

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

IN THE MATTER OF THE APPLICATION OF ZENERGY OPERATING COMPANY, LLC FOR AN ORDER OF THE BOARD AMENDING BOARD ORDER NOS. 6-83, 13-97, 15-07, AND 24-07 SO AS TO AMEND THE FIELD RULES FOR THE BORDER FIELD AND ESTABLISH THE FOLLOWING 1280-ACRE SPACING UNITS: SECTIONS 5 AND 8, AND SECTIONS 6 AND 7, TOWNSHIP 22 NORTH, RANGE 3 EAST, AND THE FOLLOWING 1700-ACRE SPACING UNITS: SECTIONS 19, 30 AND 31, AND SECTIONS 20, 29 AND 32, TOWNSHIP 23 NORTH, RANGE 3 EAST, BORDER FIELD, HARDING COUNTY, SOUTH DAKOTA, ALLOW THE DRILLING OF ONE HORIZONTAL WELL TO THE RED RIVER "B" POOL ON EACH SPACING UNIT NOT LESS THAN 500 FEET TO THE SPACING UNIT BOUNDARY, AND FOR OTHER RELIEF AS THE BOARD DEEMS APPROPRIATE.

OIL AND GAS
CASE NO. 51-2013

ORDER

SECRETARY'S ORDER UNDER SDCL 45-9-74

A Petition and Application of Zenergy Operating Company, LLC ("ZOC") to amend Order Nos. 6-83, 13-97, 15-07, and 24-07 so as to amend the field rules for the Border Field, as captioned above, was submitted to the South Dakota Board of Minerals and Environment ("Board") on November 11, 2013. The Board prepared and published a Notice of Opportunity for Hearing. No petition requesting a hearing was received. Therefore, pursuant to South Dakota Codified Laws 45-9-74 and based upon ZOC's application and supporting documents, the Secretary makes and enters the following Order:

ZOC is the owner of an interest in the oil and gas leasehold estate in portions of the following described lands, Harding County, South Dakota:

Township 22 North, Range 3 East

Section 5: All
Section 6: All
Section 7: All
Section 8: All

Township 23 North, Range 3 East

Section 19: All
Section 20: All
Section 29: All
Section 30: All
Section 31: All
Section 32: All

(the "Subject Lands")

By Board Order Nos. 15-07 and 24-07, the Border Field is comprised of the following described lands, Harding County, South Dakota:

Township 22 North, Range 2 East

Section 1: All
Section 2: All
Section 11: All
Section 12: All

Township 22 North, Range 3 East

Section 5: All
Section 6: All
Section 7: All
Section 8: All

Township 23 North, Range 2 East

Section 21: All
Section 22: All
Section 23: All
Section 24: All
Section 25: All
Section 26: All
Section 27: All
Section 35: All
Section 36: All

Township 23 North, Range 3 East

Section 30: All

Section 31: All

Section 32: All

The E/2 of Section 5 and the E/2 of Section 8, Township 22 North, Range 3 East, were established as 320-acre spacing units in the Table Mountain Field established under Board Order Nos. 6-83 and 13-97.

Sections 5 and 6, and Sections 7 and 8, Township 22 North, Range 3 East, and Sections 31 and 32, Township 23 North, Range 3 East, were established as 1280-acre spacing units in the Borderline Field under Board Order No. 15-07.

Section 30, Township 23 North, Range 3 East, is currently spaced as part of a 1280-acre spacing unit comprised of Section 25, Township 23 North, Range 2 East, and Section 30, Township 23 North, Range 3 East, in the Borderline Field pursuant to Board Order No. 15-07.

The name of the Borderline Field was changed to Border Field under Board Order No. 24-07.

Sections 19, 20 and 29, Township 23 North, Range 3 East, are currently not located in a field.

The White MDU 1 well, located in the SE/4NW/4 of Section 7, Township 22 North, Range 3 East, was plugged and abandoned; the Gas Development 1 Government Lelivelt well, located in the SW/4SE/4 of Section 7, Township 22 North, Range 3 East, was plugged and abandoned; the Consolidated Oil 8-22-3-2 Federal well, located in the NW/4NE/4 of Section 8, Township 22 North, Range 3 East, was plugged and abandoned; and the Helmerich and Payne 1-31 Federal well, located in the NE/4NE/4 of Section 31, Township 23 North, Range 3 East, was plugged and abandoned.

It is the opinion of ZOC that use of the horizontal drilling technique is reasonably necessary to have a certain amount of flexibility with respect to well locations that the current orders and rules

of the Board fail to provide, and that use of the horizontal drilling technique to test and further develop the "B" zone of the Red River Formation will increase the ultimate recovery of the reservoir in a manner which will prevent waste, protect correlative rights and prevent the drilling of unnecessary wells.

ZOC requested an order of the Board amending Board Order Nos. 6-83, 13-97, 15-07, and 24-07 to amend the field rules for the Border Field and establish the following 1280-acre spacing units: Sections 5 and 8, and Sections 6 and 7, Township 22 North, Range 3 East, and the following 1700-acre spacing units: Sections 19, 30 and 31, and Sections 20, 29 and 32, Township 23 North, Range 3 East, Border Field, Harding County, South Dakota, to allow the drilling of one horizontal well to the Red River "B" Pool on each spacing unit not less than 500 feet to the spacing unit boundary, and for other relief as the Board deems appropriate.

IT IS THEREFORE ORDERED

A. That Board Order Nos. 6-83, 13-97, 15-07, and 24-07, and any other field orders or spacing rules are hereby amended; that Sections 5 and 8, and Sections 6 and 7, Township 22 North, Range 3 East, be established as 1280-acre spacing units; and that Sections 19, 30 and 31, and Sections 20, 29 and 32, Township 23 North, Range 3 East, be established as 1700-acre spacing units, Border Field, Harding County, South Dakota, and allow the drilling of one horizontal well to the Red River "B" Pool on each spacing unit not less than 500 feet to the spacing unit boundary;

B. That the boundaries of the Border Field be expanded to encompass Sections 19, 20 and 29, Township 23 North, Range 3 East;

C. That the department is authorized to issue drilling permits for the horizontal wells requested upon receipt of appropriate applications as provided by the rules and regulations of the

Board; and

D. That 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 21st day of January 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