STATE OIL AND GAS BOARD OF ALABAMA

Tuscaloosa, Alabama

March 21, 2013

Testimony and proceedings before the State Oil and Gas Board in Regular Session in the Board Room of the State Oil and Gas Board Building, University of Alabama Campus, Tuscaloosa, Alabama, pursuant to adjournment, on this 21st day of March, 2013.

ORIGINAL

BOARD

Mr. James "Jim" Griggs, Chairman

Mr. Charles "Ward" Pearson, Vice Chairman

Mr. M. Barnett Lawley, Member

SMR

STAFF

Dr. Berry H. "Nick" Tew, Secretary and Supervisor

Dr. David E. Bolin, Deputy Director

Mr. S. Marvin Rogers, Attorney

Ms. April Merritt, Hearings Administration

6/20/13

I N D E X

INDEX OF EXHIBITS (OFFERED)

INDEX OF EXHIBITS (RECEIVED)

PROCEEDING

CHAIRMAN GRIGGS: It's 10:04. Let the record reflect that the State Oil and Gas Board is now in session. Dr. Tew, have the items for the March 19th and the March 21st, 2013, meetings been properly noticed?

DR. TEW: Chairman Griggs, Mr. Pearson, and Mr. Lawley, the items for the March 19th and March 21st meetings have been properly noticed. The staff prepared an agenda for the Board's March 19th and March 21st meetings, and that agenda was admitted into the record at the Hearing Officer meeting on March 19th, 2013. Mr. Marvin Rogers, acting as Hearing Officer, and the staff heard various items at the Hearing Officer meeting on March 19th, and at this time, Mr. Rogers will make his report to the Board.

MR. ROGERS: Chairman Griggs, Mr. Pearson, and Mr. Lawley, I have a written report of the items heard by the Hearing Officer and the staff on Tuesday, March 19, 2013. Copies of that report are available for members of the public to review and study. I submit this Hearing Officer Report to the Board for approval.

CHAIRMAN GRIGGS: Is there a motion on the Hearing Officer's Report?

MR. PEARSON: So moved.

MR. LAWLEY: Second.

CHAIRMAN GRIGGS: Motion and a second. All in favor say "aye." Ayes have it. The Hearing Officer's report is approved.

MR. ROGERS: Mr. Chairman, I recommend the report be admitted into the record.

CHAIRMAN GRIGGS: It is admitted into the record.

MR. ROGERS: Thank you.

DR. TEW: The staff would recommend approval of the minutes of the following meetings: December 11th, 2012, Hearing Officer Meeting; December 13th, 2012, Regular Board Meeting; December 19th, 2013 -- 2012, Special Hearing Officer Meeting; and February the 12th, 2013, Hearing Officer Meeting.

MR. PEARSON: I move that we adopt those minutes, Mr. Chairman.

CHAIRMAN GRIGGS: We have a motion. Second?

MR. LAWLEY: Second.

CHAIRMAN GRIGGS: There is a motion and a second. All in favor say "aye." Ayes have it.

Those minutes are approved.

DR. TEW: The staff has prepared an agenda of items to be heard by the Board today. Mr. Rogers, will you please call the first item.

CHAIRMAN GRIGGS: Mr. Rogers.

MR. ROGERS: Mr. Chairman, Members of the Board, one of the items that was recommended to be continued is a motion by the Board relating to hydraulic fracturing. Copies of that, of those proposed rules are available at the table outside the hearing room, and the Board and the staff would welcome any comments either now or written comments in the future about that rule.

CHAIRMAN GRIGGS: Would you like to be recognized?

MR. LATHEM: Please.

CHAIRMAN GRIGGS: If you will, for all of the petitions and everything before the Board, we have a new hearing reporter today, please state your name succinctly and always use the microphone. That will make her job a whole lot easier.

MR. LATHEM: My name is Dennis Lathem. I'm with the Coalbed Methane Association in Hoover, Alabama. And we appreciate the work of the staff and the Board on these proposed regulations. We have

made sure they've been circulated to our membership, and so far there have been no comments of any kind, and we'll continue to be soliciting those comments, and hopefully others in the other areas of the industry. I talked with a colleague of mine in Montgomery who heard from some of his folks, so. I haven't heard anything negative at all on the comments, so we just look forward to working with you on them. I believe the next meeting, April meeting, is where you may plan to take them up. So we appreciate the opportunity.

CHAIRMAN GRIGGS: Thank you, Mr. Lathem. We appreciate the support of your association.

Mr. Rogers.

MR. ROGERS: The first item is Docket No. 10-23-12-01A, petition by Ankor E&P Holdings Corporation. And there also is a related item, Mr. Chairman, Item 2, Docket No. 10-23-12-02A.

CHAIRMAN GRIGGS: Mr. Turner, would it be appropriate to consolidate these two items?

MR. TURNER: It would, Mr. Chairman.

CHAIRMAN GRIGGS: Thank you. They are consolidated.

MR. TURNER: Mr. Chairman, Hal Turner for the Petitioner in these two matters, Ankor E&P

Holdings Corporation. They are docket numbers 1 and 2 on the docket for today, which you've just consolidated.

The first is a petition by Ankor requesting the Board to establish a new oil field in Escambia County, Alabama, to be known as the Southeast Wallace Field, adopt the Special Field Rules for the new oil field, and establish field limits for the new oil field. Ankor is requesting the Southeast Wallace Field be approved and established to consist of the Northwest Quarter of Section 19, Township 3 North, Range 9 East in Escambia County, Alabama.

On the companion petition, that is a petition by Ankor requesting the Board to reform the 40-acre wildcat drilling unit for the Craft-Black Stone 19-3 #1 Well, Permit No. 16533-B, to a 160-acre production unit. And Ankor proposes to reform that 40-acre unit, which consists -- presently consists of the Northeast Quarter of the Northwest Quarter of Section 19, Township 3 North, Range 9 East in Escambia County, Alabama, to a 160-acre production unit consisting of the Northwest Quarter of Section 19, Township 3 North, Range 9 East in Escambia County, Alabama.

Ankor has two live witnesses to call today. Those would be Mr. Ed Leigh and Mr. Bill Engle. We would ask that they be recognized and sworn at this time.

MR. ROGERS: Gentlemen, state your names and addresses.

MR. LEIGH: I'm Leslie Edward Leigh, 438 Red Maple Drive, Mandeville, Louisiana.

MR. ENGLE: William J. Engle, 134 Ayshire Court, Slidell, Louisiana.

(The Hearing Officer swears in the witnesses.)

MR. TURNER: Mr. Chairman, may I approach and distribute exhibits?

CHAIRMAN GRIGGS: Yes, sir.

MR. TURNER: Mr. Chairman, a couple of preliminary matters on the exhibits. We, of course, pre-filed exhibits with the staff before this hearing. There were corrections made to two exhibits. The corrected exhibits are in all of the booklets that we just distributed. The two exhibits that were corrected from the pre-submitted exhibits was Exhibit 3, where we corrected a contour line, which we have discussed with the staff previously. And the second correction was on Exhibit 12, which is

production data totals for this particular well. The production data itself and numbers were correct, but the totals at the bottom were not. We corrected those. So Exhibits 3 and 12 are corrected from the original pre-filed exhibits. All other exhibits in the booklet are the same as the pre-filed exhibits.

At this time we would like to make a part of the record the proof of publication from the Tri-City Ledger dated 10/4/12 for the two petitions in this matter.

(Whereupon, (Items 1 and 2) Tri-City Ledger proof of publication offered in evidence.)

CHAIRMAN GRIGGS: Both of those are admitted into the record.

(Whereupon, (Items 1 and 2) Tri-City Ledger proof of publication received in evidence.)

MR. TURNER: We would also like to make a part of the record the notice affidavit of Warren Miguez dated October 5th, 2012.

(Whereupon, (Items 1 and 2) Warren Miguez affidavit offered in evidence.)

CHAIRMAN GRIGGS: It's admitted.

(Whereupon, (Items 1 and 2) Warren Miguez affidavit received in evidence.)

MR. TURNER: And we would also like to

make a part of the record the well file for the Craft-Black Stone 19-3 #1 Well.

(Whereupon, (Items 1 and 2) Craft-Black Stone 19-3 well file offered in evidence.)

CHAIRMAN GRIGGS: Admitted.

(Whereupon, (Items 1 and 2) Craft-Black Stone 19-3 well file received in evidence.)

MR. TURNER: Finally, there were two related petitions filed by Ms. Eunice Reynolds. They are shown as Docket No. 4 and Docket No. 5 on the agenda for today. Those -- Mrs. Reynolds -- those were contests to our petitions. Mrs. Reynolds has since then moved to dismiss her petitions without prejudice. The Hearing Officer has recommended that they be dismissed without prejudice. And for the record, Ankor has no opposition to those petitions being dismissed.

