

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY

ORDER OF THE SUPERVISOR OF WELLS

IN THE MATTER OF:

THE PETITION OF O.I.L. ENERGY CORP. FOR AN)
ORDER FROM THE SUPERVISOR OF WELLS)
ESTABLISHING A UNIFORM SPACING PLAN)
CONSISTENT WITH ORDER NO. (A) 14-9-94 AND) ORDER NO. 09-2007
COMPULSORY POOLING ALL INTERESTS INTO)
THE UNIT.)

SECOND AMENDED OPINION AND ORDER

at a session of the Department of Environmental Quality held
at Lansing, Michigan, Harold R. Fitch, Assistant Supervisor
of Wells, Presiding

On September 9, 2009, Petitioner filed a Motion requesting relief from Order No. 09-2007, originally effective July 16, 2007. Order No. 09-2007 (i) formed an approximately 2,080-acre Uniform Spacing Plan (USP) as described therein; (ii) appointed O.I.L. Energy Corp., as the operator of the Greenwood 11 USP and directed the Petitioner to complete the drilling of at least one well beneath that portion of the USP within Section 10 not less than two years from the effective date of that Order; and (iii) ordered the compulsory pooling of all properties, parts of properties and interests within the Greenwood 11 USP. Amended Opinion and Order No. 09-2007 extended the effective date to July 26, 2007.

Petitioner in its Motion states Petitioner owns 55 percent of all the oil and gas leases in the USP while Aurora Oil & Gas Corporation (Aurora) owns 45 percent. Petitioner remains operator of the USP and states that all compulsory pooled owners elected to be carried. Due to Aurora's circumstances, Aurora discontinued support for further development of the Greenwood 11 USP and on July 12, 2009, filed for bankruptcy protection. The USP is currently shut in and has been shut in since July of 2008. Petitioner believes that further development of the USP is necessary and appropriate, and that development of the USP is the preferable way to recover Antrim Shale gas. Petitioner states it is not practical or feasible for it to continue the development of the Greenwood 11 USP with Aurora's 45 percent cost-bearing interest non-participating and in bankruptcy.

At the request of the Supervisor, Petitioner served notice, by first-class mail, of its motion on all owners in the USP. The owners were given an opportunity to comment on the motion; however, no comments were received.

DETERMINATION AND ORDER

NOW, THEREFORE, IT IS ORDERED THAT:

Opinion and Order No. 09-2007 is hereby amended to provide as follows:

1. The provisions of paragraphs 10 and 11, Determination and Order of Order No. 09-2007 shall be suspended, effective July 26, 2009, until further order of the Supervisor.

2. The Greenwood 11 USP shall remain shut in until further order of the Supervisor.

3. Within 60 days of the effective date of this Second Amended Opinion and Order, Petitioner shall file all required forms with the Petroleum Geology and Production Unit of the Office of Geological Survey, indicating the current status of all wells within the USP area.

4. Every three months, beginning 14 days after the effective date of this Second Amended Opinion and Order, Petitioner shall file a status report on the Aurora bankruptcy, as it applies to the Greenwood 11 USP, with the Hearings Specialist of the Office of Geological Survey.

5. Petitioner shall report to the Supervisor within two weeks after notification that Aurora's bankruptcy case has been closed or concluded insofar as the Greenwood 11 USP is concerned. At such time, Petitioner shall make its written recommendations to the Supervisor with respect to new time lines for development to replace the provisions of paragraphs 10 and 11 of Order No. 09-2007.

This Second Amended Opinion and Order shall terminate three years from its effective date unless it is extended.

DATED: Nov. 2, 2009



HAROLD R. FITCH
ASSISTANT SUPERVISOR OF WELLS
Office of Geological Survey
P.O. Box 30256
Lansing, MI 48909-7756

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY

ORDER OF THE SUPERVISOR OF WELLS

IN THE MATTER OF:

THE PETITION OF O.I.L. ENERGY CORP. FOR AN)
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CONSISTENT WITH ORDER NO. (A) 14-9-94 AND) ORDER NO. 09-2007
COMPULSORY POOLING ALL INTERESTS INTO)
THE UNIT.)

AMENDED OPINION AND ORDER

Order No. 09-2007 was issued July 5, 2007, with an effective date of July 16, 2007. Due to no fault of Petitioner, the Order with instructions for service was not received by Petitioner until July 16, 2007. As the Order requires Petitioner to send the Pooled Owners information to be received by them no later than the effective date of the Order, it is appropriate to extend the effective date of the Order.

DETERMINATION AND ORDER

NOW, THEREFORE, IT IS ORDERED THAT:

Paragraph 13 of the Determination and Order section of the original Opinion and Order, in Cause No. 09-2007 is hereby amended in its entirety to provide as follows:

13. The effective date of this Order is July 26, 2007.

All other provisions of the original Opinion and Order No. 09-2007, are reaffirmed.

