

INSTRUMENT PREPARED BY
VIRGINIA GAS AND OIL BOARD

ORDER RECORDED UNDER CODE
OF VIRGINIA SECTION 45.1-361.26

V I R G I N I A:

BEFORE THE VIRGINIA GAS AND OIL BOARD

APPLICANT: Daugherty Petroleum Inc.)
) VIRGINIA GAS
) AND OIL BOARD
RELIEF SOUGHT: **EXCEPTION TO STATEWIDE SPACING**)
) LIMITATIONS PRESCRIBED BY VA. CODE) DOCKET NO.
) § 45.1-361.17(a)(2) FOR WELL) 07/08/21-2001
) **M. HENSLEY #1**)
)
LEGAL DESCRIPTION:)
)
) DRILLING UNIT SERVED BY WELL NUMBERED)
) **M. HENSLEY #1** TO BE DRILLED IN THE LOCATION)
) DEPICTED ON EXHIBIT A HERETO,)
) **Morgan Hensley, 31.88 Acre Fee Tract**)
) **Rose Hill** QUADRANGLE,)
) **Rose Hill** MAGISTERIAL DISTRICT,)
) **Lee** 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

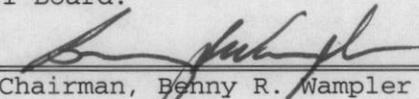
1. Hearing Date and Place: This matter came on for hearing before the Virginia Gas and Oil Board (hereafter "Board") at 9:00 a.m. on **August 21, 2007**, Southwest Virginia Higher Education Center on the campus of Virginia Highlands Community College, Abingdon, Virginia.
2. Appearances: **James E. Kaiser** appeared for the Applicant.
3. Jurisdiction and Notice: Pursuant to Va. Code § 45.1-361.1 et seq., 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 each gas and oil owner, coal owner, or mineral owner having an interest in Subject Drilling Unit underlying and comprised of Subject Lands; (2) has represented to the Board that it has given notice to those parties (hereafter sometimes "person(s)" whether referring to individuals, corporations, partnerships, associations, companies, businesses, trusts, joint ventures or other legal entities) entitled by Va. Code § 45.1-361.19 to notice of this application; and (3) that the persons set forth in

Exhibit B hereto have been identified by Applicant as owners of Gas interests underlying Subject Drilling Unit, including those who have not heretofore leased, sold or voluntarily agreed with the Applicant to pool their Gas interests in Subject Drilling Unit. Further, the Board has caused notice of this hearing to be published as required by Va. Code § 45.1-361.19.B. 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.

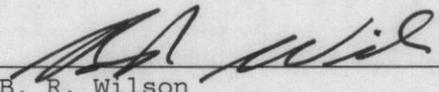
4. Amendments: **Revised Exhibit.**
5. Dismissals: **NONE.**
6. Relief Requested: Applicant requests (1) an exception to the statewide spacing limitations set forth in Va. Code § 45.1-361.17 for Well No. M. HENSLEY #1.
7. Relief Granted: The requested relief in this cause be and hereby is granted. The Board hereby grants Applicant consent to permit and drill proposed Well No. **M. HENSLEY #1**, **1996.15** feet from Well No. **DPI-8708** at the location depicted on the Plat attached hereto;
8. Special Findings: The Board specifically and specially finds:
 - 8.1 Applicant is **Daugherty Petroleum Inc.** a West Virginia Corporation. Applicant is duly authorized and qualified to transact business in the Commonwealth of Virginia;
 - 8.2 Applicant **Daugherty Petroleum Inc.** is an operator in the Commonwealth of Virginia and has satisfied the Board's requirements for operations in Virginia;
 - 8.3 Applicant claims ownership of Conventional Gas leases of **100%** percent of Subject Drilling Unit and the right to explore for, develop and produce Gas from same, i.e., Well No. **M. HENSLEY #1** as well as from reciprocal well, i.e., Well **DPI-8708**.
 - 8.4 The proposed Well **M. HENSLEY #1** is located on a surface, coal, oil and gas tract consisting of **31.88** acres known as **Morgan Hensley Fee Tract**, and the surface, coal, gas and oil owner has consented to the proposed location for Well **M. HENSLEY #1** that is depicted on the Plat attached hereto as Exhibit A;
 - 8.5 The Applicant testified it has the right to operate and develop the reciprocal Well **DPI-8708**, and that the granting of the application filed herein will not impact the correlative rights of any person;