CHAIRMAN GRIGGS: I believe we've already dismissed those by approval of the Hearing Officer's Report.

MR. TURNER: Thank you, Mr. Chairman.

EDWARD LEIGH,

having been first duly sworn, was examined and testified as follows:

MR. TURNER: Mr. Leigh, state your full name for the record, please.

MR. LEIGH: Leslie Edward Leigh.

MR. TURNER: By whom are you employed?

MR. LEIGH: Ankor Energy, operating agent for Ankor E&P Holdings Corporation.

MR. TURNER: So what is your current position with Ankor?

MR. LEIGH: Petroleum geologist.

MR. TURNER: And Ankor is an oil and gas exploration and production company; is that correct?

MR. LEIGH: That's correct.

MR. TURNER: And what is your occupation or profession?

MR. LEIGH: Geologist.

MR. TURNER: And is your resumé currently on file with the Board?

MR. LEIGH: Yes, it is.

MR. TURNER: And have you qualified to testify with this Board previously as an expert in petroleum geology?

MR. LEIGH: Yes.

MR. TURNER: Mr. Chairman, we would tender Mr. Leigh at this time as an expert in

petroleum geology.

CHAIRMAN GRIGGS: He is recognized as an expert petroleum geologist.

(Items 1 and 2) DIRECT EXAMINATION BY MR. TURNER:

Q. Mr. Leigh, are you the Ankor geologist principally responsible for the Old Home Prospect located in Escambia County, Alabama?

A. Yes.

Q. And would that Old Home Prospect include the well at issue in this matter, the Craft-Black Stone 19-3 #1 Well?

A. Yes, it does.

Q. Do you prepare Exhibits 1 through 8 that we previously distributed to the Board?

A. Yes, sir.

Q. Are all those exhibits signed by you?

A. They are.

Q. And do all of those Exhibits 1 through 8 fairly and accurately depict the information shown on the exhibits?

A. Yes, sir.

Q. Would you turn first, please, sir, to Ankor Exhibit No. 1 and tell the Board what that exhibit is, please, sir.

A. Exhibit No. 1 is an area map over a portion of Escambia County, Alabama. It shows the proposed Southeast Wallace Field, the proposed field limit, and the proposed 160-acre unit covering the same geographical area, that being the Northwest Quarter of Section 19, Township 3 North, Range 9 East.

Q. And Ankor proposes to call the new field the Southeast Wallace Field; is that correct?

A. That's correct.

Q. Okay. And -- excuse me.

A. Go ahead.

Q. And does Exhibit 1 fairly and accurately depict the proposed unit and field in relation to other units and fields in the area?

A. Yes. It's showing the relation to the established fields in the area. And it shows that the northern boundary and the western boundary of the proposed unit and field limit directly adjoins one of these, that being the South Wallace Field.

Q. Okay, sir. Move with me, Mr. Leigh, if you would, to Ankor Exhibit No. 2 and tell the Board generally what that exhibit is.

A. Exhibit 2 is a well location plat. I'm showing Section 19, Township 3 North, Range 9 East,

Escambia County, Alabama. Shows the proposed production unit and the proposed field limit, both outlined in red on this plat. The proposed field limit and proposed production unit consists of a governmental quarter section, the Northwest Quarter of Section 19, Township 3 North, Range 9 East, 160 acres in size. This plat also shows the subject well, the Ankor E&P Holdings Corporation Craft-Black Stone 19-3 #1, Alabama Permit No. 16533-B, in the Northeast Quarter of that quarter section.

This well was drilled as a slight directional well, and this was due to topographic issues on the surface preventing us from drilling a vertical test at the target location. Since this is a directional well, we're showing on this plat the surface hole location; to the west of that, the point of penetration of the top Smackover formation; and near that, the bottom hole location.

Q. Mr. Leigh, is the bottom hole of the Craft-Black Stone 19-3 Well more than 660 feet from every exterior boundary of the proposed production unit?

A. Yes, it is. It's -- the bottom hole location is 743 feet from the north line of Section 19 and the north line of the proposed unit, 1,788

feet from the west line of the proposed unit and the west line of Section 19, and 854 feet from the east line of the proposed unit.

Q. And the reservoir that was encountered in this instance by the Craft-Black Stone 19-3 Well was Smackover; is that correct?

A. That's correct.

Q. Move with me to Exhibit 3 and tell the Board what that exhibit is, please, sir.

A. Exhibit 3 is a structure map drawn on the top of the Smackover formation. This is --

Q. Was that structure map prepared using 3-D seismic owned by Ankor?

A. Yes. It was derived from a 135-square-mile 3-D survey that Ankor has in Escambia County. It's a time interpretation converted to depth. The scale is one inch equals 1,000 feet, contour interval is 10 feet. Two prominent -- well, first of all, it does show again the proposed field limit and the proposed 160-acre production unit consisting of the Northwest Quarter of Section 19 in relation to the South Wallace Field limit, which is shown in solid green on the -- on the map.

Two prominent structural features are shown, that being the four-way dip closure that we

drilled with the Craft-Black Stone 19-3 Well, and the four-way dip closure drilled by the Craft -- again Ankor E&P Holdings Corporation Craft-Black Stone 13-16 #1. And that's Permit No. 16413-B.

Q. The -- I'm sorry, are you finished?

A. Yeah, you go ahead.

Q. The small broken green line inside the production unit is of course -- that depicts the limits of the Smackover reservoir encountered by the well, in your opinion?

A. Yes. I'm showing two limits, one for the well in question. It encountered an oil-water contact shown in dashed green at a subsea elevation of 13,392 feet. That's shown just outside the 13,390-foot contour. Another limit is shown for the 13-16 structure, and that was not an oil-water contact, but the lowest known oil, at subsea 13,350 feet. That well, the 13-16, encountered the Smackover at subsea 13,305 feet, 55 feet above the elevation at which the 19-3 drilled the Smackover.

Although it did not see an oil-water contact, the lowest known oil is just a few feet above the spill point for that structure, which the spill point is in the Southwest Quarter of the Southeast Quarter of Section 13, that low area just

outside the 13,350-foot contour. That's the spill point for the structure. And it is 37 feet high to the proven oil-water contact in the 19-3 Well, thus indicating that the two indicated reservoirs are distinct and separate structurally.

Q. Mr. Leigh, in your opinion, is the Smackover oil pool encountered by the 19-3 Well a separate and distinct oil-producing pool in the proposed field?

A. Yes, it is.

Q. And that would include, according to your earlier testimony, the Smackover reservoir underlying the South Wallace Field which was encountered by the Craft-Black Stone 13-16 Well; is that correct?

A. That's my opinion, yes.

Q. In your opinion, is the Smackover oil pool at issue here all contained within the proposed field limits?

A. It is completely contained within the proposed unit.

Q. And in your opinion, does the proposed production unit capture the entire Smackover reservoir encountered by the well?

A. Yes.

Q. And in your opinion, will the Craft-Black

Stone 19-3 Well efficiently and economically drain the entire Smackover reservoir underlying the 19-3 Well?

A. Yes, it will.

Q. Would you move to Exhibit 4, please.

A. Exhibit 4 is a type log for the subject well, the 19-3, Permit No. 16533-B. This log was taken from the Schlumberger Platform Express run log on July 6th, 2011. It's Ankor's practice to drill the Smackover in its entirety to see if the Norphlet is present and to drill into Paleozoic basement or whatever basement may exist. In this case we found -- I'm showing the Norphlet here because we found a show of oil in the Norphlet. We set pipe on it and tested it, but it was noncommercial, having too low permeability to flow. We then plugged back to the upper Smackover, that's that upper set of red perfs that you see on the log toward the top, and established production in the upper Smackover.

Q. And this particular log was run on the well on what date?

A. July the 6th of 2011.

Q. And where does that log show the top of the Smackover oil pool to be?

A. Top of the Smackover oil pool on the log

is 13,672 feet measured depth, subsea elevation 13,360.

Q. And where did the log place the base of this particular Smackover oil pool?

A. The base of the Smackover oil pool is placed at the oil-water contact shown at 13,704 measured depth, subsea 13,392 feet.

Q. In your opinion, should the Smackover oil pool in the proposed Southeast Wallace Field be defined as those strata of the Smackover formation productive of hydrocarbons in the interval between 13,672 feet and 13,704 feet measured depth as defined by the Platform Express log for that well?

A. Yes.

Q. Move to Exhibit 5, please, sir. Tell the Board what that exhibit is.

A. Exhibit 5 is a portion of the conventional core analysis taken in the upper Smackover. It shows the oil-water contact encountered on the core at 13,707 feet measured depth. And since the core is measured from drill pipe measurements and the log is measured from wire line, there's a three-foot discrepancy, the core depths being three foot low to the log depths. After you apply that correction, the oil-water contact

indicated is at 13,704 feet measured depth subsea, 13,392 feet subsea, matching that on the electric log, Exhibit 4.

