

*Order
Entered*

VIRGINIA:

BEFORE THE VIRGINIA GAS AND OIL BOARD

APPLICANT: OXY USA, INC.)	
)	
RELIEF SOUGHT: POOLING OF INTERESTS)	
IN DRILLING UNIT NO. R-33)	VIRGINIA
PURSUANT TO SECTION)	GAS AND OIL
45.1-361.22, (CODE OF)	BOARD
VIRGINIA, 1950 AS)	
AMENDED) FOR THE PRODUCTION)	DOCKET NO.
OF COALBED METHANE GAS)	
(herein "Coalbed Methane Gas"))	
)	
LEGAL DESCRIPTION:)	VGOB 91-1217-0176
)	
DRILLING UNIT NUMBER R-33)	
(Hereafter "Subject Drilling Unit"))	
IN THE OAKWOOD COALBED GAS FIELD)	
GARDEN MAGISTERIAL DISTRICT)	
BUCHANAN COUNTY, VIRGINIA)	
(the "Subject Lands" are more)	
particularly described on Exhibit)	
"A", attached hereto and made a)	
part hereof))	

REPORT OF THE BOARD

FINDINGS AND ORDER

1. Hearing Date and Place: This matter came on for hearing before the Virginia Gas and Oil Board (hereafter "Board") at 9:00 a.m. on December 17, 1991, Dickenson Conference Room, Southwest Virginia Education 4-H Center, Abingdon, Virginia.

2. Appearances: Howard G. Salisbury and Mark A. Swartz, appeared for the Applicant; and J. Grant McGuire, Attorney, appeared for Ashland Exploration, Inc.

3. Jurisdiction and Notice: Pursuant to Sections 45.1-361.1 et seq., Virginia Code, 1950 as amended, the Board finds that it has jurisdiction over the subject matter. Based upon the evidence presented by Applicant, the Board also finds that the Applicant has (1) exercised due diligence in conducting a meaningful search of reasonable available sources to determine the identity and whereabouts of potential owners, i.e., persons of record, having or claiming the rights to coalbed methane gas in all coal seams below the Tiller Seam (hereafter "Subject Formations") in Subject Drilling Unit underlying and comprised of Subject Lands, and (2) has given notice to all parties (hereafter sometimes "person(s)" whether referring to individuals, corporations, partnerships, associations, companies, businesses, trusts, joint ventures or other legal entities) entitled by §§ 45.1-361.19 and 45.1-361.22, Virginia Code, 1950 as amended, to notice of this application, and (3) that the persons set forth in Exhibit B hereto may be claimants of coalbed methane gas interests in Subject Formations, in Subject Drilling Unit underlying and comprised of Subject Lands, and are not subject to any lease and who have not voluntarily agreed to pool their interests. Further, the Board has caused notice of this hearing to be published as required by § 45.1-361.19B, Virginia Code, 1950 as amended. Whereupon, the Board hereby finds that the notices given herein satisfy all statutory requirements, Board rule requirements and the minimum standards of state and federal due process.

- 4. Amendments: None.
- 5. Dismissals: None.

6. Relief Requested: Applicant requests (1) that pursuant to §§ 45.1-361.22, including the applicable portions of § 45.1-361.21, Code of Virginia, 1950 as amended, the Board pool the rights, interests and estates of the known and unknown persons named herein and their known and unknown heirs, executors, administrators, devisees, trustees, assigns and successors, both immediate and remote, for the drilling and operation, including production, of Coalbed Methane gas produced from the Subject Drilling Unit established for the Subject Formations underlying and comprised of the Subject Lands, (hereafter sometimes collectively identified and referred to as "well development and/or operation in the Subject Drilling Unit"), and (2) that the Board designate Applicant as Unit Operator.

