

BEFORE THE STATE OIL AND GAS BOARD OF ALABAMA

PURSUANT TO A DECISION RENDERED FOLLOWING A REGULAR MEETING OF THE STATE OIL AND GAS BOARD OF ALABAMA ON SEPTEMBER 30, 2005, THE FOLLOWING ORDER IS HEREBY PROMULGATED:

IN RE: ORDER NO. 2005-107

**DOCKET NO. 9-28-05-19 &
DOCKET NO. 9-28-05-20**

These causes came on for hearing before the State Oil and Gas Board of Alabama on the petitions of South Carlton Operating Company, LLC (hereinafter referred to at times as "Petitioner"), a Mississippi limited liability company authorized to do and doing business in the State of Alabama, requesting the State Oil and Gas Board of Alabama (hereinafter referred to at times as "the Board"), in the Petition bearing Docket No. 9-28-05-19, to enter an Order pursuant to Sections 9-17-1 through 9-17-88, of the *Code of Alabama* (1975) by which the Board (i) approves the South Carlton Field-Wide Lower Tuscaloosa Unit in the South Carlton Field in Baldwin and Clarke Counties, Alabama; (ii) requires the operation of the hereinafter described Unit Area as a single field-wide unit for the production of oil, gas, gaseous substances, condensate, distillate and all associated and constituent liquefiable substances; (iii) approves the Unit Agreement dated July 25, 2005, pertaining to the South Carlton Field-Wide Lower Tuscaloosa Unit, and the ratifications thereof; (iv) unitizes, force pools and integrates said Unit Area into a single field-wide unit so as to require all owners or claimants of royalty, overriding royalty, mineral, leasehold and all other interests within said field-wide unit to unitize, pool and integrate their interests and develop their lands and interests within said Unit Area as a single field-wide unit; (v) designates South Carlton Operating Company, LLC as the initial Unit Operator of the South Carlton Field-Wide Lower Tuscaloosa Unit; (vi) establishes an effective date for the unitization of the South Carlton Field-Wide Lower Tuscaloosa Unit; (vii) makes the findings and contains the provisions required by Sections 9-17-80 through 9-17-88 of the *Code of Alabama* (1975); and (viii) amends the Special Field Rules for the South Carlton Field to prescribe rules governing the operation of the South Carlton Field-Wide Lower Tuscaloosa Unit; and in the Petition bearing Docket No. 9-28-05-20, to enter an Order by which the Board (i) revises the field area of the South Carlton Field; (ii) redefines the Massive and Pilot Sand Oil Pools and certain other sands as a single

oil pool to be known as the "Pilot-Massive Sand Oil Pool"; (iii) defines the Unit Area and Unit Pool for the South Carlton Field-Wide Lower Tuscaloosa Unit; (iv) establishes spacing and production allocation requirements applicable to the South Carlton Field-Wide Lower Tuscaloosa Unit; and (v) prescribes rules governing the operation of the South Carlton Field-Wide Lower Tuscaloosa Unit for enhanced recovery methods or other methods of cooperative development and operation as set forth in Exhibit A, which is made a part hereof.

The State Oil and Gas Board, after receiving and reviewing the testimony and evidence, finds that due and proper notice of said causes has been given in the manner and form and for the time required by the rules and regulations of this Board, and that proofs of publication of notices and affidavits of notice are on file with the Board, and that the Board has full jurisdiction of these causes, and the Board being fully advised in the premises finds as follows:

FINDINGS OF FACT

I.

That the South Carlton Field, situated in Baldwin and Clarke Counties, Alabama, was discovered in 1950, and since that time numerous wells have been drilled in the field to test and produce the Lower Tuscaloosa Formation. Over the years, the rate of production from the Lower Tuscaloosa Formation has been steadily declining and the South Carlton Field is reaching the end of its economic primary production capability.

II.

That Petitioner is the operator of all unplugged wells in the South Carlton Field. Petitioner has conducted a study of the Lower Tuscaloosa Formation in the South Carlton Field to determine the feasibility of conducting secondary recovery operations in said field. Based upon this study, it is believed that considerable additional crude oil may be recovered from the Lower Tuscaloosa Formation by secondary recovery operations, which crude oil would not be recovered by primary production techniques.

III.

That Petitioner has proposed that a portion of the Lower Tuscaloosa Formation in the South Carlton Field be unitized pursuant to Sections 9-17-80 through 9-17-88 of the *Code of Alabama* (1975), in order that "enhanced recovery methods", as defined

in Section 9-17-80 of the *Code of Alabama* (1975), or such other methods of cooperative development and operation as may be approved by this Board calculated to increase the ultimate recovery of oil and gas from the said pool may be utilized to extend the economic viability of the Lower Tuscaloosa Formation in said field.

IV.

That Petitioner has executed an agreement dated July 25, 2005, entitled "Unit Agreement, South Carlton Field-Wide Lower Tuscaloosa Unit, South Carlton Field, Baldwin and Clarke Counties, Alabama" (which agreement is hereinafter referred to at times as the "Unit Agreement") and a separate agreement dated July 25, 2005, entitled "Unit Operating Agreement, South Carlton Field-Wide Lower Tuscaloosa Unit, South Carlton Field, Baldwin and Clarke Counties, Alabama" (which agreement is hereinafter referred to at times as the "Unit Operating Agreement"), whereby Petitioner has proposed to establish the "South Carlton Field-Wide Lower Tuscaloosa Unit" in the South Carlton Field. Copies of said Unit Agreement and Unit Operating Agreement are attached hereto and made a part hereof as Exhibit "B" and Exhibit "C", respectively.

V.

That the "Unit Area" as proposed by Petitioner for the proposed South Carlton Field-Wide Lower Tuscaloosa Unit, and as used herein, consists of the following-described lands situated in Baldwin and Clarke Counties, Alabama, to-wit:

Township 3 North, Range 2 East:

- Section 2: Beginning at the Southwest corner of said Section 2; thence North 00° 23' 24" East along the West line of said Section 2 for 6,543.65 feet, more or less, to the Northwest corner of said Section 2; thence South 89° 54' 11" East along the North line of said Section 2 for 3,882.51 feet; thence South 01° 17' 56" West for 6,522.90 feet, more or less, to the South line of said Section 2; thence South 89° 45' 42" West along the South line of said Section 2 for 3,779.22 feet, more or less, to the Point of Beginning;
- Section 3: The entire section;
- Section 4: Beginning at the Southeast corner of said Section 4; thence North 89° 45' 16" West along the South line of said Section 4 for 2,633.84 feet; thence North 00° 23' 24" East for 3,921.60 feet; thence South 89° 45' 16" East for 658.46 feet; thence North 00° 23' 24" East for 1,307.20 feet; thence South 89° 45' 16" East for 658.46 feet; thence North 00° 23' 24" East for 1,307.20 feet, more or less, to the North line of said Section 4; thence South 89° 45' 16" East for 1,316.92 feet, more or less, to the Northeast corner of said Section 4; thence South 00° 23' 24" West along the East line of said Section 4 for 6,536.00 feet, more or less, to the Point of Beginning;

Section 9: The East Half ($E\frac{1}{2}$), the East Half of the Southeast Quarter of the Northwest Quarter ($E\frac{1}{2}$ of $SE\frac{1}{4}$ of $NW\frac{1}{4}$) and the East Half of the Southwest Quarter ($E\frac{1}{2}$ of $SW\frac{1}{4}$);

Section 10: The entire section;

Section 11: The West Half ($W\frac{1}{2}$), the West Half of the East Half ($W\frac{1}{2}$ of $E\frac{1}{2}$), the West Half of the Northeast Quarter of the Northeast Quarter ($W\frac{1}{2}$ of $NE\frac{1}{4}$ of $NE\frac{1}{4}$), the West Three-fourths of the Southeast Quarter of the Northeast Quarter ($W\frac{3}{4}$ of $SE\frac{1}{4}$ of $NE\frac{1}{4}$) and the West Half of the East Half of the Southeast Quarter ($W\frac{1}{2}$ of $E\frac{1}{2}$ of $SE\frac{1}{4}$);