Q. Okay, sir. And would you move to Exhibits 6, 7, and 8, and if you would, discuss those collectively, please, sir. First identify each one and then tell us the significance of that.

A. Okay. Exhibits 6, 7, and 8 are offered in support of the structure map Exhibit 3. Exhibit 6 is a structural cross section extending northwest to southeast through three wells in the area to the northwest, the Wallace Field Well, Coastal -- Coastal ATIC 13-6 #1, Permit 5268, on to the southeast through the aforementioned Ankor RPC Craft-Black Stone 13-16 #1 and the subject well, the Ankor Craft-Black Stone 19-3 #1.

This structural cross section, the datum for which is sea level, shows the present-day relationship in structure between these three wells, showing the Wallace Field well to be the highest on structure, but on a separate structure from the other two. And in fact, it shows that all three wells are separate structurally, showing the oil-water contact at 13,392 we found in the 19-3 Well; the lowest known oil at 13,350 in the Black Stone 13-16 #1; and also

the lowest known oil at 13,192 feet at the Coastal well. The Coastal well is no longer on production, although it's the highest well. Again, these three wells are separate structurally from one another.

Exhibit No. 7 is Arbitrary Line 1 taken from the 3-D seismic survey. This line of section is the same as the previous cross section line on Exhibit 6 except it excludes the well to the northwest, the Coastal ATIC well. This line goes through the Ankor Black Stone 13-16 Well and the Ankor Black Stone 19-3 Well, subject well. This shows a northwest dip and a southeast dip on both of the structures indicated, showing that they are separate on this line separated by a structural low.

Exhibit No. 8 is roughly 90 degrees to that Arbitrary Line 1. This is Arbitrary Line 2, and this is designed to show the critical north dip and the south dip across the 19-3 closure. These two lines, together with the structure -- the structure map, show that the structure in question is a four-way dip closure, separate and distinct from the other structures in the area.

Q. Okay. So, Mr. Leigh, do the type log Exhibit 4, the core analysis, Exhibit 5, and the cross section and two arb lines, Exhibits 6, 7, and

8, all demonstrate in your opinion that the Smackover oil pool encountered by the 19-3 Well have a separate and distinct oil-producing pool in this field?

A. Yes, they do.

Q. And that would include the Smackover oil pool for the South Wallace Field which was encountered by the Craft-Black Stone 13-16 Well; is that correct?

A. Yes, sir.

Q. In your opinion, again, does the 160-acre production unit that Ankor has proposed capture the entire Smackover reservoir?

A. Yes, sir, it does.

Q. Yes, sir. Mr. Leigh, in connection with the petitions Ankor has filed in this case, they submitted Special Field Rules. Rule 3 of those Special Field Rules proposes that the spacing requirements for wells in the Southeast Wallace Field be 160-acre production units with 660 feet setbacks. Are you aware of that?

A. Yes, sir, I am.

Q. Okay. In your opinion, would those spacing requirements sufficiently and economically drain the Smackover oil pool at issue here and prevent the drilling of unnecessary wells?

A. Yes.

Q. Finally, in your opinion, would granting the petitions in this case prevent waste of oil and gas?

A. Yes.

Q. And would granting the petitions in this case in your opinion also protect the correlative rights of all mineral interest owners at issue here?

A. Yes, they would.

MR. TURNER: Mr. Chairman, Ankor passes the witness for any questions the Board may have.

CHAIRMAN GRIGGS: Any questions for the witness?

DR. TEW: I've got one clarification, Mr. Leigh. Would you refer to your Exhibit No. 5, please? At the bottom there, it says lowest known oil, LKO. Should that be an oil-water contact rather than the lowest known oil?

THE WITNESS: Yes, sir, it should.

DR. TEW: Thank you.

THE WITNESS: Thank you very much.

CHAIRMAN GRIGGS: Any questions? Proceed.

MR. TURNER: Mr. Chairman, we call as our next witness Bill Engle.

WILLIAM ENGLE,

having first been duly sworn, was examined and testified as follows:

MR. TURNER: State your name for the record, please, sir.

MR. ENGLE: William John Engle.

MR. TURNER: And, Mr. Engle, by whom are you employed?

MR. ENGLE: Ankor Energy, LLC.

MR. TURNER: What is your current position with Ankor?

MR. ENGLE: Project manager, assistant to the president.

MR. TURNER: Okay, sir. What is your occupation or profession?

MR. ENGLE: Petroleum engineering.

MR. TURNER: And is your current resumé on file with the Board?

MR. ENGLE: Yes, it is.

MR. TURNER: Have you qualified with the Board previously to testify as an expert in petroleum engineering?

MR. ENGLE: Yes, I have.

MR. TURNER: Mr. Chairman, we would tender Mr. Engle at this time as an expert in petroleum engineering.

CHAIRMAN GRIGGS: The Board recognizes Mr. Engle as an expert in petroleum engineering.

(Items 1 and 2) DIRECT EXAMINATION BY MR. TURNER:

Q. Mr. Engle, are you the Ankor petroleum engineer principally responsible for the Old Home Prospect located in Escambia County, Alabama?

A. Yes, I am.

Q. And that prospect would include the 19-3 Well; is that correct?

A. Yes, it does.

Q. Did you prepare Exhibits 9 through 12 that we've submitted to the Board previously?

A. Yes, I did.

Q. Are all those exhibits signed by you?

A. Yes, they are.

Q. And do all those exhibits fairly and accurately depict the information shown on the exhibits?

A. Yes, they do.

Q. Would you turn to your first exhibit, Mr. Engle, No. 9.

A. Yes.
Q. And what is that exhibit, please, sir?
A. That is Form OGB-9, which is the First Production or Test Report for the Black Stone -- Craft-Black Stone 19-3 #1 Well.
Q. And on what date was the well tested, please, sir?
A. September 19th, 2011.
Q. For what period of time?
A. 72 hours.
Q. And during that 72 hours, the well produced how many barrels of oil?
A. Let's see. The total was 1,045 barrels of oil, 2,809 Mcf of gas.
Q. And at what flowing tubing pressure did the well maintain during that test?
A. Let's see. Final flowing tubing pressure was 931 pounds.
Q. Okay. And would you move with me, if you would, please, sir, to Ankor Exhibit 10. What is that?
A. This is the production history of the well from -- including the initial test and production once the well was put on permanent production in July of 2012 through the week of

September 29, 2012. During that time, the well, as you can see, initially was tested at roughly 325 barrels of oil a day. During this time period, the well exhibited decline and averaged 163 barrels of oil during this roughly 70-day test period.

Q. Okay, sir.

A. Which in this -- and this performance affirms the geologic interpretation that this reservoir is separate and distinct from the 13-16 #1, which has exhibited relatively stable production at approximately 300 barrels of oil a day.

Q. Yes, sir. Mr. Engle, would you jump with me to Exhibit 12 and explain to the Board what that exhibit is?

A. Exhibit 12 is just a continuance of the production history of this well, which will show its continuing decline to its present operation on pump. The well is the -- in this reservoir is the only pressure depletion reservoir we have yet encountered in this area.

Q. In other words, when our original petition was filed in September of last year, we gave the Board the production data which is in Exhibit 10 that we had at the time; but with the time lapse, we have added to that production through March of this

year. Is that correct?

A. That is correct.

Q. Okay. And those production -- during that period of time -- that would be 33 weeks approximately; is that correct?

A. That is correct.

Q. And during that period of time, the well produced 20,744 barrels of oil; is that correct?

A. That is correct.

Q. And that would work out to an average of how many barrels of oil per day?

A. Roughly 90 over the entire time frame. But I would point out that during the initial testing period where the average was 165, since September to current the well has averaged 60 barrels a day.

Q. Okay, sir. And when did this well go on pump? Is that shown on Exhibit 12?

A. Yes. You can look on the first page of Exhibit 12, that black vertical bar is indication of the time periods that the well has been operating on pump.

Q. Okay, sir.

A. And that would have been in -- let's see. The date here was September. We shut the well in to install the pump in November 26th through the 29th,

2012.

Q. And the well is currently on pump; is that correct?

A. Yes, it is.

Q. Okay, sir. Would you move back with me, Mr. Engle, to Ankor Exhibit 11 and tell the Board what that exhibit is, please, sir.

A. Exhibit 11 is the report from FESCO, Ltd. and PVT analysis of the subject well based on sampling taken during the initial well test that shows that this was an undersaturated oil reservoir at the time.

Q. So the test shows that the principal hydrocarbon in the well is oil; is that correct?

A. That is correct.

Q. Mr. Engle, based upon the engineering data we've just discussed with the Board, do you have an opinion as to whether or not the Smackover oil pool is a separate and distinct oil-producing pool in the proposed field?

