

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICANT: TERRITORY RESOURCES, LLC)
RELIEF SOUGHT: POOLING) CAUSE CD 201104895-T
LEGAL DESCRIPTION: SECTION 17, TOWNSHIP 24)
NORTH, RANGE 3 EAST, NOBLE COUNTY, OKLAHOMA)

593349

ORDER NO. _____

ORDER OF THE CORPORATION COMMISSION

This Cause came on for hearing before Curtis Johnson, Administrative Law Judge for the Corporation Commission of the State of Oklahoma, on the 4th day of January 2012, at 8:30 a.m., in the Commission Courtroom, Eastern Regional Service Office of the Corporation Commission, Tulsa, Oklahoma, for the purpose of hearing, taking testimony and reporting his findings and recommendations to the Commission.

Michael D. Stack, Attorney, appeared for the Applicant and David Pepper, Attorney, appeared for Mustang Fuel Corporation.

The Administrative Law Judge heard the Cause and filed his report with the Commission, which report has been considered and the Commission therefore finds as follows:

FINDINGS

1. That this is the application of Territory Resources, LLC, for an Order pooling the interests and adjudicating the rights and equities of oil and gas owners in the Mississippian common source of supply underlying Section 17, Township 24 North, Range 3 East, Noble County, Oklahoma. The respondents named in this Order is listed on the Exhibit "A" attached hereto.

2. The Commission has jurisdiction of the subject matter herein and of the persons interested therein and has jurisdiction to enter this order as hereinafter set forth. Notice of the filing of the application herein and of the time, date and place of the hearing hereon was duly and properly given in all respects as required by law and the rules of the Commission. The Administrative Law Judge has examined the notices by publication, the publishers' affidavits of publication thereof, and the affidavits of mailing and the Administrative Law Judge conducted a judicial inquiry into the sufficiency of Applicant's search to determine the names and whereabouts of the respondents who were served by publication and based upon the evidence adduced, the Commission finds that Applicant has exercised due diligence and has conducted a meaningful search of reasonably available source at hand. The Commission hereby approves the publication service given herein as meeting the statutory requirements, rules of the Commission and minimum standards of state and

federal due process, and finds that notice has been given in all respects as required by law and the rules of the Commission.

3. The land described in paragraph 1 above is a drilling and spacing unit for the common source of supply also named in paragraph 1, all heretofore Ordered by the Commission in Order No. 590671.

4. Applicant and Operator, owners of the right to drill on said drilling and spacing unit, has not agreed with all of the other owners in the drilling and spacing unit. The Applicant request the Corporation Commission issue an Order requiring such owners to pool their interest and develop the drilling and spacing unit as a unit and common source of supply covered hereby.

5. Operator proposes to develop said unit and the common source of supply therefore by the drilling of a unit well or wells if hereinafter authorized to be drilled on the drilling and spacing unit thereon and, to avoid the drilling of unnecessary wells and to protect correlative rights, all owners should be required to pool and develop the unit and common source of supply covered hereby, upon the terms and conditions set out in "Order" below, all of which are found hereby, after a consideration of the substantial evidence in this Cause, to be just and reasonable and will afford each owner in the unit the opportunity to recover or receive without unnecessary expense his just and fair share of the production from the unit.

6. That in the interest of the prevention of waste and the protection of correlative rights, this Application should be granted, and the rights of all owners pooled and adjudicated on a unit basis.

ORDER

IT IS THEREFORE ORDERED by the Corporation Commission of Oklahoma as follows:

1. That Applicant and Operator proposes to develop as a unit **Section 17, Township 24 North, Range 3 East, Noble County, Oklahoma**, a drilling and spacing unit for the **Mississippian** common source of supply, and to develop said unit and the common source of supply therefore, and the rights and equities of all oil and gas owners covered hereby are pooled, adjudicated, and determined.

2. a. That estimated well costs are:

Completed for production - \$ 2,566,112.00
Completed as a dry hole - \$ 935,660.00

b. **An owner can elect \$ 325.00 per acre cash with a 1/8 royalty.** The \$325.00 per acre cash with a normal 1/8 royalty is a fair, reasonable, and equitable bonus to be

paid unto each owner who elects not to participate in said well or wells if hereinafter authorized to be drilled on the drilling and spacing unit by paying such owner's proportionate part of the cost thereof; such cash bonus plus overriding or excess royalty, when paid as set out in this Order, is satisfaction in full for all rights and interests of such owner in the unit covered hereby as defined in 52 O.S., Section 87.1(e).