DATED: _____

7/16/07



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STATE OF MICHIGAN

DEPARTMENT OF ENVIRONMENTAL QUALITY
SUPERVISOR OF WELLS

IN THE MATTER OF:

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OPINION AND ORDER

This case involves the Petition of O.I.L. Energy Corporation (Petitioner). The Petitioner proposes to establish a Uniform Spacing Plan (USP) in the stratigraphic interval known as the Antrim Shale Formation, and to drill up to 26 wells within the USP. Order No. (A) 14-9-94, as amended, provides for the establishment of USPs for greater flexibility in locating Antrim Shale Formation wells. Since not all of the mineral owners within the proposed USP have agreed to voluntarily pool their interests, the Petitioner seeks an Order of the Supervisor of Wells (Supervisor) designating Petitioner as operator of the USP and requiring compulsory pooling of all tracts and interests within that geographic area for which the owners have not agreed to voluntary pooling.

JURISDICTION

The development of oil and gas in this State is regulated under Part 615, Supervisor of Wells, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended. MCL 324.61501 *et seq.* The purpose of Part 615 is to ensure the orderly development and production of the oil and gas resources in this State. MCL 324.61502. To that end, the Supervisor may establish drilling units or uniform spacing plans and compulsorily pool mineral interests within said units. MCL 324.61513(2) and (4). However, the compulsory pooling of interests can only be effectuated after an evidentiary hearing. MCL 324.61516(1). The evidentiary hearing is governed by the applicable provisions of the Administrative Procedures Act,

1969 PA 306, as amended, MCL 24.201 *et. seq.* See 1996 MR 9, R 324.1203. The evidentiary hearing in this matter was held on May 3, 2007.

FINDINGS OF FACT

Petitioner specifically requests that the Supervisor issue an Order that:

1. Establishes a USP of approximately 2,080 acres consisting of the following tracts of land in T28N, R1E, Greenwood Township, Oscoda County, Michigan:
 - Section 2: S 1/2 of SW 1/4
 - Section 10: N 1/2 of SW 1/4 and SE 1/4
 - Section 11: W 1/2, W 1/2 of NE 1/4, NE 1/4 of NE 1/4, and S 1/2 of SE 1/4
 - Section 12: S 1/2 of SW 1/4
 - Section 13: W 1/2 and NE 1/4
 - Section 14: Entire Section, except W 1/2 of W 1/2
 - Section 23: NE 1/4 and SE 1/4 of NW 1/4.
2. Names Petitioner as operator of the proposed USP.
3. Pools all tracts and mineral interests within the proposed USP that have not agreed to voluntary pooling.
4. Authorizes Petitioner to recover certain costs and other additional compensation from the parties subject to the compulsory pooling Order.

The Administrative Law Judge determined that the Notice of Hearing was properly served and published. Several answers to the Petition were filed in opposition to the proposed USP. Some of the respondents requested the hearing be moved to Greenwood Township. However, the Administrative Law Judge found that the request was not made by a majority of the owners of oil and gas rights subject to being pooled, as required under MCL 324.61516(2). In addition to Petitioner, Mr. David P. Conlin and Mr. Robert Fondaw appeared at the hearing and are parties to this case. The Supervisor designated the hearing to be an evidentiary hearing pursuant to

R 324.1205(1)(b) and directed evidence be presented in the form of oral testimony and witness-sponsored exhibits.

In support of its case, the Petitioner offered the testimony of Mr. Joseph Holt, Independent Landman, and Mr. Timothy J. Brock, President, Brock Engineering. Mr. Brock was recognized as an expert in the area of petroleum engineering. Mr. Conlin and Mr. Fondaw placed their statements of position on the record.

I. Formation of USP

The spacing of wells targeting the Antrim Shale Formation is governed by Order No. (A) 14-9-94, as amended. This Order allows for wells to be developed on a project basis through USPs formed by combining blocks of governmental surveyed quarter-quarter sections of land with one common boundary of approximately 1,320 feet with allowances being made for the differences in the size and shape of sections as indicated by official governmental survey plats. In addition, a USP shall have a well density within the USP of no less than 80 acres per well, the distance between bottom hole locations of wells shall be no less than 1,320 feet, and the bottom hole locations of wells no closer than 330 feet from the USP boundary. Under Order No. (A) 14-9-94, as amended, it is presumed that one well will efficiently and economically drain an 80-acre area. The Petitioner's proposed USP is described as set forth in Paragraph 1 above. See Exhibit 1.

Mr. Holt's testimony and exhibits indicate the proposed USP consists of combined blocks of governmental surveyed quarter-quarter sections having one common boundary of 1,320 feet, there will be no wells closer than 330 feet from the boundary of the proposed USP, and the wells are at least 1,320 feet apart. Mr. Brock testified that all lands are reasonably underlain by productive Antrim Shale Formation and that a USP is needed to adequately, efficiently, and economically drain the area. It is his opinion that allocation within the proposed USP area on a net mineral acre basis is more equitable than allocation to individual 80-acre drilling units or to drilling units plus adjoining leased acreage. Mr. Brock stated the Petitioner has drilled and completed two wells, reentered but not completed two wells, and is currently proposing to drill an additional 14 wells, which would result in a well density of one well per

115 acres in the proposed USP. Under no circumstance will the well density exceed one well per 80 acres.

Mr. Brock testified at this time Petitioner does not propose drilling a well in the 240 acres of Section 10 that are included in the proposed USP. He stated the need for additional wells in Section 10 will be assessed after the 14 proposed wells are drilled. Mr. Holt testified that the W 1/2 of W 1/2 of Section 14 was removed from the USP as it was originally proposed.