A. Yes, I do.

Q. And what is your opinion? That it is?

A. That it is separate and unique unto itself. It is not in communication with any other reservoirs.

Q. And that would include the reservoir encountered by the 13-16 Well; is that correct?

A. That is correct.

Q. And do you believe the entire Smackover oil pool here is captured by the proposed production unit?

A. Yes, I do.

Q. Mr. Engle, I discussed earlier with Mr. Leigh the proposed Special Field Rules. With him, it was Rule 3; with you, I would like to discuss Rule 7.

At the time the petition was submitted, Rule 7 called for production allowables for oil for 200 barrels of oil per day. Are you familiar with that?

A. Yes, I am.

Q. Do you still believe that a 200 barrel of oil per day production allowable would be appropriate for the well, given the history, production history of the well?

A. No, I do not.

Q. Would you tell the Board why?

A. Just the observed performance decline in rate and pressure would warrant a lower allowable.

Q. Okay. Would you tell the Board in your

opinion what would be an appropriate production allowable for the well based upon the current engineering data?

A. 100 barrels of oil a day.

Q. Would that production allowable, if approved by the Board, in your opinion, promote the proper and orderly development of the field and prevent damage to the reservoir?

A. Yes, it would.

Q. Mr. Engle, in your opinion, would granting Ankor's petitions in this case prevent waste of oil and gas?

A. Yes.

Q. And in your opinion, would granting the petitions in this case protect the correlative rights of all mineral interest ownership?

A. Yes, it would.

MR. TURNER: Mr. Chairman, we pass Mr. Engle for any questions the Board may have.

CHAIRMAN GRIGGS: Any questions by your staff?

MR. TURNER: If there are no questions, Mr. Chairman, we would offer into the record into evidence at this time Ankor Exhibits 1 through 12.

(Whereupon, (Items 1 and 2) Ankor Exhibits 1 through

12 offered in evidence.)

CHAIRMAN GRIGGS: They're admitted into evidence.

(Whereupon, (Items 1 and 2)Ankor Exhibits 1 through 12 received in evidence.)

MR. TURNER: And we have no further testimony.

CHAIRMAN GRIGGS: Any further questions? Any questions by the Board? Entertain a motion.

MR. PEARSON: Mr. Chairman, I move we grant Items 1 and 2, which are the petitions by Ankor E&P Holdings, with the stipulation that the allowable would be 100 barrels instead of 200 barrels as originally specified in the petition.

CHAIRMAN GRIGGS: Motion as stated. Is there a second?

MR. LAWLEY: Second.

CHAIRMAN GRIGGS: Got a motion and a second. All in favor say "aye." The ayes have it. Petitions are granted with the stipulations specified.

MR. TURNER: Thank you, Mr. Chair.

MR. ROGERS: Next item is Item 14, Docket No. 02-12-13-10, petition by Robert Land, individually and as attorney for certain landowners.

MR. LAND: Good morning.

CHAIRMAN GRIGGS: As Petitioner, you want to have a seat on this side and keep us straight?

MR. LAND: Mr. Chairman, my name is Robert Land. I reside here in Tuscaloosa. I am the Petitioner and also represent several of the landowners in the area of the North Excel Field. This petition was filed so that the mineral owners could proceed with the possibility of having another company develop the acreage in this field.

As I informed the Board last time I appeared before them, the acreage in this field, the mineral interest and the leases upon them, were permitted to expire by Delphi, the operator of the Hill and Jordan wells. Because of that, we had taken steps to acquire the leases and have done so on the acreage involved, which is basically the Northeast Quarter of Section 33 and the Northwest Section -- Northwest Quarter of Section 34. These are the two units of the Hill and the Jordan well.

It has come to my attention -- well, this week we have found out that we do have another company that is interested in drilling a well to tap part of a reservoir in Section 34 that has not been drained, apparently. We think, as a consequence of

this, and there is -- and some speculation as to the drainage of untapped reserves in Section 33, I would ask the Board to consider continuing this matter and the -- Mr. Brooks' petition to temporarily abandon these fields until the May hearing.

We have acquired all of the leases in both of these sections, or both of these units, as I said. And I'm not at liberty to disclose the proposed operator because we have not completed the contractual obligations yet that we're required to do. But we want to proceed with that and talking to Mr. Brooks and possibly resolving this issue without any disagreement and perhaps further utilizing the Hill and the Jordan wells. There is a chance that the Jordan well may be used for repressurization, as Mr. Brooks says, and the Hill well may be possibly used to acquire the well bore to kick off another well to drain part of the reservoir that has not been drained in Section 33.

Therefore, I just wanted to bring the Board up to date and ask that you continue these matters for the present time. Thank you.

CHAIRMAN GRIGGS: Mr. Land, it is my understanding there's also a site, as I recall, we had discussed --

MR. LAND: Yes, sir.

CHAIRMAN GRIGGS: -- at the previous Board meeting, maybe back last August.

MR. LAND: That is correct.

CHAIRMAN GRIGGS: We were concerned about the -- I believe at that point you were concerned about the removal of the tank --

MR. LAND: Yes, sir.

CHAIRMAN GRIGGS: -- on behalf of your clients.

MR. LAND: Right.

CHAIRMAN GRIGGS: What is the status of that site?

MR. LAND: Well, the status of the site is unchanged at this time. We basically would like to see if this company would come in and take over the operation of the site, assume responsibility for it, and -- when they are drilling their new well. As I said, this has all come to my attention, this has all come up this week.

CHAIRMAN GRIGGS: Would the well be drilled on this site? There was previously a plugged well on the site, as I understand it.

MR. LAND: That is correct. And there is five acres that this site takes up to the -- slightly

to the northeast of both of these well sites.

All of the pipelines are still in place. The well bores are there, and their integrity remains intact. The landowners are very much in favor of the redevelopment of this field and the drilling of a new well. I am in contact with them on a regular basis. And I talked to Mr. Tommy Jordan, who owns the property where the Jordan well is, this past month concerning a location for a new well in Section 33. And his response was, "Well, if they want to put it where my house is, just pay me what I got in it and give me time to move before you bulldoze it."

CHAIRMAN GRIGGS: Let me ask you further about the site where the tank is located.

MR. LAND: Yes, sir.

CHAIRMAN GRIGGS: Do you know if that tank is connected to the two wells made the subject of your petition?

MR. LAND: Yes, sir, it is. This facility, which consists of five tanks and separators, is on my client's property, Mrs. Mary Laird's property, and it does connect and it did service these two wells and three other wells that have since been plugged and abandoned. So the facilities -- and Mrs. Laird has no problem with the

facilities, since they have remained there this long, remaining for a few more months until it can be determined whether they could be used for more production.

CHAIRMAN GRIGGS: I guess we were in a bit of a quandary as to why you wanted the tanks removed last August. But you do not want them removed now.

MR. LAND: Yes, sir. At that point in time, there was no reason not to remove them, because there was nobody available to drill the wells. And basically, the situation has changed since that time.

CHAIRMAN GRIGGS: Mr. Tyra, I understand you represent Delphi. I think you appeared on their behalf in August, I believe it was, when we initially heard this --

MR. TYRA: Yes, sir.

CHAIRMAN GRIGGS: -- and it's my understanding you oppose this petition?

MR. TYRA: For the record, yes, I'm John Tyra on behalf of Delphi. I filed a letter on behalf of Delphi on March 14th in opposition to Mr. Land's petition. I was not aware, and he was not aware apparently, of these new developments. We have no problem with continuing this to the May meeting while

he develops this potential party, this potential driller.

We did in the letter agree to remove the tank facilities and the surface facilities within 90 days. I guess we should suspend that as well if this is continuing to move ahead.

CHAIRMAN GRIGGS: Mr. Land, did you get a copy of the letter from Mr. Tyra?

MR. LAND: I did.

CHAIRMAN GRIGGS: And do you have any objection to that being admitted into the record?

MR. LAND: No, sir. I appreciate the expression that Mr. Brooks was going to remove the tank batteries, but I suggest to the Board that it is more appropriate to continue this petition and also not order Mr. Brooks to do so at this time. It appears in the best interest of not only Mr. Brooks but all of the landowners. And it certainly would prevent waste, because there's no reason to remove perfectly good equipment and then move the same type of equipment back in later on in the year to service the same wells.

CHAIRMAN GRIGGS: Do you have anything further, either of you?

MR. TYRA: No, sir.

MR. LAWLEY: Chairman, I make a motion we continue until the May meeting.

MR. PEARSON: Second.

CHAIRMAN GRIGGS: Motion and a second. This item is continued until the May hearing.

MR. LAND: Thank you, sir.

CHAIRMAN GRIGGS: Thank you, gentlemen.

