

Magpie Operating, Inc.  
2707 South County Road 11  
Loveland CO 80537

November 15, 2011

Mr. David Neslin  
Colorado Oil and Gas Conservation Commission  
1120 Lincoln St, Suite 801  
Denver CO 80203

RE: Request for variance to Rule 707.a.

Dear Mr. Neslin:

Magpie Operating, Inc. (Magpie) currently operates 97 active wells and has operated in the State of Colorado for 19 years. Virtually all of Magpie's wells qualify as stripper production. The Loveland and Little Beaver Fields are mature but still productive. Naturally, older producing wells are more likely to require repair or plug and abandonment. As of November 8<sup>th</sup>, COGCC staff has identified 19 (nineteen) inactive wells that are either shut in or temporarily abandoned. Magpie currently has a blanket plugging bond of \$100,000, and is required to post \$280,000 in additional financial assurance. Magpie is pursuing additional financial assurance but has found underwriting standards to be too stringent, requiring 100% collateral.

To help remedy this situation, Magpie has stepped up its efforts to reduce the inactive well count. Since 2008, Magpie has successfully plugged and abandoned 13 wells. Magpie sold 3 shut in wells and placed back on production another 5 wells. Along with these 21, Magpie performed 15 mechanical integrity tests and found no issues with any of the shut in wells. Additionally, 27 locations were prepared for final reclamation inspections.

Magpie's intent is to continue to reduce the inactive well count and become compliant under Rule 707.a. Of the 19 wells currently counted as inactive, 4 have been successfully plugged and abandoned and subsequent reports of abandonment are in process. Two of the inactive wells were put back on production in October 2011 and await verification from commission staff. Of the remaining 13 inactive wells, 5 are to be plugged and abandoned, of which 3 have approved plugging orders and 2 are in process. Magpie will attempt to place the final 8 wells on production. Two wells reside in the Brush Well Field and until recently relied on unlined water pits to enable economic production. Magpie is designing an evaporation pond and will file for lined pit permits. One well in eastern Adams County needs a tank and separator and can be placed on production with relative ease. The 5 remaining inactive wells are in the Little Beaver Field and each has a designed workover. Should operations fail, the well will be promptly plugged and abandoned.

Magpie requests a variance to Rule 707.a for wells determined to be shut-in and inactive. Magpie has demonstrated staying power in the face of difficult economic times and poses very little risk in failing to maintain plugging/operating responsibilities. Magpie will increase the financial assurance amount for the inactive wells by \$6,666.67 per month beginning in January 2012, whereby an additional \$20,000 is received each quarter. Magpie will use its best efforts to continue to reduce the inactive well count until compliance with Rule 707.a. is reached. Magpie will continue to cooperate openly and productively with staff as an excellent rapport has been built

over the past several years. Magpie will submit quarterly progress reports detailing well operations beginning with the first report due March 31, 2012.

Respectfully,

Ryan Warner  
Vice President

<b>Well Name</b>	<b>DATE</b>	<b>WORK PERFORMED</b>
SAULCY -3	Mar-08	P & A
LBDSU -34	Oct-08	P & A
LBDSU -64	Oct-08	P & A
COULSON -1	Jan-09	P & A
GILL TRINDLE -1	Jan-09	P & A
LBDSU -28	Mar-09	P & A
LBDSU -24	Mar-09	P & A
LBDSU -39	Apr-09	P & A
HALE -2A	May-09	P & A
HENRY WEBER -1	May-09	P & A
PULLIAM -2A	Jun-09	P & A
GREGG LANDERS -1	Aug-09	P & A
CHINOOK -1	Oct-09	SOLD
NORTHRUP -114	Oct-09	SOLD
NORTHRUP -214	Oct-09	SOLD
LBDSU -43	Feb-10	PUT ON PRODUCTION
CHALLIS JW -1	Dec-10	P & A
LBDSU -31	Jan-11	PUT ON INJECTION
LBDSU -58	Jan-11	PUT ON PRODUCTION
BORLAND -1	Oct-11	PUT ON PRODUCTION
TUCKER -1	Oct-11	PUT ON PRODUCTION

