

VIRGINIA GAS AND OIL BOARD HEARING

HEDLESKY #1 WELL
CLOYD DISTRICT, PULASKI COUNTY
VALLEY BASIN GAS ASSOCIATES

September 5, 1990
ABINGDON, VA 24210

Mr. Wampler The first application to be heard is the Hedleskey well number 1, Pulaski County requested by Valley Basin Gas Associates. Mr. John M. Goldsmith has requested the hearing. Mr. Goldsmith would you come forward. Are there any other parties affected by this hearing in our presence today (none noted).

Mr. Goldsmith was sworn in

Mr. Wampler Mr. Goldsmith if you will please state for the Board the nature of your request and specifically what you expect from the Board and then support that with the facts of your petition.

Mr. Goldsmith Thank you Mr. Chairman. Do you have my submittal of June 6, 1990?

Mr. Wampler Yes we do.

Mr. Goldsmith With the exhibits?

Mr. Wampler We have all of that.

Mr. Goldsmith The objective of this hearing is for the Board to sanction the establishment of the drilling unit in conformance with regulation 2.01.B & E for an exploratory gas well in anticipation deeper than 3,000' which were in effect on April 20, 1990. We will show that we had a prima facie valid lease on the date of the application and the date that the permit was issued and the three affected tracts thus make a voluntary unit. Secondly we will show that operations commenced at the end of the primary term of that lease in accordance with the lease terms therefore giving us a valid lease today. If I could stop now sir and with your indulgence two things, one I forgot to introduce myself. I am John M. Goldsmith, Jr., and I am the founder and chief executive of Valley Basin Gas and if I could take two minutes to show the rationale for two things. One is, why this exploration well is cited in the general area it was and I think when you see the acreage configuration, why we stopped work when we received the conditional order based upon I think some _____ of data at the narrow time frame when the Inspector was looking at this. Rather than going in and asking for executive session to review confidential data, I would...

Mr. Wampler Mr. Goldsmith let me interrupt you just a second and ask Mr. Fulmer to just briefly tell the Board about his decision that you referenced. It is in here but I would like for him to specifically state it.

Mr. Goldsmith It is listed as exhibit B.

Mr. Fulmer The application from Mr. Goldsmith for Valley Basin for the Hedleskey #1 well was submitted and I received objections from a Mr. Barnett that represented the Hall estate. At that time they objected from the fact that the Hall estate had been transferred into a corporation, I believe, a land company, the Lazy W Land and Cattle Company. The

notification was that their objection was from the fact that the notification was not to the appropriate parties at the time. Since the principal involved in the land company and the Mary Hall tract were one in the same, so to speak, I determined that notice was given however determination of ownership and who has a right to object under the Mary Hall tract or the Lazy W Land & Cattle Company was not within my authority to determine. Therefore what I required of Valley Basin along with the permit was a petition to the Board for pooling of those tracts which would be involved in the drainage of that well. That is what you have before you today.

Mr. Goldsmith The concern I have Mr. Chairman is in your notice meaning, if I may be humorous the notice meaning the first word says in paragraph 2.A forced pooling. I hope that you all did not meet before you sent out the notice and decide that is what you are going to do. Our feeling is that we are in compliance with the Board's requirements for a unit and we are asking, begging you to sanction that unit but that all the tracts in that unit have valid leases. Therefore it is a voluntary unit instead of a unit that requires forced pooling to complete. Is that clear. If I could, now that...

Mr. Mason Excuse me, Mr. Chairman, is it, if I may, does part of the determination of this Board in making a determination of whether this is a forced unit excuse me a forced pool or just a unit request depend upon whether or not there are valid leases?

Mr. Goldsmith Yes, when you submit your permit application you traditionally submit evidence that you have a lease.

Mr. Mason I understand that.

Mr. Goldsmith We have submitted evidence, there are three leases affected by this.

Mr. Mason I know but my question I suppose is is there a controversy as to whether or not you have a valid lease?

Mr. Goldsmith There was at the time that Mr. Fulmer issued the permit and if we are here now sir if we could look at Exhibit E, Exhibit E has four letters from Mr. Barnett, the first three are to Mr. Fulmer and the fourth is to our counsel in Radford. I don't know if you want to call these letters the four veils or an onion bit of correspondence because if you read them and consider the time frame that the information was in front of Mr. Fulmer if you read the letter of April 26 Exhibit E.1 it says Mr. Hall received the same papers and it appears the land affected by this permit is not presently owned by Mr. and Mrs. Hall. Then you read the second letter which is dated May 4 and it says they have two objections. One is the affected property is no longer owned by the party named and served with the application and second that he does not have the information. Then the third letter is dated May 7. He talks in the first sentence it is convey and second it is recorded and then third sentence he says by copy of this letter we hereby notify Valley Basin pursuant to paragraph 11 of the subject

lease. So you get into the terms of the lease and I will come back to this. But the fourth letter is the tell-tell and you will notice that the letter of May 7 was received by Mr. Fulmer probably after he had drafted the permit application. Then the fourth letter dated May 14 you read that he states, the first thing about this letter is you will notice it is signed by Mr. Barnett in the capacity of counsel for the Lazy W Land and Cattle Company. Then if you look back to his letter of May 4th, on April 20th he received notification. So the fact that he did not receive notice is a complete sham here. There was not single person either within the corporation or his lawyer to whom we could have given notice. Because this man is the sole shareholder. He was the sole officer. He was the incorporator, registered agent. So they knew about it even before the permit was submitted. I think the impact of the letter of May 14th Exhibit E4 and they say in line five their lease expired. Then in the second paragraph he says that the land affected was not covered by a valid lease after May 9. So at the time the lease was issued in his May 14th letter he is admitting there was a valid lease on the date of issuance. So the question of notice and the existence of a valid lease, we believe that their correspondence demonstrates that they were creating a smoke screen of conveyances. This is the Hall lease of May 10, 1980. What was going on was Mr. Hall was out conveying parcels and in this lease there is a provision, paragraph 11, that says no change in ownership of the land or the rentals shall be binding on the lessee until after notice to the lessee and it has been furnished with a written transfer of assignment or a certified copy thereof. So we were never given notice of this to the Lazy W until the letter of May 7th. But they never complied with the second half of this of giving us an assignment. So this leads to the second part on other portions of our request. How does this Board sanction a lease and protect the correlative rights of the lessee when the lessor is doing everything he can to take it away. He creates a smoke screen in the mind of the inspector. So we are here to do two things. To prove to you that we had three leases that were valid on the date and that this is a voluntary unit and secondly that we did everything that a prudent operator would have done under the circumstances. My purposes for bringing this out is to show you why this well was in a certain area and why that, if going from the well to the specific of our acreage that in those two or three days that if we had stopped, if we had continued work and you had determined that forced pooling was a remedy, this would have meant that we would have had the 30 acres in the unit and not the 1300 that we had paid this man 18,000 dollars for. Therefore we would have had an exploratory well that we had drilled in the middle of hostile acreage. You just don't do that. So I will gladly take all this stuff away.

Mr. Mason May I ask a question? As I understand it it is the responsibility of the petitioner to certify to the Board that in the event of a voluntary pool they are the owner of the lease?

Mr. Goldsmith Right, we had done that.

Mr. Mason I understand that. I guess what my question to you is are you telling us that you are the owner or are you asking us to make a determination that you are?

Mr. Goldsmith There was doubt created in Mr. Fulmer's mind by his second condition. What we are saying is this was a voluntary unit and I don't know how far you, we are presuming with every piece of evidence that we have a valid lease. We are presenting petitioners own correspondence which contradicts his objections and all his objections really are is who is the royalty owners? There is a valid lease and his correspondence says that. Now how far you have to go to cooperate this. I can show you this, I can tell you recording in Pulaski County.

Mr. Mason I understand that. Are you certifying to us as a board that you are a valid lease holder of this acreage or are you asking us to make that determination?

Mr. Goldsmith On the date that the application I am certifying that. Now I have a problem that this date has passed. We stopped operations on that lease because of the condition in this permit. What we are asking is the second, I had not finished with the first part. I am not sure I understand the difference, the distinction of what you are asking.

Mr. Mason I think inherent if you tell us you are the owner or a valid leasee of all this acreage then we can make a determination of whether or not you are entitled to the unit. If in fact you are not the owner and I could be corrected, if you are not and if there is a question of whether or not you are in fact the valid leasee then there is some question as to whether we have the authority to allow a voluntary pooling it would be a forced pooling. It seems to me how it is.

Mr. Wampler I think that is exactly right.

Mr. Goldsmith What you are saying is that any lessor can convey his property and not live up to his lease and come before this Board and say this guy does not have a lease and put you in a position of having to force pool and therefore the balance of his lease that is not in that unit is lost. That is not what you want.

Mr. Mason I am just saying to me it seems we have two procedures. One related to voluntary pooling and one related to forced pooling. Each of which has a set of criteria to justify our jurisdiction. I am trying to ascertain which one of those you are certifying to us that we should go under.

Mr. Goldsmith Voluntary. I am looking at, where is the procedure for voluntary, have I not jumped through a hoop.

Mr. Mason I am not certain. I was going to ask the Board Chairman if we might perhaps discuss this with a representative from the Attorney General's Office for clarification of our jurisdiction.

Mr. Wampler To do that we will have to go into executive session. We will do that now.

Mr. McGlothlin Mr. Chairman, one question before we go into executive session. Has there been any wells drilled on the lease or within the pooling so far?

Mr. Goldsmith We have commenced operations on the lease in the sense of what we have done, our contention is that we have a 45 page permit application on the lease. We have done our survey and between the two days from when the permit was issued we went on the site and began our stability borings. We had drilled five 30' holes on the site and from that day we had our contractor come and determined from these 30' holes that one of our geologic objectives. It told us the kind of drilling configuration to use. Our uncertainty and this is part of what I was going to tell you is this basin has to be drilled to determine the geology. Seismic will not work because of the thrust sheet. The thrust sheet, the plus and minus of the thrust sheet is it is about 1200' they have 90' solution caverns. So the county, Pulaski County is fixed for water for ever and we discovered water for them. It is the gas that is down below that is our objective here but we were trying to find an optimal drilling procedure and we were going to use a rotary rig to get us through the thrust sheet and then core it. What we found in those 30' borings is we are into the red shales and so we were going to do a straight core. We had a bid and were going to use a company from over in West Virginia that has drilled this basin for Appalachian Power and has been able to get good core recovery. But I think what I very quickly wanted to show you was that we had drilled wells at these sites. The Hall well was generally sited in this location and I will use it for drilling reference when I get to the acreage because if you see the cross sections here this is the coal outcrop. Let me start over. This is the Valley Coal, this is Roanoke County over here and you will see the towns of Blacksburg, Christiansburg, Radford, Dublin, Pulaski. You are coming down 81 this way the coal field extend this way. This is the Valley Basin as we call it. Coal outcrops on the north on this side but it is the southern scrimmage that we know nothing about. So this was our discovery well right here. The good news is that the Gas Research Institute has said that this basin has the highest concentration of methane of any coal basin in the United States. The bad news is that we have been unable to get from the wellbore into the coal seams. The washout, the cement, and the technology of getting through cement has eluded us. So our goal is to drill 4500' deep. So you can see the cross sections. This is a 1924 map and it is the only public map of the whole basin. What we were trying to do was to find the shallow to see if this existed and we had some theories and so we were going to do something right here. You will see that the river in the right hand, our acreage position here, now these leases are the Hall leases. This little tip right here that, this tip right here that is the Hedleskey lease. Our position was, I don't know if you can see this cross-section, if this was forced pool and we did not have the benefit of the balance of this lease we would have drilled an exploratory well out here and been isolated. That is why when we received the inspector's decision, what was puzzling to us as recent as yesterday, our counsel was in the courthouse is these conveyances to the Lazy W Company all refer to unrecorded plats. But we had 152 leases in this basin and that provision 11 is in these and we can't go chase, there has to be notice from the lessor to us when they are doing this. You will see that they did not give us notice until the day the permit was issued.

