

COMPLIANCE AGREEMENT



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This Compliance Agreement (“Agreement”) is effective as of January 1, 2017 (“Effective Date”), by and between the Colorado Oil and Gas Conservation Commission (“COGCC” or “Commission”) and Williford Resources, L.L.C. (Operator No. 96735) (“Williford”). The COGCC and Williford are sometimes collectively referred to as the “Parties,” and each is sometimes individually referred to as a “Party.”

RECITALS

1. Williford operates 49 producing oil and gas wells in the Red Mesa Field in La Plata County, Colorado. One such well, the Fritz & Digman 3 well (API No. 05-067-06555), is exempt from this Agreement because it does not vent casinghead gas. The remaining 48 wells are referred to as the “Field Wells.”

2. The Field Wells are incapable of oil production without producing casinghead gas. This gas must be vented, flared, or transmitted to a gas gathering system.

3. Williford originally transferred and sold a majority of the Field Wells’ casinghead gas to the gas gathering system formerly operated by Red Mesa Holdings/O&G LLC (“Red Mesa Gathering System”).

4. On February 23, 2016, the Commission entered Order No. 1C-10 which required the successor to the Red Mesa Gathering System, Atom Petroleum, LLC (Operator No. 10434) and Hoshi Energy, LLC, to cease all oil and gas operations including operation of the Red Mesa Gathering System. The Red Mesa Gathering System currently lies dormant.

5. Closure of the Red Mesa Gathering System has resulted in Williford venting the associated casinghead gas from the Field Wells. The Commission staff has approved such venting on an interim basis provided that Williford implements a permanent and programmatic solution to such venting.

6. The Parties desire to address venting of the Field Wells in this Agreement through a permanent and programmatic solution. To this end, the Parties agree as follows:

AGREEMENT

7. For purposes of this Agreement, the Parties have divided the Field Wells into three categories as set forth below and in the Appendix:

- a. Category A Wells -- 36 wells that each produce roughly 1-1.5 mcf of gas per day and are connected to a gas gathering system;
- b. Category B Wells -- 3 wells that each produce roughly 1.5 mcf of gas per day and are not currently connected to the gas gathering system, but will be connected under this Agreement, at a future date; and

- c. Category C Wells -- remaining 9 wells that cumulatively produce roughly 1.5 mcf of gas per day and are not connected to the gas gathering system and are not required to be connected under this Agreement.

8. Williford will undertake the following work to stop the Category A and B Wells from venting:

- a. Williford will permit and install one or more enclosed emission control devices (“ECD”), and will connect the devices to the existing gas gathering system. The enclosed ECD will be used to combust all of the natural gas produced from the Category A and B Wells, and they will be capable of achieving a 95% control efficiency of volatile organic compounds.
- b. Williford will permit the connection of and connect the Category B Wells to the gas gathering system.

9. Williford will work in good faith to complete the work specified in Paragraph 8 as follows:

- a. Within six months after the Effective Date of this Agreement, Williford shall submit and obtain all regulatory approvals, permits, and other authorizations for such work from the agencies with regulatory jurisdiction or authorizing authority over the work, including but not limited to the COGCC, the CDPHE, the EPA, the Southern Ute Indian Tribe, and La Plata County.
- b. Within three months after receiving all necessary approvals, permits, and authorizations, Williford shall install the ECDs and connect them to the gathering system.
- c. Within six months after receiving all necessary approvals, permits, and authorizations, Williford shall connect the Category B Wells to the gas gathering system.

10. Williford shall submit written monthly status updates to the COGCC within 45 days after the end of every month beginning with a report for December 2016, and continuing until Williford is no longer venting from the Category A and B Wells (“Reporting Period”). Each status update shall include the following information:

- a. A list of the Category A and B Wells that vented during the Reporting Period;
- b. An estimate of the quantity of gas vented from the Category A and B Wells during the Reporting Period attributed to each well using a reasonable allocation based on production or another method of estimation; and
- c. Any other information reasonably requested by Commission Staff.

11. The COGCC authorizes Williford to continue to vent gas from the Category A and B Wells until any of the following occurs: 1) Williford notifies the Commission that it has

completed the work set forth in Paragraph 8; 2) Williford fails to comply with the deadlines set forth in Paragraph 9; or 3) the 30-day notice period set forth in Paragraph 13 expires. This authorization shall be further memorialized by the COGCC's approval of a Sundry Notice (Form 4), one Sundry Notice for all Category A Wells and one Sundry Notice for all Category B Wells, which Williford shall file within 21 days after the Effective Date of this Agreement.

