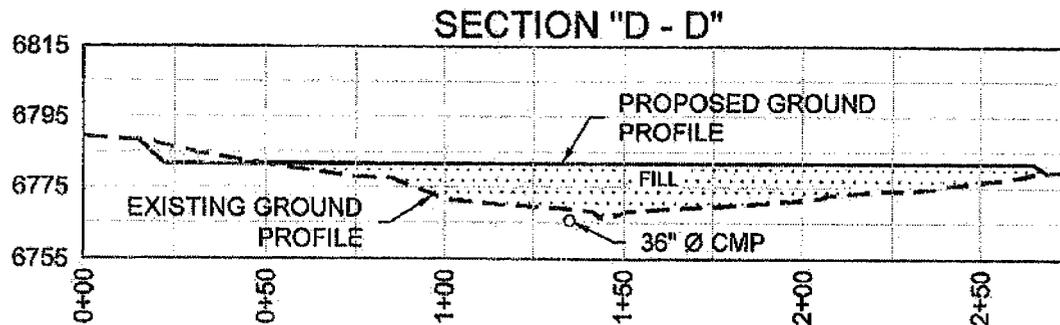
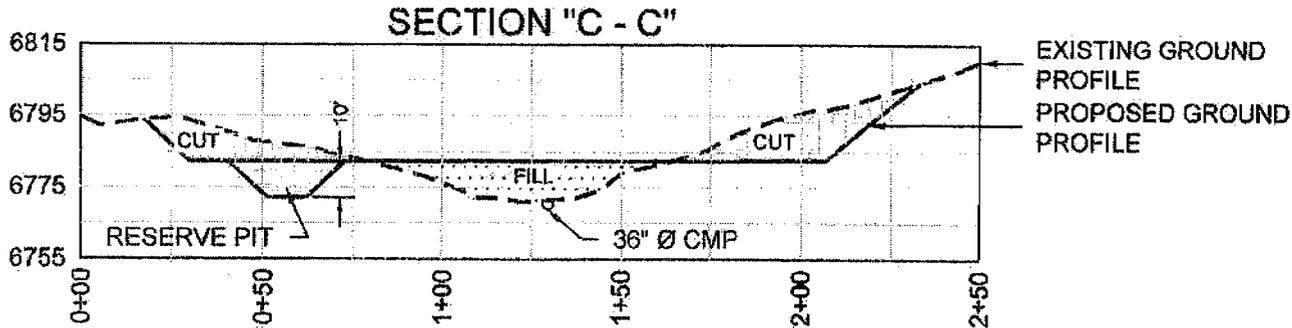
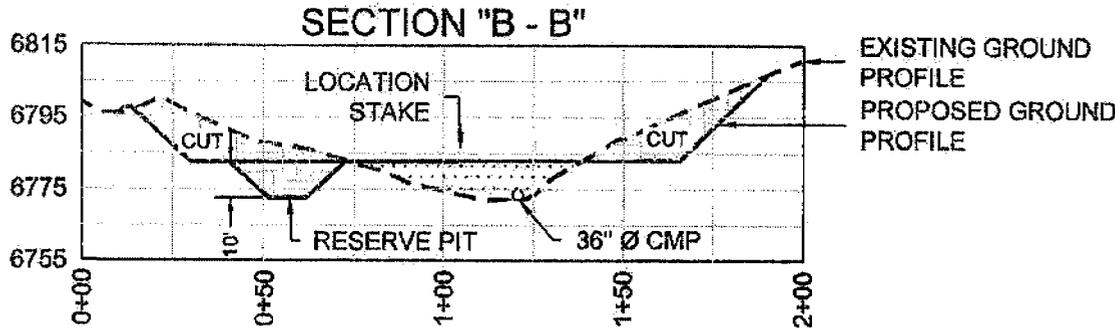
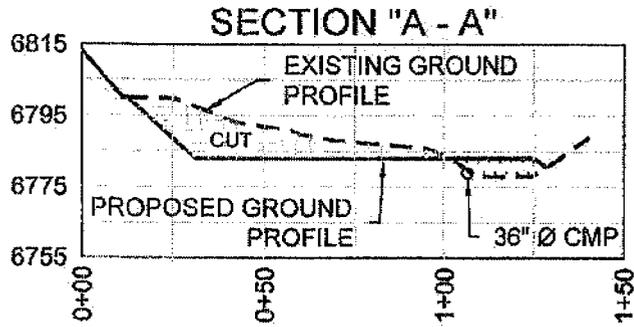
Mark P. Page  
Regional Engineer

MPP/mjk

**UTE OIL COMPANY  
KENILWORTH RAILROAD #2**

**NOTES**

- APPROXIMATE EARTHWORK VOLUMES  
6" TOPSOIL STRIPPING = 750 CU. YDS.  
PIT CUT = 530 CU. YDS.  
TOTAL CUT = 8,600 CU. YDS.  
TOTAL FILL = 6,000 CU. YDS.
- FILL SLOPES ARE 1½ : 1
- CUT SLOPES ARE 1 : 1
- PIT CUT SLOPES ARE 1 : 1
- PIT CAPACITY WITH 2' OF FREEBOARD IS 1,770 Bbls.
- CULVERT IS 36" Ø CMP W/ 6% SLOPE
- RIP RAP AT INLET/OUTLET
- INSTALL DEBRIS GUARD AT INLET



**WARE SURVEYING & ENGINEERING, L.L.C.**

Phone: 435-637-2820 2223 North 1200 West  
Email: waresurveying@emerytel.com.net Helper, Utah 84526

SURVEY FOR:  
**UTE OIL COMPANY**

**KENILWORTH RAILROAD WELL #2**  
KENILWORTH, CARBON COUNTY, UTAH  
N.E. 1/4, SECTION 16, T. 13 S., R. 10 E., S.L.B. & M.

DRAWN BY: MCW	SCALE: 1" = 50'
CHECKED BY: BSW	JOB NO.: UTE-2004-03
DATE: 12-17-04	
REVISIONS: 0	CROSS SECTIONS

**ON-SITE PREDRILL EVALUATION**  
**Division of Oil, Gas and Mining**

OPERATOR: Ute Oil Company  
WELL NAME & NUMBER: Kenilworth RR #2  
API NUMBER: 43-007-31007  
LEASE: Fee FIELD/UNIT:  
LOCATION: 1/4, 1/4 SENE Sec: 16 TWP: 13S RNG: 10E 1081 FEL 3610 FSL  
LEGAL WELL SITING: 460 F SEC. LINE; 460 F 1/4, 1/4 LINE; 920 F ANOTHER WELL.  
GPS COORD (UTM): X= 517088 E; Y= 4394085 N SURFACE OWNER: American Electric Power.

**PARTICIPANTS**

M. Jones (DOGM), Gary Trotter (Oso Energy), Cody Ware (WS&E), Gayla Williams and Rex Sacco (Carbon County), Tonya Hammond (AEP).

**REGIONAL/LOCAL SETTING & TOPOGRAPHY**

Proposed location is ~.6 miles northeast of Kenilworth, Carbon County, Utah. The immediate area surrounding the proposed well is mining activities, and wildlife habitat. Location is staked on property owned by American Electric Power. Access to this well will be along existing County maintained roads and upgraded two-track roads. Approximately 3,500 feet of two-track road will be upgraded for this location. The direct area drains to the south into dry wash drainages, eventually making its way into the Price River, a year-round live water source, ~3.5 miles southwest. Dry washes are common throughout the area.

**SURFACE USE PLAN**

CURRENT SURFACE USE: Mining, grazing, and wildlife habitat.

PROPOSED SURFACE DISTURBANCE: 200' x 175' w/ 30' x 80' x 10' included pit. The plan involves routing the existing drainage through a 36" cmt culvert under the well pad.

LOCATION OF EXISTING WELLS WITHIN A 1 MILE RADIUS: 3 producing, proposed, shut-in, injection, and/or PA wells are within a 1 mile radius of the above proposed well.

LOCATION OF PRODUCTION FACILITIES AND PIPELINES: On location and along roadway.

SOURCE OF CONSTRUCTION MATERIAL: Obtained locally and trucked to site.

ANCILLARY FACILITIES: None anticipated.

WILL DRILLING AT THIS LOCATION GENERATE PUBLIC INTEREST OR CONCERNS? (EXPLAIN): Kenilworth citizens have expressed their desire to not see oil and gas development near the townsite.

**WASTE MANAGEMENT PLAN:**

Garbage - All garbage will be removed from site and disposed at the appropriate disposal facility.

Reserve pit contents - ECDC Environmental of Carbon County. Will haul and test as necessary all contents of reserve pit.

Produced Water - Will be hauled from site and disposed of in the appropriate disposal facility, unless agreements with other operators can be made to dispose produced water in existing disposal well.

Sanitation Facilities - Will be supplied and cleaned as necessary during drilling operations.

**ENVIRONMENTAL PARAMETERS**

AFFECTED FLOODPLAINS AND/OR WETLANDS: Dry washes are prominent throughout the immediate area of the proposed well location.

FLORA/FAUNA: Sagebrush, pinion, deer, rodents, fowl.

SOIL TYPE AND CHARACTERISTICS: Rocky clay.

SURFACE FORMATION & CHARACTERISTICS: Mancos Shale

EROSION/SEDIMENTATION/STABILITY: Erosive upon disturbance.

PALEONTOLOGICAL POTENTIAL: None observed.

**RESERVE PIT**

CHARACTERISTICS: Dugout earthen, 30'x80'x10', included w/in location.

LINER REQUIREMENTS (Site Ranking Form attached): Liner required.

**SURFACE RESTORATION/RECLAMATION PLAN**

As per surface use agreement.

SURFACE AGREEMENT: Signed.

CULTURAL RESOURCES/ARCHAEOLOGY: None requested by landowner.

**OTHER OBSERVATIONS/COMMENTS**

Site was looked at last fall by the individuals that attended this on-site. I suggested that this site be reviewed by the Division of Water Rights in regards to any stream alteration permits that might be necessary, as the plans are to divert the drainage under the well pad. Mark Page w/ the Division of Water Rights has since reviewed the plans and the drainage and has determined that a stream alteration permit is not required for this drainage. Mr. Page has sent a letter stating such to Oso Energy as well as myself which I have submitted to DOGM SLC office with this report.

**ATTACHMENTS**

Photos of this location were taken and placed on file.

Mark L. Jones  
DOGM REPRESENTATIVE

February 18, 2005 / 9:15 am  
DATE/TIME

**Evaluation Ranking Criteria and Ranking Score  
For Reserve and Onsite Pit Liner Requirements**

<u>Site-Specific Factors</u>	<u>Ranking</u>	<u>Site Ranking</u>
Distance to Groundwater (feet)		
>200	0	
100 to 200	5	
75 to 100	10	
25 to 75	15	
<25 or recharge area	20	<u>0</u>
Distance to Surf. Water (feet)		
>1000	0	
300 to 1000	2	
200 to 300	10	
100 to 200	15	
< 100	20	<u>0</u>
Distance to Nearest Municipal Well (feet)		
>5280	0	
1320 to 5280	5	
500 to 1320	10	
<500	20	<u>0</u>
Distance to Other Wells (feet)		
>1320	0	
300 to 1320	10	
<300	20	<u>0</u>
Native Soil Type		
Low permeability	0	
Mod. permeability	10	
High permeability	20	<u>20</u>
Fluid Type		
Air/mist	0	
Fresh Water	5	
TDS >5000 and <10000	10	
TDS >10000 or Oil Base Mud Fluid	15	
containing significant levels of hazardous constituents	20	<u>10</u>
Drill Cuttings		
Normal Rock	0	
Salt or detrimental	10	<u>0</u>
Annual Precipitation (inches)		
<10	0	
10 to 20	5	
>20	10	<u>5</u>
Affected Populations		
<10	0	
10 to 30	6	
30 to 50	8	
>50	10	<u>10</u>
Presence of Nearby Utility Conduits		
Not Present	0	
Unknown	10	
Present	15	<u>0</u>

**Final Score**            35            (Level I Sensitivity)

Sensitivity Level I = 20 or more; total containment is required, consider criteria for excluding pit use.

Sensitivity Level II = 15-19; lining is discretionary.

Sensitivity Level III = below 15; no specific lining is required.

**DIVISION OF OIL, GAS AND MINING  
APPLICATION FOR PERMIT TO DRILL  
STATEMENT OF BASIS**

**OPERATOR:** Ute Oil Company  
**WELL NAME & NUMBER:** Kenilworth Railroad #2  
**API NUMBER:** 43-007-31007  
**LOCATION:** 1/4,1/4 SENE Sec:16 TWP: 13 S RNG: 10 E 1081 FEL 1025 FSL

**Geology/Ground Water:**

Significant volumes of high quality ground water are unlikely to be encountered at this location. A poorly to moderately permeable soil is likely to be developed on the fringe of Quaternary / Tertiary Pediment Mantle that may be covering the Blue Gate Member of the Mancos Shale at this location, but it is unlikely to be charged with any significant volume of groundwater. The proposed casing and cementing program should adequately isolate any zones of fresh water that may be penetrated. No water rights have been filed within a mile of the location.

**Reviewer:** Christopher J. Kierst

**Date:** 2/25/2005

**Surface:**

Proposed location is ~.6 miles northeast of Kenilworth, Carbon County, Utah. The immediate area surrounding the proposed well is mining activities, and wildlife habitat. Location is staked on property owned by American Electric Power. Access to this well will be along existing County maintained roads and upgraded two-track roads. Approximately 3,500 feet of two-track road will be upgraded for this location. The direct area drains to the south into dry wash drainages, eventually making its way into the Price River, a year-round live water source, ~3.5 miles southwest. Dry washes are common throughout the area. The submitted plan involves routing the existing drainage under the well pad through a 36" culvert. The Division of Water Rights Regional Engineer, Mark Page, has been made aware of the plans and has given the operator clearance to proceed without a stream alteration permit. Other issues talked about were; location layout, lining the reserve pit, access and right-of-ways, as well as concerns and potential concerns of nearby residents. M. Jones (DOGM), Gary Trotter (Oso Energy), Cody Ware (WS&E), Gayla Williams and Rex Sacco (Carbon County), Tonya Hammond (AEP) were all in attendance for this on-site. Carbon County was interested in addressing any concerns of the townsfolk as well road traffic and watershed.

**Reviewer:** Mark L. Jones

**Date:** February 18, 2005

**Conditions of Approval/Application for Permit to Drill:**

1. A synthetic liner with a minimum thickness of 12 mils shall be properly installed and maintained in the reserve pit.
2. Provide adequate drainage and erosion protection for the location and existing drainages.

# UTAH DIVISION OF WATER RIGHTS

## WRPLAT Point of Diversion Query Program

Version: 2004.12.30.00      Rundate: 02/25/2005 03:35 PM

### Section Query Page

Fill in the information below and press either the **Search** or **Browse** button to perform a point of diversion search using a radius from a point.

Hint: Browse allows you to zoom and pan to customize the map display area before printing, Search goes straight to the print ready screen.

Search Radius (feet): 5280

from a point located North  3672.26 feet West  1081 feet

from the SE  Corner, Section 16

Township 13S , Range 10E , SL  b&m.

QUERY TYPE LIMITATIONS			
STATUS OF RIGHT	TYPE OF DIVERSION	APPLICATION TYPE	WATER USE TYPE
<input checked="" type="checkbox"/> Unapproved	<input checked="" type="checkbox"/> Underground	<input checked="" type="checkbox"/> Water Right	<input checked="" type="checkbox"/> Irrigation
<input checked="" type="checkbox"/> Approved	<input checked="" type="checkbox"/> Surface	<input checked="" type="checkbox"/> Changes	<input checked="" type="checkbox"/> Stock Water
<input checked="" type="checkbox"/> Perfected	<input checked="" type="checkbox"/> Springs	<input checked="" type="checkbox"/> Exchanges	<input checked="" type="checkbox"/> Domestic
<input type="checkbox"/> Terminated	<input checked="" type="checkbox"/> Drains	<input type="checkbox"/> Test Wells	<input checked="" type="checkbox"/> Municipal
	<input checked="" type="checkbox"/> Point to Point	<input type="checkbox"/> Sewage Reuse	<input checked="" type="checkbox"/> Mining
	<input type="checkbox"/> Rediversion		<input checked="" type="checkbox"/> Power
			<input checked="" type="checkbox"/> Other

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# UTAH DIVISION OF WATER RIGHTS

## Sorry. No diversion points. Try browsing!

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-05 Ute Oil Company Kenilworth RR #2  
Casing Schematic

Mancos

Surface

8-5/8"  
MW 8.4  
Frac 19.3

TOC @  
0.  
Surface  
320. MD

w/18% Washout

BHP  
 $(.052)(5150)(8.4) = 2249$

Gao  
 $(12)(5150) = 618$   
MASP = 1631

BOP - 27000 ✓

Surface - 2950  
70% = 2065

Pressure @ shoe = 1187  
Test to 1100# ✓  
Propose test to 800 PSI

✓ Adequate DWD 3/4/05

TOC @  
1706.

3610  
TOC Tail

w/15% Washout  
Surface w/ 2% Washout

4791 Ferron

5-1/2"  
MW 8.4

Production  
5150. MD

Well name:	<b>03-05 Ute Oil Company Kenilworth RR #2</b>		
Operator:	<b>Ute Oil Company</b>		
String type:	Surface	Project ID:	43-007-31007
Location:	Carbon County		

**Design parameters:**

**Collapse**

Mud weight: 8.400 ppg  
 Design is based on evacuated pipe.

**Minimum design factors:**

**Collapse:**

Design factor 1.125

**Burst:**

Design factor 1.00

**Environment:**

H2S considered? No  
 Surface temperature: 75 °F  
 Bottom hole temperature: 79 °F  
 Temperature gradient: 1.40 °F/100ft  
 Minimum section length: 250 ft

Cement top: Surface

**Burst**

Max anticipated surface pressure: 282 psi  
 Internal gradient: 0.120 psi/ft  
 Calculated BHP 320 psi

No backup mud specified.

**Tension:**

8 Round STC: 1.80 (J)  
 8 Round LTC: 1.80 (J)  
 Buttress: 1.60 (J)  
 Premium: 1.50 (J)  
 Body yield: 1.50 (B)

Tension is based on buoyed weight.  
 Neutral point: 280 ft

Non-directional string.

**Re subsequent strings:**

Next setting depth: 5,150 ft  
 Next mud weight: 8.400 ppg  
 Next setting BHP: 2,247 psi  
 Fracture mud wt: 19,250 ppg  
 Fracture depth: 320 ft  
 Injection pressure 320 psi

Run Seq	Segment Length (ft)	Size (in)	Nominal Weight (lbs/ft)	Grade	End Finish	True Vert Depth (ft)	Measured Depth (ft)	Drift Diameter (in)	Internal Capacity (ft³)
1	320	8.625	24.00	J-55	ST&C	320	320	7.972	15.4
Run Seq	Collapse Load (psi)	Collapse Strength (psi)	Collapse Design Factor	Burst Load (psi)	Burst Strength (psi)	Burst Design Factor	Tension Load (Kips)	Tension Strength (Kips)	Tension Design Factor
1	140	1370	9.811	320	2950	9.22	7	244	36.35 J

Prepared by: Clinton Dworshak  
 Utah Div. of Oil & Mining

Phone: 801-538-5280  
 FAX: 801-359-3940

Date: March 2,2005  
 Salt Lake City, Utah

**Remarks:**

Collapse is based on a vertical depth of 320 ft, a mud weight of 8.4 ppg. The casing is considered to be evacuated for collapse purposes. Collapse strength is based on the Westcott, Dunlop & Kemler method of biaxial correction for tension.

Burst strength is not adjusted for tension.

*Engineering responsibility for use of this design will be that of the purchaser.*

Well name:	<b>03-05 Ute Oil Company Kenilworth RR #2</b>		
Operator:	<b>Ute Oil Company</b>		
String type:	Production	Project ID:	43-007-31007
Location:	Carbon County		

**Design parameters:**

**Collapse**

Mud weight: 8.400 ppg  
 Design is based on evacuated pipe.

**Burst**

Max anticipated surface pressure: 1,629 psi  
 Internal gradient: 0.120 psi/ft  
 Calculated BHP: 2,247 psi

No backup mud specified.

**Minimum design factors:**

**Collapse:**

Design factor 1.125

**Burst:**

Design factor 1.00

**Tension:**

8 Round STC: 1.80 (J)  
 8 Round LTC: 1.80 (J)  
 Buttress: 1.60 (J)  
 Premium: 1.50 (J)  
 Body yield: 1.50 (B)

Tension is based on buoyed weight.  
 Neutral point: 4,494 ft

**Environment:**

H2S considered? No  
 Surface temperature: 75 °F  
 Bottom hole temperature: 147 °F  
 Temperature gradient: 1.40 °F/100ft  
 Minimum section length: 1,500 ft

Cement top: 1,706 ft

Non-directional string.

Run Seq	Segment Length (ft)	Size (in)	Nominal Weight (lbs/ft)	Grade	End Finish	True Vert Depth (ft)	Measured Depth (ft)	Drift Diameter (in)	Internal Capacity (ft³)
1	5150	5.5	17.00	J-55	LT&C	5150	5150	4.767	177.5

Run Seq	Collapse Load (psi)	Collapse Strength (psi)	Collapse Design Factor	Burst Load (psi)	Burst Strength (psi)	Burst Design Factor	Tension Load (Kips)	Tension Strength (Kips)	Tension Design Factor
1	2247	4910	2.185	2247	5320	2.37	76	247	3.23 J

Prepared by: Clinton Dworshak  
 Utah Div. of Oil & Mining

Phone: 801-538-5280  
 FAX: 801-359-3940

Date: March 2, 2005  
 Salt Lake City, Utah

Remarks:

Collapse is based on a vertical depth of 5150 ft, a mud weight of 8.4 ppg. The casing is considered to be evacuated for collapse purposes. Collapse strength is based on the Westcott, Dunlop & Kemler method of biaxial correction for tension.

Burst strength is not adjusted for tension.

*Engineering responsibility for use of this design will be that of the purchaser.*

**STATE OF UTAH**  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL, GAS AND MINING

FORM 3

AMENDED REPORT   
(highlight changes)

001

<b>APPLICATION FOR PERMIT TO DRILL</b>		5. MINERAL LEASE NO: <b>FEE-BH-61504</b>	6. SURFACE: Fee
1A. TYPE OF WORK: DRILL <input checked="" type="checkbox"/> REENTER <input type="checkbox"/> DEEPEN <input type="checkbox"/>		7. IF INDIAN, ALLOTTEE OR TRIBE NAME:	
8. TYPE OF WELL: OIL <input type="checkbox"/> GAS <input checked="" type="checkbox"/> OTHER <u>CBM</u> SINGLE ZONE <input checked="" type="checkbox"/> MULTIPLE ZONE <input type="checkbox"/>		8. UNIT or CA AGREEMENT NAME:	
2. NAME OF OPERATOR: <b>Ute Oil Company (dba A.C.T. Operating Company)</b>		9. WELL NAME and NUMBER: <b>Kenilworth Railroad Well #2</b>	
3. ADDRESS OF OPERATOR: <b>201 W. Wall Street #806</b> CITY <b>Midland</b> STATE <b>TX</b> ZIP <b>79701</b>		PHONE NUMBER: <b>(432) 683-4640</b>	10. FIELD AND POOL, OR WILDCAT: <b>Helper Field</b>
4. LOCATION OF WELL (FOOTAGES) AT SURFACE: <b>1081 FEL and 3610 FSL</b> AT PROPOSED PRODUCING ZONE: <b>FERRON COALS</b>		11. QTR/CTR, SECTION, TOWNSHIP, RANGE, MERIDIAN: <b>SENE 16 13S 10E</b>	
14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE: <b>Adjacent to town of Kennilworth</b>		12. COUNTY: <b>Carbon</b>	13. STATE: <b>UTAH</b>
15. DISTANCE TO NEAREST PROPERTY OR LEASE LINE (FEET) <b>1081 FEL and 3610 FSL</b>	16. NUMBER OF ACRES IN LEASE:	17. NUMBER OF ACRES ASSIGNED TO THIS WELL: <b>160</b>	
18. DISTANCE TO NEAREST WELL (DRILLING, COMPLETED, OR APPLIED FOR) ON THIS LEASE (FEET)	19. PROPOSED DEPTH: <b>5,150</b>	20. BOND DESCRIPTION: <b>Irrevocable Letter of Credit</b>	
21. ELEVATIONS (SHOW WHETHER DF, RT, GR, ETC.): <b>GR = 6774'</b>	22. APPROXIMATE DATE WORK WILL START: <b>3/15/2005</b>	23. ESTIMATED DURATION: <b>1 Month</b>	

24. **PROPOSED CASING AND CEMENTING PROGRAM**

SIZE OF HOLE	CASING SIZE, GRADE, AND WEIGHT PER FOOT	SETTING DEPTH	CEMENT TYPE, QUANTITY, YIELD, AND SLURRY WEIGHT			
12 1/4"	8 5/8" J-55 24 #/ft	320	Class G + 2% CACL2	240 sacks	1.15 cu.ft./sk	15.8 ppg.
			plus FL additive			
7 7/8"	5 1/2" J-55 17 #/ft	5,150	Lead: Lite Wt. cement	160 sacks	3.36 cu.ft./sk	10.5 ppg
			Tail: Cem Crete blend	210 sacks	2.07 cu.ft./sk	10.5 ppg

25. **ATTACHMENTS**

VERIFY THE FOLLOWING ARE ATTACHED IN ACCORDANCE WITH THE UTAH OIL AND GAS CONSERVATION GENERAL RULES:

<input checked="" type="checkbox"/> WELL PLAN OR MAP PREPARED BY LICENSED SURVEYOR OR ENGINEER	<input checked="" type="checkbox"/> COMPLETE DRILLING PLAN
<input checked="" type="checkbox"/> EVIDENCE OF DIVISION OF WATER RIGHTS APPROVAL FOR USE OF WATER	<input checked="" type="checkbox"/> FORM 5, IF OPERATOR IS PERSON OR COMPANY OTHER THAN THE LEASE OWNER

NAME (PLEASE PRINT) Mary Tesitor TITLE Engineering Tech, Oso Energy agent for A.C.T Op.