Mr. Conlin owns unleased Tracts E1 and E2 (Exhibit 1), totaling 10 acres. He objected to the formation of the USP at this time on the basis that he had not had sufficient time to consider the economic ramifications to him of executing an oil and gas lease, participating, or allowing his 10 acres to be compulsory pooled. Mr. Conlin requested an adjournment, which was denied. The Supervisor assured Mr. Conlin an Order would not be effective before late June, giving him an opportunity to continue lease negotiations with Petitioner and consider his alternatives.

Mr. and Mrs. Fondaw own unleased Tract B41, comprised of 1.095 acres and riparian to Tee Lake. Mr. and Mrs. Fondaw expressed concern about potential environmental impact, particularly lowered lake levels, on Tee Lake due to horizontal drilling beneath the lake (proposed A2-11 and A4-11 wells – see exhibit 4). Mr. Brock stated that in his opinion drilling the proposed A2-11 and A4-11 wells would have no impact on the lake levels. The Supervisor stated environmental concerns related to well location would be addressed during the well permitting process. At the time of the hearing, permit applications had not been submitted for the A4-11 and A2-11 wells. Mr. and Mrs. Fondaw were advised on how to monitor the filing and the status of evaluation of drilling permit applications.

I find the proposed USP is consistent with Order No. 14-9-94, as amended, and, as such, is a proper USP for the proposed wells. In order to help assure the efficient and economic drainage of Antrim Shale gas from beneath Section 10, Petitioner shall either locate one well beneath that portion of the USP within Section 10, no later than two years after the effective date of this Order; or present information to the Supervisor as to how such lands are being efficiently and economically drained by existing wells on

the USP. Otherwise, Petitioner shall petition the Supervisor to remove Section 10 lands from the USP.

II. USP Operator

Mr. Holt testified that the Petitioner owns or controls all but 110.92 net acres of oil and gas interests in the proposed 2,080-acre USP. Exhibits 1, 2, and 7. Given this, the Petitioner requests to be designated as the operator of the proposed USP. I find, as a Matter of Fact, Petitioner is eligible to be designated operator of the proposed USP.

III. Compulsory Pooling

As found, the Petitioner has proposed a proper USP for the Antrim Shale Formation but was unable to obtain the agreement of all owners to gain its full control. The Petitioner may not produce a well within a USP without first obtaining the control of all the oil and gas interests. In cases like this, it is necessary for the Petitioner to request compulsory pooling from the Supervisor. As discussed, an owner who does not agree to voluntarily pool his or her interest in a drilling unit may be subject to compulsory pooling. MCL 324.61513(4). The compulsory pooling of an interest must be effectuated in a manner that "will afford to the owner of each tract... the opportunity to recover or receive his or her just and equitable share of the oil or gas and gas energy in the pool..." Id. In addition to protecting correlative rights, the compulsory pooling must prevent waste. MCL 324.61502. An operator must first seek voluntary pooling of mineral interests within a proposed drilling unit prior to obtaining compulsory pooling through an Order of the Supervisor.

The Petitioner owns or controls all of the effective oil and gas leases in the proposed USP. Approximately 110.92 net mineral acres in private ownership in the proposed USP are not leased. The unleased owners, as of the date of the hearing, are as follows:

<u>Tract</u>	<u>Name</u>	<u>Brief Legal Description</u>	<u>Gross Acres</u>	<u>Net Acres</u>
Tract A2 005-102-011-20	Barbara D. Oleyar (L. C. Vendor - Vendee leased)	Sec. 2: Pt of the SE 1/4 of SW 1/4	10 17	10.17
Tract A3 005-102-011-30	Martin Menard	Sec. 2: Pt of the SE 1/4 of SW 1/4	10 01	10.01

<u>Tract</u>	<u>Name</u>	<u>Brief Legal Description</u>	<u>Gross Acres</u>	<u>Net Acres</u>
Tract B35 005-111-001-25	Bradford A. Bonk and Cynthia Bonk, h/w	Sec. 11: Part of the SE 1/4 of NW1/4 and SW 1/4 of NE 1/4	2.164	2.164
Tract B40 005-111-001-16	Steven C. Crampton and V. Arlene Crampton Living Trust	Sec. 11: Part of the SE 1/4 of NW 1/4 and SW 1/4 of NE 1/4	1.045	1.045
Tract B41 005-111-001-17	Robert O. Fondaw and Cathy Fondaw, h/w	Sec. 11: Part of SE 1/4 of NW 1/4 and SW 1/4 of NE 1/4	1.095	1.095
Tract B57 005-111-001-30	Donald R. Rank and Janice M. Rank, h/w	Sec. 11: Part of E 1/2 of NE 1/4	1.259	1.259
Tract TLL11 005-150-011-00	John W. Burman and Kathleen E Hodge	T-LA-KA Park Lot 11	.66	.66
Tract TL29 005-150-029-00	Jack F. Rice and Shirley R. Rice, h/w	T-LA-KA Park No. 1 Lot 29	.64	.64
Tract TL30 005-150-030-00	Norman M. McLeod and Raylene E. McLeod, h/w	T-LA-KA Park No. 1 Lot 30	.54	.54
Tract TL32 005-150-032-00	John J. & Marjorie Wiley Trust	T-LA-KA Park No. 1 Lot 32	.56	.56
Tract TL34 005-175-034-00	Donald E. Lawton and Katherine M. Lawton, h/w	T-LA-KA Park No. 2 Lot 34	.69	.69
Tract TL35 005-175-035-00	Joseph W. Vandenbossche and Kelly Vandenbossche, h/w	T-LA-KA Park No. 2 Lot 35	.48	.48
Tract TL37 005-175-037-00	David G. Dickinson	T-LA-KA Park No. 2 Lot 37	.67	.67
Tract TL38 005-175-038-00	Peter N. Ess and Anna Ess, h/w	T-LA-KA Park No. 2 Lot 38	.50	.50
Tract TL40 005-175-040-00	Raymond J. Hutchinson and Sally K. Hutchinson, h/w	T-LA-KA Park No. 2 Lot 40	.41	.41
Tract TL41 005-175-041-00	Charles Maddox and Donna Maddox, h/w	T-LA-KA Park No. 2 Lot 41	.40	.40
Tract TL44 005-175-044-00	Brian D. Drake and Staci M. Drake, h/w	T-LA-KA Park No. 2 Lot 44	.39	.39
Tract TL45 005-175-045-00	Hugh M. Parks and Bonnie S. Parks, h/w (L. C. Vendor – Vendee Leased)	T-LA-KA Park No. 2 Lot 45	1.07	1.07
Tract TL48 005-175-048-00	Richard Mayberry and Virginia Mayberry, h/w	T-LA-KA Park No. 2 Lot 48	.56	.56
Tract TL50 005-175-050-00	Gary D. Fisk and Suzanne Fisk, h/w	T-LA-KA Park No. 2 Lot 50	.64	.64

