

March 25, 2013

Lonny Bagley
Deputy State Director for Minerals and Energy
Bureau of Land Management
Colorado State Office
2580 Youngfield Street
Lakewood, CO 80215-7093

Steve Bennett
Field Manager, Colorado River Valley Field Office
Bureau of Land Management
2300 River Frontage Road
Silt, CO 81652

Re: **SG Interests I, Ltd.** Request for Suspension of Operations and Production of Federal Oil and Gas Leases in the Proposed Lake Ridge Unit Area: **COC 66908, COC 66909** in Garfield and Pitkin Counties, CO.

Dear Mr. Bagley and Mr. Bennett:

SG Interests I, Ltd. is the operator of the above-described federal leases and SG Interests VII, Ltd. (collectively "SG") is the lessee of record of the above-described federal leases issued by the Bureau of Land Management ("BLM"). The above-described leases were leased to Encana Oil and Gas USA in 2003, included in the SG-proposed Lake Ridge Unit Area and have recently been acquired by SG. On March 19, 2013, effective March 1, 2013, BLM approved the assignment of lease COC 66908 and COC 66909 to SG Interests VII, Ltd. In accordance with Section 39 of the Mineral Leasing Act ("MLA") and the BLM regulations at 43 C.F.R. §§ 3103.4-4 and 3165.1, SG hereby requests a suspension of operations and production on the above-described federal oil and gas leases ("Leases") effective as of March 1, 2013. For the reasons described below, the requested suspension of operations and production is in the interest of conservation and, consequently, appropriate under the MLA, BLM's regulations and the BLM Manual 3160-10, (Rel. 3-150, 3/13/1987) ("Suspension Manual").

The requested suspension would not prohibit SG from continuing planning or permitting activities, or "casual use" activities as defined in Onshore Order No. 1, 72 Fed. Reg. 10328, 10329 (Mar. 7, 2007) and allowed by the Suspension Manual, ¶ 2.21. A. 1.

The effective date of Lease COC 66908 is September 1, 2003 and will expire by its own terms on August 31, 2013. The effective date of Lease COC 66909 is October 1, 2003 and will expire by its own terms on September 30, 2013. The two leases were included in the SG-proposed Lake Ridge Unit Area. As stated above, SG subsequently acquired the two leases and the assignment of COC 66908 and COC 66909 to SG was approved by the BLM on March 19, 2013.

On February 12, 2013, SG submitted a request to suspend operations on the balance of the federal leases in the proposed Lake Ridge Unit Area. These leases are: COC 66687, COC 66688, COC 66689, COC 66691, COC 66692, COC 66693, COC 66694, COC 66695, COC 66696, COC 66697, COC 66698, COC 66699, COC 66700, COC 66701, COC 66702,

COC 66703. That suspension request is pending with the BLM. This suspension request (March 25, 2013) should be considered in the context of the pending request (February 12, 2013), as explained below.

On May 17, 2011, SG submitted an application to the BLM for the proposed Lake Ridge Unit Area ("Unit") for the purpose of conducting leasehold operations. The proposed Unit contained certain unleased acreage and the leases described above. On March 20, 2012, at BLM's request, SG submitted an amendment to remove the unleased federal acreage from the proposed Unit. BLM promptly accepted the modification and at no time subsequently requested any additional information from SG or indicated that a Unit was not the appropriate means to develop these federal leases. A public controversy arose over the Leases and the proposed Unit. Pitkin County, the Thompson Divide Coalition, the Wilderness Workshop and Citizens for a Healthy Community and others requested that BLM deny the Unit application and cancel the Leases. SG has been diligent in contacting BLM to urge its timely approval of the Unit. In May, June, July and August 2012, BLM repeatedly told SG a Unit decision would issue, but BLM has not issued the Lake Ridge Unit determination.