7. Relief Granted: The requested relief in this cause be and hereby is granted and: (1) Pursuant to Sections 45.1-361.21(C)(3), Code of Virginia, 1950 as amended, Oxy USA, Inc. (hereafter "Unit Operator") is designated as the Unit Operator authorized to drill, operate any well in the Subject Drilling Unit, subject to the permit provisions contained in Section 45.1-361.27 et seq., Code of Virginia, 1950 as amended, and to the Oakwood Coalbed Gas Field Order No. OGCB 3-90 dated May 18, 1990 to § 480-05-22.1 et seq., Gas and Oil Regulations and to § 480-05-22.2 et seq., Virginia Gas and Oil Board Regulations, all as amended from time to time, and (2) all the interests and estates in Subject Drilling Unit, including those of the known and unknown persons listed on Exhibit "B", attached hereto and made a part hereof, and their known and unknown heirs, executors, administrators, devisees, trustees, assigns and successors, both immediate and remote, who are not subject to any lease and who have not voluntarily agreed to pool their interest in the Subject Drilling Unit, be and hereby are pooled in the Subject Formations in the Subject Drilling Unit underlying and comprised of the Subject Lands.

<u>Subject Formations</u>	<u>Unit Size</u>	<u>Permitted Well Location</u>	<u>Field and Well Classification</u>	<u>Order Number</u>
All coal seams below the Tiller seam and associated strata	Approximately 80-acre square drilling unit	Any point within the drilling unit allowed by Order No. OGCB 3-90	Oakwood Coalbed Gas Field and coalbed methane (CBM) gas well	OGCB 3-90 (5/18/90)

For the Subject Drilling Unit
underlying and comprised of the Subject
Land referred to as:

Unit Number R-33
Buchanan County, Virginia.

8. Election and Election Period: Each person pooled hereby may elect one of the options set forth in Paragraph 9 below and must give written notice of his election of the option selected under Paragraph 9 herein to the designated Unit Operator at the address shown below within thirty (30) days from the date this Order is recorded in the county above named. A timely election shall be deemed to have been made if, on or before the last day of said 30-day period, such electing person has delivered his written election to the designated Unit Operator at the address shown below or has duly postmarked and placed its written election in first class United States mail, postage prepaid, addressed to the Unit Operator at the address shown below.

9. Election Options:

9.1 Option 1 - To Participate In The Development and Operation of the Drilling Unit: Any person pooled hereby may elect to participate in the development and operation of the Subject Drilling Unit (hereafter "Participating Operator") by agreeing to pay such Participating Operator's proportionate part of the actual and reasonable costs, including a reasonable supervision fee, of the well development and operation in the Subject Drilling Unit, as more particularly set forth in Virginia Gas and Oil Board Regulation VR 480-05-22.2, Section 10 ("Completed for Production Costs"). Further, a Participating Operator agrees to pay such Participating Operator's proportionate part of the Estimated, Completed-for-Production Costs set forth below to the Unit Operator within forty-five (45) days from the later of the date of mailing or the date of recording of this Order. The Estimated, Completed-for-Production Costs for the Subject Drilling Unit are as follows:

Estimated, Completed-for-Production Costs - \$229,884.00

A Participating Operator's proportionate cost hereunder shall be that proportion of said costs which the number of net mineral acres in the Subject Drilling Unit owned or claimed by such Participating Operator bears to the total number of mineral acres in Subject Drilling Unit. Provided, however, that in the event a Participating Operator elects to participate and fails or refuses to pay his proportionate part of the Estimated, Completed-for-Production Costs as set forth above, all within the time set forth herein and in the manner prescribed in Paragraph 8 of this Order, then such Participating Operator shall be deemed to have elected not to participate and to have elected compensation in lieu of participation pursuant to Paragraph 9.2 herein.

