

Board of Oil and Gas Conservation Briefing

Legislative Audit Division
Oil and Gas Conservation Division
February 9, 2011

Performance Audit

- Assess efficiency, effectiveness, compliance

Performance audit process

- Audit assessment and planning
- Fieldwork
 - Interviews and discussions
 - Observations
 - Review records and documentation
 - Data analysis
- Report development process
 - Draft provided to division management
 - Exit conference to discuss draft
 - Final draft – obtain written response from division
- Final report publication
 - Presented to Legislative Audit Committee
- Follow-up work

Audit objectives

- Examine general management of division activities to determine if program operations are effectively managed
- Determine if the division/board have an effective regulatory process to enforce oil and gas conservation laws and rules
- Determine if controls exist to ensure integrity and accuracy of division data, and whether records are maintained as required by law, rule, and policy

Timeframes

- | | |
|---|---|
| <ul style="list-style-type: none"> ▪ Audit assessment and planning ▪ Fieldwork ▪ Draft report ▪ Report presented to Legislative Audit Committee | <p>Done
Winter - Spring 2011
Spring, 2011
Early summer 2011</p> |
|---|---|

Staffing

- | | | |
|--|--|---|
| <ul style="list-style-type: none"> ▪ Jason Mohr, project lead ▪ Dale Stout, project staff ▪ Lisa Blanford, project oversight ▪ Angie Grove, deputy legislative auditor | <p>444-3229
444-0427
444-3224
444-3225</p> | <p>jmohr2@mt.gov
dstout@mt.gov
lblanford@mt.gov

agrove@mt.gov</p> |
|--|--|---|

Questions?

Montana Board of Oil and Gas Conservation Summary of Bond Activity

12/1/2010 Through 2/10/2011

Company Name	Location	Bond Type	Amount	Bank/Company	Approved Date	Purpose
Alturas Energy LLC	Hailey ID	Certificate of Deposit	\$50,000.00	FIRST INTERSTATE BANK	12/14/2010	Multiple Well Bond
Central Montana Resources, LLC	Billings MT	Certificate of Deposit	\$50,000.00	Wells Fargo Bank, NA	1/27/2011	Multiple Well Bond
Cirque Resources LP	Denver CO	Certificate of Deposit	\$50,000.00	FIDELITY & DEPOSIT CO. OF MD	12/3/2010	Multiple Well Bond
Denbury Onshore, LLC	Plano TX	Surety Bond	\$660,000.00	Liberty Mutual Insurance Company	1/3/2011	Multiple Well Bond
Denbury Onshore, LLC	Plano TX	Surety Bond	\$1,920,000.00	Liberty Mutual Insurance Company	1/3/2011	UIC Blanket Bond
Levy Water Haulers Inc.	Winnett MT	Certificate of Deposit	\$1,500.00	FIRST SECURITY BANK OF ROUNDUP	12/3/2010	UIC Single Well Bond
Nextraction Energy (US) Inc.	Vancouver BC	Certificate of Deposit	\$50,000.00	Wells Fargo Bank, NA	2/1/2011	Multiple Well Bond
Oasis Petroleum North America LLC	Houston TX	Surety Bond	\$10,000.00	RLI INSURANCE COMPANY	1/24/2011	UIC Single Well Bond
Oasis Petroleum North America LLC	Houston TX	Surety Bond	\$10,000.00	RLI INSURANCE COMPANY	1/24/2011	UIC Single Well Bond
Prima Exploration, Inc.	Denver CO	Certificate of Deposit	\$10,000.00	FIRST INTERSTATE BANK	1/18/2011	UIC Single Well Bond

Montana Board of Oil and Gas Conservation
Summary of Bond Activity

12/1/2010 Through 2/10/2011

Approved

Rim Operating, Inc. Englewood CO	212 T1	Approved	12/28/2010
		Amount:	\$10,000.00
		Purpose:	UIC Single Well Bond
Surety Bond	\$10,000.00	RLI INSURANCE COMPANY	
Rim Operating, Inc. Englewood CO	212 M1	Approved	12/28/2010
		Amount:	\$50,000.00
		Purpose:	Multiple Well Bond
Surety Bond	\$50,000.00	RLI INSURANCE COMPANY	
Slohcin, Inc. Shelby MT	5360 G1	Approved	12/21/2010
		Amount:	\$1,500.00
		Purpose:	Single Well Bond
Certificate of Deposit	\$1,500.00	FIRST STATE BANK OF SHELBY	
Southside Oil & Gas Ltd. Calgary AB	666 M1	Approved	1/20/2011
		Amount:	\$50,000.00
		Purpose:	Multiple Well Bond
Certificate of Deposit	\$50,000.00	FIRST INTERSTATE BANK	
Synergy Offshore LLC Houston TX	662 M1	Approved	12/16/2010
		Amount:	\$50,000.00
		Purpose:	Multiple Well Bond
Certificate of Deposit	\$50,000.00	FIRST STATE BANK OF SHELBY	
Tempel Contracting, Inc. Joplin MT	659 G2	Approved	12/3/2010
		Amount:	\$1,500.00
		Purpose:	Single Well Bond
Certificate of Deposit	\$1,500.00	Wells Fargo Bank, NA	
Tempel Contracting, Inc. Joplin MT	659 G3	Approved	12/3/2010
		Amount:	\$5,000.00
		Purpose:	Single Well Bond
Certificate of Deposit	\$5,000.00	Wells Fargo Bank, NA	
Tempel Contracting, Inc. Joplin MT	659 G1	Approved	12/3/2010
		Amount:	\$1,500.00
		Purpose:	Single Well Bond
Certificate of Deposit	\$1,500.00	Wells Fargo Bank, NA	