Mr. Wampler O.k. motion that we go into executive session.

Mr. Lepchitz Mr. Chairman, a point of clarification before you do that. Mr. Goldsmith, in looking at your plat you have your well bore located on property owned by Michael Hedleskey, there is no dispute with respect to that lease, right?

Mr. Goldsmith He filed a statement of no objection in the permit.

Mr. Lepchitz So actual notification of the well is not in controversy, the only tract in question in the surveyed plat is Mary Hall tract off on the lower right hand top quadrant?

Mr. Goldsmith Our feeling is that in their letter of May 14th, there are two issues, is there a valid lease at the date of issuance and did operations extend it? Our contention is that Exhibit E-4, that not only and I am sure that the rules of a _____ are not before and included in your procedures, but it is very difficult for a lessor not to be in compliance with his lease and to be arguing that we have not given him notice when he had actual notice anyway. The lawyer was informed on April 10, ten days before it was filed and Mr. Hall refused to meet with me twice as required in his lease to put the site. Now the question you are asking is the site on Hedleskey rather on Hall, we made about five trips to this site and it was decided to put it on Hedleskey because of the drainage on one side. We could put our ponds and we felt it was immaterial to us because of the impact with Statute Section 3.02.A that operation on any portion of the unit effects equally all parts in that unit. So we were in an area we had to be. We chose the site for the site specific and environmental considerations and then this smoke screen came up with the veils about that we don't own it. In letter Exhibit E-4, they basically admit that there was a valid lease up until about two days after the permit was issued so then we get to the whole question of the validity of operations to extend that lease.

Mr. McGlothlin Mr. Chairman, I would like to request that the question and answer be struck from the record. A member from the Attorney General's Office is not a member of this Board and therefore, I do not think he has a right to ask questions of witnesses.

Mr. Wampler I have a motion before me to go into executive session do I have a second to that motion. The motion has been second, all in favor say I (all in favor) opposed like same (no one opposed). What we have to do in order to go into executive session in a closed meeting is give a citation here of Section 2.1-344 of the Virginia Freedom of Information Act. Specifically the section that we have been requested by Mr. Mason as to confer with counsel under Item 7 of that. While we are in executive session I will remind the Board that we can only ask those questions relevant to item 7 which is consultation with legal council seeking legal advise regarding this case and then we come back in I will do a roll call of each member to certify that that is all we talked about while we were in executive session. We are now in executive session. A motion has been made to come out of executive session with a second. All in favor signify by

saying I (all in favor) opposed likewise (none). We are now out of executive session. I will do a roll call vote. We went into executive session to have consultation with legal counsel regarding this case in accordance with section 2.1-344 Section A-7 specifically of the Virginia Freedom of Information Act. I will ask verification by individual board members that that is all we discussed. (Roll call taken with all board members present confirming).

Mr. Wampler Mr. Goldsmith, I would ask you if there is any summary. We have read the documents and we have heard the presentation. Do you have any summary you would like to give the Board?

Mr. Goldsmith Yes sir. I think, on page 4 of the presentation, we had asked the Board basically four items. I think the emphasis in paragraph 4A I left out the word voluntary and I should have put the second part of that first. But I think our primary focus here is to have you sanction this voluntary unit, the plat and that we have three leases. But to do that you have to determine that there was proper notice and the questions of are you going to accept my word and their word from Exhibit E-4 that this is a valid lease and then we get the question of what happens because we stopped. We want to resume operations on this permit. We believe that we have the right to do so under continued operations and that we have done everything a prudent operator would do. We have gained geologic data from the five holes that we drilled to thirty feet and we stopped the day that we got the second condition. But lastly is that we would like the Board, there are a number of questions come up, why were we running this thing so close to May 10th? Well, we were a week late because of our surveyors. Why did we stop then? I think I have showed you with the acreage maps it would have been imprudent for us to continue under the threat of forced pooling meaning we did not have a valid lease. We would have drilled basically a free exploration well for hostile acreage is what it would have amounted to and also it would have meant we would have use of 37 acres as opposed to the 1300 we paid for. But lastly is where we go from here today if you sanction this lease. We are asking that you authorize the establishment of an escrow account into which we can pay rentals and royalties until the royalty ownership is determined. This lease is made up of five parcels and our lawyers in the courthouse yesterday and there are unrecorded assignments but this is a valid lease as they admit in Exhibit E-4. So my feeling is the Board to preserve the correlative rights of a lessee and the integrity of leases, oil and gas leases, that escrowing is the fairest remedy and certainly it is within your authority and it is the most prevalent remedy in your specific powers of things to do. Certainly in your new coalbed methane powers you have the right to escrow where there is uncertainty of the ownership. Here you have narrowed your choices down but the uncertainty is what they claim. They raised the uncertainty, the smoke screen and attempted to confuse your inspector, deliberately. So we ask for the remedies on page four of the Board. Is that brief enough?

Mr. Wampler Yes, I think that this chair is going to view that we could uphold the notices as being proper. We do not have, we have determined, jurisdiction to resolve lease disputes and we believe that one exists in this case. We understand and sympathize with your position that

you have raised and believe that we could grant the unit if it pleases the Board and condition that upon resolution of this dispute in a court of competent jurisdiction. So this unit would be granted pending that resolution.

Mr. Goldsmith I think there Exhibit E-4 admits there is a valid lease. You read the old section 301 for you to make the determinations is this a voluntary or forced pooling situation is easier than the determination of is this a male or a female, is this a dog or a cat. We have produced evidence of our leases and it is not a dispute as to the lease it is a dispute of their failure to comply with the lease as to who is the royalty owner. That can be solved with escrowing. The lease validity is not the question. There is no question in their correspondence that this is a lease on that piece of land. The lease exists, they don't question that. It is just what they were doing is trying to create their own smoke screen that in their third letter when they say we give notice, oh this is our first notice oh by the way, to preserve their rights. So there is no question, the validity of the lease and our right to operate on that lease was not questioned. After May 9th it is. But on the date of issuance and so what we are asking is that there is no proof here that our right to operate on that has been questioned. They don't raise that in the exhibits before Mr. Fulmer. Assuming that the letters I have are the same ones that he has. I think that this is unfair to us to let a notice question and a smoke screen over notice to damage the validity of a lease. That is very injurious to our correlative rights because this lease existed on the date and in their letter of May 14th they say so. It is just a question of who is the royalty owner. Who is entitled to the 1/8th? Who is entitled to the rentals on the five tracts in that lease? The guy has been selling them off since 1986. Now our remedy against him for damages in this but I think your role in sanctioning this lease, if you don't sanction this lease since there is nothing in the record that they say there is not a valid lease on this acreage, there is no contest on that. The only thing they contest is the notice to the royalty owner. If you get over the notice hurdle but you can't say this is a valid lease then that is very injurious to us.

Mr. Wampler Any further discussion or questions? Thank you Mr. Goldsmith.

Mr. Goldsmith I guess sir, I understand you have 30 days to issue an order, so I won't sleep for 30 days.

Mr. Wampler Sorry.

Mr. Goldsmith Thank you all.

Mr. Wampler Thank you.

DEPARTMENT OF MINES, MINERALS AND ENERGY

VIRGINIA GAS AND OIL BOARD

FORCED POOLINGS

SEPTEMBER 5 AND 6, 1990

DEPARTMENT OF MINES, MINERALS AND ENERGY
VIRGINIA GAS AND OIL BOARD

The Virginia Gas and Oil Board will conduct meetings commencing each day at 9 a.m. on Wednesday and Thursday, September 5th and 6th, 1990 in the Board of Supervisor's Meeting Room in the Washington County Administration Building, 205 Academy Drive, Abingdon, Virginia. The following matters will be heard:

1. The board will consider the adoption of emergency regulations pursuant to Section 45.1-361.15 of the Code of Virginia.
2. Pursuant to Section 45.1-304 of the Oil and Gas Act of 1982 the Board will consider the following petitions:
 - A. Forced pooling for the Hedlesky #1 Well, Cloyd District, Pulaski County as requested by Valley Basin Gas Associates, operator
 - B. Establishment of drilling unit and forced pooling unit for the G-4A Well, Gladeville District, Wise County as requested by Amvest Oil & Gas, Inc.
 - C. Establishment of drilling unit and forced pooling unit for the G-12 Well, Gladeville District, Wise County as requested by Amvest Oil & Gas, Inc.
 - D. Establishment of drilling unit and forced pooling unit for the G-10 Well, Gladeville District, Wise County as requested by Amvest Oil & Gas, Inc.
 - E. Establishment of drilling unit and forced pooling unit for the G-14 Well, Gladeville District, Wise County as requested by Amvest Oil & Gas, Inc.
 - F. Establishment of drilling unit and forced pooling unit for the A-30 Well, Garden District, Buchanan County as requested by Oxy USA, Inc.
 - G. Establishment of drilling unit and forced pooling unit for the B-25 Well, Garden District, Buchanan County as requested by Oxy USA, Inc.
 - H. Establishment of drilling unit and forced pooling unit for the C-24 Well, Garden District, Buchanan County as requested by Oxy USA, Inc.
 - I. Establishment of drilling unit and forced pooling unit for the C-25 Well, Garden District, Buchanan County as requested by Oxy USA, Inc.

2. Pursuant to Section 45.1-361.19 of the Virginia Gas and Oil Act the Board will consider the following petitions:
 - A. Establishment of drilling unit and forced pooling for the EH-31 Well, Garden District, Buchanan County as requested by Edwards & Harding Petroleum Company.
 - B. Establishment of drilling unit and forced pooling for the EH-36 Well, Garden District, Buchanan County as requested by Edwards & Harding Petroleum Company.
 - C. Establishment of drilling unit and forced pooling for the AA-10 Well, South Grundy District, Buchanan County as requested by Oxy USA, Inc.
 - D. Establishment of drilling unit and forced pooling for the C-38 Well, Garden District, Buchanan County as requested by Oxy USA, Inc.
 - E. Establishment of drilling unit and forced pooling for the X-10 Well, South Grundy District, Buchanan County as requested by Oxy USA, Inc.
 - F. Establishment of drilling unit and forced pooling for the E-25 Well, Garden District, Buchanan County as requested by Oxy USA, Inc.
 - G. Establishment of drilling unit and forced pooling for the BB-10 Well, South Grundy District, Buchanan County as requested by Oxy USA, Inc.
 - H. Establishment of drilling unit and forced pooling for the X-11 Well, South Grundy District, Buchanan County as requested by Oxy USA, Inc.