<u>Tract</u>	<u>Name</u>	<u>Brief Legal Description</u>	<u>Gross Acres</u>	<u>Net Acres</u>
Tract TL54 005-175-054-00	Tina M. Gross, as Trustee of the Tina Gross Revocable Trust	T-LA-KA Park No. 2 Lot 54	.78	.78
Tract TL58 005-175-058-00	Frank J. Hoeckl and Walter J. Hoeckl	T-LA-KA Park No. 2 Lot 58	.99	.99
Tract TL60 005-200-060-00	Antal Katona Trust	T-LA-KA Park No. 3 Lot 60	.85	.85
Tract TL62 005-200-062-00	Carlene Cicerella	T-LA-KA Park No. 3 Lot 62	.89	.89
Tract TL64 005-200-064-00	Albert D. Hecht and Phylis J. Hecht, h/w	T-LA-KA Park No. 3 Lot 64	.71	.71
Tract TL66 005-200-066-00	Fred Preston, Sr.	T-LA-KA Park No. 3 Lot 66	.46	.46
Tract TL70 005-200-070-00	Robert J. Hendry and Bonnie L. Hendry, h/w	T-LA-KA Park No. 3 Lot 70	.47	.47
Tract TL71 005-200-071-00	Marilyn M. Shelton, Trustee	T-LA-KA Park No. 3 Lot 71	.59	.59
Tract TL72 005-200-072-00	Paul B. White and Nancy L. White, Trustees of the Paul B. White and Nancy L. White Revocable Trusts	T-LA-KA Park No. 3 Lot 72	.56	.56
Tract TL73 005-200-073-00	Jerome P. Haller and Anna L. Haller, h/w	T-LA-KA Park No. 3 Lot 73	.59	.59
Tract TL74 005-200-074-00	Robert Seaver and Barbara Seaver, h/w	T-LA-KA Park No. 3 Lot 74	.93	.93
Tract TL75 005-200-075-00	Bertha M. Furton	T-LA-KA Park No. 3 Lot 75	.83	.83
Tract TL76 005-200-076-00	Patricia Bickford, Eileen Bickford and Michael Bickford	T-LA-KA Park No. 3 Lot 76	.87	.87
Tract TL78 005-200-078-00	Ingrid Bradford and Rick Mainhart	T-LA-KA Park No. 3 Lot 78	.89	.89
Tract TL82 005-200-082-00	David R. McCullough and Patsy A. McCullough, h/w	T-LA-KA Park No. 3 Lot 82	.56	.56
Tract TL83 005-200-083-00	Walter Dewaelsche and Elizabeth Dewawelsche, h/w	T-LA-KA Park No. 3 Lot 83	.48	.48
Tract TL84 05-200-084-00	Patricia A. Cummings	T-LA-KA Park No. 3 Lot 84	.48	.48
Tract ST2 005-575-002-00	August G. Voisine	Stickfort Subdivision Lot 2	.51	.51

