



**GUNNISON ENERGY CORPORATION
AN OXBOW COMPANY**

Surface Use and Operating Plan

**Hotchkiss Federal 1289 # H1 and H2
T12S R89W Section 18 SENW
Federal Lease COC-65106 and COC-74129**

INTRODUCTION

This Surface Use Plan applies to the Hotchkiss Federal 1289 H1 and H2 wells to be drilled on private surface in section 18 Township 12 South, Range 89 West in Gunnison County, Colorado. The wells will be constructed on a well pad designed for multiple wells.

Hotchkiss Federal 1289 H1 will be drilled vertically to approximately 7,500 feet then horizontally approximately 5,000 feet in a north westerly direction through portions of Section 18, T12S, R89W and Section 13 T12S R90W.

Hotchkiss Federal 1289 H2 will be drilled vertically to approximately 7,500 feet then horizontally approximately 5,000 feet in a south easterly direction through portions of Section 18, T12S, R89W and Section 17 T12S R89W.

SITE ACCESS

The location may be reached by following Colorado Highway 133 approximately 10 east of Somerset, Colorado to the Hotchkiss Ranch gate on the west side of the road in Section 20 T12S R89W. Go west on the ranch road 0.4 mile, turn north immediately east of West Muddy Creek, continue traveling approximately 1.7 mile to the Hotchkiss Federal 1289- 17-13. Continue ¼ mile north then take the first dirt road west and continue approximately ½ mile to the location. Refer to Access Road Maps.

1) EXISTING ROADS:

The wells will be accessed via State Highway 133, privately-owned ranch roads. A portion of the ranch road, approximately 0.4 mile, traverses BLM surface. A BLM Right of Way has been obtained for this portion of access. GEC has entered into a road maintenance agreement with Hotchkiss Ranches for the remainder of the access.

Privately-owned roads maintained as agreed with the landowner. Improvements and maintenance shall be conducted so as to prevent impacts to storm water runoff quality.

That portion crossing BLM surface was upgraded to a BLM Resource Road utilizing a 14 foot running surface as approved with the Hotchkiss Federal 1289 # 17-13.

2) ACCESS ROADS TO BE CONSTRUCTED AND RECONSTRUCTED

No new access road required since the well pad is immediately adjacent to the road accessing the Hotchkiss 18-22 WDW. Only a spur approximately 100 feet in length will be required. Refer to Figure 1 and Access Map Topos B, C&D.

Access Road Restrictions:

Heavy truck traffic will be suspended whenever mud or silt would be carried away from the road surface beyond the road drainage ditches or would enter surface streams or creeks.

GEC will provide adequate staging areas on private surface near the main entrance gate for rig move operations.

3) LOCATION OF EXISTING WELLS

Refer to attached Well Location Map which indicates all wells located within a 3-mile radius.

Production Facilities

Production units with measurement meters will be placed on the pad if the wells produce sufficient natural gas for production, see typical production pad. Additional facilities such as pumps and tanks will be sundried should they be necessary.

Should the well be productive the gas will be measured at the well head and piped to the existing Hotchkiss Gas Gathering system immediately adjacent to the proposed pad. A 6 inch steel pipeline will transport the gas from the point of measurement to the gathering system. The gas line will be buried three to five feet below the ground surface along the access road. Refer to Access Road Map Topo D for detail.

The drill pad will be fenced stock-tight using a 4 strand barbed wire fence. The fencing will initially be located at the approximate limits of the disturbed area; the fenced area may be reduced after interim reclamation, depending upon agreement with the landowner. A cattle guard will be installed in the fence line at the entrance to the pad.

5) LOCATION OF WATER SUPPLY

Refer to attached Water Haul Route map.

Water for drilling and completion will be from GEC's permitted non-tributary Coal Bed Methane wells; HFK 1289 #18-31 (SEO Permit # 68075), HFK 1289 #17-13 (SEO Permit # 68076), HFK 1289 #18-43 (SEO Permit #68074) and HK 1290 #1-34 (SEO Permit # 68073). Water will be stored in the Hotchkiss Water Storage Facility adjacent to the proposed well. Water may be reused as needed prior to down hole disposal via GEC's existing HK 18-22WDW.

6) CONSTRUCTION MATERIALS

Construction materials for the drilling pad will consist of the material excavated from the site, gravel purchased from a private gravel pit and or on-site screening to obtain surfacing material for the pad surface. If required, additional fill and/or surfacing will be obtained from existing permitted sources. No material will be obtained from federal surface.

7) METHODS FOR HANDLING WASTE DISPOSAL

- 1) Drill cuttings will not be buried on location in the reserve pit after drilling and completion. They will be transported to an approved private location for land farming or disposal.
- 2) Drilling mud liquids may be transported to other drilling locations or hauled to an approved private location for land farming or disposal.
- 3) Fluids from reserve pits, whether remaining from, or produced during, drilling or completion operations, will be extracted from the pits and trucked to an authorized disposal facility.
- 4) Produced fluid will be piped to GEC's Hotchkiss 18-22 WDW an approved disposal well.
- 5) Sanitary facilities will be provided on site via chemical toilets and sewage holding tanks.
- 6) During all construction, drilling and completion operations, trash and garbage will be placed in appropriate caged containers and the container and contents transported to a CDPHE approved sanitary landfill.
- 7) Waste oils from equipment will be contained on site in secondary containment during operations and, immediately upon demobilization of the drilling and completion equipment, disposed at an approved facility.
- 8) Oily wastes will be contained on the site in marked steel drums and disposed of at an approved facility upon completion of site cleanup after drilling and completion operations.