VALLEY BASIN GAS ASSOCIATES

BOX 892 • 1067 NORWOOD STREET • RADFORD, VIRGINIA 24141 703/639-3953

June 6, 1990

Virginia Oil and Gas Conservation Board
Post Office Box 1416
Abingdon, Virginia 24210

Re: **Application for Hearing**
Hedlesky et al. #1 Permit

Gentlemen:

This application for a hearing is filed in response to the conditional permit issued May 8, 1990, for the Hedlesky et al. #1 proposed well and the letter dated May 8 from Inspector Fulmer to Paul Barnett. (Attachments A and B, respectively). All references to the Code of Virginia are to Title 45.1, Chapter 22 (the Virginia Oil and Gas Act), Sections 45.1-286 et seq.

1. **Permit Intent:** It is the applicant's intention to establish compliance with Virginia Oil and Gas Regulations 2.01 (b)(2) and (e) for exploratory wells with a 1,320 foot protective acreage radius "unit" and seeks Board sanction of this provisional designation under 301(B) with the three affected tracts being pooled voluntarily by lease consent in conformance with and as impacted by 302(A). The applicant concurs with the first condition of the permit, that the applicant come to the Board again before commencing production. It has been the applicant's intention, dependent on the results obtained from this exploratory well, to request a configuration of contiguous provisional drilling units for additional wells, or for some form of unitization to permit a cluster of coalbed methane test wells. Depth and permeability cannot be predicted at this time.

The 1,320 foot radius includes three lessors or royalty owners under three separate leases. The permit plat with the 1,320 foot radius superimposed (Attachment C) shows their relative positions. The Hedlesky and Ostendorf tracts are represented by statements of non-objection included with the permit application. The third parcel involved is the one identified by the surveyor as "Mary Hall," from tax records.

2. **The Hall Lease of May 10, 1980 and Affected Tracts:** A copy of this Lease is identified as Attachment D. This lease encompassed 1,307 acres of which 942 acres in three tracts were in Pulaski County and the balance in Montgomery County. The parcel included in the Hedlesky permit is referred to for tax map identification as "Map, 27[(1)]Par. 21, 140 Ac."

Virginia Oil and Gas Conservation Board

Page 2

June 6, 1990

The Lessor warranted title in Paragraph 13 and in the last sentence of Paragraph 11 agreed,

"...no change in ownership in the land or in the rentals or royalties shall be binding on the Lessee until after notice to the Lessee and it has been furnished with a written transfer or assignment or a certified copy thereof."

Attached for Board review are four letters from Paul M. Barnett, Esquire, counsel to the Halls. These are Attachments E-1 through E-4. In his letter of May 7, 1990 (E-3), Mr. Barnett gave the first written notice to Valley Basin of what we now know was a series of five intra-family conveyances in December 1986, by which the Halls' Pulaski County holdings were allocated between Mary Pat Hall and Lazy W Land and Cattle Co. He thus acknowledges the issue is one of a nominal designation of royalty owner between inter-related parties and not a title dispute.

We are aware there have been other "off-conveyances" from lands subject to the lease-but not affected by this permit-and, at the time of lease renewal in 1989, unsuccessfully sought clarification from Mr. Hall. There has been no attempt by the Halls to comply with the last portion of the above lease sentence. To support our contention their conduct has in no way given Valley Basin reason to believe they were not continuing to act as Lessors or "Owners" and they had full knowledge or "notice" of what we were planning and the permit, we offer the following:

A. Lazy W. was incorporated May 16, 1985. Its initial registered agent was William W. Hall, and the corporation's registered office is 2107 Ramble Road, Blacksburg, Virginia 24060. This is also the address of Mr. and Mrs. Hall. As recently as June 5, 1990, Mr. Hall continues to be identified as the registered agent of the corporation. The president of the corporation is also William W. Hall. He is also its secretary-treasurer, sole director and was the initial sole shareholder of the corporation in its Articles of Incorporation and more recent Annual Report (Attachments F and G).

B. For lease years 1986, 1987, 1988, and 1989, the Halls personally cashed the delay rental checks written to their order from Valley Basin and its predecessors. Copies of the cancelled checks and invoices of Valley Basin's predecessor showing them as the payees of the rental are Attachments H and I. Over the course of the primary lease term, total compensation has been paid to the Halls in the amount of \$18,298.

Virginia Oil and Gas Conservation Board

Page 3

June 6, 1990

C. Provisions on Page 3 of the 1980 Lease (Attachment D-3) reserves to the Lessor the right to approve well locations and roads. On March 19, 1990, and April 7, 1990, I telephoned Mr. Hall to discuss extension of the Lease and siting of what is now the Hedlesky et al. #1 location. On both occasions, Mr. Hall refused a meeting.

D. Presumably as a consequence of my call of April 7 to Mr. Hall, Mr. Hall's attorney, Paul Barnett, thereafter called officials of the Oil and Gas Office and the Pulaski County Engineer, seeking information about the status of the permit application. Barry Anderson, for the applicant, called Mr. Barnett April 10 and reviewed the matter with him. A permit application was hand delivered to Mr. Barnett on April 20, 1990, and Mr. Hall signed a certified mail receipt April 24, 1990, for delivery of notice to Mr. and Mrs. Hall at 2107 Ramble Road, Blacksburg, Virginia 24060.

E. Pulaski County tax assessments for the years 1986, 1987, 1988, and 1989 were billed to the Halls. Attachment K shows the 1989 assessment to Mary Hall at the lease address.

This factual review demonstrates that the "owners" affected by the Hedlesky permit were, in fact, notified of the applicant's proceedings, despite the contrary assertions of counsel to both the Halls and Lazy W.

3. Operations: Paragraph 2 of the Hall Lease is the traditional oil and gas lease habendum clause:

It is agreed...primary term of ten years from this date and as long thereafter as operations for oil and gas are being conducted on the premises, or oil and gas is found in paying quantities thereon....

Applicant can demonstrate (subject to the maintenance of confidentiality) that the proposed Hedlesky well has the highest geologic priority as an objective. Further, the choice of the specific site balanced many issues. Among them were being within the geologic priority area, ease and cost of all weather access, water considerations for access to county water and optimum surface conditions for retention ponds as well as acreage maintenance considerations.

Following the conversation with Mr. Hall on April 7, Valley Basin personnel began a thorough review of all sites within the target area and decided upon the Hedlesky site which includes the Hall acreage within the exploratory protective acreage radius "unit" of 1,320 feet. Detailed planning

June 6, 1990

was begun with the surveyor, staking of the location, a soils and erosion expert, and the applicant's dirt contractor and various drilling (core and rotary) contractors. Because of sink holes encountered at previous sites, we have routinely drilled site stability holes approximately 30 feet deep to see if any sink holes might affect the drill platform once the heavy equipment is there. Five such holes were drilled May 8 and 9 on the site before receiving the written permit with its two conditions. The H. T. Bowling Construction Co., our dirt contractor and affiliate, was on standby to begin preparation of the pad and uppermost ponds when the conditions were received. Invoices for this work are Attachment L.

Due to the economic uncertainty which the second condition creates to the working interest, Valley Basin believes it behaved prudently in ceasing any further action until this application could be filed.

This review of the facts demonstrates that Valley Basin has a valid lease and has conducted bona fide operations within the scope of the Hall lease to the extent of a reasonably prudent operator under the circumstances, notwithstanding Hall's breach of Paragraph 11 and the location provisions, and his intentional efforts to delay. See Attachment L as to the general trend of oil and gas law in these circumstances.

4. Action Requested by the Board:

a) Determine that at the time the permit application was filed and the permit issued, Valley Basin had a valid lease on the Hall acreage and had complied with Regulations 2.01(b)(2) and (e) for the protective acreage radius unit thus conforming to Sections 301(B) and 302(A).

b) Determine that the Halls and Lazy W Land and Cattle Co. had notice of the permit and that the Halls have yet to comply with Paragraph 11 of the lease.

c) Establish an escrow account for the deposit by Valley Basin of rentals and any royalties until royalty allocation of the entire Hall lease of 1,307 acres can be established in accordance with Paragraph 11 of the lease.

d) Determine that Valley Basin has conducted operations to the extent of a reasonably prudent operator during the primary term ending May 10 and so by its operations has extended the lease in accordance with Paragraph 2, thus allowing Valley Basin to resume site operations.

Virginia Oil and Gas Conservation Board

Page 5

June 6, 1990

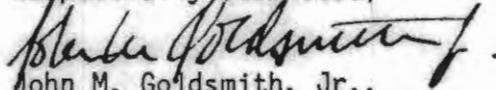
5. **Jurisdiction of the Board:** Assuming for the sake of argument that Mr. Hall has correctly asserted that title to affected lands formerly held by the Halls personally is now in Lazy W., there is still no title dispute. Lazy W. is the alter-ego of Mr. Hall and can easily be substituted as a royalty owner along with others. The initiative rests with the Halls, however. We believe that the issues presented to the Board are, in light of its expertise, relatively simple and factually oriented and appropriate for determination by the Board, with its specialized understanding.

The Board is a relatively new administrative body to the Commonwealth but follows the very rich tradition of other oil and gas producing states which earlier adopted the IOCC model statute. Our statute, at 296(D), refers to the Board's "general authority" and the "specific authority" granted. Section 220 mandates that both be liberally construed mandated Section 290. "General authority" is not referred to again but, to a large degree, is found in the phrase-and policy goal at 299(A)(3)-"correlative rights" whose definition, at 288, turns on the words "fair and reasonable" and "just and equitable."

"Specific authority" focuses on pooling with the concept of unit flexibility as the data evolves from exploratory protection in the regulations to provisional units than more rigid units in 301(B). The crucial mechanics of pooling and the consequences of Board action depend upon the existence of a lease, 302 and 322. Examination of "leases...and taking such actions as appear reasonably necessary" at 296(D)(5) would allow Board cognizance of a lease and its operative provisions in order that appropriate Board action could be taken. The Board's power to ..."decide the objections" at 321(B) and ..."decide the claims" at 322(B) arose originally in the context of the conflict between coal operator and gas operator but subsequent action by the Legislature to erode any distinction between areas of the Commonwealth for authority purposes would leave these routine administrative powers intact. Escrowing is an action the Board is specifically authorized but not limited to use in certain circumstances, like plugging in 345 and unknown parties in 322(G), and in the Emergency Act for conflicting claims of ownership (here Hall vs. Lazy W. and others subsequent purchasers, of the royalty interest). See 45.1-357.4(F) (sen.381).

