

VIRGINIA:

BEFORE THE VIRGINIA GAS AND OIL BOARD

APPLICANT:	POCAHONTAS GAS PARTNERSHIP)	
)	
RELIEF SOUGHT:	POOLING OF INTERESTS)	
	IN DRILLING UNIT NO. O-40)	VIRGINIA
	PURSUANT TO SECTION)	GAS AND OIL
	45.1-361.22, (CODE OF)	BOARD
	VIRGINIA, 1950 AS AMENDED))	
	FOR THE PRODUCTION OF)	DOCKET NO.
	COALBED METHANE GAS (herein)	VGOB 93-0420-0361
	referred to as "Coalbed)	
	Methane Gas" or "Gas"))	
)	
LEGAL DESCRIPTION:)	
)	
	DRILLING UNIT NUMBER O-40)	
	(Hereafter "Subject Drilling Unit"))	
	IN THE OAKWOOD COAL BED GAS FIELD)	
	I HURRICANE BRANCH EXTENSION,)	
	JEWELL RIDGE QUADRANGLE, 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 April 20, 1993, Ratliff Hall, Southwest Virginia 4-H Center, Abingdon, Virginia.
2. Appearances: Elizabeth McClanahan, Penn, Stuart, Eskridge & Jones appeared for the Applicant, Pocahontas Gas Partnership; J. C. Franks appeared as Agent for the Franks estate and the Metcalf estate; and Sandra B. Riggs, Assistant Attorney General was present to advise the Board.
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 reasonably available sources to determine the identity and whereabouts of potential owners, i.e., persons identified by Applicant as having or claiming the rights to coalbed methane gas in all coal seams below the Tiller Seam, including the Lower Castle, Upper Seaboard, Greasy Creek, Middle Seaboard, Lower Seaboard, Upper Horsepen, Middle Horsepen, C, War Creek, Pocahontas No. 10, Lower Horsepen, Pocahontas No. 9, Pocahontas No. 8, Pocahontas No. 7, Pocahontas No. 6, Pocahontas No. 5, Pocahontas No. 4, Pocahontas No. 3, Pocahontas No. 2 and various unnamed coal seams, coalbed or pools, rock strata associated therewith, strata correlative to the coal seams and coalbeds, and all zones in communication therewith and all productive extensions thereof (hereafter "Subject Formation") in Subject Drilling Unit underlying and comprised of Subject Lands, and (2) has given notice to all parties so identified (hereafter sometimes "person(s)" whether referring to individuals, corporations, partnerships, associations, companies, businesses, trusts, joint ventures or other legal entities) and 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 C hereto are persons identified by applicant who may be claimants of Coalbed Methane Gas interests in Subject Formation, in Subject Drilling Unit underlying and comprised of Subject Lands. Set forth in Exhibit D hereto are those persons who have not leased their interests to the operator and/or who have not voluntarily agreed to pool their interests, and set forth in Exhibit E are the conflicting claimants. 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 due process.

4. Amendments: Exhibits B-1, C, D, E and the Tract Identification Exhibit.

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 all the right and interests in and to the Gas in Subject Drilling Unit, of the known and unknown persons named in Exhibit C hereto 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 Formation 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 Pocahontas Gas Partnership 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, Pocahontas Gas Partnership (hereafter "Unit Operator") is designated as the Unit Operator authorized to drill and operate the 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, to the Oakwood Coalbed Gas Field I Order OGCB 3-90, dated May 18, 1990, as amended by VGOB 93-0216-0325 to encompass the Hurricane Branch Extension; 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 right and interests and estates in and to the Gas in Subject Drilling Unit of the known and unknown persons listed on Exhibit "C", attached hereto and made a part hereof, and their known and unknown heirs, executors, administrators, devisees, trustees, assigns and successors, both immediate and remote, be and hereby are pooled in the Subject Formation in the Subject Drilling Unit underlying and comprised of the Subject Lands.