9.2 Option 2 - To Receive A Cash Bonus Consideration: In lieu of participating in the development and operation of a Subject Drilling Unit under Paragraph 9.1 above, any owner of an unleased interest may elect to accept a cash bonus consideration of \$1.00 per net mineral acre owned by such person plus a royalty of 1/8th of 8/8ths [twelve and one-half percent (12.5%)] of the net proceeds received by the Unit Operator for the sale of the coalbed methane gas and gas condensate produced from any well development covered by this Order (for purposes of this Order, net proceeds shall be actual proceeds received less all post-production costs incurred downstream of the wellhead, including but not limited to, all gathering, compression, treating, transportation and marketing costs, whether performed by Unit Operator or a third person) as fair, reasonable and equitable compensation to be paid to said owner, and any owner of a leased interest may elect to accept a cash bonus consideration to be paid to said owner of \$1.00 per net mineral acre leased as fair, reasonable and equitable compensation. Such cash bonus, when so elected, shall be tendered, paid or escrowed within sixty (60) days from the date of this Order and when so paid or escrowed shall be satisfaction in full for all right, title, interests, estates, and claims of such electing person in the Subject Lands, except, in the case of the owner of an unleased interest, for the normal 1/8th royalty interest.

The election made under this Paragraph 9.2, when so made shall be satisfaction in full for all right, title, interests, estates and claims of such electing person in any well development covered hereby and such electing person shall be deemed to and hereby does

lease and assign all its right, title, interests, estates, and claims in the Subject Drilling Unit to the Unit Operator.

- 9.3. Option 3 - To Share In The Development And Operation As A Non-Participating Person On A Carried Basis And To Receive Consideration In Lieu Of Cash: In lieu of participating in the development and operation of Subject Drilling Unit under Paragraph 9.1 above and in lieu of receiving a cash bonus consideration under Paragraph 9.2 above, any person pooled hereby may elect to share in the development and operation of Subject Drilling Unit on a carried basis (as a "Carried Well Operator") so that the proportionate part of the Completed-for-Production Costs hereby allocable to such Carried Well Operator's interest is charged against such Carried Well Operator's share of production from Subject Drilling Unit. All of such Carried Well Operator's rights, title, interests, estates and claims in Subject Drilling Unit shall be deemed and hereby are assigned to the Unit Operator until the proceeds from the sale of such carried well operator's share of production from Subject Drilling Unit (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 (whichever is applicable) of such carried well operator's share of the Completed-for-Production Costs allocable to the interest of such Carried Well Operator. When the Unit Operator recoups and recovers from such Carried Well Operator's assigned interest the amounts provided for above, then, the assigned interest of such Carried Well Operator shall automatically revert back to such Carried Well Operator, and from and after such reversion, such Carried Well Operator shall be treated as if it had participated initially under Paragraph 9.1 above; and thereafter, such participating person shall be charged with and shall pay his proportionate part of all further costs of such well development.

The election made under this Paragraph 9.3, when so made, shall be satisfaction in full for all rights, title, interests, estates and claims of such electing person in any well development and operation covered hereby and such electing person shall be deemed to have and hereby does assign all its rights, title, interest, estates and claims in the Subject Formations in the Subject Drilling Unit to the Unit Operator for the period of time during which its interest is carried as above provided prior to its reversion back to such electing person.

10. Failure to Properly Elect: In the event a person fails to elect within the time, in the manner and in accordance with the terms of this Order or the alternatives set forth in Paragraph 9 above, such person accepts as to such person's interest, then such person shall be deemed to have elected not to participate in the proposed development and operation of Subject Drilling Unit and shall be deemed, subject to a final legal determination or ownership, to have elected to accept as satisfaction in full for all such person's right, title, interests, estates and claims the consideration provided in Paragraph 9.2 above for which its interest qualifies and shall be deemed to have leased and/or assigned all his right, title, interests, estates and claims in the Subject Drilling Unit to the Unit Operator. Persons who fail to properly elect shall be deemed, subject to a final legal determination of ownership, to have accepted the compensation and terms set forth herein at Paragraph 9.2 in satisfaction in full for all right, title, interests, estates and claims of such person in the Subject Lands.