- 8.6 An exception to the well spacing requirements of Va. Code § 45.1-361.17 for Well M. HENSLEY #1 is necessary to efficiently drain a portion of the common sources of supply (reservoir) underlying Subject Drilling Unit, and the Board's granting of the requested location exception is in the best interest of preventing the waste of 150 million cubic feet of Conventional Gas underlying Subject Drilling Unit, and to generally effect the purposes of the Virginia Gas and Oil Act;
- 8.7 Applicant proposes the drilling of Well No. M. HENSLEY #1 to a depth of 3800 feet on the Subject Drilling Unit at the location depicted in Exhibit A to produce all the Mississippian and Devonian age formations including, but not limited to, Stone River Formations and Knox Formations, from surface to a total depth of 3800 feet (Subject Formations");
- 8.8 Applicant proposes to drill Well M. HENSLEY #1 a distance of 503.85 feet closer to Gas Well DPI-8708 than the 2500 feet mandated by statewide spacing;
- 8.9 Applicant proposes to complete and operate Well M. HENSLEY #1 for the purpose of producing Conventional Gas;
- 9 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 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.
10. 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).
11. Conclusion: Therefore, the requested relief and all terms and provisions set forth above be and hereby are granted and IT IS SO ORDERED.
12. Appeals: Appeals of this Order are governed by the provisions of Va. Code Ann. § 45.1-361.9 which provides that any order or decision of the Board may be appealed to the appropriate circuit court. Such appeals must be taken in the manner prescribed in the Administrative Process Act, Va. Code Ann. § 9-6.14:1 et seq. and Rule 2A of the Rules of the Virginia Supreme Court.
13. Effective Date: This Order shall be effective on the date of its execution.

DONE AND EXECUTED this 18th day of October, 2007 by a majority of the Virginia Gas and Oil Board.

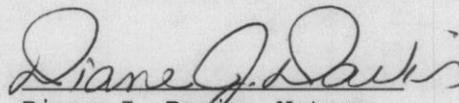

Chairman, Benny R. Wampler

DONE AND PERFORMED this 18th day of October, 2007 by Order of this Board.

