

STATE OF SOUTH DAKOTA
DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES
BOARD OF MINERALS AND ENVIRONMENT

IN THE MATTER OF THE PETITION OF LUFF EXPLORATION COMPANY, DENVER, COLORADO, FOR AN ORDER POOLING ALL INTERESTS IN A SPACING UNIT FOR THE COREY BUTTE FIELD DESCRIBED AS ALL OF SECTION 25 AND THE E/2 OF SECTION 26, TOWNSHIP 23 NORTH, RANGE 6 EAST, HARDING COUNTY, SOUTH DAKOTA; PRESCRIBING THE TIME AND MANNER IN WHICH ALL OWNERS MAY ELECT TO PARTICIPATE IN THE DRILLING AND OPERATION OF A WELL ON SUCH SPACING UNIT; PROVIDING AN ALTERNATIVE WHEREBY AN OWNER WHO DOES NOT ELECT TO PARTICIPATE IN THE RISK AND COST OF A WELL MAY PARTICIPATE ON A CARRIED BASIS; AND FOR OTHER RELIEF AS DETERMINED BY THE BOARD TO BE JUST AND REASONABLE.

OIL AND GAS
CASE NO. 6-2015

ORDER

SECRETARY'S ORDER UNDER SDCL 45-9-74

A Petition ("Petition") of Luff Exploration Company ("Luff") was submitted to the South Dakota Board of Minerals and Environment ("Board") on May 29, 2015. The Board prepared and published a Notice of Opportunity for Hearing ("Notice") and Luff caused a copy of the Petition and the Notice to be served by mail or personally on each party affected by the petition. No petition to intervene was filed in accordance with the Notice. Therefore, pursuant to South Dakota Codified Laws (SDCL) 45-9-74, SDCL 45-9-31 through 36, and Administrative Rules of South Dakota (ARSD) 74:12:10, and based upon Luff's Petition and the supporting documents filed by Luff, the Secretary makes and enters the following order:

Luff represents the owners of interests in the oil and gas leasehold estate underlying all or portions of Section 25 and the E/2 of Section 26, Township 23 North, Range 6 East, Harding County, South Dakota.

Pursuant to Order No. 4-2015, these lands constitute a spacing unit for the Corey Butte Field (the "Spacing Unit").

Luff submitted information in support of its application which establishes there are separately owned tracts within the Spacing Unit, and there are separately owned interests within each of those tracts.

In addition to pooling the Spacing Unit and designating Luff the operator of a well drilled in accordance with Order No. 4-2015 (the "Well"), Luff requests that the Board, through this Secretary's Order; prescribe the time and manner in which unleased mineral owners may elect to lease and all owners may elect to participate in the drilling, equipping, and operation of the Well on the Spacing Unit; provide for the payment of the reasonable actual cost of drilling, equipping and operating the Well by those who elect to participate, plus a reasonable charge for supervision and interest; and provide for the recovery of risk compensation from nonparticipating owners in addition to the actual prorated costs in accordance with ARSD 74:12:10:02 and 74:12:10:03.

Before the recovery of risk compensation can be authorized, proof of an unsuccessful good-faith attempt to have the nonparticipating owners execute a lease or participate in the risk and cost of drilling and operating the Well in accordance with ARSD 74:12:10:01(1) and proof of notification in accordance with ARSD 74:12:10:01(2) is required to be filed.

IT IS THEREFORE ORDERED

A. All interests in a spacing unit for the Corey Butte Field described as Section 25 and the E/2 of Section 26, Township 23 North, Range 6 East, Black Hills Meridian, Harding County, South Dakota, are pooled for purposes of the drilling and operation of, and production from, the Well. Luff is hereby designated the operator and is authorized to drill, equip, and

operate the Well. All expenses incurred in drilling, equipping and operating the Well on the Spacing Unit, plus a reasonable charge for supervision and interest, and all production from the Well, shall be allocated to the various tracts within the Spacing Unit on the basis of the ratio the number of acres contained in each separately owned tract bears to the number of acres in the Spacing Unit. Operations incident to the drilling of the Well shall be deemed for all purposes the conduct of such operations upon each separately owned tract in the Spacing Unit, and production allocated to each tract shall, when produced, be deemed for all purposes to have been produced from each tract by the Well drilled thereon.

B. Within 30 days of being provided an estimate of the anticipated expenditures by Luff, and, in the case of unleased mineral owners, a good-faith lease offer, all mineral owners who have not agreed to lease their mineral interests and all lessees who have not otherwise agreed to participate in the risk and cost of drilling the Well shall elect to participate in writing and shall thereafter pay their proportionate share of the reasonable actual costs of drilling, completing and operating the Well, plus a reasonable charge for supervision. Unleased mineral owners shall also have the option to accept the lease offer and return the executed lease within said 30 days. In the event any owner does not elect to participate in the risk and cost of drilling the Well or, as to unleased mineral owners, grant an oil and gas lease within 30 days of receiving the estimate/lease offer, Luff, on behalf of other working interest owners within the Spacing Unit who pay the cost of drilling and completing the Well for the benefit of any nonparticipating owner, may recover from such nonparticipating owner's share of production from the Well, exclusive of a royalty not to exceed one-eighth of the production, the proportionate share of the reasonable actual costs of drilling, equipping and operating the Well charged to the interest of the nonparticipating owner. Further, in the event any owner does not elect to participate in the risk

and cost of drilling the Well or, as to unleased mineral owners, grant an oil and gas lease within 30 days of receiving the estimate/lease offer, Luff, on behalf of other working interest owners within the Spacing Unit who pay the cost of drilling and completing the Well for the benefit of any nonparticipating owner, upon complying with ARSD 74:12:10 and the provisions of this order, may also recover from such owner's share of production from the Well exclusive of a royalty not to exceed one-eighth of the production, risk compensation equal to an additional 100% in the case of a mineral owner whose interest is not subject to a lease or other contract for development or 200% in the case of a lessee whose interest is derived from a lease or other contract for development of the share of the reasonable actual costs of drilling, reworking, sidetracking, deepening, plugging back, testing, completing and recompleting the Well and the costs of newly acquired equipment in the Well including the wellhead connection charged to the interest of such owner.

C. In the event any owner elects not to participate, or in the case of an unleased mineral owner, not to lease within the time frames provided above, Luff may, by application, request an order providing for the recovery of risk compensation in accordance with the provisions of this order and ARSD 74:12:10. Before such an order is entered, pursuant to ARSD 74:12:10:01(1), Luff must provide proof that an unsuccessful, good-faith attempt was made to have the nonparticipating owner execute a lease or participate in the risk and cost of drilling and operating the Well and notify the nonparticipating owner with proof of service that Luff is seeking the recovery of risk compensation, and that, pursuant to ARSD 74:12:10:01(2), the owner may object to risk compensation by responding in opposition to the application for the order.

D. In the event of a dispute as to the costs of drilling, equipping, or operating the Well, the Board shall determine the costs in accordance with SDCL 45-9-35.

Dated and signed this 28th day of September 2015.

A handwritten signature in black ink, appearing to read 'S. Pirner', with a horizontal line extending to the right.

Steven M. Pirner
Secretary
Department of Environment and Natural Resources