

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 ANY APPLICABLE ORDERS FOR THE BORDER FIELD TO POOL ALL INTERESTS IN A 1280-ACRE SPACING UNIT DESCRIBED AS ALL OF SECTIONS 5 AND 8, TOWNSHIP 22 NORTH, RANGE 3 EAST, HARDING COUNTY, SOUTH DAKOTA; AND FOR OTHER RELIEF AS THE BOARD DEEMS APPROPRIATE.

OIL AND GAS
CASE NO. 54-2013

ORDER

SECRETARY'S ORDER UNDER SDCL 45-9-74

A Petition and Application of Zenergy Operating Company, LLC ("ZOC") to pool all interests in a 1280-acre spacing unit comprised of the above-referenced lands 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 (SDCL) 45-9-74 and 45-9-30 through 36, 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 Sections 5 and 8, Township 22 North, Range 3 East, Harding County, South Dakota ("the Subject Lands"). Order No. 51-13 established the Subject Lands as a 1280-acre spacing unit in the Border Field, and authorized the issuance of a permit for the drilling of a horizontal well within the spacing unit.

There are both separately owned tracts and separately owned interests in the spacing unit comprised of the Subject Lands. Voluntary pooling of the Subject Lands has not been

accomplished.

Under the current case, ZOC has requested that the Board pool all interests in the aforementioned spacing unit, and that the Board authorize ZOC to drill, equip and operate the Lyle Federal 5B-6H horizontal well within said spacing unit.

In ZOC's opinion, pooling the Subject Lands will increase the ultimate recovery of the pool, prevent waste, prevent the drilling of unnecessary wells and protect correlative rights.

IT IS THEREFORE ORDERED

A. Pooling of all interests in the 1280-acre spacing unit comprised of Sections 5 and 8, Township 22 North, Range 3 East, Harding County, South Dakota, is hereby granted for the Border Field. ZOC is hereby authorized to drill, equip and operate the Lyle Federal 5B-6H well.

B. All expenses incurred in drilling, equipping and operating the Lyle Federal 5B-6H 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 of the number of acres contained in each separately owned tract to the number of acres in the spacing unit.

C. Operations incident to the drilling of a 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.

D. Any owner of mineral interests in the spacing unit may elect to participate in the risk and cost of the drilling and operation of the Lyle Federal 5B-6H well at any time prior to completion of the well upon the basis of full participation or upon terms and conditions mutually agreeable to ZOC and the mineral interest owner.

E. Owners of mineral interests in the spacing unit who participate in the costs of drilling, equipping, and operating the Lyle Federal 5B-6H well or continue to pay future operating costs for the Lyle Federal 5B-6H well for the benefit of nonparticipating owners of mineral interests in the spacing unit are entitled to the share of production from the spacing unit accruing to the interest of the nonparticipating owners, exclusive of a royalty not to exceed one-eighth of the production, until the market value of the nonparticipating owners' share of the production exclusive of the royalty, equals the sums payable by or charged to the interest of the nonparticipating owners.

F. Nothing contained herein shall prohibit ZOC, its successors and assigns, from making further application to the Board for a risk penalty to be imposed against any nonparticipating owners as provided for by SDCL Ch. 45-9 and the Administrative Rules of South Dakota 74:12:10.

G. 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.

H. 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. M. Pirner', with a horizontal line extending to the right.

Steven M. Pirner
Secretary
Department of Environment and Natural Resources