

# WEXPRO COMPANY

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March 3, 1986

R. M. KIRSCH  
PRESIDENT

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Gentlemen:

RE: The Wexpro Bug Field  
San Juan County, Utah

The Bug field is 20 miles southeast of Monticello, Utah. The main productive horizon is the Desert Creek formation, an algal mound. It is bounded updip, on the northeast, by a porosity pinchout and on the southwest by the oil-water contact. Bug also produces marginally from shallower Honaker Trail reservoirs.

Early drilling in the area resulted in two dry holes, the Amerada No. 1 Federal Connelly well in the NE $\frac{1}{4}$  of Section 13, T36S, R25E, and the Mountain Fuel Monument Canyon Well No. 1 in the SE $\frac{1}{4}$  of Section 31, T35S, R25E. The first producer was Wexpro Bug No. 1, which was drilled between these two dry holes. It is in the NE $\frac{1}{4}$ SE $\frac{1}{4}$  of Section 12, T36S, R25E. Utah spaced the drilling for oil and associated hydrocarbons from the Desert Creek formation as 160-acre units in Dockets 186-1 and 186-3. Wexpro is the predominant interest owner.

Lease ownerships in Bug wells are:

BUG WELL NO. 1 - Schedule 5, page 3, Lease U-99

1. Location: NE $\frac{1}{4}$ SE $\frac{1}{4}$  Section 12, T36S, R25E.
2. 9-330 Date: 2/19/80.
3. Status: 45% gross working interest is C-2 $\frac{1}{2}$ %

4. Explanation: Wexpro Bug No. 1 was drilled under a farmin from Grace Petroleum and with farmin option support from May Petroleum, Premco Western, Inc., and J. M. Huber Corp. An interest in all of the agreements and most of the 105 acreage in the area was subsequently traded to Kenai in return for Kenai's paying a disproportionate share of the cost for Bug Well No. 1. Under the Grace farmin, Wexpro/Celsius earned 1,920 acres comprising all of Section 11, the S $\frac{1}{2}$  of Section 12, all of Section 13, and the N $\frac{1}{2}$  of Section 14 in Township 36 South, Range 25 East. There are no 101/105 acres involved directly with the well. Before payout of the drilling costs under the Grace farmin agreement, Wexpro owned 55%; the well has paid out and Wexpro now owns 45%. The C-2 $\frac{1}{2}$ % well classification comes from Section V-1 of the Wexpro Agreement.

BUG WELL NO. 2 - Schedule 5, page 3, Lease U-185

1. Location: NE $\frac{1}{4}$ SW $\frac{1}{4}$  Section 7, T36S, R26E.
2. 9-330 Date: 6/13/80.
3. Status: 75% working interest is C-2 $\frac{1}{2}$ % BPO (before payout)  
37 $\frac{1}{2}$ % working interest is C-2 $\frac{1}{2}$ % APO (after payout)

4. Explanation: The Bug Well No. 2 was drilled as a farmin from May Petroleum and Premco Western; this earned Wexpro/Celsius the S $\frac{1}{2}$  of Section 7, T36S, R26E. The well is classified pursuant to Section V-1 of the Wexpro Agreement.

BUG WELL NO. 3 - Lease U-138

1. Location: NE $\frac{1}{4}$ NW $\frac{1}{4}$  Section 7, T36S, R26E.
2. 9-330 Date: 6/9/80.
3. Status: Fresh water well.

4. Explanation: Wexpro Bug No. 3 (now a water well) was drilled under two farmins from (1) J. M. Huber Company, and (2) May Petroleum and Premco Western. The well earned Wexpro the NW $\frac{1}{4}$  of Section 7, T36S, R26E. Wexpro found the Desert Creek nonproductive and converted the well to produce fresh water from the Navajo formation. This well now supplies injection water for two other producing wells in the field. The owners, Celsius and Kenai, charge the other interest owners for the water.

BUG WELL NO. 4 - Schedules 2(a) page 1, 2(b) page 1; Schedule 4(a) page 2, Lease 11368

1. Location: NE $\frac{1}{4}$ SW $\frac{1}{4}$  Section 16, T36S, R26E.
2. 9-330 Date: 8/29/80.

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3. Status: 75% working interest is Prior Wexpro Well.