The relief sought by applicant is within the specific authority granted to the Board and conforms as well to the general authority goals. Applicant requests a Board hearing and relief in accordance with this application.

Respectfully submitted,



John M. Goldsmith, Jr.,
Chief Executive Officer

JMGjr: jc

cc: Paul M. Barnett, Esquire

VALLEY BASIN GAS ASSOCIATES

BOX 892 • 1067 NORWOOD STREET • RADFORD, VIRGINIA 24141 703/639-3953

Attachments to Application for Hearing, VOGCB June 6, 1990

- A. Hedlesky et al. #1 Permit of May 8, 1990
- B. Inspector Fulmer letter to Paul M. Barnett, Esq. May 8
- C. 1320' protective acreage radius unit, Hedlesky permit
- D. Oil and Gas Lease: W. W. and Mary Pat Hall, May 10, 1980
- E. Correspondence from Paul M. Barnett, Esq.
April 26(E-1); May 4(E-2); May 7(E-3); May 14(E-4)
- F. Annual Report to Virginia SCC, Lazy W Land & Cattle Co.
- G. U.S. Post Office receipt to Mr. & Mrs. Hall, dated April 24
- H. Front and rear of rental checks to Halls, 1988 & 1989
- I. Sun invoices for reimbursement showing payee-lessee, 1986&87
- J. Telephone receipts showing calls to W.W. Hall 3/19 & 4/7
- K. 1989 Pulaski County tax assessment for parcel 27-1-21
- L. Invoices for site planning, permitting and 5 stability holes
- M. Excerpt from Lowe, John S., Oil and Gas Law, West Pub, 5/83

*RA Matson
R+2
Box 182
Radford
VA
24084*



O GENE DASHNER
DIRECTOR

COMMONWEALTH of VIRGINIA

Department of Mines, Minerals and Energy

Division of Gas and Oil

P. O. Box 1416

Abingdon, Virginia 24210

(703) 628-8115

Byron T. Fulmer
State Oil and Gas Inspector

May 8, 1990

Mr. John Goldsmith
Valley Basin Gas Associates
P.O. Box 892
Radford, Virginia 24141

Dear Mr. Goldsmith:

Please find attached Permit #1905 for the drilling of the Hedlesky #1 in the Cloyd District of Pulaski County. This permit is being issued under the following terms.

Valley Basin Gas Associates shall be allowed under Permit #1905 to drill and test the Hedlesky #1 under the terms of Emergency Order CBM-1-30790 issued April 6, 1990, to which the requirements pertain to wells drilled for Coalbed Methane. Valley Basin Gas Associates is prohibited from producing gas from the Hedlesky #1 Well until such time that an Order from the Board shall allow for such production to commence. Valley Basin Gas Associates shall be required to file with the Board, within thirty (30) days from the date of issuance of this permit, a petition for a drilling unit for the Hedlesky #1 Well and to pool the acreage within the unit if such requirement is applicable.

In addition the following conditions are also placed on Permit #1905:

1. All laws, regulations, policies and procedures adopted by this Division pertaining to gas operations within the Commonwealth must be followed.
2. The operations plan submitted with the application must be followed. Deviation from the plan must receive prior approval from an Inspector with this Division.

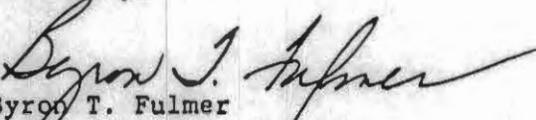
Attach. A-1

Mr. John Goldsmith
May 8, 1990
Page -2-

3. Regulation 4.01 requires that this office be notified at least 48 hours prior to the commencement of well work activity. A telephone call will be considered sufficient notice.

Should you have any questions, do not hesitate to call.

Sincerely,


Byron T. Fulmer
State Oil & Gas Inspector

BTF:dld

cc: Benny Wampler
Mike Lepchitz

A-2



Commonwealth of Virginia
Department of Mines, Minerals and Energy
DIVISION OF GAS AND OIL
Abingdon, Virginia

Permit No. 1405
File No. PU-10
Well Name Hedlesky #1
API No. 45 - 155-21405

WELL WORK PERMIT

This is to certify that on this date a well work permit was issued to Valley Basin Gas Associates
whose address is Box 892, Radford, Virginia

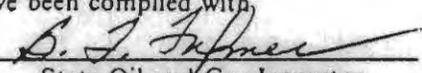
for the following operations: Drill / Deepen / Redrill / Stimulate / Plug off old formation / Perforate new formation / Plug / Replug / Pipelines This well is located in the
Cloyd District County of Pulaski

This well work permit is issued in Compliance with Title 45.1, Chapter 22, Code of Virginia and the regulations promulgated under Chapter 22. Permittee is hereby authorized to conduct oil and gas operations in accordance with the requirements, conditions and limitations set forth in this permit, and all plans approved for this permit. This permit is valid only for those areas approved in the permit including but not limited to access road, well site area, and pipeline right of way.

THIS PERMIT IS NOT TRANSFERABLE

Issued this 8th day of May 19 90 and shall remain in effect until such time as Title 45.1, Chapter 22 and the regulations promulgated there under have been complied with.

Fee Paid \$100


State Oil and Gas Inspector



GENERAL DIRECTOR

COMMONWEALTH of VIRGINIA

Department of Mines, Minerals and Energy

Division of Gas and Oil

P. O. Box 1-116

Abingdon, Virginia 24210

(703) 628-8115

Byron T. Fulmer

State Oil and Gas Inspector

May 8, 1990

Mr. Paul M. Barnett
Crowgey & Barnett
P.O. Box 650
Christiansburg, VA 24073

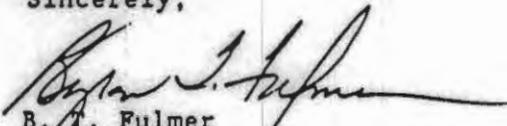
Dear Mr. Barnett:

Thank you for your recent letter regarding the application for the Hedlesky #1 by Valley Basin Gas Associates. From the records submitted by both you and Valley Basin Gas Associates, it is clear that the ownership of the Mary Hall tract is clouded and is a matter for the judicial system and is not within the realm of the authority vested to the Inspector or the Oil and Gas Conservation Board under Title 45.1, Chapter 22 of the Virginia Oil and Gas Act, to determine ownership of the property. However the drilling of the Hedlesky #1 Well may result in drainage of the adjacent property known as the Mary Hall Tract.

Therefore, I have issued a permit to Valley Basin Gas Associates for only the drilling of the well and testing the potential thereof. The permit has been conditioned such that Valley Basin Gas Associates are required to file with the Board for a unit covering the Hedlesky #1 Well. The petition is to be filed within thirty (30) days of the issuance of the permit.

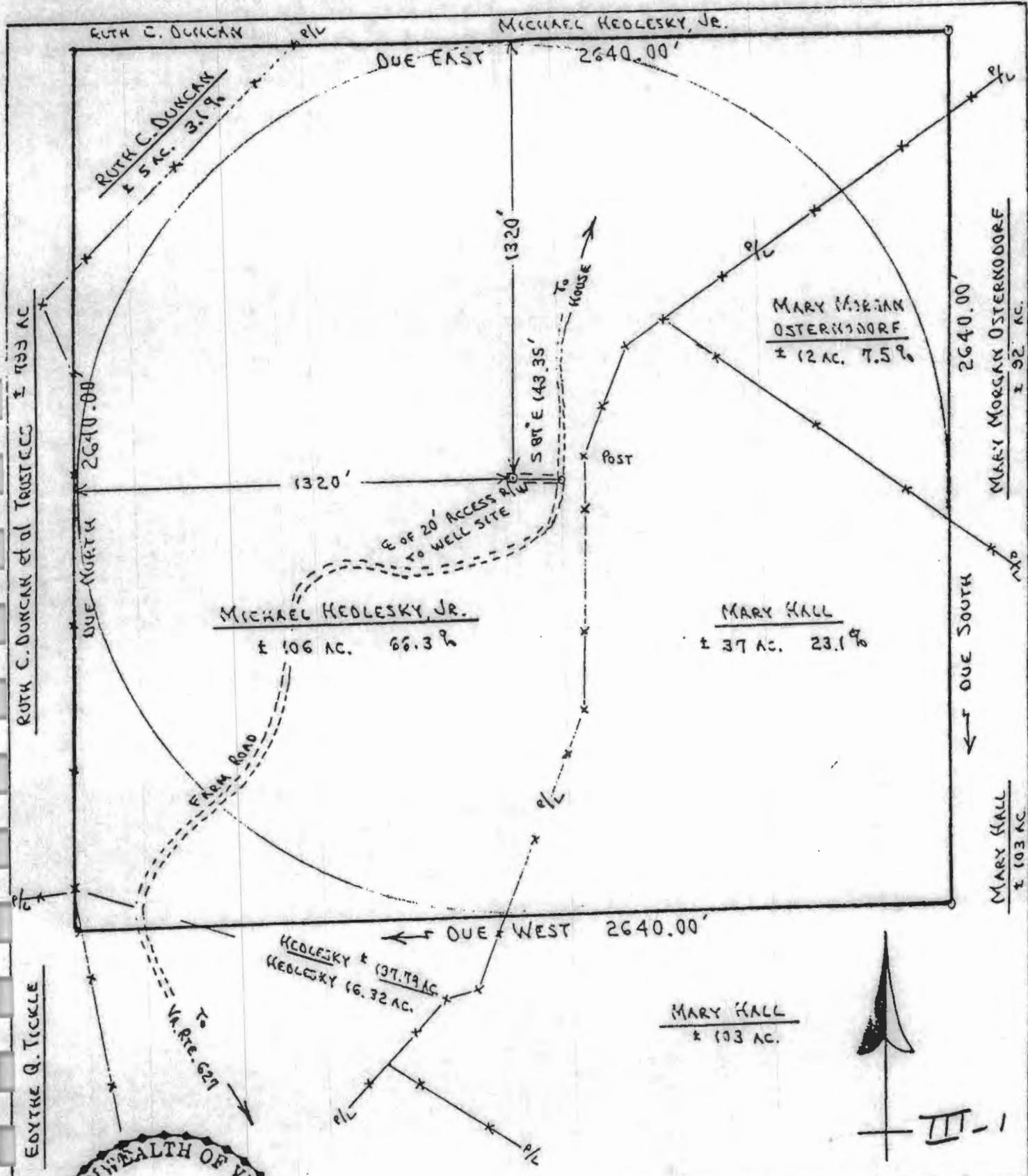
If I can be of further assistance, please feel free to contact my office.