Released

Central Montana Resources, LLC Billings MT	648 G2	Released	2/4/2011
		Amount:	\$10,000.00
		Purpose:	Single Well Bond
Certificate of Deposit	\$10,000.00	Wells Fargo Bank, NA	
Central Montana Resources, LLC Billings MT	648 G3	Released	2/4/2011
		Amount:	\$10,000.00
		Purpose:	Single Well Bond
Certificate of Deposit	\$10,000.00	Wells Fargo Bank, NA	

Montana Board of Oil and Gas Conservation Summary of Bond Activity

12/1/2010 Through 2/10/2011

Released

Central Montana Resources, LLC Billings MT	648 G4	Released Amount: Purpose:	2/4/2011 \$10,000.00 Single Well Bond
Certificate of Deposit	\$10,000.00 Wells Fargo Bank, NA		
Central Montana Resources, LLC Billings MT	648 G1	Released Amount: Purpose:	2/4/2011 \$10,000.00 Single Well Bond
Certificate of Deposit	\$10,000.00 Wells Fargo Bank, NA		
Cirque Resources LP Denver CO	583 G2	Released Amount: Purpose:	12/3/2010 \$10,000.00 Single Well Bond
Surety Bond	\$10,000.00 FIDELITY & DEPOSIT CO. OF MD		
Fortuna (US) L.P. Calgary AB	592 M1	Released Amount: Purpose:	1/21/2011 \$50,000.00 Multiple Well Bond
Certificate of Deposit	\$50,000.00 FIRST INTERSTATE BANK		
Leivestad, Dale LLC Baker MT	464 T2	Released Amount: Purpose:	12/14/2010 \$10,000.00 UIC Single Well Bond
Certificate of Deposit	\$10,000.00 BANK OF BAKER		
Luff Exploration Company Denver CO	4400 M1	Released Amount: Purpose:	1/24/2011 \$50,000.00 Multiple Well Bond
Surety Bond	\$50,000.00 FIDELITY & DEPOSIT CO. OF MD		
Luff Exploration Company Denver CO	4400 T2	Released Amount: Purpose:	1/24/2011 \$10,000.00 UIC Single Well Bond
Surety Bond	\$10,000.00 FIDELITY & DEPOSIT CO. OF MD		
Luff Exploration Company Denver CO	4400 T3	Released Amount: Purpose:	1/24/2011 \$10,000.00 UIC Single Well Bond
Surety Bond	\$10,000.00 FIDELITY & DEPOSIT CO. OF MD		

Permitting Policy for Long Lateral Horizontal Wells (1280 Spacing Units)

-Statewide 640 acre SU: No change to existing Rule. ("stacked" 320 acre SU will allow the same lateral length as a 1280 acre SU: well can be permitted without hearing; permanent spacing hearing after successful completion is required by Rule.)

-1280 acre TSU:

- Requires hearing to establish TSU before permit is issued.
- Permitting policy should be similar to ND: first well in 1280 TSU must be located in center of the TSU to "prove the unit" Recommend 1320 feet setbacks with 660 heel/toe setback
- After production is established and permanent spacing set, "infill" wells may have 500 feet setbacks – including heel/toe.
- Default docket should allow for 1280's with 1320/660 setbacks without hearing (unless protested); Infill wells on default with 500' setbacks after initial SU is approved.
- Board should not allow 200' setbacks without individual hearings (not on default)