Section 14: The West Half ($W\frac{1}{2}$), the West Half of the Northeast Quarter ($W\frac{1}{2}$ of $NE\frac{1}{4}$) and the Northwest Quarter of the Southeast Quarter ($NW\frac{1}{4}$ of $SE\frac{1}{4}$);

Section 15: The entire section;

Section 16: The East Half ($E\frac{1}{2}$) and the East Half of the West Half ($E\frac{1}{2}$ of $W\frac{1}{2}$);

Section 21: The North Quarter of the Northwest Quarter of the Northeast Quarter ($N\frac{1}{4}$ of $NW\frac{1}{4}$ of $NE\frac{1}{4}$);

Section 22: The East Half of the Northwest Quarter of the Northwest Quarter ($E\frac{1}{2}$ of $NW\frac{1}{4}$ of $NW\frac{1}{4}$), the Northwest Quarter of the Northwest Quarter of the Northwest Quarter ($NW\frac{1}{4}$ of $NW\frac{1}{4}$ of $NW\frac{1}{4}$), the Northeast Quarter of the Northwest Quarter ($NE\frac{1}{4}$ of $NW\frac{1}{4}$), the North Half of the Southeast Quarter of the Northwest Quarter ($N\frac{1}{2}$ of $SE\frac{1}{4}$ of $NW\frac{1}{4}$), the North Half of the Northeast Quarter ($N\frac{1}{2}$ of $NE\frac{1}{4}$) and the North Half of the South Half of the Northeast Quarter ($N\frac{1}{2}$ of $S\frac{1}{2}$ of $NE\frac{1}{4}$); and

Section 23: The Northwest Quarter of the Northwest Quarter ($NW\frac{1}{4}$ of $NW\frac{1}{4}$);

Township 4 North, Range 2 East:

Section 34: The South Half of the Southeast Quarter ($S\frac{1}{2}$ of $SE\frac{1}{4}$), the South Half of the North Half of the Southeast Quarter ($S\frac{1}{2}$ of $N\frac{1}{2}$ of $SE\frac{1}{4}$), the Southeast Quarter of the Southwest Quarter ($SE\frac{1}{4}$ of $SW\frac{1}{4}$) and the South Half of the Southwest Quarter of the Southwest Quarter ($S\frac{1}{2}$ of $SW\frac{1}{4}$ of $SW\frac{1}{4}$); and

Section 35: The South Half of the Southwest Quarter ($S\frac{1}{2}$ of $SW\frac{1}{4}$) and the South Half of the Southwest Quarter of the Southeast Quarter ($S\frac{1}{2}$ of $SW\frac{1}{4}$ of $SE\frac{1}{4}$).

The above-described land contains 5408.38 acres, more or less. The Unit Area consists of 144 separate Tracts. A plat depicting the Unit Area and the Tracts comprising the Unit Area is attached hereto and made a part hereof as Exhibit "D". A legal description of said Unit Area and a legal description of the separate Tracts are attached hereto and made a part hereof as Exhibit "E" and Exhibit "F", respectively.

VI.

That the "Unit Pool" as proposed by Petitioner for the proposed South Carlton Field-Wide Lower Tuscaloosa Unit, and as used herein, is defined to mean the subsurface portion of the Unit Area between the top and base of that portion of the Lower Tuscaloosa Formation which occurs in the interval between the depths of 5,240 feet and 5,454 feet as depicted by the electric log for the State of Alabama et al Unit No. 1 Well in the South Carlton Field (Permit No. 1023), located in the Northwest Quarter of the Southeast Quarter of Section 10 of Township 3 North, Range 2 East, Clarke County, Alabama, and all zones in communication therewith and all productive extensions thereof, including those strata which can be correlated therewith. An annotated copy of a portion of the electric log for the State of Alabama et al Unit No. 1 Well in the South Carlton Field (Permit No. 1023) depicting the above-described Unit Pool is attached hereto and made a part hereof as Exhibit "G".

VII.

That the term "Unitized Substances" as described under the Unit Agreement and as used herein is defined to mean all oil, gas, gaseous substances, sulphur contained therein, condensate, distillate, and all associated and constituent liquid or liquefiable substances, other than water and Outside Substances, within or produced from the Unit Pool. The term "Outside Substances" as described under the Unit Agreement and as used herein is defined to mean all substances purchased or otherwise obtained from any source other than the Unit Pool and which are injected or re-injected into the Unit Pool, including but not limited to, water, hydrocarbon liquids and gases, carbon dioxide, nitrogen and other inert gases. The term "Unit Operations" as defined under the Unit Agreement and as used herein is defined to mean all operations conducted pursuant to the Unit Agreement for or on account of the development and operation of the Unit Pool for the production of Unitized Substances and the recovery of Outside Substances.

VIII.

That the Unit Agreement states the nature of the Unit Operations contemplated. The Unit Agreement provides that the Unit Operator shall, with diligence and in accordance with good engineering and production practices, vary production from wells to reduce water production and maintain a maximum efficient rate of oil

production, engage in the reworking of existing wells, drill additional wells in the Unit Area at such location or locations and in such manner as may be determined to be necessary or advisable, and engage in enhanced recovery methods or any other approved methods of cooperative development and operation calculated to increase the ultimate recovery of Unitized Substances from the Unit Pool. Methods of Unit Operation which may be conducted by the Unit Operator under the Unit Agreement include, but are not limited to, pressure maintenance, water flood or other enhanced recovery methods, subject to any necessary approval by the Board or other regulatory authorities.

IX.

That the Unit Agreement includes a Tract Participation (Allocation) Formula, which provides for an allocation among the separately owned interests derived from or associated with the Tracts of Unitized Substances produced from the Unit Pool, and not required in the conduct of such operation or unavoidably lost. The Tract Participation (Allocation) Formula, the data upon which the Tract Participation (Allocation) for each Tract was calculated and the Tract Participation (Allocation) of each Tract are set forth in Exhibit "H" which is attached hereto and made a part of this Order.

X.

That the Tract Participation (Allocation) of each Tract was determined on the basis of the net acre feet of oil pay (Net Volume) in the Pilot, Pilot Stray I (Wyble), Pilot Stray II, Pilot Stray III and Massive Sands in the Lower Tuscaloosa Formation. The expert geological witness for Petitioner testified that the Pilot, Pilot Stray I (Wyble), Pilot Stray II, Pilot Stray III and Massive Sands in the Lower Tuscaloosa Formation were carefully mapped by triangulation with the Mapping-Contouring System computer program utilizing all available data relevant to these sands and that said computer program numerically integrated the data to determine the Net Volume in each of these sands in each Tract.

XI.

That the Tract Participation (Allocation) of each tract was determined on the basis of net acre feet of oil pay (Net Volume) in the Pilot, Massive, Wyble, and stray sands in the Lower Tuscaloosa Formation. The Tract Participation (Allocation) of each tract was calculated by: a) first adding together the Net Volume for these sands for

each of the tracts (Total Unitized Productive Net Volume), b) then adding together the Total Unitized Productive Net Volume for all tracts (which totaled 89,072.48 net acre feet of oil pay) and c) finally, dividing the Total Unitized Productive Net Volume for each of the tracts by 89,072.48 net acre feet (the sum of the Total Unitized Productive Net Volume for all the Tracts). The Tract Participation (Allocation) Formula is stated numerically as:

$$\frac{\text{Tract Total Unitized Productive Net Volume}}{\text{Unit Total Unitized Productive Net Volume}} = \text{Tract Participation (Allocation)}$$

XII.

That the expert engineering and geological witnesses for Petitioner testified that the proposed Tract Participation (Allocation) Formula and the calculated Tract Participation (Allocation) are based upon the relative contribution which each Tract or interest is expected to make during the course of the Unit Operations to the total production of hydrocarbons so allocated.

XIII.