4. Explanation: Wexpro drilled Bug No. 4 under the Joint Exploration Agreement (JEA) between Mountain Fuel and Wexpro on a 101 lease. Prior to drilling this well, Kenai (KOGO partnership 1979) owned 25% of the well. Kenai had paid a disproportionate share of Bug Well No. 1 and earned an assignment of an undivided 25% in most of the 101/105 acreage in the Bug field. The spacing unit is a single state lease. Section II of the Wexpro Agreement deals with Prior Wexpro Wells. Because of the JEA, the classification of this well is still under discussion. Wexpro has not finally classified this well because of its being drilled under the JEA.

BUG WELL NO. 5

1. Location: This location was abandoned prior to drilling.

BUG WELL NO. 6 - Schedule 5 page 3, Lease U-185

1. Location: NE $\frac{1}{4}$ SE $\frac{1}{4}$  Section 7, T36S, R26E.

2. 9-330 Date: 6/25/81.

3. Agreement Well Status: 37.5% working interest is C-2 $\frac{1}{2}$ %.

4. Explanation: The spacing unit is a single lease but recently the Utah Board of Oil, Gas and Mining authorized an "exception well" on it, Bug No. 6A, to be in the SW $\frac{1}{4}$ SE $\frac{1}{4}$  of the said Section 7. The acreage was earned from May and Premco Western by the drilling of Bug No. 2. We classify the well under Agreement Section V-1.

BUG WELL NO. 7A

1. Location: SW $\frac{1}{4}$ NE $\frac{1}{4}$  Section 7, T36S, R26E.

2. 9-330 Date: 1/8/82.

3. Status: Plugged and abandoned.

BUG WELL NO. 8 - Schedule 5 page 2, Lease U-81

1. Location: NE $\frac{1}{4}$ SW $\frac{1}{4}$  Section 8, T36S, R26E.

2. 9-330 Date: 7/3/81.

3. Status: 100% working interest is C-2 $\frac{1}{2}$ % (Honaker Trail Reservoir).

4. Explanation: Bug No. 8 was drilled on a Wexpro 100% lease, not one transferred from the company and therefore not a 101/105 lease. It was drilled to the Desert Creek but was plugged back to the Honaker Trail formation. It is a gas well and it is on a single federal lease. The Wexpro Agreement classification rule is Section V-1.

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BUG WELL NO. 9 - Schedule 4(b) page 8, Lease 11269A

1. Location: NE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 18, T36S, R26E.
2. 9-330 Date: 12/30/81.
3. Status: 75% working interest is D-21%. (Wexpro Agreement, Section II-8)
4. Explanation: Bug No. 9 is within the Bug field spaced area and within nine spacing units from the "prior well" Bug No. 16. Two federal 105 leases comprise the spacing unit. Wexpro owns 75%.

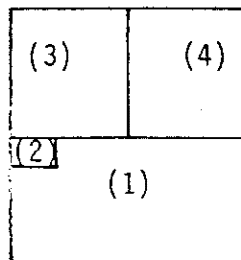
BUG WELL NO. 10 - Schedules 2(b) page 1; 4(a) page 2, Lease U-11147, U-11286-A; 5 page 3, Leases U-136, 136A, B, C, D

1. Location: NE $\frac{1}{4}$ NW $\frac{1}{4}$  Section 22, T36S, R26E.
2. 9-330 Date: 12/20/80.
3. Status (net):

	<u>BPO</u>	<u>APO</u> <u>100%</u>	<u>APO</u> <u>150%</u>
Prior Wexpro Well	2.55945810%	2.55945810%	2.55945810%
C-2 $\frac{1}{2}$ %	15.637125%	15.637125%	15.637125%
C-100%	33.0563179%	2.5006499%	0%

4. Explanation: The history of this well is complicated by farmins, nonconsent penalties, statutory pooling and quiet title litigation. Part of this well is listed as a Prior Wexpro Well on Schedule 2(b). The well has been a marginal producer. Leases U-11286-A and U-11147 are listed on Schedule 4(a) of the Wexpro Agreement.

The 160-acre spacing unit for this well consists of four tracts approximated in the sketch below:



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Tract (1) is fee minerals under lease to the Doumani Childrens Trusts. The Trusts did not participate in the drilling of the well but under a statutory pooling order from the Utah Board of Oil, Gas and Mining (Docket 186-5), Celsius and Kenai paid all of the drilling costs and received all the income (less royalty) attributable to this land. After payout of the drilling costs, operating costs and the 150% pooling penalty, the Trusts will participate in production (80 acres less Tract (2) which is less than one acre). Neither Wexpro nor Celsius owns a leasehold interest in Tract (1). Celsius is treating the penalty share of production from this well as C-100.

Tract (2) is a fee lease (Schedule 4(a), U-11147) and classified as an Account 101/105 lease attributable to an interest in a Prior Company Well. Under the Wexpro Agreement, the interest in this tract is subject to the 54/46 formula.