MR. ROGERS: Next item, then, is Item 16, Docket No. 03-19-13-02A, petition by Klondike Energy, Limited Partnership.

MR. CHAIRMAN: I believe that couple back there is interested and might like a copy of the exhibits.

MR. WATSON: Mr. Chairman, I'm Tom Watson here, representing Klondike Energy. I have one witness, and I would like to have him sworn in, please.

CHAIRMAN GRIGGS: Proceed, Mr. Watson.

MR. ROGERS: Would you state your name and address, sir.

MR. STEPHENS: James O. Stephens, Madison, Mississippi.

(Hearing Officer swears in witness.)

MR. WATSON: Mr. Chairman, I have pre-filed an affidavit of notice in this matter, and

I would ask that it would be admitted into the record.

(Whereupon, (Item 16) Affidavit of notice offered in evidence.)

CHAIRMAN GRIGGS: It is admitted.

(Whereupon, (Item 16) Affidavit of notice received in evidence.)

MR. WATSON: Klondike is requesting the Board to enter an order establishing a new gas condensate field in Choctaw County to be known as the Southeast Silas Field. And we're asking that you promulgate Special Field Rules for this new field and that you establish a permanent production allowable for the Choctaw Lumber Company 14-11 #1 Well.

JAMES STEPHENS,

having first been duly sworn, was examined and testified as follows:

MR. WATSON: Mr. Stephens, you prepared exhibits in support of this petition, have you not?

MR. STEPHENS: Yes, sir.

MR. WATSON: You have appeared before this Board on numerous occasions and have on file an affidavit of your qualifications as a petroleum

engineer; is that correct?

MR. STEPHENS: Yes, I do.

MR. WATSON: Mr. Chairman, I tender Mr. Stephens as an expert witness for giving testimony in this item.

CHAIRMAN GRIGGS: Board recognizes Mr. Stephens as an expert in petroleum engineering.

(Item 16) DIRECT EXAMINATION BY MR. WATSON:

Q. If you would turn in your booklet of exhibits, Mr. Stephens, to your Exhibit No. 1. If you would describe there what we were asking the Board to establish for this new field.

A. Exhibit No. 1 is a screen shot of the State Oil and Gas Board area field map onto which we've imposed the proposed Southeast Silas Field in green. The proposed field is the Southwest Quarter of Section 14 and the Southeast Quarter of Section 15, Township 9 North, Range 4 West, Choctaw County, Alabama. You can see the permitted well there, Permit No. 16747-B, which is the location that we drilled for the discovery well.

This map simply shows the other wells, nearby wells, and fields in the area. You can see to the northwest in the green dashed outline is the

Silas Field, which still produces, and to the west about one mile, the Zion Chapel Field outlined. That field has been plugged and abandoned.

Q. All right, sir. Go to your Exhibit No. 2. Describe the information shown on that exhibit, please, sir.

A. Exhibit No. 2 is the as-drilled survey plat for the Choctaw Lumber Company 14-11 #1 Well. The well was drilled from a surface location 2,211 feet from the south line and 1,246 feet from the west line of Section 14 to a bottom hole location that was directionally drilled to the top of the Smackover, which was encountered 697 feet from the north unit line and 1,229 feet from the west unit line. The bottom hole location in the Norphlet Formation was 1,819 feet from the south line and 1,233 feet from the west line of the unit.

Q. And I believe our proposed Special Field Rules for wells in this field would be required to be at least 660 feet from every exterior boundary of the production unit; is that correct?

A. Yes, sir.

Q. All right. Let's go to your Exhibit No. 3, and let's define this new Smackover gas pool, please, sir.

A. Exhibit 3 is a type log for the Choctaw Lumber Company 14-11 #1 Well. It's a section of the three-detector litho density TVD log. You can see from the log that the top of the Smackover porosity was encountered at 13,801 feet true vertical depth and the base of the Smackover porosity was encountered at 13,818 feet true vertical depth. The Smackover porosity there was perforated from 13,804 feet to 13,814 feet TVD. Those perforations were tested. The well flowed 144 barrels of condensate per day and 854 Mcf of gas per day. On a 14/64 it showed 1240 psi flowing tubing pressure, resulting in a gas/oil ratio of 5,930 standard cubic feet per stock tank barrel. The measured gravity of the tank oil was 51.2 degrees API.

Q. All right, sir. Now, Mr. Stephens, as we turn to Exhibit No. 4, is it true that you had available to you the geological advice from Phillip Reeves in preparing this Exhibit No. 4?

A. Yes, sir. Phillip Reeves is a consulting geologist who has worked this area for many years. And he mapped this prospect which we drilled and ultimately completed this producing well.

MR. WATSON: Mr. Chairman, I've handed up a copy of the pre-filed affidavit of testimony in

support of this petition today. And I have highlighted in that affidavit of support, or affidavit in support of this petition, the key testimony from Mr. Reeves about this structure that's on page 2.

Q. And you've seen Mr. Reeves's affidavit of testimony. And that was the basis for this mapping of the structure that's shown on Exhibit No. 4; is that correct?

A. Yes, sir.

Q. All right. Describe this structure map now, with the understanding that Mr. Reeves, who is testifying here today by affidavit, has assisted in making this map.

A. This map was constructed using a combination of subsurface information and 3-D seismic. As you can see on the map, there are only two well penetrations on the structure which would help in the mapping. Of course, the discovery well, the Choctaw Lumber Company 14-11 #1 Well, is shown in the Southwest Quarter of Section 14 there. It encountered the top of the Smackover porosity at 13,542 feet subsea. The only other well on that structure is the Norton 22-1 to the southwest, which was a wet dry hole. It encountered the top of the

Smackover at 13,620 feet.

Q. All right, sir. What about this porosity, possible porosity pinchout to the northeast?

A. We have determined that several of the other fields in the area actually are a combination of structural and stratigraphic traps. For that reason, we have drawn in a possible porosity pinchout. If that porosity pinchout does not exist, then the red area is probably the largest productive area -- largest area that can be productive on this structure due to the spill point being at 13,570 feet structurally. However, as I mentioned, other fields in the area have exhibited stratigraphic pinchouts which could result in the field being larger, but we just don't know at this time.

Q. All right, sir. Let's look at your Exhibit No. 5, Mr. Stephens. Tell us what that exhibit is and describe the information shown on it.

A. Exhibit No. 5 is a base map showing the wells in the area and two arbitrary seismic lines. It shows Line A going from the northwest to the southeast, which goes through the Pruet-Hughes & Hughes Smith Lumber Company 15-4 Well in the Northwest Quarter of Section 15. That line extends

down approximately through the middle of the producing unit.

Then there's Arbitrary Line B, which extends from the southwest through the Pruet Norton 22-1 Well to the northeast through the proposed producing unit and well location on to the -- to the northeast.

Q. All right. Go ahead with your Exhibit No. 6, which is your first arbitrary line.

A. Right. Exhibit No. 6 is Arbitrary Line A. You can see it goes from the Smith Lumber Company Well down through the Choctaw Lumber Company 14-11 #1. You can see from this -- and the top of the Smackover is depicted by the blue line there on the seismic section. You can see that the Smith Lumber Company Well is quite high to our well. So it is a high and wet well because there was no closure on that structure, apparently. You can also see that it is located on top of a separate structural feature from the structural feature that the Choctaw Lumber Company Well is on.

Q. And the red lines on this Exhibit No. 6 indicate the limits of the 160-acre governmental quarter section; is that right?

A. Yes, that's correct. It shows the

boundaries of the unit. And it also shows that the Choctaw Lumber Company 14-11 Well penetrates the top of that structure very near the crest.

Q. All right, sir. Let's go to your Exhibit No. 7, your Arbitrary Line B.

A. Arbitrary Line B goes from the southwest, from the Norton 22-1 Well up through the discovery well of Choctaw Lumber Company 14-11 #1. You can see that the Norton 22-1 is quite low to the discovery well and that the discovery well penetrated the Smackover formation and the crest of the structure in a relatively flat area across the top. You can also see that near the northern unit line there's significant north dip. This north dip would indicate a structural closure.

Q. All right, sir. Now you have a stratigraphic cross section, which is your Exhibit No. 8. Describe that stratigraphic cross section, please, sir.

A. The stratigraphic cross section contains two logs, the LBT/CML log from the Norton Estate 22-1 and the three-detector litho density log on the Choctaw Lumber Company 14-11. You can see there that the tongue on the top of the Smackover. You can see that the Smackover is relatively the same thickness

in both wells. You can see the Haynesville marker at the top of the cross section. It seems to be very consistent across the area. And on the consistent Haynesville marker and the distance from the Haynesville marker to the top of the Smackover porosity and the similar porosity thicknesses, we believe that the porosity in the Norton Well is the same porosity that we see in the Choctaw Lumber Company Well.