That the expert engineering and geological witnesses for Petitioner testified that the provisions of the Unit Agreement and Unit Operating Agreement are fair and reasonable under all the circumstances and are being made in the interest of conservation. Said witnesses further testified that the Unit Agreement and Unit Operating Agreement were not made for the purpose of, and will not result in, the creation of a monopoly and said Agreements will not prevent fair and open competition or restrain trade or commerce and said Agreements will not violate or infringe in any way the laws of the State of Alabama.

XIV.

That the Unit Agreement designates South Carlton Operating Company, LLC as the initial Unit Operator and provides a method for selecting successor unit operators. South Carlton Operating Company, LLC has agreed to, and is duly qualified to serve as, said initial Unit Operator. The Unit Agreement provides that the conduct of all Unit Operations shall be by the Unit Operator.

XV.

That the Unit Agreement provides for an effective date for the unitization and also provides the manner in which and the circumstances under which the Unit Operation shall terminate.

XVI.

That the expert geologic and engineering witnesses for Petitioner testified that Unit Operations of the Unit Pool are reasonably necessary to prevent waste, to avoid the drilling of unnecessary wells, to allow the drilling of wells at optimum geologic locations, to increase the ultimate recovery of Unitized Substances and to protect the correlative rights of all owners and interested parties. Said witnesses further testified that the proposed Unit Operations will increase the ultimate recovery from the Unit Pool and that the estimated additional cost incident to conduct of Unit Operations will not exceed the value of the estimated additional recovery of hydrocarbons.

XVII.

That the expert geological witness for Petitioner testified the Unit Area is underlain by the Unit Pool, which is a proven source of supply of Unitized Substances, and said Unit Area has been sufficiently developed and produced so that the limits of production have been reasonably defined. Although there are a number of Tracts upon which no well has been drilled, the Lower Tuscaloosa Formation has been developed to the extent economically feasible by progressive drilling on forty-acre oil units under the spacing rules of this Board. Sufficient data and information have been obtained from the drilling of and production from the various wells drilled in the South Carlton Field over a period of more than fifty (50) years to reasonably define the limits of production of the Lower Tuscaloosa Formation. The productive limits of the Unit Pool are believed to be completely contained within the Unit Area.

XVIII.

That the Unit Agreement and Unit Operating Agreement have been ratified and approved in writing by the owners of more than sixty-six and two-thirds percent (66-2/3%) in interest as costs are shared under the terms of the above-referenced Tract Participation (Allocation) Formula. The Unit Agreement has been ratified and approved in writing by more than sixty-six and two-thirds percent (66-2/3%) in interest of the Royalty Owners and Overriding Royalty Owners in the Unit Area as

revenues are to be distributed under the terms of the above-referenced Tract Participation (Allocation) Formula.

XIX.

That the Special Field Rules for the South Carlton Field were last amended by the State Oil and Gas Board of Alabama on February 19, 1991, pursuant to Order No. 91-168. The existing Special Field Rules for the South Carlton Field do not contemplate or provide for the operation of the Lower Tuscaloosa Formation on a single field-wide unit basis. Rule 7 of the existing Special Field Rules provides that the Board expressly reserved the right, after notice and hearing, to alter or amend any and all rules and regulations.

XX.

That in order to effectuate Unit Operations for the South Carlton Field-Wide Lower Tuscaloosa Unit as described in and contemplated by the Unit Agreement and the Unit Operating Agreement, it is necessary that the existing Special Field Rules for the South Carlton Field be amended. A copy of the proposed amended Special Field Rules of the South Carlton Field is attached hereto and made a part hereof as Exhibit "A" to this Order.

XXI.

That in order to make the field area of the South Carlton Field consistent with the Unit Area of the proposed South Carlton Field-Wide Lower Tuscaloosa Unit and to facilitate the unitization of said unit, Rule 1 of the Special Field Rules for the South Carlton Field should be amended to revise the geographical area of the field to cover and include the Unit Area as described above. The expert geological witness of the Petitioner testified that said geographical area encompasses all of the currently known productive limits of the South Carlton Field.

XXII.

That Rule 2 of the Special Field Rules for the South Carlton Field should be amended to redefine the Massive and Pilot Sand Oil Pools as a single oil pool, to be known as the "Pilot-Massive Sand Oil Pool", as follows, to-wit:

"The Pilot-Massive Sand Oil Pool in the South Carlton Field, as used herein, shall be construed to mean those strata between the top and base of that portion of the Lower Tuscaloosa Formation which occurs in the interval between the depths of 5,240 feet and 5,454 feet as depicted by the electric log for the State of Alabama et al Unit No. 1 Well in the South Carlton Field (Permit No. 1023), located in the Northwest Quarter of the Southeast Quarter (NW¼ of SE¼) of Section 10 of Township 3 North, Range 2 East, Clarke County, Alabama, and all zones in

communication therewith and all productive extensions thereof, including those strata which can be correlated therewith. Said pool constitutes a separate and distinct oil producing pool in said field, separate and distinct from all other pools in said field.

The characteristics of said Pilot-Massive Sand Oil Pool in the South Carlton Field are such that a well located as hereinafter described upon a unit containing approximately 40 contiguous surface acres conforming to the requirements of the rules herein contained will efficiently drain and produce the recoverable hydrocarbons from such unit in said pool without avoidable waste."

Said interval is the same as the Unit Pool described above. The proposed Pilot-Massive Sand Oil Pool encompasses all of the previously defined Massive and Pilot Sand Oil Pools, as well as the undefined Wyble and Stray sands of the Lower Tuscaloosa Formation.

XXIII.

That the rules governing Unit Operations in the Special Field Rules for the South Carlton Field should describe the "Unit Area" for the South Carlton Field-Wide Lower Tuscaloosa Unit and said rules also should define the "Unit Pool" for the South Carlton Field-Wide Lower Tuscaloosa Unit.

XXIV.

That the rules governing Unit Operations in the Special Field Rules for the South Carlton Field should contain a rule allowing the Unit Operator of the South Carlton Field-Wide Lower Tuscaloosa Unit to drill and complete wells in the Unit Pool in the Unit Area at such locations as may be selected by the Unit Operator in accordance with good and prudent engineering and operating practices, but no closer than three-hundred and thirty (330) feet to any exterior boundary of the Unit Area in order to allow the full development of the Pilot-Massive Sand Oil Pool in the South Carlton Field-Wide Lower Tuscaloosa Unit.

XXV.

That the rules governing Unit Operations in the Special Field Rules for the South Carlton Field should contain a rule setting the oil allowable for the South Carlton Field-Wide Lower Tuscaloosa Unit as the actual oil production from the Unit Pool through the production facilities and authorizing the Unit Operator to produce the allowable from such wells in the Unit Area, and in such combination of rates from the such wells, as deemed appropriate by the Unit Operator in accordance with prudent engineering and operating practices.

XXVI.

That the rules governing Unit Operations in the Special Field Rules for the South Carlton Field should contain a rule authorizing the Unit Operator of the South Carlton Field-Wide Lower Tuscaloosa Unit to commingle production from any unit well with the unitized production from another unit well or wells into a common tank battery for production, storage and sales purposes.

XXVII.

That the rules governing Unit Operations in the Special Field Rules for the South Carlton Field should contain a rule authorizing the Unit Operator of the South Carlton Field-Wide Lower Tuscaloosa Unit to conduct and carry out enhanced recovery operations, pressure maintenance or any other method generally recognized and approved by the industry designed to increase the ultimate recovery of oil and/or gas from the Unit Pool.

XXVIII.

That the rules governing Unit Operations in the Special Field Rules for the South Carlton Field should contain a rule authorizing the Unit Operator to use the existing wells in the Unit Area as producing unit wells or as injection unit wells, as may be selected by the Unit Operator, and authorizing the Unit Operator to drill and operate additional wells for the same purposes upon the permitting of such wells by the Board. The rules governing Unit Operations in the Special Field Rules for the South Carlton Field also should contain a rule authorizing the Unit Operator to convert existing wells to injection unit wells, drill new injection unit wells and drill such disposal wells as may be appropriate in accordance with good and prudent engineering and operating practices upon the permitting of such wells by the Board.

