

OIL & GAS DOCKET NOS. 05-0251057 ET AL.¹

APPLICATIONS OF TEXAS M.O.R., INC., TO CONSIDER EXCEPTIONS TO STATEWIDE RULE 21 IN ORDER TO PRODUCE BY SWABBING VARIOUS WELLS ON THE WRIGHT -A- (00310), WRIGHT, J. J. W. & H. (00309), MIRUS, SOUTH (00293), DREEBEN/CEN. PET. NO. 2 (00269), GARVIN, J. A. (00148), PIERCE (01720), MCKINNEY (00289), BREITHAAPT, C. A. (00142), BOUNDS, REX T. (01430), CHAPMAN -C- (01407), AND BLACKBURN (00263) LEASES, CORSICANA (SHALLOW) FIELD, NAVARRO COUNTY, TEXAS

APPEARANCES:

FOR APPLICANT:

Vern Wilson
Agent

APPLICANT:

Texas M.O.R., Inc.

FOR INTERVENOR:

Mark England, P.E.

INTERVENOR:

Field Operations Section
Oil and Gas Division
Railroad Commission of Texas

PROPOSAL FOR DECISION

PROCEDURAL HISTORY

DATE APPLICATIONS FILED:	March 12, 2007
DATE OF NOTICE OF HEARING:	March 10, 2008
DATE OF HEARING:	April 11, 2008
HEARD BY:	James M. Doherty, Hearings Examiner
DATE RECORD CLOSED:	June 12, 2008
DATE PFD CIRCULATED:	August 8, 2008

¹ This docket was heard jointly with Oil & Gas Docket Nos. 05-0251058, 05-0251059, 05-0251060, 05-0251061, 05-0251062, 05-0251063, 05-0251064, 05-0251065, 05-0251066, and 05-0251067.

STATEMENT OF THE CASE

This case involves 11 applications of Texas M.O.R., Inc. ("MOR") for approval of exceptions to Statewide Rule 21 to permit MOR to produce by swabbing 54 wells on 11 oil leases in the Corsicana (Shallow) Field, Navarro County, Texas. Appendix 1 to this proposal for decision is a listing of the various dockets involved and the leases and wells covered by each docket. Notice of hearing was mailed to the mineral interest owners and surface owners of record of the subject leases. Because some of the mailed notices were returned to the Commission, MOR published the notice in the Corsicana Daily Sun, a newspaper having general circulation in Navarro County, on March 11, March 18, March 25 and April 1, 2008. A hearing was held on April 11, 2008. Vern Wilson, Agent, appeared representing MOR, and Mark England, P.E., appeared representing the Field Operations Section, Oil and Gas Division, Railroad Commission of Texas. Both parties presented evidence. The record was held open until June 12, 2008, to allow the parties to file additional information requested by the examiner.

APPLICABLE LAW

Statewide Rule 21(k) provides that swabbing, bailing, or air jetting of wells is prohibited as a production method for wells unless the Commission has, after notice and hearing, granted an exception to this subsection.

Pursuant to Rule 21(k)(1)(B), an operator seeking an exception must present evidence at the hearing establishing: (1) the method of production proposed; (2) that any production is properly accounted for pursuant to Statewide Rule 26 (relating to Separating Devices, Tanks, and Surface Commingling of Oil); (3) that the proposed exception is necessary to prevent waste or protect correlative rights; (4) that wellhead control is sufficient to prevent releases from the well; (5) that no pollution of usable quality water or safety hazard will result from either the proposed production method or the condition of the well; and (6) that the operator possesses a continuing good faith claim of right to operate the well.

Pursuant to Rule 21(k)(2), in determining a request for an exception, the Commission may also consider: (1) whether the well has passed a mechanical integrity test within the preceding 12 months; (2) the estimated monthly and cumulative production from the well if the requested exception is granted; (3) whether production will be into an on-lease tank battery or a mobile tank; (4) the adequacy of the financial assurance provided by the operator to assure that the well will be timely and properly plugged; (5) whether production volume, fine sands in the reservoir, or other factors render pumping of the well impracticable; (6) whether the reservoir from which the well produces contains hydrogen sulfide; and (7) the operator's history of compliance with Commission rules.

DISCUSSION OF THE EVIDENCE

Matters Officially Noticed

The examiner has officially noticed the P-4 Inquiry database for the oil leases that are the subject of these applications. This database shows that the Wright -A- (00310), Wright, J. J. W. & H. (00309), Dreeben/Cen. Pet. No. 2 (00269), Garvin, J. A. (00148), Pierce (01720), Breithaupt, C. A. (00142), Bounds, Rex. T. (01430), and Chapman -C- (01407) leases were transferred to MOR from Rife Oil Properties, Inc., by Form P-4 approvals on September 30, 2005. The Mirus, South (00293) Lease was transferred to MOR from Rife Oil Properties, Inc., by Form P-4 approval on November 2, 2005. The McKinney (00289) and Blackburn (00263) Leases were transferred to MOR from Rife Energy Operating, Inc., by Form P-4 approval on September 30, 2005.

The examiner has also officially noticed the Oil Proration Schedule database for the subject oil leases. This database establishes that MOR proposes to swab 3 of 4 wells on schedule for the Wright -A- (00310) Lease, 4 of 8 wells on schedule for the Wright, J. J. W. & H. (00309) Lease, all 5 of the wells on schedule for the Mirus, South (00293) Lease, 2 of 6 wells on schedule for the Dreeben/Cen. Pet. No. 2 (00269) Lease, 6 of 18 wells on schedule for the Garvin, J. A. (00148) Lease, 8 of 15 wells on schedule for the Pierce (01720) Lease, 5 of 19 wells on schedule for the McKinney (00289) Lease, 8 of 18 wells on schedule for the Breithaupt, C. A. (00142) Lease, both wells on schedule for the Bounds, Rex T. (01430) Lease, 8 of 14 wells on schedule for the Chapman -C- (01407) Lease, and 3 of 15 wells on schedule for the Blackburn (00263) Lease.

According to the Oil Proration Schedule database for the subject oil leases (as of the date of the hearing), of the wells proposed to be swabbed, the following number are "producing" as compared to "shut in": Wright -A- (00310) Lease - 2 are producing and 1 is shut in; Wright, J. J. W. & H. (00309) Lease - 2 are producing and 2 are shut in; Mirus, South (00293) Lease - all 5 are shut in; Dreeben/Cen. Pet. Co. (00269) Lease - both are producing; Garvin, J. A. (00148) Lease - 3 are producing and 3 are shut in; Pierce (01720) Lease - 2 are producing and 6 are shut in; McKinney (00289) Lease - 1 is producing and 4 are shut in; Breithaupt, C. A. (00142) Lease - 3 are producing and 5 are shut in; Bounds, Rex T. (01430) Lease - both are producing; Chapman -C- (01407) Lease - 2 are producing and 6 are shut in; and Blackburn (00263) Lease - all 3 are shut in.