Sincerely,


B. T. Fulmer
State Oil and Gas Inspector

cc: Valley Basin Gas Associates
Benny Wampler, Chairman Oil and Gas Conservation Board
Mike Lephchitz, Assistant Attorney General

B



COMMONWEALTH OF VIRGINIA
 NEAL H. WIRT
 No. 1294
 LAND SURVEYOR

By
 Neal H. Wirt
 P. O. Box 330
 Pulaski, Va. 24301

VALLEY BASIN GAS ASSOCIATES
 HEOLSKY # 1
 PULASKI COUNTY, VIRGINIA
 SCALE: 1" = 400' APR. 18, 1990



Map, 19 ((1)) Par. 19, 553ac. Pulaski Co. Map, 67 ((A)) 191, 132ac. Par. 186, 83ac.
Map, 20 ((1)) Par. 1, 249ac. Pulaski Co. Map, 347-Par. 101-133 138ac. Par. 36, 2ac.
Map, 27 ((1)) Par. 21, 140ac. Oil And Gas Lease Montgomery Co.

ORIGINAL PAPERS

AGREEMENT, made and entered into this 10th day of May A.D. 19 80

by and between W.W.Hall and wife Mary Pat Hall
Drawer D.
Belspring, Virginia 24058

Lease # 975

713160

partly of the first part, hereinafter called Lessor (whether one or more), and second part, hereinafter called Lessee;

1. WITNESSETH: That the Lessor, in consideration of the sum of One Dollar, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, does hereby grant unto the Lessee all of the oil and gas and all of the constituents of either in and under the land hereinafter described, together with the exclusive right to drill for, produce and market oil and gas and their constituents and of storing gas of any kind in any formation underlying the land, and also the right to enter thereon at all times for the purpose of drilling and operating for oil, gas and water, laying pipe lines, erecting tanks, machinery, powers and structures, and to possess, use, and occupy so much of said premises as is necessary and convenient for said purposes and to convey the above named products therefrom or thereto by pipelines or other-

wise; said land being situate in ~~Clay~~ ^{Dist. of} ~~County~~ ^{Pulaski} ~~County~~ ^{Montgomery} of ~~Clay~~ ^{Pulaski} ~~County~~ ^{Montgomery}

State of ~~Virginia~~ ^{Virginia}, and described as follows: Bounded on the

NORTH by lands of ~~Tr. I 802ac. G. Duncan, Warden~~ ^{Tr. I 802ac. G. Duncan, Warden} ~~Tr. II 140 Morgan Heirs~~ ^{Tr. II 140 Morgan Heirs}

EAST by lands of ~~R. Miller~~ ^{R. Miller} ~~L. Kilby~~ ^{L. Kilby}

SOUTH by lands of ~~Morgan Hiers~~ ^{Morgan Hiers} ~~J. Evans~~ ^{J. Evans}

WEST by lands of ~~J. Evans~~ ^{J. Evans} ~~J. Evans~~ ^{J. Evans}

Containing 1307 acres, more or less and being the same land conveyed to lessor by

by deed dated _____ and

recorded in said county records in _____ Book No. _____ Page _____

2. It is agreed that this lease shall remain in force for a primary term of ten years from this date and as long thereafter as operations for oil or gas are being conducted on the premises, or oil or gas is found in paying quantities thereon, or any formation underlying the herein leased land is used for storage of gas as provided under paragraph 7 hereof.

3. The Lessee shall deliver to the credit of the Lessor free of cost, in the pipe line to which he may connect his wells, the equal one-eighth (1/8) part of all oil produced and saved from the leased premises, and shall pay Lessor one eighth (1/8) of the proceeds for all gas and casing head gas produced and sold from the premises, payable monthly; provided, Lessee shall pay Lessor a royalty at the rate of Fifty Dollars per year on each gas well while, through lack of market, gas therefrom is not sold or used off the premises, and while said royalty is so paid, said well shall be held to be a paying well under paragraph 2 hereof.

4. The Lessee shall commence operations for a well on the premises on or before May 10th, 19 81, unless Lessee pays there-

after a rental of \$1,307.00 for each 12 months that operations are delayed from the time above

mentioned. The consideration first recited herein, the down payment, shall cover not only the privilege granted to the date when first said rental is payable as aforesaid, but also the Lessee's option of extending that period as aforesaid, and any and all other rights conferred. The drilling of a non-productive well shall be accepted by the Lessor in lieu of delay rental for a period of one year after its completion, and following the exhaustion or abandonment of all wells the Lessee shall have the right for a period of one year to resume the payment of delay rental or commence operations for another well. Upon the resumption of payment of rentals the provisions hereof governing such payment and the effect thereof shall continue in force as though they had not been interrupted.

5. All moneys coming due hereunder shall be paid or tendered to Lessor

direct, or by check payable to his (or her) order mailed to above address

and no default shall be declared against the Lessee by the Lessor for failure of the Lessee to make any payment or perform any conditions provided for herein unless the Lessee shall refuse or neglect to pay or perform the same for ten days after having received written notice by registered mail from the Lessor of his intention to declare such default.

6. Lessor reserves 200,000 cubic feet of gas per annum for domestic use, to be taken through his own appliances at any producing gas well, and agrees to pay Lessee a fair domestic rate for any gas used in excess thereof. Lessor further covenants and agrees that his taking and use of gas shall be wholly at his own risk, the Lessee not to be held liable for any accident or damage caused thereby, nor shall Lessee be liable for any shortage or failure in the supply of gas for said domestic use.

7. Lessee shall have the right to use any formation underlying the leased premises for the storage of gas and shall have all rights and rights-of-way necessary to store and produce such stored gas. As full payment for such storage rights, the Lessee shall pay to the Lessor a rental at the rate of Two Dollars (\$2.00) per acre per year, while the premises are so used, and so long as the storage payment is made, all provisions of this lease shall remain in full effect.

8. Lessor further grants to the Lessee, his heirs and assigns, the right to unitize this lease with other leases to form a drilling unit or units according to the rules and regulations which may be adopted for the proper development and conservation of the field. In the event this lease is so unitized, the Lessor agrees to accept, in lieu of the royalty hereinbefore recited, such proportion of the royalty above provided, as the acreage covered by this lease bears to the total acreage comprising the unit.

9. If said Lessor owns a less interest in the above described land than the undivided fee simple estate therein, then the royalties and rentals herein provided shall be paid the Lessor only in the proportion which his interest bears to the whole and undivided fee. 500ft.

10. No well may be drilled nearer than 200 feet to the house or barn now on said premises without the written consent of Lessor. Lessee shall have and enjoy all rights and privileges necessary and convenient for the proper use and development of this lease and shall have the right to use, free of cost, gas, oil and water produced on said land for its operations thereon, except water from wells of Lessor. Lessee shall also have the right at any time to remove all or any part of the machinery, fixtures or structures placed on said premises, including the right to draw and remove casing. Lessee shall pay for damages caused by its operations to growing crops on said lands, and, when requested by Lessor, shall bury its pipe lines below plow depth.

11. The interest or estate of either party hereto may be assigned, the privilege of assigning in whole or in part being expressly allowed. In event this lease shall be assigned as to any part or parts of the above described land and the assignee or assignees of such part or parts shall fail or make default in the payment of the proportionate part of the rents due from him or them, such default shall not operate to defeat or affect this lease insofar as it covers a part of parts of said land upon which the said Lessee or any assignee thereof shall make due payment of said rental. No change of ownership in the land or in the rentals or royalties shall be binding on the Lessee until after notice to the Lessee and it has been furnished with a written transfer or assignment or a certified copy thereof.

12. At any time, Lessee, its successors or assigns, shall have the right to surrender this lease or any part thereof for cancellation, after which all payments and liabilities hereunder thereafter shall cease and determine, and if the whole is surrendered, then this lease shall become absolutely null and void. This surrender may be made to the Lessor, or if more than one Lessor, then to any one of them, or to the heirs or assigns of any one of them by delivery of the duly executed surrender thereof in person or by mail addressed to the post office address of such person, or by recording a duly executed surrender thereof in the Recorder's office of the County in which the land is located.

13. Lessor hereby warrants and agrees to defend the title to the land herein described and agrees that the Lessee or its option may pay, discharge or redeem any taxes, mortgages, or other liens existing, levied, or assessed on or against the above described lands, and in event it exercises such option, it shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying any royalty or rentals accruing hereunder to the discharge of any such taxes, mortgages or other liens.

for assignment of lease file a copy of this page 451
See Ord Book 411 Page 451

Examined and Dated

0-1

14. It is expressly agreed that if the Lessee shall commence drilling operations at any time while this lease is in force, it shall remain in force and its terms continue so long as such operations are prosecuted, and if production results therefrom, then as long as production continues. If after the expiration of the term of this lease production from the leased premises shall cease from any cause, this lease shall not terminate provided Lessee resumes operations within sixty days from such cessation, and this lease shall remain in force during the prosecution of such operations, and, if production results therefrom, then as long as oil or gas is produced in paying quantities.

15. This lease embodies the entire contract and agreement between Lessor and Lessee, and no warranties, representations, promises or inducements not herein expressed have been made or relied upon by either party. The terms, conditions and stipulations hereof shall extend to the respective heirs, executors, administrators, successors and assigns of the parties hereto.

Witness the hands and seals of the parties hereto the day and year first above written.

WITNESS

W.W. Hall
W.W. Hall

(SEAL)

SS NO. 223-50-1094

Mary Pat Hall
Mary Pat Hall

(SEAL)

SS NO. 211-18-0796

(SEAL)

SS NO.

ACKNOWLEDGMENT

STATE OF Virginia

COUNTY OF Pulaski

To-wit:

I, Richard G. Gump, a Notary Public of said County, do hereby certify that

W.W. Hall and Mary Pat Hall

whose names were signed to the within writing bearing date the 10th day of May, 1980

had on this day acknowledged the same before me in my said County.

Given under my hand this 10th day of May, 1980



Richard G. Gump
Notary Public

My Commission Expires 11/6/83

ACKNOWLEDGMENT

STATE OF

SS.

COUNTY OF

On the _____ day of _____, 19____, before me personally came _____

to me known to be the person(s) described in and who executed the foregoing instrument, and acknowledged that he executed the same.

Given under my hand this _____ day of _____, 19____.

Notary Public

My Commission expires _____

OHIO ACKNOWLEDGMENT

STATE OF OHIO,

SS.

COUNTY OF _____

Before me, a Notary Public in and for said county, personally appeared the above named _____

who acknowledged

that he did sign the foregoing instrument, and that the same is _____ free act and deed. In

testimony whereof I have hereunto subscribed my name at _____, this _____

day of _____, 19____.

My Commission expires _____

Notary Public

ORIGINAL PAPERS

RECORDING DATA

This Instrument Prepared by:
RICHARD G. GUMP
ROYAL RESOURCES CORPORATION
612 Country Club Road
Fairmont, West Virginia 26554
254-207

Record and Return to
TRUANT AND LEASE ADMINISTRATION
SUNMARK EXPLORATION
P. O. Box 30
Dallas, Texas 75221

Barbi Mont... VA

D-2

ADDENDUM

To Oil and Gas Lease dated May, 10th, 1986 from
W.W. Hall and Mary Pat Hall, Lessor,
to Royal Resources Corporation, Lessee,
covering 1307 acres, more or less in Pulaski, Montgomery
County, Virginia

Additional Provisions of Lease

Notwithstanding anything to the contrary in the foregoing printed form Oil and Gas Lease, it is agreed and understood as follows, to-wit:

Lessor shall have right to chose the location of all roads upon said leased premises.

