

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

<p>IN THE MATTER OF THE PETITION OF CONTINENTAL RESOURCES, INC., OKLAHOMA CITY, OKLAHOMA, FOR AN ORDER POOLING ALL INTERESTS IN A SPACING UNIT FOR THE BUFFALO FIELD DESCRIBED AS THE N/2 OF SECTION 12, TOWNSHIP 21 NORTH, RANGE 3 EAST, BUFFALO FIELD, 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.</p>	<p style="text-align:center">OIL AND GAS CASE NO. 14-2012</p> <p style="text-align:center">ORDER</p>
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SECRETARY'S ORDER UNDER SDCL 45-9-74

A Petition of Continental Resources, Inc. ("Continental"), in the captioned matter, was submitted to the South Dakota Board of Minerals and Environment ("Board") on September 20, 2012. An Amended Petition was submitted on September 28, 2012. The Board prepared and published a Notice of Opportunity for Hearing. In addition, Continental gave proper and timely notice of the opportunity for hearing to those persons and entities who own interests in the mineral estate within the Spacing Unit and whose interests are not already voluntarily pooled. The department received no petitions to intervene.

Therefore, pursuant to SDCL Chapter 45-9, ARSD Chapters 74:09:01 and 74:12:10, and based upon Continental's application and supporting documents, the Secretary makes and enters the following Order:

Continental is the owner of an interest in the oil and gas leasehold estate underlying all or portions of the N/2 of Section 12, Township 21 North, Range 3 East, BHM, Harding County, South Dakota. Continental also operates Lennerville 44-12H located in the S/2 of Section 12.

Continental has petitioned for an order pooling all interests in a Spacing Unit for the Buffalo Field described as the N/2 of Section 12, Township 21 North, Range 3 East, BHM, Harding County, South Dakota (the "Spacing Unit"), and authorizing the recovery of risk compensation in addition to the pro rata share of reasonable actual costs from the interests 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.

The Buffalo Field was established by the Board in Oil and Gas Order No. 2. In Order No. 8-2001, the Board established 640-acre spacing. In Order No. 10-2012, the Secretary amended Order No. 8-2001 to establish a 320-acre Spacing Unit on the N/2 of Section 12, Township 21 North, Range 3 East, Buffalo Field, Harding County, South Dakota, and authorized the drilling of a horizontal well in the Spacing Unit.

There are separately owned tracts and/or separately owned interests within tracts within the Spacing Unit. There is no voluntary pooling agreement covering all the interests within the Spacing Unit. Specifically, H. Huffman & Company and Paul E. Burton each owns an undivided eighty-eight hundredth of one percent (0.88%) of the estimated gross working mineral interest underlying the 320-acre Spacing Unit, which interests are unleased. All other mineral interests within the Spacing Unit are leased and subject to pooling clauses, which authorize their interests

to be pooled by virtue of a declaration of pooling filed in accordance with the terms of the leases. All other lessees within the Spacing Unit have agreed to participate in the drilling and completion of a well or have leased their interest to Continental.

Continental's application also requests that, in the event any mineral interest owner does not elect to participate in the risk and cost of the drilling and operation of a well on the location, it be allowed to recover from the share of production attributable to any such owner, that owner's pro rata share of the reasonable, actual costs of drilling, completing, equipping and operating a well on the Spacing Unit, plus, pursuant to ARSD 74:12:10, a risk compensation equal to (1) two hundred percent 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 in the case of lessees under an oil and gas lease; or (2) one hundred percent of such costs in the event of an unleased mineral owner.

The documents submitted with the application show that, by letters dated October 4, 2012, Continental offered each lessee and mineral interest owner, namely, (1) Zenergy Onshore Properties, LLC; (2) Tecton Energy, LLC; (3) Cimarex Energy Company; (4) H. Huffman & Company; (5) Paul E. Burton; and (6) Inland Oil and Gas Corporation, with a working interest in the unit area, to participate in the proposed operations of the Lennerville 41-12H. Each was advised that Continental would be filing a forced pooling application for this section. All lessees and mineral interest owners elected to participate in the proposed operations of Lennerville 41-12H, except H. Huffman & Company ("Huffman") and Paul E. Burton ("Burton"), who elected not to participate; and Cimarex Energy Company ("Cimarex"), who elected to lease to Continental (Oil and Gas Lease dated October 18, 2012).