FINANCIAL STATEMENT
As of 2/1/11
Percent of Year Elapsed: 58

OIL AND GAS DIVISION
FY11 Budget vs. Expenditures

FTE Obj	2011 Regulatory Budget			2011 UIC Budget			2011 Educ & Outreach Budget*			2011 NAPE Budget*			2011 Restore Env Coord			2011 Equipment OTO			2011 TOTAL BUDGET	2011 TOTAL EXPENDS	Expend % of Budget
	Budget	Expend	% of Budget	Budget	Expend	% of Budget	Budget	Expend	% of Budget	Budget	Expend	% of Budget	Budget	Expend	% of Budget	Budget	Expend	% of Budget			
	17.0			3.5															20.5		
1000 General PS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	74,676	74,676	0.49
1100 Salaries	908,793	353,398	0.52	302,124	91,876	0.40													1,211,917	445,274	0.00
1300 Other Comp	-	2,864	0.00	-	261	-													-	3,125	
1400 Benefits/Ins	-	116,244		-	27,971														-	144,215	
1600 Vacancy Svgs	-	-		-	-		59,500												-	-	0.00
2000 General Operating	-	-		-	-		-	-		7,500									59,500	-	0.00
2100 Contracted Svcs	440,129	130,612	0.30	55,211	7,550	0.14													502,840	138,162	0.27
2200 Supplies	61,819	24,561	0.40	4,801	5,009	1.04													66,620	29,570	0.44
2300 Communications	35,434	27,386	0.77	4,989	4,964	0.99													40,423	32,349	0.80
2400 Travel	39,377	15,504	0.39	533	2,199	0.43													39,910	17,703	0.44
2500 Rent	20,558	9,943	0.48	1,457	1,266	0.87													22,015	11,209	0.51
2600 Utilities	12,789	7,628	0.60	1,857	1,573	0.85													14,646	9,201	0.63
2700 Repair/Maint	18,615	5,297	0.28	3,126	1,183	0.38													21,741	6,480	0.30
2800 Other Expenses	40,379	21,063	0.52	2,819	4,140	1.47													43,198	25,203	0.58
3000 General Equip	189,549	-	0.00	12,500	-										50,000				252,049	-	0.00
3100 Equipment	47,672	-	0.00	-	-														47,672	-	
6000 Grants	3,000	-		-	-		3,000	-											6,000	-	
Total	1,819,114	714,498	0.39	389,417	147,992	0.38	62,500	-	-	7,500	-	-	74,676	-	-	50,000			2,403,207	862,491	0.36
FUNDING																					
State Special	1,792,328	714,498		254,475	120,993		62,500			7,500			74,676			50,000			2,268,265	835,491	
Federal	-	-		134,942	26,999		-			-			-			-			134,942	26,999	
Total Funds	1,792,328	714,498		389,417	147,992		62,500			7,500			74,676			50,000			2,403,207	862,491	

GRANT BALANCES - 2/1/11

<u>Name</u>	<u>Authorized Amt</u>	<u>Expended</u>	<u>Balance</u>
2009 Northern	300,000	0	300,000
2009 Southern	300,000	0	300,000
2007 Tank Battery	304,847	113,636	191,211
2007 Northern	323,572	291,691	31,881
TOTALS	\$1,228,419	\$405,326	\$823,093

CONTRACT BALANCES - 2/1/2011

HydroSolutions - Tongue River Info Project	1,218,486	965,594	252,892
Automated Maintenance Services, Inc.	27,458	10,991	16,467
Agency Legal Services - Legal	60,000	15,956	44,044
Central Avenue Mall	400	400	0
MT Tech	6,664	4,654	2,010
ALL-LLC - FY2011 -UIC Engineering & Database	20,000	0	20,000
ALL-LLC - Install & Configure New Server	25,000	24,993	7
Liquid Gold Well Service, Inc. - 09 Northern	165,000	0	165,000
Liquid Gold Well Service, Inc. - 09 Southern	165,000	0	165,000
Liquid Gold Well Service, Inc. - 07 Northern	373,572	333,767	39,805
C-Brewer - 07 Southern Tank Battery (og-cb-134)	215,000	113,636	101,364
TOTALS	2,276,580	1,469,990	806,590

Agency Legal Services Expenditures in FY11

Case	Amt Spent	Last Svc Date
BOGC Duties	13,714	12/10
Tongue & Ylwstone Irri	2,241	10/10
Total	15,956	

REVENUE INTO STATE SPECIAL REVENUE ACCOUNT 2/1/11			
	FY11	Total FY10	Percentage FY11:FY10
Oil Production Tax	1,150,446	1,296,500	0.89
Gas Production Tax	203,826	245,292	0.83
Drilling Permit Fees	33,975	39,608	0.86
UIC Permit Fees	181,250	214,500	0.84
Enhanced Recovery Filing Fee			
Interest on Investments	24,270	47,705	0.51
Insurance Proceeds	-	450	0.00
Copies of Documents	2,988	10,065	0.30
Miscellaneous Reimbursements	25,300	18,907	1.34
TOTALS	\$ 1,622,056	1,873,027	0.87

REVENUE INTO DAMAGE MITIGATION ACCOUNT as of 2/1/11	
	FY11
Transfer in from Orphan Share	0
RIT Interest	0
Bond Forfeitures	0
Interest on Investments	492
TOTAL	492

BOND FORFEITURES	
<i>Go into Damage Mitigation Account</i>	
	0

REVENUE INTO GENERAL FUND FROM FINES as of 2/1/11	
	FY11
Summer Night Oil Company LLC	20
McOil Montana One LLC	30
Carrell Oil Company	6400
United States Energy	10
Hawley Oil (July 30, 2010)	260
Hawley Oil (Aug 5, 2010)	260
Brandon Debbie	20
Constitution Petroleum Co., Inc.	280
Hofland James D (August 31, 2010)	100
Hofland James D (Sept 24, 2010)	160
JH Oil Company	40
Misc Oil Company	10
Phoenix Energy	80
King-Sherwood Oil Co	150
Grey Wolf Production Company Inc	50
Roland Oil & Gas LLC	20
Native American Energy Group	360
Carrell Oil Company	6400
Southside Oil & Gas LTD	30
TOTAL	14,680

MOUNTAIN PACIFIC GENERAL

Mountain Pacific General – Faxed letter dated December 2, 2010 stated plugging of the Fossum 10-8 was to be performed by Liquid Gold Well Service by January 31, 2011. Well Inspected 2/8/11 well still shut in.

