

BEFORE THE OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF COLORADO

IN THE MATTER OF ALLEGED VIOLATIONS OF THE)	CAUSE NO. 1V
RULES AND REGULATIONS OF THE COLORADO OIL)	
AND GAS CONSERVATION COMMISSION BY)	DOCKET NO. 0611-OV-14
MARALEX RESOURCES, INC.,)	
LA PLATA COUNTY, COLORADO)	

NOTICE OF ADMINISTRATIVE ORDER BY CONSENT

TO ALL INTERESTED PARTIES AND TO WHOM IT MAY CONCERN:

On February 16, 2005, Colorado Oil and Gas Conservation Commission ("COGCC") staff approved the Application for Permit-to-Drill, Deepen or Operate, Form 2 submitted by Maralex Resources, Inc. ("Maralex") for the Keegan Patrick 33-7-11 #2A Well (API #05-067-09016) located in the NW¼ SW¼ of Section 11, Township 33 North, Range 7 West, N.M.P.M.

On July 25, 2005, Maralex spudded the Keegan Patrick 33-7-11 #2A Well. Drill cuttings and fluids were placed in unlined drilling and reserve pits on the site.

On October 30, 2005, COGCC received a complaint from Mr. David Thomson (Complaint #200079439) alleging degraded water quality in his domestic water supply well (permit #151002) resulting from activities at the Keegan Patrick 33-7-11 #2A Well. The Thomson water well is located approximately 350 feet east of the Keegan Patrick 33-7-11 #2A Well. Information from the driller's log for the water well indicates that groundwater was encountered at 12 feet below ground surface (bgs) during the installation of the Thomson water well and that the well is screened from 12 to 180 feet bgs.

On November 1, 2005, a contractor retained by Maralex visited the site and collected water samples from the Thomson water well, the Keegan Patrick 33-7-11 #2A reserve pit and the Keegan Patrick 33-7-11 #2A separator. Analytical results indicated that groundwater from the Thomson water well contained elevated levels of calcium (398 milligrams per liter [mg/L]), chloride (890 mg/L), total dissolved solids (2,320 mg/L) and electrical conductivity (3,120 micro Siemens per centimeter [uS/cm]) relative to expected quality of shallow groundwater in the area. The chloride concentration of 890 mg/L detected in the Thomson water well exceeded the Colorado Basic Groundwater Standard (Table 2) of 250 mg/L for drinking water.

On November 3, 2005, COGCC staff conducted a field inspection of the Keegan Patrick 33-7-11 #2A Well and the Thomson water well. Fluids were observed in the unlined reserve pit. An odor was noted in the vicinity of the reserve pit. An area of turned soil was noted adjacent to the well head. Groundwater from the Thomson water well was observed to have a tendency to foam when discharged to the ground surface. A COGCC subcontractor collected water samples from the Thomson water well for laboratory analysis for volatile organic compounds (VOCs) by EPA Method 524.2, for total petroleum hydrocarbons (TPH) in the diesel and oil ranges of organics by EPA Method 8015, and for nitrate and nitrite by EPA Method 353.3. In addition, a water sample was collected from the Keegan Patrick 33-7-11 #2A reserve pit for VOCs by EPA method 524.2. Analytical results indicate benzene concentrations in the reserve pit sample (7.4 ug/L) exceeded Colorado standards for groundwater; however, organic constituents were not detected in samples from the Thomson water well.

On November 5, 2005, Maralex initiated the process of removing liquids from the reserve pit.

On November 15, 2005, a COGCC subcontractor collected soil samples from the area of turned soil noted during the November 3, 2005 site inspection. Samples were analyzed for benzene, ethylbenzene, toluene and xylenes by EPA Method 8020, for TPH by EPA Method 8015, and for pH, conductivity and sodium adsorption ratio. Analytical results indicated no constituents exceeded soil standards as listed in the COGCC 900 Series Rules, Table 910-1.

On November 22, 2005, the Keegan Patrick 33-7-11 #2A reserve pit was backfilled and closed and reclamation was completed.

On December 28, 2005, groundwater samples were collected from the Thomson water well and from three nearby domestic wells, and Mr. Thomson and Mr. Larry Zufelt, a

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neighboring landowner, were interviewed. The analytical results of the Thomson water well were compared to the results of previous samples. The analytical results from nearby wells were used to determine the quality of the natural groundwater and were compared to the water from the Thomson well. Analytical results indicated that calcium and chloride concentrations in the Thomson well had declined to 226 mg/L and 520 mg/L, respectively, since November, 2005. However, the chloride concentration of 520 mg/L detected in the Thomson water well exceeded the Colorado Basic Groundwater Standard (Table 2) of 250 mg/L for drinking water. Concentrations of calcium in neighboring wells ranged from 20.8 mg/L to 56.2 mg/L while chloride ranged from <10 mg/L to a high of 15 mg/L.

To determine concentration trends, a third set of water samples were collected from the Thomson water well by a COGCC subcontractor on February 10, 2006. Analytical results indicate that concentrations of calcium and chloride in the Thomson well had declined to 29.7 mg/L and 140 mg/L. The chloride concentration of 140 mg/L detected in the Thomson water well did not exceed the Colorado Basic Groundwater Standard (Table 2) of 250 mg/L for drinking water, but it is still greater than the concentration of chloride in the unimpacted groundwater in this area. Results from the three sampling events are consistent with staff interpretation that a slug of fluids from the unlined Keegan Patrick 33-7-11 #2A reserve pit leaked into the shallow groundwater system and flowed downgradient, resulting in a transient degradation in the groundwater quality in the Thomson water well.