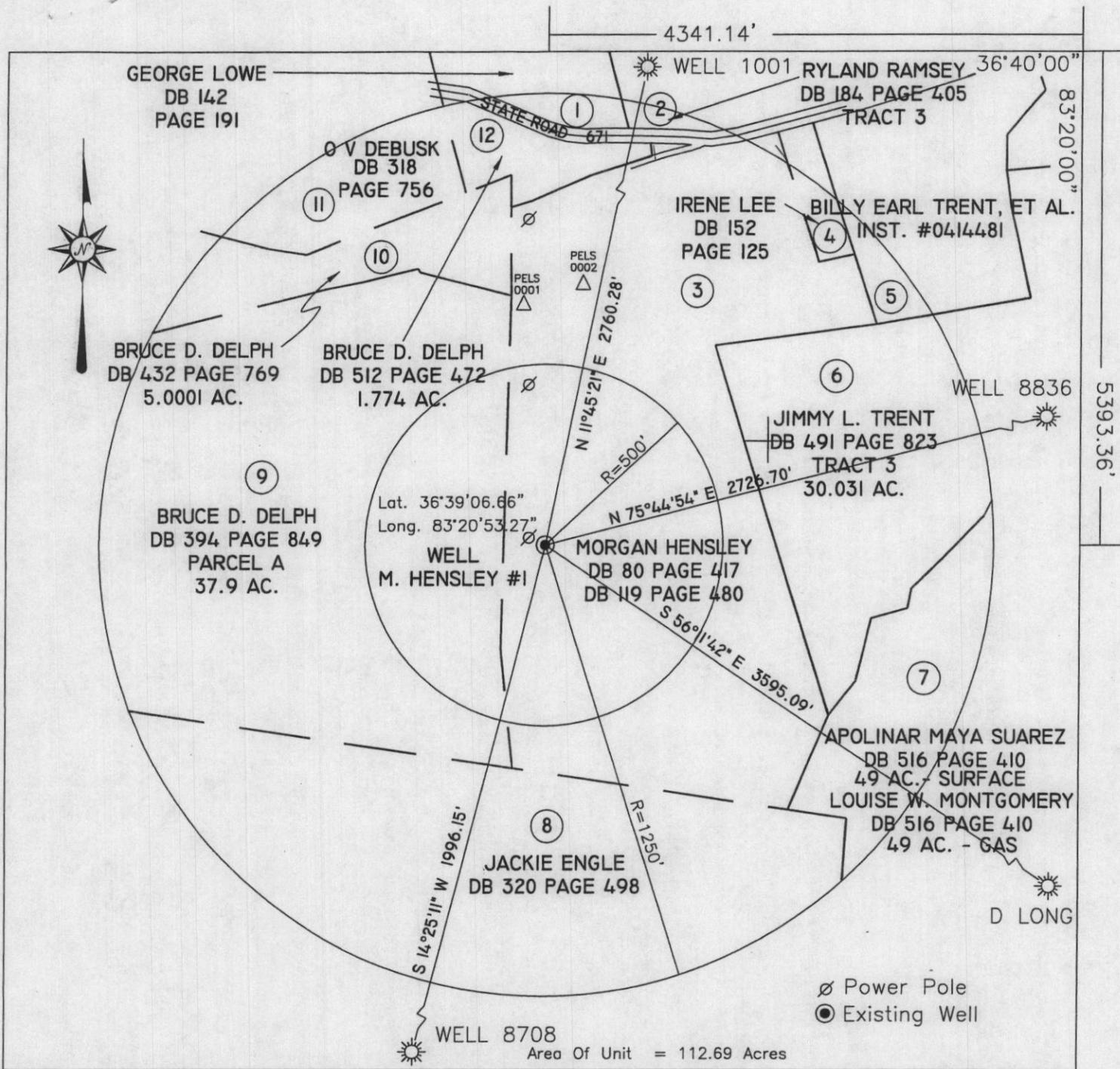

B. R. Wilson
Principal Executive to the Staff
Virginia Gas and Oil Board

STATE OF VIRGINIA
COUNTY OF WASHINGTON

Acknowledged on this 18th day of October, 2007, personally before me a notary public in and for the Commonwealth of Virginia, appeared Benny R. Wampler, being duly sworn did depose and say that he is Chairman of the Virginia Gas and Oil Board, and appeared B. R. Wilson, being duly sworn did depose and say that he is Principal Executive to the Staff of the Virginia Gas and Oil Board that they executed the same and were authorized to do so.


Diane J. Davis, Notary
174394

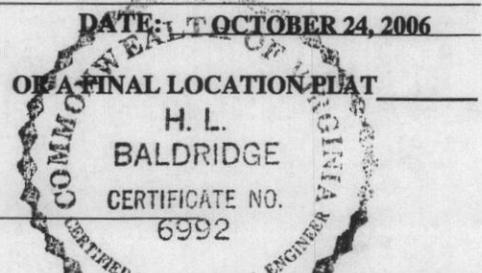
My commission expires: September 30, 2009



WELL LOCATION PLAT

COMPANY: DAUGHERTY PETROLEUM, INC. WELL NAME OR NUMBER M. HENSLEY #1
 TRACT NUMBER Morgan Hensley QUADRANGLE Rose Hill
 DISTRICT Rose Hill
 WELL COORDINATES (VIRGINIA STATE PLANE): N 152479.45 E 578317.92
 ELVATION 1684.82 METHOD USED TO DETERMINE ELEVATION:
Trigometric leveling from GPS Station PELS 0001
 COUNTY Lee SCALE- 1" = 400' DATE: OCTOBER 24, 2006

THIS PLAT IS A NEW PLAT _____; AN UPDATED PLAT X _____;



Denotes the location of a well on United States topographic Maps, scale 1 to 24,000 latitude and longitude lines being represented by border lines as shown. (optional)