The examiner has also officially noticed the Oil & Gas Production Data Query database for the subject leases, for the period January 2005 through February 2008. This database shows the following reported production: Wright -A- (00310) Lease: 2005 - 0 BO; 2006 - 36 BO; 2007 - 38 BO; Jan.-Feb. 2008 - 2 BO; Wright, J. J. W. & H. (00309) Lease: 2005 - 0 BO; 2006 - 45 BO; 2007 - 42 BO; and Jan.-Feb. 2008 - 2 BO; Mirus, South (00293) Lease: 2005 - 0 BO; 2006 - 20 BO; 2007 - 23 BO; Jan.-Feb. 2008 - 0 BO; Dreeben/Cen. Pet. Co. (00269) Lease: 2005 - 0 BO; 2006 - 42 BO; 2007 - 42 BO; Jan.-Feb. 2008 - 11 BO; Garvin, J. A. (00148) Lease: 2005 - 0 BO; 2006 - 30 BO; 2007 - 36 BO; Jan.-Feb. 2008 - 9 BO; Pierce (01720) Lease: 2005 - 0 BO; 2006 - 60 BO; 2007 - 124 BO; Jan.-Feb. 2008 - 5 BO; McKinney (00289) Lease: 2005 - 2,088 BO; 2006 - 1,875 BO; 2007 - 1,557 BO; Jan.-Feb. 2008 - 179 BO; Breithaupt, C. A. (00142) Lease: 2005 - 0 BO; 2006 - 33 BO;

2007 - 40 BO; Jan.-Feb. 2008 - 6 BO; Bounds, Rex T. (01430) Lease: 2005 - 0 BO; 2006 - 37 BO; 2007 - 43 BO; Jan.-Feb. 2008 - 6 BO; Chapman -C- (01407) Lease: 2005 -0 BO; 2006 - 61 BO; 2007 - 77 BO; Jan.-Feb. 2008 - 3 BO; Blackburn (00263) Lease: 2005 - 958 BO; 2006- 611 BO; 2007 - 480 BO; Jan.-Feb. 2008 - 71 BO.

The examiner has also officially noticed the P-5 Master Inquiry, P-5 Financial Assurance Inquiry, and On Schedule Leases, Wells, Wellbores by Operator databases for MOR. As of the date of the hearing, MOR had an active organization report and approved financial assurance in the amount of \$250,000 on file, and was the operator of 542 wellbores having total depth of 582,226 feet.

The examiner has also officially noticed memoranda regarding these applications prepared by the Field Operations Section of the Commission's Oil and Gas Division contained in the hearing files. A summary of the comments of Field Operations regarding each application is attached to this proposal for decision as Appendix 2.

The examiner has also officially noticed the Proposal for Decision served January 5, 2007, and Final Order served February 2, 2007, in Oil & Gas Docket Nos. 05-0246085 Et Al.²; *Applications of Texas M.O.R., Inc., for Exceptions to Statewide Rule 21 to Produce by Swabbing, Bailing, or Jetting Forty-Eight Wells on the Munsey & Munsey (00296) Lease, the Gibson (00274) Lease, the Kerr 1 & 2 (00284) Lease, the J. A. Worthy (00295) Lease, and the Benton (00262) Lease, Corsicana (Shallow) Field, Navarro County, Texas.*

MOR

MOR is the designated operator of the leases and wells affected by these applications. ReoStar Energy Corporation is the owner of the leases and wells and all other assets operated by MOR. Included within the assets owned by ReoStar are 4,000 acres of leases in the Corsicana (Shallow) Field assigned to ReoStar from Rife Oil Properties, Inc. Mervyn O. Rife³ is the Chairman of the Board and an owner of ReoStar. Vern Wilson is a Vice President of ReoStar and oversees MOR's day to day operations as a representative of ReoStar.

² This docket also embraced Oil & Gas Docket Nos. 05-0246086, 05-0246087, 05-0246088, and 05-0246125.

³ The last Form P-5 for Rife Oil Properties, Inc., approved on September 22, 2003, named Mervyn O. Rife as President. A Form P-5 for MOR approved on March 10, 2006, named Mervyn O. Rife as Vice President. However, by Form P-5 filed on November 21, 2006, the name of Mervyn O. Rife was removed as an officer of MOR.

The Corsicana (Shallow) Field was discovered in 1895. During the 1960's, there were multiple water floods in the field that were less than fully effective. According to MOR, cumulative primary and secondary recovery from the field has been about 20 million barrels of oil, and 80 to 100 million barrels of oil are still in place in this field. MOR has a plan to redevelop the field by plugging existing wells, drilling new wells, and employing an alkaline surfactant polymer flood technology. It has initiated a pilot redevelopment project on the King "A" Lease in the field. As of October 2006, when a prior swabbing case initiated by MOR was heard in Oil & Gas Docket Nos. 05-0246085 Et Al., MOR had drilled 13 new wells (7 producing wells and 6 injectors) and was installing an injection system. As of the date of the hearing in the present dockets, no further wells had been drilled on the King "A" Lease, but injection had been commenced as of June 21, 2007, and by October 2007, a response had been observed in other wells that now show a capability to flow. As a part of its redevelopment plan, MOR has also drilled two additional wells on other leases since the prior swabbing dockets, and has short term plans to drill 13 more wells offsetting the King "A" Lease.

MOR decided to plug old wells and drill new ones as a part of its redevelopment of the field, because when it first became operator and attempted to produce existing wells by conventional means, it encountered casing problems in the wells. About 30 wells in the field have been plugged by MOR in the last year, some being MOR wells and some being wells for which Rife Oil Properties, Inc., is still the designated operator.⁴ Over the long term, MOR's redevelopment plan contemplates that it will plug 1,000 existing wells and drill 1,000 new wells at a rate of about 50 wells per year. Swabbing of existing wells is proposed as an interim measure to increase production and preserve the validity of MOR's oil and gas leases.

MOR does not have drilling date information for the wells that it proposes to swab, but believes that as a general proposition, a majority of the wells were drilled in the late 1950's or early 1960's. The wells on the Bounds, Rex T. (01430) Lease were drilled in 1986, and the wells on the Mirus, South (00293) Lease were drilled in the 1990's. Rife Oil Properties, Inc., swabbed these wells until its organization report became delinquent in 2004. According to MOR, the wells shown as "producing" on the Oil Proration Schedule are connected to flow lines and are flowing oil into on-lease tank batteries. Some of the "producing" wells flow consistently, while others flow only sporadically. All of the subject wells were stripped of rods and tubing by a previous operator, and the wells do not have electricity. MOR stated that no wells on the subject leases are produced by