<u>Tract</u>	<u>Name</u>	<u>Brief Legal Description</u>	<u>Gross Acres</u>	<u>Net Acres</u>
Tract B32 005-111-008-25	August G. Voisine	Parcel E-2	1.97	1.97
Tract ST9 005-575-009-00	Eugene Grabowski and Joanne V. Grabowski, h/w	Stickfort Subdivision Lot 9	.51	.51
Tract ST13 005-575-013-00	Robert V. Shelton and Loretta Shelton, h/w	Stickfort Subdivision Lot 13	.54	.54
Tract ST16 005-575-016-00	Barbara A. Zonca Trust	Stickfort Subdivision Lot 16	.42	.42
Tract ST17 005-575-017-00	Raynor E. Spreeman and Nancy Spreeman, h/w and David J. Spreeman	Stickfort Subdivision Lot 17	.47	.47
Tract ST20 005-575-020-00	Charles W. Armstrong and Lola J. Armstrong, h/w	Stickfort Subdivision Lot 20	.70	.70
Tract ST21 005-575-021-00	Nancy M. Kauth Trust	Stickfort Subdivision Lot 21	.75	.75
Tract ST23 005-575-023-00	Ruth Arbaugh	Stickfort Subdivision Lot 23	.66	.66
Tract ST26 005-575-026-00	Dennis M. Daniewski and Beverly A. Daniewski, h/w	Stickfort Subdivision Lot 26	.59	.59
Tract ST27 005-575-027-00	John H. Holmes, Jr. and Elizabeth Costello, h/w	Stickfort Subdivision Lot 27	.66	.66
Tract B20-3 005-610-003-00	Joan M. Johnson and Walter B. Chestnut	Fun Country Subdivision Parcel 3	.71	.71
Tract B20-9 Tract B20-10 005-610-009-00 005-610-010-00	Alan Gene Klinger	Fun Country Subdivision Parcels 9 & 10	1.41	1.41
Tract E1 005-114-001-90	David P. Conlin	Sec. 14: N 1/2 of W 1/2 of W 1/2 of NW 1/4 of NE 1/4	5.00	5.00
Tract E2 005-114-001-95	David P. Conlin and Mary A. Conlin, h/w	Sec. 14: S 1/2 of W 1/2 of W 1/2 of NW 1/4 of NE 1/4	5.00	5.00
Tract E3 005-114-001-10	Willis C. Hurley and Sandra L. Hurley, h/w	Sec. 14: E 1/2 of W 1/2 of NW 1/4 of NE 1/4	10.00	10.00
Tract E4 005-114-001-06 05-114-001-07	Nguyet A. Sprang Trust and David Martin Litwin	Sec. 14: W 1/2 of E 1/2 of NW 1/4 of NE 1/4	10.00	10.00
Tract E5 005-114-001-15	Terry A. Muller and Michael O. Muller	Sec. 14: E 1/2 of E 1/2 of NW 1/4 of NE 1/4	10.00	10.00

<u>Tract</u>	<u>Name</u>	<u>Brief Legal Description</u>	<u>Gross Acres</u>	<u>Net Acres</u>
Tract E6 005-114-001-20	Terry A. Muller and Michael O Muller	Sec. 14: W 1/2 of W 1/2 of NE 1/4 of NE 1/4	10.00	10.00
Tract E15 005-114-001-39	Herbert Brandt and Evalyn Neirinck	Sec. 14: S 100' of N 745.5' of E 1/2 of E 1/2 of NE 1/4 of NE 1/4	.77	.77
Tract E16 005-114-001-37	Harley G. Halstead	Sec. 14: S 574 5' of E 1/2 of E 1/2 of NE 1/4 of NE/4	4.36	4.36

Mr. Holt testified that after many verbal and written contacts with the above listed owners, Petitioner has been unable to negotiate oil and gas leases. He stated all unleased owners were offered lease terms and bonuses equal to or better than those offered to owners who leased. It is the Petitioner's belief voluntary pooling for the purpose of forming the proposed USP cannot be achieved.

Based on the foregoing, I find, as a Matter of Fact:

1. The Petitioner was unsuccessful in its attempts to voluntarily pool 110.92 net mineral acres.
2. Compulsory pooling is necessary to form a USP, to protect correlative rights of uncommitted owners, and to prevent waste by preventing the drilling of unnecessary wells.

Now that it has been determined compulsory pooling is necessary and proper in this case, the terms of such pooling must be addressed. When pooling is ordered, the owner of the compulsorily pooled lands (Pooled Owner) is provided an election on how he or she wishes to share in the costs of the project. R 324.1206(4). A Pooled Owner may participate in the project, or in the alternative be "carried" by the operator. If the Pooled Owner elects to participate, he or she assumes the economic risks of the project, specifically, by paying his or her proportionate share of the costs or giving bond for the payment. Conversely if a Pooled Owner elects not to participate, the Pooled Owner is, from an economic perspective "carried" by the operator. Under this option if the well is a dry hole, the Pooled Owner has no financial obligation because they did not assume any risk. If the well is a producer, the Supervisor considers the risks associated with the proposal and awards the operator compensation, out of production, for assuming all of the economic risks.

In order for a Pooled Owner to decide whether he or she will "participate" in the well or be "carried" by the operator, it is necessary to provide reliable cost estimates. In this regard, the Petitioner must present proofs of the estimated costs involved in drilling, completing, and equipping the proposed well. Petitioner's Authorization for Expenditure (AFE) for the 14 proposed wells itemizes the costs to be incurred in the drilling, completing, equipping, and plugging of a mid-type deviation hole well (60 degrees) Exhibit 6. Mr. Brock explained that some wells will have a deviation much higher than 60 degrees and cost more, and some wells will be straight holes and cost less. Mr. Brock testified the estimated costs on the AFE accurately reflect Petitioner's experience in having drilled two wells in the proposed USP and many wells in the area. Mr. Brock found the estimated costs per well of \$196,100.00 for drilling; \$266,000.00 for completion; and \$157,000.00 for equipping to be reasonable and appropriate. The Total estimated producing well cost per well in the proposed USP is \$619,100.00.

