

Elias, Books, Brown & Nelson, PC

Two Leadership Square, Suite 1300
211 N. Robinson
Oklahoma City, Oklahoma 73102-7114
(405) 232-3722
Fax: (405) 232-3746

October 13, 2015

TO: All Verified Working Interest Owners

RE: Mackenzie No. 1, Section 21-3N-1W, Garvin County, Oklahoma

Dear Verified Working Interest Owner:

As you know, the captioned well has struggled to produce due to the inability of the water disposal well – the Jamie No. 1 – to take any significant quantities of produced water within the injection permit of the Oklahoma Corporation Commission. What is believed to be the best solution to alleviate this problem has been designed by the contract operator, Magnum Energy, Inc. to hopefully allow full production. The plan is to drill out the casing shoe and open the Bromide and Oil Creeks sands for injection. The Court has approved this plan as well as the associated Authorization For Expenditure ("AFE").

On the few occasions when the captioned well was able to produce, it indicated that stabilized oil production could be in the range of 20 to 25 BOPD. It is unknown if the well is capable of maintaining this level of production for any length of time. At this rate of production it is estimated that this well could generate about \$10,000 per month in revenue in excess of the operating costs.

Pursuant to the recent Court Order, all working interest owners are required to make an election within **twenty (20)** days of the date of this letter. The elections are as follows:

Option 1: Participate. Verified working interest owners electing to participate must (a) pay all joint billing indebtedness accumulated to date associated with both the Mackenzie and the Jamie SWD Wells that is owed to Magnum Energy, Inc.; (b) affirmatively elect to participate in the workover of the Jamie SWD Well; and (c) prepay the prorated amount of the AFE costs attributable to his/her/its working interest, all within twenty (20) days of the Receiver's mailing of the election letter and AFE;

Option 2: Non-Consent. Verified working interest owners electing "non-consent" will keep his/her/its full working interest, subject to a 400% non-consent penalty recovery of all costs of the proposed operation (including the owner's pro rata share of joint interest billings accrued or accruing).

Option 3: Abandon Interest/Default Election. Parties electing this Option and/or who fail to respond to the election letter from the Receiver, will have all outstanding account receivables forgiven and will be released from plugging and restoration cost liability for the Mackenzie and Jamie SWD Wells.

Please also note that in accordance with the Court's Order, should you fail to make an affirmative election within twenty (20) days of the date of this letter, you will have been deemed to elect Option 3. Please further note that in accordance with the Court's Order, should you affirmatively elect Option 1, but fail to pay the amounts associated with the election of Option 1, you will have been deemed to elect Option 3. **THIS MEANS THAT IF YOU DO NOT AFFIRMATIVELY ELECT AN OPTION, YOU WILL LOSE YOUR INTEREST IN THE MACKENZIE NO. 1 WELL. THIS ALSO MEANS THAT IF YOU FAIL TO PAY WITHIN TWENTY (20) DAYS AFTER AFFIRMATIVELY ELECTING OPTION 1, YOU WILL LOSE YOUR INTEREST IN THE MACKENZIE NO. 1 WELL.**

Also enclosed is a spreadsheet delineating the amount you can use in reporting your oil and natural gas activities in your respective tax returns for 2013. These are your attributable portions of the Intangible Drilling and Development Costs ("IDCs") associated with the drilling and preparation of the Mackenzie Well for the production of oil and natural gas. Please note there are various tax treatments and elections that are accorded to oil and natural gas activities. The Receiver, myself, nor any person or entities associated with us are licensed or qualified to advise you regarding your taxes and we strongly recommend that you consult with your tax professional as to your individual tax needs.

Accordingly, enclosed herewith, please find the following:

1. A Copy of the Court's September 22, 2015, Order;
2. An Election Form for the Mackenzie No. 1 Pursuant to Court Order that you **MUST** fill out and return in order to affirmatively make a valid election (please follow instructions present thereon);
3. A copy of the AFE for your signature that **MUST** be returned with your signature in order to affirmatively make a valid election;
4. A spreadsheet titled "Total Amounts Owed by Working Interest Owner" for your reference:
 - a. Delineating the accumulated amounts you owe for Mackenzie/Jamie operations through September 30, 2015;
 - b. Calculating the amount you would owe under the AFE should you elect Option 1; and
 - c. Calculating the total amount you should submit within twenty (20) days of the date on this letter should you elect Option 1;
5. A spreadsheet titled "Intangible Drilling Costs" for your reference that delineates your portion of the IDCs associated with the Mackenzie No. 1 Well and attributable to its drilling date in tax year 2013.

**FAILURE TO SUBMIT THE NECESSARY DOCUMENTS AND PAYMENTS BY THE
DEADLINE COULD RESULT IN LOSS OF YOUR WORKING INTEREST IN THE
MACKENZIE NO. 1 WELL**

Verified Working Interest Owners

AFE Elections

Page 3 of 3

Please follow the instructions on the enclosed Election Form and return it, along with the signed AFE **AND** a check or money order (if electing Option 1) within the allotted timeframe to the address indicated on the Election Form.

Please do not hesitate to call me with any question you may have.

Sincerely,

Nicholas A. Johnson,
Attorney for the Receiver

Robert A. Campbell,
President, Magnum Energy, Inc.