Q. All right, sir. Your next exhibit is the first test of this well, Exhibit No. 9. Describe the information on that form, please, sir.

A. Exhibit No. 9 shows that the perforations are 13,858 feet to 13,868 feet measured depth in the well. The well was tested on December 5th of 2012. It tested at a rate of 144 barrels of condensate per day and 854 Mcf of gas per day. Gas/liquid ratio was 5,930 standard cubic feet per stock tank barrel. It was tested on a 14/64 choke with a final flowing tubing pressure of 1,240 psi. The measured gravity of the stock tank oil was 51.2 degrees API. Also note that the hydrogen sulfide content was 165,000 parts per million, or 16.5 percent.

Q. All right, sir. And your next exhibit, Number 10, is your Pressure Test Report. Would you

summarize the information on that exhibit, please, sir?

A. This is the bottom hole pressure that was run in the well approximately one week after the well was shut in, after the test. This survey was run on the 12th of December. It was -- the pressure was measured at the middle of the perforations, which is 13,863 feet, and it indicated a pressure of 4,936 psi and a maximum recorded temperature of 242 degrees Fahrenheit.

Q. All right, sir. And now we come to Exhibit No. 11, the PVT report.

A. This is a retrograde gas, PVT report done by FESCO Petroleum Engineers. Page 1 of that report summarizes the purpose of the study and the results. The report contains the results from a laboratory study performed on a recombined separator fluids from the subject well. The study determined the type and character of the reservoir fluid. The fluid study was performed using the first stage separator oil and gas samples that were obtained from the well on the day of the test, December 5th, 2012. The samples were gathered by FESCO. The separated gas and oil were physically recombined in an individual PVT cell at the reservoir temperature of 242 degrees and at

the measured gas/oil ratio of 5,930 standard cubic feet per barrel. A retrograde dew point was observed at 3,960 psi. Static reservoir pressure is higher than the observed retrograde dew point; therefore, the reservoir fluid exists as an undersaturated or single-phase gas at static reservoir conditions at 4,935 psi and 242 degrees Fahrenheit.

Q. All right, sir. Now, in our proposed Special Field Rules, Mr. Stephens, we are asking -- and you described this in your first exhibit at the Southeast Quarter of Section 14 and -- I'm sorry, the Southwest Quarter of Section 14 and the Southeast Quarter of Section 15, all in Township 9 North, Range 4 West, Choctaw County, underlain by this Smackover gas pool be considered a new field that we're suggesting as the Southeast Silas Field. Is that correct?

A. That's correct.

Q. And in these Special Field Rules, you're providing for 160-acre production units?

A. Yes, sir.

Q. Also, because your OGB-9 shows this high hydrogen sulfide content in the well stream, Rule 7 requires a cleansing of production; is that correct?

A. Yes, sir.

Q. So describe for the Board, if you would, how you intend to comply with Rule 7 and where we are at this date and time in getting this production to the cleansing plant.

A. We intend to install and are in the process of installing facilities on the location which would allow the well to ultimately flow a full well stream to the processing plant, such that no production is collected on the site itself, and therefore eliminating the hazard -- a lot of the hazard with the H2S gas. We intend to install a three-phase separator on location which would measure the oil, gas, and water production from the well. This production would be measured through meters which would be calibrated monthly. Also, a sample of the gas and condensate will be collected monthly. After metering, these fluids will be recombined into the pipeline so that full well stream flow will flow about three and a half miles west in a pipeline that we're also constructing and tie it into the Gin Creek Field gathering line. The Gin Creek Field currently produces all the way to the American Midstream Chatom plant for processing, and this production would go to that same plant for processing just as Gin Creek Field production does.

Q. And the plans for the laying of this pipeline and the notices required by the Board's rules and regulations have been submitted to the Board staff; is that correct?

A. Yes, that's correct.

Q. Have the pipeline specifications for this line you just described been approved?

A. Yes, sir.

Q. Okay. And tell the Board how you will allocate -- since its full well stream is going to the Chatom plant, tell the Board how you will allocate the production back to this unit.

A. The production will be measured at the well site in barrels of condensate and Mcf of gas. And based on those volumes and the gas and oil analysis, the moles of each hydrocarbon component will be calculated. This is the same method used for the other seven wells that our affiliated company, Crosby's Creek Oil & Gas, uses for the Gin Creek Field, the Crosby's Creek Field, and the Copeland Field. The moles of each component are calculated, and all the production is commingled as it goes into an inlet separator at the plant. At the plant then, the moles are calculated again as the inlet -- inlet production. And that inlet production is allocated

back to each of the wells based on their monthly measurement.

Q. All right, sir. Is it your recommendation to this Board that that is a prudent and fair way to allocate the production back, and does that comply with the Board's rules and regulations relative to the protection of correlative rights?

A. Yes, it does.

Q. Look back if you would, please, at your Exhibit No. 4. You've asked that this new field consist of really 320 acres, two governmental quarter sections. Is all of the production for this Choctaw Lumber Company 14-11 Well currently contained within the proposed 160-acre production unit?

A. As far as we know. We really don't know the productive limits of the field. You can see there's a question mark on the map there. As I stated, that's about as far downdip as the production can exist if this is a structural -- strictly a structural trap. However, if there is a porosity pinchout, the field could be slightly larger, could carry on over into Section 15. But we don't have any basis for drawing production in Section 15 so far.

Q. Do you have any plans to drill in the

Southeast Quarter of Section 15?

A. If the Choctaw Lumber Company Well held up significantly for a long time, we might be encouraged to drill a well in the Southeast Quarter of Section 15.

Q. You are aware, are you not, Mr. Stephens, of the statutory option of expanding production units based upon certain criteria spelled out in the statutes, where you could enlarge the 160-acre unit to take in an area that would be in imminent danger of being drained without otherwise being protected were it were not included in a unit, up to 50 percent the size of the current 160-acre unit?

A. I am aware of that possibility.

Q. And are you testifying to this Board today that if, as this well produces, it becomes evident to your company that additional area should be included, that you would bring that evidence to the Board for a determination as to whether this unit should be enlarged?

A. Yes.

MR. WATSON: Mr. Chairman, I would ask that you receive into the record of this hearing today the exhibits testified to by Mr. Stephens and the pre-filed affidavit of testimony of Mr. Reeves.

(Whereupon, (Item 16) Klondike Exhibits 1 through 11 offered in evidence.)

CHAIRMAN GRIGGS: They're admitted into the record.

(Whereupon, (Item 16) Klondike Exhibits 1 through 11 received in evidence.)

Q. Would the granting of this petition and promulgation of these Special Field Rules and the establishment of this new field promote orderly development, prevent waste, and protect correlative rights?

A. Yes, it would.

MR. WATSON: I tender my witness to you, Mr. Chairman, Members of the Board, and the staff.

CHAIRMAN GRIGGS: Any questions by you or the staff?

MR. McQUILLAN: Mr. Stephens, do you know, have you submitted your plat here as drilled to our permitting department?

THE WITNESS: Yes, we have.

MR. McQUILLAN: Okay. With an amended one?

MR. WATSON: With a what?

MR. McQUILLAN: An amended OGB-1.

THE WITNESS: Yes, we have. The form

checkers on the staff had asked for a couple of corrections on the OGB-1, which we did correct, and have mailed that. I don't know if it has been received yet.

MR. McQUILLAN: Okay. Well, great, thank you.

CHAIRMAN GRIGGS: Mr. Pearson, any questions?

MR. PEARSON: Mr. Watson, on the allocation back testimony, I don't note that that is actually in Special Field Rules that have been submitted. Rule 8 talks about measurement of production.

MR. WATSON: Yes.

MR. PEARSON: I guess I'm just clarifying for the record, the Board's consideration in granting of this petition would be Rule 8 as written.

MR. WATSON: Yes.

MR. PEARSON: Correct?

MR. WATSON: Yes, sir.

MR. PEARSON: And Mr. Stephens' testimony was simply a discussion or enhancement of some suggestions about that?

MR. WATSON: How it works, yes, sir. And how -- yes, sir, that's right.

MR. PEARSON: All right. I don't have my further questions, then.

CHAIRMAN GRIGGS: Do you have -- it's my understanding you have an interest in this. Would you like to make a comment or ask any questions? If you do, if you would come up to the microphone.

UNIDENTIFIED SPEAKER: No. Thank you.

CHAIRMAN GRIGGS: You're welcome.

Is there a motion on this?

MR. PEARSON: Mr. Chairman, I move that we grant Item 16, which is the petition of Klondike Energy, LP.

CHAIRMAN GRIGGS: Have a motion. Is there a second?

MR. LAWLEY: Second.

CHAIRMAN GRIGGS: Have a motion and a second. All in favor say "aye." Ayes have it. Petition is granted.

MR. WATSON: Thank you.

