

## BEATTY & WOZNIAK, P.C.

ATTORNEYS AT LAW

216 SIXTEENTH STREET, SUITE 1100

DENVER, COLORADO 80202-5115

TELEPHONE (303) 407-4499

FACSIMILE (303) 407-4494

www.bwenergylaw.com

ALBUQUERQUE

CASPER

CHEYENNE

DENVER

SALT LAKE CITY

SANTA FE

KENNETH A. WONSTOLEN

DIRECT: (303) 407-4480

E-MAIL: KWONSTOLEN@BWENERGYLAW.COM

October 30, 2009

David Neslin, Director  
Oil & Gas Conservation Commission  
1120 Lincoln Street, Suite 800  
Denver, CO 80203

Re: APD extension request (variance)

Dear Director Neslin:

On behalf of my client, Unioil, a wholly-owned subsidiary of Petroleum Development Corporation, I am requesting a variance whereby the scheduled expiration of the following permits would be tolled:

- Zeiler 13-7U, COGCC permit #20087609, API #123-26538-00 (ex. 12/23/09)
- Zeiler 14-7U, COGCC permit #20087610, API #123-25448-00 (ex. 12/23/09)
- Zeiler 23-7U, COGCC permit #20087585, API #123-26539-00 (ex. 12/22/09)
- Zeiler 24-7U, COGCC permit #20087586, API #123-26540-00 (ex. 12/22/09)

All of these wells are located in the SW4 of Sec. 7, T5N, R67W, in Weld County. The surface owner is Zeiler Farms, Inc., and the land is currently cropped for winter wheat. The Zeilers have recently annexed this quarter section, along with other contiguous lands, into the Town of Windsor, in hopes of selling the property for future surface development. Accordingly, Unioil avers that there are no special environmental or public health circumstances related to these wells.

Although the Zeilers had previously agreed with Kerr McGee to pay for incremental directional drilling costs in order to consolidate the wells on an adjacent quarter section, they declined to reach a similar agreement with Unioil. This, despite an offer by Unioil whereby such incremental costs would have been paid out of the Zeilers' royalty interest, over time, with no upfront cash expenditure. And, despite the fact that the Town of Windsor is prohibited under SB 07-237 from granting final land use approval to any surface development on the Zeiler property absent such agreement, or the deposit into escrow of funds to offset Unioil's incremental directional drilling costs. Instead, the Zeilers instituted litigation against Unioil. This litigation is before Chief Judge Daniel of the U.S. District Court (No. 07-CV-1985).

Although Judge Daniel has dismissed each of the Zeilers' substantive claims, he has allowed their request for declaratory judgment to proceed. The Zeilers seek a declaration that Unioil must drill its wells – for which it has valid COGCC permits at vertical locations within

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the Rule 318A-designated drilling windows – directionally from a central location, at Unioil's sole cost. In the alternative, the Zeilers seek a declaration that should Unioil proceed to drill its wells at the COGCC-permitted locations, it would owe damages for all of the land occupied by the wells and their related facilities, as well as for the area surrounding each well that would be subject to the Town of Windsor's surface development setback of 350', based on speculative future development value of the property.

Under these circumstances, it would not be prudent for Unioil to proceed with its drilling plans absent resolution of these claims. Unfortunately, the trial scheduled for the first week of November has recently been vacated by the Judge (see enclosure), and trial is now set for April, 19, 2010. This means that Unioil is faced with the decision either to proceed with its drilling program pursuant to its COGCC permits, with the subsequent damage exposure explained above, or to let its valuable drilling permits expire. Re-filing these permits under the COGCC's rules that took effect on April 1, 2009, will entail substantially more burdensome application requirements, as well as providing certain opportunities for the Zeilers to seek to impede Unioil's applications.

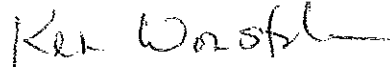
Accordingly, Unioil seeks a variance whereby the expiration dates of the listed permits are tolled, pending the conclusion of the litigation (including any appeals), and including a period of 90 days following such conclusion for Unioil make arrangements to obtain the necessary rig services.

This request simply seeks to preserve the status quo with regard to Unioil's COGCC-approved permits during the pendency of the described litigation. As you will recall, a similar variance was granted to Lexam with respect to its proposed wells in the Baca National Wildlife Refuge because of pending litigation.

Because of the quickly-approaching expiration dates of the well permits, and the lead time required to obtain rig services and construct well pads, Unioil requests your expedited review and decision on this variance request. Thank you for your consideration.

Very truly yours,

BEATTY & WOZNIAK, P.C.



Kenneth A. Wonstolen  
Attorneys for Unioil

KAW/tlp  
Enclosure

cc: Matt Lepore  
Thom Kerr

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLORADO

Civil Action No. 07-cv-01985-WYD-MJW

ZEILER FARMS, INC.,

Plaintiff,

v.

ANADARKO E&P COMPANY LP f/k/a RME PETROLEUM COMPANY;  
ANADARKO LAND COMPANY f/k/a RME LAND CORP.; and  
UNIOIL, INC.

Defendants.

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**MINUTE ORDER**

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ORDER ENTERED BY CHIEF JUDGE WILEY Y. DANIEL

Due to a conflicting criminal trial, the final trial preparation conference scheduled for Thursday, October 22, 2009, at 3:00 p.m. and the 4-day bench trial scheduled for Monday, November 2, 2009 are **VACATED**.

The parties are ORDERED to jointly contact my chambers at 303-335-2170 on Thursday, October 22, 2009 to reschedule.

Dated: October 14, 2009.