My notes indicate that Joni Stewart was to give an update on Mountain Pacific General's reorganization at the February 9, 2011 business meeting.

Attempted contact by telephone(work & cell) 2/7/2011, 2/8/2011 and 2/9/2011, no response.

Sent E-Mail 2/8/2011, with no response.

Mountain Pacific General

302 Eighth Avenue SE; Cut Bank, MT 59427; Phone: (406) 257-7440; Fax: (406-257-7441)
stewart55@bresnan.net

December 2, 2010

Montana Board of Oil & Gas Conservation
Tom Richmond, Administrator
2535 St. Johns Avenue
Billings, MT 59102-4693

Dear Mr. Richmond:

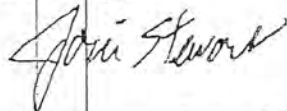
Enclosed is the Organization Report for Mountain Pacific General (MPG). Due to the illness of Jeff Lyon, owner of MPG, as yet we have no official minutes to support the change of officers. Mr. Lyon will return at the end of December and at that time we will have a legally noticed meeting where the officer stated in the enclosed report will be elected. Please note the document has not been notarized and will not be until the corporation meets at the end of December. At that time, I will forward the notarized copy to you.

Mr. Lyon will no longer be actively involved in the day-to-day operations of the company. I have taken over as manager and Mr. Lyon's involvement will be only in an advisory capacity.

In regard to the plugging of the Fossum 10-8, Liquid Gold of Cut Bank, Montana has agreed to plug the well. Due to their full schedule, plugging will not be completed until January 2011.

Thank you for your patience in this matter. Should you have any questions, please don't hesitate to contact me at 406-249-2402.

Sincerely,



Joni Stewart, General Manager

FORM NO. 1 R10/09

(SUBMIT IN DUPLICATE)

APM 36.22.306
ARM 36.22.307

TO

MONTANA BOARD OF OIL AND GAS CONSERVATION
2535 ST. JOHNS AVENUE
BILLINGS, MONTANA 59102

ORGANIZATION REPORT

1. Full name of the Company, Organization, or Individual Mountain Pacific General

2. Address 302-8th Avenue SE Cut Bank, MT 59427 (406) 257-7440
(Address) (City) (State) (Telephone Number)

3. Form and Purpose of the Organization:
Corporation
(State whether a corporation, joint stock association, firm or partnership)
Oil + Gas Production
(State the purpose of the organization)

Foreign corporation, give (1) state where incorporated; (2) name, address, and telephone number of Montana agent; date of qualification to do business in Montana

4. Officers:	TITLE	NAME	ADDRESS
Trustee			
Trustee			
President		<u>Joni Stewart</u>	<u>302-8th Ave SE Cut Bank, MT 59427</u>
Vice President		<u>Jeff Lyon</u>	<u>1440 West Lakeshore Drive Whitefish, MT 59937</u>
Secretary		<u>Joni Stewart</u>	<u>302-8th Ave SE Cut Bank, MT 59427</u>
Treasurer		<u>Jamie Darbro</u>	<u>3015 Erwin Avenue Bozeman, MT 59715</u>
(Other)			

(OVER)

(FORM NO. 1, Page 2)

4. Directors:

NAME

ADDRESS

NAME	ADDRESS

6. Is this a re-organization? Yes

Dated this 2nd day of December, 2010

By: Joni Stewart, President Joni Stewart
(Name and Title)

302-8th Avenue SE
(Address and telephone number)

Cut Bank, MT 59427
(Address, continued)

State of _____

County of _____

_____ being first duly sworn deposes and says that (s)he is
the _____ of _____; that (s)he has personal
knowledge of the ownership, management and officers of said _____; that the statements
above made concerning said organization are true and correct.

Subscribed and sworn to before me this _____ day of _____,

Notary Public, State of _____

Residing at _____

My Commission Expires _____

MONTANA BOARD OF OIL AND GAS CONSERVATION

Date Registered: _____

By: _____
(Name and Title)

(ONE COPY WILL BE RETURNED)

To: Steve Pasaki

FAX: 406-655-6015

from: Joni Stewart

406-257-7440

BEFORE THE BOARD OF OIL AND GAS CONSERVATION
OF THE STATE OF MONTANA

UPON THE BOARD'S OWN MOTION TO REQUIRE
MOUNTAIN PACIFIC GENERAL, INC. TO APPEAR
AND SHOW CAUSE, IF ANY IT HAS, WHY ITS
BOND SHOULD NOT BE FORFEITED FOR FAILURE
TO PLUG THE FOSSUM #10-8 WELL LOCATED IN
SECTION 8, T35N-R1E, TOOLE COUNTY, MONTANA.