11. Default By Participating Person: In the event a person elects to participate under Paragraph 9.1, but fails or refuses to pay, to secure the payment or to make an arrangement with the Unit Operator for the payment of such person's proportionate part of the Estimated Completed-for-Production costs as set forth herein, all within the time and in the manner as prescribed in this Order, then such person shall be deemed to have withdrawn his election to participate and shall be deemed to have elected to accept as satisfaction in full for such person's right, title, interest, estates and claims the cash bonus consideration provided in Paragraph 9.2 above for which his interest qualifies depending on the excess burdens attached to such interest. Whereupon, any such cash bonus consideration due as a result of such deemed election shall be tendered, paid or escrowed by Unit Operator within sixty (60) days after the last day on which such defaulting person under this Order should have paid his proportionate part of such cost or should have made satisfactory arrangements for the payment thereof. When such cash bonus consideration is paid or escrowed, it shall be satisfaction in full for all right, title, interests, estates and claims of such person in the Subject Lands covered hereby.

12. Assignment of Interest: In the event a person elects or fails to elect to do other than participate under Paragraph 9.1 above in the development and operation of the well in Subject Formations in Subject Drilling Unit, then such person shall be deemed to have and shall have assigned unto Unit Operator all of such person's right, title, interests, estates and claims in and to said well, in Subject Formations in Subject Drilling Unit, and other share in production to which such person may be entitled by reason of any election or deemed election hereunder.

13. Unit Operator (or Operator): The Applicant, Oxy USA, Inc., be and hereby is designated as Unit Operator authorized to drill and operate the well in Subject Formations in Subject Drilling Unit, all subject to the permit provisions contained in Section 45.1-361.27 et seq., Code of Virginia, 1950 as amended, §§ 480-05-22.1 et seq., Gas and Oil Regulations and §§ 480-05-22.2 et seq., Virginia Gas and Oil Board Regulations, as amended from time to time, and all elections required by this Order shall be communicated to Unit Operator in writing at the address shown below:

OXY USA, INC.
 P. O. Drawer Q
 Richlands, VA 24641
 Phone: (703) 964-9803
 Fax: (703) 964-0381
 Attn: Martin E. Wirth, Land Manager

14. Commencement of Operations: Unit Operator shall commence or cause to commence operations for the drilling of any well covered hereby within three hundred and sixty-five (365) days from the date of this Order and shall prosecute the same with due diligence. If Unit Operator shall not have so commenced and/or prosecuted, then this Order shall terminate, except for any cash sums becoming payable hereunder; otherwise, this Order shall expire at 12:00 P.M. on the date on which any well covered by this Order is permanently abandoned and plugged unless sooner terminated by Order of the Board.

15. Operator's Lien: Unit Operator, in addition to the other rights afforded hereunder, shall have a lien and a right of set off on the mineral estates, rights, and interests owned by any person subject hereto who elects to participate under Paragraph 9.1 in the Subject Drilling Unit to the extent that costs incurred in the drilling or operation on the Subject Drilling Unit are a charge against such person's interest. Such liens and right of set off shall be separable as to each separate person and shall remain liens until the Unit Operator drilling or operating any well covered hereby has been paid the full amounts due under the terms of this Order.

16. Escrow Provisions:

By this Order, the Board instructs the Escrow Agent named herein or any successor named by the Board to establish an interest-bearing escrow account, (herein "the Escrow Account") to receive and account to the Board pursuant to its agreement for the escrowed funds hereafter described:

Tazewell National Bank
 P. O. Box 909
 Tazewell, VA 24651
 (herein "Escrow Agent")

A. Escrow Provisions For Unknown or Unlocatable Persons: If any payment of bonus, royalty payment or other payment due and owing under this Order cannot be made because the person entitled thereto cannot be located or is unknown, then such cash bonus, royalty payment, or other payment shall not be commingled with any funds of the Unit Operator and shall, pursuant to Section 45.1-361.21.D, Code of Virginia, 1950 as amended, be deposited by the operator into the Escrow Account, commencing when a sale of gas produced from the well commences and continuing thereafter on a calendar quarter basis with each deposit to be made, by use of the Report Form approved by the Director, by a date which is no later than forty-five (45) days after the last day of the calendar quarter being reported and/or for which funds are being deposited. 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 until the Escrow Agent relinquishes such funds as required by law or pursuant to Order of the Board in accordance with § 45.1-361.21.D., Code of Virginia, 1950 as amended. Attached hereto is a listing of all persons who cannot be located together with each person's last known address, if available.

