

## Mackenzie Well Update for Working Interest Owners:

Initially, each month as a working interest owner (assuming your information has been verified) you will receive operating statements from Magnum delineating the month's operations.

Regarding the operating statement's contents:

1. Verified investors have a working interest in the Mackenzie Well. It is being operated by Magnum Energy, Inc. out of Norman, Oklahoma. Working interest owners share proportionately in revenues AND expenses (e.g. taxes, electricity, operation costs/admin). You would also share proportionately in any necessary well workovers, etc.
2. The Mackenzie produces – at a minimum – about 100 times more saltwater than it does oil. Accordingly, something has to be done with the excessive saltwater (being that it is saltwater, it can't just be dumped somewhere, it has to be disposed of properly). There are generally two options to dispose of saltwater:
  - a. Pay a 3d party to come and to pump it out and take it to an off-site disposal well (with the Mackenzie well, the 3d party would need to come take the water several times a day); or
  - b. Dispose of it directly through an onsite/owned disposal well.

The Mackenzie has its own onsite disposal, which is the “Jamie SWD” on the operating statements (“SWD” stands for saltwater disposal). Generally speaking, having an onsite disposal is more cost effective than paying a 3d party to dispose the water.

All that being said, the problems have been very numerous with both the Jamie and the Mackenzie. Most of it stems directly from the Gray group and its prior operations, including issues that had to be cleared up with the Oklahoma Corporation Commission (the entity that regulates all oil and gas production in the State of Oklahoma), problems with pollution remediation from both the Jamie SWD as well as the Mackenzie, and the inability of the Jamie SWD to accept enough water to keep the Mackenzie in production 24 hours a day. Once the Receiver finally got the “ok” from the Corporation Commission to simply turn the well on (mid-July), we ran into the problems with the Jamie SWD and the necessary situations of getting the well running properly, including the necessity to workover the pumps. So, essentially, until

- a. Another disposal method is found (the Receiver is in discussions with a nearby operator for use of its disposal well); or
- b. The Jamie is worked over to allow more injection pressure/total barrels via an AFE (authorization for expenditure) that all working interest owners would share the costs proportionately,

it will be producing on the equivalent of about 12 hours/day, and yielding somewhere in the vicinity of 10 barrels/day, give or take.

3. The Operating Statements themselves sent out at the end of each month reflect sales from the prior month – e.g. October’s statement reflects sales from September.
4. As the Operator, Magnum is not obligated to send working interest owners a check for any amount unless or until the total is greater than \$75.00. Depending on each Working Interest percentage, the share of revenues may be small some months, meaning a check will not be sent if the total owed is less than \$75.00.
  - a. For example, assume a Working Interest owner's one month’s share is \$45.00 – s/he will not get a check, but it will be noted on the Operating Statement as well as in Magnum’s system. Assume further that the owner's share the following month is \$35.00 – the operating statement for that month should have a check for \$80.00 enclosed with it.

Further, and in response to some rumors the Receiver has been made aware of regarding an effort to "push" investors out of the Mackenzie well, the Receiver stands to gain nothing from the well itself, other than the satisfaction of getting it online for the benefit of investors (the same would be true for Magnum). This is primarily because neither Magnum nor the Receiver own any piece of the Mackenzie Well.

The Receiver’s job is essentially to gather as many assets as possible and try to either (a) save the companies, or (b) liquidate them. Due to the state of affairs that the Receiver inherited, issues with other regulating/governmental entities, as well as the interference from the principals, the process has been slow going, to say the least.

As always, feel free to contact the Receiver's attorney listed in the "Contact" tab on this site. All-in-all, once the issues are worked out with the Jamie SWD, the Mackenzie well will hopefully be a decent well for the investors.