

V I R G I N I A:

BEFORE THE VIRGINIA GAS AND OIL BOARD

IN RE:

Application of Pocahontas Gas Partnership  
for Pooling of Interests in the Sealed Gob Area  
Affected by Production Unit Number BUN1, VGOB No. 0716-135  
in the Hurricane Magisterial District  
of Buchanan County, Virginia

This cause came on this 20th day of August, 1991, upon the application of Pocahontas Gas Partnership requesting that this Board pool the interests of all owners having an interest in the coalbed methane gob gas in the 778-acre production unit known as BUN1, established for the development of coalbed methane gob gas from a mined out, sealed area in Consolidation Coal Company's Buchanan No. 1 Mine, in the Hurricane Magisterial District of Buchanan County, Virginia. Notice of the filing of the application herein and of the time, date and place of hearing thereon was duly and properly given to each owner of record having an interest in the occluded coalbed methane gas below the Tiller seam of coal underlying the tracts within the production unit covered hereby as required by Section 45.1-361.19 of the Code of Virginia, 1950 as amended. The Board examined the notice as given and further conducted inquiry into the sufficiency of Pocahontas Gas Partnership's search to determine names and whereabouts of owners who may be affected by the pooling of interests for the production of occluded coalbed methane gob gas below the Tiller seam of coal in the production unit involved herein.

The Board finds that Pocahontas Gas Partnership has exercised due diligence and conducted a meaningful search of reasonably available

sources at hand, including, but not limited to, grantor/grantee indexes, deed books, will records, tax records, local telephone books, and conducted conversations and correspondence with interested parties. The Board hereby approves the notice as given, by certified mail, by publication and otherwise, as meeting the statutory requirements, rules of the Board, and minimum standards of state and federal due process, and finds that notice has been given in all respects as required by law and the rules of this Board.

Based upon the evidence presented, the Board finds that the following named persons may be owners of coalbed methane gas interests in the sealed gob area below the Tiller seam of coal in the production unit involved herein who have not voluntarily agreed to pool their interests in this unit for its development and operation:

1. Norfolk Southern Railroad, 8 North Jefferson Street, Roanoke, VA 24042-0026
2. E. Stiltner, Box 243, Oakwood, VA 24631
3. Permac, Inc., P. O. Box 1614, Bluefield, WV 24701
4. Hass Blankenship, Route 3, Box 272-B1, Kosciusko, MS 39090

Based upon the evidence presented, the Board finds that, in order to avoid the drilling of unnecessary wells, prevent the various types of waste and protect the correlative rights of all owners and potential owners of occluded coalbed methane gas in the sealed gob area known as the BUN1 production unit involved herein, who have not heretofore reached an agreement with respect to development and operation of the production unit covered hereby shall be required to pool their coalbed methane gas interests below the Tiller seam of coal for the development of this

production unit, upon the terms and conditions set out in this order, all of which terms and conditions are found, after consideration of the evidence presented in this cause, to be supported by substantial evidence and to be just, reasonable and equitable and such as will afford each occluded coalbed methane gas owner or potential owner in this unit the opportunity to recover or receive their just and equitable share of production from this unit.

Based upon the evidence presented at the public hearing in this matter, the Virginia Gas and Oil Board orders as follows:

1. The interests of all owners, as named above, in the 778-acre production unit established in the lands involved herein for the production of occluded coalbed methane gas from the sealed gob area known as BUN1 are hereby pooled for the development and operation of this unit. Pocahontas Gas Partnership is hereby authorized to convert vertical ventilation wells BCH-DG-3 (CBM-PGP-3), BCH-DG-5 (CBM-PGP-5), BCH-DG-8 (CBM-PGP-8), BCH-DG-11 (CBM-PGP-11), BCH-DG-15 (CBM-PGP-15), BCH-DG-18 (CBM-PGP-18), BCH-301 (CBM-PGP-301A), BCH-DG-303 (CBM-PGP-303) into coalbed methane gas wells to produce occluded coalbed methane gas from the sealed gob area as shown on Exhibit B-1. Pocahontas Gas Partnership is authorized to complete and operate these wells in BUN1 production unit so as to produce occluded coalbed methane gas from the pooled acreage, consistent with the terms and provisions of its applicable well work permits and the BUN1 production unit order approved by this Board on June 18, 1991.