ORDER 252-2010

Docket No. 240-2010

Report of the Board

The above entitled cause came on regularly for hearing on the 14th day of October 2010 at the Board's hearing room at its office at 2535 St. Johns Avenue in Billings Montana, pursuant to the order of the Board of Oil and Gas Conservation of the State of Montana, hereinafter referred to as the Board. Board member Ronald S. Efta was absent. At this time and place testimony was presented, statements and exhibits were received, and the Board then took the cause under advisement; and, the Board having fully considered the testimony, statements and exhibits and all things and matters presented to it for its consideration by all parties in the Docket, and being well and fully advised in the premises, finds and concludes as follows:

Findings of Fact

1. Due, proper and sufficient notice was published and given of this matter, the hearing hereon, and of the time and place of said hearing, as well as the purpose of said hearing; all parties were afforded opportunity to present evidence, oral and documentary.

2. Ms. Joni Stewart, sister of Jeff Lyon the owner of Mountain Pacific General, Inc., (Mountain Pacific), was present at the hearing. She said Mr. Lyon is no longer part of the company and she has taken over management of Mountain Pacific. She does not want the bond increased and she would like until the Board's December 2, 2010 public hearing to plug the Fossum 10-8 well. She would also like six months to review all Mountain Pacific's wells, evaluate them, and compile a plan for the Board.

3. Staff reminded the Board that Board Order 1-A-2010, issued at the June 16, 2010 business meeting, ordered that the Mountain Pacific General, Inc. bond be increased to \$250,000 and that has not been done.

4. The evidence indicates that taking the following action will serve to protect correlative rights and be in the interest of conservation of oil and gas in the State of Montana.

Order

IT IS THEREFORE ORDERED by the Board of Oil and Gas Conservation of the State of Montana that Mountain Pacific General has until December 1, 2010 to plug the Fossum #10-8 well in Section 8, T35N-R1E, Toole County, Montana.

IT IS FURTHER ORDERED that this matter is continued until the Board's December 2, 2010 public hearing, but can be dismissed if the Fossum well is plugged by then.

IT IS FURTHER ORDERED that this matter is further continued until the Board's April 28, 2011 public hearing, at which time Mountain Pacific General, Inc. shall have evaluated its remaining wells and provide a plan for them to the Board.

BOARD ORDER NO. 252-2010

IT IS FURTHER ORDERED that the bond increase required by Board Order 1-A-2010 is hereby delayed until the Board's April 28, 2011 public hearing.

Done and performed by the Board of Oil and Gas Conservation of the State of Montana at Billings, Montana, this 14th day of October, 2010.

BOARD OF OIL AND GAS CONSERVATION
OF THE STATE OF MONTANA

Linda Nelson, Chairman

Wayne Smith, Vice-Chairman

Don Bradshaw, Board Member

Jay Gunderson, Board Member

Jack King, Board Member

Bret Smelser, Board Member

ATTEST:

Terri H. Perrigo, Executive Secretary

Sasaki, Steve

From: Sasaki, Steve
Friday, December 17, 2010 11:11 AM
Peterson, Norman
Perrigo, Terri
Cc: Xeric Oil & Gas in bankrupsey BOGC corrected deficiency on the Stensvad 2X-25 by fencing evaporation pit
Subject: SURFACE OWNER PROBLEM FOR THE XERIC OIL.101207doc.doc; Xeric O&G Fence invoice 102110.doc; Stensvad 2X-25 Xeric O&G 091906.doc
Attachments:

Clyde,

I sent an invoice to Xeric Oil & Gas, as the Board directed, to a Mr. Adam Hirschfield in Ohio, certified. The letter was returned with a forwarding address as expired. The letter was resent to Mr. Adam Hirschfield at the Colorado address and accepted. A copy was sent to Mr. Ron St. John in Texas who the BLM identified as officer in Xeric Oil & Gas. No letter reply or telephone contact has been received from Mr. Hirschfield or Mr. St. John.

I did contact the bankruptcy attorney for the Xeric Oil & Gas' case in Odessa Texas, his name is Mike Kelly. He recommends that the Board should file a "Proof of Claims" with the bankruptcy court, since this bankruptcy is now a Chapter 7 bankruptcy. The other possibility for having this invoice paid would be through with holding the amount out of Xeric Oil & Gas's drilling and restoration bond. Mr. Kelly indicates that the Xeric Oil & Gas' wells will be going to a local operator out of Roundup, MT, so when the new operator has posted a bond, the bankruptcy court will request a bond release for the Xeric Oil & Gas' bond.

I am contacting you concerning a request to file a "Proof of Claims" with the bankruptcy court in Texas against Xeric Oil & Gas. I've attached the documentation and the invoice I've sent to Xeric Oil & Gas.

Thanks

Steve

SURFACE OWNER PROBLEM FOR THE XERIC OIL & GAS, STENSVAD 2X-25

Current Problem:

Emergency Fencing evaporation pit on Xeric Oil & Gas Stensvad 2X-25, NW NE Section 25 T11N R30E, Musselshell County, Montana, API 25-065-21376

Surface owner Mr. Dejaegher complained that the unfenced evaporation pit was a hazard to his livestock (Sheep). Xeric Oil & Gas is in bankruptcy, consequently, is not taking care of the field.

