

STATE OF NEW YORK
DEPARTMENT OF ENVIRONMENTAL CONSERVATION

In the Matter of the Transfer of Well
Plugging Responsibility from
PENNSYLVANIA GENERAL ENERGY, CORP. to
FORTUNA ENERGY INC.

ORDER

THIS ORDER, is made and entered into this 17th day of March, 2003 between the New York State Department of Environmental Conservation (hereinafter "DEC"), having its principal offices at 625 Broadway, Albany, New York 12233-6500, and Fortuna Energy Inc. (hereinafter "Fortuna"), having its principal offices at 1519 Olean-Portville Road, Olean, New York 14760.

WITNESSETH:

WHEREAS, Pennsylvania General Energy, Corp. (hereinafter "PGE") is a corporation authorized to do business in the State of New York and it presently has well plugging responsibility for natural gas production facilities located in Chemung and Steuben Counties, which facilities are subject to the jurisdiction of DEC pursuant to Environmental Conservation Law (hereinafter "ECL"), Articles 23 and 71, Title 6 NYCRR Parts 550-559; and

WHEREAS, Fortuna is a corporation authorized to do business in the State of New York, and has filed an acceptable organization report pursuant to Article 23 of the ECL and the regulations promulgated thereunder, and has requested from the DEC approval of the transfer of certain well plugging responsibilities from PGE; and

WHEREAS, Fortuna has purchased leasehold interests from PGE and assumed certain well plugging responsibilities from PGE, and by its signature hereto, is obligating itself to undertake and complete the reclamation work outlined herein; and

WHEREAS, Fortuna has submitted financial security and transfer requests and DEC has approved transfer of well plugging responsibilities for wells listed in paragraph 1 herein (the approved transfer of well plugging responsibilities requests are annexed hereto and made a part hereof as Exhibit "A"); and

WHEREAS, Fortuna, by its signature hereto, has agreed to comply with the terms of the:

- a) stipulation regarding well spacing and compulsory integration in County Line Field dated December 30, 2002, a copy of which is annexed hereto and made a part hereof as Exhibit

"B"; and

- b) Interim Order regarding the Hardy 1447-A; Chemung SRA 1, Parcel A 1459 and Root 1514 wells in Wilson Hollow Field dated January 31, 2003, a copy of which is annexed hereto and made a part hereof as Exhibit "C".

WHEREAS, DEC and Fortuna (hereinafter collectively "parties") are desirous of reaching an agreement formalizing the transfer of well plugging responsibilities and insuring the completion of necessary reclamation at the well sites, and implementation of spacing and integration orders consistent with ECL Article 23 and the interests of the general public (ECL Article 23-0301).

NOW, THEREFORE, it is hereby agreed by and between the parties as follows:

1. Well Transfer Request

DEC has approved the request for well plugging responsibilities for all the below-listed wells.

WELL NAME	API NUMBER	COUNTY	STATUS	FIELD
JIMERSON #1240	31-101-22771	Steuben	Producing	Wilson Hollow
HOWE #1300-A	31-101-22814-01	Steuben	Producing	Wilson Hollow
LOVELL #1323	31-015-22831	Chemung	Producing	Quackenbush Hill
RICE #1301	31-101-22825	Steuben	Producing	Wilson Hollow
VAN VLEET #1355	31-101-22852	Steuben	Producing	Wilson Hollow
RHODES #1322	31-015-22853	Chemung	Producing	Quackenbush Hill
HENKEL #1359-A	31-101-22871-01	Steuben	Producing	Quackenbush Hill
FRATARCANGELO #1371-A	31-101-22884-01	Steuben	Producing	Wilson Hollow
CORNING GAME-CNR #624066	31-101-22885	Steuben	Producing	Cutler Creek
PARKER #1401	31-015-22891	Chemung	Producing	Wilson Hollow
LEDERER #1412-A	31-015-22902-01	Chemung	Producing	Wilson Hollow
HARDY #1447-A	31-015-22919-01	Chemung	Producing	Wilson Hollow
CHEMUNG SRA #1 #1459	31-015-22960	Chemung	Producing	Wilson Hollow
ROOT #1514	31-015-22975	Chemung	Producing	Wilson Hollow
HARTMAN-CNR #624546-A	31-101-22892-01	Steuben	Producing	Quackenbush Hill
GREGORY #1446-A	31-015-22918-01	Chemung	Producing	Quackenbush Hill
PACE #1460	31-101-22958	Steuben	Shut In	Riverside
YOUMANS #1511	31-101-22976	Steuben	Waiting on completion	County Line
EVANS #1568	31-015-23007	Chemung	Permitted Only	
GREEN #1007	31-101-19496	Steuben	Shut In	Painted Post

2. General Intention of Order

The parties agree that the general intention of this Order is to establish circumstances by which Fortuna shall commence and maintain an aggressive compliance program with respect to reclamation of well sites, record keeping, permitting, financial security, field-wide spacing, compulsory integration and all other requirements of the ECL and Title 6 NYCRR in the support and furtherance of the declared public interests of the People of the State of New York (see ECL §23-0301).

3. Site Monitoring and Reclamation

Fortuna acknowledges that additional site reclamation may be required at any of the wells listed in Paragraph 1 and upon this Order becoming effective Fortuna agrees to perform any required work to DEC's satisfaction.

4. Well Plugging Obligation

Fortuna hereby agrees to submit, for the Green #1007 well listed in paragraph 1 herein, either a Request for Shut-In or Temporary Abandonment or a Notice of Intention to Plug and Abandon within thirty (30) days of the effective date of this Order. Fortuna will submit the form to Regional Minerals Manager Randall C. Nemecek.