XXIX.

That the rules governing Unit Operations in the Special Field Rules for the South Carlton Field should contain a rule requiring that the Unit Operator file an annual status report concerning Unit Operations with the Supervisor of the State Oil and Gas Board.

XXX.

That the proposed amendments to the Special Field Rules for the South Carlton Field should be made effective as of the effective date of the unitization of the South Carlton Field-Wide Lower Tuscaloosa Unit.

CONCLUSIONS OF LAW

XXXI.

That the establishment of the proposed South Carlton Field-Wide Lower Tuscaloosa Unit complies in all respects with the oil and gas conservation laws of the State of Alabama and the rules and regulations of this Board as set forth in the *State Oil and Gas Board of Alabama Administrative Code*.

XXXII.

That the plan for unitization and Unit Operations presented by Petitioner and set forth in the Unit Agreement and Unit Operating Agreement complies with and satisfies the requirements as set forth in Sections 9-17-80 through 9-17-88 of the *Code of Alabama* (1975).

XXXIII.

That the Unit Agreement and Unit Operating Agreement contain and comply with all the statutory provisions and requirements as set forth Sections 9-17-80 through 9-17-88 of the *Code of Alabama* (1975).

XXXIV.

That the Unit Operation of the South Carlton Field-Wide Lower Tuscaloosa Unit as a single field-wide unit is reasonably necessary to prevent waste, to increase the ultimate recovery of oil or gas, to avoid the drilling of unnecessary wells, to allow the drilling of wells at optimum geologic locations, and to protect the correlative rights of interested parties. Furthermore, the Unit Operation of the South Carlton Field-Wide Lower Tuscaloosa Unit as a single field-wide unit is reasonably necessary to promote conservation and to prevent the inefficient, excessive or improper use or dissipation of reservoir energy in the Unit Pool.

XXXV.

That unless all of the separately owned Tracts and interests within the Unit Area are unitized, force pooled and integrated (including the Tracts and interests of any and all known or unknown persons and entities, and all other persons or entities asserting, claiming or owning any interest in and to the Unitized Substances, including those who have failed or refused to join the Unit Agreement), "waste" as defined by the laws and statutes of the State of Alabama and the *State Oil and Gas Board of Alabama Administrative Code* will be committed.

XXXVI.

That the approval of the Unit Agreement and Unit Operating Agreement, as ratified, and the establishment of the South Carlton Lower Tuscaloosa Field-wide Unit, as proposed by Petitioner, will provide for the conservation of hydrocarbons, will prevent waste and protect the correlative rights of all mineral interest owners.

XXXVII.

That the amendment of the Special Field Rules for the South Carlton Field as set forth below in Exhibit "A" hereto will facilitate the more efficient and economical operation of the Lower Tuscaloosa Formation in the South Carlton Field and will ultimately result in the recovery of more oil and/or other hydrocarbon reserves from the South Carlton Field. Furthermore, the amendment of the Special Field Rules for the South Carlton Field as set forth below in Exhibit "A" hereto will safeguard, protect and enforce the correlative rights of all owners of hydrocarbons in the field to the extent that each such owner may recover his fair and equitable share of recoverable hydrocarbons without unnecessary expense and will prevent "waste" as defined by the laws and statutes of the State of Alabama and the *State Oil and Gas Board of Alabama Administrative Code*.

Based upon the Findings of Fact and the Conclusions of Law set forth hereinabove, **IT IS, THEREFORE, ORDERED, ADJUDGED AND DECREED** by the State Oil and Gas Board of Alabama that:

- (1) The Petitions bearing Docket No. 9-28-05-19 and Docket No. 9-28-05-20, filed by Petitioner are hereby **GRANTED**.
- (2) The unitization of the South Carlton Field-Wide Lower Tuscaloosa Unit as proposed by Petitioner and set forth in the Unit Agreement dated July 25, 2005, is hereby approved.
- (3) From and after the effective date of the unitization of the South Carlton Lower Tuscaloosa Field-Wide Unit, as set forth below, the South Carlton Field-Wide Lower Tuscaloosa Unit shall be operated as a single field-wide unit for the production of oil, gas, gaseous substances, condensate, distillate and all associated and constituent liquefiable substances, and all operations in and production of hydrocarbons from the Unit Area and from the Unit Pool shall be governed by the

terms of this Order and by the terms of the Unit Agreement and Unit Operating Agreement.

(4) Pursuant to Section 9-17-83(1) of the *Code of Alabama* (1975), the "Unit Area" of the South Carlton Lower Tuscaloosa Field-wide Unit is hereby defined as the following-described lands situated in Baldwin and Clarke Counties, Alabama, to-wit:

Township 3 North, Range 2 East:

- Section 2: Beginning at the Southwest corner of said Section 2; thence North 00° 23' 24" East along the West line of said Section 2 for 6,543.65 feet, more or less, to the Northwest corner of said Section 2; thence South 89° 54' 11" East along the North line of said Section 2 for 3,882.51 feet; thence South 01° 17' 56" West for 6,522.90 feet, more or less, to the South line of said Section 2; thence South 89° 45' 42" West along the South line of said Section 2 for 3,779.22 feet, more or less, to the Point of Beginning;
- Section 3: The entire section;
- Section 4: Beginning at the Southeast corner of said Section 4; thence North 89° 45' 16" West along the South line of said Section 4 for 2,633.84 feet; thence North 00° 23' 24" East for 3,921.60 feet; thence South 89° 45' 16" East for 658.46 feet; thence North 00° 23' 24" East for 1,307.20 feet; thence South 89° 45' 16" East for 658.46 feet; thence North 00° 23' 24" East for 1,307.20 feet, more or less, to the North line of said Section 4; thence South 89° 45' 16" East for 1,316.92 feet, more or less, to the Northeast corner of said Section 4; thence South 00° 23' 24" West along the East line of said Section 4 for 6,536.00 feet, more or less, to the Point of Beginning;
- Section 9: The East Half ($E\frac{1}{2}$), the East Half of the Southeast Quarter of the Northwest Quarter ($E\frac{1}{2}$ of $SE\frac{1}{4}$ of $NW\frac{1}{4}$) and the East Half of the Southwest Quarter ($E\frac{1}{2}$ of $SW\frac{1}{4}$);
- Section 10: The entire section;
- Section 11: The West Half ($W\frac{1}{2}$), the West Half of the East Half ($W\frac{1}{2}$ of $E\frac{1}{2}$), the West Half of the Northeast Quarter of the Northeast Quarter ($W\frac{1}{2}$ of $NE\frac{1}{4}$ of $NE\frac{1}{4}$), the West Three-fourths of the Southeast Quarter of the Northeast Quarter ($W\frac{3}{4}$ of $SE\frac{1}{4}$ of $NE\frac{1}{4}$) and the West Half of the East Half of the Southeast Quarter ($W\frac{1}{2}$ of $E\frac{1}{2}$ of $SE\frac{1}{4}$);
- Section 14: The West Half ($W\frac{1}{2}$), the West Half of the Northeast Quarter ($W\frac{1}{2}$ of $NE\frac{1}{4}$) and the Northwest Quarter of the Southeast Quarter ($NW\frac{1}{4}$ of $SE\frac{1}{4}$);
- Section 15: The entire section;
- Section 16: The East Half ($E\frac{1}{2}$) and the East Half of the West Half ($E\frac{1}{2}$ of $W\frac{1}{2}$);
- Section 21: The North Quarter of the Northwest Quarter of the Northeast Quarter ($N\frac{1}{4}$ of $NW\frac{1}{4}$ of $NE\frac{1}{4}$);
- Section 22: The East Half of the Northwest Quarter of the Northwest Quarter ($E\frac{1}{2}$ of $NW\frac{1}{4}$ of $NW\frac{1}{4}$), the Northwest Quarter of the Northwest Quarter of the Northwest Quarter ($NW\frac{1}{4}$ of $NW\frac{1}{4}$ of $NW\frac{1}{4}$), the Northeast Quarter of the Northwest Quarter