8) ANCILLARY FACILITIES

Temporary accommodation trailers will be provided on the drilling pad for from three to seven supervisors and technical personnel during the drilling and completion process.

9) WELL SITE LAYOUT

Refer to attached Construction Layout, Figure 1.

Refer to attached Construction Layout Cross Section, Figure 3.

Refer to Typical Rig Layout, Figure 4.

Refer to Reclamation Diagram, Figure 5.

- 1) Prior to the beginning of construction of the drilling pad, a pre-work conference will be scheduled with the land owner to review designs and procedures.
- 2) Existing vegetation will be removed and used per agreement with landowner. Surface vegetation will be stripped from site and reserved for mulching.
- 3) Topsoil will be removed and reserved for reclamation; topsoil will generally be windrowed at the perimeter of the disturbed area, to be readily accessible for reclamation use.
- 4) Large boulders encountered during excavation will be utilized to define the toe of the fill area and/or placed in the deepest portion of the fill area. If excessive boulders are encountered, then they may be stored at one side of the disturbed area for use during reclamation.
- 5) Excavated material will be screened on-site to provide pad surfacing materials. Excavated material used for fill will be placed in lifts not exceeding one foot depth and will be compacted by vibratory smooth-drum or tamping foot roller equipment.
- 6) To minimize disturbed area, back slope cuts will be made as steep as possible consistent with the depth of the cut and the stability of the soil, but generally not steeper than 1:1. Fill slopes will generally not be steeper than 2:1.
- 7) Where required by terrain, storm water runoff diversion ditches will be constructed around the site, typically outside of the disturbed area, to assure that major storm events do not introduce storm water flows onto the drilling pad. Storm water diversion ditches will be provided with erosion control and silt retention dams constructed of excelsior logs, brush cleared from the pad or segments of fallen logs or unmerchantable timber.
- 8) Once the disturbed area has been defined by clearing and preliminary excavation, the site perimeter will be fenced at the limits of the disturbed area. Silt fence will be incorporated into a portion of the perimeter fencing to provide erosion control for stored topsoil.
- 9) Once the pad has been constructed to rough grade and erosion controls placed, the reserve pit will be constructed.
- 10) The reserve pit will be lined with a PVC or HDPE liner prior to mobilization of the drilling equipment. The pit will be fenced on 3 sides during drilling and completion.
- 11) The rig and associated equipment will be placed on PVC or HDPE liner prior to erection.

10) PLANS FOR RECLAMATION OF THE SURFACE

- 1) The rathole and mousehole will be filled with aggregate to surface elevation by the drilling crew during demobilization of the drilling rig.
- 2) Upon demobilization of the drilling rig, the drilling pad will be cleaned of all excess materials and debris and any oil or other fluids encountered will be cleaned up and disposed in an approved manner. The same process will be repeated upon demobilization of the completion rig.
- 3) Reclamation of the reserve pit will commence as soon as practical after drilling and completion operations are complete. Drilling fluids and/or produced fluids will be disposed by trucking to an approved facility. Cuttings and mud remaining in the pit will be dried by evaporation. After the remaining material is sufficiently dried, the liner and all cuttings shall be removed and the pit will be backfilled, using material removed from the drilling pad fill side.
- 4) The drilling pad will be reclaimed by excavating the fill side of the pad and replacing material at the cut side of the pad to create the permanent production pad and re-contour the site to a shape that blends with the surrounding contours, eliminating steep slopes. Large boulders may be used to define a cut slope, when required. Slopes of soil fill will not exceed 2:1.
- 5) Upon completion of regrading, reserved topsoil shall be placed on disturbed areas that will not be utilized for production. The topsoil shall be seeded with an appropriate grass mix (to be agreed with landowner) and the seed will be drilled into the soil. Generally, placement of topsoil, seed and mulch will be accomplished in late fall.

11) SURFACE OWNERSHIP

Landowner:

Hotchkiss Ranches, Inc.
619 Shepard's Lane
Hotchkiss, CO 81419-0479
Phone: 970-872-3492

Operator:

Gunnison Energy Corporation
1801 Broadway, Suite 1200
Denver, CO 80202
303.296.4222
303.296.4555– Fax

12) OTHER INFORMATION

None

13) LESSEE'S OR OPERATORS CERTIFICATION

I hereby certify that Gunnison Energy Corporation is responsible under the terms and conditions of the lease to conduct lease operations in conjunction with the application. Reclamation Bond coverage for lease activities is being provided by Gunnison Energy Corporation under their Blanket Colorado Plugging Bond, Surety ID #2002-1151, and the BLM Statewide Oil & Gas Bond No. CO-1428.

I hereby certify that I, or persons under my direct supervision, have inspected the drill site and access road; that I am familiar with the conditions which presently exist; that the statements made in this plan area, to the best of my knowledge, are true and correct; and that the work associated with the operations proposed herein will be performed by Gunnison Energy Corporation and its contractors and sub-contractors in conformity with this plan and conditions under which it is approved. This statement is subject to the provisions of 18 U.S.C. 1001 for the filing of a false statement.

10/10/11
Date



M. Brad Robinson
President