SIGNATURE *Mary Tesitor* DATE 3/1/2005

(This space for State use only)

API NUMBER ASSIGNED: 43-007-31007

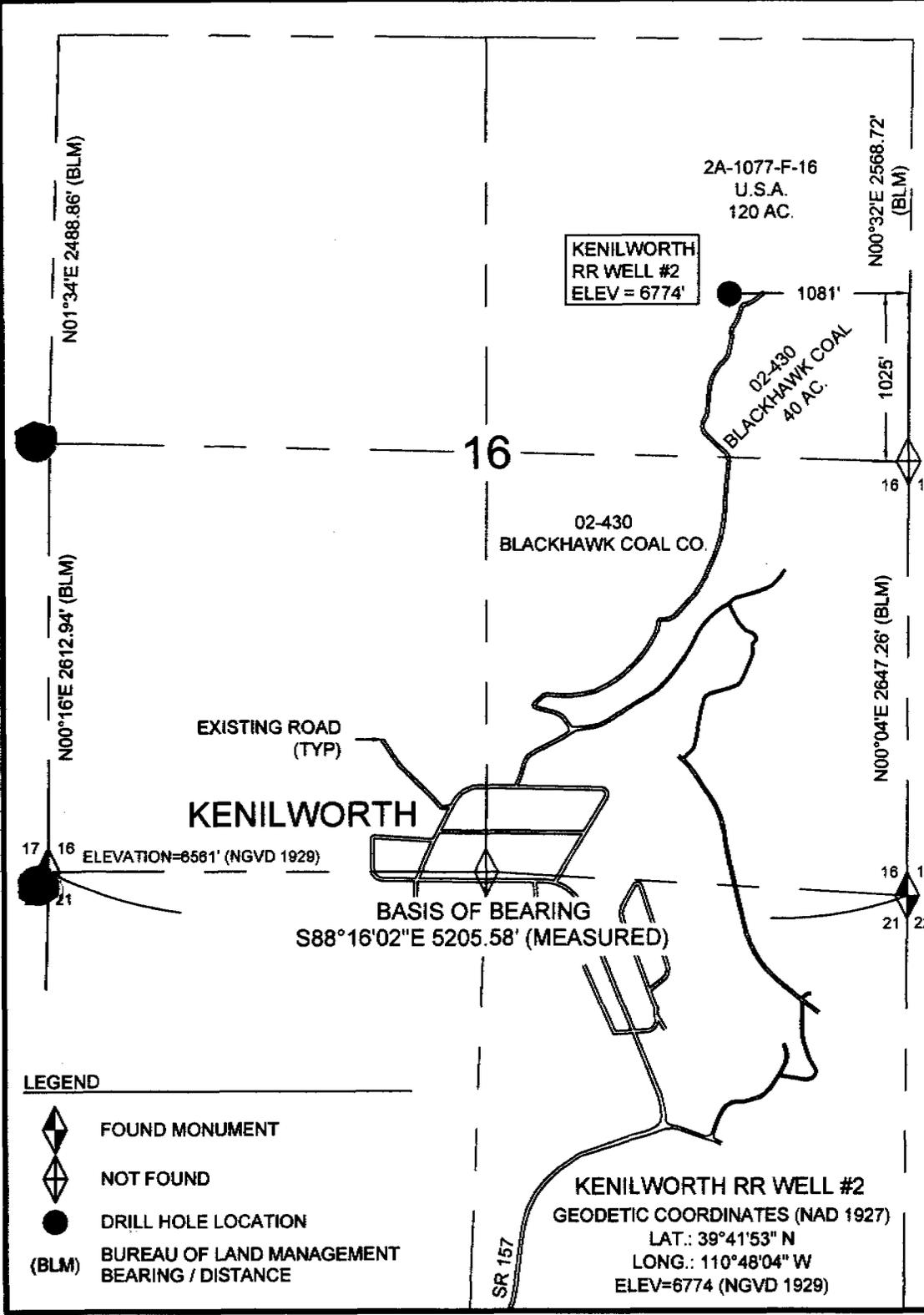
**Approved by the  
Utah Division of  
Oil, Gas and Mining**

**RECEIVED  
MAR 02 2005**

DIV. OF OIL, GAS & MINING

Date: 03-08-05

(See Instructions on Reverse Side)



**NARRATIVE**

THE PURPOSE OF THIS SURVEY IS TO LOCATE AND DESCRIBE A WELL SITE FOR UTE OIL COMPANY, AND IS SITUATED IN THE NORTHEAST QUARTER OF SECTION 16, TOWNSHIP 13 SOUTH, RANGE 10 EAST, SALT LAKE BASE AND MERIDIAN, CARBON COUNTY, UTAH.

THE BASIS OF BEARING USED FOR THIS SURVEY IS SOUTH 88°16'02" EAST BETWEEN THE SOUTHWEST CORNER AND THE SOUTHEAST CORNER OF SAID SECTION 16.

THE BASIS OF ELEVATION USED FOR THIS SURVEY IS 6561 FEET (NGVD 1929) AT THE SOUTHWEST CORNER OF SAID SECTION 16, AS SHOWN ON THE HELPER, UTAH 7.5' QUADRANGLE.

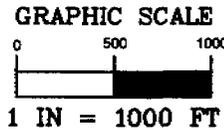
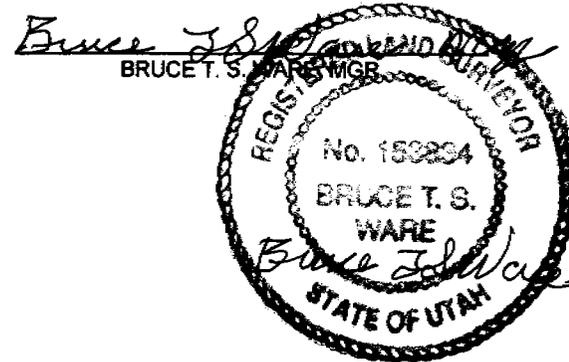
**SITE DESCRIPTION**

A PROPOSED DRILL HOLE SITUATED IN THE NORTHEAST QUARTER OF SECTION 16, TOWNSHIP 13 SOUTH, RANGE 10 EAST, SALT LAKE BASE AND MERIDIAN, CARBON COUNTY, STATE OF UTAH, SAID DRILL HOLE IS LOCATED 1081 FEET WEST AND 1025 FEET NORTH FROM THE EAST QUARTER CORNER OF SAID SECTION 16.

**CERTIFICATE OF SURVEY**

I, BRUCE T. S. WARE, DO HEREBY CERTIFY THAT I AM A REGISTERED LAND SURVEYOR, CERTIFICATE NO. 153834 AS PRESCRIBED BY THE LAWS OF THE STATE OF UTAH. I FURTHER CERTIFY THAT I HAVE MADE A SURVEY OF THE TRACT OF GROUND SHOWN AND THAT IT IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE. IT DOES NOT PURPORT TO SHOW ALL EASEMENTS OF RECORD, NOR IS IT PROOF OF OWNERSHIP.

DATE: 1-20-05



<b>WARE SURVEYING &amp; ENGINEERING, L.L.C.</b>	
Phone: 435-637-2620	2223 North 1200 West
Email: waresurveying@emerytelcom.net	Helper, Utah 84526
SURVEY FOR:	
<b>UTE OIL COMPANY</b>	
KENILWORTH RAILROAD WELL #2 KENILWORTH, CARBON COUNTY, UTAH SECTION 16, T. 13 S., R. 10 E., S.L.B. & M.	
DRAWN BY: MCW	SCALE: 1" = 1000'
CHECKED BY: BTSW	JOB NO.: UTE-2004-02
DATE: 01-19-05	DRAWING NO. P-1
REVISIONS: 1	



March 1, 2005

Diana Whitney  
State of Utah Department of Natural Resources  
Division of Oil, Gas, and Mining  
1594 West North Temple, Suite 1210  
Salt Lake City, UT 84116

Dear Diana,

Please find enclosed two original copies of a revised APD Cover letter for the Kenilworth Railroad Well #2, indicating the correct Location Footages.

Best Regards,

Mary Tesitor  
Engineering Technician  
Oso Energy Resources, Agent for ACT Operating Co.

RECEIVED

MAR 02 2005

DIV. OF OIL, GAS & MINING

Encl.



**State of Utah**

**Department of  
Natural Resources**

MICHAEL R. STYLER  
*Executive Director*

**Division of  
Oil, Gas & Mining**

MARY ANN WRIGHT  
*Acting Division Director*

JON M. HUNTSMAN, JR.  
*Governor*

GARY R. HERBERT  
*Lieutenant Governor*

March 8, 2005

Ute Oil Company  
201 W Wall Street #806  
Midland, TX 79701

Re: Kenilworth Railroad Well #2 Well, 3610' FSL, 1081' FEL, SE NE, Sec. 16,  
T. 13 South, R. 10 East, Carbon County, Utah

Gentlemen:

Pursuant to the provisions and requirements of Utah Code Ann. § 40-6-1 *et seq.*, Utah Administrative Code R649-3-1 *et seq.*, and the attached Conditions of Approval, approval to drill the referenced well is granted.

Appropriate information has been submitted to DOGM and administrative approval of the requested exception location is hereby granted.

This approval shall expire one year from the above date unless substantial and continuous operation is underway, or a request for extension is made prior to the expiration date. The API identification number assigned to this well is 43-007-31007.

Sincerely,

for John R. Baza  
Associate Director

pab  
Enclosures

cc: Carbon County Assessor

Operator: Ute Oil Company  
Well Name & Number Kenilworth Railroad Well #2  
API Number: 43-007-31007  
Lease: Fee-BH-61504

Location: SE NE                      Sec. 16                      T. 13 South                      R. 10 East

### Conditions of Approval

#### 1. General

Compliance with the requirements of Utah Admin. R. 649-1 *et seq.*, the Oil and Gas Conservation General Rules, and the applicable terms and provisions of the approved Application for permit to drill.

#### 2. Notification Requirements

The operator is required to notify the Division of Oil, Gas and Mining of the following actions during drilling of this well:

- 24 hours prior to cementing or testing casing
- 24 hours prior to testing blowout prevention equipment
- 24 hours prior to spudding the well
- within 24 hours of any emergency changes made to the approved drilling program
- prior to commencing operations to plug and abandon the well

The following are Division of Oil, Gas and Mining contacts and their work telephone numbers (please leave a voice mail message if the person is not available to take the call):

- Dan Jarvis at (801) 538-5338
- Carol Daniels at (801) 538-5284 (spud)

#### 3. Reporting Requirements

All required reports, forms and submittals will be promptly filed with the Division, including but not limited to the Entity Action Form (Form 6), Report of Water Encountered During Drilling (Form 7), Weekly Progress Reports for drilling and completion operations, and Sundry Notices and Reports on Wells requesting approval of change of plans or other operational actions.

#### 4. Compliance with the Conditions of Approval/Application for Permit to Drill outlined in the Statement of Basis. (Copy Attached)

#### 5. This proposed well is located in an area for which drilling units (well spacing patterns) have not been established through an order of the Board of Oil, Gas and Mining (the "Board"). In order to avoid the possibility of waste or injury to correlative rights, the operator is requested, once the well has been drilled, completed, and has produced, to analyze geological and engineering data generated therefrom, as well as any similar data from surrounding areas if available. As soon as is practicable after completion of its analysis, and if the analysis suggests an area larger than the quarter-quarter section upon which the

Page 2

API #43-007-31007

March 8, 2005

5. This proposed well is located in an area for which drilling units (well spacing patterns) have not been established through an order of the Board of Oil, Gas and Mining (the "Board"). In order to avoid the possibility of waste or injury to correlative rights, the operator is requested, once the well has been drilled, completed, and has produced, to analyze geological and engineering data generated therefrom, as well as any similar data from surrounding areas if available. As soon as is practicable after completion of its analysis, and if the analysis suggests an area larger than the quarter-quarter section upon which the well is located is being drained, the operator is requested to seek an appropriate order from the Board establishing drilling and spacing units in conformance with such analysis by filing a Request for Agency Action with the Board.

**DIVISION OF OIL, GAS AND MINING****SPUDDING INFORMATION**Name of Company: UTE OIL COMPANYWell Name: KENILWORTH RR #2Api No: 43-007-31007 Lease Type: FEESection 16 Township 13S Range 10E County CARBONDrilling Contractor TRIPLE A DRILLING RIG # **SPUDDED:**Date 03/21/05Time How DRY**Drilling will Commence:** Reported by LARRY STRONGTelephone # 1-903-721-0102Date 03/22/2005 Signed CHD

**STATE OF UTAH**  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL, GAS AND MINING

FORM 6

014

**ENTITY ACTION FORM**

Operator: Ute Oil Company (dba A.C.T. Operating Company) Operator Account Number: N  
 Address: 201 W. Wall, Suite 806  
city Midland  
state TX zip 79701 Phone Number: (432) 683-4640

**Well 1**

API Number	Well Name		QQ	Sec	Twp	Rng	County
4300731007	Kenilworth Railroad Well #2		SENE	16	13s	10E	Carbon
Action Code	Current Entity Number	New Entity Number	Spud Date			Entity Assignment Effective Date	
A	99999	14625	3/21/2005			3/24/05	
Comments: <u>FRSD</u>							

**Well 2**

API Number	Well Name		QQ	Sec	Twp	Rng	County
Action Code	Current Entity Number	New Entity Number	Spud Date			Entity Assignment Effective Date	
Comments:							

**Well 3**

API Number	Well Name		QQ	Sec	Twp	Rng	County
Action Code	Current Entity Number	New Entity Number	Spud Date			Entity Assignment Effective Date	
Comments:							

**ACTION CODES:**

- A - Establish new entity for new well (single well only)
- B - Add new well to existing entity (group or unit well)
- C - Re-assign well from one existing entity to another existing entity
- D - Re-assign well from one existing entity to a new entity
- E - Other (Explain in 'comments' section)

Mary Tesitor

Name (Please Print)

*Mary Tesitor*

Signature

Engineering Technician

3/22/2005

Title

Date

(5/2000)

RECEIVED

MAR 22 2005

DIV. OF OIL, GAS &amp; MINING

015

STATE OF UTAH  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL, GAS AND MINING

5. LEASE DESIGNATION AND SERIAL NUMBER:  
**FEE-8H-61504**

6. IF INDIAN, ALLOTTEE OR TRIBE NAME:

7. UNIT or O.A. AGREEMENT NAME:

8. WELL NAME AND NUMBER:  
**Kenilworth Railroad Well #2**

9. API NUMBER:  
**4300731007**

10. FIELD AND POOL, OR WILDCAT:  
**Helper Field**

**SUNDRY NOTICES AND REPORTS ON WELLS**

Do not use this form for proposals to drill new wells, significantly deepen existing wells below current bottom-hole depth, reenter plugged wells, or to drill horizontal laterals. Use APPLICATION FOR PERMIT TO DRILL form for such proposals.

1. TYPE OF WELL: OIL WELL  GAS WELL  OTHER \_\_\_\_\_

2. NAME OF OPERATOR:  
**Ute Oil Company (dba A.C.T. Operating Company)**

3. ADDRESS OF OPERATOR:  
201 W. Wall Street #806 CITY **Midland** STATE **TX** ZIP **79701** PHONE NUMBER: **(432) 683-4640**

4. LOCATION OF WELL  
FOOTAGES AT SURFACE: **1081 FEL and 3610 FSL (footages see below)** COUNTY: **Carbon**

CONTRACT, SECTION, TOWNSHIP, RANGE, MERIDIAN: **SENE 16 13S 10E** STATE: **UTAH**

11. CHECK APPROPRIATE BOXES TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION		
<input checked="" type="checkbox"/> NOTICE OF INTENT (Submit in Duplicate) Approximate date work will start: <b>3/22/2005</b>	<input type="checkbox"/> ACIDIZE	<input type="checkbox"/> DEEPIEN	<input type="checkbox"/> REPERFORATE CURRENT FORMATION
<input type="checkbox"/> SUBSEQUENT REPORT (Submit Original Form Only) Date of work completion:	<input type="checkbox"/> ALTER CASING	<input type="checkbox"/> FRACTURE TREAT	<input type="checkbox"/> SIDETRACK TO REPAIR WELL
	<input type="checkbox"/> CASING REPAIR	<input type="checkbox"/> NEW CONSTRUCTION	<input type="checkbox"/> TEMPORARILY ABANDON
	<input type="checkbox"/> CHANGE TO PREVIOUS PLANS	<input type="checkbox"/> OPERATOR CHANGE	<input type="checkbox"/> TUBING REPAIR
	<input type="checkbox"/> CHANGE TUBING	<input type="checkbox"/> PLUG AND ABANDON	<input type="checkbox"/> VENT OR FLARE
	<input type="checkbox"/> CHANGE WELL NAME	<input type="checkbox"/> PLUG BACK	<input type="checkbox"/> WATER DISPOSAL
	<input type="checkbox"/> CHANGE WELL STATUS	<input type="checkbox"/> PRODUCTION (START/RESUME)	<input type="checkbox"/> WATER SHUT-OFF
	<input type="checkbox"/> COMMINGLES PRODUCING FORMATIONS	<input type="checkbox"/> RECLAMATION OF WELL SITE	<input checked="" type="checkbox"/> OTHER: <b>Re survey Well Bore Location</b>
	<input type="checkbox"/> CONVERT WELL TYPE	<input type="checkbox"/> RECOMPLETE - DIFFERENT FORMATION	

12. DESCRIBE PROPOSED OR COMPLETED OPERATIONS. Clearly show all pertinent details including dates, depths, volumes, etc.

Please change footages of well to 1070' FEL and 3571' FSL. Please see attached survey.

Please contact Mary Tesitor or Gary Trotter (agents for A.C.T. Operating) if there are any questions 970-247-4126

517091X 39.698002  
4394049Y -110.800652

COPIES SENT TO OPERATOR  
Date: **3-25-05**  
Initials: **CHD**

NAME (PLEASE PRINT) **Mary Tesitor (agent for A.C.T. Operating)** TITLE **Engineering Technician**

SIGNATURE *Mary Tesitor* DATE **3/23/2005**

(This space for State Use only)

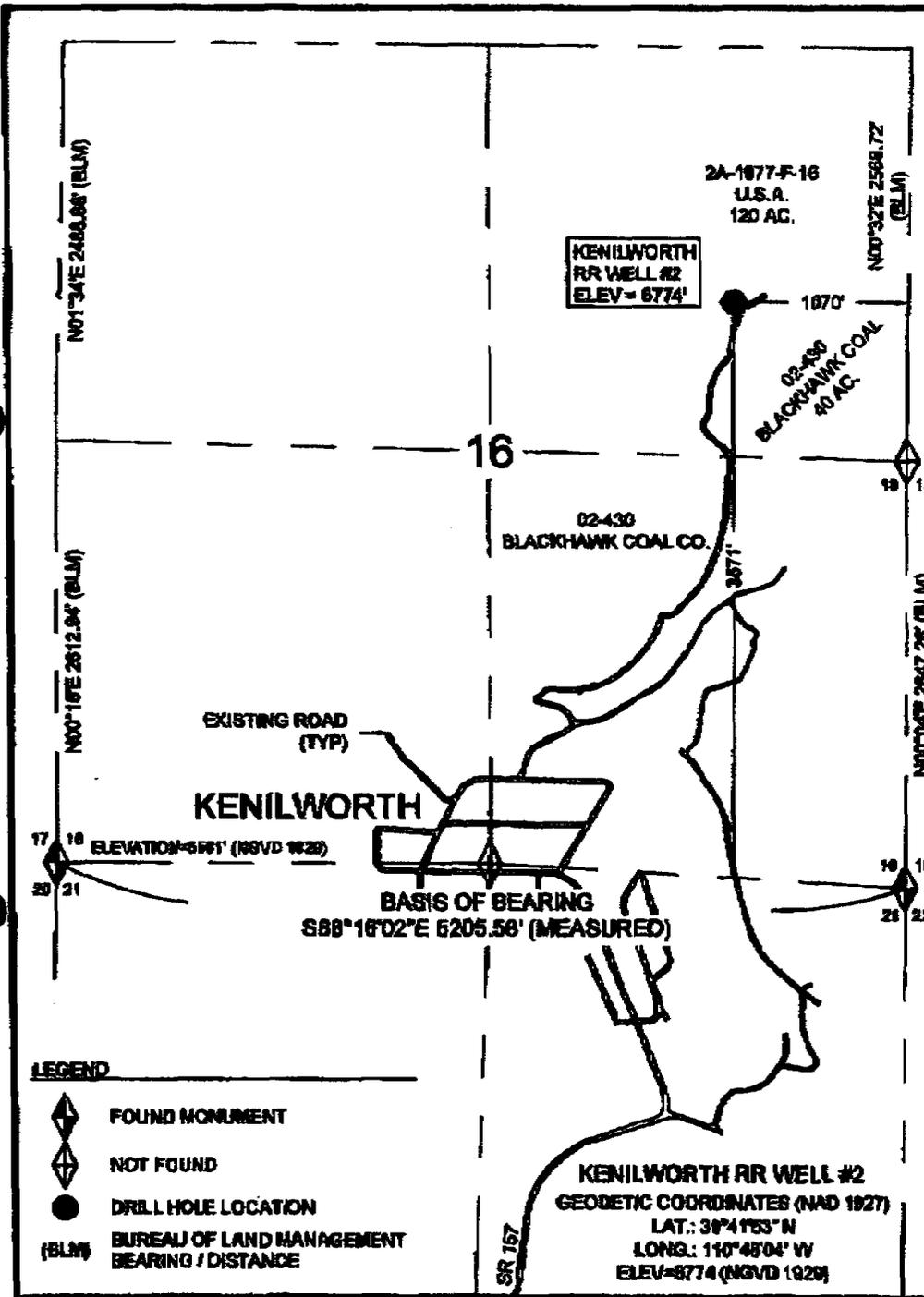
(9/2000)

Approved by the  
Utah Division of  
Oil, Gas and Mining

Date: **03-24-05**  
By: *[Signature]*

(See Instructions on Reverse Side)

RECEIVED  
MAR 23 2005  
DIV. OF OIL, GAS & MINING



**NARRATIVE**

THE PURPOSE OF THIS SURVEY IS TO LOCATE AND DESCRIBE A WELL SITE FOR UTE OIL COMPANY, AND IS SITUATED IN THE NORTHEAST QUARTER OF SECTION 16, TOWNSHIP 13 SOUTH, RANGE 10 EAST, SALT LAKE BASE AND MERIDIAN, CARBON COUNTY, UTAH.

THE BASIS OF BEARING USED FOR THIS SURVEY IS SOUTH 88°16'02" EAST BETWEEN THE SOUTHWEST CORNER AND THE SOUTHEAST CORNER OF SAID SECTION 16.

THE BASIS OF ELEVATION USED FOR THIS SURVEY IS 6681 FEET (NGVD 1929) AT THE SOUTHWEST CORNER OF SAID SECTION 16, AS SHOWN ON THE HELPER, UTAH 7.5 QUADRANGLE.

**SITE DESCRIPTION**

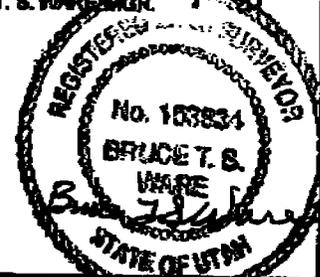
A PROPOSED DRILL HOLE SITUATED IN THE NORTHEAST QUARTER OF SECTION 16, TOWNSHIP 13 SOUTH, RANGE 10 EAST, SALT LAKE BASE AND MERIDIAN, CARBON COUNTY, STATE OF UTAH, SAID DRILL HOLE IS LOCATED 1076 FEET WEST OF THE EAST LINE OF SAID SECTION 16 AND 5671 FEET NORTH OF THE SOUTH LINE OF SAID SECTION 16.

