ORDER / CASE NO: ORDER NO. 12-2014

ORDER / NOTICE OF RECOMMENDATION TYPE: SPACING

COUNTY: HARDING

LOCATION(S): T. 22N., R. 4E.,
E/2 SEC. 10, W/2 SEC. 11,
NW/4 SEC. 14 AND NE/4 SEC. 15

OPERATOR: LUFF EXPLORATION COMPANY

DATE ORDER ISSUED: 12/19/2014

DATE ORDER CLOSED:

AMENDS: ORDER NOS. 2-78, 20-97, 2-10,
6-13 AND 4-14

AMENDED BY:

APPROVAL STATUS: APPROVED

FIELD NAME: BUFFALO FIELD

UNIT NAME:
December 19, 2014

John Morrison  
Crowley Fleck PLLP  
100 West Broadway, Suite 250  
P. O. Box 2798  
Bismarck, ND 58502-2798

Dear Mr. Morrison:

The Department of Environment and Natural Resources received an application from Brett Koenecke’s office, filed on behalf of Luff Exploration Company, Denver, CO – Oil and Gas Case No. 12-2014. This case was approved administratively by the Secretary of the Department of Environment and Natural Resources in accordance with South Dakota Codified Laws 45-9-74. The approved order is enclosed.

If you have any questions regarding the order, please feel free to contact me at 605.773.4201 or email at bob.townsend@state.sd.us. Thank you.

Sincerely,

Robert Townsend, Administrator  
Minerals and Mining Program

Enclosure

cy w/enc: Brett Koenecke, May, Adam, Gerdes & Thompson, P. O. Box 160, Pierre, SD  
Richard George, Manager of Engineering, Luff Exploration Company,  
1580 Lincoln Street, Suite 850, Denver, CO

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 October 8, 2014. 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 petitions to intervene were filed in accordance with the Notice. Therefore, pursuant to South Dakota Codified Laws (SDCL) 45-9-74, SDCL 45-9-20 through 29, and Administrative Rules of
South Dakota 74:12:02:06, and based upon Luff’s Petition and the supporting documents filed by Luff, the Secretary makes and enters the following order:

Luff represents owners of interests in the oil and gas leasehold estate in all or portions of the E/2 of Section 10, the W/2 of Section 11, the NW/4 of Section 14, and the NE/4 of Section 15, Township 22 North, Range 4 East, Harding County, South Dakota.

Pursuant to Order Nos. 2-78, 20-97, 2-10, 6-13 and 4-14, all of these lands other than the NW/4 of Section 14 and the NE/4 of Section 15 are included within the Buffalo Field. Pursuant to Order No. 4-14, the NE/4 of Section 10, together with the NW/4 of Section 11, the E/2 of Section 3 and the W/2 of Section 2 constitute a 960-acre spacing unit. The NW/4 of Section 14 and the NE/4 of Section 15 are not currently included in any field established by order of the Board, but are adjacent to the current outline of the Buffalo Field and evidence submitted by Luff indicates those lands are likely to be productive of hydrocarbons from the same Red River “B” pool currently included within the Buffalo Field.

Luff has drilled the Castle Rock D-11H well in a northwest/southeast orientation on the 960-acre spacing unit established by Order No. 4-14 and now desires to drill an additional horizontal well in the Red River “B” Formation that generally parallels the Castle Rock D-11H well. The proposed spacing unit accommodates the wellbore planned by Luff and is also consistent with other spacing orders entered by the Board in the area.

Such a spacing unit is not smaller than the maximum area that can be efficiently and economically drained by the proposed well and the size, shape and location of the spacing unit will result in the efficient and economic development of the pool as a whole.

IT IS THEREFORE ORDERED

A. The outline of the Buffalo Field is extended to include the NW/4 of Section 14
and the NE/4 of Section 15, Township 22 North, Range 4 East, Harding County, South Dakota. An overlapping spacing unit consisting of the E/2 of Section 10, the W/2 of Section 11, the NW/4 of Section 14 and the NE/4 of Section 15 is hereby established in the Buffalo Field.

B. A horizontal well with one or more laterals is allowed to be drilled on this spacing unit in the Red River “B” pool with any such laterals in the Red River “B” pool located not closer than 500 feet to the spacing unit boundary and not closer than 1,000 feet to that portion of the wellbore of the Castle Rock D-11H well that is in the Red River “B” zone.

C. That all portions of 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 or Secretary.

D. That upon filing all required further information and forms with the Department of Environment and Natural Resources, a drilling permit may be issued for the horizontal wells on the spacing units established above.