There is no evidence on this record refuting these estimated costs. I find, as a Matter of Fact, the estimated costs are reasonable for the purpose of providing the Pooled Owners a basis on which to elect to participate or be carried. However, I find actual costs shall be used in determining the final share of costs and additional compensation assessed against a Pooled Owner.

The next issue is the allocation of these costs. Part 615 requires the allocation to be just and equitable. MCL 324.61513(4). The Petitioner requests the actual well costs and production from the well to be allocated based upon the ratio of the number of net mineral acres in the tracts of the various Pooled Owners to the total number of mineral acres in the USP. Mr. Brock testified the USP is underlain by the Antrim Shale Reservoir; and therefore, allocation on a net mineral acreage basis is fair and equitable. It is Petitioner's intent that the Pooled Owners share in the allocation of costs and production from all wells in the USP.

I find, as a Matter of Fact, an owner's share in production and costs should be in proportion to their net mineral acreage in the USP. I further find the Pooled Owners shall share in the production and costs of all wells drilled in the USP.

The final issue is the additional compensation for risk to be assessed against a Pooled Owner who elects to be carried. The administrative rules under Part 615 provide for the Supervisor to assess appropriate compensation for the risks associated with drilling a dry hole, and the mechanical and engineering risks associated with the completion and equipping of wells. 1996 AACS, R 324.1206(4)(b). Petitioner requests additional compensation of 200 percent for drilling, 200 percent for completing, and 200 percent for equipping costs for the proposed wells.

Mr. Brock testified that he evaluated the risks associated with drilling, completing, and equipping of Antrim wells in the proposed USP. Exhibit 8 summarizes the variability of Antrim project production levels. Mr. Brock testified that the locations of high, medium, and low production projects are random. There is no specific geographic "trend" of projects with similar production levels. Based on his review of wells drilled on and in the vicinity of the proposed USP, his personal evaluation of the project, and his study of the nature of the Antrim in the proposed USP and vicinity, it was his opinion that the likelihood of successful drilling of future Antrim wells in the proposed USP is relatively high. However, the likelihood of these wells being economically successful depends upon the volume of gas the wells produce. Economic success may not be known for many years. The production of gas from the Antrim is dependent upon the presence of natural fractures which connect to the well bore. Not all Antrim projects, or wells within a project, produce at the same rate because each may not encounter sufficient fracturing. Additionally, some wells in the Antrim project may not produce a sufficient amount of gas to be economical on their own. Mr. Brock testified that the typical risk associated with Antrim operations is that there will be insufficient fracturing necessary to make Antrim wells successful.

I find, as a Matter of Fact, the risk of drilling additional wells in the proposed USP supports compensation from the Pooled Owners of 200 percent of the actual drilling costs incurred. The mechanical and engineering risks associated with future wells supports additional compensation of 200 percent of the actual completing and 200 percent of the actual equipping costs incurred after the effective date of this Order.

As to wells already drilled on the proposed USP Area, Mr. Brock testified that as of April 30, 2007, a total of \$1,403,745.48 had been invested in drilling, completing, and equipping wells on the proposed USP area. As to that amount, Petitioner is authorized to recover only each Pooled Owners' proportionate share of actual cost; however, no additional compensation for assumption of risk shall be recovered as to that amount. Likewise, as to any other expenses incurred by Petitioner between April 30, 2007, and the effective date of this Order, Petitioner shall be authorized to collect the Pooled Owners' proportionate share of actual cost with no additional compensation for assumption of risk.

CONCLUSIONS OF LAW

Based on the findings of fact, I conclude, as a matter of law:

1. Petitioner was unable to voluntarily pool the interests of various mineral owners. The Supervisor may compulsorily pool all properties when pooling cannot be agreed upon. Compulsory pooling is necessary to prevent waste and protect the correlative rights of the Pooled Owners in the proposed USP. MCL 324.61513(4).
2. This Order is necessary to provide for conditions under which each mineral owner who had not voluntarily agreed to pool all their interest in the pooled unit may share in the working interest share of production. 1996 AACS, R 324.1206(4).
3. The Petitioner is an owner within the USP and therefore eligible to drill and operate wells within the USP. 1996 AACS, R 324.1206(4).
4. The Supervisor may authorize Petitioner to take from each nonparticipating interest's share of production the cost of drilling, completing, equipping, and operating the wells, plus an additional percentage of the costs as identified in the Determination and Order section of this Order for the risks

associated with drilling a dry hole and the mechanical and engineering risks associated with the completion and equipping of the wells.

1996 AACS, R 324.1206(4).

5. The applicable spacing for the proposed USP is a well density of no less than 80 acres per well, as established by Order No. (A) 14-9-94, as amended.

6. The Supervisor has jurisdiction over the subject matter and the persons interested therein.

7. Due notice of the time, place, and purpose of the hearing was given as required by law and all interested persons were afforded an opportunity to be heard. 1996 AACS, R 324.1204.

DETERMINATION AND ORDER

Based on the Findings of Fact and the Conclusions of Law, the Supervisor determines that compulsory pooling to form a 2,080-acre Antrim Shale Formation USP is necessary to protect correlative rights and prevent waste caused by the drilling of unnecessary wells.

