

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

<p>IN THE MATTER OF THE PETITION OF LUFF EXPLORATION COMPANY, DENVER, CO, FOR AN ORDER AUTHORIZING THE RECOVERY OF RISK COMPENSATION IN ADDITION TO THE PRO RATA SHARE OF REASONABLE, ACTUAL COSTS FROM THE INTERESTS OF CERTAIN UNLEASED MINERAL OWNERS WHO ELECTED NOT TO PARTICIPATE IN THE RISK AND COST OF DRILLING AND COMPLETING THE MCKITRICK I-28H WELL ON A SPACING UNIT DESCRIBED AS THE SW/4 OF SECTION 27, THE SE/4 OF SECTION 28, THE E/2 OF SECTION 33, AND THE W/2 OF SECTION 34, ALL IN TOWNSHIP 23 NORTH, RANGE 4 EAST, HARDING COUNTY, APPROXIMATELY 22 MILES NORTH-NORTHWEST OF BUFFALO, SOUTH DAKOTA; AND FOR OTHER RELIEF AS THE BOARD DEEMS APPROPRIATE</p>	<p style="text-align:center">OIL AND GAS CASE NO. 66-2013</p> <p style="text-align:center">ORDER</p>
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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 December 23, 2013. 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 and SDCL 45-9-30 through 45-9-36, 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 SW/4 of Section 27, the SE/4 of Section 28, the E/2 of Section 33 and the W/2 of Section 34, Township 23 North, Range 4 East, Harding County, South Dakota.

Pursuant to Order No.7-12, these lands constitute a spacing unit for the South Medicine Pole Hills Field (the “Spacing Unit”) and all interests in the Spacing Unit were pooled by Order No. 12-12

In Order No. 12-12, the Board authorized recovery of risk compensation from the interests of a number of unleased mineral owners and one lessee who had elected not to participate in the risk and cost of drilling the McKitrick 1-28H well (the “Well”) on the Spacing Unit, but provided that Luff was not entitled to recover risk compensation from certain unleased owners, or potential owners, because at that time Luff had not provided the notice required by Administrative Rules of South Dakota (ARSD) 74:12:10:01 to certain owners.

On October 18, 2012, Luff sent invitations to lease or participate in the risk and cost of drilling the Well to the following individuals (the “Potential Owners”):

Samantha L. Dennis

Sara E. Rafac

Marc A. Rafac

Christine R. Rafac

Stephen A. Rafac, III

Todd M. Rafac

Luff identified each of the Potential Owners as a potential heir of Patrick Donahue, who owned a 25 percent interest in the SW/4 of Section 27, Township 23 North, Range 4 East. The invitation requested they sign an oil and gas lease or alternatively participate in the risk and cost of drilling the Well by signing an authorization for expenditure. The invitation also advised the Potential Owners that if they did not agree to lease or participate, Luff intended to request the Board to provide for the recovery of risk compensation and advised the Potential Owners they could respond in opposition to the request. The terms offered to the Potential Owners were the

same that were offered to other owners in the Spacing Unit and found by the Board to constitute a good faith attempt to lease or have owners participate in the risk and cost of drilling.

The invitations sent by Luff complied with the requirements of ARSD 74:12:10:01. As a result, Luff is entitled to the risk compensation authorized by ARSD 74:12:10:03.

IT IS THEREFORE ORDERED

A. Luff, on behalf of other working interest owners within the Spacing Unit who shared in the risk and cost of drilling and completing the Well may recover from the Potential Owners' respective share of production from the Spacing Unit, exclusive of a one-eighth royalty, their proportionate share of the reasonable actual costs of drilling, equipping and operating the Well until the market value of those shares of production, exclusive of the one-eighth royalty, equals the sums charged to the respective interests of the Potential Heirs.

B. Luff, on behalf of other working interest owners within the Spacing Unit who shared in the risk and cost of drilling and completing the Well, may also recover from the Potential Heirs' respective shares of production from the Spacing Unit, exclusive of a one-eighth royalty, risk compensation equal to an additional 100 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. Said risk compensation may be recovered only out of production from the Spacing Unit, exclusive of a one-eighth royalty.

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 24th day of February 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