12. The COGCC authorizes Williford to continue to vent gas from the Category C Wells. The Category C Wells are not connected to Williford's existing gas gathering system and due to right-of-way and other issues cannot feasibly be connected to such system. Category C Wells vent gas in the amounts set forth in the Appendix. This authorization shall be further memorialized by the COGCC's approval of annual Sundry Notices (Form 4), one for each Category C Well, the first of which Williford will file within 21 days after the Effective Date of this Agreement.

13. Notwithstanding Paragraphs 11 and 12, the COGCC retains the right to require Williford to cease venting from one or more of the Field Wells pursuant to Rule 912.a. at any time with 30 days' notice. If the Director issues such notice, then Williford shall have the right to a hearing on the Director's decision under Rule 503.b.(10), and such hearing shall be advanced on the Commission's docket so that it occurs at the next regularly scheduled Commission meeting consistent with COGCC notice requirements for such a hearing. Provided, however, that if Williford requests a hearing under this paragraph, the Director's decision shall be stayed and Williford shall not be required to cease venting until the Commission rules on the matter.

14. This Agreement, including the Appendix, supersedes all prior agreements and compliance plans between the parties with regard to Williford's venting of the Field Wells including, without limitation, letters from Stuart Ellsworth (COGCC Engineering Manager) to Hearne Williford (Williford Resources, LLC), dated May 5, 2016, and June 15, 2016.

15. The COGCC shall not issue any Notices of Alleged Violation ("NOAV") or otherwise seek or assess any penalty against the Field Wells for any alleged violations arising from Williford's venting of the Field Wells prior to the Effective Date of this Agreement. Should Williford breach this Agreement, the Commission may issue NOAVs as appropriate, however any circumstance arising from force majeure as defined in Paragraph 17 shall not be considered a breach of this Agreement.

16. The Oil and Gas Conservation Act's ("Act") statute of limitations, §34-60-115, C.R.S., is tolled for any existing or potential claims related to the venting of the Field Wells as referenced above, from the Effective Date of this Agreement until Williford completes all of the necessary Corrective Actions as set forth in Paragraphs 8, 9, and 10.

17. The term "force majeure" as applied herein, shall mean an act of God, act of war or terrorism, fire, storm, or explosion.

18. The action or inaction by any federal, state, or local agency that delays or prevents the issuance of any approval required to complete the work specified in Paragraphs 8 and 9, and any other cause, whether of the kind specifically enumerated in Paragraph 18 or otherwise, which is not reasonably within the control of Williford, shall constitute "good cause" for a compliance extension pursuant to Paragraph 19, below, provided that Williford has acted in good faith. For

compliance extension requests made by Williford under this Paragraph, compliance dates and notice deadlines shall be extended for a period that is reasonable under the circumstances.

19. Compliance dates and notice deadlines as specified in this Agreement may be extended only for good cause, as determined at the Director's sole discretion, except as provided in Paragraph 18. A request for extension must be made, in writing, at least 30 days prior to the pertinent compliance deadline or as soon as possible if 30 days' prior notice is not feasible. If the Director denies a request for extension, then Williford shall have the right to a hearing on such denial under Rule 503.b.(10) and such hearing shall be advanced on the Commission docket so that it occurs at the next regularly scheduled Commission meeting consistent with COGCC notice requirements for such a hearing.

20. In addition to the hearings authorized by Paragraphs 13 and 19, Williford shall have the right to a hearing under Rule 503.b.(10) on any dispute arising under this Agreement. The Commission's decision on any disputed matter may be enforced by any Party as a final agency action for such matter.

[Signature page follows.]

The Parties have executed this Agreement effective as of the Effective Date.

OIL AND GAS CONSERVATION COMMISSION OF
THE STATE OF COLORADO

By  _____
Matthew J. Lepore, Director

WILLIFORD RESOURCES, L.L.C.

