

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 CLARKSON RANCH FIELD DESCRIBED AS THE S/2 OF SECTION 13 AND ALL OF SECTION 24, TOWNSHIP 22 NORTH, RANGE 4 EAST, HARDING COUNTY, SOUTH DAKOTA, AND TO AUTHORIZE THE RECOVERY OF RISK COMPENSATION IN ADDITION TO THE PRO RATA SHARE OF REASONABLE, ACTUAL COSTS FROM THE INTEREST OF ANY LESSEE OR UNLEASED MINERAL OWNER WHO ELECTS NOT TO PARTICIPATE IN THE RISK AND COST OF DRILLING AND COMPLETING A WELL ON SAID SPACING UNIT; AND FOR OTHER RELIEF AS THE BOARD DEEMS APPROPRIATE.

OIL AND GAS
CASE NO. 10-2014

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 September 8, 2014. 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 the S/2 of Section 13 and all of Section 24, Township 22 North, Range 4 East, Harding County, South Dakota.

Pursuant to Order No. 6-2014, these lands constitute a spacing unit for the South Clarkson Ranch 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.

The American State Bank & Trust as trustee for the Verna Hotger Trust (the "Trust") owns a .5% working interest under oil and gas leases covering Section 24, and as such owns .333333% of the working interest in the Spacing Unit. By letter mailed certified mail on June 26, 2014, and received by the Trust on June 30, 2014, Luff notified the Trust of its intent to drill the Clarkson Ranch N-13H well (the "Well") on the Spacing Unit and requested the Trust sign an Authority for Expenditure ("AFE") and agree to pay its share of the costs of drilling the Well. Alternatively, Luff offered to pay \$250 per net mineral acre for an assignment of the Trust's interest in the proposed target interval for the Well. Luff requested the Trust to either return the signed AFE or the letter agreement for the sale of the Trust's interest within 30 days and further advised the Trust that if it did not lease or agree to sell its interest in the Well, Luff intended to request the Board to provide risk compensation pursuant to ARSD 74:12:10 and the Trust could object to risk compensation by responding in opposition. The Trustee responded by email and elected not to participate in the risk and cost of drilling the well.

Luff's invitation to participate or sell its interest constituted a good faith attempt to have the Trust participate in the risk and cost of drilling and operating the Well.

IT IS THEREFORE ORDERED

A. All interests in a spacing unit for the Clarkson Ranch Field described as the S/2 of Section 13 and all of Section 24, Township 22 North, Range 4 East, Black Hills Meridian, Harding County, South Dakota, including the interests of the Trust, are pooled for purposes of the drilling and operation of, and production from, the Well drilled in accordance with Order No. 6-2014. Luff is hereby designated the operator and is authorized to drill, equip, and operate the Well on the Spacing Unit. 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 a well drilled thereon.

B. 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 the Trust, may recover from the Trust'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 Trust. In accordance with ARSD 74:12:10:02, 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 the Trust, may also recover from the Trust'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 200% of the share of the reasonable actual

costs of drilling, reworking, side-tracking, 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 the Trust.

C. 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 27th day of October 2014.

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