**CERTIFICATE OF SURVEY**

I, BRUCE T. S. WARE, DO HEREBY CERTIFY THAT I AM A REGISTERED LAND SURVEYOR, CERTIFICATE NO. 163834 AS PRESCRIBED BY THE LAWS OF THE STATE OF UTAH. I FURTHER CERTIFY THAT I HAVE MADE A SURVEY OF THE TRACT OF GROUND SHOWN AND THAT IT IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE. IT DOES NOT PURPORT TO SHOW ALL EASEMENTS OF RECORD, NOR IS IT PROOF OF OWNERSHIP.

DATE: 3-23-05

*Bruce T. S. Ware*  
BRUCE T. S. WARE, SGR.



**WARE SURVEYING & ENGINEERING, L.L.C.**  
Phone: 435-497-9820 2223 North 1200 West  
Email: waresurveying@gmail.com Helper, Utah 84020

**SURVEY FOR**  
**UTE OIL COMPANY**

**KENILWORTH RAILROAD WELL #2**  
KENILWORTH, CARBON COUNTY, UTAH  
SECTION 16, T. 13 S., R. 10 E., S.1.B. & M.

**DRAWN BY:** MCW **SCALE:** 1" = 1000'  
**CHECKED BY:** BTSM **JOB NO.:** UTE-2004-02  
**DATE:** 01-19-05  
**REVISIONS:** 2 **DRAWING NO.:** P-1

03/23/05 01:08 FAX 6372620 Bruce Ware



March 24, 2005

Diana Whitney  
Division of Oil, Gas & Mining  
1594 W.N. Temple, Suite 1210  
Salt Lake City, UT 84114-5801

RE: Kenilworth Railroad #2,  
SENE Section 16, T13S R10E  
1070' FEL and 3571' FSL

Dear Diana:

In reference to the State Oil and Gas Conservation rule R649-3-3, the A.C.T. Operating Well, Kenilworth Railroad Well #2, is an exception to this rule due to topography.

There are no additional lease owners within 460' of the proposed location. If you have any questions please contact either Mary Tesitor or Gary Trotter at 970-247-4126.

Best regards,

Mary Tesitor  
Engineering Technician  
Oso Energy Resources Corp.  
Agent for A.C.T. Operating Company

RECEIVED

MAR 24 2005

DIV. OF OIL, GAS & MINING

---

900 Main Ave., Ste. D  
Durango, CO 81301

Ph: 970.247.4126  
Fax: 970.247.1047

STATE OF UTAH  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL, GAS AND MINING

FORM 9

5. LEASE DESIGNATION AND SERIAL NUMBER:  
**FEE-BH-61504**

**SUNDRY NOTICES AND REPORTS ON WELLS**

6. IF INDIAN, ALLOTTEE OR TRIBE NAME:

7. UNIT or CA AGREEMENT NAME:

Do not use this form for proposals to drill new wells, significantly deepen existing wells below current bottom-hole depth, reenter plugged wells, or to drill horizontal laterals. Use APPLICATION FOR PERMIT TO DRILL form for such proposals.

1. TYPE OF WELL  
OIL WELL  GAS WELL  OTHER \_\_\_\_\_

8. WELL NAME and NUMBER:  
**Kenilworth Rail Road #2**

2. NAME OF OPERATOR:  
**Marion Energy Inc.** *N2740*

9. API NUMBER:  
**4300731007**

3. ADDRESS OF OPERATOR:  
**119 S. Tennessee, Ste. 200** CITY **McKinney** STATE **TX** ZIP **75069**

PHONE NUMBER:  
**(972) 540-2967**

10. FIELD AND POOL, OR WILDCAT:  
**Helper Field**

4. LOCATION OF WELL  
FOOTAGES AT SURFACE: **1081' FEL and 3610' FSL** COUNTY: **Carbon**  
QTR/QTR, SECTION, TOWNSHIP, RANGE, MERIDIAN: **SENE 16 13 10** STATE: **UTAH**

11. CHECK APPROPRIATE BOXES TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION		
<input checked="" type="checkbox"/> NOTICE OF INTENT (Submit in Duplicate) Approximate date work will start: <i>5/2/05</i>	<input type="checkbox"/> ACIDIZE	<input type="checkbox"/> DEEPEN	<input type="checkbox"/> REPERFORATE CURRENT FORMATION
<input type="checkbox"/> SUBSEQUENT REPORT (Submit Original Form Only) Date of work completion:	<input type="checkbox"/> ALTER CASING	<input type="checkbox"/> FRACTURE TREAT	<input type="checkbox"/> SIDETRACK TO REPAIR WELL
	<input type="checkbox"/> CASING REPAIR	<input type="checkbox"/> NEW CONSTRUCTION	<input type="checkbox"/> TEMPORARILY ABANDON
	<input type="checkbox"/> CHANGE TO PREVIOUS PLANS	<input checked="" type="checkbox"/> OPERATOR CHANGE	<input type="checkbox"/> TUBING REPAIR
	<input type="checkbox"/> CHANGE TUBING	<input type="checkbox"/> PLUG AND ABANDON	<input type="checkbox"/> VENT OR FLARE
	<input type="checkbox"/> CHANGE WELL NAME	<input type="checkbox"/> PLUG BACK	<input type="checkbox"/> WATER DISPOSAL
	<input type="checkbox"/> CHANGE WELL STATUS	<input type="checkbox"/> PRODUCTION (START/RESUME)	<input type="checkbox"/> WATER SHUT-OFF
	<input type="checkbox"/> COMMINGLE PRODUCING FORMATIONS	<input type="checkbox"/> RECLAMATION OF WELL SITE	<input type="checkbox"/> OTHER: _____
	<input type="checkbox"/> CONVERT WELL TYPE	<input type="checkbox"/> RECOMPLETE - DIFFERENT FORMATION	

12. DESCRIBE PROPOSED OR COMPLETED OPERATIONS. Clearly show all pertinent details including dates, depths, volumes, etc.  
**Marion Energy Inc. will take over operations of the Kenilworth Rail Road #2 well which is currently operated by Ute Oil Company (dba ACT Operating Company). *N2675***

NAME (PLEASE PRINT) *KERI CLARKE* TITLE *VICE PRESIDENT LAND*  
SIGNATURE *[Signature]* DATE *5/2/05*

(This space for State use only)

APPROVED *519105*

(5/2000) *Earlene Russell*  
Division of Oil, Gas and Mining  
Earlene Russell, Engineering Technician

(See Instructions on Reverse Side)

RECEIVED  
MAY 05 2005  
DIV. OF OIL, GAS & MINING

STATE OF UTAH  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL, GAS AND MINING

FORM 9

5. LEASE DESIGNATION AND SERIAL NUMBER:

FEE-BH-61504

**SUNDRY NOTICES AND REPORTS ON WELLS**

6. IF INDIAN, ALLOTTEE OR TRIBE NAME:

7. UNIT or CA AGREEMENT NAME:

Do not use this form for proposals to drill new wells, significantly deepen existing wells below current bottom-hole depth, reenter plugged wells, or to drill horizontal laterals. Use APPLICATION FOR PERMIT TO DRILL form for such proposals.

1. TYPE OF WELL OIL WELL  GAS WELL  OTHER \_\_\_\_\_

8. WELL NAME and NUMBER:  
Kenilworth Rail Road #2

2. NAME OF OPERATOR:  
Ute Oil Company (dba ACT Operating Company). *N2675*

9. API NUMBER:  
4300731007

3. ADDRESS OF OPERATOR:  
201 W. Wall St #806 CITY Midland STATE TX ZIP 79701

PHONE NUMBER:  
(432) 683-4640

10. FIELD AND POOL, OR WLD/CAT:  
Helper Field

4. LOCATION OF WELL  
FOOTAGES AT SURFACE: 1081' FEL and 3610' FSL

COUNTY: Carbon

QTR/QTR, SECTION, TOWNSHIP, RANGE, MERIDIAN: SENE 16 13 10

STATE: UTAH

11. CHECK APPROPRIATE BOXES TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION		
<input checked="" type="checkbox"/> NOTICE OF INTENT (Submit in Duplicate) Approximate date work will start: <u>5/2/05</u>	<input type="checkbox"/> ACIDIZE	<input type="checkbox"/> DEEPEN	<input type="checkbox"/> REPERFORATE CURRENT FORMATION
<input type="checkbox"/> SUBSEQUENT REPORT (Submit Original Form Only) Date of work completion:	<input type="checkbox"/> ALTER CASING	<input type="checkbox"/> FRACTURE TREAT	<input type="checkbox"/> SIDETRACK TO REPAIR WELL
	<input type="checkbox"/> CASING REPAIR	<input type="checkbox"/> NEW CONSTRUCTION	<input type="checkbox"/> TEMPORARILY ABANDON
	<input type="checkbox"/> CHANGE TO PREVIOUS PLANS	<input checked="" type="checkbox"/> OPERATOR CHANGE	<input type="checkbox"/> TUBING REPAIR
	<input type="checkbox"/> CHANGE TUBING	<input type="checkbox"/> PLUG AND ABANDON	<input type="checkbox"/> VENT OR FLARE
	<input type="checkbox"/> CHANGE WELL NAME	<input type="checkbox"/> PLUG BACK	<input type="checkbox"/> WATER DISPOSAL
	<input type="checkbox"/> CHANGE WELL STATUS	<input type="checkbox"/> PRODUCTION (START/RESUME)	<input type="checkbox"/> WATER SHUT-OFF
	<input type="checkbox"/> COMMINGLE PRODUCING FORMATIONS	<input type="checkbox"/> RECLAMATION OF WELL SITE	<input type="checkbox"/> OTHER: _____
	<input type="checkbox"/> CONVERT WELL TYPE	<input type="checkbox"/> RECOMPLETE - DIFFERENT FORMATION	

12. DESCRIBE PROPOSED OR COMPLETED OPERATIONS. Clearly show all pertinent details including dates, depths, volumes, etc.

Marion Energy Inc. will take over operations of the Kenilworth Rail Road #2 well which is currently operated by Ute Oil Company (dba ACT Operating Company).

NAME (PLEASE PRINT) M. C. Watson TITLE Vice President  
SIGNATURE *M. C. Watson* DATE 5-2-05

(This space for State use only)

APPROVED 519105

*Earlene Russell*  
Division of Oil, Gas and Mining  
Earlene Russell, Engineering Technician

(See Instructions on Reverse Side)

RECEIVED

MAY 05 2005

DIV. OF OIL, GAS & MINING

**OPERATOR CHANGE WORKSHEET**

**016**

**X Change of Operator (Well Sold)**

ROUTING	
1. GLH	
2. CDW	
3. FILE	

Designation of Agent/Operator

Operator Name Change

Merger

The operator of the well(s) listed below has changed, effective: 5/2/05

<b>FROM:</b> (Old Operator): N2675-Ute Oil Company dba ACT Operating Company 201 W Wall St, Suite 806 Midland, TX 79701 Phone: 1-(432) 683-4640	<b>TO:</b> ( New Operator): N2740-Marion Energy, Inc. 119 S Tennessee, Suite 200 McKinney, TX 75069 Phone: 1-(972) 540-2967
--	---

**CA No.** **Unit:**

WELL(S)								
NAME	SEC	TWN	RNG	API NO	ENTITY NO	LEASE TYPE	WELL TYPE	WELL STATUS
KENILWORTH RR #1	16	130S	100E	4300731006	14624	FEE	GW	DRL
KENILWORTH RR #2	16	130S	100E	4300731007	14625	FEE	GW	DRL
BALLPARK CANYON #1	16	130S	100E	4300731015		FEE	GW	APD

K  
K  
K

**OPERATOR CHANGES DOCUMENTATION**

Enter date after each listed item is completed

- (R649-8-10) Sundry or legal documentation was received from the **FORMER** operator on: 5/5/2005
- (R649-8-10) Sundry or legal documentation was received from the **NEW** operator on: 5/5/2005
- The new company was checked on the **Department of Commerce, Division of Corporations Database** on: 4/7/2005
- Is the new operator registered in the State of Utah: YES Business Number: 5868337-0143
- If **NO**, the operator was contacted contacted on:
- a. (R649-9-2)Waste Management Plan has been received on: 5/5/2005
- b. Inspections of LA PA state/fee well sites complete on: n/a

7. **Federal and Indian Lease Wells:** The BLM and or the BIA has approved the merger, name change, or operator change for all wells listed on Federal or Indian leases on: BLM n/a BIA n/a

8. **Federal and Indian Units:**

The BLM or BIA has approved the successor of unit operator for wells listed on: n/a

9. **Federal and Indian Communization Agreements ("CA"):**

The BLM or BIA has approved the operator for all wells listed within a CA on: n/a

10. **Underground Injection Control ("UIC")** The Division has approved UIC Form 5, **Transfer of Authority to Inject**, for the enhanced/secondary recovery unit/project for the water disposal well(s) listed on: n/a

**DATA ENTRY:**

1. Changes entered in the **Oil and Gas Database** on: 5/9/2005
2. Changes have been entered on the **Monthly Operator Change Spread Sheet** on: 5/9/2005
3. Bond information entered in RBDMS on: 5/9/2005
4. Fee/State wells attached to bond in RBDMS on: 5/9/2005
5. Injection Projects to new operator in RBDMS on: n/a
6. Receipt of Acceptance of Drilling Procedures for APD/New on: 5/5/2005

**FEDERAL WELL(S) BOND VERIFICATION:**

1. Federal well(s) covered by Bond Number: n/a

**INDIAN WELL(S) BOND VERIFICATION:**

1. Indian well(s) covered by Bond Number: n/a

**FEE & STATE WELL(S) BOND VERIFICATION:**

1. (R649-3-1) The **NEW** operator of any fee well(s) listed covered by Bond Number B001617
2. The **FORMER** operator has requested a release of liability from their bond on: not yet  
The Division sent response by letter on: \_\_\_\_\_

**LEASE INTEREST OWNER NOTIFICATION:**

3. (R649-2-10) The **FORMER** operator of the fee wells has been contacted and informed by a letter from the Division of their responsibility to notify all interest owners of this change on: 5/10/2005

**COMMENTS:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



June 6, 2005

P.O. Box 145801  
Salt lake City, UT  
84114-5801

RE: Sundry Notice Form 9 (Kenilworth Rail Road #1 and #2 Well Completion Notice)

Dear Mr. Jarvis

Please find enclosed the original executed copies of our Sundry Form 9 for our Kenilworth #1 and #2 wells. The form 9 sets out our plans for the completion of these two wells.

If you require any further information, please do not hesitate to contact me at (972) 540-2967 ext. 3004 or email [bevans@marionenergy.com](mailto:bevans@marionenergy.com)

Sincerely,

A handwritten signature in black ink, appearing to read "B Evans", with a long horizontal flourish extending to the right.

Benjamin Evans  
Landman

Marion Energy Inc.

RECEIVED

JUN 08 2005

DIV. OF OIL, GAS & MINING

STATE OF UTAH  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL, GAS AND MINING

FORM 9

5. LEASE DESIGNATION AND SERIAL NUMBER:  
**Fee-BH-61504**

**SUNDRY NOTICES AND REPORTS ON WELLS**

6. IF INDIAN, ALLOTTEE OR TRIBE NAME:

7. UNIT or CA AGREEMENT NAME:

Do not use this form for proposals to drill new wells, significantly deepen existing wells below current bottom-hole depth, reenter plugged wells, or to drill horizontal laterals. Use APPLICATION FOR PERMIT TO DRILL form for such proposals.

1. TYPE OF WELL  
OIL WELL  GAS WELL  OTHER \_\_\_\_\_

8. WELL NAME and NUMBER:  
**Kenilworth Railroad #2**

2. NAME OF OPERATOR:  
**Marion Energy, Inc**

9. API NUMBER:  
**4300731007**

3. ADDRESS OF OPERATOR:  
**119 So. Tennessee #200** CITY **McKinney** STATE **Tx** ZIP **75069**

PHONE NUMBER:  
**(972) 540-2967**

10. FIELD AND POOL, OR WLD CAT:  
**Helper**

4. LOCATION OF WELL  
FOOTAGES AT SURFACE: **3571' FSL & 1070' FEL**

COUNTY: **Carbon**

QTR/QTR, SECTION, TOWNSHIP, RANGE, MERIDIAN: **SENE 16 13S 10E**

STATE: **UTAH**

11. CHECK APPROPRIATE BOXES TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION		
<input checked="" type="checkbox"/> NOTICE OF INTENT (Submit in Duplicate) Approximate date work will start: <u>7/15/2005</u>	<input type="checkbox"/> ACIDIZE	<input type="checkbox"/> DEEPEN	<input type="checkbox"/> REPERFORATE CURRENT FORMATION
<input type="checkbox"/> SUBSEQUENT REPORT (Submit Original Form Only) Date of work completion:	<input type="checkbox"/> ALTER CASING	<input checked="" type="checkbox"/> FRACTURE TREAT	<input type="checkbox"/> SIDETRACK TO REPAIR WELL
	<input type="checkbox"/> CASING REPAIR	<input type="checkbox"/> NEW CONSTRUCTION	<input type="checkbox"/> TEMPORARILY ABANDON
	<input type="checkbox"/> CHANGE TO PREVIOUS PLANS	<input type="checkbox"/> OPERATOR CHANGE	<input type="checkbox"/> TUBING REPAIR
	<input type="checkbox"/> CHANGE TUBING	<input type="checkbox"/> PLUG AND ABANDON	<input type="checkbox"/> VENT OR FLARE
	<input type="checkbox"/> CHANGE WELL NAME	<input type="checkbox"/> PLUG BACK	<input type="checkbox"/> WATER DISPOSAL
	<input type="checkbox"/> CHANGE WELL STATUS	<input type="checkbox"/> PRODUCTION (START/RESUME)	<input type="checkbox"/> WATER SHUT-OFF
	<input type="checkbox"/> COMMINGLE PRODUCING FORMATIONS	<input type="checkbox"/> RECLAMATION OF WELL SITE	<input type="checkbox"/> OTHER: _____
	<input type="checkbox"/> CONVERT WELL TYPE	<input type="checkbox"/> RECOMPLETE - DIFFERENT FORMATION	

12. DESCRIBE PROPOSED OR COMPLETED OPERATIONS. Clearly show all pertinent details including dates, depths, volumes, etc.

- MIRU WellPro well service
- CO to PBTD of 4983' KB
- Perforate Ferron Formation - gross interval from 4646'-4790' w/18 shots, 0.38"
- Fracture treat Ferron Formation w/82,338 gals., 20# x-linked gel, 170,000# 16/30 Brady sand at 40 BPM. Max pressure 4300 psi
- CO after fracture treatment
- Clean up well, establish production rate
- Tie well in to Marion gathering system

APPROVED BY OPERATOR  
6-15-05  
LB

NAME (PLEASE PRINT) **BENJAMIN EVANS**

TITLE **LANDMAN**

SIGNATURE B J Evans

DATE 6/16/05

(This space for State use only)

APPROVED BY THE STATE  
OF UTAH DIVISION OF  
OIL, GAS, AND MINING  
DATE 6/14/05  
BY: [Signature] (See Instructions on Reverse Side)

## INSTRUCTIONS

**This form shall be submitted by the operator to show the intention and/or completion of the following:**

- miscellaneous work projects and actions for which other specific report forms do not exist;
- all other work and events as identified in section 11, Type of Action, or as required by the Utah Oil and Gas Conservation General Rules, including:
  - minor deepening of an existing well bore,
  - plugging back a well,
  - recompleting to a different producing formation within an existing well bore (intent only),
  - re-perforating the current producing formation,
  - drilling a sidetrack to repair a well,
  - reporting monthly the status of each drilling well.

**This form is not to be used for proposals to**

- drill new wells,
- reenter previously plugged and abandoned wells,
- significantly deepen existing wells below their current bottom-hole depth,
- drill horizontal laterals from an existing well bore,
- drill hydrocarbon exploratory holes such as core samples and stratigraphic tests.

**Use Form 3, Application for Permit to Drill (APD) for such proposals.**

**NOTICE OF INTENT** - A notice of intention to do work on a well or to change plans previously approved shall be submitted in duplicate and must be received and approved by the division before the work is commenced. The operator is responsible for receipt of the notice by the division in ample time for proper consideration and action. In cases of emergency, the operator may obtain verbal approval to commence work. Within five days after receiving verbal approval, the operator shall submit a Sundry Notice describing the work and acknowledging the verbal approval.

**SUBSEQUENT REPORT** - A subsequent report shall be submitted to the division within 30 days of the completion of the outlined work. Specific details of the work performed should be provided, including dates, well depths, placement of plugs, etc.

**WELL ABANDONMENT** - Proposals to abandon a well and subsequent reports of abandonment should include reasons for the abandonment; data on any former or present productive zones, or other zones with present significant fluid contents not sealed off by cement or otherwise; depths (top and bottom) and method of placement of cement plugs; mud or other material placed below, between and above plugs; amount, size, and method of parting of any casing, liner, or tubing pulled and the depth to top of any left in the hole; method of closing top of well; and date well site conditioned for final inspection looking to approval of the abandonment.

In addition to any Sundry Notice forms submitted, **Form 8, Well Completion or Recompletion Report and Log** must be submitted to the division to report the results of the following operations:

- completing or plugging a new well,
- reentering a previously plugged and abandoned well,
- significantly deepening an existing well bore below the current bottom-hole depth,
- drilling horizontal laterals from an existing well bore,
- drilling hydrocarbon exploratory holes such as core samples and stratigraphic tests,
- recompleting to a different producing formation.

Send to:

Utah Division of Oil, Gas and Mining  
1594 West North Temple, Suite 1210  
Box 145801  
Salt Lake City, Utah 84114-5801

Phone: 801-538-5340

Fax: 801-359-3940

**STATE OF UTAH**  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL, GAS AND MINING

AMENDED REPORT  FORM 8  
(highlight changes)

**WELL COMPLETION OR RECOMPLETION REPORT AND LOG**

5. LEASE DESIGNATION AND SERIAL NUMBER:  
**Fee**

6. IF INDIAN, ALLOTTEE OR TRIBE NAME

7. UNIT or CA AGREEMENT NAME

8. WELL NAME and NUMBER:  
**Kenilworth Railroad # 2**

9. API NUMBER:  
**4300731007**

10. FIELD AND POOL, OR WILDCAT  
**Helper**

11. QTR/OTR, SECTION, TOWNSHIP, RANGE, MERIDIAN:  
**NESE 16 13S 10E**

12. COUNTY  
**Carbon**

13. STATE  
**UTAH**

14. DATE SPURRED: **4/3/2005**

15. DATE T.D. REACHED: **4/14/2005**

16. DATE COMPLETED: **1/16/2006**

ABANDONED  READY TO PRODUCE

17. ELEVATIONS (DF, RKB, RT, GL):  
**GR6774'**

18. TOTAL DEPTH: MD **5,030**

TVD

19. PLUG BACK T.D.: MD **5,007**

TVD

20. IF MULTIPLE COMPLETIONS, HOW MANY? \*

21. DEPTH BRIDGE MD

PLUG SET: TVD

22. TYPE ELECTRIC AND OTHER MECHANICAL LOGS RUN (Submit copy of each)  
**Cased hole neutron and CBL**

23.  
WAS WELL CORED? NO  YES  (Submit analysis)  
WAS DST RUN? NO  YES  (Submit report)  
DIRECTIONAL SURVEY? NO  YES  (Submit copy)

24. CASING AND LINER RECORD (Report all strings set in well)

HOLE SIZE	SIZE/GRADE	WEIGHT (#/ft)	TOP (MD)	BOTTOM (MD)	STAGE CEMENTER DEPTH	CEMENT TYPE & NO. OF SACKS	SLURRY VOLUME (BBL)	CEMENT TOP **	AMOUNT PULLED
12 1/4	8 5/8 J-55	24	0	346		SDIII 250	63	CIR	
7 7/8	5 1/2 J-55	17	0	5,045		50/50P 525	301	CIR	

25. TUBING RECORD

SIZE	DEPTH SET (MD)	PACKER SET (MD)	SIZE	DEPTH SET (MD)	PACKER SET (MD)	SIZE	DEPTH SET (MD)	PACKER SET (MD)
2 3/8	4,851							

26. PRODUCING INTERVALS **FRSD**

FORMATION NAME	TOP (MD)	BOTTOM (MD)	TOP (TVD)	BOTTOM (TVD)	INTERVAL (Top/Bot - MD)	SIZE	NO. HOLES	PERFORATION STATUS
(A) Ferron	4,634	4,886			4,646 4,790	0.38	18	Open <input checked="" type="checkbox"/> Squeezed <input type="checkbox"/>
(B)								Open <input type="checkbox"/> Squeezed <input type="checkbox"/>
(C)								Open <input type="checkbox"/> Squeezed <input type="checkbox"/>
(D)								Open <input type="checkbox"/> Squeezed <input type="checkbox"/>

27. PERFORATION RECORD

28. ACID, FRACTURE, TREATMENT, CEMENT SQUEEZE, ETC.

DEPTH INTERVAL	AMOUNT AND TYPE OF MATERIAL
4646 to 4790	82,338 gal. 20 # X-linked gel, 150,000 # 20/40 Brady sand

29. ENCLOSED ATTACHMENTS:

ELECTRICAL/MECHANICAL LOGS

SUNDRY NOTICE FOR PLUGGING AND CEMENT VERIFICATION

GEOLOGIC REPORT

CORE ANALYSIS

DST REPORT

OTHER: \_\_\_\_\_

DIRECTIONAL SURVEY

30. WELL STATUS:  
**Producing Testing**

31. INITIAL PRODUCTION

INTERVAL A (As shown in item #26)

DATE FIRST PRODUCED: 2/20/2006		TEST DATE: 1/25/2006		HOURS TESTED: 24		TEST PRODUCTION RATES: →	OIL - BBL: 0	GAS - MCF: 231	WATER - BBL: 140	PROD. METHOD: P
CHOKE SIZE: 3/8	TBG. PRESS.	CSG. PRESS. 53	API GRAVITY	BTU - GAS	GAS/OIL RATIO	24 HR PRODUCTION RATES: →	OIL - BBL:	GAS - MCF: 231	WATER - BBL: 140	INTERVAL STATUS: P

INTERVAL B (As shown in item #26)

DATE FIRST PRODUCED:		TEST DATE:		HOURS TESTED:		TEST PRODUCTION RATES: →	OIL - BBL:	GAS - MCF:	WATER - BBL:	PROD. METHOD:
CHOKE SIZE:	TBG. PRESS.	CSG. PRESS.	API GRAVITY	BTU - GAS	GAS/OIL RATIO	24 HR PRODUCTION RATES: →	OIL - BBL:	GAS - MCF:	WATER - BBL:	INTERVAL STATUS:

INTERVAL C (As shown in item #26)

DATE FIRST PRODUCED:		TEST DATE:		HOURS TESTED:		TEST PRODUCTION RATES: →	OIL - BBL:	GAS - MCF:	WATER - BBL:	PROD. METHOD:
CHOKE SIZE:	TBG. PRESS.	CSG. PRESS.	API GRAVITY	BTU - GAS	GAS/OIL RATIO	24 HR PRODUCTION RATES: →	OIL - BBL:	GAS - MCF:	WATER - BBL:	INTERVAL STATUS:

INTERVAL D (As shown in item #26)

DATE FIRST PRODUCED:		TEST DATE:		HOURS TESTED:		TEST PRODUCTION RATES: →	OIL - BBL:	GAS - MCF:	WATER - BBL:	PROD. METHOD:
CHOKE SIZE:	TBG. PRESS.	CSG. PRESS.	API GRAVITY	BTU - GAS	GAS/OIL RATIO	24 HR PRODUCTION RATES: →	OIL - BBL:	GAS - MCF:	WATER - BBL:	INTERVAL STATUS:

32. DISPOSITION OF GAS (Sold, Used for Fuel, Vented, Etc.)

Vented

33. SUMMARY OF POROUS ZONES (Include Aquifers):

Show all important zones of porosity and contents thereof. Cored intervals and all drill-stem tests, including depth interval tested, cushion used, time tool open, flowing and shut-in pressures and recoveries.