2. Each owner of occluded coalbed methane gas below the Tiller seam of coal involved herein, other than Pocahontas Gas Partnership shall,

within 30 calendar days after the date of mailing this Order, deliver to Pocahontas Gas Partnership, P. O. Box 230, Mavisdale, VA 24607, a written election either to participate in the operation of the wells covered hereby or to exercise such well operator's right of election under this Order as described below. A timely election shall be deemed to have been made if an owner, on or before the last day of such 30 calendar day period, has sent such written election by telegram or telegraph to Pocahontas Gas Partnership, or, has had such written election duly postmarked and has placed such written election in the United States mail, first class, postage prepaid, duly addressed to Pocahontas Gas Partnership at the address set forth above. The alternatives afforded to the well operators herein pooled are set forth below.

Each occluded coalbed methane gas owner or potential owner herein pooled claiming an interest as to the occluded coalbed methane gas below the Tiller seam of coal derived from any tract within the drilling unit involved herein is accorded the following options as to such interest:

(a) Participation: To participate in the working interest in and the development of the occluded coalbed methane gas below the Tiller seam of coal in the production unit involved herein by agreeing to pay such well operator's proportionate part of the actual cost of drilling, completing, equipping, operating, plugging and abandoning of the wells covered hereby and by paying as set forth herein, to Pocahontas Gas Partnership, such owner's proportionate part of the \$3,271,910.50 estimated cost of drilling, completing, equipping, operating, plugging and abandoning of the initial wells covered hereby. A participating operator's proportionate part of the anticipated cost of completion and

share of the production from such wells shall be in the proportion that the number of net mineral acres in the unit covered by the occluded coalbed methane gas rights owned by such party bears to the entire number of mineral acres in this unit.

With respect to additional vertical ventilation wells converted to coalbed methane production wells, or new wells drilled as coalbed methane wells in the BUN1 production unit, a participating operator shall pay his proportionate part of the actual cost of drilling, completing, equipping, operating, plugging and abandoning any such new or additional well, as provided in this paragraph, or may elect to be treated as a carried operator as provided in paragraph (b) below in the new well. The election to participate in the initial eight (8) wells shall not be affected by an election to be treated as a carried operator in any new well. To ensure the ability to separate and properly account for coalbed methane gas produced from any new well, Pocahontas Gas Partnership shall install a separate meter to measure production from the new well; or

(b) Carried interest: In lieu of participating in the working interest in and the development of the pool in this gob gas production unit, as set forth in subparagraph (a) above, to elect to share in the operation of the wells covered hereby on a carried basis (as a carried well operator) so that the proportionate part of the actual cost of drilling, completing, equipping, operating, plugging and abandoning of such wells allocable to such carried well operator's interest is charged against such carried well operator's share of production from such wells. All of such carried well operator's occluded coalbed methane gas rights below the Tiller seam of coal in the pool in the gob gas production unit

involved herein are relinquished under this order to Pocahontas Gas Partnership until the proceeds from the sale of the share of production from the wells accruing to such carried well operator's interest in the production unit involved herein, exclusive of any royalty, excess or overriding royalty, or other non-operating or non-cost bearing burden reserved in any lease, assignment thereof or agreement relating thereto covering such interest, equals three hundred percent (300%) for a leased interest or two hundred percent (200%) for an unleased interest of the share of the cost of drilling and completing the well allocable to the occluded coalbed methane gas interest of such carried well operator; plus one hundred percent (100%) of the carried operator's share of the cost of surface equipment beyond the wellhead connection of such wells allocable to the interest of such carried well operator; plus one hundred percent (100%) of the share of the cost of operating such wells allocable to the occluded coalbed methane gas interest of such carried well operator. Such carried well operator's proportionate part of the costs of, and the production from the wells covered hereby is to be in the proportion that the number of net mineral acres in the unit covered by the occluded coalbed methane gas interest owned or potentially owned by such carried well operator bears to the entire number of mineral acres in such unit. During the period of time Pocahontas Gas Partnership is entitled to receive such carried well operator's share of production or the proceeds therefrom, Pocahontas Gas Partnership shall pay all applicable production, severance, excise, gathering and any other taxes based upon or measured by the value or amount of production and shall separately calculate and pay to such carried well operator, for payment to the appropriate owner, any