MR. ROGERS: Next item is Item 21, Docket No. 03-19-13-07, Petition by Land and Natural Resource Development, Incorporated.

MR. WATSON: Mr. Chairman, I have one witness. I'd like to have him sworn in, please, sir.

MR. ROGERS: State your name and address.

MR. HIGGINBOTHAM: David Higginbotham, Tuscaloosa, Alabama.

(Hearing Officer swears in the witness.)

MR. WATSON: Mr. Chairman, I am Tom Watson, representing Land and Natural Resource Development, Inc., and I pre-filed an affidavit of notice in this matter. I would like to have it admitted into the record.

(Whereupon, (Item 21) Affidavit of notice offered in evidence.)

CHAIRMAN GRIGGS: It's admitted into the record.

(Whereupon, (Item 21) Affidavit of notice received in evidence.)

MR. WATSON: Land and Natural Resources Development, Inc. is asking the Board to approve a 160-acre wildcat drilling unit for the reentry and completion of the Chunn 2-9 Well on a 160-acre unit consisting in the South Half of the Northeast Quarter and the North Half of the Southeast Quarter of Section 2, Township 3 North, Range 6 East, Escambia County, Alabama, as an exception to Rule 400-1-2-.02(2)(b) of the State Oil and Gas Board's Administrative Code.

If I might point out for the record that

this same unit that we're requesting to be approved today was previously granted administratively, and Mr. Higginbotham will give you the history of that. My expert witness is David Higginbotham, who has appeared before you on numerous occasions and has on file an affidavit of his qualifications as a petroleum geologist.

Mr. Higginbotham, have you prepared exhibits in support of the petition that the Chair has called today?

MR. HIGGINBOTHAM: Yes, sir.

MR. WATSON: I tender him as an expert geological witness for giving testimony, Mr. Chairman.

CHAIRMAN GRIGGS: Board recognizes Mr. Higginbotham as an expert petroleum geologist.

DAVID HIGGINBOTHAM,

having been first duly sworn, was examined and testified as follows:

(Item 21) DIRECT EXAMINATION BY MR. WATSON:

Q. Mr. Higginbotham, if you would refer to your Exhibit No. 1, please, which is a plat of this location I just described, and tell the Board what's

shown there.

A. Exhibit No. 1 is a plat of our proposed location. Outlined in red is the proposed unit. The scale of this plat is one inch equals 1,000 feet. Our unit consists of the South Half of the Northeast Quarter and the North Half of the Southeast Quarter.

Q. And, Mr. Higginbotham, is this Chunn well, as it's located, is it a legal location in accordance with the rules; that is, more than 660 feet, or at least 660 feet from every exterior boundary of this proposed 160-acre unit?

A. Yes, sir, it is a legal location.

Q. All right. Let's go to your Exhibit No. 2. Tell the Board what this exhibit is and describe the information there, please, sir.

A. Exhibit No. 2 is a structure contour map on top of the Smackover formation. The contour interval is 25 feet. The proposed unit, again, is outlined in red. The Chunn Well was drilled in 2003 by Ventex. And Ventex drilled their well, logged it, cored it, and plugged the well. That well encountered the top of the Smackover at a subsea depth of minus 13,768, and that well encountered an oil-water contact at a subsea depth of minus 13,801. The structure contour map illustrates that the

interpreted oil accumulation is trapped on a four-way dip closure. The scale of the map is one inch equals 1,000 feet.

Q. All right, sir. Let's look at your next exhibit, Number 3, which is a log from that well, and let's tell the Board what's shown on that exhibit, please, sir.

A. This next exhibit is a log, high resolution induction special density dual spaced neutron microlog. This log shows the formation tops for the Buckner formation and for the Smackover formation. The top of the Smackover is at a log depth of minus 4 -- excuse me, is at a log depth of 14,151. And this is -- equates to a subsea depth of minus 13,768 true vertical depth. This well encounters an oil-water contact at a log depth of 14,184, which corresponds to the true vertical depth of minus 13,801.

In the right column of this exhibit is a summary of the Smackover reservoir. It has 33 feet of oil in the Smackover oil column, with 16 feet of microlog separation with 7 to 10 percent porosity. A conventional core was taken over this well, and the conventional core illustrates that there was 10 feet of permeability of half a millidarcy or greater, 7

feet permeability greater than one millidarcy, and 3 feet of permeability greater than 18 millidarcies, for a maximum permeability of 30 millidarcies in the well bore.

Q. What is Land and Natural's plan relative to the entry of this well?

A. Land and Natural plans to reenter the well, set casing, and perforate the top of the Smackover approximately eight feet, from 14,151 to 14,159.

Q. All right, sir.

A. And if necessary, acidize the well.

Q. All right, sir. Your last exhibit, Exhibit No. 4, Mr. Higginbotham, tell us what that exhibit is and why it's included in this package of exhibits.

A. Exhibit No. 4 is an exhibit that Ventex Operating submitted to the Board for the East Chitterling Creek oil field. And the purpose of putting this exhibit in here was to illustrate that the top of the Smackover formation in the Ventex well is 62 feet structurally low to the oil-water contact in the Land, Inc. proposed reentry of the Chunn well.

Q. So that says, then, these are two separate and distinct oil pools; is that correct?

A. Yes, sir, that's correct.

Q. So that if your reentry of the Chunn Well is successful and you're able to produce, then we would be setting up a separate field from the Chitterling Creek Field?

A. Yes, sir, that's correct.

Q. All right, sir. Mr. Higginbotham, if the Board sees fit to grant this petition to allow Land and Natural to reenter this well, would that prevent waste and would correlative rights be protected?

A. Yes, sir, it would.

Q. As you've mapped this potential oil accumulation, it appears from your Exhibit 2 that all of the potential oil production is contained within the 160-acre unit; is that correct?

A. Yes, sir, that's correct.

MR. WATSON: Mr. Chairman, I would ask that you receive into the record this hearing and Exhibits 1 through 4 to the testimony of Mr. Higginbotham.

(Whereupon, (Item 21) Land And Natural Resource Development, Inc. Exhibits 1 through 4 offered in evidence.)

CHAIRMAN GRIGGS: Exhibits 1, 2, and 3 are admitted into the record. And Exhibit No. 4,

which is dated March 11, 2013, but also appearing on there, it's identified as Exhibit 3 on Docket No. 3-7-06-6, is admitted into the record.

(Whereupon, (Item 21) Land And Natural Resource Development, Inc. Exhibits 1 through 4 received in evidence.)

MR. WATSON: Thank you, sir. And I tender my witness to the Board and staff for any questions you have.

CHAIRMAN GRIGGS: Any questions by you or the staff? Is there a motion on this item?

MR. LAWLEY: I make a motion to grant the petition.

MR. PEARSON: Second.

CHAIRMAN GRIGGS: Motion and a second. All in favor, say "aye." Ayes have it. Petition is granted.

MR. WATSON: Thank you, Mr. Chairman.

MR. ROGERS: Next item is Item 24, Docket No. 03-19-13-10, petition by Stetson Petroleum Corporation.

MR. TYRA: I have one witness to be sworn in, please.

MR. ROGERS: State your name and address.

MR. DAYTON: My name is John Dayton. I

reside at 183 Basin View Road, Big Fort, Montana.

(Hearing Officer swears in the witness.)

MR. TYRA: Mr. Chairman, I'm John Tyra again, on behalf of Stetson Petroleum Corporation. We have filed a petition asking approval of a nongovernmental 160-acre production unit for the proposed Coley 35-5 #1 Well. The unit is to consist of the South Half of the Northwest Quarter and the North Half of the Southwest Quarter, Section 35, Township 4 North, Range 7 East in Conecuh County, Alabama, in the Barnett Field. We note that Rule 3 of the Special Field Rules for the Barnett Field allows wells to be drilled on approximately 160 contiguous surface acres upon which no other drilling or producible well is located.

My witness is new to the State of Alabama and has not testified.

JOHN DAYTON,

having first been duly sworn, was examined and testified as follows:

MR. TYRA: But I will ask you, Mr. Dayton, have you on record a copy of your resumé?

MR. DAYTON: I do.

MR. TYRA: And would you briefly go over your background, both work experience and your educational experience?

MR. DAYTON: Okay. I have a B.S. in chemical and petroleum refining engineering from Colorado School of Mines in 1974. Ever since that time, I've worked in the production end of the business, though, rather than the refining end of the business. I was an operations and facilities engineer in Cook Inlet, Alaska, Colorado, and Wyoming with Amoco Production Company, 1974 through 1979. I was with -- moved companies. I was with Arco, working on the Kuparuk Oilfield development, operations engineering team from 1979 to '83. Cook Inlet and Lisburne engineering supervisor from '83 to '84. I worked on the Lisburne Oilfield development as engineering manager for Arco Alaska from '84 to '88. I was Kuparuk Oilfield operations manager on the North Slope of Alaska for '88 and '89. I was Prudhoe Bay operations manager in the Eastern Operating Area operated by Arco, '89 to '91. Then a Prudhoe Bay projects and construction manager from '91 to '93. After that, I was vice president of operations for the Trans-Alaska Pipeline with the Alyeska Pipeline Service Company from '93 to '97.