(NE $\frac{1}{4}$ of NW $\frac{1}{4}$), the North Half of the Southeast Quarter of the Northwest Quarter (N $\frac{1}{2}$ of SE $\frac{1}{4}$ of NW $\frac{1}{4}$), the North Half of the Northeast Quarter (N $\frac{1}{2}$ of NE $\frac{1}{4}$) and the North Half of the South Half of the Northeast Quarter (N $\frac{1}{2}$ of S $\frac{1}{2}$ of NE $\frac{1}{4}$); and

Section 23: The Northwest Quarter of the Northwest Quarter (NW $\frac{1}{4}$ of NW $\frac{1}{4}$);

Township 4 North, Range 2 East:

Section 34: The South Half of the Southeast Quarter (S $\frac{1}{2}$ of SE $\frac{1}{4}$), the South Half of the North Half of the Southeast Quarter (S $\frac{1}{2}$ of N $\frac{1}{2}$ of SE $\frac{1}{4}$), the Southeast Quarter of the Southwest Quarter (SE $\frac{1}{4}$ of SW $\frac{1}{4}$) and the South Half of the Southwest Quarter of the Southwest Quarter (S $\frac{1}{2}$ of SW $\frac{1}{4}$ of SW $\frac{1}{4}$); and

Section 35: The South Half of the Southwest Quarter (S $\frac{1}{2}$ of SW $\frac{1}{4}$) and the South Half of the Southwest Quarter of the Southeast Quarter (S $\frac{1}{2}$ of SW $\frac{1}{4}$ of SE $\frac{1}{4}$).

The above-described land contains 5408.38 acres, more or less.

(5) Pursuant to Section 9-17-83(1) of the *Code of Alabama* (1975), the "Unit Pool" for the South Carlton Lower Tuscaloosa Field-Wide Unit is defined as the subsurface portion of the Unit Area between the top and base of that portion of the Lower Tuscaloosa Formation which occurs in the interval between the depths of 5,240 feet and 5,454 feet as depicted by the electric log for the State of Alabama et al Unit No. 1 Well in the South Carlton Field (Permit No. 1023), located in the Northwest Quarter of the Southeast Quarter (NW $\frac{1}{4}$ of SE $\frac{1}{4}$) of Section 10 of Township 3 North, Range 2 East, Clarke County, Alabama, and all zones in communication therewith and all productive extensions thereof, including those strata which can be correlated therewith.

(6) Pursuant to Section 9-17-83(2) of the *Code of Alabama* (1975), the nature of the Unit Operations contemplated by the unitization is stated as follows: The Unit Operator shall, with diligence and in accordance with good engineering and production practices, vary production from wells to reduce water production and maintain a maximum efficient rate of oil production, engage in the reworking of existing wells, drill additional wells in the Unit Area at such location or locations and in such manner as may be determined to be necessary or advisable, and engage in enhanced recovery methods or any other approved methods of cooperative development and operation calculated to increase the ultimate recovery of Unitized Substances from the Unit Pool. The methods of Unit Operation which may be conducted by the Unit Operator include, but are not limited to, pressure maintenance, water flood or other enhanced recovery

techniques, subject to any necessary approval by the Board or other regulatory authorities.

(7) Pursuant to Section 9-17-83(3) of the *Code of Alabama* (1975), from and after the effective date of the unitization of the South Carlton Lower Tuscaloosa Field-Wide Unit, all the oil or gas, or both, produced from the Unit Pool within the Unit Area, and not required in the conduct of such Unit Operation or unavoidably lost, shall be allocated among the separately owned interests derived from or associated with Tracts in the Unit Area in accordance with the Allocation Formula as set forth in Exhibit "H" which is attached hereto and made a part of this Order. Said allocation of production in accordance with said Allocation Formula is based on the relative contribution which each such Tract or interest is expected to make during the course of such Unit Operation, to the total production of oil or gas, or both, so allocated.

(8) Pursuant to Section 9-17-83(4) of the *Code of Alabama* (1975), from and after the effective date of the unitization of the South Carlton Lower Tuscaloosa Field-Wide Unit, an adjustment shall be made among the Owners of the Unit Area (not including Royalty Owners or Overriding Royalty Owners, except as otherwise hereinafter provided in paragraph (11)) of their respective investment in wells, tanks, pumps, machinery, materials, equipment and other things and services of value attributable to the Unit Operations. The amount to be charged Unit Operations for any such items shall be determined by the owners of the Unit Area (not including Royalty Owners or Overriding Royalty Owners, except as otherwise hereinafter provided in paragraph (11)); provided, that, if said Owners of the Unit Area are not able to agree upon the amount of such charges, or to agree upon the correctness thereof, the Board shall determine them after due notice and hearing thereon, upon the application of any interested party. The net amount charged against the Owner of a separately owned Tract or separately owned interest derived from or associated with a Tract within the Unit Area shall be considered an expense of Unit Operation chargeable against such Tract or interest. The adjustments provided for hereinabove may be treated separately and handled by an agreement or agreements separate from the Unit Agreement.

(9) Pursuant to Section 9-17-83(5) of the *Code of Alabama* (1975), from and after the effective date of the unitization of the South Carlton Lower Tuscaloosa Field-Wide Unit, costs and expenses of Unit Operation, including investment, past and

prospective be charged to the separately owned Tracts or interests in the same proportions that such Tracts or interests share in unit production, as provided in the Allocation Formula. The expenses chargeable to a Tract or interest shall be paid by the person or persons not entitled to share in production free of operating costs and who, in the absence of Unit Operation, would be responsible for the expense of developing and operating such Tract or interest, and such person or person's interest in the separately owned Tract or interest shall be primarily responsible therefor in accordance with the terms and provisions of the Unit Agreement.

(10) Pursuant to Section 9-17-83(6) of the *Code of Alabama* (1975), South Carlton Operating Company, LLC is hereby designated and appointed as initial Unit Operator of the South Carlton Lower Tuscaloosa Field-Wide Unit. The conduct of all Unit Operations by the Unit Operator and the selection of a successor to the Unit Operator designated by the Board shall be governed by the Alabama Oil and Gas Laws and the terms and provisions of the Unit Agreement.

(11) Pursuant to Section 9-17-83(7) of the *Code of Alabama* (1975), from and after the effective date of the unitization of the South Carlton Lower Tuscaloosa Field-Wide Unit, when the full amount of any charge made against a separately owned Tract or interest is not paid when due by the person or persons primarily responsible therefor, as provided in Section 9-17-83(5) of the *Code of Alabama* (1975), then seven-eighths (7/8ths) of the oil and gas production allocated to such separately owned Tract or interest may be appropriated by the Unit Operator and marketed and sold for the payment of such charge, together with interest at the rate of five percent (5%) per annum thereon. Pursuant to said Section 9-17-83(7), a one-eighth (1/8th) part of the unit production allocated to each separately owned Tract or interest shall in all events be regarded as royalty to be distributed to and among, or the proceeds thereof paid to, the Royalty Owners, free and clear of all unit expense and free and clear of any lien therefor. The Owner of any overriding royalty, oil and gas payment, royalty in excess of one-eighth (1/8th) of production, or other interests, who is not primarily responsible therefor shall, to the extent of such payment or deduction from his share, be subrogated to all the rights of the Unit Operator with respect to the interest or interests primarily responsible for such payment. Any surplus received by the Unit Operator from any such sale of production shall be credited to the person or persons from whom it was deducted in the proportion of their respective interest.

(12) The Unit Agreement dated July 25, 2005, has been ratified and approved by more than sixty-six and two-thirds percent (66-2/3%) of the working, royalty and overriding royalty interest owners in the Unit, as required by Section 9-17-84 of the *Code of Alabama* (1975).