royalty, excess or overriding royalty and any other non-operating or non-cost bearing burden reserved in any lease, assignment thereof or agreement relating thereto which is deducted from the share of production of such carried well operator. Such royalty, excess or overriding royalty and other non-operating or non-cost bearing burden is not to be subject to any charge for operating costs. Payment by Pocahontas Gas Partnership to such carried well operator of any such royalty, excess or overriding royalty or other non-operating or non-cost bearing burden shall be made within ninety (90) days after the end of the calendar month within which the production subject to such burdens is sold. Within sixty (60) days after the completion of the wells covered hereby, Pocahontas Gas Partnership shall furnish such carried well operator an inventory of the equipment used in and connected to the wells and an itemized statement of the cost of drilling, completing and equipping the wells for production; and for each month thereafter, during the time Pocahontas Gas Partnership is being reimbursed as provided above, Pocahontas Gas Partnership shall furnish to such carried well operator an itemized statement of all costs and liabilities incurred in the operation of such wells, together with a statement of the quantity of occluded coalbed methane gas produced therefrom and the amount of proceeds realized from the sale of the production allocable to such carried well operator's interest in the unit during the preceding month. Pocahontas Gas Partnership shall also furnish to the State Gas and Oil Inspector, copies of the same statements furnished to each carried well operator under the provisions hereof. Any amount realized from the sale or other disposition of equipment used in connection with any operation of the well covered hereby, which would have

been owned by such carried well operator had such owner participated therein as a participating well operator, shall be credited against the total uncovered well costs in determining when the interest of such carried well operator shall revert to such owner as described above. When Pocahontas Gas Partnership recovers all costs and applicable penalties from such carried well operator's relinquished interest, provided for above, the relinquished interest of such carried well operator shall automatically revert to such owner, and from and after such reversion, such carried well operator shall be treated as a participating well operator and shall own the same interest in the wells, the material and equipment in or pertaining thereto and the production therefrom, as such owner would have been entitled to had such owner participated initially as a participating well operator in the drilling, completing, and equipping of the wells; and thereafter, such owner shall be charged with and shall pay the owner's proportionate part of the further costs of the operation of the wells.

(c) Cash Consideration: In lieu of participating in the working interests in and the development of the gob gas production unit involved herein, any owner of an unleased interest may elect to receive, as a bonus, a sum of ONE DOLLAR (\$1.00) per net mineral acre owned by such owner, plus a total royalty in the amount of one-eighth of eight-eighths ( $1/8$ th of  $8/8$ ths) of the occluded coalbed methane gas and gas condensate produced from the wells covered by this Order, the same to be delivered into the lease tanks or into the pipelines to which the wells are connected, free and clear of all costs, expenses and risks incurred in or in connection with drilling, equipping, operating, completing, plugging

and abandoning of the wells. Any well operator electing this option shall deliver under this Order a net revenue interest of 87.50% of 8/8ths of the occluded coalbed methane gas and gas condensate produced from the wells covered by this Order, with such net revenue interest being determined by deducting from such owner's share of production the royalty provided for immediately above; and provided further, that such royalty of 1/8th of 8/8ths and such net revenue interest of 87.50% of 8/8ths shall be proportionately reduced and payable only in the proportion that the number of net mineral acres in the drilling unit covered by the occluded coalbed methane gas rights owned by such well operator bears to the entire number of mineral acres in this unit; or

(3) In the event an owner or potential owner of an occluded coalbed methane gas lease or an owner of an unleased tract, who is subject to the provisions of this Order shall fail to timely and properly elect, in writing, one of the applicable options as set forth above, such owner shall be deemed to have elected not to participate in the working interest in the well covered hereby and shall be deemed to have leased his interest in the occluded coalbed methane gas to the designated coalbed methane gas well operator as provided in paragraph 2(c) above. In the event an owner or potential owner of a leased interest or an unleased interest, who is subject to the provisions of this Order, shall elect to act as a participating well operator under 2(a) above, but thereafter fail or refuse to pay or secure the payment of such well operator's proportionate part of the cost of the well covered hereby as set forth in such provisions, such election to act as a participating operator under this

Order shall be null and void and such well operator shall become a carried well operator consistent with the terms and provisions of this Order.

(4) If any payment of bonus, royalty payment or other payment, including the payment of any costs necessary to perfect the participation option, due and owing under this Order cannot be made because the person entitled thereto cannot be made certain due to conflicting claims of ownership and/or a defect or cloud on the title, then such cash bonus, royalty payment or other payment shall be deposited by the unit operator into an interest-bearing escrow account as required by Section 45.1-361.22 of the Code of Virginia, within one hundred eighty (180) days after the date of this Order and shall not be commingled with any funds of the applicant or unit operator. Such funds shall be held for the exclusive use of, and sole benefit of, the person entitled thereto until such funds can be paid to such person(s) or the holder relinquishes such funds to the Board as required by law or the Board.

