

Rule of Capture

1. Gas Migration:

Because it was believed that gas migrates underground, courts have held that in New York State, the landowner does not own the oil and gas until he removes it from the ground.

2. Drilling: Old Rule

This means that under this rule (which has been modified in New York) that you could drill near your neighbor but not on his line and drain all his gas and he could not do anything about it. Therefore you had to drill your own well or lose your gas.

3. Unitization and Modified Rule of Capture. New Rule

- * Article 23 of the Environmental Conservation Law controls

- * Well Permit Required:

- No one can drill a well without permission of the Department of Environmental Conservation.

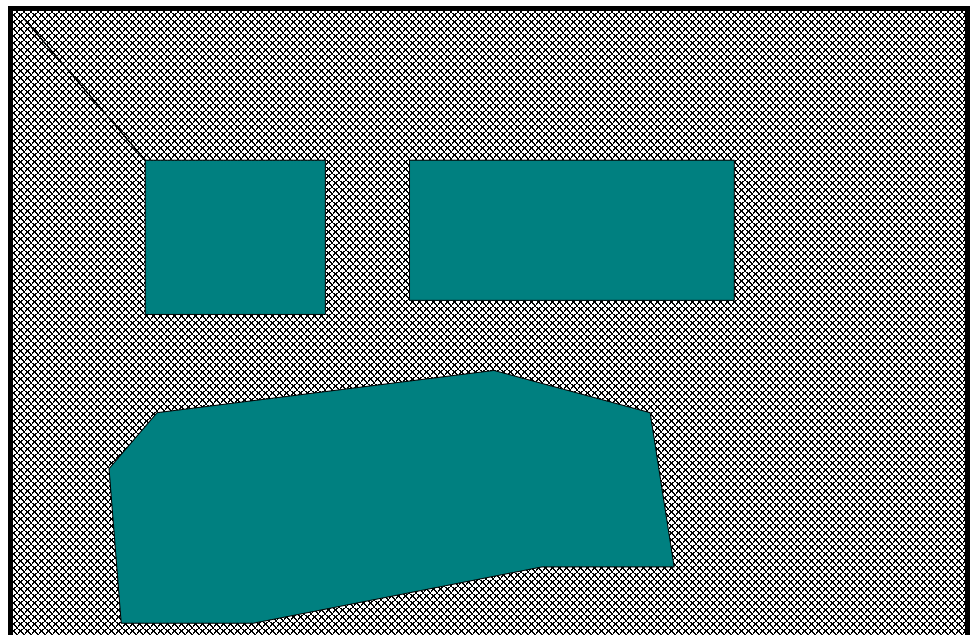
- * Well permit must be for a specific depth and a specific formation

- * Each well must have Unit:

- A boundary line around the well bore, in which area no one else can drill.

- The size of the area can be from 40 acres to 640 acres.

- The shape of the area can be a square, a rectangle or irregular shaped.



- * Although more than one well can be put inside the unit, each well must be to the same formation and drilled by the same permit holder.
- * The Permit Holder (a gas company) must have leases to it for at least 60 % of all the acreage in the unit. (Known as “controlled”)
- * Everyone who holds any land in the unit will receive royalties based on their percent ownership of the acreage in the unit.
 - If the unit is 640 acres and 64 acres in the unit is owned by you then 10% of the gas would be yours if you drilled the well.
 - Regardless of whether you have signed a lease or not signed a lease, that percentage does not change unless DEC approves a different size unit.
- * Each person who holds acreage in the unit gets paid either:
 - According to the royalty clause in their lease or
 - According to the statute on Compulsory Integration

Department of Environmental Conservation regulates drilling, production and closing wells.