

BEFORE THE STATE OIL AND GAS BOARD OF MISSISSIPPI

**Re: Petition of Eland Energy Inc. To Adopt Special
Field Rules for Beaver Dam Field, Jasper County,
Mississippi**

Docket No. 143-2009-715

Order No. 415-2009

FILED FOR RECORD

AUG 31 2009

ORDER

**STATE OIL AND GAS BOARD
LISA IVSHIN, SUPERVISOR**

This day this matter came on to be heard on the Petition of Eland Energy Inc. requesting the State Oil and Gas Board of Mississippi to enter an order adopting Special Field Rules for Beaver Dam Field to define the Smackover Oil Pool and the Smackover Field-wide Unit, to establish spacing and production allocation requirements applicable to the Smackover Oil Pool, to prescribe rules governing the operation of the Smackover Field-wide Unit and grant related relief. This Board, having considered the Petition and the evidence submitted in support thereof, and being fully advised in the premises, is of the opinion and finds that said relief should be, and the same is hereby, granted. This Board further finds and determines as follows, to-wit:

1.

Proper and legal notice of the meeting of this Board for the purpose of considering and hearing the Petition filed herein has been given in the manner and time provided by law and the rules and regulations of this Board. Legal and sufficient proofs of publication of such notice and proof of notice by personal service are on file with this Board. Eland Energy Inc. has made a diligent effort to give the notice required by the statutes of the State of Mississippi and the rules and regulations of this Board. This Board has full jurisdiction of the parties and the subject matter hereof.

2.

A public hearing on the Petition filed in this docket was held by this Board in Suite E, 500 Greymont Avenue, Jackson, Mississippi, commencing on August 19, 2009, at 10:00 o'clock a.m., at which time and place all persons who desired to be heard on said matter were heard and all testimony and the evidence were duly considered by this Board. Eland Energy, Inc. was represented at the hearing by its attorney, James M. Nix. No other parties made an appearance at the hearing of this matter.

3.

Eland Energy Inc. is a Texas corporation, whose principal place of business is 13455 Noel Road, 2 Galleria Tower, Suite 2000, Dallas, Texas 75240. Eland Energy Inc. is the operator of the Davis-Gatlin A No. 1 Well and the Mary Trotter Unit 1 No. 1 Well in Beaver Dam Field in Jasper County, Mississippi.

4.

In late 1988, OXY USA Inc. drilled the Davis-Gatlin A No. 1 Well to a total depth of 15,800 feet at a location 2140 feet from the North line and 1817 feet from the East line of Section 29 of Township 2 North, Range 13 East, Jasper County, Mississippi. The Davis-Gatlin A No. 1 Well was completed as a commercially productive well in the Smackover Oil Pool. The Davis-Gatlin A No. 1 Well was the discovery well for Beaver Dam Field and remains the only productive well ever drilled in the field.

5.

The primary drive mechanism of the Smackover Oil Pool is the original reservoir pressure. Over the years the original reservoir pressure has gradually depleted and the natural formation pressure is no longer sufficient to provide the necessary energy to force the liquid hydrocarbons into the wellbore of the Davis-Gatlin A No. 1 Well. The Davis-Gatlin A No. 1 Well is nearing the end of its economic primary production capability. It is believed that considerable additional crude oil may be recovered from the Smackover Oil Pool by the utilization of enhanced recovery methods and that a water flood or pressure maintenance program will extend the life of the well and increase total ultimate recovery of hydrocarbons from the Smackover Oil Pool in Beaver Dam Field.

6.

In order to evaluate the response of the Smackover Oil Pool to a water flood operation, Eland Energy Inc. re-entered and re-completed the Mary Trotter Unit 1 No. 1 Well, which is located 660 feet from the North line and 658 feet from the East line of said Section 29, as a Class II injection well for a temporary injectivity test of produced water into the Smackover Oil Pool. The injectivity tests performed on the Mary Trotter Unit 1 No. 1 Well indicate that the Smackover Oil Pool will respond favorably to a waterflood operation. Eland Energy Inc. plans to utilize the Mary Trotter Unit 1 No. 1 Well on a permanent basis as an injection well for waterflood and enhanced recovery purposes.