By  _____
A. Hearne Williford, Manager

Appendix
List of Field Wells by Category

Category A Wells			
Wells currently connected to a gas gathering system			
Facility ID/API	Well Name	Well Number	Estimated Volume of Gas Vented Per Day (mcf) ²
05-067-06347	ANGELINA	2	1.07 - 1.47 †
05-067-06607	ANGELINA	3	1.07 - 1.47 †
05-067-06698	ANGELINA	4	1.07 - 1.47 †
05-067-06771	ANGELINA	5	1.07 - 1.47 †
05-067-06772	ANGELINA	6	1.07 - 1.47 †
05-067-06079	ANGELINA	7	1.07 - 1.47 †
05-067-06821	ANGELINA	8	1.07 - 1.47 †
05-067-06557	ANGELINA	1-D	1.07 - 1.47 †
05-067-06835	D & A	1	1.07 - 1.47 †
05-067-06943	FIELDS	1	1.07 - 1.47 †
05-067-06039	DONALD HARRIS	1	1.07 - 1.47 †
05-067-06580	RUSSELL HARRIS	1	1.07 - 1.47 †
05-067-06305	HAZEL	1	1.07 - 1.47 †
05-067-06324	HAZEL	2	1.07 - 1.47 †
05-067-06397	HAZEL	3	1.07 - 1.47 †
05-067-05498	LONG & SCHLUTER	1	1.07 - 1.47 †
05-067-06001	LONG & SCHLUTER	2	1.07 - 1.47 †
05-067-06014	LONG & SCHLUTER	3	1.07 - 1.47 †
05-067-06113	LONG & SCHLUTER	5	1.07 - 1.47 †
05-067-06101	LONG & SCHLUTER	6	1.07 - 1.47 †
05-067-06095	LONG & SCHLUTER	7	1.07 - 1.47 †
05-067-06593	LONG & SCHLUTER	8	1.07 - 1.47 †
05-067-06861	LONG & SCHLUTER	2-D	1.07 - 1.47 †
05-067-06560	M & M	1	1.07 - 1.47 †
05-067-06623	M & M	2	1.07 - 1.47 †
05-067-06624	M & M	3	1.07 - 1.47 †
05-067-06625	M & M	4	1.07 - 1.47 †
05-067-06842	MACEY	1	1.07 - 1.47 †
05-067-06103	NETTIE	2	1.07 - 1.47 †
05-067-07848	NETTIE	4	1.07 - 1.47 †
05-067-06514	NETTIE	2-D	1.07 - 1.47 †
05-067-06656	SCHMITT ESTATE	2-36	1.07 - 1.47 †

05-067-06775	SCHMITT	3-36	1.07 - 1.47 †
05-067-06594	SPICKELMIER	1	1.07 - 1.47 †
05-067-06170	SPRING HOLLOW MAC	1	1.07 - 1.47 †
05-067-06770	SPRING HOLLOW MAC	3	1.07 - 1.47 †

Category B Wells

Wells that will be connected to a gas gathering system under this Agreement

Facility ID/API	Well Name	Well Number	Estimated Volume of Gas Vented Per Day (mcf) ¹
05-067-05446	DYE-HARD	1	1.50
05-067-06720	M & M	7	1.50
05-067-06814	PAYNE-SCHMITT	1	1.50

Category C Wells

Wells that will not be connected to a gas gathering system and are authorized to vent under this Agreement

Facility ID/API	Well Name	Well Number	Estimated Volume of Gas Vented Per Day (mcf) ¹
05-067-07253	DYE HARD	8	0.25
05-067-06645	SCHMITT	2-2	0.50
05-067-06088	DONALD HARRIS	2	TSTM*
05-067-06718	M&M	5	TSTM*
05-067-06719	M&M	6	TSTM*
05-067-07837	MACEY	3	TSTM*
05-067-06100	NETTIE	1	TSTM*
05-067-06102	SPRING HOLLOW MAC	2	TSTM*
05-067-06005	WHEELER	1	TSTM*

¹ Estimated Volume of Gas Vented Per Day are estimates only and do not reflect the actual volume vented by each well per day. Actual per well volumes may be more or less than the volume stated.

† The volumetric range was calculated using the total daily metered volume delivered to the Red Mesa Gathering System from August 2011 to November 2014. The volumetric estimates utilized the average daily volume of 38.5 mcf/d (August 2011 to November 2014), in calculating the lower per well volume: $38.5 \text{ mcf/d} \div 36 \text{ wells} = 1.07 \text{ mcf/d/well}$, and utilized the maximum daily metered volume of 53.09 mcf/d (October 2014) in calculating the higher per well volume: $53.09 \text{ mcf/d} \div 36 \text{ wells} = 1.47 \text{ mcf/d/well}$.

* TSTM indicates a volume of gas that is too small to measure per day using conventional methods. Williford estimates that 0.10 mcf/d or less is vented from the well. Weather permitting, Williford will measure and report to the COGCC the volume of gas vented from the well within 120 days after the Effective Date for this Agreement.