Upon recommendation of the administrator, the Board of Oil & Gas will fence the site and invoice Xeric Oil & Gas for the cost associated with fencing this pit.

3 Bids were taken the original bids are attached. The lowest bid, was from Florin's Service, is \$2800.00 and is recommended to be taken. Liability insurance and proof of Workers Compensation insurance is included for the lowest bidder.

History on the above surface problem on the Stensvad 2X-25 evaporation pit:

Donny Cross acquired this well from the Montana Board of Oil and Gas Orphan Well list by proving to the Board that he had a valid mineral lease under the well and by having the well posted to Xeric O&G well bond.

Mr. Cross then did some work at the wellsite by enlarging and deepening the existing evaporation pit. In the process the existing fence was removed and never replaced by Mr. Cross.

Issues arose on this wellsite after Mr. Cross was no longer employed by Xeric Oil & Gas, oil spilled around the treater and Mr. Dejaegher the surface owner concern about the livestock issues with the unfenced evaporation pit.

Contacted Xeric O&G, Adam Hirshfield by letter dated June 19, 2009, outlined the problems. Mr. Ron St. John hired a consultant, Mr. Mickey Bracken to go up to Montana and oversee the cleanup and repairs on this wellsite. Mr. Bracken cleaned up the oil spill, but did not erect a fence around the evaporation pit. Second hand information indicated that service companies were not paid for work done and consequently, contractor's would not work for Xeric. Also, second had information indicated Mr. Bracken was not paid either and returned home.

November 8, 2010

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Xeric Oil & Gas Incorporated
P.O. Box 49
Newbremem, OH 45869
Attention: Mr. Adam Hirshfield

RE: Evaporation Pit for Xeric Oil & Gas Inc., Stensvad 2X-25, NW NE Section 25
T11N R30E, API 25-065-21376, fenced to protect surface owner's livestock from
falling into the evaporation pit. Surface owner is Tom Dejaeger.

Dear Mr. Hirshfield,

A field inspection by MBOGC field inspector which noted violations on the
Stensvad lease and Mr. Dejaeger's verbal complain concerning the pit hazard at the
Stensvad lease, Xeric Oil & Gas, Inc. was notified in a letter dated June 19, 2009. Xeric
Oil & Gas did hire a contractor to cleanup the treater area, but failed to fence this
evaporation pit as directed. Shortly thereafter Xeric Oil & Gas, Inc. declared bankruptcy.

The fencing was undertaken on the above referenced lease, and was completed by the
Montana Board of Oil and Gas on September 29, 2010. Costs were as follows:

Florin's Services Invoice #2810	\$2,800.00
Inspector's time 8 Hrs.	134.56
Chief Field Inspector's time 2 Hrs.	55.62
Administrative Secretary's time 2 Hrs.	<u>55.86</u>
	\$3,046.04

Reimbursement can be paid to following address:

Montana Board of Oil and Gas
2535 St. Johns Ave.
Billings, MT 59102

If you have any questions, I can be contacted at the Billings office at 406-656-0040.

Respectfully,

Steven Sasaki
Chief Field Inspector

Cc Mr. Ron St. John, Houston, TX
Terri Perrigo, Helena, MT

June 19, 2009

Xeric Oil & Gas Corporation
P.O. Box 49
Newbremem, OH 45869
Attention: Mr. Adam Hirshfield

RE: Problems at Stensvad 2X-25, NW NE Section 25 T11N R30E, Musselshell
County, Montana

Dear Mr. Hirshfield,

The following problems were cited at the above referenced lease of Xeric Oil & Gas:

1. Treater berm area has standing oil in it.
Violation of Rule 36.22.1101 FIRE HAZARD PREVENTION
36.22.1102 FIRE WALLS REQUIRED
36.22.1103 NOTIFICATION AND REPORT OF
EMERGENCIES AND UNDESIRABLE INCIDENTS
36.22.1104 CONTROL AND CLEANUP

36.22.1101 FIRE HAZARD PREVENTION

Any rubbish or debris that might constitute a fire hazard shall be removed to a distance of at least 150 feet from the well site, tanks, and reservoirs. All waste oil shall be burned or disposed of in a manner to avert creating a fire hazard. The owner shall take all available precautions to prevent any oil or gas well from blowing open and shall take immediate steps and exercise due diligence to bring under control any "wild" or burning oil or gas well.

History: Sec. 82-11-111, MCA; IMP, Sec. 82-11-123 and Sec. 82-11-124, MCA; Eff. 12/31/72; AMD, 1982 MAR p. 1398, Eff. 7/16/82.

36.22.1102 FIRE WALLS REQUIRED

When it is deemed necessary by the board to protect life, health, or property, the board may require any lease tanks or oil storage tanks to be surrounded by an earthen dike which shall have a capacity of 1 1/2 times the capacity of the tank or tanks it surrounds and which dike shall be continually maintained; and the reservoir within shall be kept free from vegetation, water, or oil.