- c. **An owner can elect \$ 300.00 per acre cash with a 3/16 royalty.** The \$300.00 per acre cash with a normal 1/8 royalty, plus an additional 1/16 of 8/8 override, is a fair, reasonable, and equitable bonus to be paid unto each owner who elects not to participate in said well or wells ~~if hereinafter authorized to be drilled on the drilling and spacing unit by paying such owner's proportionate part of the cost thereof; such cash bonus plus overriding or excess royalty, when paid as set out in this Order, is satisfaction in full for all rights and interests of such owner in the unit covered hereby as defined in 52 O.S., Section 87.1(e).~~

PROVIDED, that each owner of the right to drill in said drilling and spacing unit who elects to accept either paragraph 2b or 2c above shall relinquish unto the Operator all of owners right, title and interest as defined above in said well or wells if hereinafter authorized to be drilled on the drilling and spacing unit drilled and completed in the common source of supply named in this Application.

PROVIDED, however, that any excess royalty, overriding royalty, or other payments out of production shall be charged against the overriding or excess royalty, or overriding royalty, as hereinabove set forth, and same shall be reduced by the amount of any such excess.

3. That any owner of the right to drill on said drilling and spacing unit who has not agreed with the Applicant and Operator to develop said "pooling unit" and common source of supply is accorded the following elections as to all or any part of such owner's interests as to each election:

- a. **To participate in the development of the unit and common source of supply by agreeing to pay such owner's proportionate part of the actual cost of the unit well covered hereby and paying, as set out herein, to Operator such owner's proportionate part of the estimated completed for production cost thereof, as set out in paragraph 2a above, or by securing or furnishing security for such payment satisfactory to the Operator so as to assure timely payment of such cost; in all events such owner's cost in said unit well shall not exceed its proportionate part of the actual or the reasonable cost thereof**

which shall be determined by the Commission in the event there is a dispute as to such costs; the payment of such owner's proportionate part of the estimated completed for production costs of said unit well, or the securing of such costs, or the furnishing of security therefore, as aforesaid, shall be accomplished **within 25 days from the date of this Order**, such owner's proportionate part of the costs of, and of the production from such unit well, to be in proportion to the number of acres such owner has in the unit; or,

- b. **To receive the cash bonus as set out in paragraph 2b or 2c above, which shall be paid or tendered, if same can be paid or tendered, within 35 days from the date of this Order**, or, if any payment of bonuses due and owing under the order cannot be made to any such party entitled to such payment, then said bonuses, and any royalty payments due such party, shall be paid into an escrow or trust account and shall not be commingled with any funds of the applicant or operator. Such funds deposited in said escrow or trust account shall be held for the exclusive use of, and sole benefit of, the party or parties entitled thereto.

If any payment of bonus due and owing under this order cannot be made because the person entitled thereto cannot be located or is unknown, then said bonus shall be paid into an escrow account within ninety (90) days after this order and shall not be commingled with any funds of the Applicant or Operator. Any royalty payments or other payments due to such person shall be paid into an escrow account by the holder of such funds. Responsibility for filing reports with the Commission as required by law and the Commission rule as to bonus, royalty or other payments deposited into escrow accounts shall be with the applicable holder. Such funds deposited in said escrow accounts shall be held for the exclusive use of, and sole benefit of, the person entitled thereto. It shall be the responsibility of the Operator to notify all other holders of this provision and of the Commission rules regarding unclaimed monies under pooling orders.

(See attached Exhibit "A" for list of Respondents).

4. That each owner of the right to drill in said drilling and spacing unit to the common source of supply covered hereby, who has not agreed to develop the unit, other than the Operator, shall elect as to all or any part of the interest of such owner in the unit which of the elections set out in Paragraph 3 above such owner accepts, said election to be made to **Territory Resources, LLC, in writing, within 20 days from the date of this Order**; in the event any owner fails to elect within the time and in the manner as set out above which of the alternatives set

forth in paragraph 3 above, any such owner accepts, then such owner is deemed to have elected to receive the cash bonus plus excess royalty as set out in paragraph 2b above, unless the owner is subject to any royalty, overriding royalty, or other payments out of production which create a burden on such interest in excess of the burdens set out in paragraph 2b above, the owner of any such interest shall not be entitled to the option provided in paragraph 2b above, but shall be required to accept the additional royalty provided in paragraph 2c above. In the event any owner elects to do other than participate in said unit well by paying his pro rata share of the costs thereof, or fails to make any election provided above, such owner shall be deemed to have relinquished unto Operator all of such owner's right, title, interest, or claim in said unit well or wells if hereinafter authorized to be drilled on the drilling and spacing unit, except for any normal 1/8 royalty interest, defined above, and other share in production to which such owner may be entitled by reason of an election hereunder.