If any person whose interest is pooled hereby refuses to accept the cash bonus consideration or if any such person cannot be paid the cash bonus, royalty payment or any other payment due hereunder for any reason other than the reasons set forth above, the unit operator may deposit such cash bonus, royalty payment or other payment into an escrow account established in the accounting records of unit operator and such funds shall be credited to such account for the benefit of such person. Such funds so deposited in such escrow account shall be held for the benefit of the person(s) or until they are required to be paid to the Commonwealth.

Within thirty (30) days of the expiration of any and all election periods provided in paragraph 2, the designated operator shall tender to

the State Gas and Oil Inspector a notarized statement of all disputed claims, specifically including a breakdown of the type of interest, mineral ownership and percentage of ownership. This statement shall be used in creating and establishing the escrow accounts required by the Order. If any changes in the status of conflicting claims occur, the designated operator shall immediately notify the State Gas and Oil Inspector and within thirty (30) days submit an amended disputed claims statement.

Within thirty (30) days of receipt of a certified copy of the final legal determination of entitlement or upon receipt of an agreement signed by all claimants, the Board shall order payment of principal and accrued interest from the escrow account described above to all persons legally entitled thereto.

(5) Any person involved herein who has not appeared in response to the notice of hearing published pursuant to the provisions of Section 45.1-361.19, Code of Virginia, 1950 as amended, and whose identity or whereabouts remains unknown at the conclusion of the hearing in this matter shall be deemed to have elected to lease his interest to the coalbed methane to the well operator designated to drill as described in paragraph 1, under the same terms and conditions as set forth in paragraph (c) above. The designated well operator shall deposit into a separate, distinct interest-bearing escrow account established by the Virginia Gas and Oil Board with the Treasurer of Virginia all proceeds attributable to the unknown lessor's interest. All sums so deposited shall be held for the unknown lessor's benefit and shall be deemed unclaimed property and

disposed of pursuant to the Uniform Disposition of Unclaimed Property Act (Section 55-210.1, et seq.)

(6) Any cash bonus which becomes payable by Pocahontas Gas Partnership under the provisions of 2(c) above, shall be paid or tendered within thirty (30) days after the expiration of the election periods of this order; provided, however, if the owner entitled to such funds releases the same, or if such owner's interest in the unit involved in this cause has a defect or cloud in the title thereto, or if such owner cannot be paid such funds for any reason whatsoever other than the reasons set forth in paragraphs 2 and 3 above. Pocahontas Gas Partnership may deposit (credit) such funds due such party into an internal escrow account established in the accounting records of Pocahontas Gas Partnership and such funds shall be credited to such account for the benefit of such owner. Such funds so deposited (credited) in such escrow account shall be held for the benefit of the owner entitled thereto until such funds can be paid to such owner, or such owner accepts such funds, or until such title defect or cloud is cured or removed to the satisfaction of Pocahontas Gas Partnership.

(7) Pocahontas Gas Partnership, in addition to any other rights afforded such party under the laws of Virginia, shall have a lien on the mineral leasehold estate or rights owned by the other well operators involved herein in the unit covered hereby and upon their shares of the production from the wells covered hereby to the extent that costs incurred in the development and operation of the gob gas production unit involved herein are a charge against such interests. Such liens shall be separable as to each separate well operator and shall remain a lien until all costs

incurred in connection with the well have been paid. Upon the failure or refusal of any participating well operator to pay such well operator's proportionate part of any cost incurred hereunder in connection with the well covered hereby, Pocahontas Gas Partnership shall be entitled to receive the share of production from the wells accruing to such defaulting participating well operator's interests in the unit involved herein, or the proceeds from such share, until such proportionate part of such cost has been paid. No part of the production or proceeds accruing to any participating well operator shall be applied toward payment of costs chargeable to any other interest in such unit. If any participating well operator fails or refuses to pay such well operator's proportionate share of the costs incurred hereunder in connection with the wells covered hereby within sixty (60) days after rendition of a statement therefor by Pocahontas Gas Partnership, the non-defaulting participating well operators, including Pocahontas Gas Partnership, shall, upon request by Pocahontas Gas Partnership, pay the unpaid amount in the proportion that the interest of each such non-defaulting participating well operator bears to the total interests of all such non-defaulting well operators. In such event, each non-defaulting well operator so paying such well operator's share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the lien rights described above.