And I'm currently working as a petroleum consultant for Stetson Petroleum.

MR. TYRA: All right, sir. I'll ask you, in that capacity as consultant for Stetson Petroleum, are you familiar with the request to drill this well and also familiar with the petition that has been filed in this matter?

MR. DAYTON: I am.

MR. TYRA: And are there exhibits that have been prepared in support of that petition that you're going to be testifying to?

MR. DAYTON: Yes, there are. We have three exhibits.

MR. TYRA: All right, sir. I would ask that Mr. Dayton be recognized as an expert witness to testify in this matter, please.

CHAIRMAN GRIGGS: Mr. Tyra, the Board will recognize Mr. Dayton as a petroleum refining engineer. And we would request that you take his resumé that you provided to the Board and ask him to sign and date it.

MR. TYRA: Yes, sir. Would be happy to do that.

While he's doing that, I have pre-filed an affidavit of notice that I would ask be made a

part of the record at this time.
(Whereupon, (Item 24) Affidavit of notice offered in evidence.)
CHAIRMAN GRIGGS: It's admitted into the record.
(Whereupon, (Item 24) Affidavit of notice received in evidence.)
MR. TYRA: We also pre-filed an affidavit of confidentiality concerning an exhibit, but actually, we will not be using that exhibit today. So I guess there's no reason to admit that at this point.
CHAIRMAN GRIGGS: The Board will admit his resumé into the record.
(Whereupon, (Item 24) John Dayton's resumé offered and received in evidence.)
MR. TYRA: Thank you very much.

(Item 24) DIRECT EXAMINATION BY MR. TYRA:
Q. Mr. Dayton, I would ask that you turn to your Exhibit 1 and explain what that shows, please.
A. The first exhibit is a drilling plat which shows the drilling unit of 160 acres outlined with a red dashed line. It shows the surface location of the well, and it shows the bottom hole,

or intended bottom hole location of the well. The well is being drilled as a directional well due to terrain considerations. The bottom hole location is directly underneath a creek.

Also on this plat you'll see the Alger-Sullivan Well, which is a little bit to the southeast of the center of the section there. This was the discovery well for the Barnett Field. It was drilled back in 1975. It was -- last produced in 1994 and has been plugged since then.

Q. All right, sir. So after the Alger-Sullivan Well was drilled, were Special Field Rules adopted for the Barnett Field?

A. Yes, they were.

Q. And that was in 1975 as well; is that correct?

A. Correct.

Q. Now, the Special Field Rules, Rule 3 of the Special Field Rules require spacing of 160 contiguous acres upon which no other drilling or producible well is located; is that correct?

A. That's correct.

Q. And so the proposed unit is 160 units with no other wells on it; is that correct?

A. That is correct.

Q. It also requires all wells to be 1,320 feet from every other drillable or producible well in the field. Now, is that requirement met by your location?

A. Yes, it is.

Q. And finally, it requires that you be at least 660 feet from every exterior boundary. Is the location of the proposed well, does it meet that requirement?

A. Yes, it does. The proposed bottom well location is 998 feet from the west line and 964 feet from the north line of the proposed unit.

Q. All right, sir. If you had a need to have a governmental unit consisting of that Northwest Quarter, that location would be an exceptional location, wouldn't it? Would it not be?

A. Yes, it would be.

Q. It would be too close to the south line; is that correct?

A. That's correct.

Q. All right, sir. Let's turn to your Exhibit 2, and explain what that shows, please.

A. Exhibit 2 shows some of the other existing units that have been approved within the Barnett Field, boundaries in the East Barnett Field,

Northeast Barnett Field, and North Barnett Field. I'll apologize maybe for the use of the word "non-conforming." We couldn't find a better label. Basically, they all conform completely to the Field Rules, but they're not in line with just governmental quarter sections.

Q. All right, sir. And your proposed unit is the one in green; is that correct?

A. It's the one in green, that's correct.

Q. And I notice there are two producing wells in the Barnett Field and only two producing wells. Are those being operated by Stetson as well?

A. Yes, they are. The two Scott Paper wells, Scott Paper 3-2 and Scott Paper 28.

Q. 35?

A. Oh, 35. Thank you.

Q. 35-8? Okay. And both of those are also in split units; is that correct?

A. That's correct.

Q. And so they are in compliance with the Special Field Rules, they're just not governmental sections?

A. That's correct.

Q. All right, sir. Let's look at your Exhibit 3, which is your structure map. And if you

will explain --

A. This is a structure map for the top of Smackover structure. The scale is one inch equals 1,000 feet, and the contour interval is 20 feet. It shows both the surface location, the proposed bottom hole location, and it shows the distance to the nearest producing well, which is the Scott Petroleum -- or excuse me, the Stetson Petroleum Scott Paper 35-8, of 3,800 feet.

You can see we have structural closure on three sides. And then the fourth side, you would have basically a well that has produced to its economic limit and been abandoned. So the red dashed line is of course the 160-acre proposed drilling unit.

Q. All right, sir. Is the location that you have there, in your opinion, the optimal geological location of this well?

A. Yes, it is. We believe the northwest flank has a better chance of higher permeability and porosity due to the environmental conditions at the time of the deposition of the oolitic structure.

Q. All right, sir. And the wells to the south, they're both dry holes; is that correct?

A. That's correct.

Q. Then you have the producing well that was plugged and abandoned to the southeast?

A. Southeast.

Q. And then directly east you have a dry hole as well?

A. That's correct.

Q. What about north of the proposed unit, what do you --

A. Well, that would be well down-structure, and so therefore, it would be below any water-oil contact.

Q. All right, sir. Are you seeing any communication between these wells, the production wells and your proposed well?

A. No.

Q. All right, sir. In your opinion, then, this is the optimal geological location. Would it also prevent waste, as that term is defined by our laws and statutes here in Alabama?

A. Yes, it would.

Q. And would it protect correlative rights and avoid the drilling of unnecessary wells?

A. Yes, it would.

Q. Is it your opinion that the entire productive formation that you're going for is located

within the proposed unit?

A. Yes, it is. Because of the structural -- it's a relatively small structure.

Q. All right, sir.

MR. TYRA: I would tender the witness for any questions the Board may have at this time.

MR. McQUILLAN: Mr. Tyra, you had also filed an affidavit of testimony in support of the petition from an H. Pete Berg?

THE WITNESS: Yes. Mr. Berg is the president of Stetson Petroleum Corporation.

MR. McQUILLAN: Are you also going to submit that, put that in the record?

MR. TYRA: I think probably not, since we had live testimony. We have a live witness as well.

No, sir, we'll not submit it. We'll do it on the basis of the testimony of Mr. Dayton.

CHAIRMAN GRIGGS: Mr. Tyra, you're requesting that we admit Exhibits 1 through 3 into the record?

MR. TYRA: Yes, sir, please.

MR. ROGERS: And the affidavit of notice?

MR. TYRA: And the affidavit of notice.

(Whereupon, (Item 24) Stetson Exhibits 1 through 3 offered in evidence.)

CHAIRMAN GRIGGS: They're admitted into the record. Anything further?

Is there a motion?

(Whereupon, (Item 24) Stetson Exhibits 1 through 3 received in evidence.)

MR. PEARSON: I move that we grant the petition styled as Item 24, which is the petition of Stetson Petroleum.

CHAIRMAN GRIGGS: Motion. Is there a second?

MR. LAWLEY: Second.

CHAIRMAN GRIGGS: Motion and second. All in favor say "aye." Ayes have it. Petition is granted.

MR. TYRA: Thank you very much.

CHAIRMAN GRIGGS: Is there a motion to adjourn?

MR. LAWLEY: So moved.

MR. PEARSON: Second.

CHAIRMAN GRIGGS: The meeting stands adjourned.

(END OF PROCEEDING 11:33 a.m.)

C E R T I F I C A T E

STATE OF ALABAMA)

COUNTY OF JEFFERSON)

I hereby certify that the above and foregoing proceeding was taken down by me by stenographic means, and that the content herein was produced in transcript form by computer aid under my supervision, and that the foregoing represents, to the best of my ability, a true and correct transcript of the proceedings occurring on said date at said time.

I further certify that I am neither of counsel nor of kin to the parties to the action; nor am I in anywise interested in the result of said case.

/s/ Lane C. Butler

LANE C. BUTLER, RPR, CRR, CCR

CCR# 418 -- Expires 9/30/13

Commissioner, State of Alabama

My Commission Expires: 2/11/17