(13) The Unit Agreement and the ratifications of said agreements are approved and adopted only insofar as authorized by the State Oil and Gas Board of Alabama under Sections 9-17-80 through 9-17-88 of the *Code of Alabama* (1975). From and after the effective date of the unitization of the South Carlton Lower Tuscaloosa Field-Wide Unit, the Unit Area and Unit Pool shall be operated in accordance with the terms of the Unit Agreement.

(14) Pursuant to Section 9-17-83(8) of the *Code of Alabama* (1975), Unit Operation of the South Carlton Lower Tuscaloosa Field-Wide Unit shall become effective as of 7:00 a.m. Central Daylight Savings Time on October 1, 2005.

(15) Pursuant to Section 9-17-83(8) of the *Code of Alabama* (1975), Unit Operation of the South Carlton Lower Tuscaloosa Field-Wide Unit shall terminate in the manner and under the circumstances as set forth in Article 13 of the Unit Agreement.

(16) Pursuant to Section 9-17-85 of the *Code of Alabama* (1975), the Board, by entry of new or amending orders, may from time to time add to Unit Operations portions of pools not included in the Unit Pool and may add to Unit Operations new pools or portions thereof and may extend the Unit Area as required. Any such revision to the Unit Pool or the Unit Area shall be made in accordance with Section 9-17-85 of the *Code of Alabama* (1975), and the provisions set forth in Article 9.1 of the Unit Agreement shall not be binding upon the Board in the event of a revision of the Unit Pool or the Unit Area.

(17) Pursuant to Section 9-17-86 of the *Code of Alabama* (1975), the Allocation of a separately owned Tract with respect to the Unit Pool shall not be subsequently altered, unless the Board shall find, after notice and hearing, that such Allocation was erroneous as shown by subsequently discovered data or by subsequently discovered errors in the data upon which the original Allocation was established. No change or correction of the Allocation of any separately owned Tract shall be given retroactive effect; provided, that appropriate adjustment shall be made

for the investment charges as provided for in subdivision (4) of section 9-17-83 of the *Code of Alabama* (1975).

(18) Pursuant to Section 9-17-87 of the *Code of Alabama* (1975), the portion of unit production allocated to a separately owned Tract within the Unit Area shall be deemed for all purposes to have been actually produced from such Tract, and operations with respect to the Unit Pool within the Unit Area shall be deemed for all purposes to be the conduct of operations for the production of oil or gas or both from each separately owned Tract in the Unit Area.

(19) All of the separately owned Tracts or interests in Tracts of land within the Unit Area are hereby unitized, force pooled and integrated, including the Tracts or interests of persons or entities asserting, claiming or owning an interest in the Unitized Substances, whether known or unknown, including those who have failed or refused to sign the Unit Agreement or a ratification thereof.

(20) The Plan of Unit Operations as set forth in Exhibit "I" is hereby approved

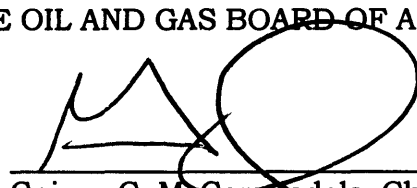
(21) The proposed Special Field Rules for the South Carlton Field as attached hereto and made a part hereof as Exhibit "A", are hereby approved and adopted for the South Carlton Field effective as of 7:00 a.m. Central Daylight Savings Time on October 1, 2005.

(22) In the event of conflict between the provisions of this Order and the Unit Agreement and Unit Operating Agreement, the terms and conditions of this Order shall govern and control.

SO ORDERED this 30th day of September, 2005.

STATE OIL AND GAS BOARD OF ALABAMA

By:


Gaines C. McCorquodale, Chairman

By:

ABSENT
M. Stephen Dampier, Member

By:


Rebecca Wright Pritchett, Member

ATTEST:

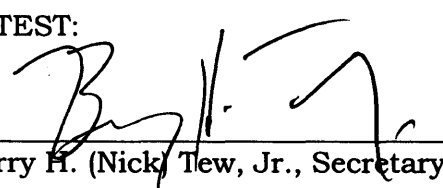

Berry H. (Nick) Tew, Jr., Secretary

Exhibit "A" to Order No. 2005-107

**SPECIAL FIELD RULES
FOR THE SOUTH CARLTON FIELD
BALDWIN AND CLARKE COUNTIES, ALABAMA
(As Amended September 30, 2005)**

RULE 1: FIELD LIMITS.

The South Carlton Field, as used herein, is that area situated in Baldwin and Clarke Counties, Alabama, described as follows, to-wit:

Township 3 North, Range 2 East:

- Section 2: Beginning at the Southwest corner of said Section 2; thence North 00° 23' 24" East along the West line of said Section 2 for 6,543.65 feet, more or less, to the Northwest corner of said Section 2; thence South 89° 54' 11" East along the North line of said Section 2 for 3,882.51 feet; thence South 01° 17' 56" West for 6,522.90 feet, more or less, to the South line of said Section 2; thence South 89° 45' 42" West along the South line of said Section 2 for 3,779.22 feet, more or less, to the Point of Beginning;
- Section 3: The entire section;
- Section 4: Beginning at the Southeast corner of said Section 4; thence North 89° 45' 16" West along the South line of said Section 4 for 2,633.84 feet; thence North 00° 23' 24" East for 3,921.60 feet; thence South 89° 45' 16" East for 658.46 feet; thence North 00° 23' 24" East for 1,307.20 feet; thence South 89° 45' 16" East for 658.46 feet; thence North 00° 23' 24" East for 1,307.20 feet, more or less, to the North line of said Section 4; thence South 89° 45' 16" East for 1,316.92 feet, more or less, to the Northeast corner of said Section 4; thence South 00° 23' 24" West along the East line of said Section 4 for 6,536.00 feet, more or less, to the Point of Beginning;
- Section 9: The East Half ($E\frac{1}{2}$), the East Half of the Southeast Quarter of the Northwest Quarter ($E\frac{1}{2}$ of $SE\frac{1}{4}$ of $NW\frac{1}{4}$) and the East Half of the Southwest Quarter ($E\frac{1}{2}$ of $SW\frac{1}{4}$);
- Section 10: The entire section;
- Section 11: The West Half ($W\frac{1}{2}$), the West Half of the East Half ($W\frac{1}{2}$ of $E\frac{1}{2}$), the West Half of the Northeast Quarter of the Northeast Quarter ($W\frac{1}{2}$ of $NE\frac{1}{4}$ of $NE\frac{1}{4}$), the West Three-fourths of the Southeast Quarter of the Northeast Quarter ($W\frac{3}{4}$ of $SE\frac{1}{4}$ of $NE\frac{1}{4}$) and the West Half of the East Half of the Southeast Quarter ($W\frac{1}{2}$ of $E\frac{1}{2}$ of $SE\frac{1}{4}$);
- Section 14: The West Half ($W\frac{1}{2}$), the West Half of the Northeast Quarter ($W\frac{1}{2}$ of $NE\frac{1}{4}$) and the Northwest Quarter of the Southeast Quarter ($NW\frac{1}{4}$ of $SE\frac{1}{4}$);
- Section 15: The entire section;
- Section 16: The East Half ($E\frac{1}{2}$) and the East Half of the West Half ($E\frac{1}{2}$ of $W\frac{1}{2}$);
- Section 21: The North Quarter of the Northwest Quarter of the Northeast Quarter ($N\frac{1}{4}$ of $NW\frac{1}{4}$ of $NE\frac{1}{4}$);

Section 22: The East Half of the Northwest Quarter of the Northwest Quarter ($E\frac{1}{2}$ of $NW\frac{1}{4}$ of $NW\frac{1}{4}$), the Northwest Quarter of the Northwest Quarter ($NW\frac{1}{4}$ of $NW\frac{1}{4}$), the Northeast Quarter of the Northwest Quarter ($NE\frac{1}{4}$ of $NW\frac{1}{4}$), the North Half of the Southeast Quarter of the Northwest Quarter ($N\frac{1}{2}$ of $SE\frac{1}{4}$ of $NW\frac{1}{4}$), the North Half of the Northeast Quarter ($N\frac{1}{2}$ of $NE\frac{1}{4}$) and the North Half of the South Half of the Northeast Quarter ($N\frac{1}{2}$ of $S\frac{1}{2}$ of $NE\frac{1}{4}$); and