History: Sec. 82-11-111, MCA; IMP, Sec. 82-11-123 and Sec. 82-11-124, MCA; Eff. 12/31/72.

History: Sec. 82-11-111, MCA; IMP, Sec. 82-11-123, MCA; Eff. 12/31/72; AMD, 1992 MAR p. 654, Eff. 4/1/92.

36.22.1104 CONTROL AND CLEANUP

(1) The owner or operator must promptly control and clean up any leak, spill, escape, or discharge, regardless of the amount of oil, produced water, water containing more than 15,000 ppm TDS, or gas involved.

History: Sec. 82-11-111, MCA; IMP, Sec. and 82-11-123, MCA; NEW, 1992 MAR p. 654, Eff. 4/1/92.

2. Evaporation pit enlarged and deepened. Fence around pit was removed when this work was done. Surface owner, Mr. Tom Dejaeger has filed a complaint concerning this lease. Stating his sheep utilize this pasture and is concerned that the unfenced evaporation pit presents a hazard to his livestock.

Montana Code Annotated - 2007

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82-10-505. Liability for damages to property. The oil and gas developer or operator is responsible for all damages to real or personal property resulting from the lack of ordinary care by the oil and gas developer or operator. The oil and gas developer or operator is responsible for damages to real or personal property caused by oil and gas operations and production.

History: En. Sec. 5, Ch. 199, L. 1981; amd. Sec. 4, Ch. 57, L. 2007.

Provided by Montana Legislative Services

3. Written spill notification as required un Rule 36.22.1103, if spill is 10 barrels of oil or more.

36.22.1103 NOTIFICATION AND REPORT OF EMERGENCIES AND UNDESIRABLE INCIDENTS

(1) The owner or operator of a facility must give immediate notice by telephone to an authorized representative of the board and a written report to the board administrator within five working days of any of the following emergencies:

- (a) the spill, leak, or release of more than 50 barrels of oil or water containing more than 15,000 parts per million (ppm) total dissolved solids (TDS);
- (b) the spill, leak, or release of any amount of oil or of water containing more than 15,000 ppm TDS that enters surface water or groundwater;
- (c) the spill, leak, or release of any amount of produced water that degrades surface water or groundwater;
- (d) the release of any amount of gas with concentrations of 100 or more ppm hydrogen sulfide that is not immediately controlled;
- (e) any fire; and
- (f) any blowout.

(2) The owner or operator must file a written report with the board administrator within five working days after any of the following:

- (a) the spill, leak, or release of ten (10) or more barrels of oil or water containing more than 15,000 ppm TDS that is not completely contained within tank firewalls; and
 - (b) the escape or release of over 3,000 MCF of gas.
- (3) The written and telephone reports referred to in parts (1) and (2) of this rule must include the following information:
- (a) the location of the facility involved in sufficient detail that the site of the emergency can be readily located on the ground;
 - (b) an estimation of the quantity of oil, water or gas lost, destroyed, or permitted to escape;
 - (c) steps that have been or will be taken to remedy the situation and the time schedule for each; and
 - (d) any injuries or property damage.

(4) The owner or operator must file with the board administrator any supplemental report that may be required by the board in connection with any individual emergency or undesirable incident.

(5) The reporting required by this rule is in addition to all other reporting required by other applicable local, state, and federal laws and regulations.

Based upon the inspection by Mr. Mark Armstrong 5/6/09 on this property, Xeric needs to have these problems taken care of by July 7, 2009. If these problems are not taken care of within the two weeks this will be brought up at the Board of Oil and Gas business meeting on July 8, 2009.

If you have any questions, I can be reached at the Billings office at 406-656-0040.

Respectfully,

Steven Sasaki
Chief Field Inspector

Cc Mark Armstrong
Tom Dejagaer, Melstone

Plugging and Reclamation Bonds With Well List

XERIC OIL & GAS CORPORATION		136	Bond: F1	Federal	Active	Wells: 1	Approved	Allowed: 1/1/1997	TD	PBTD	Status
Other Bond		FEDERAL BOND									
API #	Operator	Well	Location		Field						
065-05577	Xeric Oil & Gas Corporation	Govt. 6-4	10 N	31 E 6	SW SW 554S 554W	Keg Coulee			4785	4768	SI OIL

Comment: FEDERAL

XERIC OIL & GAS CORPORATION		136	Bond: L1	\$25,000.00	Multiple Well Bond	Active	Wells: 0	Approved	Allowed: 9/17/1996
Certificate of Deposit	Canceled	1ST SECURITY BANK, ROUNDUP		\$25,000.00				Canceled	6/27/2008

Comment: 114634 - this Certificate of Deposit bond is being transferred to M1 bond