Formation	Top (MD)	Bottom (MD)	Descriptions, Contents, etc.	Name	Top (Measured Depth)
Ferron	4,634	4,886	Sandstone, Shale, and Coal - Gas	Ferron	4,634

34. FORMATION (Log) MARKERS:

35. ADDITIONAL REMARKS (Include plugging procedure)

36. I hereby certify that the foregoing and attached information is complete and correct as determined from all available records.

NAME (PLEASE PRINT) Doug Endsley TITLE VP Operations  
 SIGNATURE *Doug Endsley* DATE 2/15/2006

This report must be submitted within 30 days of

- completing or plugging a new well
- drilling horizontal laterals from an existing well bore
- recompleting to a different producing formation
- reentering a previously plugged and abandoned well
- significantly deepening an existing well bore below the previous bottom-hole depth
- drilling hydrocarbon exploratory holes, such as core samples and stratigraphic tests

\* ITEM 20: Show the number of completions if production is measured separately from two or more formations.

\*\* ITEM 24: Cement Top - Show how reported top(s) of cement were determined (circulated (CIR), calculated (CAL), cement bond log (CBL), temperature survey (TS)).

Send to: Utah Division of Oil, Gas and Mining  
 1594 West North Temple, Suite 1210  
 Box 145801  
 Salt Lake City, Utah 84114-5801

Phone: 801-538-5340  
 Fax: 801-359-3940

**STATE OF UTAH**  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL, GAS AND MINING

FORM 9

<b>SUNDRY NOTICES AND REPORTS ON WELLS</b>		5. LEASE DESIGNATION AND SERIAL NUMBER: <b>Fee</b>
Do not use this form for proposals to drill new wells, significantly deepen existing wells below current bottom-hole depth, reenter plugged wells, or to drill horizontal laterals. Use APPLICATION FOR PERMIT TO DRILL form for such proposals.		6. IF INDIAN, ALLOTTEE OR TRIBE NAME:
		7. UNIT or CA AGREEMENT NAME:
1. TYPE OF WELL OIL WELL <input type="checkbox"/> GAS WELL <input checked="" type="checkbox"/> OTHER _____		8. WELL NAME and NUMBER: <b>Kenilworth Railroad # 2</b>
2. NAME OF OPERATOR: <b>Marion Energy, Inc.</b>		9. API NUMBER: <b>4300731007</b>
3. ADDRESS OF OPERATOR: <b>119 So. Tennessee #200</b> CITY <b>McKinney</b> STATE <b>TX</b> ZIP <b>75069</b>		10. FIELD AND POOL, OR WILDCAT: <b>Helper</b>
4. LOCATION OF WELL FOOTAGES AT SURFACE: <b>3650' FSL &amp; 1106' FEL</b>		COUNTY: <b>Carbon</b>
QTR/QR, SECTION, TOWNSHIP, RANGE, MERIDIAN: <b>NESE 16 13S 10E</b>		STATE: <b>UTAH</b>

11. CHECK APPROPRIATE BOXES TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION		
<input type="checkbox"/> NOTICE OF INTENT (Submit in Duplicate)  Approximate date work will start: _____	<input type="checkbox"/> ACIDIZE	<input type="checkbox"/> DEEPEN	<input type="checkbox"/> REPERFORATE CURRENT FORMATION
	<input type="checkbox"/> ALTER CASING	<input checked="" type="checkbox"/> FRACTURE TREAT	<input type="checkbox"/> SIDETRACK TO REPAIR WELL
	<input type="checkbox"/> CASING REPAIR	<input type="checkbox"/> NEW CONSTRUCTION	<input type="checkbox"/> TEMPORARILY ABANDON
	<input type="checkbox"/> CHANGE TO PREVIOUS PLANS	<input type="checkbox"/> OPERATOR CHANGE	<input type="checkbox"/> TUBING REPAIR
	<input type="checkbox"/> CHANGE TUBING	<input type="checkbox"/> PLUG AND ABANDON	<input type="checkbox"/> VENT OR FLARE
<input checked="" type="checkbox"/> SUBSEQUENT REPORT (Submit Original Form Only)  Date of work completion: <b>1/17/2006</b>	<input type="checkbox"/> CHANGE WELL NAME	<input type="checkbox"/> PLUG BACK	<input type="checkbox"/> WATER DISPOSAL
	<input type="checkbox"/> CHANGE WELL STATUS	<input type="checkbox"/> PRODUCTION (START/RESUME)	<input type="checkbox"/> WATER SHUT-OFF
	<input type="checkbox"/> COMMINGLE PRODUCING FORMATIONS	<input type="checkbox"/> RECLAMATION OF WELL SITE	<input type="checkbox"/> OTHER: _____
	<input type="checkbox"/> CONVERT WELL TYPE	<input type="checkbox"/> RECOMPLETE - DIFFERENT FORMATION	

12. DESCRIBE PROPOSED OR COMPLETED OPERATIONS. Clearly show all pertinent details including dates, depths, volumes, etc.

**MIRU WellPro Well Service. Clean out to PBTD with 4983' KB. RU wireline service and selectively perforated Ferron formation from 4646' to 4790' w/ 18 shots 0.38" diameter. Fracture treat Ferron formation with 82,338 gal., 20# X-linked gel, 150,000# 20/40 Brady sand. AIR 36 bmp, ATP 3200 psi, ISIP 1940 psi. Clean out sand and flow test well.**

NAME (PLEASE PRINT) <u>Doug Endsley</u>	TITLE <u>VP Operations</u>
SIGNATURE	DATE <u>2/21/2006</u>

**STATE OF UTAH**  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL, GAS AND MINING

FORM 9

<b>SUNDRY NOTICES AND REPORTS ON WELLS</b>		5. LEASE DESIGNATION AND SERIAL NUMBER: <b>Fee</b>
Do not use this form for proposals to drill new wells, significantly deepen existing wells below current bottom-hole depth, reenter plugged wells, or to drill horizontal laterals. Use APPLICATION FOR PERMIT TO DRILL form for such proposals.		6. IF INDIAN, ALLOTTEE OR TRIBE NAME:
		7. UNIT or CA AGREEMENT NAME:
1. TYPE OF WELL OIL WELL <input type="checkbox"/> GAS WELL <input checked="" type="checkbox"/> OTHER _____	8. WELL NAME and NUMBER: <b>Kenilworth Railroad # 2</b>	
2. NAME OF OPERATOR: <b>Marion Energy, Inc.</b>	9. API NUMBER: <b>4300731007</b>	
3. ADDRESS OF OPERATOR: <b>119 So. Tennessee #200</b> CITY <b>McKinney</b> STATE <b>TX</b> ZIP <b>75069</b>	PHONE NUMBER: <b>(972) 574-9001</b>	10. FIELD AND POOL, OR WILDCAT: <b>Helper</b>
4. LOCATION OF WELL FOOTAGES AT SURFACE: <b>3650' FSL &amp; 1106' FEL</b>		COUNTY: <b>Carbon</b>
QTR/QTR, SECTION, TOWNSHIP, RANGE, MERIDIAN: <b>NESE 16 13S 10E</b>		STATE: <b>UTAH</b>

11. CHECK APPROPRIATE BOXES TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA			
TYPE OF SUBMISSION	TYPE OF ACTION		
<input type="checkbox"/> NOTICE OF INTENT (Submit in Duplicate)  Approximate date work will start: _____	<input type="checkbox"/> ACIDIZE	<input type="checkbox"/> DEEPEN	<input type="checkbox"/> REPERFORATE CURRENT FORMATION
	<input type="checkbox"/> ALTER CASING	<input type="checkbox"/> FRACTURE TREAT	<input type="checkbox"/> SIDETRACK TO REPAIR WELL
<input checked="" type="checkbox"/> SUBSEQUENT REPORT (Submit Original Form Only)  Date of work completion: <b>2/20/2006</b>	<input type="checkbox"/> CASING REPAIR	<input type="checkbox"/> NEW CONSTRUCTION	<input type="checkbox"/> TEMPORARILY ABANDON
	<input type="checkbox"/> CHANGE TO PREVIOUS PLANS	<input type="checkbox"/> OPERATOR CHANGE	<input type="checkbox"/> TUBING REPAIR
	<input type="checkbox"/> CHANGE TUBING	<input type="checkbox"/> PLUG AND ABANDON	<input type="checkbox"/> VENT OR FLARE
	<input type="checkbox"/> CHANGE WELL NAME	<input type="checkbox"/> PLUG BACK	<input type="checkbox"/> WATER DISPOSAL
	<input type="checkbox"/> CHANGE WELL STATUS	<input checked="" type="checkbox"/> PRODUCTION (START/RESUME)	<input type="checkbox"/> WATER SHUT-OFF
	<input type="checkbox"/> COMMINGLE PRODUCING FORMATIONS	<input type="checkbox"/> RECLAMATION OF WELL SITE	<input type="checkbox"/> OTHER: _____
	<input type="checkbox"/> CONVERT WELL TYPE	<input type="checkbox"/> RECOMPLETE - DIFFERENT FORMATION	

12. DESCRIBE PROPOSED OR COMPLETED OPERATIONS. Clearly show all pertinent details including dates, depths, volumes, etc.  
**Finished tie-in to Anadarko's gathering system. First deliver well at 4:00pm 2/20/06.**

NAME (PLEASE PRINT) <b>Doug Endsley</b>	TITLE <b>VP Operations</b>
SIGNATURE	DATE <b>2/21/2006</b>

(This space for State use only)

STATE OF UTAH  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL, GAS AND MINING

AMENDED REPORT   
(highlight changes)

FORM 8

**WELL COMPLETION OR RECOMPLETION REPORT AND LOG**

1a. TYPE OF WELL: OIL WELL  GAS WELL  DRY  OTHER \_\_\_\_\_

b. TYPE OF WORK: NEW WELL  HORIZ. LATS.  DEEP-EN  RE-ENTRY  DIFF. RESVR.  OTHER \_\_\_\_\_

2. NAME OF OPERATOR:  
Marion Energy, Inc.

3. ADDRESS OF OPERATOR: 119 So. Tennessee # 20 CITY McKinney STATE TX ZIP 75069  
PHONE NUMBER: (972) 574-9001

4. LOCATION OF WELL (FOOTAGES)  
AT SURFACE: 3650' FSL & 1106' FEL  
AT TOP PRODUCING INTERVAL REPORTED BELOW: Same  
AT TOTAL DEPTH: Same

5. LEASE DESIGNATION AND SERIAL NUMBER:  
Fee

6. IF INDIAN, ALLOTTEE OR TRIBE NAME

7. UNIT or CA AGREEMENT NAME

8. WELL NAME and NUMBER:  
Kenilworth Railroad # 2

9. API NUMBER:  
4300731007

10. FIELD AND POOL, OR WILDCAT  
Helper

11. QTR/QTR, SECTION, TOWNSHIP, RANGE, MERIDIAN:  
NESE 16 13S 10E

12. COUNTY  
Carbon

13. STATE  
UTAH

14. DATE SPUNDED: 4/3/2005  
15. DATE T.D. REACHED: 4/14/2005  
16. DATE COMPLETED: 1/16/2006  
ABANDONED  READY TO PRODUCE

17. ELEVATIONS (DF, RKB, RT, GL):  
GR6774'

18. TOTAL DEPTH: MD 5,030  
TVD

18. PLUG BACK T.D.: MD 5,007  
TVD

20. IF MULTIPLE COMPLETIONS, HOW MANY? \*

21. DEPTH BRIDGE MD  
PLUG SET: TVD

22. TYPE ELECTRIC AND OTHER MECHANICAL LOGS RUN (Submit copy of each)  
Cased hole neutron and CBL

23.  
WAS WELL CORED? NO  YES  (Submit analysis)  
WAS DST RUN? NO  YES  (Submit report)  
DIRECTIONAL SURVEY? NO  YES  (Submit copy)

24. CASING AND LINER RECORD (Report all strings set in well)

HOLE SIZE	SIZE/GRADE	WEIGHT (#/ft)	TOP (MD)	BOTTOM (MD)	STAGE CEMENTER DEPTH	CEMENT TYPE & NO. OF SACKS	SLURRY VOLUME (BBL)	CEMENT TOP **	AMOUNT PULLED
12 1/4	8 5/8 J-55	24	0	346		SDIII 250	63	CIR	
7 7/8	5 1/2 J-55	17	0	5,045		50/50P 525	301	CIR	

25. TUBING RECORD

SIZE	DEPTH SET (MD)	PACKER SET (MD)	SIZE	DEPTH SET (MD)	PACKER SET (MD)	SIZE	DEPTH SET (MD)	PACKER SET (MD)
2 3/8	4,851							

26. PRODUCING INTERVALS

FORMATION NAME	TOP (MD)	BOTTOM (MD)	TOP (TVD)	BOTTOM (TVD)
(A) Ferron	4,634	4,886		
(B)				
(C)				
(D)				

27. PERFORATION RECORD

INTERVAL (Top/Bot - MD)	SIZE	NO. HOLES	PERFORATION STATUS
4,646 4,790	0.38	18	Open <input checked="" type="checkbox"/> Squeezed <input type="checkbox"/>
			Open <input type="checkbox"/> Squeezed <input type="checkbox"/>
			Open <input type="checkbox"/> Squeezed <input type="checkbox"/>
			Open <input type="checkbox"/> Squeezed <input type="checkbox"/>

28. ACID, FRACTURE, TREATMENT, CEMENT SQUEEZE, ETC.

DEPTH INTERVAL	AMOUNT AND TYPE OF MATERIAL
4646 to 4790	82,338 gal. 20 # X-linked gel, 150,000 # 20/40 Brady sand

29. ENCLOSED ATTACHMENTS:

- ELECTRICAL/MECHANICAL LOGS  
 GEOLOGIC REPORT  
 DST REPORT  
 DIRECTIONAL SURVEY  
 SUNDRY NOTICE FOR PLUGGING AND CEMENT VERIFICATION  
 CORE ANALYSIS  
 OTHER: \_\_\_\_\_

30. WELL STATUS:

PROD

RECEIVED  
MAY 20 2009  
DIV. OF OIL, GAS & MINING

INITIAL PRODUCTION				INTERVAL A (As shown in item #26)							
DATE FIRST PRODUCED: 2/20/2006		TEST DATE: 1/25/2006		HOURS TESTED: 3		TEST PRODUCTION RATES: →		OIL - BBL: 0	GAS - MCF: 137	WATER - BBL: 12	PROD. METHOD: Flowing
CHOKE SIZE: 5/8"	TBG. PRESS. 150	CSG. PRESS. 405	API GRAVITY	BTU - GAS	GAS/OIL RATIO	24 HR PRODUCTION RATES: →	OIL - BBL:	GAS - MCF: 1,097	WATER - BBL: 96	INTERVAL STATUS: Producing	

INTERVAL B (As shown in item #26)											
DATE FIRST PRODUCED:		TEST DATE:		HOURS TESTED:		TEST PRODUCTION RATES: →		OIL - BBL:	GAS - MCF:	WATER - BBL:	PROD. METHOD:
CHOKE SIZE:	TBG. PRESS.	CSG. PRESS.	API GRAVITY	BTU - GAS	GAS/OIL RATIO	24 HR PRODUCTION RATES: →	OIL - BBL:	GAS - MCF:	WATER - BBL:	INTERVAL STATUS:	

INTERVAL C (As shown in item #26)											
DATE FIRST PRODUCED:		TEST DATE:		HOURS TESTED:		TEST PRODUCTION RATES: →		OIL - BBL:	GAS - MCF:	WATER - BBL:	PROD. METHOD:
CHOKE SIZE:	TBG. PRESS.	CSG. PRESS.	API GRAVITY	BTU - GAS	GAS/OIL RATIO	24 HR PRODUCTION RATES: →	OIL - BBL:	GAS - MCF:	WATER - BBL:	INTERVAL STATUS:	

INTERVAL D (As shown in item #26)											
DATE FIRST PRODUCED:		TEST DATE:		HOURS TESTED:		TEST PRODUCTION RATES: →		OIL - BBL:	GAS - MCF:	WATER - BBL:	PROD. METHOD:
CHOKE SIZE:	TBG. PRESS.	CSG. PRESS.	API GRAVITY	BTU - GAS	GAS/OIL RATIO	24 HR PRODUCTION RATES: →	OIL - BBL:	GAS - MCF:	WATER - BBL:	INTERVAL STATUS:	

32. DISPOSITION OF GAS (Sold, Used for Fuel, Vented, Etc.)  
Vented

33. SUMMARY OF POROUS ZONES (Include Aquifers):  
Show all important zones of porosity and contents thereof. Cored intervals and all drill-stem tests, including depth interval tested, cushion used, time tool open, flowing and shut-in pressures and recoveries.

33. SUMMARY OF POROUS ZONES (Include Aquifers):				34. FORMATION (Log) MARKERS:	
Formation	Top (MD)	Bottom (MD)	Descriptions, Contents, etc.	Name	Top (Measured Depth)
Ferron	4,634	4,886	Sandstone, Shale, and Coal - Gas	Ferron	4,634

35. ADDITIONAL REMARKS (Include plugging procedure)

36. I hereby certify that the foregoing and attached information is complete and correct as determined from all available records.

NAME (PLEASE PRINT) Doug Endsley TITLE VP Operations  
SIGNATURE *Doug Endsley* DATE 5/4/09

This report must be submitted within 30 days of

- completing or plugging a new well
- drilling horizontal laterals from an existing well bore
- recompleting to a different producing formation
- reentering a previously plugged and abandoned well
- significantly deepening an existing well bore below the previous bottom-hole depth
- drilling hydrocarbon exploratory holes, such as core samples and stratigraphic tests

\* ITEM 20: Show the number of completions if production is measured separately from two or more formations.

\*\* ITEM 24: Cement Top - Show how reported top(s) of cement were determined (circulated (CIR), calculated (CAL), cement bond log (CBL), temperature survey (TS)).

Send to: Utah Division of Oil, Gas and Mining  
1594 West North Temple, Suite 1210  
Box 145801  
Salt Lake City, Utah 84114-5801

Phone: 801-538-5340  
Fax: 801-359-3940



JON M. HUNTSMAN, JR.  
Governor

GARY R. HERBERT  
Lieutenant Governor

# State of Utah

## DEPARTMENT OF NATURAL RESOURCES

MICHAEL R. STYLER  
Executive Director

### Division of Oil, Gas and Mining

JOHN R. BAZA  
Division Director

December 9, 2010

Certified Mail No.: 7004 1160 0003 0190 4789

### DIVISION ORDER

Marion Energy, Inc.  
119 South Tennessee, Suite 200  
McKinney, Texas 75069  
Attn: Mr. Keri Clark

43 007 31007  
Kenilworth RR #2  
13S 10E 16

Subject: Bonding for Individual Wells

Dear Mr. Clark:

As of the date of this Order Marion Energy Inc. (Marion) has not satisfactorily demonstrated Marion's financial ability to meet Utah Code §40-6-5(f) and Oil and Gas Conservation General Rule (R649-3-6) requirements for state-wide bonding as requested in the Division of Oil, Gas and Mining (Division) certified letter dated October 25, 2010.

The Division is hereby ordering individual well bonds (R649-3-1.5) for all wells (see Attachment A) currently covered under Marion's \$120,000 blanket bond. The total individual well bond obligation will be \$421,500.

Therefore, Marion has 30 days from the date of this Order to post the additional bonding or enter into an agreement with the Division to satisfy this Order.

Marion has the right to appeal the Division Order by filing to the Board of Oil, Gas and Mining a request for review, according to procedures set forth in Utah Administrative Code R649-10-6. A request for review of a Division Order must be filed with the secretary to the Board, Julie Ann Carter (801) 538-5277, within 30 days of issuance of the Order.

In the event Marion does not comply with this Division Order for Individual Well Bonding the Division will file for a formal hearing before the Board of Oil, Gas and Mining pursuant to Utah §40-6-11(3) & (4).



Page 2

Subject: Division Order – Bonding for Individual Wells  
December 9, 2010

For bonding assistance please contact Randy Thackeray, Lead Auditor at (801) 538-5316. General questions regarding this Order may be directed to Clinton Dworshak, Compliance Manager at (801) 538-5280, or John Rogers, Oil and Gas Associate Director at (801) 538-5349.

Sincerely,



Clinton Dworshak  
Compliance Manager

CLD/js

Exhibits

cc: John Rogers, Associate Director  
Steve Alder, Assistant Attorney General  
Dustin Doucet, Petroleum Engineer  
Randy Thackeray, Lead Auditor  
Compliance File  
Well Files

N:\O&G Reviewed Docs\ChronFile\Enforcement

## Attachment A

<u>Well Name</u>	<u>Well API</u>	<u>Well Depth</u>	<u>Bond</u>
Cordingly Cyn 15-2	43-007-30102	4890	\$30,000
Cordingly Cyn 15-1	43-007-31065	4735	\$30,000
Cordingly Cyn 15-5	43-007-31167	4500	\$30,000
Alpine School District 6-17	43-007-31181	5825	\$30,000
Alpine School District 3-17	43-007-31182	5300	\$30,000
Oman 10-29	43-007-31210	5500	\$30,000
Utah Fuel 8	43-007-16015	4390	\$30,000
Kenilworth RR 1	43-007-31006	4445	\$30,000
Kenilworth RR 2	43-007-31007	5007	\$30,000
Ballpark Cyn 1	43-007-31015	4468	\$30,000
Cordingly Cyn 11-1	43-007-31070	5520	\$30,000
Ballpark Cyn 17-2	43-007-31169	not reported	\$30,000
Cordingly Cyn 10-1	43-007-31173	6435	\$30,000
Ballpark Cyn 16-2X	43-007-31207	489	\$1,500
Kenilworth RR 1-A	43-007-31229	8045	<u>\$30,000</u>
		<b>TOTAL</b>	<b>\$421,500</b>

7004 1160 0003 0190 4789

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**OFFICIAL USE**

Postage	\$	12/9/2010  Postmark Here
Certified Fee		
Return Receipt Fee (Endorsement Required)		
Restricted Delivery Fee (Endorsement Required)		

Total Post:

Sent To: **MR KERI CLARKE**  
**MARION ENERGY INC**  
 Street, Apt. or PO Box: **119 SOUTH TENNESSEE SUITE 200**  
 City, State: **MCKINNEY TX 75069**

PS Form 3800, June 2002 See Reverse for Instructions

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

**MR KERI CLARKE**  
**MARION ENERGY INC**  
**119 SOUTH TENNESSEE SUITE 200**  
**MCKINNEY TX 75069**

2. Article Number  
 (Transfer from service label)

7004 1160 0003 0190 4789

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature  
 X   Agent  Addressee

B. Received by (Printed Name): Betu Danti C. Date of Delivery: 12/13/10

D. Is delivery address different from item 1?  Yes  
 If YES, enter delivery address below:  No

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

UTAH DEPARTMENT OF NATURAL RESOURCES

Division of Oil, Gas & Mining

Oil and Gas Program

1594 West North Temple, Suite 1210, Box 145801

Salt Lake City, Utah 84114-5801

(801) 538-5340 Phone

(801) 359-3940 Fax

NOTICE OF VIOLATION
STATE OF UTAH
OIL AND GAS CONSERVATION ACT

\*\*\*\*\*

To the following operator:

Name: MARION ENERGY INC.

