

Fritzler Resource Inc.

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March 31, 2011

***VIA EMAIL AND CERTIFIED MAIL
RETURN RECEIPT REQUESTED***

John E. Axelson, P.G.

Environmental Protection Specialist

Colorado Oil and Gas Conservation Commission

1120 Lincoln Street, Suite 801

Denver, CO 80203

**Re: Gebauer #1 (API #121-06776)
NOAV # 200273766
NENW, Sec. 15, Township 1 North, Range 54 West
Washington County, Colorado**

Dear John:

This letter is in response to the above-referenced Notice of Alleged Violation issued by the Colorado Oil and Gas Conservation Commission "COGCC") on September 30, 2010 and the follow-up inspection letter dated December 29, 2010, collectively the "NOAV." This response is timely provided. Fritzler Resources, Inc. ("Fritzler") appreciates the additional time to prepare this response and submit the requested documentation.

As further described herein, Fritzler has completed the additional corrective actions identified in the NOAV. Fritzler has also completed the additional site assessment activities as noted in our email dated February 22, 2011. As requested, attached are the site investigation report and Form 27 to address continuing operations of the Gebauer #1 well. It remains Fritzler's position that it is not in violation of the applicable COGCC rules. Without any admission of liability, Fritzler provides the following responses to the NOAV.

1. Skim Pit Closure

The skim pit and the evaporation pits were never combined or integrated into a single pit as shown in the *photograph* attached hereto as Exhibit A. Both ponds remain separate. Water from the heater-treater drains into the 110 bbl fiberglass skim tank. From the skim tank, the water can either overflow from the skim tank during an upset condition or through a siphon to the 60 bbl cement cistern and then into the skim pit where surface oil residue is removed via skimmers.

Following the removal of the surface oil residue, water drains from the skim pit to the evaporation pit.

With respect to the skim pit, it is Fritzler's position that there is no basis for COGCC's request that the skim pit be closed. As you know, the pits have been in operation since at least 1972. The site assessment results do not show any petroleum hydrocarbon impacts to the groundwater. If these pits were impacting groundwater, it is likely that some hydrocarbons would have been detected in the groundwater downgradient of the pits.

While Fritzler does not believe there is any basis for closure of the skim pit or requiring Fritzler to line the pit, to resolve the NOAV, Fritzler will agree to voluntarily line the skim pit. Please see the attached Form 27 Remediation Work Plan (Exhibit B) detailing the work to be performed.

2. Oily Waste Disposal

Petroleum contaminated soils were not used to construct the berms for the skim pit or the evaporation pit. Over the years of operation, some surficial staining may have occurred on the sides of the pits. Fritzler removed this material and arranged for the disposal of the material at Buffalo Ridge Landfill. See documentation attached hereto as Exhibit C.

3. Tank Labels

Each tank and the concrete vault have been labeled with the contents, capacity and NFPA label.

4. Stormwater Controls

Fritzler has removed and is integrating the material from the drainage area adjacent to the produced water pits into the surrounding area. The area in question is more a washout immediately downstream of the breached earthen dam and it is our opinion that a re-contouring in addition to removal of some of the material is more appropriate and beneficial. Fritzler has also employed best management practices to stabilize the area to mitigate erosion until the vegetation is re-established. During installation of the lining for the skim pit, this area will likely be impacted again. Thus, until we complete the skim pit renovation, we hope not to duplicate the reclamation of the area around and including the skim pit and implement a dedicated reclamation effort upon completion of the skim pit renovation.

5. Documentation: Preliminary Site Assessment, Form 27 Remediation Work Plan

Attached as Exhibit B is the Form 27 Remediation Work Plan. Your February 25, 2011 email indicates that additional sampling was not required based on the site investigation completed to date. However, Fritzler is providing additional water samples of both the evaporation pit as

well as groundwater. The laboratory analysis for the additional samples is included in the site investigation report attached hereto as Exhibit D. As you will note, the analysis demonstrates that the quality of the produced water is comparable (if not better in some respects) to the quality of the groundwater in the vicinity of the well.