⁴ MOR is a party to a settlement agreement with the State pursuant to which MOR agreed to plug Rife's delinquent inactive wells at a rate of 15 wells per month. As of January 4, 2007, Rife was still the operator of 280 delinquent inactive wells. As of the date of the hearing in these dockets, Rife was still the operator of 225 delinquent inactive wells, so that by plugging or transfer, the number of Rife's delinquent inactive wells had been reduced by only 55 in 16 months. MOR claims that bad weather has delayed the plugging of Rife's wells, and believes that a more realistic schedule needs to be developed with the State for the plugging of these wells. As of June 19, 2008, MOR filed a Status Report with the Commission, officially noticed by the examiner, which reported that the settlement agreement listed 333 wells for plugging, and as of June 19, 2008, approximately 98 wells had been plugged and 29 wells had been transferred, so that 206 wells remained to be plugged.

pumping, with the exception of one well on the Dreeben/Cen. Pet. No. 2 (00269) Lease. A “prolific” flowing well produces about 0.5 barrels of oil per month.⁵ With respect to some of the subject leases, MOR has applied for the right to swab less than all of the wells on the Oil Proration Schedule for the leases. The decision not to seek swabbing authority for some wells on these leases was based on MOR’s estimation of the wells’ capability for production and lack of convenient access to the well locations. Wellhead control for the wells proposed to be swabbed consists of threaded plastic caps that can be removed during the swabbing process.

MOR is the operator of five mobile swabbing trucks. When swabbing a well, the driver moves his swab truck adjacent to the well, removes the plastic cap from the well, lowers a boom that seals to the open casing, and lowers a swab cable equipped with swabbing cups down below the top of fluid in the well. When the swab cable is extracted, the swab cups open and bring oil to the surface where it is loaded through a closed system into a mobile tank on the swab truck. After swabbing operations have been completed, the swabbing truck unloads the oil and water it has recovered into on-lease storage tanks. All oil is therefore measured before it leaves a particular lease.

MOR believes that equipping the subject wells with electricity and the necessary equipment to produce the wells by pumping would be cost prohibitive. On the other hand, swabbing of the wells is thought to be an efficient and effective method of producing these wells. In MOR’s estimation, the subject wells will produce, on the average, 10 barrels of oil per month when swabbed, which is a significantly greater volume than is presently produced by flowing the wells. Reported production for 2007 for wells that MOR was authorized to swab in the Commission’s February 2007 Final Order in Oil & Gas Docket Nos. 05-0246085 Et Al. does not show any material increase in production as compared to the previous year, but MOR attributes this to extraordinary rainfall that prevented effective swabbing operations during more than about 45 days during Feb.-Dec. 2007.

According to MOR, TCEQ has determined that fresh water in this area must be protected to a depth of 100 feet. MOR does not believe that there is any fresh water in this area, and asserts that the logs of wells recently drilled by MOR support this conclusion. MOR does not know the history of many of these wells or have the relevant completion data. That is why MOR decided to plug old wells and drill new ones in its redevelopment project; that is, because MOR kept running into casing problems when it previously attempted to produce the wells. No mechanical integrity testing of the subject wells has been performed, but MOR has run fluid level tests on many of the wells. It knows

⁵ MOR’s evidence relating to “producing” wells is difficult to reconcile with MOR’s production reporting for the subject leases and with facts disclosed by District Office inspections. In at least the case of the Mirus, South (00293) Lease, production has been reported even though all wells on the lease are shown on the Oil Proration Schedule to be shut in. Production volumes reported for at least the McKinney (00289) Lease and the Blackburn (00262) Lease appear far in excess of what wells on these leases might reasonably be expected to “flow.” Photographs taken by the District Office of each of the wells proposed to be swabbed do not show any above-ground flow lines connected to the wells.

of no instance wherein a Form H-15 (Test on an Inactive Well More than 25 Years Old) for the wells has not been approved by the Commission. MOR believes that swabbing will result in lowering pressure and fluid levels in the subject wells. There is no hydrogen sulfide associated with the oil produced from this reservoir.

MOR contends that it has a good faith claim of a continuing right to operate the wells proposed to be swabbed. As evidence of this it submitted copies of the oil and gas leases upon which it relies for its good faith claim. The essential terms of these leases are summarized in Appendix 3 to this proposal for decision.

Field Operations

The Field Operations Section of the Oil and Gas Division undertakes administrative review of applications for exceptions to Statewide Rule 21 to produce wells by swabbing, attempting to determine whether the wells are acceptable candidates for swabbing. Prior to the 2002 amendments to Statewide Rule 21, Field Operations was responsible for processing requests of operators to produce wells by swabbing. Factors considered by Field Operations at the time included whether the wells exhibited low productivity, low bottom hole pressures, low fluid levels, and low oil prices that made production by pumping, or workover of wells so that they could be pumped, uneconomic. Under these former criteria, wells that exhibited a capability to flow oil would not have been considered good candidates for swabbing. Some of the bases formerly used by Field Operations to approve swabbing may no longer exist with current high oil prices. Field Operations now looks at swabbing more as a temporary production method that may be useful while infrastructure is being put in place to produce oil by pumping.

There were gaps in the information that MOR provided to Field Operations regarding the wells here proposed to be swabbed, particularly as to drilling and cementing records. Field rules for the Corsicana (Shallow) Field have required cement to be circulated to the surface on wells that are single string completions. If it could be established that the subject wells have cement circulated to the surface, the risk of pollution of usable quality water would not be an issue for Field Operations, but without cementing records, Field Operations cannot say that swabbing the wells would pose no threat of such pollution. TCEQ says that in this area, fresh water must be protected to a depth of 100 feet. There are no known fresh water aquifers in the area, but the concern is for stray or random fresh water zones. If cementing records are unavailable, Field Operations believes that MOR could nonetheless determine if the subject wells have cement circulated to the surface by simply digging out an area around the wellhead to determine this.

Field Operations has a concern about swabbing wells that have fluid at the surface, and if a well will flow oil, the assumption would be that fluid is at or near the surface. It may be that swabbing wells in this category would not be much more problematical than allowing them to remain inactive and unplugged, except that when a well is regularly being produced by flowing through flow lines into a tank battery, an operator can see deviations in production that might be reflective of a casing leak, whereas swabbing is a more sporadic method of production where

deviations are not as easy to observe. Field Operations does not recommend that swabbing be authorized for wells with fluid at the surface, until the fluid level is reduced or it is adequately explained how these wells can be swabbed without resulting in a discharge of oil onto the ground. Field Operations has no particular concern about those of the subject wells that are shut in and have Form H-15 tests demonstrating low fluid levels.

Field Operations opposes the granting of Statewide Rule 21 exceptions for wells on the McKinney (00289) Lease because a District Office inspection on April 24, 2007, disclosed that fluid was at the surface in Well Nos. 20R, 36R, 41R, and 56 on this lease. Field Operations presented a copy of the inspection report and photographs taken at the time of the inspection showing that discharges of oil had occurred around these wells and free standing oil was around the wellheads.⁶

Copies of the Field Operations memoranda in the hearing files in these dockets were sent to MOR in the hope that MOR might address, at or prior to the hearing, comments in the memoranda that drilling dates and cement records had not been provided for certain leases and wells. However, this information has not been provided. Field Operations opposes the granting of exceptions to Statewide Rule 21 for wells lacking sufficient data to enable a determination that swabbing will not result in pollution of usable quality water.