5. Operator, in addition to any other rights provided herein, shall have a lien, as set out in 52 O.S., Section 87.1(e), on the interest of any owner, subject to this Order, who has elected to participate in the unit well covered hereby by paying such owner's proportionate part of the costs thereof; provided, however, that in the event an owner elects to participate in said unit well by paying his proportionate part of the costs thereof and fails or refuses to pay or to secure the payment of such owner's proportionate part of the completed for production cost as set out in paragraph 2a above, or fails or refuses to pay or make an arrangement with the Operator for the payment thereof, all within the periods of time as prescribed in this Order, then such owner is deemed to have elected to receive the cash bonus plus excess royalty as set out in paragraph 2b above unless the owner is subject to any royalty, overriding royalty, or other payments out of production which create a burden on such interest in excess of the burdens set out in paragraph 2b above, the owner of any such interest shall not be entitled to the option provided in paragraph 2b above, but shall be required to accept the additional royalty provided in paragraph 2c above. Thereupon, the payment of such cash bonus shall be made by Operator within 35 days after the last day on which such defaulting owner, under this Order, should have paid his proportionate part of such costs or should have made satisfactory arrangements for the payment thereof.

6. Operations must commence on the well within **one year from the date of this order** and diligently prosecute the same to completion in a reasonably prudent manner, or this Order shall be of no force and effect, except as to the payment by Operator of the cash consideration reflected in paragraph 2b or 2c of this Order. Territory Resources, LLC shall be designated Operator of the unit for the initial 275 days from the date of the pooling order. Should Territory Resources, LLC not timely spud the unit well with a rig capable of reaching total depth within the initial 275 days from the date of the pooling order, then Mustang Fuel Corporation shall be designated Operator of the unit well for the remainder of the one year from the date of this order. Should operations

be transferred to Mustang Fuel Corporation then all monies held by Territory Resources, LLC for the drilling and completion of the unit well shall be transferred to Mustang Fuel Corporation within five (5) days from the date of transfer of operations.

7. Prior to the payment of bonus consideration and/or royalty consideration to a respondent by Operator, said respondent must complete and furnish to Operator a Federal Form W-9. The form being required for federal tax purposes. A respondent who does not provide the Operator with a Federal Form W-9, shall have their bonus consideration and/or royalty consideration placed into an Escrow Account established by the Operator until such time as the appropriate Federal Form W-9 has been furnished.

8. Participation in Subsequent Wells: If, subsequent to the drilling of the initial unit well provided for herein, another well is proposed in the drilling and spacing unit covered hereby under the plan of development established by this Order, an owner with the right to participate shall send written notice of the proposed subsequent well to each party who timely and properly elected to participate, and who perfected their election to so participate, in the development of the separate common source of supply in the drilling and spacing unit involved in this cause under the plan of development. The written notice shall be sent by certified mail to the last known address of each respondent and shall contain a brief description of the proposed subsequent well. The notice shall also include the estimated costs of the well as a dry hole and as a producing well. Each party entitled to the above-described written notice shall have **20 days from date of the notice in which to elect**, in writing, to the proposing party and Operator whether or not to continue to participate in the development of the separate common source of supply and the drilling and spacing unit involved in this cause under the plan of development established by this Order as to the proposed subsequent well or in lieu thereof, to elect provision provided for in Paragraph 2b or 2c above as compensation or satisfaction in full for all rights and interest of such owner in the unit covered hereby. The cash bonus elected to be paid or tendered **within 35 days from date of notice.**

In the event a party who is entitled to make a written election to participate as to a subsequent well as provided for herein, shall fail to timely and properly elect in writing to so participate, or who shall have elected affirmatively in writing not to participate in such subsequent well, then such owner shall be deemed to have relinquished unto Operator all of such owner's right, title, interest or claim in and to the proposed well and all future wells drilled in the unit and common source of supply defined in this order. A party who no longer has the right to participate in all future subsequent well(s) shall continue to accept the royalty provision defined by this order.

