

WARNING LETTER #2193162

February 2, 2016

HRM RESOURCES II LLC
ATTN: ROGER L HUTSON
410 17TH STREET #1100
DENVER, CO 80202

E-MAIL: lrhutson@hrmres.com

RE: Wells Out of Compliance

This Warning Letter is to inform you that the oil and gas facility/facilities or the oil and gas operation(s) listed below may be in violation of the rules and regulations of the Colorado Oil and Conservation Commission ("COGCC") and corrective action is required:

API #:	Well Name:
039-06641	CANYON ENERGY STATE ALBERTA #36-24

There is reasonable cause to believe that a violation of the Oil and Gas Conservation Act, or of rules, regulations, or orders of the Commission, or of permits issued by the Commission, has occurred. The Operator's compliance with this Warning Letter is required to resolve the alleged violation(s). This document requires the Operator to timely respond to the COGCC and to comply with directives as listed by **April 30, 2016**. Failure to do so will result in the issuance of a Notice of Alleged Violation (NOAV) and initiation of enforcement proceedings in which COGCC will seek monetary penalties for the alleged violations pursuant to § 34-60-121, C.R.S. and Rule 523, COGCC Rules of Practice and Procedure, 2 CCR 404-1.

The COGCC requires HRM RESOURCES II LLC (Operator) to implement corrective action(s) for the condition(s) identified below. The listed well(s) are out of compliance with COGCC Rules 316B. for notification of Mechanical Integrity Tests (MIT); 319.b.(1), and 319.b.(3) and 326.c. for MITs of Temporary Abandonment (TA) Wells; and/or 326.b. for MITs of Shut-In (SI) Wells.



TA Wells. Rules 319.b.(1) and 319.b.(3) require operators to conduct a successful/passing MIT and receive Director approval prior to TA of a well for up to a six (6) month period. If an operator requests TA status in excess of six (6) months the operator shall state the reason for requesting such extension and state plans for future operation. Rules 326.c.(1) and (2) require that TA Wells pass an MIT within thirty (30) days of becoming temporarily abandoned and then at five (5) year intervals after an initial successful MIT. Rule 316B requires notice to the Director on a Form 42 at least ten (10) days prior to performance of conducting a MIT and submission of MIT results on a Form 21, within thirty (30) days after the test. A pressure chart shall accompany this Form 21 report. COGCC Rule 100 defines a well as temporarily abandoned if the well becomes incapable of production (e.g., through the removal of necessary production equipment or a well that has all downhole completed intervals isolated with a plug set above the highest perforation such that the well cannot produce without removing a plug).

Please note that any well, incapable of production should have a well status of TA. **If the status of any TA well is incorrect, per COGCC records, you must update the well status within thirty (30) days of the date of this letter by filing a corrected Form 7 for each well and, if there are downhole plugs that have never been reported to COGCC, filing a Form 5A as well. TA Wells also require an annual Form 4 - Sundry Notices, requesting Continued TA Status. These Sundries must contain the last successful MIT date, a brief statement of future plans for the well and a declaration of how the well is closed to the atmosphere. You must request continued TA status for the listed well(s), where appropriate, within thirty (30) days of the date of this letter. Failure to file corrected Form 7(s), Form 5A(s), and/or Form 4(s), as required, will result in the issuance of a separate NOAV.**

SI Wells. Rules 326.b.(1) and (2) require that SI Wells pass an MIT within two (2) years of the initial shut-in date and then at five (5) year intervals after an initial successful MIT.

The above listed well(s) is/are out of compliance for one or more of the following reasons:

TA status over 30 days without report of/or passing an initial MIT.

SI status over two years without report of/or passing an MIT.

TA/SI status has continued in excess of Five (5) years, after initial MIT, without report of a passing, follow up MIT.

Failure to submit an annual Sundry Notice requesting continued TA status.

Failure to submit, update and/or correct production records.

How to Comply with this Warning Letter:

Your options for returning the well to compliance are to: pass an MIT, or plug and abandon the well. To comply with Rules 316B/319/326: submit a COGCC Form 42 followed by a Form 21; or file a Form 6 - Well Abandonment Report as a Notice of Intent to Abandon for approval prior to performing the work and a second Form 6 - Well Abandonment Report as a Subsequent Report of Abandonment upon completion. For additional information and guidance please see the COGCC's MIT Policy, available at:

http://cogcc.state.co.us/RR_Docs_new/Policies/COGCC_MIT_Guidance_7-6-2014.pdf

Corrective Action Deadline Date: April 30, 2016

If needed, you must submit any past due Form 4(s), Form 5A(s), and/or Form 7(s) within thirty (30) days of the date of this letter.

Failure to Comply with Warning Letter:

If Operator fails to perform required corrective actions, COGCC will issue a Notice of Alleged Violation and seek penalties pursuant to § 34-60-121, C.R.S. and Rule 523, COGCC Rules of Practice and Procedure, 2 CCR 404-1. (Please note that the COGCC's penalty authority was recently increased to a maximum of \$15,000 per day per violation and penalties are no longer capped at a maximum of \$10,000 per violation. Additionally, the penalty statute now requires penalties to be assessed for each day of violation supported by the evidence.)

If you have any procedural questions about this Warning Letter, please contact Steven Mah at 303-894-2100 x5172. If you have any technical questions about this Warning Letter, please contact Andrew Stone at 303-894-2100 x5188.

Very truly yours,



Steven Mah
NOAV Specialist, Enforcement Team



P 303.894.2100 x5172 | F 303.894.2109
1120 Lincoln Street, Suite 801, Denver, CO 80203
steven.mah@state.co.us | www.colorado.gov/cogcc