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<b>Well Name</b>	<b>DATE</b>	<b>MIT'd</b>
FAHK-GARRETT -3	Jan-08	SI/TA MAINTENANCE STATUS
STATE -4-24	Jan-08	SI/TA MAINTENANCE STATUS
TUCKER -1	Feb-08	SI/TA MAINTENANCE STATUS
WARD-BOYD-BROSE -1	Feb-08	SI/TA MAINTENANCE STATUS
IVERS, DOROTHY -1-B	Mar-08	SI/TA MAINTENANCE STATUS
PROSPECT LAND CO. -1	Mar-08	SI/TA MAINTENANCE STATUS
LITTLE BEAVER UNIT -25	Sep-08	SI/TA MAINTENANCE STATUS
LITTLE BEAVER UNIT -24	Oct-08	SI/TA MAINTENANCE STATUS
LITTLE BEAVER UNIT -41	Apr-10	RESET PACKER
LITTLE BEAVER UNIT -30	Apr-10	VERIFICATION OF REPAIRS
MAROSTICA -1	Jun-10	SI/TA MAINTENANCE STATUS
LUTIN -1	Jun-10	SI/TA MAINTENANCE STATUS
LITTLE BEAVER UNIT -31	Jun-10	RESET PACKER
REDIESS -1	Sep-10	SI/TA MAINTENANCE STATUS
REDIESS -2	Sep-10	SI/TA MAINTENANCE STATUS

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<b>Well Name</b>	<b>DATE</b>	<b>Reclamation</b>
VORTEX UNIT 1-8	2011	FINAL INSPECTION READY
VORTEX UNIT 33-5	2011	FINAL INSPECTION READY
VORTEX UNIT 44-5	2011	FINAL INSPECTION READY
VORTEX UNIT 41-8	2011	FINAL INSPECTION READY
VORTEX UNIT 1-5X	2011	FINAL INSPECTION READY
VORTEX UNIT 43-5	2011	FINAL INSPECTION READY
VORTEX UNIT 22-8	2011	FINAL INSPECTION READY
LITTLE BEAVER UNIT -4	2011	FINAL INSPECTION READY
LITTLE BEAVER UNIT -36	2011	FINAL INSPECTION READY

LITTLE BEAVER UNIT -22	2011	FINAL INSPECTION READY
LITTLE BEAVER UNIT -24	2011	FINAL INSPECTION READY
LITTLE BEAVER UNIT -14	2011	FINAL INSPECTION READY
LITTLE BEAVER UNIT -29	2011	FINAL INSPECTION READY
LITTLE BEAVER UNIT -9	2011	FINAL INSPECTION READY
LITTLE BEAVER UNIT -28	2011	FINAL INSPECTION READY
LITTLE BEAVER UNIT -7	2011	FINAL INSPECTION READY
LITTLE BEAVER UNIT -80	2011	FINAL INSPECTION READY
LITTLE BEAVER UNIT -79	2011	FINAL INSPECTION READY
LITTLE BEAVER UNIT -40	2011	FINAL INSPECTION READY
LITTLE BEAVER UNIT -50	2011	FINAL INSPECTION READY
LITTLE BEAVER UNIT -51	2011	FINAL INSPECTION READY
LITTLE BEAVER UNIT -64	2011	FINAL INSPECTION READY
BONDHAUS -2	2011	FINAL INSPECTION READY
HALE -2A	2011	FINAL INSPECTION READY
COULSON -1	2011	FINAL INSPECTION READY
GREGG LANDERS -1	2011	FINAL INSPECTION READY
MILTENBERGER -1	2011	FINAL INSPECTION READY

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	<b>API</b>	<b>Inactive Well Name</b>	<b>Number</b>	<b>Plan</b>
1	121-06224	LITTLE BEAVER UNIT	39	PLUGGED
2	121-06252	LITTLE BEAVER UNIT	28	PLUGGED
3	121-06260	LITTLE BEAVER UNIT	24	PLUGGED
4	001-07212	STATE	4-24	Plan to produce
5	069-06133	OSBORN	3	Plug
6	073-06189	SAFRANEK-STATE	2-30	Plug
7	075-05621	WARNECKE	1	Currently Producing
8	075-06608	LUTIN	1	Plug
9	075-08108	MAROSTICA	1	Plug
10	087-07160	REDIESS	1	Plan to Produce
11	087-07173	REDIESS	2	Plan to produce
12	121-06123	LITTLE BEAVER UNIT	65	Plan to produce
13	121-06207	LITTLE BEAVER UNIT	45	Plan to produce
14	121-06232	LITTLE BEAVER UNIT	36	Convert to injection
15	121-06259	LITTLE BEAVER UNIT	25	Plan to produce
16	069-06112	SAULCY	3	PLUGGED
17	069-06182	BORLAND	1	Currently Producing
18	069-06223	WARD-BOYD-BROSE	1	Plug
19	121-06178	LITTLE BEAVER UNIT	53	Plan to produce