<u>Subject Formation</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	One (1) well bore to be located in Unit O-40 known as CBM-PGP-605 as depicted on Exhibit B-1	Oakwood Coal Bed Gas Field I Hurricane Branch Extension for Coal Bed Methane Gas Wells	OGCB 3-90 as amended by VGOB 93-0216-0325

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

Unit Number O-40
Buchanan County, Virginia

8. Election and Election Period: Each person set forth in Exhibit D 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 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 gas or oil owner listed in Exhibit D may elect to participate in the development and operation of the Subject Drilling Unit (hereafter "Participating Operator") by agreeing to pay the estimate of 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 (herein "Completed for Production Costs"). Further, a Participating Operator agrees to pay the estimate of such Participating Operator's proportionate part of the Estimated, Completed-for-Production Costs as 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:

Well CBM-PGP-605	\$188,504.89
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A Participating Operator's proportionate cost hereunder shall be the results obtained by multiplying the Participating Operators' percentage as set forth in Exhibit D, times the Estimated, Completed-for-Production costs set forth above. Provided, however, that in the event a Participating Operator elects to participate and fails or refuses to pay the estimate of 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 Subject Drilling Unit under Paragraph 9.1 above, any gas or oil owner listed in Exhibit D may elect to accept a cash bonus consideration of \$1.00 per net mineral acre owned by such person, due upon entry of this Order and then annually until commencement of production of Gas from Subject Drilling Unit, and thereafter 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, multiplied by the gas or oil owner's percentage as set forth in Exhibit D (for purposes of this Order, net proceeds shall be actual

proceeds received less post-production costs incurred downstream of the wellhead, including, but not limited to, 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 gas or oil owner. The initial cash bonus shall become due and owing when so elected and shall be tendered, paid or escrowed subsequent within sixty (60) days of recording of this Order. Thereafter, annual cash bonuses, if any, shall become due and owing on each anniversary of the date of recording of this order in the event production from Subject Drilling Unit has not theretofore commenced, and once due, shall be tendered, paid or escrowed within sixty (60) days of said anniversary date. Once the initial cash bonus and the annual cash bonuses, if any, are so paid or escrowed, said payment(s) shall be satisfaction in full for the right, interests, and claims of such electing gas or oil owner in and to the Gas produced from Subject Formation in the Subject Lands, except, however, for the 1/8th royalties due hereunder.

The election made under this Paragraph 9.2, when so made, shall be satisfaction in full for the right, interests, and claims of such electing person in any well development and operation covered hereby and such electing person shall be deemed to and by making said election does lease and assign its right, interests, and claims in and to the Gas produced from Subject Formation 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 the cash bonus consideration under Paragraph 9.2 above, any gas or oil owner listed in Exhibit D 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. Such Carried Well Operator's right, interests, and claims in and to the Gas 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 assigned 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 the right, interests, and claims of such

electing person in any well development and operation covered hereby and such electing person shall be deemed to have and by making said election does assign its right, interests, and claims in and to the Gas produced from Subject Formation 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, one of the alternatives set forth in Paragraph 9 above, 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 such person's right, interests, and claims in and to the Gas the consideration provided in Paragraph 9.2 above for which its interest qualifies and shall be deemed to have leased and/or assigned his right, interests, and claims in and to the Gas produced from Subject Formation 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 the right, interests, and claims of such person in and to the Gas produced from the Subject Formation underlying 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, interests, and claims in and to the Gas the consideration provided in Paragraph 9.2 above for which his interest qualifies depending on the excess burdens attached to such interest. Whereupon, any 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 the right, interests, and claims of such person in and to the Gas produced from the Subject Formation underlying the Subject Lands covered hereby, except, however, for any royalties which would become due pursuant to Paragraph 9.2 hereof.

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 such person's right, interests, and claims in and to the Gas in Subject Formation 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): Pocahontas Gas Partnership, be and hereby is designated as Unit Operator authorized to drill and operate any well in Subject Formation 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:

Pocahontas Gas Partnership
 P. O. Box 200
 Mavisdale, VA 24627
 Phone: (703) 498-4512
 Fax: (703) 498-4512
 Attn: Randall M. Albert

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, unless sooner terminated by Order of the Board, 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. However, in the event an appeal is taken from this Order, then the time between the filing of the petition for appeal and the final Order of the Circuit Court shall be excluded in calculating the one year period referred to herein.