- Well(s) or Site(s): 1.) BALLPARK CYN 16-2X API #: 43-007-31207
2.) CORDINGLY CYN 10-1 43-007-31173
3.) BALLPARK CYN 17-2 43-007-31169
4.) KENILWORTH RR 1-A 43-007-31229
5.) ALPINE SCHOOL DISTRICT 6-17 43-007-31181
6.) OMAN 10-29 43-007-31210
7.) BALLPARK CANYON #1 43-007-31015
8.) CORDINGLY CYN 15-5 43-007-31167
9.) KENILWORTH RR #1 43-007-31006
10.) KENILWORTH RR#2 43-007-31007
11.) CORDINGLY CYN 15-2 43-007-31064
12.) CORDINGLY CYN 15-1 43-007-31065
13.) CORDINGLY CYN 11-1 43-007-31070

13S 10E 16

Date and Time of Inspection/Violation: December 10, 2012

Mailing Address: Attn: Keri Clarke

3580 Orr Road

Allen, TX 75002

Under the authority of the Utah Oil and Gas Conservation Act, Section 40-6 et. Seq., Utah Code Annotated, 1953, as amended, the undersigned authorized representative of the Division of Oil, Gas and Mining (Division) has conducted an inspection of the above described site and/or records on the above date and has found alleged violation(s) of the act, rules or permit conditions as described below.

Description of Violation(s):

Rule R649-3-36, Shut-in and Temporarily Abandoned Wells - According to Rule R649-3-36, the operator is required to supply the Division with reasons for extended SI/TA, the length of time for extended SI/TA and proof of well bore integrity for every well SI/TA over 12 consecutive months. After 5 years of continued SI/TA, the wells are to be plugged unless good cause is supplied to the Division for extended SI/TA in addition to the required information just mentioned.

Rule R649-3-4.3, Bonding - If the division finds that a well subject to this bonding rule is in violation of Rule R649-3-36., Shut-in and Temporarily Abandoned Wells, the division shall require a bond amount for the applicable well in the amount of actual plugging and site restoration costs.

Rule R649-3-4.4.1. Bonding - Within 30 days of notification by the division, the operator shall submit to the division an estimate of plugging and site restoration costs for division review and approval.

UTAH DEPARTMENT OF NATURAL RESOURCES

Division of Oil, Gas & Mining

Oil and Gas Program

1594 West North Temple, Suite 1210, Box 145801

Salt Lake City, Utah 84114-5801

(801) 538-5340 Phone

(801) 359-3940 Fax

The Division has initiated several contacts with Marion Energy Inc. (Marion) requesting required documents and action per R649-3-36. Wells 1 - 6 have previously been issued SI/TA Notices and Notices of Violation without anything being accomplished to move these wells out of violation. Wells 7 and 8 have also been issued a SI/TA Notice without having met the requirements of R649-3-36. Wells 9 - 13 are also in violation of R649-3-36 having been added to Marion's SI/TA violation list. All wells listed above are currently under a Division Order for individual well bonding.

There has not been any evidence of effort being made to bring these wells into compliance. These wells are in violation of R-649-3-36 as listed above. The Division requires Marion to put up full cost bonding for all wells in violation above per R649-3-4. It is also mandatory that Marion submit all documentation as required by R649-3-36 concerning shut-in and temporarily abandoned wells.

**Immediate Action: For the wells subject to this notice, Marion shall fulfill full cost bonding requirements for each well. Marion shall also submit all information as required by R649-3-36 or plug and abandon or place the wells on production.**

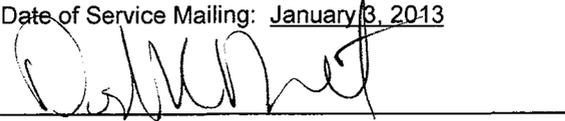
\* **Fines may be levied up to \$10,000.00 per day for every well in violation given the authority provided under U.C.A. 40-6-11, part 4.**

This notice shall remain in effect until it is modified, terminated, or vacated by a written notice of an authorized representative of the director of the Division of Oil, Gas and Mining. Failure to comply with this notice will result in the Division pursuing further actions against said operator. Further actions may include initiation of agency actions to order full cost bonding and plugging and abandonment of wells and requests for bond forfeiture and civil penalties.

**Compliance Deadline: February 8, 2013**

Date of Service Mailing: January 3, 2013

Certified Mail No: 7010 1670 0001 4810 3645



Division's Representative



Operator or Representative

(If presented in person)

cc: Compliance File  
Well Files  
SITLA

6/2005



January 18, 2013

Department of Natural Resources  
Division of Oil and Gas & Mining  
1594 West North Temple, Suite 1210  
Salt Lake City, Utah 84114

43 007 31007  
Kenilworth RR # 2  
13S 10E 16

Attention: Dustin Doucet

Re: Notice of Violation – Clear Creek and Helper Fields

Dear Dustin,

In response to your certified letter of January 3, 2013, we are providing you with information for wells that are currently structured as shut in or temporarily abandoned wells (SI/TA) by DOGM. Each well has individual information and is listed below.

As you know, for the last two and a half years Marion Energy Inc. (Marion) has been under financial stress that has not allowed active operations in the Clear Creek and Helper fields, beyond maintaining a field presence and taking some limited, preliminary actions to resuming operations. In the last few months, however, Marion has been able to improve its financial position to the point of resuming active operations in the Clear Creek field, with further financial improvement expected as that field is put back on production.

Marion explained these circumstances to DOGM and the Board of Oil, Gas and Mining at the October 26, 2012 hearing, where Marion sought and obtained Board approval to reinstitute active operations at Clear Creek. As discussed at the hearing, Marion's funding is currently limited to the monies needed to put the Clear Creek field back on production, beginning with the Oman 2-20 and Oman 10-29 wells, but once that occurs Marion expects its financial position to continue to improve to the point it can meet all of its obligations with respect to its SI/TA wells, and to move back into active operations at the Helper Field

Consistent with discussions at the October Board hearing, we have now rehabilitated the water disposal (WD) system in the accessible portion of the Clear Creek field and we are actively working on restoring production at the two initially targeted wells, despite the extreme winter weather conditions that set in several weeks ago.

#### Helper

The wells listed in the NOV for the Helper Field are all modern wells, having been drilled in 2005 or later. This field was in production until October 2010, though the wells are now shut in. All of the Helper wells listed in the NOV are currently attached to a gas and water system (the Anadarko sales and SWD system). This system is controlled entirely by Anadarko. Marion conducted an inspection of the Helper Field on 1-16-13 and confirmed that there is no evidence of any gas or water leaks at any of the wells. We understand that DOGM has also recently inspected the Helper Field and reached the same conclusion. Marion plans to bring this field into operation soon, as finances allow. Please be advised that Marion has already provided wellbore diagrams of all of the wells referenced below.



#### Ballpark Canyon 16-2X

This well is only drilled to 500 feet on the Ballpark site with surface casing set. The casing is 18" above the ground and it has a cap welded on the casing. This well was a replacement for the Ballpark Canyon 16-2 where the drilling was lost on the well while drilling surface pipe. Marion plans to drill this well to the Ferron in the future.

#### Ballpark Canyon 17-2

This well is the same as the 16-2X well, and has been only drilled to 500 feet with surface casing set. It is currently capped on the surface.

#### Ballpark Canyon #1

This well is drilled as a Ferron well and has been completed. It has been producing in the past though it is currently shut in. There is a pumping unit on the well. Among the Helper Field wells, this well is the one that has the closest proximity to occupied structures. We closely inspected this well on 1-16-13 and confirmed that there are no issues.

#### Cordingly Canyon 10-1

This well was drilled as a Ferron producer. However because of hole issues in the deeper section it was expected to be completed as a Mancos well. Marion plans to complete the well, and produce the well in the future.

#### Kenilworth RR#1A

We had originally drilled this well to be a SWD well for Helper. However we had positive response from the Buckhorn Conglomerate and we completed the well in that zone. The well has produced in the past and we will plan to bring it back online soon. A situation regarding the wellhead leaking at the site was handled by our operations people and the well site is now clean of this spill.

#### Kenilworth RR#1

This well was producing until it was shut in. There is a pumping unit on the well. Marion plans to bring this well into production soon.

#### Kenilworth RR#2

This well was producing until it was shut in. There is a pumping unit on the well. Marion plans to bring this well into production soon.

#### Cordingly Canyon 15-5

This well was drilled to the Mancos formation and was completed. It did produce for a short time before being shut in. Marion plans to work on this well and to produce it soon.



#### Cordingly Canyon 15-2

This well was drilled to the Ferron formation and was completed. This well was producing until it was shut in. There is not currently a hydraulic pumping unit on the well. Marion plans to work on the well, replace the pumping unit and bring it back into production soon.

#### Cordingly Canyon 15-1

This well was drilled to the Ferron formation and was completed. This well was producing until it was shut in. It currently has a pumping unit on the well. Marion plans to bring this well into production soon.

#### Cordingly Canyon 11-1

This well was drilled to the Ferron formation and was completed. This well was producing until it was shut in. There is not currently a hydraulic pumping unit on the well. Marion plans to work on the well, replace the pumping unit and bring it into production soon.

#### Clear Creek

The NOV lists two wells in the Clear Creek Field, the ASD 6-17 and the Oman 10-29. Both of these are modern wells drilled after 2005. The Clear Creek Field came off production in July 2011 due to financial issues and a rupture in the water disposal line. We have inspected both of these wells in the last few weeks and neither has any leaks or other problems.

Following the Board hearing in late October, Marion has re-commenced operations in the Clear Creek Field. It has done an MIT on the current SWD well (the ASD 3-17). It has replaced several Air Vacs on the water line in the field, and tested the whole system. It has commenced operations in the field on two wells, the Oman 2-20 and the Oman 10-29. Given its financial situation improving, Marion plans to expand operations to additional Clear Creek wells in the near future. Please be advised that Marion has provided wellbore diagrams on these wells in the past.

#### ASD 6-17

This well was drilled as a Ferron well and was completed. Marion submitted applications to convert this well and the ASD 3-17 well into WD wells, to ensure that at least one WD well was permitted. After the ASD 3-17 was approved, it was determined that it would suffice and another WD well was not needed at that time. The well currently has a rotaflex pumping unit on it. Marion plans to commence operations on this well and bring it on to production soon.

#### Oman 10-29

This well was drilled to the Ferron but was not completed. Since resuming operations in the Clear Creek field in November, Marion has sent in a completion form for the well, and has done a flow test on the well. Recent operations in the last month have seen a production pump placed on the well. As weather improves in the area Marion will produce the well.



**Bonding**

Marion does not currently have the financial wherewithal to undertake full cost bonding of all of the wells listed in the NOV, and will not be in a condition to do so until its financial situation further improves. We note, however, that Marion currently is bonded with DOGM for \$451,500 (\$421,500 surety bond and \$30,000 cash bond), and DOGM holds an additional \$184,000 of cash for reclamation of Marion wells, meaning there is over \$630,000 in place with DOGM for reclamation. When added to Marion's federal and SITLA bonds, there is just under \$1,000,000 currently available for Marion reclamation.

Based on the above information, Marion respectfully requests that DOGM extend the SI/TA status on these wells, and withhold further enforcement action while Marion brings the Clear Creek Field back on production and continues to improve its financial condition to the point it can put move back into the Helper field and put those wells back into production as well, thereby removing the wells from SI/TA status.

We would be happy to meet with you to further discuss this matter. In the meantime, feel free to contact us should you need anything further.

Yours Sincerely,

A handwritten signature in black ink, appearing to read "Keri Clarke", with a stylized flourish at the end.

Keri Clarke



JON M. HUNTSMAN, JR.  
Governor

GARY R. HERBERT  
Lieutenant Governor

# State of Utah

## DEPARTMENT OF NATURAL RESOURCES

MICHAEL R. STYLER  
Executive Director

### Division of Oil, Gas and Mining

JOHN R. BAZA  
Division Director

## DIVISION ORDER

February 22, 2013

Certified Mail #7010 1670 0001 4810 3898

Marion Energy  
Attn: Keri Clarke  
3580 Orr Road  
Allen, TX 75002

BS IOE 16

RE: Division Order to Comply with the Notice of Violation Issued to Marion Energy on January 3, 2013

The Division of Oil, Gas and Mining (Division) memorializes the actions Marion Energy (Marion) is required to perform in order to return the wells listed below to compliance under Utah Admin. Code R649-3-36.

- |                                |                    |
|--------------------------------|--------------------|
| 1) BALLPARK CYN 16-2X          | API # 43-007-31207 |
| 2) CORDINGLY CYN 10-1          | API # 43-007-31173 |
| 3) BALLPARK CYN 17-2           | API # 43-007-31169 |
| 4) KENILWORTH RR 1-A           | API # 43-007-31229 |
| 5) ALPINE SCHOOL DISTRICT 6-17 | API # 43-007-31181 |
| 6) OMAN 10-29                  | API # 43-007-31210 |
| 7) BALLPARK CYN #1             | API # 43-007-31015 |
| 8) CORDINGLY CYN 15-5          | API # 43-007-31167 |
| 9) KENILWORTH RR #1            | API # 43-007-31006 |
| 10) KENILWORTH RR #2           | API # 43-007-31007 |
| 11) CORDINGLY CYN 15-2         | API # 43-007-31064 |
| 12) CORDINGLY CYN 15-1         | API # 43-007-31065 |
| 13) CORDINGLY CYN 11-1         | API # 43-007-31070 |

The Division requires the following actions to be completed by Marion Energy by the prescribed dates listed below:

- 1) Provide the following monthly readings for each well listed above on the first of every month beginning on April 1, 2013.
  - a. Surface Pressure
  - b. Casing Pressure
  - c. Fluid Levels



February 22, 2013

Subject: Division Order to Comply with Notice of Violation

- 2) Plug and abandon the following wells by:
  - a. BALLPARK CYN 16-2X July 1, 2013
  - b. BALLPARK CYN 17-2 July 1, 2013
  - c. CORDINGLY CYN 10-1 July 1, 2013
  
- 3) Return the remaining wells not listed in Paragraph 2 to compliance by production, a MIT and plan in accordance with U.A.C. R649-3-36, or plug and abandon by July 1, 2013.

Marion has the right to appeal the Division Order by filing to the Board of Oil, Gas and Mining a request for review according to procedures set forth in R649-10-6. A request for review of a Division Order must be filed with the secretary to the Board, Julie Ann Carter (801) 538-5277, within 30 days of issuance of the order.

In the event Marion does not comply with the Division Order by the dates listed above, the Division will file for a formal hearing before the Board of Oil, Gas and Mining, as described in the U.A.C. R641, requesting a Board Order to plug and restore the well sites. Should this matter be brought before the Board, the Division will seek bond forfeiture (R649-3-36), liability for plugging costs in excess of bond forfeiture amounts (R649-3-1-4) and civil penalties of up to \$10,000 per day for each day of violation (Utah Code Ann. § 40-6-11).

Questions regarding this order may be directed to Clinton Dworshak, Compliance Manager at (801)-538-5280 or Dustin Doucet, Engineer, at (801) 538-5281.

Sincerely,

  
Clinton Dworshak  
Compliance Manager

CLD/js

Exhibit

cc: John Rogers, Associate Director  
Cameron Johnson, Assistant Attorney General  
Dustin Doucet, Engineer  
Compliance File  
Well Files

UTAH DEPARTMENT OF NATURAL RESOURCES

Division of Oil, Gas & Mining

Oil and Gas Program

1594 West North Temple, Suite 1210, Box 145801

Salt Lake City, Utah 84114-5801

(801) 538-5340 Phone

(801) 359-3940 Fax

**NOTICE OF VIOLATION**  
**STATE OF UTAH**  
**OIL AND GAS CONSERVATION ACT**

\*\*\*\*\*

To the following operator:

Name: MARION ENERGY INC.

Well(s) or Site(s): 1.) <u>BALLPARK CYN 16-2X</u>	API #: <u>43-007-31207</u>
2.) <u>CORDINGLY CYN 10-1</u>	<u>43-007-31173</u>
3.) <u>BALLPARK CYN 17-2</u>	<u>43-007-31169</u>
4.) <u>KENILWORTH RR 1-A</u>	<u>43-007-31229</u>
5.) <u>ALPINE SCHOOL DISTRICT 6-17</u>	<u>43-007-31181</u>
6.) <u>OMAN 10-29</u>	<u>43-007-31210</u>
7.) <u>BALLPARK CANYON #1</u>	<u>43-007-31015</u>
8.) <u>CORDINGLY CYN 15-5</u>	<u>43-007-31167</u>
9.) <u>KENILWORTH RR #1</u>	<u>43-007-31006</u>
10.) <u>KENILWORTH RR#2</u>	<u>43-007-31007</u>
11.) <u>CORDINGLY CYN 15-2</u>	<u>43-007-31064</u>
12.) <u>CORDINGLY CYN 15-1</u>	<u>43-007-31065</u>
13.) <u>CORDINGLY CYN 11-1</u>	<u>43-007-31070</u>

Date and Time of Inspection/Violation: December 10, 2012

Mailing Address: Attn: Keri Clarke

3580 Orr Road

Allen, TX 75002

Under the authority of the Utah Oil and Gas Conservation Act, Section 40-6 et. Seq., Utah Code Annotated, 1953, as amended, the undersigned authorized representative of the Division of Oil, Gas and Mining (Division) has conducted an inspection of the above described site and/or records on the above date and has found alleged violation(s) of the act, rules or permit conditions as described below.

**Description of Violation(s):**

Rule R649-3-36, Shut-in and Temporarily Abandoned Wells – According to Rule R649-3-36, the operator is required to supply the Division with reasons for extended SI/TA, the length of time for extended SI/TA and proof of well bore integrity for every well SI/TA over 12 consecutive months. After 5 years of continued SI/TA, the wells are to be plugged unless good cause is supplied to the Division for extended SI/TA in addition to the required information just mentioned.

Rule R649-3-4.3, Bonding - if the division finds that a well subject to this bonding rule is in violation of Rule R649-3-36, Shut-in and Temporarily Abandoned Wells, the division shall require a bond amount for the applicable well in the amount of actual plugging and site restoration costs.

Rule R649-3-4.4.1. Bonding - Within 30 days of notification by the division, the operator shall submit to the division an estimate of plugging and site restoration costs for division review and approval.

UTAH DEPARTMENT OF NATURAL RESOURCES

Division of Oil, Gas & Mining

Oil and Gas Program

1594 West North Temple, Suite 1210, Box 145801

Salt Lake City, Utah 84114-5801

(801) 538-5340 Phone

(801) 359-3940 Fax

The Division has initiated several contacts with Marion Energy Inc. (Marion) requesting required documents and action per R649-3-36. Wells 1 - 6 have previously been issued SIT/A Notices and Notices of Violation without anything being accomplished to move these wells out of violation. Wells 7 and 8 have also been issued a SIT/A Notice without having met the requirements of R649-3-36. Wells 9 - 13 are also in violation of R649-3-36 having been added to Marion's SIT/A violation list. All wells listed above are currently under a Division Order for individual well bonding.

There has not been any evidence of effort being made to bring these wells into compliance. These wells are in violation of R-649-3-36 as listed above. The Division requires Marion to put up full cost bonding for all wells in violation above per R649-3-4. It is also mandatory that Marion submit all documentation as required by R649-3-36 concerning shut-in and temporarily abandoned wells.

Immediate Action: For the wells subject to this notice, Marion shall fulfill full cost bonding requirements for each well. Marion shall also submit all information as required by R649-3-36 or plug and abandon or place the wells on production.

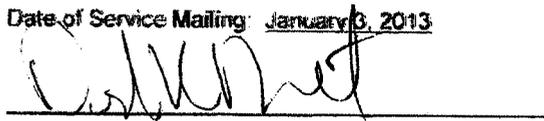
\* Fines may be levied up to \$18,000.00 per day for every well in violation given the authority provided under U.C.A. 40-6-11, part 4.

This notice shall remain in effect until it is modified, terminated, or vacated by a written notice of an authorized representative of the director of the Division of Oil, Gas and Mining. Failure to comply with this notice will result in the Division pursuing further actions against said operator. Further actions may include initiation of agency actions to order full cost bonding and plugging and abandonment of wells and requests for bond forfeiture and civil penalties.

Compliance Deadline: February 8, 2013

Date of Service Mailing: January 9, 2013

Certified Mail No: 7010 1670 0001 4810 3645



Division's Representative

Operator or Representative  
(If presented in person)

cc: Compliance File  
Well Files  
SIT/A

6/2005



February 5, 2013

Department of Natural Resources  
Division of Oil Gas and Mining  
1594 West North Temple, Suite 1210  
Price, Utah 84114

Attention: Dustin Doucet  
Petroleum Engineer

Re: Notification of Violation January 3, 2013  
Operation Plan

43 007 31007  
Kenilworth RR #2  
135 10E 16

Dear Dustin,

Following up on our earlier (Jan. 18, 2013) letter to the Division, and subsequent discussions between Marion, Michael Malmquist of Parsons Behle, and Cameron Johnson, attorney for the Division of Oil Gas and Mining, Marion has been asked to put together a plan of operation for the wells mentioned on the referenced violation. As the Division is aware Marion is currently improving its financial situation. This will allow Marion to operate the fields in Utah fully, as it has done so in the past. From this situation Marion will plan to do the following;

#### Helper

Currently all the wells in Helper are connected to the Anadarko gas and water disposal system. Each of the wells on the Kenilworth and Cordingly sides of the field are connected by a closed gas and water pipeline system to the Anadarko connection point, through a Marion right of way. This system is currently shut down. Marion will have to contact Anadarko to set the system operational again. Marion currently has a gas purchase and water disposal agreement in place with Anadarko. Prior to resuming operations Marion will need to inspect each well to determine whether equipment is missing (due to scavenging) or otherwise in need of replacement or rehabilitation before the wells can be turned back on.

#### Ballpark Canyon 16-2X

This well is currently drilled to 500' with surface casing set in the shallow hole. This well will need a rig set to allow Marion to set cement in the hole, reduce the surface casing, cap the well and abandon the well. This well will be abandoned by the date of the June Board hearing being June 26, 2013.

#### Ballpark Canyon 17-2

This well is currently drilled to 500' with surface casing set in the shallow hole. This well will need a rig set to allow Marion to set cement in the hole, reduce the surface casing, cap the well and abandon the well. This well will be abandoned by the date of the June Board hearing being June 26, 2013.



#### Cordingly Canyon 10-1

This well has not been completed in the Mancos section of the well. Because of downhole well problems Marion plans to set a rig, plug the well with cement and abandon the well. This well will be abandoned by the date August 8, 2013.

#### Kenilworth Railroad #1A

This well was last produced in February 2009. It is a Buckhorn Conglomerate well and is capable of production. This well currently has a pumping unit on the well. We will attempt to bring the well on production prior to the end of 2013. If the well is not producing an MIT will be done.

#### Balipark Canyon #1

This well was last produced in July 2010. It is a Ferron well and currently has a pumping unit on the well. We will attempt to bring the well on production prior to the end of 2013. If the well is not producing an MIT will be done.

#### Kenilworth Railroad #1

This well was last produced in September 2010. It is a Ferron well and currently has a pumping unit on the well. We will attempt to bring the well on production prior to the end of 2013. If the well is not producing an MIT will be done.

#### Kenilworth Railroad #2

This well was last produced in September 2010. It is a Ferron well and currently has a pumping unit on the well. We will attempt to bring the well on production prior to the end of 2013. If the well is not producing an MIT will be done.

#### Cordingly Canyon 15-5

This well was last produced in April 2010. It is a Mancos well, though it does not currently have a pumping unit on the well. Marion will replace the equipment needed and will attempt to bring the well on production prior to the end of 2013. If the well is not producing an MIT will be done.