5. Approval to Commence Production – County Line Field

Approval to produce the Youmans #1511 is subject to the terms of the executed Stipulation for County Line Field attached hereto as Exhibit "B".

6. Approval to Commence Production – Riverside Field

Notwithstanding prior correspondence, the parties acknowledge that, in the absence of a fully executed Stipulation for the Riverside Field, commercial production is not authorized to commence at the Pace #1460 well.

7. Notice

Except as otherwise provided, any notice, approval, consent, waiver or demand, pursuant to, or in connection with, this Order shall be in writing and either mailed, post-prepaid certified mail return receipt requested, via United States mail, or delivered by a nationally recognized courier service for fees prepaid against receipt, or delivered personally, or telefax to the person so indicated:

If the DEC:

Mr. John K. Dahl
Director, Bureau of Oil & Gas Regulation Division of Mineral Resources
New York State Dept. of Environmental Conservation
625 Broadway, 3rd Floor
Albany, New York 12233-6500 Telephone: (518) 402-8056
Fax: (518) 402-8060

If to Fortuna:

Mr. Harv Rasmussen
Land Manager
Fortuna Energy Inc.
1519 Olean-Portville Road
Olean, New York 14760
Telephone: (716) 373-2720
Fax: (716) 372-0515

The failure by the parties to receive communications sent to the above addresses as the result of inaccuracy or extended absences is the responsibilities of the addressees.

8. Amendment

Except as otherwise specifically stated herein, any provision of this Order, including deadlines established herein, may be amended by, and only by, written DEC approval upon receipt and review of sufficient justification.

9. Financial Security Compliance

The parties hereby acknowledge and agree that at the time of the signing of this Order, that Fortuna has hereby posted appropriate financial security pursuant to ECL §23-0305(8)(e), 6 NYCRR §551.4 in the form of 20 separate individual well letters of credit for \$15,000 each for the wells listed in paragraph 1 herein.

10. Inspections

Fortuna specifically acknowledges and hereby agrees to allow the agents, employees and representatives of DEC to enter upon any and all facility lands as described herein pursuant to 6 NYCRR §550.5 to carry out its responsibilities pursuant to the ECL and the regulations promulgated thereunder.

11. Other Obligations

Nothing stated or implied in this Order relieves Fortuna of the responsibility of complying with all

applicable federal, state or local laws, rules, regulations, permits or orders.

12. Other Rights

Nothing stated or implied in this Order shall be construed to impair or prejudice:

- (a) any rights DEC may have to require Fortuna to perform additional measures to preserve or protect the environment or the public health, safety or welfare;
- (b) any other rights, claims or causes of action as to any other rights, claims and causes of action not mentioned in this Order; or
- (c) the Commissioner's authority to exercise summary abatement powers, either in common law or as granted pursuant to statute or regulation.

13. Financial Security Default

The parties hereby acknowledge that any lapse in the financial security obligation (hereinafter "default") except under the circumstances set forth at 6 NYCRR §551.4(c) constitutes a violation of ECL §71-1305(2) and shall be cause for the immediate shut-in, upon notice pursuant to paragraph 7, of all of the facilities in paragraph 1 herein notwithstanding the contents of any other provision of this Order.

14. Default - Site Monitoring and Reclamation

The parties hereby acknowledge that the failure to monitor and reclaim well sites pursuant to paragraph 3 herein (hereinafter "default") shall be cause for the immediate shut-in, upon notice pursuant to paragraph 7, of all of the facilities described in paragraph 1 herein notwithstanding the contents of any other provision of this Order.

15. Default - Well Plugging

The parties hereby acknowledge that the failure to submit a Request for Shut-In or Temporary Abandonment or a Notice of Intention to Plug and Abandon within thirty (30) days of the effective date of this Order pursuant to paragraph 4 herein (hereinafter "default") shall be cause for the immediate shut-in upon notice pursuant to paragraph 7 of all of the facilities described at paragraph 1 herein notwithstanding the contents of any other provision of this Order.

16. Default Notice

Upon default as provided for herein at paragraphs 13, 14 and 15 Fortuna is hereby required to cure such

default in five (5) business days from the date of the notice of immediate shut-in.

17. Enforceability

This Order shall extend to and be binding upon Fortuna, its agents, successors, grantees and assigns. The parties hereto agree that this Order, together with all documents created and issued pursuant hereto, shall constitute and shall be enforceable as an obligation existing pursuant to the ECL. Any failure on the part of Fortuna to comply with any provision of this Order shall constitute a default equivalent to a violation of a Commissioner's Order, and as such may be enforced in an enforcement action brought pursuant to Article 71 of the ECL and/or 6 NYCRR Part 622, either administratively, or in the Courts of the State of New York.

18. Effective Date

The effective date of this Order is the date that the Commissioner or her designee signs it. The Department will provide Fortuna with a fully executed copy of this Order as soon as practicable after the Commissioner or her designee signs it.

IN WITNESS WHEREOF, the duly authorized representatives of the parties have affixed their signatures below.

NEW YORK STATE DEPARTMENT OF
ENVIRONMENTAL CONSERVATION

Dated: March 17, 2003

BY:

signed

Lynette Stark
Deputy Commissioner for Natural Resources

FORTUNA ENERGY INC.

Dated: February 20, 2003

BY:

signed

Lydia Henuset
Authorized Signatory