



# pennsylvania

DEPARTMENT OF CONSERVATION  
AND NATURAL RESOURCES

BUREAU OF FORESTRY

September 20, 2011

Certified mail no. 7003 2260 0004 3695 3048

Mr. Michael J. Nicol, PE  
Manager  
NCL Natural Resources, LLC  
25231 Grogans Mill Road  
Suite 500  
The Woodlands, TX 77380-3110

Re: NCL Appalachian Partners, L.P.  
**Default of Lease Royalty Payment and Demand for Payment**  
Tract 285 – Sproul State Forest, Clinton County, PA  
Contract #M-110285-10  
Tract 289 – Tiadaghton State Forest, Lycoming County, PA  
Contract #M-110289-12  
Original Lease Date (both leases) – December 24, 1979

Dear Mr. Nichol:

This letter is a follow-up to an email dated and sent to both you at NCL and to Ultra Petroleum by Miss Amy Randolph of my staff on September 1, 2011 (copy enclosed). That letter brought to both companies' attention the fact that full <sup>royalty</sup> rental payments had not been made for certain wells on Commonwealth of Pennsylvania (COP) lease tracts 285 and 289.

In short, as the recognized co-lessee for the payment of its share of the royalties from the deep gas wells, the Department of Conservation and Natural Resources (DCNR) is formally notifying NCL that it is responsible for the payment of \$127,129.60 in back royalty payments from certain wells on COP lease tracts 285 and 289. This letter further serves as the Commonwealth's *official demand* for this amount to be paid within thirty (30) calendar days of your receipt of this letter as per Section 25.1 of each of the contract numbers cited above, or the DCNR may move for termination of the lease contracts. The Department may also consider acting against each of the performance bonds NCL has in place for each of the contracts cited above, as per Section 27.1 of said contracts if the back royalty payments are not made within the 30-day timeframe. ☺

The situation is somewhat complicated, as explained below.

As you know, as per a January 22, 2007 consent to assignment executed by the Department of Conservation and Natural Resources (DCNR), both your company and Anadarko E&P Company LP (AEP) each have a 50% equal interest in deep (i.e., below the top of the Genesee shale) oil and gas rights for Commonwealth lease tracts 285 and 289. The DCNR is aware that NCL and Ultra Petroleum were in negotiations for the assignment of NCL's 50% interest in the deep rights to Ultra. However, consent to assignment paperwork for Ultra to become a recognized co-lessee of interest was never completed by one or both of these two companies nor returned to DCNR for execution.

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In the meantime, Ultra Petroleum has occasionally made payments to the COP for certain wells on these tracts, care of DCNR, for its share of the gas based on a presumably private agreement between both Ultra Petroleum and NCL. DCNR had been patient in this regard because it believed both Ultra Petroleum and NCL were making good faith efforts to complete the assignment transaction.

At this time Ultra Petroleum is not a recognized co-lessee of interest; the Department only formally recognizes AEP and NCL as co-lessees of interest for the deep gas rights. Section 7.1 of each of the contracts specified above states that the Lessee is responsible for the payment of all royalties. Therefore:

1. The Commonwealth of PA must be reimbursed \$127,129.60 within the thirty calendar day timeframe specified in each of the contracts named above. Reimbursement can come from either NCL or Ultra Petroleum.
2. Ultra Petroleum must immediately cease and desist taking deductions from its royalty payments to the Commonwealth of PA, or NCL will be required to continually ensure that whatever deductions are taken by Ultra are reimbursed to the Commonwealth on a monthly basis.

Copies of the last two production statements provided to DCNR by Ultra are attached documenting the amount due; individual months' deductions are highlighted in yellow, the total to-date is highlighted in green. Ultra had not made payment to the Commonwealth for these wells during the months of January through and including July, 2011. Previous payments made to the Commonwealth by Ultra for these two tracts in 2010 did not include deductions. Anadarko is not taking deductions for wells on these tracts in their payment of royalties to the Commonwealth.

If you have any questions, please call me at your earliest convenience, at 717-772-0269. Or, you may email me at [tborawski@pa.gov](mailto:tborawski@pa.gov). Please note that my email address has officially changed, although emails sent to my previous address will still reach me. If you email me, please copy Miss Randolph on your email correspondence ([arandolph@pa.gov](mailto:arandolph@pa.gov)).

Sincerely,



Teddy W. Borawski, Jr.  
Chief, Minerals Section  
DCNR - PA Bureau of Forestry

Attachments: Copy of email from A. Randolph to J. Woodeshick of Ultra Petroleum -- dated 9/1/11  
Ultra Resources, Inc. production statement dated 7/31/11  
Ultra Resources, Inc. Production statement dated 8/31/11

Cc: N. Smaldone -- Ultra Petroleum (PDF via email only)  
C. Begin -- Anadarko Exploration and Production (PDF via email only)