#### Cordingly Canyon 15-1

This well was last produced in September 2010. This is a Ferron well and currently has a pumping unit on the well. We will attempt to bring the well on production prior to the end of 2013. If the well is not producing an MIT will be done.

#### Cordingly Canyon 15-2

This well was last produced in September 2010. This is a Ferron well, though it does not have a hydraulic pumping unit on the well. Marion will replace the equipment needed, and will attempt to bring the well on production prior to the end of 2013. If the well is not producing an MIT will be done.



Cordingly Canyon 11-1

This well was last produced in September 2010. This is a Ferron well, though it does not have a hydraulic pumping unit on the well. Marion will replace the equipment needed, and will attempt to bring the well on production prior to the end of 2013. If the well is not producing an MIT will be done.

Clear Creek

Oman 10-29.

This well was drilled to the Ferron formation but was not completed. Recent operations in the last month have seen a production pump placed on the well. As weather improves in the area Marion will attempt to produce the well.

Alpine School District 6-17

This well was drilled as a Ferron well and was completed. Marion submitted applications to convert this well and the ASD 3-17 well into water disposal wells. After the ASD 3017 was approved, it was determined that one well was needed, and another WD well was not needed at that time. The well currently has a rotaflex pumping unit on it. Marion plans to attempt production from the well by the end of 2013. If the well is not producing an MIT will be done.

Marion is proposing this plan to address the January 3, 2013 Notice of Violation. Given the constraints of Marion's financial situation, we believe the plan contains reasonable time frames for conducting work either to abandon or put back on production the wells listed in the NOV. We look forward to hearing from you regarding this matter.

Yours Sincerely

A handwritten signature in black ink, appearing to read "Keri Clarke", with a stylized flourish at the end.

Keri Clarke



February 13, 2013

Department of Natural Resources  
Division of Oil Gas and Mining  
1594 West North Temple, Suite 1210  
Salt Lake City, Utah 84114

Attention: Cameron Johnson, Assistant Attorney General

Re: Notification of Violation January 3, 2013  
Operation Plan

Dear Cameron,

This responds to the email you sent to Mike Malmquist on behalf of the Division on February 8, 2013.

Anadarko Gas Purchase and Water Disposal Agreements

Marion has in place a Gas Purchase Agreement with Anadarko to purchase all gas produced in the field. Anadarko has historically purchased gas from the field and will continue to do so in the future. Marion also has a Water Disposal System Agreement with Anadarko for all water produced in the Helper field. Currently, Marion owes Anadarko of \$47,500 for water disposal fees from historical production. As its financial situation improves Marion will settle the account. Beyond settling its account, Marion does not anticipate any commercial issues with Anadarko that could interfere with gas sales or water disposal.

Water Disposal and Gas Gathering System

Once Marion completed its initial drilling program in the Helper Field and established that the wells were productive, two separate HDPE trunk lines were laid, one for gas and one for water. Each of the wells was tied in to the trunk lines utilizing HDPE pipe. The tie lines and trunk lines are owned by Marion. The trunk lines terminate at a facility built and operated by Anadarko near Kenilworth. A free water knock-out was set to drop out any water in suspension with the gas before delivery into Anadarko. The system is a closed system. Natural gas production at the Helper field was suspended when Marion ran into financial issues. This decision to suspend production was made by Marion due to the cash and human resource issues, not by Anadarko locking the company out of the system. Each well was isolated from the gas and water lines by shutting the respective valves at each wellhead. Additionally, at the time the field was shut-in

Anadarko was made aware of the Marion situation. Subsequently, Anadarko field personnel secured the aforementioned equipment. The Helper pipeline system was fully operational and problem free when it was shut down. We would not anticipate any problems with the pipe itself, but here maybe some wellhead valves that will need to be examined before recommencing field operations.

Financial Situation

Marion does not believe that these negotiations are in vain due to its financial condition. Marion has reason to believe that its financial situation will improve within a time frame that accommodates the compliance schedule addressed in this and prior letters. More specifically, Marion expects to have

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3580 Orr Road,  
Allen, Texas, 75002



access to additional funding during the first half of March 2013 that will allow it to begin the work in the Helper field, with another infusion in May 2013.

#### Produce or MIT Wells

Marion does not believe that it can produce the wells by April 1, 2013. Marion accepts the Division's proposal to divide the wells into Pods with associated MIT completion dates, but proposes that an additional month be added to the proposed MIT completion date for each pod, as well as the full cost bonding and backup date. This timing is more consistent with Marion's expectation of when it will have the available financial resources.

Pod 1: Ballpark Canyon #1, Kenilworth Railroad #1A, #1, #2: The MIT date for this pod of wells would be June 1, 2013. The work would begin on the Kenilworth Railroad #1A. The backup date for full cost bonding and showing of well integrity would be July 1, 2013.

Pod 2: Cordingly Canyon 15-5, 15-2, 15-1, 11-1: The MIT date for this pod of wells would be August 1, 2013. The backup date for full cost bonding and showing of well integrity would be September 1, 2013.

#### Pressure and Fluid Level Information

With regard to DOGM's request for information on pressures and fluid levels in the Helper wells, we would like to make the following comments. First, any field data that was acquired while the field was operational will only show what the operating pressure of the system was. Typically, Anadarko was able to keep enough compression operating field-wide to maintain 25-30 psi on our gas system. Second, the water system in essence gravity fed into the Anadarko system, and as such, there was negligible pressure on this line at all times. Third, since the mechanical integrity of the casing is the concern, the tubing pressure would not provide meaningful information.

We are not sure if the sentence is supposed to read "production pressures" and if so what that would mean exactly. As stated before, the field pressure was 25-30 psi when the field was in operation. Since the field is currently shut in there is no production or "production pressure." All previous production has been reported. Concerning the last part of the sentence dealing with surface pressures, fluid levels etc., we see no definitive correlation between those items and casing integrity. Gathering such information now, and particularly given Marion's need to be as efficient as possible with money and personnel, would not appear to be a productive expenditure of resources. Marion proposes that this request be withdrawn, and that we be allowed to focus on putting ourselves in a position to undertake MITs, which are the true measure of well integrity, on the schedule proposed above. We would expect that when Marion enters the Helper field to begin the MIT process the fluid levels and surface wellhead pressure data will be gathered for reservoir engineering reasons, and we would be happy to provide that information to the Division as it is obtained.

Marion hopes this letter addresses the comments and requirements outlined by the Oil and Gas Division in your email from February 8, 2013.

We look forward to hearing from you.

Yours Sincerely

Keri Clarke

---

3580 Orr Road,  
Allen, Texas, 75002



January 18, 2013

Department of Natural Resources  
Division of Oil and Gas & Mining  
1594 West North Temple, Suite 1210  
Salt Lake City, Utah 84114

43 007 31007  
Kenilworth RR # 2  
13S 10E 16

Attention: Dustin Doucet

Re: Notice of Violation – Clear Creek and Helper Fields

Dear Dustin,

In response to your certified letter of January 3, 2013, we are providing you with information for wells that are currently structured as shut in or temporarily abandoned wells (SI/TA) by DOGM. Each well has individual information and is listed below.

As you know, for the last two and a half years Marion Energy Inc. (Marion) has been under financial stress that has not allowed active operations in the Clear Creek and Helper fields, beyond maintaining a field presence and taking some limited, preliminary actions to resuming operations. In the last few months, however, Marion has been able to improve its financial position to the point of resuming active operations in the Clear Creek field, with further financial improvement expected as that field is put back on production.

Marion explained these circumstances to DOGM and the Board of Oil, Gas and Mining at the October 26, 2012 hearing, where Marion sought and obtained Board approval to reinstitute active operations at Clear Creek. As discussed at the hearing, Marion's funding is currently limited to the monies needed to put the Clear Creek field back on production, beginning with the Oman 2-20 and Oman 10-29 wells, but once that occurs Marion expects its financial position to continue to improve to the point it can meet all of its obligations with respect to its SI/TA wells, and to move back into active operations at the Helper Field

Consistent with discussions at the October Board hearing, we have now rehabilitated the water disposal (WD) system in the accessible portion of the Clear Creek field and we are actively working on restoring production at the two initially targeted wells, despite the extreme winter weather conditions that set in several weeks ago.

#### Helper

The wells listed in the NOV for the Helper Field are all modern wells, having been drilled in 2005 or later. This field was in production until October 2010, though the wells are now shut in. All of the Helper wells listed in the NOV are currently attached to a gas and water system (the Anadarko sales and SWD system). This system is controlled entirely by Anadarko. Marion conducted an inspection of the Helper Field on 1-16-13 and confirmed that there is no evidence of any gas or water leaks at any of the wells. We understand that DOGM has also recently inspected the Helper Field and reached the same conclusion. Marion plans to bring this field into operation soon, as finances allow. Please be advised that Marion has already provided wellbore diagrams of all of the wells referenced below.



#### Ballpark Canyon 16-2X

This well is only drilled to 500 feet on the Ballpark site with surface casing set. The casing is 18" above the ground and it has a cap welded on the casing. This well was a replacement for the Ballpark Canyon 16-2 where the drilling was lost on the well while drilling surface pipe. Marion plans to drill this well to the Ferron in the future.

#### Ballpark Canyon 17-2

This well is the same as the 16-2X well, and has been only drilled to 500 feet with surface casing set. It is currently capped on the surface.

#### Ballpark Canyon #1

This well is drilled as a Ferron well and has been completed. It has been producing in the past though it is currently shut in. There is a pumping unit on the well. Among the Helper Field wells, this well is the one that has the closest proximity to occupied structures. We closely inspected this well on 1-16-13 and confirmed that there are no issues.

#### Cordingly Canyon 10-1

This well was drilled as a Ferron producer. However because of hole issues in the deeper section it was expected to be completed as a Mancos well. Marion plans to complete the well, and produce the well in the future.

#### Kenilworth RR#1A

We had originally drilled this well to be a SWD well for Helper. However we had positive response from the Buckhorn Conglomerate and we completed the well in that zone. The well has produced in the past and we will plan to bring it back online soon. A situation regarding the wellhead leaking at the site was handled by our operations people and the well site is now clean of this spill.

#### Kenilworth RR#1

This well was producing until it was shut in. There is a pumping unit on the well. Marion plans to bring this well into production soon.

#### Kenilworth RR#2

This well was producing until it was shut in. There is a pumping unit on the well. Marion plans to bring this well into production soon.

#### Cordingly Canyon 15-5

This well was drilled to the Mancos formation and was completed. It did produce for a short time before being shut in. Marion plans to work on this well and to produce it soon.



#### Cordingly Canyon 15-2

This well was drilled to the Ferron formation and was completed. This well was producing until it was shut in. There is not currently a hydraulic pumping unit on the well. Marion plans to work on the well, replace the pumping unit and bring it back into production soon.

#### Cordingly Canyon 15-1

This well was drilled to the Ferron formation and was completed. This well was producing until it was shut in. It currently has a pumping unit on the well. Marion plans to bring this well into production soon.

#### Cordingly Canyon 11-1

This well was drilled to the Ferron formation and was completed. This well was producing until it was shut in. There is not currently a hydraulic pumping unit on the well. Marion plans to work on the well, replace the pumping unit and bring it into production soon.

#### Clear Creek

The NOV lists two wells in the Clear Creek Field, the ASD 6-17 and the Oman 10-29. Both of these are modern wells drilled after 2005. The Clear Creek Field came off production in July 2011 due to financial issues and a rupture in the water disposal line. We have inspected both of these wells in the last few weeks and neither has any leaks or other problems.

Following the Board hearing in late October, Marion has re-commenced operations in the Clear Creek Field. It has done an MIT on the current SWD well (the ASD 3-17). It has replaced several Air Vacs on the water line in the field, and tested the whole system. It has commenced operations in the field on two wells, the Oman 2-20 and the Oman 10-29. Given its financial situation improving, Marion plans to expand operations to additional Clear Creek wells in the near future. Please be advised that Marion has provided wellbore diagrams on these wells in the past.

#### ASD 6-17

This well was drilled as a Ferron well and was completed. Marion submitted applications to convert this well and the ASD 3-17 well into WD wells, to ensure that at least one WD well was permitted. After the ASD 3-17 was approved, it was determined that it would suffice and another WD well was not needed at that time. The well currently has a rotaflex pumping unit on it. Marion plans to commence operations on this well and bring it on to production soon.

#### Oman 10-29

This well was drilled to the Ferron but was not completed. Since resuming operations in the Clear Creek field in November, Marion has sent in a completion form for the well, and has done a flow test on the well. Recent operations in the last month have seen a production pump placed on the well. As weather improves in the area Marion will produce the well.



**Bonding**

Marion does not currently have the financial wherewithal to undertake full cost bonding of all of the wells listed in the NOV, and will not be in a condition to do so until its financial situation further improves. We note, however, that Marion currently is bonded with DOGM for \$451,500 (\$421,500 surety bond and \$30,000 cash bond), and DOGM holds an additional \$184,000 of cash for reclamation of Marion wells, meaning there is over \$630,000 in place with DOGM for reclamation. When added to Marion's federal and SITLA bonds, there is just under \$1,000,000 currently available for Marion reclamation.

Based on the above information, Marion respectfully requests that DOGM extend the SI/TA status on these wells, and withhold further enforcement action while Marion brings the Clear Creek Field back on production and continues to improve its financial condition to the point it can put move back into the Helper field and put those wells back into production as well, thereby removing the wells from SI/TA status.

We would be happy to meet with you to further discuss this matter. In the meantime, feel free to contact us should you need anything further.

Yours Sincerely,

A handwritten signature in black ink, appearing to read "Keri Clarke", with a stylized flourish at the end.

Keri Clarke



JON M. HUNTSMAN, JR.  
Governor

GARY R. HERBERT  
Lieutenant Governor

# State of Utah

## DEPARTMENT OF NATURAL RESOURCES

MICHAEL R. STYLER  
Executive Director

### Division of Oil, Gas and Mining

JOHN R. BAZA  
Division Director

## DIVISION ORDER

February 22, 2013

Certified Mail #7010 1670 0001 4810 3898

Marion Energy  
Attn: Keri Clarke  
3580 Orr Road  
Allen, TX 75002

BS IOE 16

RE: Division Order to Comply with the Notice of Violation Issued to Marion Energy on January 3, 2013

The Division of Oil, Gas and Mining (Division) memorializes the actions Marion Energy (Marion) is required to perform in order to return the wells listed below to compliance under Utah Admin. Code R649-3-36.

- |                                |                    |
|--------------------------------|--------------------|
| 1) BALLPARK CYN 16-2X          | API # 43-007-31207 |
| 2) CORDINGLY CYN 10-1          | API # 43-007-31173 |
| 3) BALLPARK CYN 17-2           | API # 43-007-31169 |
| 4) KENILWORTH RR 1-A           | API # 43-007-31229 |
| 5) ALPINE SCHOOL DISTRICT 6-17 | API # 43-007-31181 |
| 6) OMAN 10-29                  | API # 43-007-31210 |
| 7) BALLPARK CYN #1             | API # 43-007-31015 |
| 8) CORDINGLY CYN 15-5          | API # 43-007-31167 |
| 9) KENILWORTH RR #1            | API # 43-007-31006 |
| 10) KENILWORTH RR #2           | API # 43-007-31007 |
| 11) CORDINGLY CYN 15-2         | API # 43-007-31064 |
| 12) CORDINGLY CYN 15-1         | API # 43-007-31065 |
| 13) CORDINGLY CYN 11-1         | API # 43-007-31070 |

The Division requires the following actions to be completed by Marion Energy by the prescribed dates listed below:

- 1) Provide the following monthly readings for each well listed above on the first of every month beginning on April 1, 2013.
  - a. Surface Pressure
  - b. Casing Pressure
  - c. Fluid Levels



Page 2

February 22, 2013

Subject: Division Order to Comply with Notice of Violation

- 2) Plug and abandon the following wells by:
  - a. BALLPARK CYN 16-2X July 1, 2013
  - b. BALLPARK CYN 17-2 July 1, 2013
  - c. CORDINGLY CYN 10-1 July 1, 2013
- 3) Return the remaining wells not listed in Paragraph 2 to compliance by production, a MIT and plan in accordance with U.A.C. R649-3-36, or plug and abandon by July 1, 2013.

Marion has the right to appeal the Division Order by filing to the Board of Oil, Gas and Mining a request for review according to procedures set forth in R649-10-6. A request for review of a Division Order must be filed with the secretary to the Board, Julie Ann Carter (801) 538-5277, within 30 days of issuance of the order.

In the event Marion does not comply with the Division Order by the dates listed above, the Division will file for a formal hearing before the Board of Oil, Gas and Mining, as described in the U.A.C. R641, requesting a Board Order to plug and restore the well sites. Should this matter be brought before the Board, the Division will seek bond forfeiture (R649-3-36), liability for plugging costs in excess of bond forfeiture amounts (R649-3-1-4) and civil penalties of up to \$10,000 per day for each day of violation (Utah Code Ann. § 40-6-11).

Questions regarding this order may be directed to Clinton Dworshak, Compliance Manager at (801)-538-5280 or Dustin Doucet, Engineer, at (801) 538-5281.

Sincerely,

  
Clinton Dworshak  
Compliance Manager

CLD/js

Exhibit

cc: John Rogers, Associate Director  
Cameron Johnson, Assistant Attorney General  
Dustin Doucet, Engineer  
Compliance File  
Well Files

UTAH DEPARTMENT OF NATURAL RESOURCES

Division of Oil, Gas & Mining

Oil and Gas Program

1594 West North Temple, Suite 1210, Box 145801

Salt Lake City, Utah 84114-5801

(801) 538-5340 Phone

(801) 359-3940 Fax

**NOTICE OF VIOLATION**  
**STATE OF UTAH**  
**OIL AND GAS CONSERVATION ACT**

\*\*\*\*\*

To the following operator:

Name: MARION ENERGY INC.

Well(s) or Site(s): 1.) <u>BALLPARK CYN 16-2X</u>	API #: <u>43-007-31207</u>
2.) <u>CORDINGLY CYN 10-1</u>	<u>43-007-31173</u>
3.) <u>BALLPARK CYN 17-2</u>	<u>43-007-31169</u>
4.) <u>KENILWORTH RR 1-A</u>	<u>43-007-31229</u>
5.) <u>ALPINE SCHOOL DISTRICT 6-17</u>	<u>43-007-31181</u>
6.) <u>OMAN 10-29</u>	<u>43-007-31210</u>
7.) <u>BALLPARK CANYON #1</u>	<u>43-007-31015</u>
8.) <u>CORDINGLY CYN 15-5</u>	<u>43-007-31167</u>
9.) <u>KENILWORTH RR #1</u>	<u>43-007-31006</u>
10.) <u>KENILWORTH RR#2</u>	<u>43-007-31007</u>
11.) <u>CORDINGLY CYN 15-2</u>	<u>43-007-31064</u>
12.) <u>CORDINGLY CYN 15-1</u>	<u>43-007-31065</u>
13.) <u>CORDINGLY CYN 11-1</u>	<u>43-007-31070</u>

Date and Time of Inspection/Violation: December 10, 2012

Mailing Address: Attn: Keri Clarke

3580 Orr Road

Allen, TX 75002

Under the authority of the Utah Oil and Gas Conservation Act, Section 40-6 et. Seq., Utah Code Annotated, 1953, as amended, the undersigned authorized representative of the Division of Oil, Gas and Mining (Division) has conducted an inspection of the above described site and/or records on the above date and has found alleged violation(s) of the act, rules or permit conditions as described below.

**Description of Violation(s):**

Rule R649-3-36, Shut-in and Temporarily Abandoned Wells – According to Rule R649-3-36, the operator is required to supply the Division with reasons for extended SI/TA, the length of time for extended SI/TA and proof of well bore integrity for every well SI/TA over 12 consecutive months. After 5 years of continued SI/TA, the wells are to be plugged unless good cause is supplied to the Division for extended SI/TA in addition to the required information just mentioned.

Rule R649-3-4.3, Bonding - if the division finds that a well subject to this bonding rule is in violation of Rule R649-3-36, Shut-in and Temporarily Abandoned Wells, the division shall require a bond amount for the applicable well in the amount of actual plugging and site restoration costs.

Rule R649-3-4.4.1. Bonding - Within 30 days of notification by the division, the operator shall submit to the division an estimate of plugging and site restoration costs for division review and approval.

UTAH DEPARTMENT OF NATURAL RESOURCES

Division of Oil, Gas & Mining

Oil and Gas Program

1594 West North Temple, Suite 1210, Box 145801

Salt Lake City, Utah 84114-5801

(801) 538-5340 Phone

(801) 359-3940 Fax

The Division has initiated several contacts with Marion Energy Inc. (Marion) requesting required documents and action per R649-3-36. Wells 1 - 6 have previously been issued SIT/A Notices and Notices of Violation without anything being accomplished to move these wells out of violation. Wells 7 and 8 have also been issued a SIT/A Notice without having met the requirements of R649-3-36. Wells 9 - 13 are also in violation of R649-3-36 having been added to Marion's SIT/A violation list. All wells listed above are currently under a Division Order for individual well bonding.

There has not been any evidence of effort being made to bring these wells into compliance. These wells are in violation of R-649-3-36 as listed above. The Division requires Marion to put up full cost bonding for all wells in violation above per R649-3-4. It is also mandatory that Marion submit all documentation as required by R649-3-36 concerning shut-in and temporarily abandoned wells.

Immediate Action: For the wells subject to this notice, Marion shall fulfill full cost bonding requirements for each well. Marion shall also submit all information as required by R649-3-36 or plug and abandon or place the wells on production.

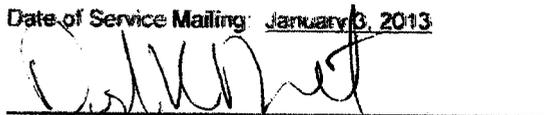
\* Fines may be levied up to \$18,000.00 per day for every well in violation given the authority provided under U.C.A. 40-6-11, part 4.

This notice shall remain in effect until it is modified, terminated, or vacated by a written notice of an authorized representative of the director of the Division of Oil, Gas and Mining. Failure to comply with this notice will result in the Division pursuing further actions against said operator. Further actions may include initiation of agency actions to order full cost bonding and plugging and abandonment of wells and requests for bond forfeiture and civil penalties.

**Compliance Deadline: February 8, 2013**

Date of Service Mailing: January 9, 2013

Certified Mail No: 7010 1670 0001 4810 3645



Division's Representative

Operator or Representative

(If presented in person)

cc: Compliance File  
Well Files  
SIT/A

6/2005



February 5, 2013

Department of Natural Resources  
Division of Oil Gas and Mining  
1594 West North Temple, Suite 1210  
Price, Utah 84114

Attention: Dustin Doucet  
Petroleum Engineer

Re: Notification of Violation January 3, 2013  
Operation Plan

43 007 31007  
Kenilworth RR #2  
135 10E 16

Dear Dustin,

Following up on our earlier (Jan. 18, 2013) letter to the Division, and subsequent discussions between Marion, Michael Malmquist of Parsons Behle, and Cameron Johnson, attorney for the Division of Oil Gas and Mining, Marion has been asked to put together a plan of operation for the wells mentioned on the referenced violation. As the Division is aware Marion is currently improving its financial situation. This will allow Marion to operate the fields in Utah fully, as it has done so in the past. From this situation Marion will plan to do the following;

#### Helper

Currently all the wells in Helper are connected to the Anadarko gas and water disposal system. Each of the wells on the Kenilworth and Cordingly sides of the field are connected by a closed gas and water pipeline system to the Anadarko connection point, through a Marion right of way. This system is currently shut down. Marion will have to contact Anadarko to set the system operational again. Marion currently has a gas purchase and water disposal agreement in place with Anadarko. Prior to resuming operations Marion will need to inspect each well to determine whether equipment is missing (due to scavenging) or otherwise in need of replacement or rehabilitation before the wells can be turned back on.

#### Ballpark Canyon 16-2X

This well is currently drilled to 500' with surface casing set in the shallow hole. This well will need a rig set to allow Marion to set cement in the hole, reduce the surface casing, cap the well and abandon the well. This well will be abandoned by the date of the June Board hearing being June 26, 2013.

#### Ballpark Canyon 17-2

This well is currently drilled to 500' with surface casing set in the shallow hole. This well will need a rig set to allow Marion to set cement in the hole, reduce the surface casing, cap the well and abandon the well. This well will be abandoned by the date of the June Board hearing being June 26, 2013.



#### Cordingly Canyon 10-1

This well has not been completed in the Mancos section of the well. Because of downhole well problems Marion plans to set a rig, plug the well with cement and abandon the well. This well will be abandoned by the date August 8, 2013.

#### Kenilworth Railroad #1A

This well was last produced in February 2009. It is a Buckhorn Conglomerate well and is capable of production. This well currently has a pumping unit on the well. We will attempt to bring the well on production prior to the end of 2013. If the well is not producing an MIT will be done.

#### Balipark Canyon #1

This well was last produced in July 2010. It is a Ferron well and currently has a pumping unit on the well. We will attempt to bring the well on production prior to the end of 2013. If the well is not producing an MIT will be done.