Any party entitled to make a written election as to a subsequent well who elects to continue to participate in the development of the

separate common source of supply in the drilling and spacing unit provided for herein under the plan of development established by this Order, shall be deemed to have agreed to pay such party's proportionate part of the actual costs of the proposed subsequent well, and shall pay such party's proportionate part of the anticipated completed for production costs as set forth in the notice **within 25 days from date of notice thereof**, said payment to be made to Operator at its then current address. Upon such timely payment, or the furnishing of security thereof satisfactory to the Operator, such parties election to continue to participate in the development of the drilling and spacing unit and common source of supply as to such subsequent well and future wells shall be perfected. In the event any owner elects as to the proposed subsequent well to continue to participate in the development of the separate common source of supply under the plan of development established by this Order, ~~but thereafter fails or refuses to pay or secure the payment of~~ such owner's proportionate part of the estimated completed for production well costs within the manner and time prescribed herein, then such owner shall be deemed to have withdrawn its election to continue to so participate and such owner, as to the proposed subsequent well and any further subsequent well or wells under the plan of development shall be deemed to have elected in accordance to provisions as set forth herein.

As to any subsequent well proposed under this paragraph, Operator shall commence, or cause to be commenced, operations on the subsequent well **within 180 days from the date of written notice** proposing the subsequent well, and shall thereafter continue such operations with due diligence to completion. If operations on the proposed subsequent well are not commenced within the above described 180 day period, then the elections of the parties as to the proposed subsequent well shall expire and the parties shall be in the same position relative to each other that they were in immediately prior to the written notice of the subsequent well being transmitted by Operator. In such event all rights acquired from the parties electing in the proposed subsequent well not to continue to participate in the development of the separate common source of supply and drilling and spacing unit under the plan of development established by this Order, shall be relinquished by Operator and any other acquiring party and such relinquished rights shall revert in the parties who elected not to continue to so participate. Failure to timely commence any subsequent well shall not divest or otherwise affect in any manner the rights and interests of the various parties in any well or wells drilled prior thereto under the plan of development established by this Order and shall not terminate such plan of development.

The term subsequent well for purposes of this paragraph shall not be deemed to include any side-tracking or other operation with respect to the initial unit well and shall not be deemed to be any well that is drilled as a replacement or substitute well for the initial unit well or any subsequent well covered hereby, by virtue of any mechanical or other problems arising directly in connection with the drilling, completing, equipping or producing of the initial unit well or any subsequent well, and no party subject to this Order shall have the right to make any subsequent elections as to any such side-tracking, replacement, or substitute well.

9. That the Applicant or its attorney shall file with the Secretary of the Commission, within 10 days from the date of this Order, an affidavit stating that a copy of said Order was mailed within 3 days from the date of this Order to all parties pooled by this order, whose addresses are known.

CORPORATION COMMISSION OF OKLAHOMA

Dana L. Murphy
DANA L. MURPHY, CHAIR

Bob Anthony
BOB ANTHONY, VICE CHAIRMAN

Patrice Douglas
PATRICE DOUGLAS, COMMISSIONER

DONE AND PERFORMED THIS 25 DAY OF JANUARY, 2012.

ATTEST:

Joyce Conner
~~PEGGY MITCHELL, Secretary~~
JOYCE CONNER, Assistant Secretary

REPORT OF THE ADMINISTRATIVE LAW JUDGE

The foregoing Findings and Order are the report and recommendation of the Administrative Law Judge.

Curtis M. Johnson
Curtis Johnson
Administrative Law Judge

1-18-12
Date

[Signature]
Reviewer

23 JAN 12
Date

This Order was approved for content and form.

BY: [Signature]
MICHAEL D. STACK, OBA #8530
943 East Britton Road
Oklahoma City, Oklahoma 73114
Bus (405) 286-1717 Fax (405) 286-2122
Attorney for Applicant

**POOLING RESPONDENT LIST
TERRITORY RESOURCES, LLC
CAUSE CD NO. 201104895-T
SECTION 17-24N-3E
NOBLE COUNTY, OK**

Respondents with known addresses:

1. Reagan Resources, Inc.
2601 N.W. Expressway, Ste. 801-W
Oklahoma City, OK 73112

7. Mustang Fuel Corporation
13439 Broadway Extension
Oklahoma City, OK 73114-2202

Notice Purposes Only:

2. Bureau of Indian Affairs
Pawnee Agency
Attn: Superintendent
P.O. Box 440
Pawnee, OK 74058

3. Bureau of Land Management
7906 E. 33rd Street, Suite 101
Tulsa, OK 74145-1352

4. Bureau of Land Management
221 N. Service Road
Moore, OK 73160-4946

5. Southern Plains Regional Office
WCD Office Complex
P.O. Box 368
Anadarko, OK 73005

Dismissals, Address Unknown or Curative: None

Attorney of Record:

8. David E. Pepper, Esq.
Hartzog Conger Cason & Neville
1600 Bank of Oklahoma Plaza
Oklahoma City, OK 73102