

STATE OF SOUTH DAKOTA

DEPARTMENT OF ENVIRONMENTAL AND NATURAL RESOURCES

BOARD OF MINERALS AND ENVIRONMENT

CASE NO. 1-2012

IN THE MATTER OF THE APPLICATION OF CONTINENTAL RESOURCES, INC. FOR AN ORDER OF THE BOARD AMENDING BOARD ORDER NOS. 1-83 AND 5-97 PROVIDING FOR UNIT OPERATIONS OF THE SOUTH BUFFALO RED RIVER UNIT AND BOARD ORDER NOS. 3-87 AND 4-97 PROVIDING FOR UNIT OPERATIONS OF THE WEST BUFFALO RED RIVER UNIT AND ANY OTHER ORDERS APPLICABLE TO THE SBRRU AND THE WBRRU SO AS TO AUTHORIZE THE DRILLING OF A HORIZONTAL WELL TO BE LOCATED ACROSS UNIT BOUNDARIES IN SECTIONS 32 AND 31, TOWNSHIP 21 NORTH, RANGE 4 EAST, HARDING COUNTY, SOUTH DAKOTA; AUTHORIZING THE COMMINGLING OF PRODUCTION IN THE WELLBORE; AND SUCH FURTHER AND ADDITIONAL RELIEF AS THE BOARD DEEMS APPROPRIATE.

**FINDINGS OF FACT, CONCLUSIONS
OF LAW AND ORDER**

A hearing was held before the South Dakota Board of Minerals and Environment ("Board") on March 15, 2012, in Pierre, South Dakota, on the application of Continental Resources, Inc. ("Continental") herein. A quorum of the Board was present at the hearing.

Based upon Continental's application and the testimony, evidence and arguments presented at the hearing, the Board makes and enters the following:

FINDINGS OF FACTS

1. The Department of Environment and Natural Resources (the "Department") caused proper notice of the time, date and location of the hearing to be timely published pursuant to SDCL 45-9-58.

2. Continental gave proper and timely notice of the time, date and location of the hearing to all persons whose property interests may be affected by the hearing by mailing copies of its petition and the Department's notice of public hearing by certified mail, return receipt requested, to such persons. There were no objections to Continental's application.

3. Continental requests an order of the Board amending Board Order No. 1-83 and 5-97 providing for unit operations of the South Buffalo Red River Unit ("SBRRU") and Board Order No. 3-87 and 4-97 providing for unit operations of the West Buffalo Red River Unit ("WBRRU") and any other orders applicable to the SBRRU and the WBRRU so as to authorize the drilling of a horizontal well to be located across unit boundaries in Sections 32 and 31, Township 21 North, Range 4 East, Harding County, South Dakota; authorizing the commingling of production in the wellbore; and such further and additional relief as the Board deems appropriate.

4. Continental is the current unit operator of the SBRRU, Harding County, South Dakota.

5. The SBRRU was established by virtue of Board Order 1-83 dated March 17, 1983.

6. The unit area of the SBRRU includes the following described lands:

Township 20 North, Range 4 East

Section 1: All
Section 2: All
Section 3: All
Section 4: All
Section 5: All
Section 8: All
Section 9: All
Section 10: All
Section 11: All
Section 12: All
Section 13: All
Section 14: All
Section 15: All
Section 16: All
Section 17: All
Section 20: All
Section 21: All
Section 22: All
Section 23: All
Section 24: All

Township 21 North, Range 4 East

Section 23: S½
Section 25: W½
Section 26: All
Section 27: All
Section 28: All
Section 29: All
Section 30: All
Section 32: All
Section 33: All
Section 34: All
Section 35: All
Section 36: All

Township 20 North, Range 5 East

Section 6: W½
Section 7: W½
Section 18: W½

7. By virtue of Board Order No. 1-83, spacing for the SBRRU area has been established at two wells per 160 acres with wells to be located not less than 660 feet from the exterior boundary of the SBRRU area nor closer than 1000 feet to a well drilling to or capable of producing from the Buffalo Field, Red River Pool. Spacing for SBRRU was amended by Board Order No. 5-97 so as to authorize the drilling of horizontal wells in the unitized formation to be located anywhere within the boundaries of the SBRRU not less than 660 feet from the exterior boundary of the SBRRU.

8. Continental is the current unit operator of the WBRRU, Harding County, South Dakota.

9. The WBRRU was established by virtue of Board Order 3-87, dated June 16, 1987.

10. The unit area of the WBRRU includes the following described lands:

Township 21 North, Range 3 East

Section 23: All
Section 24: W½
Section 25: All
Section 26: E½
Section 35: E½
Section 36: All

Township 20 North, Range 3 East

Section 1: NE¼

Township 21 North, Range 4 East

Section 31: All

Township 20 North, Range 4 East

Section 6: All
Section 7: W½

11. By virtue of Board Order No. 3-87, spacing for the WBRRU area has been established at two wells per 160 acres with wells to be located not less than 660 feet from the exterior boundary of the WBRRU area nor closer than 1000 feet to a well drilling to or capable of producing from the Buffalo Field, Red River Pool. Spacing for WBRRU was amended by Board Order No. 4-97 so as to authorize the drilling of horizontal wells in the unitized formation to be located anywhere within the boundaries of the WBRRU not less than 660 feet from the exterior boundary of the WBRRU.