XERIC OIL & GAS CORPORATION		136	Bond: M1	\$50,000.00	Multiple Well Bond	Active	Wells: 21	Approved	Allowed: 7/23/2008	TD	PBTD	Status
Certificate of Deposit	Active	1ST SECURITY BANK OF ROUNDU		\$25,000.00								
Certificate of Deposit	Active	1ST SECURITY BANK OF ROUNDU		\$25,000.00								
API #	Operator	Well	Location		Field							
111-05177	Xeric Oil & Gas Corporation	Horton 18 3	7 N	32 E 18	SE NE 1980N 660E	Wolf Springs			6185	6158	SI	OIL
111-21152	Xeric Oil & Gas Corporation	Horton "A"	7 N	32 E 18	SW NE 1980N 1980E	Wolf Springs			6168		SI	OIL
065-05585	Xeric Oil & Gas Corporation	Butts 5-5 (5)	10 N	30 E 1	SE SE 660S 510E	Keg Coulee			4772	4733	SI	OIL
065-05262	Xeric Oil & Gas Corporation	Butts 4 (5-4)	10 N	30 E 1	NE SE 2086S 554E	Keg Coulee			4792		SI	OIL
065-05270	Xeric Oil & Gas Corporation	Butts 5-3 (3)	10 N	30 E 1	SE NE 1830N 660E	Keg Coulee			4782	4752	SI	OIL
065-05275	Xeric Oil & Gas Corporation	Butte 5-1 (1)	10 N	30 E 1	NE NE 660N 660E	Keg Coulee			4832		SI	OIL
065-05592	Xeric Oil & Gas Corporation	3-3 (SMITH M-3)	10 N	30 E 12	NE NE 660N 662E	Keg Coulee			4855		SI	OIL
065-05460	Xeric Oil & Gas Corporation	SHELHAMER A-4	11 N	30 E 8	C SE SE 660S 660E	Ragged Point			3779		SI	OIL
065-05461	Xeric Oil & Gas Corporation	Goit 5-9	11 N	30 E 9	SW SW 660S 660W	Ragged Point			3745	3701	SI	OIL
065-05463	Xeric Oil & Gas Corporation	4-6 (MANION 6)	11 N	30 E 9	SE SE 660S 662E	Ragged Point			3805		SI	OIL
065-05466	Xeric Oil & Gas Corporation	5-8 (GOIT 8)	11 N	30 E 9	SE SW 810S 1985W	Ragged Point			3730		SI	OIL
065-05476	Xeric Oil & Gas Corporation	Goit 5-5	11 N	30 E 9	NE SW 1980S 2060W	Ragged Point			3615		SI	OIL
065-05477	Xeric Oil & Gas Corporation	Ragged Point 5-6	11 N	30 E 9	C NW SW 1980S 530W	Ragged Point			3603	3566	SI	OIL
065-05484	Xeric Oil & Gas Corporation	5-1 (GOIT 1)	11 N	30 E 9	C SE NW 1980N 1980W	Ragged Point			3625		SI	OIL
065-05485	Xeric Oil & Gas Corporation	Goit 5-3	11 N	30 E 9	SW NE 1980N 1980E	Ragged Point			3630		SI	OIL
065-05486	Xeric Oil & Gas Corporation	Goit 7 (5-7)	11 N	30 E 9	SW NW 1980N 660W	Ragged Point			3580	3540	SI	OIL
065-05580	Xeric Oil & Gas Corporation	WTR SUPPLY 5-1	11 N	30 E 9	NE NW 1000N 1980W	Ragged Point			2555		C	WS
065-21376	Xeric Oil & Gas Corporation	Stensvad 2X-25	11 N	30 E 25	NW NE 660N 2752E	Keg Coulee, North			4709	4666	SI	OIL
065-21073	Xeric Oil & Gas Corporation	WSW #1	11 N	30 E 36	SE NW SE 1950S 1760E	Keg Coulee			6478		PR	WS
065-05285	Xeric Oil & Gas Corporation	State E-1 (4-1)	11 N	30 E 36	SW SE 660S 2446E	Keg Coulee			4773	4730	SI	OIL
065-05286	Xeric Oil & Gas Corporation	State 2-2 (F-2)	11 N	30 E 36	SE SW 660S 1980W	Keg Coulee			4805	4764	SI	OIL

Plugging and Reclamation Bonds With Well List

Comment: Two CD's 114634 & 118406/\$25,000/each

XERIC OIL & GAS CORPORATION		136	Bond: U1	\$60,000.00	UIC Limited Bond	Active	Wells: 3	Allowed: 2/17/1998	
Certificate of Deposit	Active	1ST SECURITY BANK, ROUNDUP		\$60,000.00			Approved		
API #	Operator	Well	Location		Field		TD	PBTD	Status
065-05478	Xeric Oil & Gas Corporation	R. SHELHAMER 1A	11 N	30 E	8	C NE SE 1980S 660E	Ragged Point	3702	SI EOR
065-05443	Xeric Oil & Gas Corporation	State 1	11 N	30 E	16	NW NW 607N 609W	Ragged Point, Southwest	3850	3812 TA EOR
065-05288	Xeric Oil & Gas Corporation	STATE E #2	11 N	30 E	36	663S 973E	Keg Coulee	4803	IA EOR

Comment: 115434

SIMPLIFIED EX PARTE FLOW CHART FOR MONTANA BOARD OF OIL AND GAS CONSERVATION