It appears from the memoranda in the hearing files that Field Operations has no objection to the granting of Statewide Rule 21 exceptions for the subject wells on the Garvin, J. A. (00148), Bounds, Rex T. (01430), and Chapman -C- (01407) Leases. In addition, the memoranda indicate that fluid levels provided to Field Operations for the Wright, J. J. W. & H. (00309) Lease, Well Nos. 23 and 25 and the Dreeben/Cen. Pet. No. 2 (00269) Lease, Well Nos. 5 and 16 show that these wells present no pollution problems at this time. With respect to the Breithaupt, C. A. (00142) Lease, the Field Operations memorandum states that no cementing data is available, but the remainder of the data provided "does not indicate a pollution threat exists."

EXAMINER'S OPINION

The examiner is of the opinion that based on the proof made by MOR, and evidence officially noticed from the Commission's database, the requirements of Statewide Rule 21 have been satisfied, and exceptions should be granted, subject to certain standard conditions, for the Wright -A- (00310) Lease, Well Nos. 2, 3, and 4, the Wright, J. J. W. & H. (00309) Lease, Well Nos. 10, 11R, 23, and 25, the Mirus, South (00293) Lease, Well Nos. 1T and 2T, the Dreeben/Cen. Pet. No.

⁶ Inexplicably, the H-15 Data Inquiry database for the McKinney (00289) Lease, Well Nos. 20R, 26R, 36R, 41R, and 56, which the examiner has officially noticed, shows that MOR filed Forms H-15 purporting to show that these wells had been fluid level tested on March 14, 2007, only about six weeks before the District Office inspection, and the tops of fluid in the wells were anywhere from 470 feet to 502 feet below the surface. However, by letter to the examiner dated May 22, 2008, MOR reported that it had obtained "recent" fluid levels for 5 wells on the McKinney Lease (Well Nos. 20, 26, 36, 41, and 56) and fluid was at the surface in Well Nos. 20, 36, and 56. Fluid in Well No. 26 was at approximately 400 feet and fluid in Well No. 41 was at approximately 300 feet.

2 (00269) Lease, Well Nos. 5 and 16, the Garvin, J. A. (00148) Lease, Well Nos. 2, 3, and 7, the Pierce (01720) Lease, Well Nos. 1R, 2R, 3, 4, 5R, 13, 14, and 14A, the Breithaupt, C. A. (00142) Lease, Well Nos. 1R, 2R, 4, 5, 7, 8, 11, and 16, the Bounds, Rex T. (01430) Lease, Well Nos. 5 and 6, the Chapman -C- (01407) Lease, Well Nos. 4C, 8C, 9C, 14C, 18A, 20A, 36, and 43, and the Blackburn (00263) Lease, Well Nos. 4, 18 and 32.

The examiner further recommends approval of Statewide Rule 21 exceptions for the Mirus, South (00293) Lease, Well Nos. 23 and 24, and the Garvin, J. A. (00148) Lease, Well Nos. 4, 11, 13R and 18, subject to standard conditions and a special condition that prior to commencement of swabbing operations on these wells, fluid level tests must be performed on these wells, test results must be reported to the District Office, and the District Office must have approved the commencement of swabbing operations as not posing a threat to usable quality water. Test results must show that the fluid level in the wells is 250 feet or more below the base of the deepest usable quality water, provided that if the fluid level is between the base of usable quality water and 250 feet below the base of usable quality water (1'-249'), the District Office may approve the commencement of swabbing operations if it is determined that such operations do not pose a threat to usable quality water.

The examiner recommends denial of the applications as to the McKinney (00289) Lease, Well Nos. 20R, 26R, 36R, 41R, and 56, based on the failure of MOR to establish that, if exceptions are granted for these wells, no pollution of usable quality water or safety hazard will result from either the proposed production method or the condition of the wells.

Mandatory Statewide Rule 21 Criteria

Method of Production and Accounting: The proposed method of production is by swabbing. Production will be properly accounted for pursuant to Statewide Rule 26 because such production will be stored in tanks on the same lease where the oil is produced and will be measured before the oil leaves the lease.

Waste Prevention: As to the wells for which exceptions are recommended, the exceptions are necessary to prevent waste. These wells were stripped of downhole equipment by a previous operator, and the wells are not equipped to be produced by pumping. Equipping of these wells for production by pumping is cost prohibitive given the amount of oil that the wells are capable of producing. Swabbing of the wells is a cost effective means of producing them, and MOR estimates that if exceptions are granted, the wells will produce an average of 10 barrels of oil per month. Some of the wells recommended for exceptions are currently flowing production, but, according to MOR, at a maximum rate of only 0.5 barrels of oil per month. Under current circumstances, there appears to be no other practical means of producing the incremental oil that will be produced by swabbing.

Wellhead Control: Wellhead control for the wells proposed to be swabbed consists of threaded plastic caps that can be removed during the swabbing process. There is no current evidence

of failure to maintain wellhead control with respect to the wells for which exceptions are recommended. As to the McKinney (00289) Lease wells, for which the examiner recommends denial of exceptions, wellhead control has not been sufficient to prevent releases from the wells, as evidenced by a April 24, 2007, inspection report and photographs taken at the time of the inspection showing that discharges of oil had occurred from these wells and free standing oil was around the wellheads.

Protection of Fresh Water: As to the wells for which exceptions are recommended, the evidence shows that it is not likely that pollution of usable quality water or safety hazard will result from either the proposed production method or the condition of the wells. There are no known fresh water aquifers in the area. The fresh water concern is thus limited to stray or random fresh water zones. TCEQ recommends that fresh water be protected to a depth of 100 feet, which is the standard where no fresh water aquifer exists. Logs of recent wells drilled by MOR do not show fresh water strata in the area. The H-15 Data Inquiry database, officially noticed by the examiner, shows that all of the wells for which exceptions are recommended, subject to standard conditions only, have approved H-15 tests showing acceptable fluid levels in the wells, except in the case of the Mirus, South (00292) Lease, Well Nos. 1T and 2T, the Bounds, Rex T. (01430) Lease, Well Nos. 5 and 6, and the Chapman -C- (01407) Lease, Well Nos. 9C, 18A, 20A, and 43 which are not currently subject to H-15 testing requirements. The examiner has officially noticed from the Oil and Gas W-2/G-1 Record database that these latter wells are all cemented to the surface to protect usable quality water.

With respect to the Mirus, South (00293) Lease, Well Nos. 23 and 24, and the Garvin, J. A. (00148) Lease, Well Nos. 4, 11, 13R, and 18, a recommended special condition will require that these wells be tested for acceptable fluid levels prior to commencement of swabbing operations. This special condition is recommended because the H-15 Data Inquiry database shows the wells have not been subject to H-15 test requirements and the Oil and Gas W-2/G-1 Record database contains no information as to whether the wells are cemented to the surface.