12. Continental desires to utilize the horizontal drilling technique to test and further develop the unitized formations within both the SBRRU and WBRRU areas generally and specifically within Sections 32 and 31, Township 21 North, Range 4 East, Harding County, South Dakota.

13. That in utilizing the horizontal drilling technique as set forth above, it is reasonably necessary to have a certain amount of flexibility with respect to well locations that the Board's current orders fail to provide.

14. It is the opinion of Continental that use of the horizontal drilling technique to test and

develop the unitized formations in and under the SBRRU and WBRRU areas in Sections 32 and 31 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.

15. Continental requests an order of the Board amending Board Order Nos. 1-83 and 5-97, and Board Order Nos. 3-87 and 4-97, and all other orders of the Board applicable to the SBRRU and WBRRU so as to authorize the drilling of a horizontal well to be located across unit boundaries within Sections 32 and 31, Township 21 North, Range 4 East, Harding County, South Dakota, and authorizing the commingling of production in the wellbore.

16. Continental presented evidence indicating that its proposal to commingle production in the well bore of its proposed well will result in cost savings and less surface disturbance in that only one well instead of two wells will need to be drilled.

17. Continental presented evidence that the commingling of production in the well bore and then allocating that production based upon lateral length of the well bore in the SBRRU and the WBRRU provides a reasonably accurate method of allocating production.

18. Continental presented evidence that it was reasonable to allocate the costs and expenses for the horizontal well on the basis of lateral length of the horizontal well in the same manner as allocation of proceeds of production.

Based on the foregoing Findings of Fact, the Board hereby makes and enters the following:

CONCLUSIONS OF LAW

I.

The Board has jurisdiction over subject matter hereof and parties hereto.

II.

All notices of Continental's application and the hearing thereon, and all other notices required by law, were properly and timely given.

III.

Continental's application is complete in all respects and contains all required and requested information.

IV.

Authorizing Continental to utilize the horizontal drilling technique to test and further develop the unitized formations in and under the SBRRU and WBRRU areas in Sections 32 and 31 by drilling a horizontal well therein and allocating proceeds of production and expenses on the basis of lateral length of the horizontal well 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.

V.

Granting the relief requested in Continental's application will better protect correlative rights, prevent waste, avoid the drilling of unnecessary wells and contribute to a greater ultimate recovery of oil and gas.

Based on the foregoing Findings of Fact and Conclusions of Law, and good cause appearing therefore,

IT IS THEREFORE ORDERED

A. That the provisions set forth herein are for the exclusive purpose of drilling one horizontal well into the unitized formations of the SBRRU and the WBRRU in Sections 32 and 31, Township 21 North, Range 4 East, Harding County, South Dakota.

B. That Board Order Nos. 1-83 and 5-97 and Board Order Nos. 3-87 and 4-97 are amended so as to authorize the drilling of a horizontal well across unit boundaries within Sections 32 and 31, Township 21 North, Range 4 East, SBRRU and WBRRU, Harding County, South Dakota.

C. That Continental is authorized to commingle production in the wellbore of its proposed well and allocate production, based upon lateral length located in each unit.

D. That all costs and expenses for the horizontal well requested herein shall be allocated to the SBRRU and the WBRRU on the basis of lateral length of the horizontal well on the same basis as allocation of proceeds of production.

E. That upon filing all required further information and forms, the Department is authorized to issue Continental a drilling permit for the proposed horizontal oil and gas well.

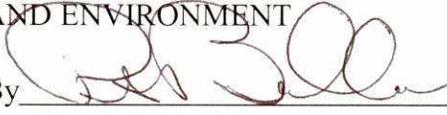
F. That Board Order Nos. 1-83 and 5-97, and Board Order Nos. 3-87 and 4-97, and all other orders of the Board applicable to the SBRRU and WBRRU, are hereby amended to authorize the drilling of a horizontal well to be located across unit boundaries within Sections 32 and 31, Township 21 North, Range 4 East, Harding County, South Dakota, and authorizing the commingling of production in the wellbore.

G. That all portions of the previous orders of the Board, if any, which are not amended by this order shall remain in full force and effect until further order of the board.

DATED and signed this 15th day of March, 2012.

SOUTH DAKOTA BOARD OF MINERALS
AND ENVIRONMENT

By



PETE BULLENE

Hearing Chair

Board of Minerals and Environment

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