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 right and interests in and to the Gas 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 chargeable against such person's interest. Such liens and right of set off shall be separable as to each separate person and shall remain liens on each such person's interest 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")

- 16.1. 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, and said sums shall be deposited by the Operator into the Escrow Account, commencing within sixty (60) days of recording of this Order, and continuing thereafter on a monthly basis with each deposit to be made, by use of a report format approved by the Inspector, by a date which is no later than sixty (60) days after the last day of the month being reported and/or for which funds are subject to deposit. 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.

- 16.2 Escrow Provisions For Conflicting Claimants: If any payment of bonus, royalty payment of 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, together with Participating Operator's Proportionate Costs paid to Operator pursuant to Paragraph 9.1 hereof, if any, (1) shall not be commingled with any funds of the Unit Operator; and (2) shall, pursuant to Virginia Code Sections 45.1-361.22.A.2, 45.1-361.22.A.3 and 45.1-361.22.A.4, be deposited by the Operator into the Escrow Account within sixty (60) days of recording of this Order, and continuing thereafter on a monthly basis with each deposit to be made, by use of a report format approved by the Inspector, by a date which is no later than sixty (60) days after the last day of the month being reported and/or for which funds are subject to deposit. 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.
17. Special Findings: The Board specifically and specially finds:
- 17.1. Applicant is a Virginia general partnership composed of Consolidation Coal Company, a Delaware corporation, and Conoco, Inc., a Delaware corporation, and is duly authorized and qualified to transact business in the Commonwealth of Virginia.
- 17.2 Applicant claims ownership of gas leases, coalbed methane gas leases, and/or coal leases representing 97.435 percent of the oil and gas interest; 99.24 percent of the Pocahontas No. 3 seam of coal, 99.24 percent of all coal below the Tiller seam, less the Pocahontas No. 3 seam, and 99.24 percent of the coalbed methane gas estate underlying Unit Number O-40 in Buchanan County, Virginia, which Subject Lands are more particularly described in Exhibit "A".
- 17.3 Applicant is an operator in the Commonwealth of Virginia and has satisfied the Board's requirements for operations in Virginia.
- 17.4 Applicant has drilled one (1) well, Well CBM-PGP-605, on the Subject Drilling Unit to a depth of 1,502.63 feet pursuant to Permit No. 2186 to develop the pool in Subject Formations.
- 17.5 The estimated total production from Subject Drilling Unit is 125 to 550 mmcf. The estimated average production from the Subject Drilling Unit over its life is 337.5 mmcf.
- 17.6 Respondents are listed on Exhibit "C". Set forth in Exhibit "D" is the name and last known address of each person who has not, in writing, leased to the Operator or voluntarily pooled their interests in Subject Drilling Unit for its development, but who have been identified by the Applicant as having or claiming a potential interest in the Coalbed Methane Gas in Subject Formation in Subject Drilling Unit underlying and comprised of Subject Lands. The known parties with conflicting ownership claims and the percentage of interest to be escrowed are shown on Exhibit E.
- 17.7 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.

17.8 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 coalbed methane gas, 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 sixty (60) days after the date of recording 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.

DONE AND EXECUTED this 23rd day of June, 1993, by a majority of the Virginia Gas and Oil Board.

Benny R. Wampler
Chairman, Benny R. Wampler

DONE AND PERFORMED this 23rd day of June, 1993, by Order of this Board.

Byron T. Fulmer
Byron Thomas Fulmer
Principal Executive To The Staff
Virginia Gas and Oil Board

STATE OF VIRGINIA)
COUNTY OF WISE)

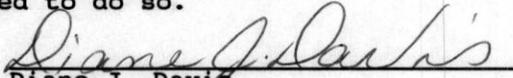
Acknowledged on this 23rd day of June, 1993, personally before me a notary public in and for the Commonwealth of Virginia, appeared Benny Wampler, being duly sworn did depose and say that he is Chairman of the Virginia Gas and Oil Board, that he executed the same and was authorized to do so.

Susan G. Garrett
Susan G. Garrett
Notary Public

My commission expires 7/31/94

STATE OF VIRGINIA)
COUNTY OF WASHINGTON)

Acknowledged on this 23rd day of June, 1993,
personally before me a notary public in and for the Commonwealth 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 J. Davis
Notary Public

My commission expires 9/30/97