MOR did not, however, establish that no pollution of usable quality water or safety hazard will result from swabbing or the condition of the wells as to the McKinney (00289) Lease in view of the April 24, 2007, inspection that disclosed that oil had been released on the ground from wells on this lease and MOR's admission that recent fluid levels taken in five wells on the lease showed that fluid was at the surface in three of the wells.

Good Faith Claim: MOR was also required by Statewide Rule 21 to establish that it possesses a continuing good faith claim of right to operate the wells proposed to be swabbed. The examiner has concluded that MOR has minimally satisfied this standard as to all of the involved leases. Most of the oil and gas leases relied upon by MOR are more than 50 years old, with the earliest lease dated in 1898. The primary terms of these leases expired years ago, except in the case of 2007 oil and gas leases relating to the Pierce (01720) Lease and the Chapman -C- (01407) Lease. However, with some variations, these old leases provided that they would continue in effect in the secondary term based on continuous operations or production. MOR became the operator of the oil

leases that are the subject of these applications on September 30, 2005, except in the case of the Mirus, South (00293) Lease with respect to which it became operator on November 2, 2005. Although production has been minimal for all but the McKinney (00289) Lease and the Blackburn (00263) Lease, relatively continuous production has been reported for all leases since the time MOR became operator.

All of the subject oil leases, with the exception of the McKinney (00289) Lease and the Blackburn (00263) Lease, were transferred to MOR from Rife Oil Properties, Inc., the predecessor operator, in the fall of 2005. Commission production reports disclose that during January-September 2005, no production was reported by Rife for the involved leases that it then operated. This appears to have been the result of severances of the leases caused by delinquency of Rife's Form P-5 organization report. The examiner cannot foreclose, therefore, the possibility that many, if not most, of these leases, except the two 2007 leases that are still in their primary term, may have terminated due to a cessation of production while Rife was still the operator, so that when the leases were assigned to ReoStar there was nothing left to assign. However, most of the oil and gas leases have force majeure clauses, and the examiner cannot ignore the fact that MOR has occupied the leases and produced oil from them for more than two years now, without any apparent challenge from the mineral owners. Notice of the MOR applications was provided to the mineral owners, and no such owner has come forward to make any claim that MOR does not have a currently effective mineral lease.

Conclusion: MOR's evidence satisfies the mandatory criteria of Statewide Rule 21 as to the wells for which exceptions are recommended, and does not satisfy such criteria as to the McKinney (00289) Lease, Well Nos. 20R, 26R, 36R, 41R, and 56.

Discretionary Statewide Rule 21 Considerations

MIT Testing: As far as the evidence shows, the wells proposed to be swabbed by MOR have not had mechanical integrity tests during the last 12 months, but there is no indication that the Commission has required any such testing. Most of the wells recommended for approval of Statewide Rule 21 exceptions have had approved fluid level tests indicating that fluid levels are several hundred feet below the base of fresh water.

Monthly/Cumulative Production: The evidence as to the oil that will be produced if the subject wells are swabbed is speculative. MOR estimates that swabbing of the wells will result in average monthly production of 10 barrels of oil per well. Reported production for the wells that MOR was previously authorized to swab in Oil & Gas Docket Nos. 05-0246085 Et Al. (Final Order served February 2, 2007), does not reflect this kind of success, but MOR claims that swabbing of these wells during 2007 was hampered by heavy rainfall.

Oil Storage: Oil produced by swabbing the subject wells will first be loaded into a tank affixed to MOR's mobile swabbing units, but will then be off-loaded into on-lease storage tanks. All such oil properly will be measured before it leaves the lease, and there will be no commingling of oil produced from different leases.

Adequacy of Financial Assurance: As of the date of the hearing, MOR had approved financial assurance in the amount of \$250,000 on file, and was the operator of 542 wellbores having

total depth of 582,226 feet. Thus, MOR had \$461.25 of financial assurance per well and \$0.43 of financial assurance per foot of wellbore depth. This financial assurance may be inadequate to cover the cost of plugging all of MOR's wells, but the \$250,000 which MOR has on file is the greatest amount that any operator of land-based wells is required to file under §91.1042 of the Texas Natural Resources Code and Statewide Rule 78(g)(1). From the perspective of assuring that the wells will be timely and properly plugged, allowing the wells for which Statewide Rule 21 exceptions are recommended to remain inactive or to produce only such oil as they are capable of flowing are not more attractive alternatives than permitting the wells to be swabbed. Disposition of these applications is unlikely to affect, one way or the other, the sufficiency of MOR's financial assurance.

Practicality of Pumping/Hydrogen Sulfide Issue: The evidence shows that at the time MOR became operator, all of the subject wells had been stripped of rods and tubing by a previous operator, and the wells do not have electricity. According to MOR, no wells on the subject leases are produced by pumping, with the exception of one well on the Dreeben/Cen. Pet. No. 2 (00269) Lease. Equipping of the wells for production by pump is cost prohibitive given the amount of oil that the wells are capable of producing. Under current circumstances, production of the wells by pumping is not practical. There is no hydrogen sulfide associated with oil produced from the Corsicana (Shallow) Field.

MOR's History of Compliance: There is no record of any formal enforcement action against MOR for violation of Commission rules. The only violation noted on District Office inspection reports relating to the April 2007, inspections of the subject leases concerned unauthorized discharges of oil around the wellheads of four wells on the McKinney (00289) Lease, and Statewide Rule 21 exceptions are not recommended for the McKinney Lease wells.

Conclusion: In the opinion of the examiner, the discretionary considerations prescribed by Statewide Rule 21 do not weigh strongly in favor of, or strongly against, approval of MOR's applications.

Based on the record in this case, the examiner recommends adoption of the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

1. At least ten days notice of the hearing in these dockets was sent to all parties entitled to notice, and notice was published in the Corsicana Daily Sun, a daily newspaper having general circulation in Navarro County, Texas, on March 11, March 18, March 25, and April 1, 2008.
2. Texas M.O.R., Inc. ("MOR") requests that the Commission grant exceptions to Statewide Rule 21 to permit MOR to produce 54 wells ("subject wells") on 11 oil leases ("subject leases") by swabbing as a method of production. Appendix 1 to the Proposal for Decision identifies the MOR applications by docket number, lease name, and well number, and is adopted and incorporated into this finding by reference.
3. As of the date of the hearing in these dockets, MOR was the operator of 542 wellbores having total depth of 582,226 feet. MOR has an active organization report and approved

financial assurance in the amount of \$250,000 on file.