Tract (3) is covered by five leases: U-11286-A, U-136, U-136B through D (40 acres). The lands are owned in fee. One of the five leases (U-11286-A, Schedule 4(a)) is an Account 101/105 lease. Under the Wexpro Agreement, the lease interest is subject to the 54/46 formula. The interest in the remaining four leases (U-136 and U-136B through D, Schedule 5) was earned under two 1980 farmin agreements from Amerada Hess and Coquina (now Kaiser Francis). Under the farmins Wexpro paid 75% of the drilling costs to earn a like interest in these leases. Pursuant to the Wexpro Agreement. The last four leases are classified on Schedule 5 as C-2½% lands.

A portion of Tract (3) was included in a recently settled quiet title lawsuit which we call Sitton v. Rogers. The dispute was between two landowners but necessarily affected the interest of Mountain Fuel, Wexpro and Celsius.

Tract (4) is fee land covered by six leases (40 acres). Lease U-11286-A is an account 101/105 lease as previously mentioned and therefore subject to the 54/46 formula. The Celsius interest in the remaining five leases (U-136, U-136A through D, Schedule 5) were likewise earned under the Amerada Hess and Coquina (Kaiser Francis) farmins and are classified C-2½%.

The lands earned under the various farmouts are as follows: SW¼NE¼, NW¼SE¼, S½NW¼, SW¼ of Section 15; E½NE¼ of Section 20; S½NW¼, NE¼NW¼, N½NE¼ of Section 21; N½NW¼, SW¼NE¼, S½SW¼ of Section 22; and the W½ of Section 27 in T36S, R26E.

#### BUG WELL NO. 11

1. Location: This is an abandoned location prior to drilling.

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BUG WELL NO. 12 - Schedules 2(b) page 1; 4(a) page 2, Lease U-11286A; 5 page 3, Leases U-136, 136B, C, D

1. Location: NE $\frac{1}{4}$ NW $\frac{1}{4}$  Section 21, T36S, R26E.
2. 9-330 Date: 2/5/81.
3. Status (Desert Creek):

	<u>BPO</u>	<u>APD</u>
Celsius 2 $\frac{1}{2}$ %	64.8438%	51.9531%
Prior Wexpro Well	3.125%	3.125%

4. Status (Ismay):

16.02% is C-100%  
51.95% is C-2 $\frac{1}{2}$ %  
4.17% is D-24

5. Explanation: Bug Well No. 12 is listed as a prior Wexpro well on Schedule 2(b) of the Wexpro Agreement. It has been abandoned and is now used as a water disposal well. It had been a marginal producer totaling approximately 14,681 STB oil and 3,211 Mcf of gas from the Desert Creek and 11,348 Mcf of gas from the Ismay.

Prior to abandonment, the spacing unit was comprised of one federal lease (C-2 $\frac{1}{2}$ %) and five fee leases (one is an account 105 lease and four are C-2 $\frac{1}{2}$ % leases). The well was drilled to the Desert Creek as a farmin from Coquina Oil Company (now Kaiser-Francis). The working interest in the well was fixed by pooling under an operating agreement dated March 19, 1981, and given company number U-155.

On September 24, 1983, the well was recompleted in the Ismay formation. The Ismay is not spaced and therefore the well was produced on an individual lease basis without the federal lease being involved. That is the reason there are different ownership percentages between the Desert Creek and Ismay formations.

As to Ismay production, we have classified a portion of the Ismay recompletion as Development 24% as it applies to the one 101/105 account lease. We have also classified it as Celsius 2 $\frac{1}{2}$ % as to the other four leases. Because it does not have a well location on it, we have not given any Ismay allocation to the federal lease.

BUG WELL NO. 13 - Schedule 4(a) page 2, Lease U-10978

1. Location: NE $\frac{1}{4}$ NW $\frac{1}{4}$  Section 17, T36S, R26E.
2. 9-330 Date: 1/21/82.
3. Status: 75% is D-21%.
4. Explanation: The spacing unit consists of a portion of one federal lease. The well was classified as being within the Bug spaced area and within nine spacing and drilling units from the Bug Wells No. 14, 15 and 16. All four of these wells are on the same lease. Bug 13 is in the gas cap and has never produced. At blow-down, this well will be produced and the gas in the reservoir depleted.