NOW, THEREFORE, IT IS ORDERED:

1. A 2,080-acre Antrim Shale Formation USP, referred to as the Greenwood 11 USP, is established for the following area:

Section 2: S 1/2 of SW 1/4

Section 10: N 1/2 of SW 1/4 and SE 1/4

Section 11: W 1/2, W 1/2 of NE 1/4, NE 1/4 of NE 1/4, and S 1/2 of SE 1/4

Section 12: S 1/2 of SW 1/4

Section 13: W 1/2 and NE 1/4

Section 14: Entire Section, except W 1/2 of W 1/2

Section 23: NE 1/4 and SE 1/4 of NW 1/4

T28N, R1E, Greenwood Township, Oscoda County, Michigan.

All properties, parts of properties, and interests in this area are pooled into the USP. This pooling is for the purpose of forming a USP only and neither establishes a right, nor diminishes any independent right, of the Petitioner to operate on the surface or subsurface lands of a Pooled Owner.

2. Each Pooled Owner shall share in production and costs in the proportion that their net mineral acreage in the USP bears to the total mineral acreage in the USP.
3. The Petitioner is named Operator of the USP.
4. Establishment of this USP is not to be taken as approval of individual well permits within the USP.
5. A Pooled Owner who is an unleased owner shall be treated as a working interest owner to the extent of 100 percent of their interest owned in the USP. The Pooled Owner is considered to hold a 1/8 royalty interest on their interest owned in the USP, which shall be free of any charge for the costs of drilling, completing, or equipping the well, or for compensation for the risks of the well, or operating the proposed wells.
6. A Pooled Owner shall have ten days from the effective date of this Order to select one of the following alternatives and advise the Supervisor and the Petitioner, in writing, accordingly:
 - a. To participate, then within ten days of making the election, pay to the Operator the Pooled Owner's share of the actual costs for drilling the four wells already drilled; pay to the Operator the Pooled Owner's share of the estimated costs for drilling, completing, and equipping the proposed wells or give bond for the payment of the Pooled Owner's share of such costs promptly upon receipt of an invoice for each proposed well, and authorize the Operator to take

from 7/8 of the Pooled Owner's share of production, the Pooled Owner's share of the actual costs of operating all the wells. The Operator shall invoice the Pooled Owner for its share of the estimated drilling, completing, and equipping costs for each proposed well on or before 30 calendar days prior to the estimated commencement of drilling of each well. The Pooled Owner shall pay the invoice or give bond on or before five calendar days before the estimated drilling commencement date of each well; or

- b. To be carried, then authorize the Operator to take from 7/8 of the Pooled Owner's share of production:
- (i) The Pooled Owner's share of the actual cost of drilling, completing, and equipping all wells;
 - (ii) An additional 200 percent of the actual drilling costs, 200 percent of the actual completion costs, and 200 percent of the actual equipping costs attributable to the Pooled Owner's share of production as compensation to the Operator for the risk of a dry hole, and the mechanical and engineering risks associated with the completion and equipping of all future wells; and
 - (iii) The Pooled Owner's share of the actual cost of operating the wells.

7. In the event the Pooled Owner does not notify the Supervisor and the Petitioner in writing of the decision within ten days from the effective date of this Order, the Pooled Owner will be deemed to have elected the alternative described in Paragraph 6.b. If a Pooled Owner who elects the alternative in Paragraph 6.a. does not pay their proportionate share of costs or give bond for the payment of such share of such costs, as outlined in Paragraph 6.a., the Pooled Owner shall be deemed to have elected the alternative described in Paragraph 6.b.; and the Operator may proceed to withhold and allocate proceeds

for costs from 7/8 of the Pooled Owners' share of production as described in 6.b.(i), (ii), and (iii).

8. For purposes of the Pooled Owners electing alternatives, the amounts of \$196,100.00 for estimated drilling costs; \$266,000.00 for estimated completion costs; and \$157,000.00 for estimated equipping costs are fixed as average well costs for the 14 proposed wells. Actual costs shall be used in determining the Pooled Owner's final share of project costs and in determining additional compensation for the risk of the project. If a Pooled Owner has elected the alternative in Paragraph 6(a) and the actual cost exceeds the estimated cost, the Operator may recover the additional cost from 7/8 of the Pooled Owners' share of production. Within 60 days after commencing drilling of the wells, and every 30 days thereafter until all cost of drilling, completing, and equipping the wells and additional compensation are accounted for, the Operator shall provide to the Pooled Owner a detailed statement of actual costs incurred as of the date of the statement and all costs and production proceeds allocated to that Pooled Owner.

9. All Pooled Owners shall receive the following information from the Operator by no later than the effective date of the Order:

- a. The Order;
- b. The total actual costs to date for drilling, completing, and equipping the two wells already drilled, and the AFE for the 14 proposed wells; and
- c. Each Pooled Owner's total share of costs for drilling, completing, and equipping of the four existing wells and the fourteen wells yet to be drilled if the Pooled Owner were to choose option "a" in Paragraph 6, above.

10. The Petitioner shall either complete the drilling of at least one well beneath that portion of the USP within Section 10 not later than two years after the effective date of this Order, or present information to the Supervisor as to how such lands are or will be efficiently and economically drained by existing wells on

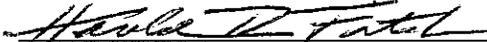
the USP. Otherwise, Petitioner shall petition the Supervisor to remove the Section 10 lands from the USP.