4. The Wright -A- (00310), Wright, J. J. W. & H. (00309), Dreeben/Cen. Pet. No. 2 (00269), Garvin, J. A. (00148), Pierce (01720), Breithaupt, C. A. (00142), Bounds, Rex. T. (01430), and Chapman -C- (01407) leases were transferred to MOR from Rife Oil Properties, Inc., by Form P-4 approvals on September 30, 2005. The Mirus, South (00293) Lease was transferred to MOR from Rife Oil Properties, Inc., by Form P-4 approval on November 2, 2005. The McKinney (00289) and Blackburn (00263) Leases were transferred to MOR from Rife Energy Operating, Inc., by Form P-4 approval on September 30, 2005.
5. The Corsicana (Shallow) Field was discovered in 1895. During the 1960's, there were multiple water floods in the field that were less than fully effective. MOR estimates that cumulative primary and secondary recovery from the field has been about 20 million barrels of oil, and 80 to 100 million barrels of oil are still in place in this field. MOR has a plan to redevelop the field by plugging existing wells, drilling new wells, and employing an alkaline surfactant polymer flood technology.
6. Over the long term, MOR's redevelopment plan contemplates that it will plug 1,000 existing wells and drill 1,000 new wells at a rate of about 50 wells per year. Swabbing of existing wells is proposed as an interim measure to increase production and preserve the validity of MOR's oil and gas leases.
7. At the time of the hearing, 19 of the subject wells were carried on the Oil Proration Schedule as "producing" wells and the remainder were carried as shut in. "Producing" wells on the subject leases are connected to flow lines and are flowing oil into on-lease tank batteries. Some of the producing wells flow consistently, while others flow only sporadically. All of the subject wells were stripped of rods and tubing by a previous operator, and the wells do not have electricity. No wells on the subject leases are produced by pumping, with the exception of one well on the Dreeben/Cen. Pet. No. 2 (00269) Lease. A "prolific" flowing well produces about 0.5 barrels of oil per month.
8. Producing the subject wells by pumping is not practical.
 - a. All of the wells had been stripped of rods and tubing by a previous operator when MOR became the operator of the wells.
 - b. The wells do not have electricity.
 - c. Equipping the wells for production by pump is cost prohibitive in relation to the amount of oil that the wells are capable of producing.
9. MOR is the operator of five mobile swabbing trucks. When swabbing a well, the driver moves his swab truck adjacent to the well, removes the plastic cap from the well, lowers a boom that seals to the open casing, and lowers a swab cable equipped with swabbing cups down below the top of fluid in the well. When the swab cable is extracted, the swab cups open and bring oil to the surface where it is loaded through a closed system into a mobile tank on the swab truck. After swabbing operations have been completed, the swabbing truck

unloads the oil and water it has recovered into on-lease storage tanks. All oil is therefore measured before it leaves a particular lease.

10. In MOR's estimation, the subject wells will produce, on the average, 10 barrels of oil per month when swabbed, which is a significantly greater volume than is presently produced by flowing those wells that are currently producing. Approximately 540 barrels of oil per month would be achieved by swabbing all of the wells that are the subject of these dockets.
11. Wellhead control for the wells proposed to be swabbed consists of threaded plastic caps that can be removed during the swabbing process. There is no current evidence of failure to maintain wellhead control with respect to the subject wells, except with respect to wells on the McKinney (00289) Lease.
12. Wellhead control has not been sufficient to prevent discharges of oil on the McKinney (00289) Lease. A District Office inspection of the McKinney (00289) Lease on April 24, 2007, disclosed that fluid was at the surface in Well Nos. 20R, 36R, 41R, and 56. On the occasion of this inspection, discharges of oil had occurred around these wells and free standing oil was around the wellheads.
13. With respect to all of the subject wells, except the McKinney (00289) Lease, Well Nos. 20R, 26R, 36R, 41R, and 56, it is not likely that pollution of usable quality water or safety hazard will result from the proposed production method or the condition of the wells.
 - a. There are no known fresh water aquifers in the area.
 - b. Logs of recent wells drilled by MOR do not show fresh water strata in the area.
 - c. The Wright -A- (00310) Lease, Well Nos. 2, 3, and 4, the Wright, J. J. W. & H. (00309) Lease, Well Nos. 10, 11R, 23, and 25, the Mirus, South (00293) Lease, Well No. 14, the Dreeben/Cen. Pet. No. 2 (00269) Lease, Well Nos. 5 and 16, the Garvin, J. A. (00148) Lease, Well Nos. 2 and 7, the Pierce (01720) Lease, Well Nos. 1R, 2R, 3, 4, 5R, 13, 14, and 14A, the Breithaupt, C. A. (00142) Lease, Well Nos. 1R, 2R, 4, 5, 7, 8, 11 and 16, the Chapman -C- (01407) Lease, Well Nos. 4C, 8C, 14C, and 36, and the Blackburn (00263) Lease, Well Nos. 4R, 18, and 32 have H-15 tests showing acceptable fluid levels in the wells below the base of any stray or random fresh water strata that may exist.
 - d. The Mirus, South (00293) Lease, Well Nos. 1T and 2T, the Bounds, Rex T. (01430) Lease, Well Nos. 5 and 6, and the Chapman -C- (01407) Lease, Well Nos. 9C, 18A, 20A, and 43 are not currently subject to H-15 testing requirements, but the Oil and Gas W-2/G-1 Record database shows that these wells are all cemented to the surface to protect usable quality water.
 - e. With respect to the Mirus, South (00293) Lease, Well Nos. 23 and 24, and the Garvin, J. A. (00148) Lease, Well Nos. 4, 11, 13R, and 18, a special condition will

require that these wells be tested for acceptable fluid levels prior to commencement of swabbing operations. This special condition is warranted because the H-15 Data Inquiry database shows the wells have not been subject to H-15 test requirements and the Oil and Gas W-2/G-1 Record database contains no information as to whether the wells are cemented to the surface.

- f. There is no hydrogen sulfide associated with oil produced from the Corsicana (Shallow) Field.
14. The evidence presented by MOR did not establish that no pollution of usable quality water or safety hazard will result from the proposed production method or the condition of the wells on the McKinney (00289) Lease.
 - a. A District Office inspection of the McKinney (00289) Lease on April 24, 2007, disclosed that fluid was at the surface in Well Nos. 20R, 36R, 41R, and 56. On the occasion of this inspection, discharges of oil had occurred around these wells and free standing oil was around the wellheads.
 - b. Recent fluid levels taken by MOR in five wells on the McKinney (00289) Lease (Well Nos. 20, 26, 36, 41, and 56) showed that fluid was at the surface in three of the wells.
 15. MOR has a good faith claim to a continuing right to operate the subject leases.
 16. MOR has no record of any formal enforcement proceedings against it for violations of Commission rules.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely issued by the Railroad Commission to appropriate persons legally entitled to notice.
2. All things necessary to the Commission attaining jurisdiction over the subject matter and the parties in this hearing have been performed.
3. Texas M.O.R., Inc., has submitted proof sufficient to meet the mandatory standards in Statewide Rule 21 [16 TEX. ADMIN. CODE §3.21] for approval of exceptions to permit the swabbing of the wells, subject to conditions, in Oil & Gas Docket Nos. 05-0251057, 05-0251058, 05-0251059, 05-0251060, 05-0251061, 05-0251062, 05-0251064, 05-0251065, 05-0251066, and 05-0251067.
4. Texas M.O.R., Inc., failed to submit proof sufficient to meet the mandatory standards in Statewide Rule 21 [16 TEX. ADMIN. CODE §3.21] for approval of exceptions to permit the swabbing of the wells in Oil & Gas Docket No. 05-0251063.
5. Approval of the exceptions to Statewide Rule 21 requested by Texas M.O.R., Inc., in Oil & Gas Docket Nos. 05-0251057, 05-0251058, 05-0251059, 05-0251060, 05-0251061, 05-

0251062, 05-0251064, 05-0251065, 05-0251066, and 05-0251067 is necessary to prevent the waste of oil.

