

RAILROAD COMMISSION OF TEXAS
OFFICE OF GENERAL COUNSEL
HEARINGS SECTION

OIL AND GAS DOCKET NO. 03-0260772

THE APPLICATION OF INTERNATIONAL MINING COMPANY, PURSUANT TO THE MINERAL INTEREST POOLING ACT FOR THE SOUTHERN BAY OPERATING, L.L.C. LAKE CREEK UNIT WELL NO. 1-H, GIDDINGS (AUSTIN CHALK, GAS) FIELD, GRIMES COUNTY, TEXAS.

FINAL ORDER

The Commission finds that after statutory notice the above-captioned proceeding was heard by the examiners on July 8, 2009. Having been duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas, the Commission makes the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

1. Pursuant to Texas Natural Resources Code §102.016, notice of the captioned hearing was provided to all necessary parties in the manner and form prescribed by the Commission 30 days prior to the hearing.
2. International Mining Company (hereinafter "IMC") appeared at the scheduled time and place for the hearing through its attorney, William Osborn. Southern Bay Operating, L.L.C. (hereinafter "Southern Bay") appeared through its attorney, George Neale. All parties have agreed to waive issuance of a proposal for decision in this matter and have agreed that this Final Order shall be effective as of October 1, 2009.
3. IMC has filed an application pursuant to the Mineral Interest Pooling Act ("the MIPA") requesting that the Commission forcibly pool IMC's 50% undivided interest in a 15.22 acre tract into the proposed Lake Creek Unit Well No. 1-H, which will be a 558.3 acre proration unit.
4. Southern Bay did not oppose the application of IMC, but instead appeared at the hearing as an observer, in order to make IMC prove its case.
5. The Giddings (Austin Chalk, Gas) Field was discovered August 1, 1978. The field rules provide for 467 feet leaseline spacing and proration units for horizontal wells, which are sized based on lateral length. The allocation formula for the field is suspended.
6. The Lake Creek Unit Well No. 1-H was drilled and completed in 2007 by Southern Bay on a 543.08 acre pooled unit. The unit is traversed by a railroad right-of-way, which is not included in the unit. IMC has applied to pool its 50% undivided interest in this right-of-way

into the unit.

7. IMC, by letter dated October 6, 2008, made a fair and reasonable offer to pool voluntarily on the same yardstick basis as the other owners within the existing proration unit.
 - a. IMC offered to pool based on the same terms as the other working interest owners in the tract.
 - b. IMC proposed that Southern Bay continue to be the operator of the proposed force-pooled unit.
 - c. IMC's offer did not contain any of the following provisions:
 - i. Preferential right of the operator to purchase mineral interests in the unit,
 - ii. A call or option to purchase production from the unit,
 - iii. Operating charges that include any part of district or central office expense other than reasonable overhead charges,
 - iv. A prohibition against non-operators questioning the operation of the unit.
7. IMC has not drilled a well on the railroad right-of-way and is not able to do so due to surface use constraints.
8. IMC's offer to pool does not apply to land owned by the State of Texas nor to land in which the State of Texas has an interest directly or indirectly.
9. Existing wells in the Giddings (Austin Chalk, Gas) Field which surround the Lake Creek Unit are all producing wells. The Giddings (Austin Chalk, Gas) Field is a blanket formation in this area. IMC's 15.22 acre tract is productive acreage in the Lake Creek Unit Well No. 1-H and all acreage in the proposed force-pooled unit appears to lie within the productive limits of the reservoir.
10. It is not necessary to drill an additional well to drain the acreage in the IMC 15.22 acre railroad right-of-way tract.
11. The parties have agreed that under the factual circumstances, it is appropriate for the Commission to order the formation of a pooled unit for the Lake Creek Unit Well No. 1-H which includes IMC's interest in the railroad right-of-way that was formerly excluded from the unit. The parties have agreed that IMC will be subject to a 150% risk penalty as a requirement of entering the unit.
12. Force-pooling of the 15.22 acre IMC tract as proposed will prevent the drilling of unnecessary wells and will protect correlative rights.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely issued to the appropriate persons entitled to notice.
2. All things necessary to the Commission attaining jurisdiction have occurred.
3. Southern Bay, the operator of the existing Lake Creek Unit Well No. 1-H proration unit in the Giddings (Austin Chalk, Gas) Field, did not contest the granting of the MIPA application of IMC. The parties have agreed to waive issuance of a proposal for decision in this docket and have agreed that the proposed pooled unit shall become effective as of October 1, 2009.
4. IMC made a fair and reasonable offer to pool voluntarily as required by Texas Natural Resources Code §102.013.
5. Pursuant to Texas Natural Resources Code §102.011, the Commission has authority to forcibly pool separately owned interests in oil and gas within an existing or proposed proration unit in a common reservoir, where the owners have not agreed to pool their interests and where at least one of the owners of the right to drill has drilled or has proposed to drill a well on the existing or proposed proration unit to the common reservoir, for the purpose of avoiding the drilling of unnecessary wells, protecting correlative rights, or preventing waste.
6. The application of IMC meets the requirements of the Mineral Interest Pooling Act [Texas Natural Resources Code, Chapter 102] to the extent approved in the Commission's Final Order in this docket.
7. Approval of the application of IMC to the extent set forth in the Commission's Final Order in this docket is necessary to protect correlative rights within the meaning of Texas Natural Resources Code §102.011.
8. Approval of the application of IMC to the extent set forth in the Commission's Final Order in this docket is fair and reasonable and will afford the owner or owners of each tract or interest in the unit the opportunity to produce or receive each owner's fair share within the meaning of Texas Natural Resources Code §102.017(a).

The Commission, after review and due consideration of the findings of fact and conclusions of law contained herein, hereby adopts as its own the findings of fact and conclusions of law contained herein.

Therefore, it is **ORDERED** by the Railroad Commission of Texas that the application of International Mining Company for the formation of a pooled unit pursuant to the Mineral Interest Pooling Act is **GRANTED** and the 15.22 acre IMC tract is pooled into a pooled unit which will

contain a total of 558.3 acres in the Obedience Hill Survey A-254 and Allen Vince Survey A-56, Grimes County, Texas, known as the Lake Creek Unit Well No. 1-H, as shown by plat, attached as Appendix 1 to this Final Order, which is incorporated herein for all purposes, subject to the following terms and conditions:

CONDITIONS

1. The name of the unit is the Lake Creek Unit Well No. 1-H.
2. The operator of the unit is Southern Bay Operating, L.L.C.
3. The existing unit well is the Lake Creek Unit No. 1-H.
4. The unit shall be effective October 1, 2009.
5. The unit is established for and limited to the depth interval correlative with the Giddings (Austin Chalk, Gas) Field.

It is further **ORDERED** by the Commission that this order shall be effective on October 1, 2009.

All pending motions and requests for relief not previously granted or granted herein are denied.

Done this 29th day of September 2009, in Austin, Texas.

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by
OGC Unprotested Master Order dated
September 29, 2009)**