BUG WELL NO. 14 - Schedule 2(b) page 1; 4(a) page 2, Lease U-10978

1. Location: NE $\frac{1}{4}$ SE $\frac{1}{4}$  Section 17, T36S, R26E.
2. 9-330 Date: 2/20/81.
3. Status: 75% is Prior Wexpro Well.
4. Explanation: The spacing unit is covered by one federal lease and the well is listed on Schedule 2(b) of the Wexpro Agreement.

BUG WELL NO. 15 - Schedules 2(b) page 1; 4(a) page 2, Lease U-10978

1. Location: NE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 17, T36S, R26E.
2. 9-330 Date: 3/23/81.
3. Status: 75% is Prior Wexpro Well.
4. Explanation: This drilling and spacing unit is covered by a single lease. The well is in the gas cap and has never produced. The well classification derives from the Schedule 2(b) listing.

BUG WELL NO. 16 - Schedules 2(b) page 1; 4(a) page 2, Lease U-10978

1. Location: NE $\frac{1}{4}$ SE $\frac{1}{4}$  Section 17, T36S, R26E.
2. 9-330 Date: 7/11/81.
3. Status: 75% is Prior Wexpro Well.
4. Explanation: The spacing unit is part of the federal lease on which the Bug Wells 13 through 15 are also located. Bug 16 is listed on Schedule 2(b) of the Wexpro Agreement.

BUG WELL NO. 17 - Schedule 4(a) page 2, Lease U-11368

1. Location: NE $\frac{1}{4}$ SE $\frac{1}{4}$  Section 16, T36S, R26E.
2. 9-330 Date: 10/30/82.
3. Status: 75% is D-21%.
4. Explanation: The drilling and spacing unit is covered by a single state lease in which Wexpro owns 75%. The well is classified as development 21% because it is within the Bug field spaced area and is within nine spacing and drilling units of Bug Wells No. 4, 10 and 12.

BUG WELLS NO. 18, 19, 20, 21, 22

1. Abandoned locations.

BUG WELL NO. 25 - Schedule 4(a) page 2, Lease 10978

1. Location: NE $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 18, T36S, R26E.
2. 9-330 Date: 10/22/82.
3. Status: 75% is C-7%.
4. Explanation: This well is classified as Celsius 7% even though it is within the Bug spaced area because there are no prior wells within nine spacing units. This well was first classified a D-21% well but the classification was changed on reexamination. This well has been abandoned after recompletion attempts in the Ismay proved unsuccessful. The well is being considered for conversion to a fresh water source well.

CONNELLY WATER DISPOSAL WELL

1. Location: SW $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 13, T36S, R25E.
2. 9-330 Date: N/A because it is a water disposal well.
3. Explanation: This is a dry hole located on lands earned under a Grace Petroleum farmin. Wexpro/Celsius earned 45% of the lands. Wexpro was involved in a recompletion attempt with Grace and Kenai but that failed. (Grace later relinquished its interest in the well.) When the recompletion attempt was unsuccessful, Wexpro and Kenai converted the well into a water disposal well. Celsius Energy Company now owns 75% of that well. Celsius and Kenai charge the other operators a price per barrel for the water disposal. The revenues go to Celsius and Kenai 100%. The costs of the connecting pipelines are included in the price.



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ALLOCATION

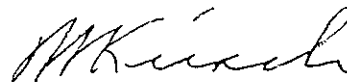
1. There are four tank batteries within the Bug field, Batteries A, B, C and D. There are also dehydration units, recompressors and treaters. Costs are allocated into separate work orders for each of the tank batteries. These work orders do not include the recompressors. When all costs are in, they are split and the parts allocated to particular wells. Tank Battery A serves Bug Wells No. 1 and 2. Tank Battery B serves Bug Wells No. 4, 14 and 16 and the fresh water well, Bug 3. Tank Battery C serves Bug Wells 10, 12 and 17. Tank Battery D serves Bug Wells 6, 9, and 25.

The recompressor costs are billed to a different work order and split separately. Wexpro/Celsius owns the recompressors 100%.

All work order investment costs have been allocated to the particular wells on an acreage basis. Within Wexpro/Celsius the capital costs have been suballocated to the applicable Wexpro Agreement categories, Operator Service Fee 16%, D-21%, D-24%, Celsius 7%, Celsius 2½% or Celsius 100%.

We hope this information is of assistance to you. May we suggest as a procedure that after you have reviewed this information, along with the attached land status maps, we sit down and selectively go through any of the documents and backup information you deem necessary to verify the sequence of transactions and the percentages depicted above.

Very truly yours,



ckb

Attachments

cc: R. J. Gill, Jr.  
R. E. Pittam  
J. W. King