RECOMMENDATION

The examiner recommends that the applications in Oil & Gas Docket Nos. 05-0251057, 05-0251058, 05-0251059, 05-0251060, 05-0251061, 05-0251062, 05-0251064, 05-0251065, 05-0251066, and 05-0251067 be approved, subject to the conditions set forth in the recommended final orders attached, and that the application in Oil & Gas Docket No. 05-0251063 be denied.

Respectfully submitted

James M. Doherty
Hearings Examiner

APPENDIX 1
TEXAS M.O.R., INC.
SUMMARY OF DOCKETS
CORSICANA (SHALLOW) FIELD
NAVARRO COUNTY, TEXAS

1. 05-0251057; Wright -A- (00310) Lease, Well Nos. 2, 3, and 4
2. 05-0251058; Wright, J. J. W. & H. (00309) Lease, Well Nos. 10, 11R, 23, and 25
3. 05-0251059; Mirus, South (00293) Lease, Well Nos. 1T, 2T, 14, 23, and 24
4. 05-0251060; Dreeben/Cen. Pet. No. 2 (00269) Lease, Well Nos. 5 and 16
5. 05-0251061; Garvin, J. A. (00148) Lease, Well Nos. 2, 4, 7, 11, 13R, and 18
6. 05-0251062; Pierce (01720) Lease, Well Nos. 1R, 2R, 3, 4, 5R, 13, 14, and 14A
7. 05-0251063; McKinney (00289) Lease, Well Nos. 20R, 26R, 36R, 41R, and 56
8. 05-0251064; Breithaupt, C. A. (00142) Lease, Well Nos. 1R, 2R, 4, 5, 7, 8, 11, and 16
9. 05-0251065; Bounds, Rex T. (01430) Lease, Well Nos. 5 and 6
10. 05-0251066; Chapman -C- (01407) Lease, Well Nos. 4C, 8C, 9C, 14C, 18A, 20A, 36, and 43
11. 05-0251067; Blackburn (00263) Lease, Well Nos. 4R, 18, and 32

APPENDIX 2
TEXAS M.O.R., INC.
SUMMARY OF FIELD OPERATIONS MEMORANDA

1. 05-0251057; Wright -A- (00310) Lease, Well Nos. 2, 3 and 4:

No drilling dates, cement records, BUQW depths or fluid level information were provided to determine if these wells pose a threat to usable quality ground water. This data is needed to determine if a Statewide Rule 21 exception should be granted.

2. 05-0251058; Wright, J. J. W. & H. (00309) Lease, Well Nos. 10, 11R, 23, and 25:

No drilling dates or cementing information was provided. Without this information it cannot be determined if these wells would pose a threat to the usable quality ground water should an exception to Statewide Rule 21 be approved. Provided fluid levels in Well Nos. 23 and 25 indicate that these wells do not pose any pollution issue at this time.

3. 05-0251059; Mirus, South (00293) Lease, Well Nos. 1T, 2T, 14, 23, and 24:

No information was provided concerning the depth of usable quality water or the fluid level in any of these wells. Without this information, it cannot be determined if a threat to the usable quality water is posed by these wells.

4. 05-0251060; Dreeben/Cen. Pet. No. 2 (00269) Lease, Well Nos. 5 and 16:

No drilling dates or casing or cementing information was provided to determine if these wells might pose a threat to usable quality water if an exception to Statewide Rule 21 was granted. Indicated fluid levels for these wells show they pose no pollution problems at this time.

5. 05-0251061; Garvin, J. A. (00148) Lease, Well Nos. 2, 4, 7, 11, 13R, and 18:

Although fluid level information is missing on several of the wells, those provided show fluid levels at depths that would indicate no threat to usable quality water exists. Please consider these wells for an exception to Statewide Rule 21.

6. 05-0251062; Pierce (01720) Lease, Well Nos. 1R, 2R, 3, 4, 5R, 13, 14, and 14A:

Although some drilling dates, cementing data, and fluid level information was provided on the subject wells, sufficient data to support that all of the wells do not pose a threat to usable quality ground water has not been provided.

7. 05-0251063; McKinney (00289) Lease, Well Nos. 20R, 26R, 36R, 41R, and 56:

Field Operations has an objection to consideration of these wells for Statewide Rule 21 exceptions. Objection is based on inspection of the lease that revealed that fluid is at the surface on at least three of the wells as shown on the photo documentation. Pollution, in the form of oil saturated areas, exist around these wells and need to be addressed for lease compliance. No drilling dates were found for these wells or cementing data provided to insure that casing is cemented to the surface. The requirements of low inflow and low bottom hole pressure used as guidance for supporting Statewide Rule 21 exceptions do not exist.

8. 05-0251064; Breithaupt, C. A. (00142) Lease, Well Nos. 1R, 2R, 4, 5, 7, 8, 11, and 16:

No cementing data is available. Without this data it is not possible to determine if these wells pose a pollution threat. The remainder of the data provided does not indicate a pollution threat exists.

9. 05-0251065; Bounds, Rex T. (01430) Lease, Well Nos. 5 and 6:

Lease inspection and data provided on these wells indicates that they are unlikely to pose any pollution problem should an exception to Statewide Rule 21 be granted.

10. 05-0251066; Chapman -C- (01407) Lease, Well Nos. 4C, 8C, 9C, 14C, 18A, 20A, 36, and 43:

Although there is no drilling date provided for Well Nos. 4C, 8C, 14C, and 36, there is no indication that these wells pose a risk to the usable quality water intervals at this time.

11. 05-0251067; Blackburn (00263) Lease, Well Nos. 4R, 18, and 32:

No cement information was provided. Without this information, it is not possible to determine if these wells pose a pollution threat.

APPENDIX 3
SUMMARY OF TEXAS M.O.R., INC.
OIL & GAS LEASES

1. 05-0251057; Wright -A- (00310) Lease:

Oil and Gas Lease dated October 6, 1905, Corsicana Petroleum Co. to W. C. Clements, Jr. covering 88.6 acres in W. R. Bowen Survey, Navarro County. Lease had 5 year primary term, and then if lessee drilled a well, as long as it is profitable to operate the property.

