STATEWIDE RULES AND REGULATIONS

RULE 7. SPACING OF OIL WELLS

1. With respect to each pool occurring in the discovery well, the top of which is encountered below a measured depth of 12,000 feet below the surface, and in the Pennsylvanian and older formations with respect to each pool occurring in the discovery well, the top of which is encountered below a measured depth of 3,500 feet below the surface, every oil well:

(a) Shall be located on a drilling unit consisting of eighty (80) contiguous surface acres, or two (2) contiguous governmental quarter-quarter sections containing not less than seventy-two (72) acres or more than eighty-eight (88) acres, upon which no other drilling or producible well is located. The word "contiguous" as used herein shall mean bordering each other at more than one point;

(b) Any drilling unit not composed of two (2) governmental quarter-quarter sections must be completely encompassed by the perimeter of a rectangle 1600 feet by 2725 feet. Provided, however, no unit shall be permitted which will create island acreage;

(c) The well shall be located at least 1,000 feet from every other drilling well or well completed in or producing from the same pool located in "conformity with this rule; and

(d) The well shall be located at least 500 feet from every exterior boundary of the drilling unit.

2. However, with respect to each pool occurring in the discovery well, the top of which is encountered below a measured depth of 12,000 feet below the surface, the State Oil and Gas Supervisor may permit 160 acre units for such pools if such unit size will promote and encourage the orderly development of the pool. Every oil well drilled in such pool:

a) Shall be located on a drilling unit of four (4) contiguous quarter-quarter sections containing not less than 144 nor more than 176 acres upon which no other well drilling to or producing from same pool is located.

b) Any drilling unit not composed of four (4) contiguous quarter-quarter sections shall contain 160 surface acres which must be completely encompassed by perimeter of a rectangle 2640 feet by 3500 feet provided, however, no unit shall be permitted which will create island acreage.

c) Each well shall be located at least 1500 feet from every drilling or producible well from the same pool and not less than 750 feet from every exterior boundary of the drilling unit.

3. With respect to all other pools, every oil well:

(a) Shall be located on a drilling unit consisting of forty (40) contiguous surface acres, or a governmental quarter-quarter section containing not less than thirty-six (36) acres or more than forty-four (44) acres, upon which no other drilling or producible well is located. The word "contiguous" as used herein shall mean bordering each other at more than one point.

(b) Any drilling unit not a governmental quarter-quarter section must be completely encompassed by the perimeter of a rectangle 1810 feet by 1445 feet. Provided, however, no unit shall be permitted which will create island acreage.

(c) The well shall be located at least 660 feet from every other drilling well or well completed in or producing from the same pool located in conformity with this rule; and

(d) The well shall be located at least 330 feet from every exterior boundary of the unit.

4. No portion of the drilling unit upon which a well is located shall be attributed, in whole or in part, to any other drilling or producible well in the same pool.

5. If any well drilled in conformity with the provisions of this rule, or as an exception thereto, is completed as a gas well, it shall not be produced except for a test period of not exceeding forty-five (45) days, or in compliance with applicable Special Field Rules, or until authorization has been granted by the Board after notice and hearing. **During the test period the well may not be produced in excess of its allowable unless permitted by the Board after notice and hearing.**

6. The drilling unit created for an oil well under this rule or any Special Field Rules shall remain in force and effect for the period of time set forth below.

(a) The unit shall automatically terminate at the time the drilling permit for such well terminates.

(b) The unit shall automatically terminate when the well is plugged or converted to a Class II well, unless an earlier termination occurs by an order of the Oil and Gas Board or by provisions of sub-section (d) below.

(c) Once drilling operations have commenced, the unit shall remain in force and effect for so long as such drilling operations or ensuing production operations continue.

(d) If a well is placed on inactive well status by filing Form 9-A, the unit for the well will continue in force and effect for two years from and after the date the well was first required to be reported as an inactive well or until July 1, 2008, which ever is later.

(e) Wells subject to a field-wide unit shall be governed by the term of the unit agreement.

(f) Exception to these limitations may be granted by the Oil and Gas Board for good cause after notice and hearing.