Section 23: The Northwest Quarter of the Northwest Quarter ($NW\frac{1}{4}$ of $NW\frac{1}{4}$);

Township 4 North, Range 2 East:

Section 34: The South Half of the Southeast Quarter ($S\frac{1}{2}$ of $SE\frac{1}{4}$), the South Half of the North Half of the Southeast Quarter ($S\frac{1}{2}$ of $N\frac{1}{2}$ of $SE\frac{1}{4}$), the Southeast Quarter of the Southwest Quarter ($SE\frac{1}{4}$ of $SW\frac{1}{4}$) and the South Half of the Southwest Quarter of the Southwest Quarter ($S\frac{1}{2}$ of $SW\frac{1}{4}$ of $SW\frac{1}{4}$); and

Section 35: The South Half of the Southwest Quarter ($S\frac{1}{2}$ of $SW\frac{1}{4}$) and the South Half of the Southwest Quarter of the Southeast Quarter ($S\frac{1}{2}$ of $SW\frac{1}{4}$ of $SE\frac{1}{4}$).

containing 5408.38 acres, more or less, underlain by the Pilot-Massive Sand Oil Pool, as hereinafter defined, and all zones in communication therewith, and all productive extensions thereof.

RULE 2: PILOT-MASSIVE SAND OIL POOL DEFINED.

The Pilot-Massive Sand Oil Pool in the South Carlton Field, as used herein, shall be construed to mean those strata between the top and base of that portion of the Lower Tuscaloosa Formation which occurs in the interval between the depths of 5,240 feet and 5,454 feet as depicted by the electric log for the State of Alabama et al Unit No. 1 Well in the South Carlton Field (Permit No. 1023), located in the Northwest Quarter of the Southeast Quarter ($NW\frac{1}{4}$ of $SE\frac{1}{4}$) of Section 10 of Township 3 North, Range 2 East, Clarke County, Alabama, and all zones in communication therewith and all productive extensions thereof, including those strata which can be correlated therewith. Said pool constitutes a separate and distinct oil producing pool in said field, separate and distinct from all other pools in said field.

The characteristics of said Pilot-Massive Sand Oil Pool in the South Carlton Field are such that a well located as hereinafter described upon a unit containing approximately 40 contiguous surface acres conforming to the requirements of the rules herein contained will efficiently drain and produce the recoverable hydrocarbons from such unit in said pool without avoidable waste.

RULE 3: SPACING OF OIL WELLS.

Every well drilled as an oil well in the Pilot-Massive Sand Oil Pool (with the exception of those wells drilled as unit wells in the below described Unit Area for the South Carlton Field-Wide Lower Tuscaloosa Unit:

- (a) shall be drilled on a drilling unit which contains approximately 40 contiguous acres upon which no other drilling or producible well is located in the same pool; and
- (b) shall be located at least 330 feet from every exterior boundary of the drilling unit.

RULE 4: DRILLING AND COMPLETION OPERATIONS.

- (a) Unless an exception is granted by the Board, at least 600 feet of surface casing shall be run in each well and shall be cemented with sufficient cement, or cementing admixture, to allow circulation of cement to surface.
- (b) Production casing shall be set into the producing reservoir.
- (c) The production casing shall be cemented with sufficient cement, or cementing admixture, to fill the calculated annular space between the flow string and the bore hole to a height of at least five hundred (500) feet above the top of the producing reservoir.
- (d) The time of waiting on cement, or cementing admixture, shall be a minimum of twelve (12) hours before drilling the surface casing plug and a minimum of eighteen (18) hours before drilling the production plug.
- (e) Before drilling the surface casing plug, the surface casing shall be tested at a pressure of at least eight hundred (800) pounds per square inch.
- (f) Before drilling the production plug, the production plug shall be tested at a pressure of at least eight hundred (800) pounds per square inch.

RULE 5: COMMINGLING OF PRODUCTION.

Upon notice to and approval from the Oil and Gas Supervisor, production from a given well may be commingled with production from another well or other wells into a common tank battery for production and storage purposes. Notice of intent to commingle shall be written, shall contain the names of all wells proposed to be commingled into a common facility, shall include sample calculations for assigning

well test information to production data, and shall show a schematic diagram of the surface facilities to be used for determination of individual well testing.

The operator shall provide notice by first class mail of the proposed commingling plan to all owners of interests in said wells and further provide proof of such notice by affidavit to the Supervisor. Comments concerning the proposed plan shall be received and considered by the Supervisor for a period of fifteen (15) days from the date of said notice. If the Supervisor so determines, any proposed commingling plan may be referred to the Board for final action after notice and hearing.

RULE 6: ALLOWABLES.

The allowables for each unit shall be 100 barrels of oil per day.

IN ADDITION TO THE ABOVE, THE FOLLOWING RULES SHALL APPLY TO UNIT OPERATIONS IN THE FOLLOWING-DESCRIBED SOUTH CARLTON FIELD-WIDE LOWER TUSCALOOSA UNIT AND TO THE EXTENT THAT ANY OF THE FOLLOWING RULES CONFLICT WITH ANY OF THE ABOVE RULES, THE FOLLOWING RULES SHALL GOVERN AS TO UNIT OPERATIONS IN THE SOUTH CARLTON FIELD-WIDE LOWER TUSCALOOSA UNIT:

RULE 7: DEFINITION OF UNIT AREA.

As used herein, the term "Unit Area" means the following-described lands situated in Baldwin and Clarke Counties, Alabama, to-wit:

Township 3 North, Range 2 East:

Section 2: Beginning at the Southwest corner of said Section 2; thence North 00° 23' 24" East along the West line of said Section 2 for 6,543.65 feet, more or less, to the Northwest corner of said Section 2; thence South 89° 54' 11" East along the North line of said Section 2 for 3,882.51 feet; thence South 01° 17' 56" West for 6,522.90 feet, more or less, to the South line of said Section 2; thence South 89° 45' 42" West along the South line of said Section 2 for 3,779.22 feet, more or less, to the Point of Beginning;

Section 3: The entire section;

Section 4: Beginning at the Southeast corner of said Section 4; thence North 89° 45' 16" West along the South line of said Section 4 for 2,633.84 feet; thence North 00° 23' 24" East for 3,921.60 feet; thence South 89° 45' 16" East for 658.46 feet; thence North 00° 23' 24" East for 1,307.20 feet; thence South 89° 45' 16" East for 658.46 feet; thence North 00° 23' 24" East for 1,307.20 feet, more or less, to the North line of said Section 4; thence South 89° 45' 16" East for 1,316.92 feet, more or less, to the Northeast corner of said Section 4; thence South 00° 23' 24" West along the East line of said Section 4 for 6,536.00 feet, more or less, to the Point of Beginning;