Pursuant to SDCL Sections 45-9-31 and 45-9-74, and after notice of opportunity for

hearing as required by statutes, the Secretary may enter an order pooling all interests in a Spacing Unit for the development and operation thereof, and for the sharing of production therefrom. The Secretary has jurisdiction pursuant to SDCL Sections 45-9-33, 45-9-74 and ARSD Chapter 74:12:10 to include provisions whereby an owner who does not elect to participate in the risk and cost of drilling and operating a well may elect to participate in the drilling and operation of the well on a limited or carried basis, and has the jurisdiction to authorize the recovery of risk compensation from the interest of a lessee or unleased mineral owner who does not elect to participate in the drilling and operation of a well.

Providing that each tract in the Spacing Unit will be allocated a proportionate share of production from the well proposed to be drilled on the Spacing Unit equal to the number of acres contained in each such tract divided by the total number of acres in the Spacing Unit will ensure that each owner will have an opportunity to recover or receive, without unnecessary expense, a just and reasonable share of the production from the Spacing Unit.

ARSD 74:12:10:01 provides that risk compensation may be recovered from an owner who elects not to participate in the risk and cost of drilling and operating a well. ARSD 74:12:10:03 provides that, if the nonparticipating owner's interest in the Spacing Unit is not subject to a lease or other contract for development, the risk compensation is one hundred percent of the nonparticipating owner's share of the reasonable actual costs of drilling, reworking, side-tracking, deepening, plugging, testing, completion and recompleting the well and costs of newly acquired equipment in the well including the wellhead connection, and may be recovered only out of production from the pooled Spacing Unit, exclusive of a one-eighth royalty, as provided for in SDCL 45-9-35. ARSD 74:12:10:02 provides that, with respect to an interest derived from a lease or other contract for development, risk compensation is two

hundred percent of the same costs.

Huffman and Burton elected to not participate in the risk and cost of drilling the well and recovering the risk compensation set forth above from their unleased mineral interests is just and reasonable.

IT IS THEREFORE ORDERED

A. The Petition of Continental is granted and approved as set forth below.

B. All interests in a Spacing Unit for the Buffalo Field described as the N/2 of Section 12, Township 21 North, Range 3 East, BHM, Harding County, South Dakota, including the interests of Huffman and Burton, are pooled for purposes of drilling and operation of, and production from, the well drilled in accordance with Order No. 10-2012. Continental is hereby designated the operator and is authorized to drill and operate the well on the Spacing Unit.

C. All expenses incurred in drilling, equipping and operating said well on the Spacing Unit, and all production from such well, shall be allocated to the various tracts within the Spacing Unit on the basis of the ratio of the number of acres contained in each separately owned tract to the number of acres in the Spacing Unit.

D. Operations incident to the drilling of said well on any portion of the Spacing Unit shall be deemed for all purposes the conduct of such operation 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.

E. Continental, on behalf of other working interest owners within the Spacing Unit

who do share in the risk and cost of drilling and completing the well, may recover from Huffman's and Burton's respective share of production from the Spacing Unit, exclusive of a one-eighth royalty, their proportionate share of the reasonable actual costs of drilling, reworking, side-tracking, deepening, plugging back, testing, completing and recompleting the well and the costs of equipping and operating the well until the market value of Huffman's and Burton's respective shares of production, exclusive of the one-eighth royalty, equals the sums payable by or charged to the respective interests of Huffman and Burton.

F. Continental, on behalf of other working interest owners within the Spacing Unit who do share in the risk and cost of drilling and completing the well, may recover from Huffman's and Burton's respective shares of production from the Spacing Unit, exclusive of a one-eighth royalty, risk compensation equal to an additional one hundred percent 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. Such risk compensation may be recovered only out of the production from the Spacing Unit, exclusive of a one-eighth royalty.

G. No interest shall be charged on Huffman's and Burton's proportionate share of actual costs and no interest shall be charged on any risk compensation amounts. If the well is completed as a producing well, Continental will provide semiannual payout statements directly to Huffman and Burton.

H. In the event of a dispute as to the costs of drilling, equipping, or operating the well, the South Dakota Board of Minerals and Environment shall determine the costs in accordance with SDCL 45-9-35.

I. All portions of previous orders of the Board, if any, which are not specifically amended by this Order, remain in full force and effect until further order of the Board or Secretary.

Dated and signed this 16th day of January 2013.

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