11. Within two years from the effective date of this Order, if the well density for the Greenwood 11 USP is less than one well per 160 acres, the Supervisor may require Petitioner to submit technical data which supports a conclusion that this USP can be appropriately drained by fewer wells.

12. The Supervisor retains jurisdiction in this matter. Any amendments to the USP boundary shall be by Order of the Supervisor after notice to all interested parties.

13. The effective date of this Order is July 16, 2007.

DATED: July 5, 2007


HAROLD R. FITCH
ASSISTANT SUPERVISOR OF WELLS
Office of Geological Survey
P.O. Box 30256
Lansing, MI 48909-7756

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY
SUPERVISOR OF WELLS

IN THE MATTER OF

THE PETITION OF O.I.L. ENERGY CORP. FOR)
AN ORDER FROM THE SUPERVISOR OF WELLS)
ESTABLISHING A UNIFORM SPACING PLAN) CAUSE NO. 09-2007
CONSISTENT WITH ORDER NO. (A) 14-9-94 AND)
COMPULSORY POOLING ALL INTERESTS INTO)
THE UNIT.)

NOTICE OF HEARING

Take notice that a contested case hearing will be held before the Supervisor of Wells (Supervisor) in the city of Lansing, Michigan, on the THIRD DAY OF MAY (MAY 3) 2007, BEGINNING AT 1:30 P.M., IN THE DEPARTMENT OF ENVIRONMENTAL QUALITY TOM DOWNS HEARING ROOM, ATRIUM LEVEL, SOUTH TOWER, CONSTITUTION HALL, 525 WEST ALLEGAN STREET, LANSING, MICHIGAN. The hearing will be conducted pursuant to Part 615, Supervisor of Wells, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended (NREPA); MCL 324.61501 et seq., the administrative rules, 1996 AACS, 2001 MR 2, 2002 MR 23, R 324.101 et seq., and the Administrative Procedures Act, 1969 PA 306, as amended, MCL 24.201 et seq.; MSA 3.560(101) et seq.

The hearing is for the purpose of receiving testimony and evidence pertaining to the need or desirability of issuing an order in the matter of the petition of O.I.L. Energy Corp. (Petitioner), 954 Business Park Drive, Suite #5, Traverse City, Michigan 49686.

Petitioner seeks an order of the Supervisor, pursuant to R 324.302 to establish a Uniform Spacing Plan (USP) consistent with Order No. (A) 14-9-94, and pursuant to R 324.304 to compulsory pool all interests into the proposed USP. The proposed USP consists of the S 1/2 of SW 1/4 of Section 2; N 1/2 of SW 1/4 and SE 1/4 of Section 10; W 1/2, W 1/2 of NE 1/4, NE 1/4 of NE 1/4, and S 1/2 of SE 1/4 of Section 11; S 1/2 of SW 1/4 of Section 12; W 1/2 and NE 1/4 of Section 13; entire Section 14; and NE 1/4 and SE 1/4 of NW 1/4 of Section 23, T28N, R1E, Greenwood Township, Oscoda County, Michigan. Take note that the final USP boundary will be determined by the Supervisor and may be different from the USP proposed.

You can obtain a copy of the written petition by requesting one in writing from Mr. Phillip W. Corey, 954 Business Park Drive, Suite #5, Traverse City, Michigan 49686, telephone number 231-933-3600.

Take note that if you wish to participate as a party in the hearing by presenting evidence or cross-examining witnesses, you shall prepare and mail or otherwise deliver

to the petitioner and Supervisor, not less than 5 days before the hearing date, an answer to the petition in the manner set forth in R 324.1204(6). Proof of mailing or delivering the answer shall be filed with the Supervisor on or before the date of the hearing. The answer shall state with specificity the interested person's position with regard to the petition. Failure to prepare and serve an answer in a timely manner shall preclude you from presenting evidence or cross-examining witnesses at the hearing. If an answer to the petition is not filed, the Supervisor may elect to consider the petition and enter an order without oral hearing. Mail the answer to the petition to Mr. Phillip W. Corey at the above address, and to the Supervisor in care of the Assistant Supervisor of Wells, Mr. Harold R. Fitch, Office of Geological Survey (OGS), P.O. Box 30256, Lansing, Michigan 48909-7756.

Take further note that you may request a change in the location of the hearing to the county in which the proposed USP is located. If the majority of the owners of the oil and gas rights, which are listed in the Petition as not voluntarily pooling their interests into the proposed USP, include in their timely filed answers a request to hold the hearing in the county where the proposed USP is located, the Assistant Supervisor of Wells shall: (i) at the time and place scheduled in this notice adjourn the scheduled hearing; (ii) reschedule the hearing for a location in such county, and (iii) provide, by first-class mail, notice of the rescheduled hearing date, time, and place prior to the rescheduled hearing date to all persons who filed an answer in response to this notice.

Questions regarding Notice of Hearing should be directed to Ms. Susan Maul, OGS, Michigan Department of Environmental Quality, P.O. Box 30256, Lansing, Michigan 48909-7756, phone 517-241-1552. Persons with disabilities needing accommodations for effective participation in this hearing should call or write Ms. Maul at least a week in advance of the hearing date to request mobility, visual, hearing, or other assistance.

Dated: *April 2, 2007*



HAROLD R. FITCH
ASSISTANT SUPERVISOR OF WELLS
Office of Geological Survey
P.O. Box 30256
Lansing, MI 48909-7756