On March 13, 2006, a Notice of Alleged Violation ("NOAV", #200085988) was issued to Maralex regarding the observed impacts to the Thomson water well. The NOAV cited Rule 324A.a., for failure to prevent significant adverse environmental impacts to air, water, soil, or biological resources and to prevent the unauthorized discharge or disposal of E&P waste; Rule 324A.b., for performing an act or practice which constitutes a violation of water quality standards or classifications; Rule 902.a., for failure to construct and operate a pit to protect waters of the state from significant adverse environmental impacts from E&P wastes; Rule 907.a.(1), for failure to ensure that E&P waste is properly stored, handled, transported, treated, recycled or disposed to prevent threatened or actual significant adverse environmental impacts; and Rule 907.a.(2), for failure to conduct E&P waste management activities to protect waters of the state from significant adverse environmental impacts. Corrective action required by the NOAV included submission of a Spill Report, Form 19 regarding the release from the Keegan Patrick 33-7-11 #2A reserve pit and a Site Investigation and Remediation Workplan, Form 27 for the continued monitoring of the impacts to the Thomson water well and down gradient water wells to ensure that should impacted water from the release migrate further it is detected and mitigated. The deadline for submission of the Form 19 and Form 27 was established to be April 14, 2006.

On April 14, 2006, Maralex submitted the Form 19 (#01953000) and Form 27 (#3680) required by the NOAV.

On May 25, 2006, the Form 19 and Form 27 were approved by COGCC staff with conditions specifying required locations, frequency, and duration of groundwater monitoring.

Maralex acknowledges by its concurrence with this Administrative Order by Consent ("AOC") that the contents of the reserve pit associated with the Keegan Patrick 33-7-11 #2A Well likely infiltrated into and impacted the shallow groundwater constitutes a violation of Rules 324A.a., 324A.b. and 902.a. from October 31, 2005 when Maralex was notified of the Thomson complaint until November 5, 2005 when fluid removal from the pit was initiated for a total six (6) days of violation.

Rule 523. specifies a base fine of One Thousand dollars (\$1,000) for each day of violation of Rules 324A.a., 324A.b., and 902.a. for a total fine of Eighteen Thousand dollars (\$18,000). In accordance with Rule 523.d., the total fine should be reduced by thirty percent (30%) because of mitigating factors, resulting in a recommended fine of Twelve Thousand Six Hundred dollars (\$12,600). The mitigating factors in determining this fine are as follows: (1) Maralex demonstrated prompt, effective response to the violations; (2) Maralex cooperated with the COGCC with respect to the violation; and (3) Maralex has a history of compliance with Commission rules, regulations and orders.

On August 18, 2006, COGCC staff issued an AOC to Maralex Resources Inc. for violation of Rules 324.A.a., 324.A.b., and 902.a. for adverse environmental impacts from discharge of exploration and production waste from the reserve pit associated with the Keegan Patrick 33-7-11 #2A Well located in the NW¼ SW¼ of Section 11, Township 33 North, Range 7 West, N.M. P.M., proposing a fine of Twelve Thousand Six Hundred dollars (\$12,600). On August 23, 2006,

Maralex Resources agreed to and accepted the AOC, including the fine of Twelve Thousand Six Hundred dollars (\$12,600).

NOTICE IS HEREBY GIVEN, that the Oil and Gas Conservation Commission of the State of Colorado, pursuant to the above, has scheduled the above-entitled matter for hearing on:

Date: Monday, November 27, 2006
Tuesday, November 28, 2006

Time: 9:00 a.m.

Place: Suite 801, The Chancery Building
1120 Lincoln Street
Denver, Colorado 80203

In accordance with the Americans with Disabilities Act, if any party requires special accommodations as a result of a disability for this hearing, please contact Margaret Humecki at (303) 894-2100 ext. 139, prior to the hearing and arrangements will be made.

Pursuant to said hearing in the above-entitled matter at the time and place aforesaid, or at any adjourned meeting, the Commission will enter such orders as it deems appropriate to protect the health, safety and welfare of the public and to prevent the waste of oil and gas, either or both, in the operations of said field, and to carry out the purposes of the statute.

In accordance with Rule 509., any interested party desiring to protest the granting of the application or to intervene on the application should file with the Commission a written protest or intervention no later than November 13, 2006, briefly stating the basis of the protest or intervention. Such interested party shall, at the same time, serve a copy of the protest or intervention to the person filing the application. An original and nine (9) copies shall be filed with the Commission (Rule 503.). **Anyone who files a protest or intervention must be able to participate in a prehearing conference during the week of November 13, 2006.** Pursuant to Rule 503.f., if a party who has received notice under Rule 503.b. wishes to receive further pleadings in the above-referenced matter, that party must file a protest or intervention in accordance with these rules.

IN THE NAME OF THE STATE OF COLORADO

OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF COLORADO

By _____
Patricia C. Beaver, Secretary

Dated at Suite 801
1120 Lincoln Street
Denver, Colorado 80203
October 26, 2006