In response to the delay in the Unit determination and the rapidly approaching lease termination dates, in September 2012, SG began the work necessary to file "applications for permits to drill" ("APDs") to obtain BLM authorization for the purpose of conducting leasehold operations on the Leases that are contained in the proposed Lake Ridge Unit Area. The following APDs have been submitted to the BLM and the U.S. Forest Service:

Lease	Date Filed	Well Name	Status
COC 66693	10/15/12	Federal 8-89-7 # 1, APD, on-site	Deemed complete on 3/20/2013; on-site occurred in November 2012
COC 66692	10/26/12	Federal 8-89-31 #1, APD, on-site	Notice of Deficiency 11/6/2012; on-site occurred in November 2012; revisions provided on 3/20/2013.
COC 66696	11/13/12	Federal 9-89-5 #1, APD	Notice of Deficiency 11/26/12; on-site scheduled for July 2013.
COC 66697	1/2/13	Federal 9-89-8 #1, APD	Notice of Deficiency 1/15/2013; on-site scheduled for July 2013.
COC 66698	1/8/13	Federal 9-89-18 #1, APD	Notice of Deficiency 1/18/13; on-site scheduled for July 2013.
COC 66701	1/30/13	Federal 9-89-18 #2, APD	Notice of Deficiency 2/13/2013; on-site scheduled for July 2013.

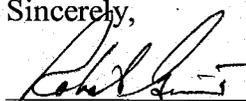
Several on-sites, additional APDs, interim and final reclamation plans and APD environmental review pursuant to the National Environmental Policy Act ("NEPA") remain to be completed before SG is authorized to conduct leasehold operations on these Leases. On December 6, 2012, SG was informed by the Acting BLM Director Mike Pool that no Lake Ridge Unit determination or APDs would issue for these Leases until BLM conducted a NEPA leasing analysis on the 2003 decision to issue the Leases. In addition, BLM encouraged SG to enter into discussions with the Thompson Divide Coalition and Pitkin County to determine if there is a way to address the concerns raised by the County and Thompson Divide Coalition. On January 31, 2013, SG met with the County and the Thompson Divide Coalition to initiate these discussions.

A suspension of production and operations would serve the interests of conservation by providing additional time for: 1) BLM to conduct a leasing decision NEPA analysis on the Leases; 2) BLM to issue the amended Lake Ridge Unit approval and complete an APD NEPA analysis on the Unit obligation well(s) and any APD outside the Unit or, if no Unit is formed, for BLM to complete NEPA on all of the Lease APDs; and 3) SG to explore negotiations with Pitkin County and the Thompson Divide Coalition in a good faith attempt to address their concerns. The requested suspension of operations and production is in the interest of conservation and, thus, appropriate under the terms of the MLA, BLM regulations and the Suspension Manual. 30 U.S.C. § 209; 43 C.F.R. § 3103.4-4(b); and Suspension Manual 3160-10, ¶¶ 2.21.A.1 and B.1.

The requested suspension of operations and production would toll the running of the term of the Leases and effectively add the period of suspension to the primary term of the Leases and suspend the payment of annual rental payments. 30 U.S.C. § 209; 43 C.F.R. §3103.4-4(b) and (d). SG requests that the suspension of operations and production be dated as of March 1, 2013, the first day of the month in which this request was filed. *See* Suspension Manual, ¶ 3.31.C.1. SG requests that the suspension recognize SG's valid existing rights. SG further requests, in recognition of the topographical and weather related access restrictions and the seasonal and timing limitations in the Lease stipulations, that the term of the suspension provide for two complete drilling seasons after BLM has: 1) completed the lease decision NEPA; and 2) completed either the Unit obligation well(s) APD NEPA and NEPA for any APD outside the Unit or if no Unit is formed completed the NEPA on all the Lease APDs. Finally, while SG agrees to enter into good faith negotiations with Pitkin County and the Thompson Divide Coalition, it cannot guarantee a successful outcome and does not agree that the term of the suspension be determined by the success or failure of such discussions. If a resolution is reached with Thompson Divide Coalition and the County, SG would work with BLM to take any actions necessary to effectuate the terms of the settlement including the termination of the suspension at the appropriate time.

Please contact me if you have any questions, comments or need additional information concerning this request for a suspension of operations and production on the Leases.

Sincerely,



SG Interests I, Ltd.

SG Interests VII, Ltd.

Robert H. Guinn II

Vice President – Land

cc: Matt McKeown, Regional Solicitor