#### Kenilworth Railroad #1

This well was last produced in September 2010. It is a Ferron well and currently has a pumping unit on the well. We will attempt to bring the well on production prior to the end of 2013. If the well is not producing an MIT will be done.

#### Kenilworth Railroad #2

This well was last produced in September 2010. It is a Ferron well and currently has a pumping unit on the well. We will attempt to bring the well on production prior to the end of 2013. If the well is not producing an MIT will be done.

#### Cordingly Canyon 15-5

This well was last produced in April 2010. It is a Mancos well, though it does not currently have a pumping unit on the well. Marion will replace the equipment needed and will attempt to bring the well on production prior to the end of 2013. If the well is not producing an MIT will be done.

#### Cordingly Canyon 15-1

This well was last produced in September 2010. This is a Ferron well and currently has a pumping unit on the well. We will attempt to bring the well on production prior to the end of 2013. If the well is not producing an MIT will be done.

#### Cordingly Canyon 15-2

This well was last produced in September 2010. This is a Ferron well, though it does not have a hydraulic pumping unit on the well. Marion will replace the equipment needed, and will attempt to bring the well on production prior to the end of 2013. If the well is not producing an MIT will be done.



Cordingly Canyon 11-1

This well was last produced in September 2010. This is a Ferron well, though it does not have a hydraulic pumping unit on the well. Marion will replace the equipment needed, and will attempt to bring the well on production prior to the end of 2013. If the well is not producing an MIT will be done.

Clear Creek

Oman 10-29.

This well was drilled to the Ferron formation but was not completed. Recent operations in the last month have seen a production pump placed on the well. As weather improves in the area Marion will attempt to produce the well.

Alpine School District 6-17

This well was drilled as a Ferron well and was completed. Marion submitted applications to convert this well and the ASD 3-17 well into water disposal wells. After the ASD 3017 was approved, it was determined that one well was needed, and another WD well was not needed at that time. The well currently has a rotaflex pumping unit on it. Marion plans to attempt production from the well by the end of 2013. If the well is not producing an MIT will be done.

Marion is proposing this plan to address the January 3, 2013 Notice of Violation. Given the constraints of Marion's financial situation, we believe the plan contains reasonable time frames for conducting work either to abandon or put back on production the wells listed in the NOV. We look forward to hearing from you regarding this matter.

Yours Sincerely

A handwritten signature in black ink, appearing to read "Keri Clarke", with a stylized flourish at the end.

Keri Clarke



February 13, 2013

Department of Natural Resources  
Division of Oil Gas and Mining  
1594 West North Temple, Suite 1210  
Salt Lake City, Utah 84114

Attention: Cameron Johnson, Assistant Attorney General

Re: Notification of Violation January 3, 2013  
Operation Plan

Dear Cameron,

This responds to the email you sent to Mike Malmquist on behalf of the Division on February 8, 2013.

Anadarko Gas Purchase and Water Disposal Agreements

Marion has in place a Gas Purchase Agreement with Anadarko to purchase all gas produced in the field. Anadarko has historically purchased gas from the field and will continue to do so in the future. Marion also has a Water Disposal System Agreement with Anadarko for all water produced in the Helper field. Currently, Marion owes Anadarko of \$47,500 for water disposal fees from historical production. As its financial situation improves Marion will settle the account. Beyond settling its account, Marion does not anticipate any commercial issues with Anadarko that could interfere with gas sales or water disposal.

Water Disposal and Gas Gathering System

Once Marion completed its initial drilling program in the Helper Field and established that the wells were productive, two separate HDPE trunk lines were laid, one for gas and one for water. Each of the wells was tied in to the trunk lines utilizing HDPE pipe. The tie lines and trunk lines are owned by Marion. The trunk lines terminate at a facility built and operated by Anadarko near Kenilworth. A free water knock-out was set to drop out any water in suspension with the gas before delivery into Anadarko. The system is a closed system. Natural gas production at the Helper field was suspended when Marion ran into financial issues. This decision to suspend production was made by Marion due to the cash and human resource issues, not by Anadarko locking the company out of the system. Each well was isolated from the gas and water lines by shutting the respective valves at each wellhead. Additionally, at the time the field was shut-in

Anadarko was made aware of the Marion situation. Subsequently, Anadarko field personnel secured the aforementioned equipment. The Helper pipeline system was fully operational and problem free when it was shut down. We would not anticipate any problems with the pipe itself, but here maybe some wellhead valves that will need to be examined before recommencing field operations.

Financial Situation

Marion does not believe that these negotiations are in vain due to its financial condition. Marion has reason to believe that its financial situation will improve within a time frame that accommodates the compliance schedule addressed in this and prior letters. More specifically, Marion expects to have

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3580 Orr Road,  
Allen, Texas, 75002



access to additional funding during the first half of March 2013 that will allow it to begin the work in the Helper field, with another infusion in May 2013.

#### Produce or MIT Wells

Marion does not believe that it can produce the wells by April 1, 2013. Marion accepts the Division's proposal to divide the wells into Pods with associated MIT completion dates, but proposes that an additional month be added to the proposed MIT completion date for each pod, as well as the full cost bonding and backup date. This timing is more consistent with Marion's expectation of when it will have the available financial resources.

Pod 1: Ballpark Canyon #1, Kenilworth Railroad #1A, #1, #2: The MIT date for this pod of wells would be June 1, 2013. The work would begin on the Kenilworth Railroad #1A. The backup date for full cost bonding and showing of well integrity would be July 1, 2013.

Pod 2: Cordingly Canyon 15-5, 15-2, 15-1, 11-1: The MIT date for this pod of wells would be August 1, 2013. The backup date for full cost bonding and showing of well integrity would be September 1, 2013.

#### Pressure and Fluid Level Information

With regard to DOGM's request for information on pressures and fluid levels in the Helper wells, we would like to make the following comments. First, any field data that was acquired while the field was operational will only show what the operating pressure of the system was. Typically, Anadarko was able to keep enough compression operating field-wide to maintain 25-30 psi on our gas system. Second, the water system in essence gravity fed into the Anadarko system, and as such, there was negligible pressure on this line at all times. Third, since the mechanical integrity of the casing is the concern, the tubing pressure would not provide meaningful information.

We are not sure if the sentence is supposed to read "production pressures" and if so what that would mean exactly. As stated before, the field pressure was 25-30 psi when the field was in operation. Since the field is currently shut in there is no production or "production pressure." All previous production has been reported. Concerning the last part of the sentence dealing with surface pressures, fluid levels etc., we see no definitive correlation between those items and casing integrity. Gathering such information now, and particularly given Marion's need to be as efficient as possible with money and personnel, would not appear to be a productive expenditure of resources. Marion proposes that this request be withdrawn, and that we be allowed to focus on putting ourselves in a position to undertake MITs, which are the true measure of well integrity, on the schedule proposed above. We would expect that when Marion enters the Helper field to begin the MIT process the fluid levels and surface wellhead pressure data will be gathered for reservoir engineering reasons, and we would be happy to provide that information to the Division as it is obtained.

Marion hopes this letter addresses the comments and requirements outlined by the Oil and Gas Division in your email from February 8, 2013.

We look forward to hearing from you.

Yours Sincerely

Keri Clarke

---

3580 Orr Road,  
Allen, Texas, 75002

RECEIVED

FORM 9

STATE OF UTAH  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL, GAS AND MINING

DIV. OF OIL, GAS & MINING

APR 04 2013

SUNDRY NOTICES AND REPORTS ON WELLS

Do not use this form for proposals to drill new wells, significantly deepen existing wells below current bottom-hole depth, reenter plugged wells, or to drill horizontal laterals. Use APPLICATION FOR PERMIT TO DRILL form for such proposals.

5. LEASE DESIGNATION AND SERIAL NUMBER:

6. IF INDIAN, ALLOTTEE OR TRIBE NAME:

7. UNIT or CA AGREEMENT NAME:

8. WELL NAME and NUMBER:  
Kenilworth/Cordingly Field

9. API NUMBER:

10. FIELD AND POOL, OR WILDCAT:  
Kenilworth/Cordingly Field

1. TYPE OF WELL  
OIL WELL  GAS WELL  OTHER \_\_\_\_\_

2. NAME OF OPERATOR:  
Marion Energy, Inc.

3. ADDRESS OF OPERATOR:  
31 No. Main Street CITY Helper STATE Ut ZIP 84626 PHONE NUMBER: (435) 650-3923

4. LOCATION OF WELL  
FOOTAGES AT SURFACE: COUNTY: Carbon  
QTR/QTR, SECTION, TOWNSHIP, RANGE, MERIDIAN: STATE: UTAH

11. CHECK APPROPRIATE BOXES TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION		
<input type="checkbox"/> NOTICE OF INTENT (Submit in Duplicate) Approximate date work will start: _____	<input type="checkbox"/> ACIDIZE	<input type="checkbox"/> DEEPEN	<input type="checkbox"/> REPERFORATE CURRENT FORMATION
<input checked="" type="checkbox"/> SUBSEQUENT REPORT (Submit Original Form Only) Date of work completion: _____	<input type="checkbox"/> ALTER CASING	<input type="checkbox"/> FRACTURE TREAT	<input type="checkbox"/> SIDETRACK TO REPAIR WELL
	<input type="checkbox"/> CASING REPAIR	<input type="checkbox"/> NEW CONSTRUCTION	<input type="checkbox"/> TEMPORARILY ABANDON
	<input type="checkbox"/> CHANGE TO PREVIOUS PLANS	<input type="checkbox"/> OPERATOR CHANGE	<input type="checkbox"/> TUBING REPAIR
	<input type="checkbox"/> CHANGE TUBING	<input type="checkbox"/> PLUG AND ABANDON	<input type="checkbox"/> VENT OR FLARE
	<input type="checkbox"/> CHANGE WELL NAME	<input type="checkbox"/> PLUG BACK	<input type="checkbox"/> WATER DISPOSAL
	<input type="checkbox"/> CHANGE WELL STATUS	<input type="checkbox"/> PRODUCTION (START/RESUME)	<input type="checkbox"/> WATER SHUT-OFF
	<input type="checkbox"/> COMMINGLE PRODUCING FORMATIONS	<input type="checkbox"/> RECLAMATION OF WELL SITE	<input type="checkbox"/> OTHER: _____
	<input type="checkbox"/> CONVERT WELL TYPE	<input type="checkbox"/> RECOMPLETE - DIFFERENT FORMATION	

12. DESCRIBE PROPOSED OR COMPLETED OPERATIONS. Clearly show all pertinent details including dates, depths, volumes, etc.

Kenilworth/Cordingly Field

Well pressures taken and documented. See attachment.

We are currently unable to get fluid levels but are working to correct the issue.

NAME (PLEASE PRINT) Dave Smith TITLE Construction/Maintenance

SIGNATURE *Dave Smith* DATE 4/1/2013

(This space for State use only)

Accepted by the  
Utah Division of  
Oil, Gas and Mining  
For Record Only

Kenilworth/Cordingly

Pressures

15-1

Tubing	0	Casing	5
--------	---	--------	---

15-5

Tubing	0	Casing	0
--------	---	--------	---

15-2

Tubing	0	Casing	0
--------	---	--------	---

10-1

Tubing	0	Casing	15
--------	---	--------	----

Cordingly 11-1

Tubing	0	Casing	80
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Kenilworth RR 1-A

Tubing	400	Casing	1400
--------	-----	--------	------

Kenilworth RR 1

Tubing	20	Casing	20
--------	----	--------	----

15-3

Tubing	20	Casing	50
--------	----	--------	----

Ball Park 1

Tubing	0	Casing	0
--------	---	--------	---

Kenilworth RR 2

Tubing	0	Casing	0
--------	---	--------	---

16-2 Not Drilled

17-2 Not Drilled

Kenilworth RR 15-4 Not Drilled

## INSTRUCTIONS

**This form shall be submitted by the operator to show the intention and/or completion of the following:**

- miscellaneous work projects and actions for which other specific report forms do not exist;
- all other work and events as identified in section 11, Type of Action, or as required by the Utah Oil and Gas Conservation General Rules, including:
  - minor deepening of an existing well bore,
  - plugging back a well,
  - recompleting to a different producing formation within an existing well bore (intent only),
  - re-perforating the current producing formation,
  - drilling a sidetrack to repair a well,
  - reporting monthly the status of each drilling well.

**This form is not to be used for proposals to**

- drill new wells,
- reenter previously plugged and abandoned wells,
- significantly deepen existing wells below their current bottom-hole depth,
- drill horizontal laterals from an existing well bore,
- drill hydrocarbon exploratory holes such as core samples and stratigraphic tests.

**Use Form 3, Application for Permit to Drill (APD) for such proposals.**

**NOTICE OF INTENT** - A notice of intention to do work on a well or to change plans previously approved shall be submitted in duplicate and must be received and approved by the division before the work is commenced. The operator is responsible for receipt of the notice by the division in ample time for proper consideration and action. In cases of emergency, the operator may obtain verbal approval to commence work. Within five days after receiving verbal approval, the operator shall submit a Sundry Notice describing the work and acknowledging the verbal approval.

**SUBSEQUENT REPORT** - A subsequent report shall be submitted to the division within 30 days of the completion of the outlined work. Specific details of the work performed should be provided, including dates, well depths, placement of plugs, etc.

**WELL ABANDONMENT** - Proposals to abandon a well and subsequent reports of abandonment should include reasons for the abandonment; data on any former or present productive zones, or other zones with present significant fluid contents not sealed off by cement or otherwise; depths (top and bottom) and method of placement of cement plugs; mud or other material placed below, between and above plugs; amount, size, and method of parting of any casing, liner, or tubing pulled and the depth to top of any left in the hole; method of closing top of well; and date well site conditioned for final inspection looking to approval of the abandonment.

In addition to any Sundry Notice forms submitted, **Form 8, Well Completion or Recompletion Report and Log** must be submitted to the division to report the results of the following operations:

- completing or plugging a new well,
- reentering a previously plugged and abandoned well,
- significantly deepening an existing well bore below the current bottom-hole depth,
- drilling horizontal laterals from an existing well bore,
- drilling hydrocarbon exploratory holes such as core samples and stratigraphic tests,
- recompleting to a different producing formation.

Send to:

Utah Division of Oil, Gas and Mining  
1594 West North Temple, Suite 1210  
Box 145801  
Salt Lake City, Utah 84114-5801

Phone: 801-538-5340

Fax: 801-359-3940

SEND Sundry Attachments to each of the well files  
Listed Below:

- |                                |                    |
|--------------------------------|--------------------|
| 1) BALLPARK CYN 16-2X          | API # 43-007-31207 |
| 2) CORDINGLY CYN 10-1          | API # 43-007-31173 |
| 3) BALLPARK CYN 17-2           | API # 43-007-31169 |
| 4) KENILWORTH RR 1-A           | API # 43-007-31229 |
| 5) ALPINE SCHOOL DISTRICT 6-17 | API # 43-007-31181 |
| 6) OMAN 10-29                  | API # 43-007-31210 |
| 7) BALLPARK CYN #1             | API # 43-007-31015 |
| 8) CORDINGLY CYN 15-5          | API # 43-007-31167 |
| 9) KENILWORTH RR #1            | API # 43-007-31006 |
| 10) KENILWORTH RR #2           | API # 43-007-31007 |
| 11) CORDINGLY CYN 15-2         | API # 43-007-31064 |
| 12) CORDINGLY CYN 15-1         | API # 43-007-31065 |
| 13) CORDINGLY CYN 11-1         | API # 43-007-31070 |
| 14) Kenilworth Railroad 15-3   | API # 43-007-31168 |
| 15) Kenilworth Railroad 15-4   | API # 43-007-31170 |

STATE OF UTAH  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL, GAS AND MINING

FORM 9

**SUNDRY NOTICES AND REPORTS ON WELLS**

Do not use this form for proposals to drill new wells, significantly deepen existing wells below current bottom-hole depth, reenter plugged wells, or to drill horizontal laterals. Use APPLICATION FOR PERMIT TO DRILL form for such proposals.

1 TYPE OF WELL OIL WELL <input type="checkbox"/> GAS WELL <input checked="" type="checkbox"/> OTHER _____		5. LEASE DESIGNATION AND SERIAL NUMBER:
2 NAME OF OPERATOR Marion Energy, Inc.		6. IF INDIAN, ALLOTTEE OR TRIBE NAME:
3. ADDRESS OF OPERATOR: 31 No. Main St. CITY Helper STATE Ut ZIP 84526		7. UNIT or CA AGREEMENT NAME:
PHONE NUMBER: (435) 650-3923		8. WELL NAME and NUMBER: Kenilworth/Cordingly Canyon
4 LOCATION OF WELL FOOTAGES AT SURFACE _____ COUNTY Carbon		9. API NUMBER:
QTR/QR. SECTION, TOWNSHIP, RANGE, MERIDIAN _____ STATE: UTAH		10 FIELD AND POOL OR WILDCAT Kenilworth

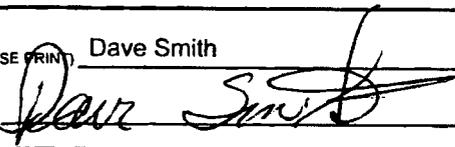
11 CHECK APPROPRIATE BOXES TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION		
<input type="checkbox"/> NOTICE OF INTENT (Submit in Duplicate) Approximate date work will start: _____	<input type="checkbox"/> ACIDIZE	<input type="checkbox"/> DEEPEN	<input type="checkbox"/> REPERFORATE CURRENT FORMATION
	<input type="checkbox"/> ALTER CASING	<input type="checkbox"/> FRACTURE TREAT	<input type="checkbox"/> SIDETRACK TO REPAIR WELL
	<input type="checkbox"/> CASING REPAIR	<input type="checkbox"/> NEW CONSTRUCTION	<input type="checkbox"/> TEMPORARILY ABANDON
	<input type="checkbox"/> CHANGE TO PREVIOUS PLANS	<input type="checkbox"/> OPERATOR CHANGE	<input type="checkbox"/> TUBING REPAIR
	<input type="checkbox"/> CHANGE TUBING	<input type="checkbox"/> PLUG AND ABANDON	<input type="checkbox"/> VENT OR FLARE
<input checked="" type="checkbox"/> SUBSEQUENT REPORT (Submit Original Form Only) Date of work completion: _____	<input type="checkbox"/> CHANGE WELL NAME	<input type="checkbox"/> PLUG BACK	<input type="checkbox"/> WATER DISPOSAL
	<input type="checkbox"/> CHANGE WELL STATUS	<input type="checkbox"/> PRODUCTION (START/RESUME)	<input type="checkbox"/> WATER SHUT-OFF
	<input type="checkbox"/> COMMINGLE PRODUCING FORMATIONS	<input type="checkbox"/> RECLAMATION OF WELL SITE	<input type="checkbox"/> OTHER: _____
	<input type="checkbox"/> CONVERT WELL TYPE	<input type="checkbox"/> RECOMPLETE - DIFFERENT FORMATION	

12 DESCRIBE PROPOSED OR COMPLETED OPERATIONS. Clearly show all pertinent details including dates, depths, volumes, etc.

See attached documents. Pressures and water and gas for April.

Accepted by the  
Utah Division of  
Oil, Gas and Mining  
For Record Only

NAME (PLEASE PRINT) <u>Dave Smith</u>	TITLE <u>Construction/Maintenance</u>
SIGNATURE 	DATE <u>5/1/2013</u>

(This space for State use only)

RECEIVED

MAY 01 2013

DIV. OF OIL, GAS & MINING

Kenilworth/Cordingly

Pressures

15-1

Tubing	0	Casing	5
--------	---	--------	---

15-5

Tubing	0	Casing	0
--------	---	--------	---

15-2

Tubing	0	Casing	0
--------	---	--------	---

10-1

Tubing	0	Casing	15
--------	---	--------	----

Cordingly 11-1

Tubing	0	Casing	80
--------	---	--------	----

Kenilworth RR 1-A

Tubing	400	Casing	1400
--------	-----	--------	------

Kenilworth RR 1

Tubing	20	Casing	20
--------	----	--------	----

15-3

Tubing	20	Casing	50
--------	----	--------	----

Ball Park 1

Tubing	0	Casing	0
--------	---	--------	---

Kenilworth RR 2

Tubing	0	Casing	0
--------	---	--------	---

16-2 Not Drilled

17-2 Not Drilled

Kenilworth RR 15-4 Not Drilled

---

Clear Creek

10 29

Tubing	0	Casing	0
--------	---	--------	---

Oman 2-20

Tubing	110	Casing	90
--------	-----	--------	----

6-17

Tubing	0	Casing	0
--------	---	--------	---



GARY R. HERBERT  
Governor

SPENCER J. COX  
Lieutenant Governor

# State of Utah

## DEPARTMENT OF NATURAL RESOURCES

MICHAEL R. STYLER  
Executive Director

### Division of Oil, Gas and Mining

JOHN R. BAZA  
Division Director

June 2, 2014

Certified Mail #7003 2260 0003 2358 7004

Jeff Clarke  
Marion Energy, Inc.  
3580 Orr Road  
Allen, Texas 75002

16 138 1DE

Subject: Notice of Violation for Shut-in and Temporarily Abandoned Wells

Dear Mr. Clarke:

The Division of Oil, Gas and Mining (Division) issued Marion Energy, Inc (Marion) a Shut-in and Temporarily Abandoned Notice of Violation (NOV), dated January 3, 2013, for the following thirteen (13) wells.

Ballpark Cyn 16-2X	43-007-31207	Plugged and Abandoned - June 2013
Cordingly Cyn 10-1	43-007-31173	Plugged and Abandoned - October 2012
Ballpark Cyn 17-2	43-007-31169	Plugged and Abandoned - June 2013
Kenilworth RR 1-A	43-007-31229	Last Production - November 2008
Alpine School District 6-17	43-007-31181	Last Production - November 2008
Oman 10-29	43-007-31210	Comp - November 2008, Never Produced
Ballpark Cyn #1	43-007-31015	Last Production - June 2010
Cordingly Cyn 15-5	43-007-31167	Last Production - April 2010
Kenilworth RR #1	43-007-31006	Last Production - August 2010
Kenilworth RR#2	43-007-31007	Last Production - August 2010
Cordingly Cyn 15-2	43-007-31064	Last Production - August 2010
Cordingly Cyn 15-1	43-007-31065	Last Production - August 2010
Cordingly Cyn 11-1	43-007-31070	Last Production - August 2010

Marion plugged and abandoned the Ballpark Cyn 16-2X, Cordingly Cyn 10-1 and Ballpark Cyn 17-2 wells. The other ten (10) wells are still in noncompliance with Rule R64-3-16 Shut-in and Temporarily Abandoned Wells. If work was done on the wells Marion has not submitted notice of intent or subsequent sundry notices to the Division. If any work has been done on the wells please submit sundries immediately for the well files.

The operator is responsible to file, yearly, for extended shut-in or temporary abandonment for wells shut-in or temporarily abandoned for a period of twelve (12) consecutive months. Marion must file a Sundry Notice providing the following information for each of the above ten noncompliance wells; reasons for shut-in or temporarily abandonment of the well, length of time the well is expected to be shut-in or temporarily abandoned and an explanation



Page 2  
Marion Energy, Inc.  
June 2, 2014

and supporting data showing the well has integrity (R649-3-36.1). After review the Division will either approve the continued shut-in or temporarily abandoned status or require remedial action (R649-3-36.2). After five (5) years of non-activity or non-productivity, the well shall be plugged in accordance with R649-3-24, unless approval for extended shut-in time is given by the Division upon a showing of good cause by the operator (R649-3-36.3). Please note, three (3) of the ten noncompliance wells listed above have been shut-in over five (5) years.

Marion has until **June 30, 2014** to submit sundries, for the subject wells, in accordance with **Oil and Gas Conservation General Rule 649-3-36 Shut-in and Temporarily Abandoned Wells**.

Should Marion not meet shut-in and temporarily abandoned well requirements, the Division is prepared to file a Notice of Agency Action (NAA) for Commencement of Informal Adjudicative Proceedings (R649-10-3) for this matter in accordance with Oil and Gas Conservation General Rule R649-10 Administrative Procedures.

If you have any questions or need further assistance, please feel free to contact me at [clintondworshak@utah.gov](mailto:clintondworshak@utah.gov) or 801-538-5280 or Dustin Doucet, Petroleum Engineer, at [dustindoucet@utah.gov](mailto:dustindoucet@utah.gov) or 801-538-5281.