6. Produced Water Pits

As indicated above, Fritzler will voluntarily agree to line the skim pit notwithstanding that the site assessment supports a finding that the pit has not impacted groundwater. Fritzler will timely complete the work upon receipt of COGCC's approval of the Form 27 Remediation Work Plan.

Fritzler does not believe there is any regulatory basis to require that the evaporation pit be lined. As you know, COGCC's own regulations exempts from the lining requirements such pits in Washington County constructed before May 1, 2011. COGCC's Rule 904.a (2) states in pertinent part:

Production pits, other than skim pits, unless the operator demonstrates to the Director's satisfaction that the quality of the produced water is equivalent to or better than that of the underlying groundwater or the operator can clearly demonstrate by substantial evidence, such as by appropriate percolation tests, that seepage will not reach the underlying aquifer or waters of the state at contamination levels in excess of applicable standards. Subject to Rule 901.c, **this requirement shall not apply to such pits in Washington, Yuma, Logan, Morgan, Huerfano, or Las Animas Counties constructed before May 1, 2011.**

As outlined in the Statement of Basis, Specific Statutory Authority, and Purpose for the COGCC 900-Series Exploration and Production Waste Management rules, the COGCC heard extensive testimony on the merit of and circumstances under which production pits should and should not be lined throughout the state. The COGCC specifically deferred the lining requirements for production pits in a number of counties, including Washington County, to allow the COGCC and the Water Quality Control Commission ("WQCC") staff to work with operators and local governments to evaluate the basis and need for production pit lining in these counties. It is our understanding that this analysis is on-going. At this time, it would be inappropriate for staff to require production pits to be lined until the COGCC amends its regulation.

There is also no technical basis to assert under COGCC Rule 901.c that the continued operation of the production pit "threatens to cause or causes a violation of Table 910-1 and with consideration of the water quality standards or classifications established by the Water Quality Control Commission for waters of the state." The WQCC has not designated the shallow, unconfined groundwater in the vicinity of the well. However, WQCC has designated the

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groundwater in various deeper formations, including the D and J sandstone formations in Washington County, as "Limited Use and Quality." See WQCC Regulation 42.7(40) and (49). The site assessment supports the position that the shallow, unconfined groundwater in the vicinity of the well should also qualify as "Limited Use and Quality."

As demonstrated in the site investigation report (Exhibit D), groundwater quality in the vicinity of the well is poor. Our research into the groundwater uses in the area indicates that the use is limited to agricultural uses. There are no reported domestic or public water supply wells in the vicinity of the well. See Exhibit D.

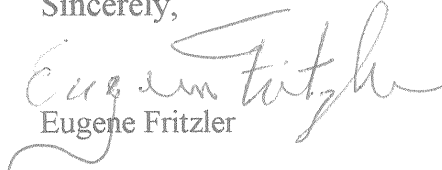
Finally, the production pit water samples did not detect the presence of petroleum hydrocarbons above groundwater quality standards. While one or two inorganic constituents in the production water may slightly exceed the same constituents in the groundwater, other inorganic constituents in the production water are significantly below the same constituent in the groundwater. Overall, the site investigation shows that the production water is of comparable (or better) quality than the groundwater in the vicinity of the well. Based on the water level elevations, it appears the water table is more than 20 feet below the bottom of the production pit. As such, Fritzler agrees with COGCC's prior determination that the area is not a sensitive area and there is no data to support a contrary finding.

Based on the above, Fritzler believes that the production pit is exempt from the liner requirements. The site investigation report demonstrates that seepage, if any, has not adversely impacted ground water quality or the use of groundwater in the vicinity of the pits. If the pits were a source, it is likely that impacts would have been observed based on 40+ years of operation.

Fritzler is providing this response and the attached documents in good faith and intends to cooperate fully with the COGCC to resolve the NOAV. Fritzler reserves the right to supplement this response if additional information becomes available. We also reserve all rights and defenses under law in any enforcement relating to this matter.

We appreciate your cooperation and look forward to working with COGCC to resolve the NOAV amicably. Please do not hesitate to call me if you have any questions or require additional information.

Sincerely,


Eugene Fritzler

VP, Fritzler Resources, Inc

Enclosures (via certified mail also)