Lessor shall have the right to approve the location of Lessee's drillsite. Should Lessor disapprove Lessee's location, then Lessor shall promptly designate a location mutually acceptable to Lessee and Lessor within 330 feet of Lessee's originally proposed location.

W W Hall Signed for Identification: _____ Lessor
Mary Hall _____ Lessor
_____ Lessor _____ Lessor
_____ Lessor _____ Lessor

D-3

CROWGEY & BARNETT
ATTORNEYS AND COUNSELLORS AT LAW
POST OFFICE BOX 650
CHRISTIANSBURG, VIRGINIA 24073

11 EAST MAIN STREET
TELEPHONE
(703) 382-1415

RODNEY G. CROWGEY
PAUL M. BARNETT

26 April 1990

Mr. Tom Fulmer
Department of Mines, Minerals & Energy
Division of Gas and Oil
P. O. Box 1416
Abingdon, VA 24210

Re: Oil/Gas Drilling

Dear Mr. Fulmer:

Please be advised that I represent W. W. Hall and Mary Pat Hall regarding the permit for a gas well that was hand delivered to me by Aubrey Gibbs. Mr. and Mrs. Hall received the same papers and it appears that the land affected by this permit is not presently owned by W. W. and Mary Pat Hall. If you would like to discuss this further, please feel free to call me.

Sincerely,



Paul M. Barnett

PMB:kad

cc: Aubrey F. Gibbs
W. W. & Mary Pat Hall

RODNEY G. CROWGEY
PAUL M. BARNETT

CROWGEY & BARNETT
ATTORNEYS AND COUNSELLORS AT LAW
POST OFFICE BOX 650
CHRISTIANSBURG, VIRGINIA 24073

11 EAST MAIN STREET
TELEPHONE
(703) 382-1415

4 May 1990

Mr. Tom Fulmer
Department of Mines, Minerals & Energy
Division of Gas and Oil
P. O. Box 1416
Abingdon, VA 24210

Mr. Aubrey F. Gibbs
c/o Goldsmith & Anderson
P. O. Box 892
Radford, VA 24141

Re: Oil/Gas Drilling

Gentlemen:

Concerning the application that I received on 20 April 1990, I notice objections are required within fifteen (15) days. At this point, I have two objections. One objection is that the affected property is no longer owned by the party named in and served with the application. Second, further details are necessary in order to answer with specificity such an application and will require information from a professional, after which we would respond with specific objections, all of which are reserved.

Basically we are unable to determine what the impact would be on the affected property. We do, however, deny being the property owners. Please advise me if further information is necessary.

Sincerely,

Paul M. Barnett kad

Paul M. Barnett

PMB:kad

cc: W. W. & Mary Pat Hall

RODNEY G. CROWGEY
PAUL M. BARNETT

CROWGEY & BARNETT
ATTORNEYS AND COUNSELLORS AT LAW
POST OFFICE BOX 650
CHRISTIANSBURG, VIRGINIA 24073

11 EAST MAIN STREET
TELEPHONE
(703) 382-1415

7 May 1990

Mr. Tom Fulmer
Department of Mines, Minerals & Energy
Division of Gas and Oil
P.O. Box 1416
Abington, VA 24210

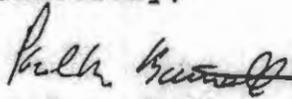
Mr. Aubrey F. Gibbs
c/o Goldsmith & Anderson
P.O. Box 892
Radford, VA 24141

Gentlemen:

We find that when Mr. Goldsmith filed for his well work permit (4-20-90) for the "Hedlesky et al #1 well" that the owner of the property formerly owned by W.W. Hall is the Lazy W Land & Cattle Company, Inc., A Virginia Corporation. This is on record in the Pulaski County Court House. By copy of this letter we hereby notify Valley Basin Gas Associates, pursuant to Paragraph 11 of the subject lease. It is my understanding that to date this corporation has not been properly notified as to any of Mr. Goldsmith's intentions.

There are some concerns with the brief amount of time left on the original "Sun Oil" lease. In addition, the Halls' objections set forth in my letter of May 4, 1990, are hereby ratified and adopted as to Lazy W Land & Cattle Company, Inc.. If I can be of assistance, do not hesitate to contact me.

Sincerely,


Paul M. Barnett

PMB:tuw

CROWGEY & BARNETT
ATTORNEYS AND COUNSELLORS AT LAW
POST OFFICE BOX 650
CHRISTIANSBURG, VIRGINIA 24073

11 EAST MAIN STREET
TELEPHONE
(703) 382-1415

RODNEY C. CROWGEY
PAUL M. BARNETT

14 May 1990

C. Barry Anderson
P.O. Box 892
Radford, VA 24141-0892

Dear Mr. Anderson:

Mr. W. W. Hall received a check drawn by Valley Basin Gas Associates with the memorandum "Oil & Gas Lease to 5/10/91." He feels that it is inappropriate to accept this \$1,307.00 check from Valley Basin since their lease expired 5/9/90. Upon inspection of the site on 5/11/90 it is more than obvious that "Operations" have not begun, and any automatic lease extension is Null and Void. Therefore, that check is herewith returned.

I am afraid that Mr. Fulmer has granted a permit for a well that will affect land that is not covered by a valid lease after 5/9/90.

The Lazy W Land & Cattle Company, Inc., owner of this property has yet to be legally notified on any of these matters.

Sincerely,

Lazy W Land & Cattle Company, Inc.

By: Paul M. Barnett
Counsel

2025

VALLEY BASIN GAS ASSOCIATES
P. O. BOX 892
RADFORD, VA. 24141

Pay to the
order of

W.W. and Mary Pat Hall

5/8 19 90 68-2
510

\$ 1,307.00

One Thousand Three Hundred and Seven and 00/100 Dollars

CRESTAR
Crestar Bank
Richmond, Virginia

Oil & Gas Lease to 5/10/91

Blanketed

⑈00002025⑈ ⑆05⑆000020⑆ 20⑆0⑆48⑆5⑈

E-1

11

7 9 8 2 5 0 0 2 1

COMMONWEALTH OF VIRGINIA STATE CORPORATION COMMISSION
1988 ANNUAL REPORT

FORM STATE 2 1169-5 REV. 11-87 DATE 01-18-88

1 CORPORATION NAME

LAZY U. LAND & CATTLE COMPANY

2 STATE OR COUNTRY OF INCORPORATION

VIRGINIA

3 REGISTERED AGENT NAME AND REGISTERED OFFICE ADDRESS IN VIRGINIA:

WILLIAM W. HALL DOR
2107 RAMBLE ROAD
BLACKSBURG, VA 24000

4 CITY OR COUNTY (IN VIRGINIA) OF THE REGISTERED OFFICE

MONTGOMERY CO

5 STOCK

CLASS	AUTHORIZED	UNAUTHORIZED
COMMON	1,000.00	



6 PRINCIPAL OFFICERS (LIST ALL MORE THAN ONE, BUT YOU MUST INCLUDE A PRESIDENT AND A SECRETARY. IF THE REGISTERED AGENT IS AN OFFICER, INCLUDE HIS OR HER COMPANY NAME.)

NAME	TITLE(S)	COMPLETE POST OFFICE ADDRESS (INCLUDE STREET NO OR RFD)
William W. Hall	Pres - Sec	2612-B Ramble Rd Blacksburg VA 24060

PLEASE READ THE INSTRUCTIONS ON THE BACK OF THIS FORM BEFORE FILING OUT THIS REPORT. TYPE OR PRINT IN BLACK INK.

ADDRESS

CITY STATE ZIP

2612-B Ramble Rd Blacksburg VA 24073

8 DIRECTORS (LIST ALL MORE THAN ONE, BUT YOU MUST INCLUDE A PRESIDENT AND A SECRETARY. IF THE REGISTERED AGENT IS AN OFFICER, INCLUDE HIS OR HER COMPANY NAME.)

NAME

ADDRESS

NAME

ADDRESS

NAME

ADDRESS

NAME

ADDRESS

NAME

ADDRESS

NAME

ADDRESS

I AFFIRM THAT THE INFORMATION CONTAINED IN THIS REPORT IS ACCURATE AND THAT NONE OF IT IS FALSE IN ANY MATERIAL RESPECT.

DATE SIGNED 5-13-88

SIGNATURE [Signature]

PRINTED NAME W. W. HALL

TITLE Pres. Sec.

THIS REPORT MUST BE EXECUTED BY SOMEONE LISTED IN 8 OR 9.

PS Form 3811, July 1983 447-845

SENDER: Complete items 1, 2, 3 and 4.

Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for service(s) requested.

- 1. Show to whom, date and address of delivery.
- 2. Restricted Delivery.

3. Article Addressed to:

Mr. & Mrs. W. W. Hall
2107 Ramble Road
Blacksburg, VA 24064

4. Type of Service:

- Registered
- Certified
- Express Mail
- Insured
- COD

Article Number

Always obtain signature of addressee or agent and **DATE DELIVERED.**

5. Signature - Addressee

X

6. Signature - Agent

X

7. Date of Delivery

APR 24 1990

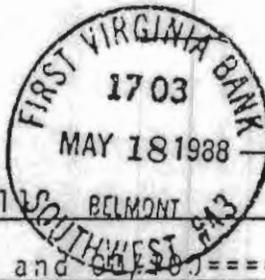
8. Addressee's Address (ONLY if requested and fee paid)

DOMESTIC RETURN RECEIPT

6

357
VALLEY BASIN GAS ASSOCIATES
P. O. BOX 892
RADFORD, VA. 24141

1321



April 29, 19 88

68-2/510

PAY TO THE ORDER OF W. W. Hall and Mary Pat Hall \$ 1,307.00

One thousand three hundred seven and 00/100 DOLLARS

United Virginia Bank

Capital Region
Richmond, Virginia—Operations

FOR Oil and Gas Lease thru 5/10/89

⑈0000⑆1321⑈ ⑆05⑆000020⑆020⑆10⑆48⑆5000⑈ ⑆0000⑆130700⑈

397

VALLEY BASIN GAS ASSOCIATES
P. O. BOX 892
RADFORD, VA. 24141

1687

May 10, 19 89

68-2/510

Pay to the order of W. W. Hall and Mary Pat Hall \$ 1,307.00

Thirteen hundred seven and 00/100 DOLLARS

CRESTAR

Crestar Bank
Richmond, Virginia

Oil & Gas Lease thru 05/10/90

359/248 ⑆0000⑆1687⑈ ⑆05⑆000020⑆020⑆10⑆48⑆5000⑈ ⑆0000⑆130700⑈

H-1

VALL

PAY TO
OR



68-2
MAY 18 1988
FIRST VIRGINIA BANK
SOUTHWEST BELMONT VA

0000000000

W. H. Smith
My Ex-10/11/88

FIRST NATIONAL BANK OF CHRISTIANBURG
Absence of Endorsement guaranteed
TO THE CREDIT OF
THE WITHIN NAMED PAYEE
THE FIRST NATIONAL BANK
CHRISTIANBURG VA