B. Escrow Provisions For Conflicting Claimants: If any payment of bonus, royalty payment or other payment 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 not be commingled with any funds of the Unit Operator and shall, pursuant to Virginia Code Sections 45.1-361.22A.2 and 45.1-361.22.4, be deposited by the Operator into the Escrow Account, commencing when a sale of gas produced from the well commences and continuing thereafter on a calendar quarter basis with each deposit to be made, by use of the Report Form approved by the Director, by a date which is no later than forty-five (45) days after the last day of the calendar quarter being reported and/or for which funds are being deposited. 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 until the Escrow Agent relinquishes such funds as required by law or pursuant to Order of the Board.

C. Other Escrow Provisions: 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 other payment due hereunder for any reason other than the reasons set forth in Paragraphs 16 or 17 above, Unit Operator shall not commingle any such funds with those of said Unit Operator and shall deposit such cash bonus, royalty payment or other payment into the Escrow Account and such funds shall be credited for the benefit of such person. Such funds so deposited in the Escrow Account shall be held for the benefit of the person(s) entitled thereto until such funds can be paid to such person(s) or until the Escrow Agent relinquishes such funds as required by law or pursuant to Order of the Board.

17. Special Findings: The Board specifically and specially finds:

- (a) Applicant is a Delaware corporation duly authorized and qualified to transact business in the Commonwealth of Virginia;
- (b) Applicant claims ownership of gas leases, coalbed methane gas leases, and/or coal leases and the right to explore for, develop and produce coalbed methane gas from coal seams below the Tiller seam in Unit Number R-33 in Buchanan County, Virginia, which Subject Lands are more particularly described in Exhibit "A".
- (c) Applicant is an operator in the Commonwealth of Virginia and has satisfied the Board's requirements for operations in Virginia;
- (d) Applicant has proposed the drilling of a well on the Subject Drilling Unit to develop the pool in Subject Formations.
- (e) Respondents are listed on Exhibit "B". Set forth in Exhibit "B" is the name and last known address of each person of record (who has not, in writing, leased to or voluntarily pooled their interests in Subject Drilling Unit for the development) identified by the Applicant as having or claiming a potential interest in the coalbed methane gas underlying in Subject Drilling Unit underlying and comprised of Subject Lands.
- (f) Applicant's evidence established that the fair, reasonable and equitable compensation to be paid to any person in lieu of the right to participate in any well covered hereby are those options provided in Paragraph 9 above; and
- (g) The relief requested and granted is just and reasonable, is supported by substantial evidence and will afford each person in the Subject Drilling Unit the opportunity to recover or receive, without unnecessary expense, each person's just and fair share of the production from Subject Drilling Unit. The granting of the Application and relief requested therein will ensure to the extent possible the greatest ultimate recovery of petroleum hydrocarbons, prevent or assist in preventing the various types of waste prohibited by statute and protect or assist in protecting the correlative rights of all persons in the subject common sources of supply in the Subject Lands. Therefore, the Board is entering an Order granting the relief herein set forth.

18. Mailing Of Order And Filing Of Affidavit: Applicant or its Attorney shall file an affidavit with the Secretary of the Board within ten (10) days after the date of receipt of this Order stating that a true and correct copy of said Order was mailed within seven (7) days from the date of receipt of this Order to each person pooled by this Order whose address is known.

19. Availability of Unit Records: The Director shall provide all persons not subject to a lease with reasonable access to all records for Subject Drilling Unit which are submitted by the Unit Operator to said Director and/or his Inspector(s).

20. Conclusion: Therefore, the requested relief and all terms and provisions set forth above be and hereby are granted and IT IS SO ORDERED.

21. Effective Date: This Order shall be effective on the date of its execution.

BOOK 350 : 694

DONE AND EXECUTED this 30th day of April, 1992, by a majority of the Virginia Gas and Oil Board.