Sincerely,

  
Clinton Dworshak  
Oil and Gas Compliance Manager

CLD/js  
cc: John Rogers, Oil & Gas Associate Director  
Dustin Doucet, Petroleum Engineer  
Well Files  
Compliance File

N:\O&G Reviewed Docs\ChronFile\Compliance

<b>STATE OF UTAH</b> DEPARTMENT OF NATURAL RESOURCES DIVISION OF OIL, GAS, AND MINING		<b>FORM 9</b>
<b>SUNDRY NOTICES AND REPORTS ON WELLS</b>  Do not use this form for proposals to drill new wells, significantly deepen existing wells below current bottom-hole depth, reenter plugged wells, or to drill horizontal laterals. Use APPLICATION FOR PERMIT TO DRILL form for such proposals.		<b>5. LEASE DESIGNATION AND SERIAL NUMBER:</b> FEE
		<b>6. IF INDIAN, ALLOTTEE OR TRIBE NAME:</b>
<b>1. TYPE OF WELL</b> Gas Well		<b>7. UNIT or CA AGREEMENT NAME:</b>
<b>2. NAME OF OPERATOR:</b> MARION ENERGY, INC.		<b>8. WELL NAME and NUMBER:</b> KENILWORTH RR #2
<b>3. ADDRESS OF OPERATOR:</b> 2150 South Central Expressway , McKinney, TX, 75070		<b>9. API NUMBER:</b> 43007310070000
<b>4. LOCATION OF WELL</b> <b>FOOTAGES AT SURFACE:</b> 3571 FSL 1070 FEL <b>QTR/QTR, SECTION, TOWNSHIP, RANGE, MERIDIAN:</b> Qtr/Qtr: SENE Section: 16 Township: 13.0S Range: 10.0E Meridian: S		<b>9. FIELD and POOL or WILDCAT:</b> HELPER
		<b>COUNTY:</b> CARBON
		<b>STATE:</b> UTAH

11. CHECK APPROPRIATE BOXES TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION		
<input checked="" type="checkbox"/> <b>NOTICE OF INTENT</b> Approximate date work will start: 10/31/2014	<input type="checkbox"/> ACIDIZE	<input type="checkbox"/> ALTER CASING	<input type="checkbox"/> CASING REPAIR
<input type="checkbox"/> <b>SUBSEQUENT REPORT</b> Date of Work Completion:	<input type="checkbox"/> CHANGE TO PREVIOUS PLANS	<input type="checkbox"/> CHANGE TUBING	<input type="checkbox"/> CHANGE WELL NAME
<input type="checkbox"/> <b>SPUD REPORT</b> Date of Spud:	<input type="checkbox"/> CHANGE WELL STATUS	<input type="checkbox"/> COMMINGLE PRODUCING FORMATIONS	<input type="checkbox"/> CONVERT WELL TYPE
<input type="checkbox"/> <b>DRILLING REPORT</b> Report Date:	<input type="checkbox"/> DEEPEN	<input type="checkbox"/> FRACTURE TREAT	<input type="checkbox"/> NEW CONSTRUCTION
	<input type="checkbox"/> OPERATOR CHANGE	<input type="checkbox"/> PLUG AND ABANDON	<input type="checkbox"/> PLUG BACK
	<input type="checkbox"/> PRODUCTION START OR RESUME	<input type="checkbox"/> RECLAMATION OF WELL SITE	<input type="checkbox"/> RECOMPLETE DIFFERENT FORMATION
	<input type="checkbox"/> REPERFORATE CURRENT FORMATION	<input type="checkbox"/> SIDETRACK TO REPAIR WELL	<input type="checkbox"/> TEMPORARY ABANDON
	<input type="checkbox"/> TUBING REPAIR	<input type="checkbox"/> VENT OR FLARE	<input type="checkbox"/> WATER DISPOSAL
	<input type="checkbox"/> WATER SHUTOFF	<input checked="" type="checkbox"/> SI TA STATUS EXTENSION	<input type="checkbox"/> APD EXTENSION
	<input type="checkbox"/> WILDCAT WELL DETERMINATION	<input type="checkbox"/> OTHER	OTHER: <input style="width: 100px;" type="text"/>

12. DESCRIBE PROPOSED OR COMPLETED OPERATIONS. Clearly show all pertinent details including dates, depths, volumes, etc.

The wells in the Helper field continue in temporary shut-in status due to Marion's financial circumstances. Marion recently was recapitalized with funds to put the Clear Creek field on production, when that is accomplished Marion will have income to put the Helper wells back on production. Work was carried out in mid 2013 to replace bad joints of tubing, during this time a new down hole pump was also installed. This well now has a casing pressure of 300lbs which was taken on 7/12/2014. This shows that the tubing replacement was successful. Marion Energy is planning to install a surface pumping unit motor on this well. Once the pumping unit motor is delivered and installed the well will be returned to production in October.

**Accepted by the  
Utah Division of  
Oil, Gas and Mining  
FOR RECORD ONLY**

*Please Review Attached Conditions of Approval*  
September 18, 2014

<b>NAME (PLEASE PRINT)</b> Ben Evans	<b>PHONE NUMBER</b> 214 592-8615	<b>TITLE</b> Landman
<b>SIGNATURE</b> N/A	<b>DATE</b> 7/14/2014	



**The Utah Division of Oil, Gas, and Mining**

- State of Utah
- Department of Natural Resources

**Electronic Permitting System - Sundry Notices**

**Sundry Conditions of Approval Well Number 43007310070000**

**As discussed on our conference call in August, sundry's meeting the requirements of rule R649-3-36 should be submitted for all wells not in compliance with that rule. This sundry did not meet those requirements, but we do take note of the information provided.**

Additional Sundry Information

Comparing tubing and casing pressures taken in April 2013 to July 2014 shows each of the four wells in question have had casing pressure increases. In most cases these increases were significant. Given the amount of time these wells have been shut-in, the observed increase in casing pressure would have been unlikely had there been casing integrity issues. The measured casing pressures are recorded at surface from the wellhead. None of the wells in Helper have packers in them. The pressures recorded in January are typical of build up pressures observed historically in this field assuming the wells haven't had recent workovers or haven't been vandalized by casing or tubing valves being opened by people other than Marion employees.

Marion has an employee that makes rounds through the field on a regular basis. Casing and tubing pressures will be submitted via sundry notice once a month

Division of Oil, Gas and Mining

Operator Change/Name Change Worksheet-for State use only

Effective Date: 6/1/2015

<b>FORMER OPERATOR:</b>	<b>NEW OPERATOR:</b>
Marion Energy, Inc 1415 N Loop West, Suite 1250 Houston, TX 77008 281-540-0028	Utah Gas Operating Solutision, LLC 1415 N Loop West, Suite 1250 Houston, TX 77008 281-540-0028
CA Number(s):	Unit(s): Clear Creek

**WELL INFORMATION:**

Well Name	Sec	TWN	RNG	API	Entity	Mineral	Surface	Type	Status
See Attache Listq									

**OPERATOR CHANGES DOCUMENTATION:**

1. Sundry or legal documentation was received from the **FORMER** operator on: 6/24/2015
2. Sundry or legal documentation was received from the **NEW** operator on: 6/24/2015
3. New operator Division of Corporations Business Number: 9345770-0161

**REVIEW:**

1. Surface Agreement Sundry from **NEW** operator on Fee Surface wells received on: N/A
2. Receipt of Acceptance of Drilling Procedures for APD on: N/A
3. Reports current for Production/Disposition & Sundries: 6/25/2015
4. OPS/SI/TA well(s) reviewed for full cost bonding: 6/25/2015
5. UIC5 on all disposal/injection/storage well(s) approved on: 7/8/2015
6. Surface Facility(s) included in operator change: Clear Creek Tank Battery
7. Inspections of PA state/fee well sites complete on (only upon operators request): 6/25/2015

**NEW OPERATOR BOND VERIFICATION:**

1. Federal well(s) covered by Bond Number: SU46335
2. Indian well(s) covered by Bond Number: N/A
3. State/fee well(s) covered by Bond Number(s): SU46334 and SU46341

**DATA ENTRY:**

1. Well(s) update in the **OGIS** on: 7/9/2015
2. Entity Number(s) updated in **OGIS** on: 7/9/2015
3. Unit(s) operator number update in **OGIS** on: 7/9/2015
4. Surface Facilities update in **OGIS** on: N/A
5. State/Fee well(s) attached to bond(s) in **RBDMS** on: 7/9/2015
6. Surface Facilities update in **RBDMS** on: 7/9/2015

**LEASE INTEREST OWNER NOTIFICATION:**

1. The **NEW** operator of the Fee (Mineral) wells has been contacted and informed by a letter from the Division of their responsibility to notify all interest owners of this change on: 7/9/2015

**COMMENTS:**

Marion Energy, Inc to  
Utah Gas Operating Solutions, LLC  
Effective 6/1/2015

Well Name	Sec	TWN	RNG	API	Entity	Mineral	Surface	Type	Status	Unit
ALPINE SCHOOL DIST 3-17	17	130S	070E	4300731182	2550	State	Fee	WD	A	CLEAR CREEK
RIDGE RUNNER 8-19	20	140S	070E	4301530682	2550	Federal	Federal	GW	OPS	CLEAR CREEK
RIDGE RUNNER 2-18	17	140S	070E	4301530683	16130	Federal	Federal	GW	OPS	CLEAR CREEK
UTAH FUEL 10	5	140S	070E	4300716016	2550	Fee	Fee	GW	P	CLEAR CREEK
RIDGE RUNNER 13-17	17	140S	070E	4301530269	2550	Federal	Federal	GW	P	CLEAR CREEK
UTAH FUEL 1	5	140S	070E	4300716009	2550	Fee	Fee	GW	PA	CLEAR CREEK
UTAH FUEL 2	32	130S	070E	4300716010	2550	Fee	Fee	GW	PA	CLEAR CREEK
UTAH FUEL 3	32	130S	070E	4300716011	2550	Fee	Fee	GW	PA	CLEAR CREEK
UTAH FUEL 4	30	130S	070E	4300716012	2550	Fee	Fee	GW	PA	CLEAR CREEK
UTAH FUEL 5	31	130S	070E	4300716013	2550	Fee	Fee	GW	PA	CLEAR CREEK
UTAH MINERAL STATE	29	130S	070E	4300730102	2550	State	Fee	GW	PA	CLEAR CREEK
BALLPARK CYN 17-2	16	130S	100E	4300731169	15494	Fee	Fee	D	PA	
KENILWORTH RAILROAD 15-4	16	130S	100E	4300731170	15495	Federal	Fee	D	PA	
BALLPARK CYN 16-2	16	130S	100E	4300731171	15434	Fee	Fee	D	PA	
CORDINGLY CYN 10-1	15	130S	100E	4300731173	15435	Fee	Fee	D	PA	
BALLPARK CYN 16-2X	16	130S	100E	4300731207	15496	Fee	Fee	D	PA	
UTAH FUEL A-1	6	140S	070E	4301516021	2550	Fee	Fee	GW	PA	CLEAR CREEK
UTAH FUEL 8	19	130S	070E	4300716015	2550	Fee	Fee	GW	S	CLEAR CREEK
OMAN 2-20	20	130S	070E	4300730289	2550	State	Fee	GW	S	CLEAR CREEK
KENILWORTH RR #1	16	130S	100E	4300731006	14624	Fee	Fee	GW	S	
KENILWORTH RR #2	16	130S	100E	4300731007	14625	Fee	Fee	GW	S	
BALLPARK CANYON #1	16	130S	100E	4300731015	15159	Fee	Fee	GW	S	
CORDINGLY CYN 15-2	15	130S	100E	4300731064	15160	State	Fee	GW	S	
CORDINGLY CYN 15-1	15	130S	100E	4300731065	15161	State	Fee	GW	S	
CORDINGLY CYN 11-1	11	130S	100E	4300731070	15432	Fee	Fee	GW	S	
CORDINGLY CYN 15-5	15	130S	100E	4300731167	15433	State	Fee	GW	S	
KENILWORTH RAILROAD 15-3	16	130S	100E	4300731168	16041	Federal	Fee	GW	S	
ALPINE SCHOOL DIST 6-17	17	130S	070E	4300731181	2550	State	Fee	GW	S	CLEAR CREEK
OMAN 10-29	29	130S	070E	4300731210	2550	State	Fee	GW	S	CLEAR CREEK
KENILWORTH RR 1-A	16	130S	100E	4300731229	16456	Fee	Fee	GW	S	
RIDGE RUNNER 11-20	20	140S	070E	4301530271	2550	Federal	Federal	GW	S	CLEAR CREEK
RIDGE RUNNER 1-30	20	140S	070E	4301530680	2550	Federal	Federal	GW	S	CLEAR CREEK
RIDGE RUNNER 2-19	17	140S	070E	4301530684	2550	Federal	Federal	GW	S	CLEAR CREEK
RIDGE RUNNER 11-17	17	140S	070E	4301530685	2550	Federal	Federal	GW	S	CLEAR CREEK

**STATE OF UTAH**  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL, GAS AND MINING

FORM 9

5. LEASE DESIGNATION AND SERIAL NUMBER:  
**ML-1257**

**SUNDRY NOTICES AND REPORTS ON WELLS**

6. IF INDIAN, ALLOTTEE OR TRIBE NAME:

Do not use this form for proposals to drill new wells, significantly deepen existing wells below current bottom-hole depth, reenter plugged wells, or to drill horizontal laterals. Use APPLICATION FOR PERMIT TO DRILL form for such proposals.

7. UNIT or CA AGREEMENT NAME:  
**Clear Creek**

1. TYPE OF WELL  
OIL WELL  GAS WELL  OTHER Compressor

8. WELL NAME and NUMBER:

2. NAME OF OPERATOR:  
**Utah Gas Operating Solutions, LLC**

9. API NUMBER:

3. ADDRESS OF OPERATOR:  
**1415 North Loop West, STE** CITY **Houston** STATE **TX** ZIP **77008**

PHONE NUMBER:  
**(281) 540-0028**

10. FIELD AND POOL, OR WILDCAT:

4. LOCATION OF WELL  
FOOTAGES AT SURFACE: COUNTY: **Carbon**

QTR/QTR, SECTION, TOWNSHIP, RANGE, MERIDIAN: **NWNW 33 13S 7E** STATE: **UTAH**

11. CHECK APPROPRIATE BOXES TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION		
<input checked="" type="checkbox"/> NOTICE OF INTENT (Submit in Duplicate)  Approximate date work will start: <u>6/1/2015</u>  <input type="checkbox"/> SUBSEQUENT REPORT (Submit Original Form Only)  Date of work completion: _____	<input type="checkbox"/> ACIDIZE	<input type="checkbox"/> DEEPEN	<input type="checkbox"/> REPERFORATE CURRENT FORMATION
	<input type="checkbox"/> ALTER CASING	<input type="checkbox"/> FRACTURE TREAT	<input type="checkbox"/> SIDETRACK TO REPAIR WELL
	<input type="checkbox"/> CASING REPAIR	<input type="checkbox"/> NEW CONSTRUCTION	<input type="checkbox"/> TEMPORARILY ABANDON
	<input type="checkbox"/> CHANGE TO PREVIOUS PLANS	<input checked="" type="checkbox"/> OPERATOR CHANGE	<input type="checkbox"/> TUBING REPAIR
	<input type="checkbox"/> CHANGE TUBING	<input type="checkbox"/> PLUG AND ABANDON	<input type="checkbox"/> VENT OR FLARE
	<input type="checkbox"/> CHANGE WELL NAME	<input type="checkbox"/> PLUG BACK	<input type="checkbox"/> WATER DISPOSAL
	<input type="checkbox"/> CHANGE WELL STATUS	<input type="checkbox"/> PRODUCTION (START/RESUME)	<input type="checkbox"/> WATER SHUT-OFF
	<input type="checkbox"/> COMMINGLE PRODUCING FORMATIONS	<input type="checkbox"/> RECLAMATION OF WELL SITE	<input type="checkbox"/> OTHER: _____
	<input type="checkbox"/> CONVERT WELL TYPE	<input type="checkbox"/> RECOMPLETE - DIFFERENT FORMATION	

12. DESCRIBE PROPOSED OR COMPLETED OPERATIONS. Clearly show all pertinent details including dates, depths, volumes, etc.

Please accept this as notice that as of June 1st, 2015, Marion Energy, Inc. is resigning as the operator of the "Clear Creek Compressor Station" and assigning Utah Gas Operating Solutions, LLC. as the successor of operator. This is in conjunction with Utah Gas Operating Solutions, LLC bond number 5040334.  
"Clear Creek Compressor Station"  
Sec 33 13S 7E NWNW

Marion Energy, Inc.

Signature: *Douglas Flannery*

Date: 6/1/15

Name: Douglas Flannery

Title: VP

Utah Gas Operating Solutions, LLC.

Signature: *Patrick W. Merritt*

Date: 6-15-2015

Name: Patrick W. Merritt

Title: AGENT-LIMITED ATTORNEY IN FACT

NAME (PLEASE PRINT) Patrick W. Merritt

TITLE AGENT-LIMITED ATTORNEY IN FACT

SIGNATURE *Patrick W. Merritt*

DATE 6-15-2015

(This space for State use only)

**APPROVED**

JUL 09 2015

DIV. OIL GAS & MINING  
BY: Rachel Medina

**STATE OF UTAH**  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL, GAS AND MINING

FORM 9

5. LEASE DESIGNATION AND SERIAL NUMBER:  
**ML-1257**

**SUNDRY NOTICES AND REPORTS ON WELLS**

6. IF INDIAN, ALLOTTEE OR TRIBE NAME:

Do not use this form for proposals to drill new wells, significantly deepen existing wells below current bottom-hole depth, reenter plugged wells, or to drill horizontal laterals. Use APPLICATION FOR PERMIT TO DRILL form for such proposals.

7. UNIT or CA AGREEMENT NAME:  
**Clear Creek Unit**

1. TYPE OF WELL      OIL WELL       GAS WELL       OTHER \_\_\_\_\_

8. WELL NAME and NUMBER:

2. NAME OF OPERATOR:  
**Marion Energy, Inc**

9. API NUMBER:

3. ADDRESS OF OPERATOR:  
**1415 N Loop W, STE 1250**      CITY **Houston**      STATE **TX**      ZIP **77008**

PHONE NUMBER:  
**(281) 540-0028**

10. FIELD AND POOL, OR WILDCAT:  
**Helper Field**

4. LOCATION OF WELL  
FOOTAGES AT SURFACE:

COUNTY:

QTR/QTR, SECTION, TOWNSHIP, RANGE, MERIDIAN:

STATE:      **UTAH**

11. CHECK APPROPRIATE BOXES TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

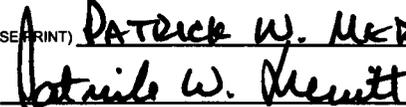
TYPE OF SUBMISSION	TYPE OF ACTION		
<input checked="" type="checkbox"/> NOTICE OF INTENT (Submit in Duplicate)  Approximate date work will start: <u>6/1/2015</u>	<input type="checkbox"/> ACIDIZE	<input type="checkbox"/> DEEPEN	<input type="checkbox"/> REPERFORATE CURRENT FORMATION
	<input type="checkbox"/> ALTER CASING	<input type="checkbox"/> FRACTURE TREAT	<input type="checkbox"/> SIDETRACK TO REPAIR WELL
<input type="checkbox"/> SUBSEQUENT REPORT (Submit Original Form Only)  Date of work completion: _____	<input type="checkbox"/> CASING REPAIR	<input type="checkbox"/> NEW CONSTRUCTION	<input type="checkbox"/> TEMPORARILY ABANDON
	<input type="checkbox"/> CHANGE TO PREVIOUS PLANS	<input checked="" type="checkbox"/> OPERATOR CHANGE	<input type="checkbox"/> TUBING REPAIR
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	<input type="checkbox"/> COMMINGLE PRODUCING FORMATIONS	<input type="checkbox"/> RECLAMATION OF WELL SITE	<input type="checkbox"/> OTHER: _____
	<input type="checkbox"/> CONVERT WELL TYPE	<input type="checkbox"/> RECOMPLETE - DIFFERENT FORMATION	

12. DESCRIBE PROPOSED OR COMPLETED OPERATIONS. Clearly show all pertinent details including dates, depths, volumes, etc.

As of June 1st, 2015, Marion Energy, Inc. resigns as Operator over its former Clear Creek Unit and Helper Field assets. In conjunction with this resignation, Utah Gas Operating Solutions, LLC. will be taking over as the Successor Operator upon your approval. Please refer to all documents submitted by Utah Gas Operating Solutions, LLC. as successor unit operator and on behalf of Marion Energy, Inc. regarding this change.

Please see the attached Appendix A below for a complete well and facility list that will be transferred upon governing approval. As the Vice President of Marion Energy, Inc. I ask that you accept this letter as Marion Energy's official resignation and request to transfer operating rights to Utah Gas Operating Solutions, LLC.

Signature:       Date: 6/11/15  
Doug Flannery  
Vice President

NAME (PLEASE PRINT) DATRICK W. MERRITT      TITLE AGENT - CONTRACT OPERATOR  
SIGNATURE       DATE 6-15-2015

(This space for State use only)

**APPROVED**

JUL 09 2015  
DIV. OIL GAS & MINING  
BY: Rachel Medina

APPENDIX A

Well List

Well Name	Sec	TWN	RNG	API	Status
ALPINE SCHOOL DIST 3-17	17	130S	070E	4300731182	A
KENILWORTH RAILROAD 9-1	16	130S	100E	4300731172	LA
JACOB 5-5	5	140S	070E	4300731190	LA
JACOB 4-8	5	140S	070E	4300731191	LA
OMAN 2-31	30	130S	070E	4300731246	LA
OMAN 3-32	29	130S	070E	4300731247	LA
MADSEN 11-20	19	130S	070E	4300731297	LA
OMAN 7-19	19	130S	070E	4300731298	LA
WOOLSEY 3-31	31	130S	070E	4300731305	LA
OLD RAIL ROAD GRADE 17-1	17	130S	100E	4300731354	LA
KENILWORTH WASH 18-1	18	130S	100E	4300731355	LA
ALRAD CYN 13-1	13	130S	100E	4300731357	LA
CORDINGLY CYN 15-6	15	130S	100E	4300731416	LA
RIDGE RUNNER 7-20	20	140S	070E	4301530681	LA
RIDGE RUNNER 8-19	20	140S	070E	4301530682	OPS
RIDGE RUNNER 2-18	17	140S	070E	4301530683	OPS
UTAH FUEL 10	5	140S	070E	4300716016	P
RIDGE RUNNER 13-17	17	140S	070E	4301530269	P
UTAH FUEL 1	5	140S	070E	4300716009	PA
UTAH FUEL 2	32	130S	070E	4300716010	PA
UTAH FUEL 3	32	130S	070E	4300716011	PA
UTAH FUEL 4	30	130S	070E	4300716012	PA
UTAH FUEL 5	31	130S	070E	4300716013	PA
UTAH MINERAL STATE	29	130S	070E	4300730102	PA
BALLPARK CYN 17-2	16	130S	100E	4300731169	PA
KENILWORTH RAILROAD 15-4	16	130S	100E	4300731170	PA
BALLPARK CYN 16-2	16	130S	100E	4300731171	PA
CORDINGLY CYN 10-1	15	130S	100E	4300731173	PA
BALLPARK CYN 16-2X	16	130S	100E	4300731207	PA
UTAH FUEL A-1	6	140S	070E	4301516021	PA
OMAN 14-20	29	130S	070E	4300731209	RET
CORDINGLY CYN 2-1	2	130S	100E	4300731236	RET
SWD 1	28	130S	100E	4300731417	RET
SHIMMIN 33-1	33	120S	110E	4300731431	RET
SEAMONS 5-8	8	130S	070E	4300731432	RET
CRITCHLOW 29-1	29	120S	110E	4300731433	RET
RADAKOVICH 12-5-1	5	130S	070E	4300731434	RET
ALLRED 10-1	10	120S	110E	4300731435	RET

RADAKOVICH 12-5	5	130S	070E	4300731436	RET
SEAMONS 5-8-2	8	130S	070E	4300731437	RET
WOOLSEY 3-31-1	31	130S	070E	4300731438	RET
ALLRED 13-1	13	120S	110E	4300731439	RET
JACOB 5-5	5	140S	070E	4300731513	RET
UTAH FUEL 8	19	130S	070E	4300716015	S
OMAN 2-20	20	130S	070E	4300730289	S
KENILWORTH RR #1	16	130S	100E	4300731006	S
KENILWORTH RR #2	16	130S	100E	4300731007	S
BALLPARK CANYON #1	16	130S	100E	4300731015	S
CORDINGLY CYN 15-2	15	130S	100E	4300731064	S
CORDINGLY CYN 15-1	15	130S	100E	4300731065	S
CORDINGLY CYN 11-1	11	130S	100E	4300731070	S
CORDINGLY CYN 15-5	15	130S	100E	4300731167	S
KENILWORTH RAILROAD 15-3	16	130S	100E	4300731168	S
ALPINE SCHOOL DIST 6-17	17	130S	070E	4300731181	S
OMAN 10-29	29	130S	070E	4300731210	S
KENILWORTH RR 1-A	16	130S	100E	4300731229	S
RIDGE RUNNER 11-20	20	140S	070E	4301530271	S
RIDGE RUNNER 1-30	20	140S	070E	4301530680	S
RIDGE RUNNER 2-19	17	140S	070E	4301530684	S
RIDGE RUNNER 11-17	17	140S	070E	4301530685	S

Facility List

Clear Creek Compressor Station	33	13S	7E
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