AG 89 24

051000020

064 03330

12152515

H-2

 * MAKE PAYMENT TO:
 * SUN EXPL & PROD COMPANY
 * P.O. BOX 84733
 * DALLAS, TX 75284

JOHN N. GOLDSMITH, JR.
 TOM'S CREEK ENERGY CORPORATION
 BOX 892
 RADFORD, VA 24141

PLEASE SHOW THIS NO. ON CHECK
 BILL-NUMBER DATE
 283407-C5026 04/14/87

WE CHARGE YOUR ACCOUNT AS FOLLOWS --

 BANK
 TOTAL RENT CHARGE YOUR PART

SUN LEASE NO M091-00-713158 000 00
 LEASE DATE 05-21-80
 LESSOR NAME GUTHRIE, WILLIAM M.
 ACRES 832.000
 COUNTY/STATE PULASKI VIRGINIA
 SEC TWN RNG - -
 RECORDED FILE VOL 354 PAGE 387
 COVERING DELAY RENTAL 832.00 832.00
 DUE DATE 05-21-87 FOR 12 MONTHS

SUN LEASE NO M091-00-713159 000 00
 LEASE DATE 05-23-80
 LESSOR NAME MADY, RICHARD J.
 ACRES 160.000
 COUNTY/STATE PULASKI VIRGINIA
 SEC TWN RNG - -
 RECORDED FILE VOL 354 PAGE 390
 COVERING DELAY RENTAL 160.00 160.00
 DUE DATE 05-23-87 FOR 12 MONTHS

SUN LEASE NO M091-00-713160 000 00
 LEASE DATE 05-10-80
 LESSOR NAME HALL, W W
 ACRES 1,307.000
 COUNTY/STATE PULASKI VIRGINIA
 SEC TWN RNG - -
 RECORDED FILE VOL 354 PAGE 392
 COVERING DELAY RENTAL 1307.00 1307.00
 DUE DATE 05-10-87 FOR 12 MONTHS

SUN LEASE NO M091-00-713161 000 00
 LEASE DATE 05-03-80
 LESSOR NAME DALTON, JOHN N.
 ACRES 400.000
 COUNTY/STATE PULASKI VIRGINIA
 SEC TWN RNG - -
 RECORDED FILE VOL 354 PAGE 396
 COVERING DELAY RENTAL 400.00 400.00
 DUE DATE 05-03-87 FOR 12 MONTHS

SUN LEASE NO M091-00-713162 000 00
 LEASE DATE 05-03-80
 LESSOR NAME DALTON, JOHN N.
 ACRES 527.000
 COUNTY/STATE PULASKI VIRGINIA
 SEC TWN RNG - -
 RECORDED FILE VOL 354 PAGE 398
 COVERING DELAY RENTAL 527.00 527.00
 DUE DATE 05-03-87 FOR 12 MONTHS

CONTINUED

I-1

SUN EXPLORATION & PRODUCTION CO

JOHN N. GOLDSMITH, JR.
TOM'S CREEK ENERGY CORPORATION
BOX 892
RADFORD, VA 24141

* MAKE PAYMENT TO: *
* SUN EXPL & PROD COMPANY *
* P.O. BOX 84733 *
* DALLAS, TX 75284 *

PLEASE SHOW THIS NO. ON CHECK

BILL-NUMBER DATE
283407-C5026 04/14/86

WE CHARGE YOUR ACCOUNT AS FOLLOWS --

BANK
TOTAL RENT CHARGE YOUR PART

SUN LEASE NO M091-00-713158 000 00
LEASE DATE 05-21-80
LESSOR NAME GUTHRIE, WILLIAM M.
ACRES 832.000
COUNTY/STATE PULASKI VIRGINIA
SEC TWN RNG - -
RECORDED FILE VOL 354 PAGE 387
COVERING DELAY RENTAL
DUE DATE 05-21-86 FOR 12 MONTHS 832.00 832.00

SUN LEASE NO M091-00-713159 000 00
LEASE DATE 05-23-80
LESSOR NAME MADY, RICHARD J.
ACRES 160.000
COUNTY/STATE PULASKI VIRGINIA
SEC TWN RNG - -
RECORDED FILE VOL 354 PAGE 390
COVERING DELAY RENTAL
DUE DATE 05-23-86 FOR 12 MONTHS 160.00 160.00

SUN LEASE NO M091-00-713160 000 00
LEASE DATE 05-10-80
LESSOR NAME HALL, W.W.
ACRES 1,307.000
COUNTY/STATE PULASKI VIRGINIA
SEC TWN RNG - -
RECORDED FILE VOL 354 PAGE 392
COVERING DELAY RENTAL
DUE DATE 05-10-86 FOR 12 MONTHS 1307.00 1307.00

SUN LEASE NO M091-00-713161 000 00
LEASE DATE 05-03-80
LESSOR NAME DALTON, JOHN N.
ACRES 400.000
COUNTY/STATE PULASKI VIRGINIA
SEC TWN RNG - -
RECORDED FILE VOL 354 PAGE 396
COVERING DELAY RENTAL
DUE DATE 05-03-86 FOR 12 MONTHS 400.00 400.00

SUN LEASE NO M091-00-713162 000 00
LEASE DATE 05-03-80
LESSOR NAME DALTON, JOHN N.
ACRES 527.000
COUNTY/STATE PULASKI VIRGINIA
SEC TWN RNG - -
RECORDED FILE VOL 354 PAGE 398
COVERING DELAY RENTAL
DUE DATE 05-03-86 FOR 12 MONTHS 527.00 527.00

CONTINUED

I-2

JOHN M GOLDSMITH JR
 SPRINT PLUS SERVICE
 ACCOUNT ID: 117871736

PAGE: 4
 INVOICE DATE: 4/20/90
 INVOICE NUMBER: 09041000169338

ITEMIZATION OF CALLS

BILLED TO NUMBER: 703 751-9250
 SERVICE LOCATION: ALEXANDRIA, VA

NBR	DATE	TIME	*	LOCATED	LOCATION	MINUTES	CHARGES
1	3/18/90	5:44 PM	E	TAZEWELL	VA 703 988-4481	2	\$.46
2	3/19/90	6:49 AM	N	CHRISTISBG	VA 703 381-0076	12	\$2.02
3	3/19/90	10:00 AM	D	RADFORD	VA 703 639-3953	2	\$.62
4	3/19/90	10:03 AM	D	BLAND	VA 703 688-3333	3	\$.87
5	3/19/90	10:17 AM	D	RADFORD	VA 703 639-9621	3	\$.87
6	3/19/90	10:51 AM	D	TUSCALOOSA	AL 205 349-3420	1	\$.23
7	3/19/90	10:58 AM	D	BLACKSBURG	VA 703 231-5136	1	\$.37
8	3/19/90	11:00 AM	D	SALEM	VA 703 387-1789	2	\$.62
9	3/19/90	8:46 PM	E	LKBUNAVIST	FL 407 934-7639	2	\$.23
10	3/21/90	6:21 PM	E	PULASKI	VA 703 980-2289	2	\$.46
11	3/22/90	1:40 PM	D	RADFORD	VA 703 731-9411	1	\$.37
12	3/22/90	2:00 PM	D	RADFORD	VA 703 639-3953	2	\$.62
13	3/28/90	10:28 PM	E	PULASKI	VA 703 980-2289	7	\$1.40
14	3/29/90	9:19 AM	D	RADFORD	VA 703 639-3953	2	\$.62
15	3/29/90	9:44 AM	D	RADFORD	VA 703 639-3953	4	\$1.12
16	3/29/90	10:03 AM	D	RICHMOND	VA 804 782-3469	1	\$.35
17	3/29/90	10:25 AM	D	RADFORD	VA 703 731-9411	1	\$.37
18	3/29/90	10:26 AM	D	RADFORD	VA 703 639-1132	3	\$.87
19	3/29/90	10:29 AM	D	BECKLEY	WV 304 252-0661	3	\$.64
20	3/29/90	3:15 PM	D	RICHMOND	VA 804 782-3469	1	\$.35
21	3/29/90	4:15 PM	D	TAZEWELL	VA 703 988-6700	1	\$.37
22	3/29/90	4:25 PM	D	KILMARNOCK	VA 804 435-0111	1	\$.35
23	3/29/90	7:31 PM	E	DUBLIN	VA 703 674-4029	1	\$.27
24	3/30/90	10:33 AM	D	RICHMOND	VA 804 782-3469	1	\$.35
25	3/30/90	10:36 AM	D	DUNCAN	OK 405 252-4309	1	\$.24
26	3/30/90	11:20 AM	D	TAZEWELL	VA 703 988-6700	25	\$6.37
27	3/30/90	3:02 PM	D	DALLAS	TX 214 361-4704	1	\$.24
28	3/30/90	3:07 PM	D	KILMARNOCK	VA 804 435-0111	16	\$3.65
29	3/30/90	3:26 PM	D	DUBLIN	VA 703 674-4641	3	\$.87
30	3/30/90	4:11 PM	D	DALLAS	TX 214 361-4704	2	\$.49
31	3/30/90	4:35 PM	D	BLUEFIELD	WV 304 325-6170	1	\$.21
32	3/31/90	10:45 AM	N	BLUEFIELD	WV 304 325-6170	1	\$.10
33	4/01/90	9:53 PM	E	PULASKI	VA 703 980-2289	7	\$1.40
34	4/02/90	9:53 AM	D	RADFORD	VA 703 639-3953	25	\$6.37
35	4/02/90	10:20 AM	D	HARRISONBG	VA 703 434-5559	4	\$1.01
36	4/02/90	11:31 AM	D	STATEN IS	NY 718 983-2284	2	\$.42
37	4/03/90	12:41 PM	D	DALLAS	TX 214 361-4704	1	\$.24
38	4/03/90	12:42 PM	D	DALLAS	TX 214 361-4704	28	\$6.85
39	4/03/90	1:16 PM	D	KILMARNOCK	VA 804 435-0111	3	\$.79
40	4/03/90	1:19 PM	D	NEW YORK	NY 212 888-9201	3	\$.64
41	4/03/90	4:38 PM	D	RADFORD	VA 703 639-3953	1	\$.37
42	4/05/90	11:10 AM	D	DALLAS	TX 214 361-4704	2	\$.49
43	4/05/90	11:23 AM	D	HARRISONBG	VA 703 434-5559	4	\$1.01
44	4/05/90	3:07 PM	D	TAZEWELL	VA 703 988-6700	1	\$.37
45	4/05/90	3:16 PM	D	RADFORD	VA 703 639-2063	11	\$2.87

* THE RATE IN EFFECT AT THE BEGINNING OF THE CALL
 D = DAY E = EVENING N = NIGHT

IF YOU HAVE ANY QUESTIONS ABOUT YOUR INVOICE, PLEASE CALL CUSTOMER SERVICE AT 1-800-877-4446.