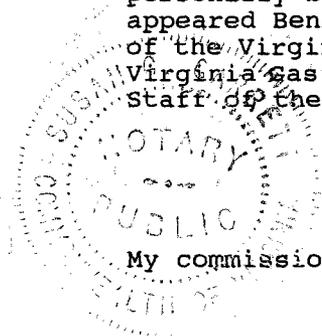
Benny R. Wampler
Chairman, Benny R. Wampler

DONE AND PERFORMED this 30th day of April, 1992, by Order of this Board.

f/ Byron Thomas Fulmer
Byron Thomas Fulmer
Principal Executive To The Staff
Virginia Gas and Oil Board

STATE OF VIRGINIA)
COUNTY OF WASHINGTON)

Acknowledged on this 30th day of April, 1992, personally before me a notary public in and for the Commonwealth 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 as Chairman of the Virginia Gas and Oil Board as well as in behalf of the Principal Executive to the Staff of the Virginia Gas and Oil Board, and was authorized to do so.



Susan G. Garrett
Susan G. Garrett
Notary Public

My commission expires 7/31/94

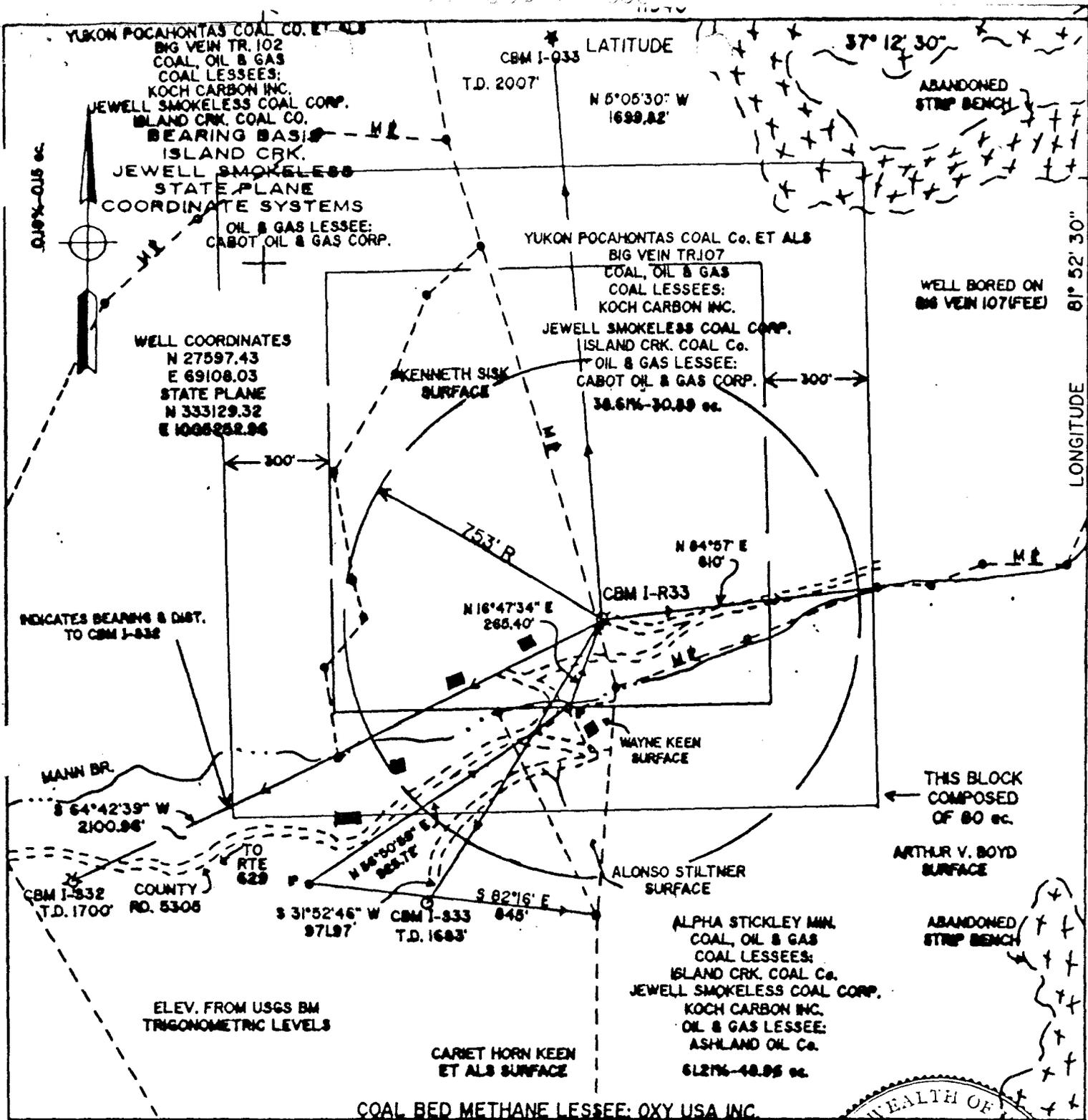


EXHIBIT "A"
VGOB-91-1217-176

WELL LOCATION PLAT

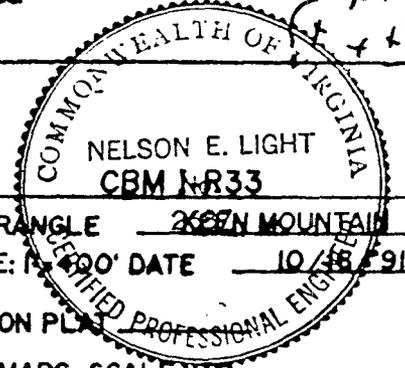
COMPANY OXY USA INC. WELL NAME and No. CBM I-R33
 TRACT No. BIG VEIN TR. 107 ELEVATION 2011.86 QUADRANGLE KEEN MOUNTAIN
 COUNTY BUCHANAN DISTRICT GARDEN SCALE: 1" = 400' DATE 10/18/91

THIS PLAT IS A NEW PLAT ; AN UPDATED PLAT ; OR A FINAL LOCATION PLAT