7.

Eland Energy Inc. has proposed that a compulsory unit be established and approved by this Board for the Smackover Oil Pool lying within the below-described Unit Area

in order that enhanced recovery operations, pressure maintenance or any other methods generally recognized and approved by the industry designed to increase the ultimate recovery of oil and/or gas may be utilized with respect to the Smackover Oil Pool. By Order No. 416-2009, entered in Docket No. 144-2009-715, this Board established the Smackover Field-wide Unit in Beaver Dam Field, approved the Unit Agreement dated February 12, 2009, and the Unit Operating Agreement dated February 12, 2009, pertaining thereto, and required unit operation of said Smackover Field-wide Unit in accordance with the terms and provisions of said Unit Agreement and Unit Operating Agreement.

8.

No Special Field Rules have been adopted by this Board for Beaver Dam Field. Special Field Rules should be adopted by this Board for Beaver Dam Field to define the Smackover Oil Pool and the Smackover Field-wide Unit, to establish spacing and production allocation requirements applicable to the Smackover Oil Pool, and to prescribe rules governing the operation of the Smackover Field-wide Unit.

9.

The Field Area of Beaver Dam Field should be defined in the Special Field Rules as that geographical area consisting of the Northeast Quarter (NE¼) of Section 29 of Township 2 North, Range 13 East, Jasper County, Mississippi, and all productive extensions to such area.

10.

The Smackover Oil Pool should be defined in the Special Field Rules of Beaver Dam Field as to mean those strata in the Smackover Formation currently, formerly or in the future productive of oil and/or gas between the measured depths of 15,318 feet to 15,466 feet on the electrical log for the OXY USA Inc. -- Davis Gatlin A No. 1 Well situated 2140 feet from the North line and 1817 feet from the East line of said Section 29, and all sands correlative to and in communication with said strata.

11.

The adoption of the Special Field Rules for Beaver Dam Field as set forth below will facilitate the more efficient and economical operation of the Smackover Oil Pool and will ultimately result in the recovery of more oil and/or other hydrocarbon reserves from Beaver Dam Field. The adoption of the Special Field Rules as set forth below will promote the conservation of oil and gas of Beaver Dam Field and the State of Mississippi by preventing waste, avoiding the drilling of unnecessary wells, safeguarding, protecting and enforcing the co-equal and correlative rights of all owners of hydrocarbons in the field to

the extent that each such owner may recover his fair and equitable share of recoverable hydrocarbons without unnecessary expense. The adoption of the Special Field Rules as set forth below will foster, encourage and promote the full development of the field.

IT IS THEREFORE ORDERED AND ADJUDGED by the State Oil and Gas Board of Mississippi that the relief requested by Eland Energy Inc. in the Petition filed in this docket should be, and the same is hereby, granted and it is ordered that Special Field Rules for Beaver Dam Field be, and the same hereby are, adopted and shall read as follows, to-wit:

**SPECIAL FIELD RULES
BEAVER DAM FIELD
JASPER COUNTY, MISSISSIPPI**

A. FIELD AREA:

Beaver Dam Field, as used herein, is defined as that geographical area consisting of the Northeast Quarter (NE $\frac{1}{4}$) of Section 29 of Township 2 North, Range 13 East, Jasper County, Mississippi, and all productive extensions to such area.

B. POOL DEFINITIONS:

The **Smackover Oil Pool**, as used herein, shall be construed to mean those strata in the Smackover Formation currently, formerly or in the future productive of oil and/or gas between the measured depths of 15,318 feet to 15,466 feet on the electrical log for the OXY USA Inc. -- Davis Gatlin A No. 1 Well situated 2140 feet from the North line and 1817 feet from the East line of Section 29 of Township 2 North, Range 13 East, Jasper County, Mississippi, and all sands correlative to and in communication with said strata.