J-1

JOHN M GOLDSMITH JR
 SPRINT PLUS SERVICE
 ACCOUNT ID: 117871736

INVOICE DATE: 4/20/90
 INVOICE NUMBER: 09041000169338

ITEMIZATION OF CALLS

BILLED TO NUMBER: 703 751-9250
 SERVICE LOCATION: ALEXANDRIA, VA

NBR	DATE	TIME	*	CALLED LOCATION	CALLER NUMBER	MINUTES	CHARGES
1	4/05/90	6:06 PM	E	TAZEWELL	VA 703 988-4493	6	\$1.21
2	4/05/90	8:23 PM	E	RADFORD	VA 703 639-0393	1	\$.27
3	4/06/90	8:56 AM	D	PRINCETON	NJ 609 924-2473	3	\$.64
4	4/06/90	10:10 AM	D	MORRISTOWN	NJ 201 984-8077	17	\$3.61
5	4/06/90	10:28 AM	D	KILMARNOCK	VA 804 435-0111	13	\$2.99
6	4/06/90	11:02 AM	D	FREDECKSBG	VA 703 373-4555	1	\$.33
7	4/06/90	11:04 AM	D	DALLAS	TX 214 361-4704	6	\$1.47
8	4/06/90	11:10 AM	D	TAZEWELL	VA 703 988-6700	2	\$.62
9	4/06/90	11:48 AM	D	DUBLIN	VA 703 674-4029	1	\$.37
10	4/06/90	12:14 PM	D	DUBLIN	VA 703 674-4029	1	\$.37
11	4/06/90	3:09 PM	D	DALLAS	TX 214 361-4704	14	\$3.43
12	4/06/90	3:39 PM	D	RADFORD	VA 703 639-2506	1	\$.37
13	4/06/90	3:40 PM	D	RADFORD	VA 703 639-4602	1	\$.37
14	4/07/90	12:52 PM	N	DUBLIN	VA 703 674-4029	3	\$.56
15	4/07/90	1:00 PM	N	RADFORD	VA 703 639-2506	1	\$.23
16	4/07/90	5:56 PM	N	CHRISTI SBG	VA 703 381-0076	8	\$1.37
17	4/08/90	7:47 PM	E	HARRISONBG	VA 703 434-5559	2	\$.42
18	4/08/90	8:55 PM	E	PULASKI	VA 703 980-2289	12	\$2.33
19	4/08/90	9:07 PM	E	ZANESVILLE	OH 614 453-8226	7	\$.73
20	4/09/90	10:14 AM	D	RADFORD	VA 703 639-3953	12	\$3.12
21	4/09/90	10:25 AM	D	PULASKI	VA 703 980-5545	8	\$2.12
22	4/09/90	10:34 AM	D	TAZEWELL	VA 703 988-6700	15	\$3.87
23	4/11/90	7:56 PM	E	PULASKI	VA 703 980-2289	4	\$.83
24	4/11/90	8:00 PM	E	PULASKI	VA 703 980-7384	6	\$1.21
25	4/12/90	1:58 PM	D	TAZEWELL	VA 703 988-6700	21	\$5.37
26	4/13/90	10:51 AM	D	ABINGDON	VA 703 628-8115	3	\$.91
27	4/13/90	12:10 PM	D	OAKLAND	MD 301 387-4719	4	\$.85
28	4/15/90	2:13 PM	N	STAUNTON	VA 703 887-7213	2	\$.36
29	4/15/90	2:45 PM	N	STAUNTON	VA 703 887-7213	14	\$2.08
30	4/16/90	9:20 AM	D	RADFORD	VA 703 639-3953	13	\$3.37
31	4/16/90	9:50 AM	D	RICHMOND	VA 804 782-3469	1	\$.35
32	4/16/90	11:34 AM	D	PULASKI	VA 703 980-1271	1	\$.37
33	4/16/90	2:08 PM	D	RICHMOND	VA 804 965-2328	1	\$.35
34	4/16/90	2:30 PM	D	RADFORD	VA 703 639-3984	1	\$.37
35	4/16/90	2:59 PM	D	KILMARNOCK	VA 804 435-0111	1	\$.35
36	4/16/90	3:27 PM	D	RADFORD	VA 703 639-3953	4	\$1.12
37	4/16/90	9:36 PM	E	NEW YORK	NY 212 628-6070	1	\$.10

TOTAL FOR 703 751-9250 413 \$98.59

TOTAL FOR YOUR ACCOUNT 413 \$98.59

* THE RATE IN EFFECT AT THE BEGINNING OF THE CALL
 D = DAY E = EVENING N = NIGHT

J-2

ULASKI COUNTY-1989 REAL ESTATE TAX

TOTAL TAX FOR YEAR

SECOND HALF

539.10

NO. 6781

TAX RATE .75/\$1.00

LAND VALUE	IMPROVEMENT OR BLDG. VALUE	TOTAL VALUE	TAX RELIEF FOR ELDERLY	TAX DUE BY DEC. 5TH	10% PENALTY	TAX AND PENALTY AFTER JUNE 5TH X DEC 5TH
536.80	18200	71880		269.55	26.96	296.51

DESCRIPTION: #027-1-23
139.91 ACRES NECK & BACK CREEKS

DBNO: 338
PAGE: 459

Policy Check & note 1/1

HALL MARY
DRAWER D

BEESPRING, VA 24058 DEC 5 1989

NOTE: CHECK IN PAYMENT IS NOT HONORED, BY SIGNING THIS RECEIPT IS VOID.

OFFICE RECORD

PAID CREDITS		10% INTEREST AFTER DEC. 5.	TOTAL AMOUNT DUE	
DATE	TAX	PEN.	INT.	TOTAL
12/05/89	296.51			296.51

K



H. T. Bowling, Inc. Contractors

VALLEY BASIN GAS COMPANY
P.O. BOX 892
RADFORD, VA 24141

RFD 2, Box 333
Radford, Va. 24141
703/639-9621

Please pay from this invoice, no statement will be sent.

TERMS: Net 10 days. 1½% per month service charge added to balance unpaid for more than 30 days from date of invoice. Annual percentage rate is 18%.

Date 6-1-90		Your Order No.	Our Order No. 1862
Quantity	Description	Price	Amount
5 HRS.	DRILL TRUCK USE MAY 9, 1990	\$45./HR.	\$225.00
5 HRS.	LABOR (PREPARE DRILL TRUCK, DRIVE TO AND FROM HEDLESKY WELL SITE MAY 8 & 9)	\$12./HR.	\$ 60.00
	TOTAL		\$285.00

L-1

NEAL H. WIRT
CERTIFIED LAND SURVEYOR
CERTIFICATE NO. 1294

ADDRESS
P. O. BOX 330
PULASKI, VA. 24301

PHONE (703) 980-7384

RESIDENCE
MOREHEAD LANE
PULASKI, VA.

Volley Basin Gas Associates

Apr. 13, 1990

STATEMENT

Survey and Maps for Hedlocky # 1 gas well
off Route 627, Pulaski County, VA.

\$ 400.⁰⁰

Thank you,
Neal

T.A. GRAHAM, ARCHITECT

Rt. 4 Box 43
RADFORD, VA 24141

Memo

LETTER

(703) 639-2506

Date Apr 24 1990

Subject

Hedley St. #1
S.E.S.C.

To

New River Basin Cons. Assoc.
John John Goldsmith
Box 892 100 Newwood St.
RADFORD, VA 24141

— n o o i e e —

Copy service . . .	\$ 3.40
Admin, 6 1/2 hr. . .	195.00
Design/Dr, 12.0 hr. . .	<u>480.00</u>
Total due . . .	<u>\$678.40</u>

Thank you

T.A. Graham

Please reply

No reply necessary

SIGNED

excerpt from Howe, John S., Oil & Gas Law
West Pub. Co., May, 1983 Σ

to fashion a hybrid formulation if that more closely meets their goals.

Because the "unless" drilling-delay rental clause is the more commonly used and because most "or" leases contain forfeiture clauses, the drilling-delay rental clause in modern oil and gas leases is a frequent source of dispute and litigation. Typically, problems center upon whether the provisions of the drilling-delay rental clause have been met timely.

2. THE DRILLING OPTION

The lessee who seeks to avoid termination of his lease by compliance with the drilling-delay rental clause is presented with a choice. He can either drill or pay delay rentals within the period specified. If he chooses to drill, the problem that most often arises is dispute whether he has done so in a timely manner. There are three aspects of compliance with the drilling option: (a) the precise language used in the lease, (b) the good faith of the lessee, and (c) the lessee's due diligence.

a. Commencement v. Completion

Most modern oil and gas lease forms require that the lessee merely "commence operations for drilling" or "commence drilling operations" before the anniversary date to preserve his rights. As interpreted by most courts, the lessee has complied if he begins preliminary actions usually associated with actual drilling on the premises, in

[189]

good faith, and diligently pursues them to completion. Though compliance is a question of fact, virtually any kind of work at the well site prior to the end of the primary term will likely be considered sufficient. Courts have held that digging a slush pit on the last day of the term, staking a location, delivering material, or erecting a derrick and beginning to drill a water well were sufficient to constitute commencement of operations for drilling. The cases show a clear tendency toward liberality. Any action by the lessee on the premises that shows a clear intention to develop the land will be enough to comply, as long as it is diligently pursued. It is arguable that preliminary actions that do not take place on the land, such as signing a binding drilling contract, should also qualify under that standard.

The language of the lease controls. Reference to "completion" in *Baldwin v. Blue Stem Oil Co.*, 106 Kan. 848, 189 P. 920 (1920), was held to require completion of a well rather than mere commencement. In Montana, a court has made a distinction between "commencement of operations for drilling" and "commencement of drilling operations," holding that the latter term requires actual spudding. But as a general rule, courts seem to be willing to take a liberal view of what will comply with the drilling option of the drilling-delay rental clause. Their position encourages development and avoids unfairness to lessees who have committed substantial amounts of money to development.

[190]

b. In Good Faith

The second aspect of the drilling option is that whatever preliminary work is relied upon to comply with the drilling-delay rental clause must be undertaken in good faith. Substance prevails over form. Actions which ordinarily would be considered commencement of drilling operations will be held insufficient if the courts decide that the work was a sham or that there was no intent to complete the well. For example, the Michigan Supreme Court in *Globe v. Goff*, 327 Mich. 549, 42 N.W.2d 845 (1950), held that a well had not been "commenced" where a statutorily required permit had not been acquired and no drilling contract had been executed before the end of the primary term, through the lessee had done substantial site work; the court inferred from the facts before it that the lessee had delayed committing to develop the property until it had had an opportunity to review drilling information from an offset well.

No particular action or failure by the lessee short of spudding a well is determinative. Deciding whether operations were commenced in good faith is an application of gastronomic jurisprudence to give effect to the bargain the parties to the lease made.

c. With Due Diligence

The third aspect of complying with the drilling option of drilling-delay rental clause is that once

[191]