- Section 9: The East Half ($E\frac{1}{2}$), the East Half of the Southeast Quarter of the Northwest Quarter ($E\frac{1}{2}$ of $SE\frac{1}{4}$ of $NW\frac{1}{4}$) and the East Half of the Southwest Quarter ($E\frac{1}{2}$ of $SW\frac{1}{4}$);
- Section 10: The entire section;
- Section 11: The West Half ($W\frac{1}{2}$), the West Half of the East Half ($W\frac{1}{2}$ of $E\frac{1}{2}$), the West Half of the Northeast Quarter of the Northeast Quarter ($W\frac{1}{2}$ of $NE\frac{1}{4}$ of $NE\frac{1}{4}$), the West Three-fourths of the Southeast Quarter of the Northeast Quarter ($W\frac{3}{4}$ of $SE\frac{1}{4}$ of $NE\frac{1}{4}$) and the West Half of the East Half of the Southeast Quarter ($W\frac{1}{2}$ of $E\frac{1}{2}$ of $SE\frac{1}{4}$);
- Section 14: The West Half ($W\frac{1}{2}$), the West Half of the Northeast Quarter ($W\frac{1}{2}$ of $NE\frac{1}{4}$) and the Northwest Quarter of the Southeast Quarter ($NW\frac{1}{4}$ of $SE\frac{1}{4}$);
- Section 15: The entire section;
- Section 16: The East Half ($E\frac{1}{2}$) and the East Half of the West Half ($E\frac{1}{2}$ of $W\frac{1}{2}$);
- Section 21: The North Quarter of the Northwest Quarter of the Northeast Quarter ($N\frac{1}{4}$ of $NW\frac{1}{4}$ of $NE\frac{1}{4}$);
- Section 22: The East Half of the Northwest Quarter of the Northwest Quarter ($E\frac{1}{2}$ of $NW\frac{1}{4}$ of $NW\frac{1}{4}$), the Northwest Quarter of the Northwest Quarter of the Northwest Quarter ($NW\frac{1}{4}$ of $NW\frac{1}{4}$ of $NW\frac{1}{4}$), the Northeast Quarter of the Northwest Quarter ($NE\frac{1}{4}$ of $NW\frac{1}{4}$), the North Half of the Southeast Quarter of the Northwest Quarter ($N\frac{1}{2}$ of $SE\frac{1}{4}$ of $NW\frac{1}{4}$), the North Half of the Northeast Quarter ($N\frac{1}{2}$ of $NE\frac{1}{4}$) and the North Half of the South Half of the Northeast Quarter ($N\frac{1}{2}$ of $S\frac{1}{2}$ of $NE\frac{1}{4}$); and
- Section 23: The Northwest Quarter of the Northwest Quarter ($NW\frac{1}{4}$ of $NW\frac{1}{4}$);

Township 4 North, Range 2 East:

- Section 34: The South Half of the Southeast Quarter ($S\frac{1}{2}$ of $SE\frac{1}{4}$), the South Half of the North Half of the Southeast Quarter ($S\frac{1}{2}$ of $N\frac{1}{2}$ of $SE\frac{1}{4}$), the Southeast Quarter of the Southwest Quarter ($SE\frac{1}{4}$ of $SW\frac{1}{4}$) and the South Half of the Southwest Quarter of the Southwest Quarter ($S\frac{1}{2}$ of $SW\frac{1}{4}$ of $SW\frac{1}{4}$); and
- Section 35: The South Half of the Southwest Quarter ($S\frac{1}{2}$ of $SW\frac{1}{4}$) and the South Half of the Southwest Quarter of the Southeast Quarter ($S\frac{1}{2}$ of $SW\frac{1}{4}$ of $SE\frac{1}{4}$).

The above-described Unit Area is situated in Sections 2, 3, 4, 9, 10, 11, 14, 15, 16, 21, 22 and 23 of Township 3 North, Range 2 East, and in Sections 34 and 35 of Township 4 North, Range 2 East, in Baldwin and Clarke Counties, Alabama, and contains 5408.38 acres, more or less.

RULE 8: UNIT POOL DEFINED.

As used herein, the term "Unit Pool" means the subsurface portion of the Unit Area between the top and base of that portion of the Lower Tuscaloosa Formation which occurs in the interval between the depths of 5,240 feet and 5,454 feet as depicted by the electric log for the State of Alabama et al Unit No. 1 Well in the South Carlton Field (Permit No. 1023), located in the Northwest Quarter of the Southeast Quarter (NW¼ of SE¼) of Section 10 of Township 3 North, Range 2 East, Clarke County, Alabama, and all zones in communication therewith and all productive extensions thereof, including those strata which can be correlated therewith.

RULE 9: SPACING OF WELLS IN UNIT POOL.

Wells drilled as unit wells in the South Carlton Field-Wide Lower Tuscaloosa Unit shall be located and drilled within the Unit Area in accordance with good and prudent engineering and operating practices and shall be located at least 330 feet from every exterior boundary of the Unit Area.

RULE 10: ALLOWABLE FOR UNIT POOL.

The oil allowable for the South Carlton Field-Wide Lower Tuscaloosa Unit is established as the actual oil production from the Unit Pool through the production facilities in the Unit Area. The Unit Operator may produce the authorized unit allowable from such unit wells and in such combination of rates from such unit wells as deemed appropriate by the Unit Operator in accordance with good and prudent engineering and operating practices.

RULE 11: COMMINGLING OF PRODUCTION FROM UNIT POOL.

Production from any unit well in the South Carlton Field-Wide Lower Tuscaloosa Unit may be commingled with the production from another unit well or wells into a common tank battery for production, storage and sales purposes. The Unit Operator shall periodically (at least once each quarter of a year) test the rates of production for all unit wells which are commingled into a common tank battery.

RULE 12: PRESSURE AND MAINTENANCE AND ENHANCED RECOVERY OPERATIONS AUTHORIZATION.

The Unit Operator of the South Carlton Field-Wide Lower Tuscaloosa Unit is authorized to conduct and carry out enhanced recovery operations, pressure maintenance or any other method generally recognized and approved by the industry designed to increase the ultimate recovery of oil and/or gas from the Unit Pool, including, but not limited to the injection into the Unit Pool of gas, carbon dioxide, water and other extraneous substances, and any combination thereof, or any other form of joint effort calculated to increase the ultimate recovery of oil, gas, gaseous substances, sulphur contained therein, condensate, distillate, and all associated and constituent liquid or liquefiable substances from the South Carlton Field-Wide Lower Tuscaloosa Unit and to maintain the reservoir pressure in the Unit Pool at a desirable level for sufficient productivity. The Unit Operator shall keep a record of the actual or calculated production from each unit well and shall make such reports with respect to such production as may from time to time be required by the State Oil and Gas Board of Alabama. The Unit Operator shall maintain proper metering devices as are necessary to measure injection into each injection well and shall keep a record of the actual volume of substances which may be injected into the Unit Pool and shall make such reports with respect thereto as from time to time may be required by the State Oil and Gas Board of Alabama.

RULE 13: INJECTION AND PRODUCTION WELLS.

The Unit Operator may use the existing wells in said Unit Area as producing unit wells or as injection unit wells, as may be selected by the Unit Operator, and may drill and operate additional wells for the same purposes and same utilizations; provided, however, that a permit will be required for the drilling of each such additional well. Such permit shall be issued by the Board after receipt and approval of Form OGB-1 along with the same information required for the drilling of similar wells under applicable statewide rules. The Unit Operator may convert existing wells to injection unit wells, drill new injection unit wells and drill such disposal wells as may be appropriate conforming to the applicable rules and regulations of the *State Oil and Gas Board of Alabama Administrative Code*.

RULE 14: ANNUAL REPORT OF UNIT OPERATIONS.

The Unit Operator shall file an annual status report on unit operations with the Supervisor of the State Oil and Gas Board within thirty (30) days from the anniversary of the effective date of the unitization of the South Carlton Field-Wide Lower Tuscaloosa Unit. The report should include a summary of activities accomplished, the extent to which the unitization plan has been implemented or modified, the amount of substances injected into the Unit Pool, the results from enhanced recovery operations and any other pertinent information as deemed necessary by the Unit Operator or the Supervisor.

RULE 15: GENERAL RULES AND REGULATIONS.

In addition to the Special Field Rules recorded heretofore in this order, all of the provisions of the *State Oil and Gas Board of Alabama Administrative Code* and all amendments thereto, shall remain in full force and effect with respect to the South Carlton Field, Baldwin and Clarke Counties, Alabama, except as herein amended. In the event of conflict between the provisions of the *State Oil and Gas Board of Alabama Administrative Code*, or the amendments thereto, and the Special Field Rules for the South Carlton Field prescribed by this order, the Special Field rules adopted herein shall govern and control.

The Board expressly reserves its rights, after notice and hearing, to grant exceptions, alter, amend or repeal any and all of the rules and regulations.