(8) If the wells involved herein have not been commenced as of the date of this Order, Pocahontas Gas Partnership shall commence or cause to be commenced operations on such wells within three hundred and sixty-five days (365) from the date of this Order and in any event, shall continue or cause to be continued operations under this Order with due

diligence; otherwise, the provisions thereof shall be inoperative and this Order shall terminate, except for any cash sums becoming payable hereunder, unless the time of commencement of such operation is extended by an Order of the Board.

(9) Pocahontas Gas Partnership shall within thirty (30) days, after completion, tender to the State Gas and Oil Inspector an itemized statement reflecting the actual cost of drilling, equipping, completing, plugging and abandoning the wells. Additional itemized statements reflecting actual operating costs shall be furnished to the State Gas and Oil Inspector on a quarterly basis. If the actual cost of drilling, completing, equipping, plugging and abandoning the wells is different than Pocahontas Gas Partnership's estimates, appropriate adjustments to the burdens imposed on each participating or carried operator's share shall be made.

(10) Pocahontas Gas Partnership shall cause a certified copy of this Order to be mailed to the last known address of each well operator as listed in this Order.

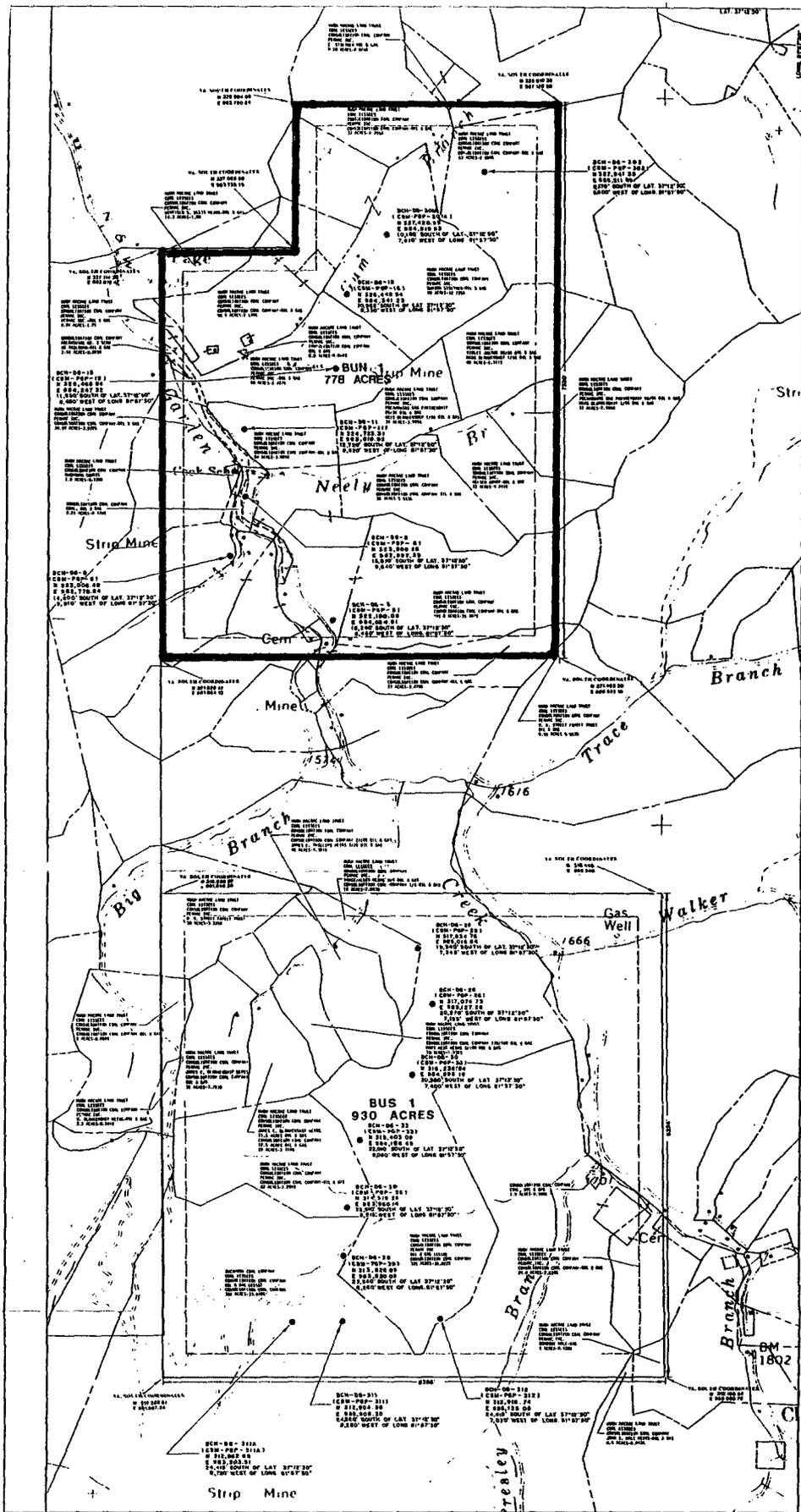
The relief granted by this Order is to avoid the drilling of unnecessary wells, prevent the various types of waste or occluded coalbed methane gas and protect the correlative rights of all owners with respect to the pools in the drilling unit involved herein.