+ DENOTES THE LOCATION OF A WELL ON UNITED STATES TOPOGRAPHIC MAPS, SCALE TO 24,000, LATITUDE AND LONGITUDE LINES BEING REPRESENTED BY BORDER LINES AS SHOWN.

Nelson E. Light

 LICENSED PROFESSIONAL ENGINEER OR LICENSED LAND SURVEYOR



608 3:50 P. 698

Docket No. VG0B-91-1217-176

PARTIES RESPONDENT
EXHIBIT "B"
Well No.: CBM I R-33

RESPONDENT(S) WHO HAVE NOT LEASED OR OTHERWISE CONTRACTED WITH APPLICANT

<u>Owner</u>	<u>Mineral Ownership</u>	<u>Gross Acreage Within Unit</u>	<u>Undivided Interest Within Unit</u>
Tract <u>Alpha C. Stickley (Min.)</u>			
1. Ashland Exploration, Inc. P. O. Box 391 Ashland, Kentucky 41114	Oil & Gas Lessee	48.96 ac.	61.21 %

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 May, 1992 3:50 P. M.
Deed Book No. 390 and Page No. 687

TESTE: [Signature] Clerk

[Handwritten signature]

1557
1529

CLERK'S OFFICE CIRCUIT COURT
BUCHANAN COUNTY, VIRGINIA

Filed and admitted to record.

this 13 day of July 1992

at 3:50 o'clock P.M.

Recorded Deed Book	Page
039 State Tax	
213 County Tax	
212 Transfer	
301 Recording	19.00
038 State Tax	
220 Local Tax	
145 VSIF	1.00
Total	20.00

Teste James M. Bevins, Jr., Clerk

By _____ D.C.

Dept. of Mines, Mineral & Energy

WGO

P.O. Box 1416

Arlington, Va. 24210