C. RULES:

RULE 1 -- Smackover Field-wide Unit

The Smackover Field-wide Unit has been established and approved by the State Oil and Gas Board of Mississippi with respect to the Smackover Oil Pool pursuant to Sections 53-3-101 through 53-3-119 of the 1972 Code of Mississippi (as amended) for the promotion of conservation to consider and treat the Unit Area as a single drilling and producing unit as to all tracts therein contained. The following rules shall apply with respect to the Smackover Field-wide Unit:

- (a) Unit Area The Unit Area of the Smackover Field-wide Unit shall consist of the Northeast Quarter (NE $\frac{1}{4}$) of Section 29 of Township 2 North, Range 13 East, Jasper County, Mississippi.
- (b) Unitized Substances The Unitized Substances are all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate, and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Smackover Oil Pool.
- (c) Spacing of Wells in Smackover Field-wide Unit Notwithstanding any other provisions contained in these Special Field Rules, the location of unit injection wells and unit production wells in the Smackover Field-wide Unit shall be selected by the operator of said Unit and shall be governed by the standards of geology and petroleum engineering designed to promote the greatest ultimate recovery of Unitized Substances from the said Unit. However, no well may be drilled, injected into or produced from the Smackover Oil Pool nearer than 330 feet from any exterior boundary of the Unit Area, except upon permit issued by the State Oil and Gas Board of Mississippi, after notice and hearing.

- (d) Pressure Maintenance and Enhanced Recovery Program The operator of the Smackover Field-wide Unit is authorized to conduct and carry out enhanced recovery operations, pressure maintenance or any other method generally recognized and approved by the industry designed to increase the ultimate recovery of oil and/or gas, including, but not limited to the injection of gas, carbon dioxide, water and other extraneous substances, and any combination thereof, or any other form of joint effort calculated to substantially increase the ultimate recovery of Unitized Substances from the Smackover Field-wide Unit. The operator may, for injection purposes, use existing wells located in the Smackover Field-wide Unit which may be converted to injection wells or wells may be drilled on said unit for such purposes. Any such wells drilled as injection wells or converted to injection wells by the operator on the unit as a part of pressure maintenance and/or enhanced recovery operations may be approved by the State Oil and Gas Board of Mississippi by administrative permit, without hearing, upon the operator filing with the Board a duly executed Form 2, well location plat, the required permit fee for each such well, and all evidence and information required under Statewide Rule 63 and upon publication of public notice of the same not less than twenty (20) days prior to the issuance of the administrative permit. In addition, unit injection wells may be converted to unit producing wells and unit producing wells may be converted to unit injection wells by administrative permit, without hearing, upon the operator filing with the Board a duly executed Form 2, the required permit fee for each such well, and all other evidence and information the Board may require, and upon publication of public notice of the same not less than twenty (20) days prior to the issuance of the administrative permit.
- (e) Allowable for Smackover Field-wide Unit The allowable for the Smackover Field-wide Unit shall be established by the State Oil and Gas Board of Mississippi. The allowable production of the said unit may be produced from any well or wells on said unit provided, however, that no well shall be operated in such a manner as to cause waste as defined by the laws of the State of Mississippi.

RULE 2 -- Amendment of Special Field Rules

The Board expressly reserves the right, after notice and hearing, to alter, amend or repeal any and all of the above rules and regulations, or to grant exceptions to all or any part thereof.

RULE 3 -- Applicability of Statewide Rules

All rules and regulations contained in Statewide Order No. 201-51, and all amendments thereto, are hereby adopted and shall apply to Beaver Dam Field to the extent not inconsistent with the above rules.

- - - End of Special Field Rules - - -

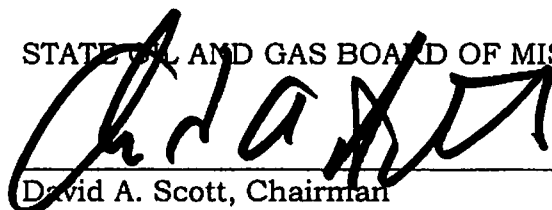
IT IS FURTHER ORDERED AND ADJUDGED that Eland Energy Inc. shall acquire all such other permits, if any, required by any other permitting authority.

IT IS FURTHER ORDERED that this Order shall be effective from and after August 19, 2009.

SO ORDERED AND ADJUDGED on this the 31st day of August, 2009.

STATE OIL AND GAS BOARD OF MISSISSIPPI

By:


David A. Scott, Chairman

Prepared and submitted by:
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