H. L. Baldrige 10-26-07
 Licensed Professional Engineer or Licensed Land Surveyor (Affix Seal)

①

GEORGE LOWE
33.50 ACRES - MIN.
GAS - 0.77 ACRES - 0.683%

⑦

LOUISE W. MONTGOMERY
49.00 ACRES - MIN.
GAS - 5.63 ACRES - 4.997%

②

RYLAND RAMSLEY
3.30 ACRES - FEE
GAS - 0.44 ACRES - 0.390%

⑧

JACKIE ENGLE
150.00 ACRES - FEE
GAS - 21.81 ACRES - 19.533%

③

MORGAN HENSLEY
31.88 ACRES - FEE
GAS - 31.88 ACRES - 28.290%

⑨

BRUCE DELPH
30.58 ACRES - FEE
GAS - 37.90 ACRES - 27.136%

④

IRENE LEE
4.75 ACRES - FEE
GAS - 0.51 ACRES - 0.454%

⑩

BRUCE DELPH
5.00 ACRES - FEE
GAS - 3.88 ACRES - 3.443%

⑤

NOT LEASED
BILLY EARL TRENT, ET AL.
7.00 ACRES - FEE
GAS - 0.75 ACRES - 0.666%

⑪

NOT LEASED
 V DEBUSK
27.6 ACRES - FEE
GAS - 3.28 ACRES - 2.911%

⑥

JIMMY TRENT
28.25 ACRES FEE
GAS - 11.09 ACRES - 9.841%

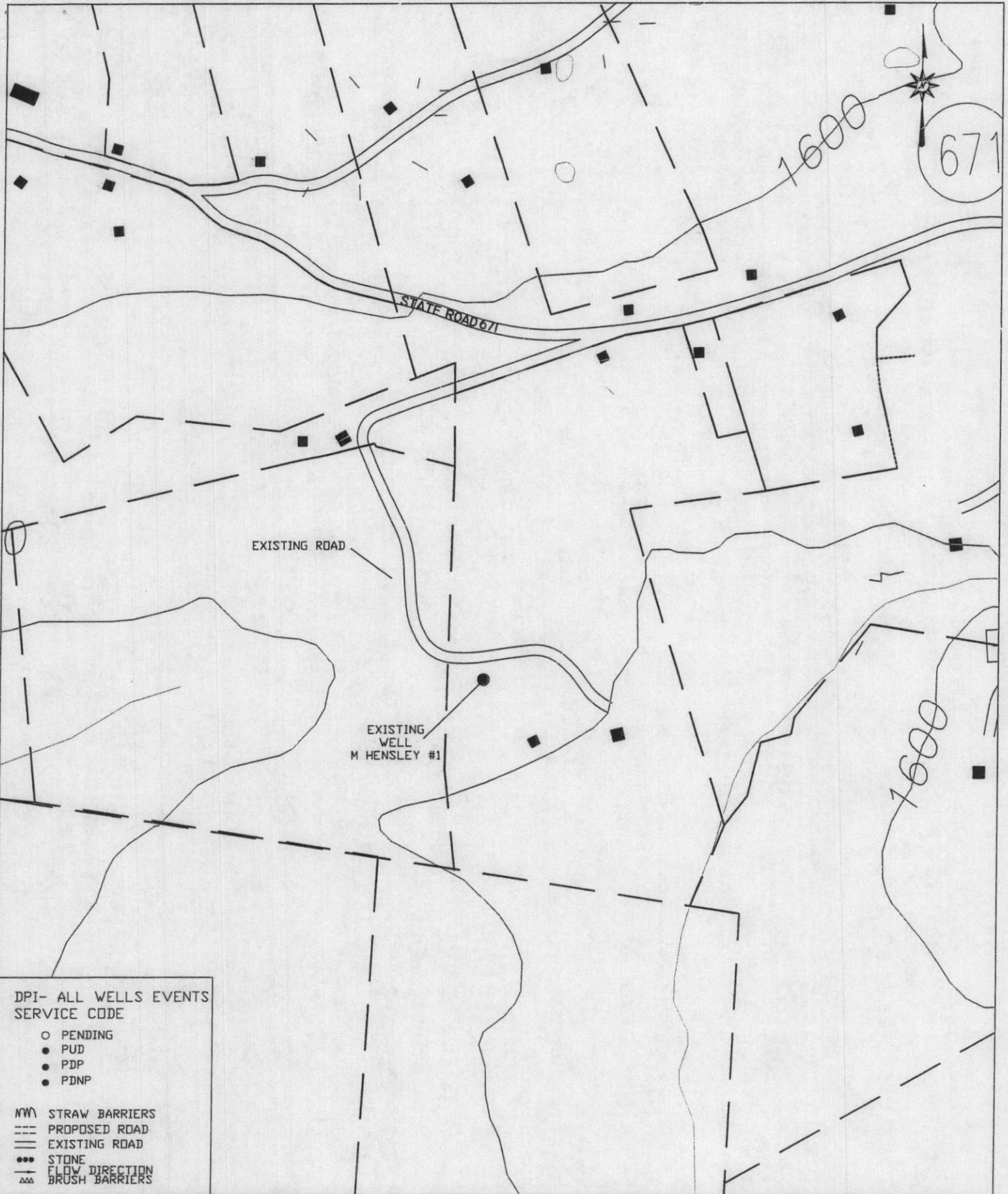
⑫

BRUCE DELPH
1.77 ACRES - FEE
GAS - 2.07 ACRES - 1.837%

**DAUGHERTY PETROLEUM, INC.
M. HENSLEY #1 WELL
WELL PLAT SUPPLEMENT
SHEET 2**

SCALE: 1" = 400'

DATE: 10/25/06



DPI- ALL WELLS EVENTS
SERVICE CODE

- PENDING
- PUD
- PDP
- PDNP

- STRAW BARRIERS
- PROPOSED ROAD
- EXISTING ROAD
- STONE
- FLOW DIRECTION
- BRUSH BARRIERS

WELL M HENSLEY #1

DAUGHERTY PETROLEUM, INC.

SCALE: 1"=400'

LEE COUNTY, VIRGINIA

ROSE HILL QUAD

JUNE 21, 2007