2. 05-0251058; Wright, J. J. W. & H. (00309) Lease:

Oil and Gas Lease dated June 30, 1917, John J. W. Wright Et Al. to John Sealy Et Al. as Trustees for Magnolia Petroleum Company covering 109.42 acres in W. R. Bowen Survey, in Navarro County. Lease was for such period of time as minerals shall be produced on said land, with lessee to drill a well within 1 year, and if the first well produced oil in paying quantities, to drill a second well within a reasonable time after completion of the first well.

Oil and Gas Lease dated December 18, 1952, Georgia L. Wright Et Al. to Coffield and Guthrie, Inc., covering 45.96 acres in W. R. Bowen Survey, in Navarro County. Lease had 1 year primary term and then as long thereafter as oil or gas is produced, with lease to terminate if no well commenced on or before December 18, 1953. If production ceases during secondary term, lessee has right to resume drilling operations within 90 days, and if production is obtained, lease remains in force for as long as production continues. Lease has force majeure clause.

Oil and Gas Lease dated January 6, 1953, V. E. Wright Et Al. to Elbert Williamson covering west one-half of 91.92 acres in the W. R. Bowen Survey, in Navarro County. Lease required that well be commenced within 90 days or lease would terminate. Lease had 1 year primary term, then as long thereafter as oil or gas is produced. If production ceases during secondary term, lessee has right to resume drilling operations within 90 days, and if production is obtained, lease remains in force for as long as production continues. Lease has force majeure clause.

3. 05-0251059; Mirus, South (00293) Lease:

Oil and Gas Lease dated September 2, 1898, Charles Mirus to Rufus Hardy covering 164 acres, in Navarro County (survey not named). Lease provided that it would terminate if a well had not been commenced within 30 days. If first well was unsuccessful, lessee had 30 days to begin a second well. Otherwise, the lease is a "no term" lease.

4. 05-0251060; Dreeben/Cen. Pet. No. 2 (00269) Lease:

Oil and Gas Lease dated March 10, 1927, Jacob Dreeben Et Ux to G. C. Kent covering 60 acres in S. F. McCanless Survey, Navarro County. Lease had primary term of five years, and then as long thereafter as oil or gas is produced in paying quantities.

Oil and Gas Lease dated December 31, 1953, Morris L. Dreeben Et Al. to Coffield & Guthrie, Inc., covering unspecified number of acres in S. F. McCanless Survey, Navarro County, limited to depth from surface to 1,750 feet. Lease had 1 year primary term, and provided that after 1 year lease would terminate except as to 10 acres around each producing well, and as to the 10 acres around each producing well, the lease would remain in force as long as oil or gas is produced. If production ceases during secondary term, lessee has right to resume drilling operations within 90 days, and if production is obtained, lease remains in force for as long as production continues. Lease has force majeure clause.

5. 05-0251061; Garvin, J. A. (00148) Lease:

Oil, Gas and Mineral Leases (five) dated June 23, 1954, Joe E. Butler Et Al. to Carastan Oil Co., Ltd., covering 57 acres in Navarro County. Lease covers all mineral rights from surface to 2,000 feet. Lease had 2 year primary term, and then as long thereafter as oil, gas, or either of them, is produced. Lease provided that title to minerals vested in lessee would not end or revert to lessors until there was a complete, absolute, and intentional abandonment by lessee of all purposes of the lease and every part of the leased premises.

6. 05-0251062; Pierce (01720) Lease:

Oil, Gas and Mineral Lease dated May 29, 2007, Farmers National Company, Agent for Comerica Bank, Trustee of the Sara H. Falk Revocable Trust UA to ReoStar Energy Corporation covering 246.10 acres in S. F. McCanless Survey, A-516, Navarro County. Lease has 3 year primary term and then as long thereafter as oil or gas is produced. Lease is still in primary term.

7. 05-0251063; McKinney (00289) Lease:

Oil and Gas Lease dated April 6, 1981, Estate of Louis Wolens, Marjorie F. Milkes, Independent Executrix, Et Al. to Jeff Buescher covering Tract 1 consisting of 929.47 acres, Tract 2 consisting of 76.517 acres, and Tract 3 consisting of unspecified number of acres in John Peoples, John O'Donnel, and W. R. Bowen Surveys in Navarro County [except 13 acres conveyed to City of Corsicana and 350.4 acres under lease to Crown Central Petroleum]. Lease had primary term of 45 days and

then as long thereafter as oil or gas is produced. If production ceases during secondary term, lessee has right to resume drilling operations within 90 days, and if production is obtained, lease remains in force for as long as production continues. Lease has force majeure clause.

8. 05-0251064; Breithaupt, C. A. (00142) Lease:

Oil, Gas and Mineral Lease dated May 22, 1995, Glenna R. Breithaupt to Rife Oil Properties, Inc., covering 139.34 acres in J. Cairnes Survey, Navarro County. Lease had primary term of 1 year and then as long thereafter as operations (drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing a well) are conducted with no cessation for more than 90 consecutive days. Lease has force majeure clause.

9. 05-0251065; Bounds, Rex T. (01430) Lease:

Oil and Gas Lease dated May 20, 1958, Rex T. Bounds Et Ux to R. H. Moore, Sr. Et Al. covering 50 acres in M. J. Tidwell Survey, in Navarro County, limited to depth from the surface to 2000 feet. Lease had primary term of 1 year and then so long thereafter as oil or gas is produced in commercial quantities. If production ceases during secondary term, lessee has right to resume drilling operations within 90 days, and if production is obtained, lease remains in force for as long as production continues. Lease has force majeure clause.

10. 05-0251066; Chapman -C- (01407) Lease:

Oil, Gas and Mineral Lease dated March 5, 1991, Barbara Moe, Trustee, to C. L. Brown, III covering 546.721 acres in H. G. Anderson Survey, A-17, in Navarro County. Lease had 1 year primary term and then as long thereafter as oil, gas or other mineral is produced. If at expiration of primary term, oil or gas is not being produced but lessee is drilling or reworking, lease remains in effect as long as such operations are continuously prosecuted with no cessation of more than 60 consecutive days, and if production is obtained, for so long thereafter as oil, gas or other mineral is produced. Lease has force majeure clause.

Paid Up Oil and Gas Lease dated November 17, 2007, Doris Gillen Et Al. to ReoStar Energy Corporation covering 222.693 acres in H. G. Anderson Survey, A-17, in Navarro County. Lease has 3 year primary term, and then as long thereafter as oil, gas or other substance covered by lease is produced in paying quantities. Lease is still in primary term.

11. 05-0251067; Blackburn (00263) Lease:

Oil and Gas Lease dated May 29, 1918, James M. Blackburn to John Sealy Et Al., Trustees for Magnolia Petroleum Company, covering 175.78 acres in W. R. Bowen Survey, Navarro County. [Magnolia released 50 acres on December 2, 1926.] Lease had 10 year primary term, and then for such further period of time as minerals are produced.