Done and executed this 30<sup>th</sup> day of September 1991, by a majority of the Virginia Gas and Oil Board.

  
CHAIRMAN

Done and performed this 30<sup>th</sup> day of September, 1991, by  
the Order of this Board.

Byron J. Fulmer  
Principal Executive to the Staff  
Virginia Gas and Oil Board



**EXPLANATION**

- PROPERTY LINE
- PROPOSED FORCE POOLING UNIT
- N 312,854.76  
E 285,026.84 VA STATE PLANE COORDINATES
- 300 FT. SETBACK
- BM-06-25 VERTICAL VENTILATION HOLE NO. (VVH)
- CBM-POP-201 COALBED METHANE GOB GAS WELL NO. (CBM)
- VERTICAL VENTILATION HOLE (VVH) / PROPOSED COALBED METHANE GOB GAS WELL (CBM)

**EXHIBIT B-1**

POCAHONTAS GAS PARTNERSHIP  
 POTENTIAL OWNERS  
 FORCE POOLING UNIT BUN-1  
 DOCKET NO. VGOB-0716-135  
**WELL LOCATIONS**  
 KEEN MTN. QUADRANGLE  
 BUCHANAN COUNTY, VA.

SCALE 1/8" = 1,000 FT.

State of Virginia  
County of Washington

Acknowledged on this 30th day of September, 1991, personally before me a notary public in and for the State of Virginia appeared Benny Wampler, being duly sworn did depose and say that he is Chairman of the Virginia Gas and Oil Board, that he executed the same and was authorized to do so.



Diane Davis  
Notary Public  
My commission expires 9/23/92

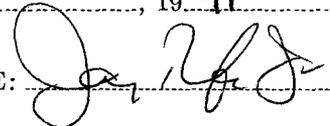
State of Virginia  
County of Washington

Acknowledged on this 30th day of September, 1991, personally before me a notary public in and for the State of Virginia appeared Byron Thomas Fulmer, being duly sworn did depose and say that he is Principal Executive to the Staff of the Virginia Gas and Oil Board, that he executed the same and was authorized to do so.



Diane Davis  
Notary Public  
My commission expires 9/23/92

VIRGINIA: In the Clerk's Office of the Circuit Court of Buchanan County. The foregoing instrument was this day presented in the office aforesaid and is, together with the certificate of acknowledgment annexed, admitted to record this 1st day of Oct, 1991 1:30 P. M.  
Deed Book No. 381 and Page No. 13

TESTE:  Clerk

2775

~~XXXX~~

CLERK'S OFFICE CIRCUIT COURT  
BUCHANAN COUNTY, VIRGINIA

Filed and admitted to record.

this 1st day of Oct 19 91  
at 1:30 o'clock P M.

Recorded Dead Book \_\_\_\_\_ Page \_\_\_\_\_

039 State Tax \_\_\_\_\_

213 County Tax \_\_\_\_\_

212 Transfer \_\_\_\_\_

301 Recording 25.00

518 Peds \_\_\_\_\_

038 State Tax \_\_\_\_\_

Sec. SA.1-902 \_\_\_\_\_

220 Local Tax \_\_\_\_\_

Sec. SA.1-902 \_\_\_\_\_

145 VSJF \_\_\_\_\_

Total 26.00

Teste by RRH, Jr., Clerk

By \_\_\_\_\_ D.C.

Department of Mines,  
General & Energy  
PB 454 1416 Energy  
Abingon, VA 24210