Dated and signed this 19th day of December 2014.

Steven M. Pirner
Secretary
Department of Environment and Natural Resources
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Requested spacing unit. This overlaps the existing spacing unit for the Castle Rock D-11H well. Portions of the requested spacing unit in Sections 14 and 15 will need to be brought into the Buffalo Field.

Exhibit 3
LUFF EXPLORATION COMPANY
960.00 ac. Spacing
E/2 Sec. 10, T22N-R4E
W/2 Sec. 11, T22N-R4E
NW/4 Sec. 14, T22N-R4E
NE/4 Sec. 15, T22N-R4E
Harding County, South Dakota

960 acre spacing

100% mineral and royalty interest - Todd Stearns and David Stearns
100% leasehold working interest - Kenneth D. Luff Trust, et al

Exhibit 4
The overlapping spacing unit allows for a horizontal well design along a structural "nose" that runs SE to NW.

No portion of the proposed new lateral (in the Red River B" reservoir) would be closer than 1,000 feet from any portion of the Castle Rock D-11H lateral (in the Red River B" reservoir).
Affidavit of Publication

STATE OF SOUTH DAKOTA:
COUNTY OF HARDING:

Letitia Lister of said County and State being first duly sworn, on her oath says: That the NATION’S CENTER NEWS is a legal newspaper of general circulation, printed and published in the City of Buffalo, in said County and State by Letitia Lister, and has been such a newspaper during the times hereinafter mentioned; and that said newspaper has a bonafide circulation of at least 200 copies weekly, and has been published within said County in the English language for at least one year prior to the first publication of the notice herein mentioned, and is printed in whole or in part in an office maintained at the place of publication; and that I, Letitia Lister, the undersigned, am the Publisher of said newspaper and have personal knowledge of all the facts stated in this affidavit; and that the advertisement headed:

[Signature]

Case No. 12-2014

a printed copy of which is hereto attached, was printed and published in said newspaper for successive and consecutive weeks, the first publication being made on the day of Oct. 2014, the last publication on the day of , that the amount of fees charged for publishing same, to-wit: The sum of $43.41, insures solely to the benefit of the publisher of the NATION’S CENTER NEWS, that no agreement or understanding for a division thereof has been made with any person and that no part thereof has been agreed to be paid to any other person whomsoever.

[Signature]

Subscribed and sworn to before me this day of Oct. 2014.

Notary Public, Lawrence County, South Dakota
My commission expires: 10-24-2016
The application and notice of hearing are also posted on the department's website at: http://denr.sd.gov/des/cg/pubhearing.aspx. Additional information about this application is available from Bob Townsend, Administrator, Minerals and Mining Program, Department of Environment and Natural Resources, 523 East Capitol Avenue, Pierre, SD 57501, telephone (605) 773-4201, email bob.townsend@state.sd.us.

Dated: October 17, 2014

- Steven M. Pirner
  Secretary

Published once at the total approximate cost of $43.41.
IN THE MATTER OF THE APPLICATION OF LUFF EXPLORATION COMPANY, DENVER, COLORADO, TO AMEND APPLICABLE ORDERS FOR THE BUFFALO FIELD TO INCLUDE THE NW/4 OF SECTION 14 AND THE NE/4 OF SECTION 15, TOWNSHIP 22 NORTH, RANGE 4 EAST, HARDING COUNTY, SOUTH DAKOTA, WITHIN THE FIELD AND ESTABLISH A 960-ACRE SPACING UNIT FOR THE FIELD CONSISTING OF THE E/2 OF SECTION 10, THE W/2 OF SECTION 11, AND THE NW/4 OF SECTION 14 AND THE NE/4 OF SECTION 15, TOWNSHIP 22 NORTH, RANGE 4 EAST, HARDING COUNTY, SOUTH DAKOTA, AND AUTHORIZE THE DRILLING OF A HORIZONTAL WELL WITH ONE OR MORE LATERALS IN THE RED RIVER "B" ZONE AT ANY LOCATION NOT CLOSER THAN 500 FEET TO THE BOUNDARY OF SAID SPACING UNIT; TO AUTHORIZE THE ISSUANCE OF A PERMIT FOR SUCH HORIZONTAL WELL; AND FOR OTHER RELIEF AS THE BOARD DEEMS APPROPRIATE.

RICHARD D. GEORGE, being duly sworn on oath, deposes and says that he is Manager of Engineering for Luff Exploration Company, the applicant in the above entitled matter, that on October 21, 2014, under his direction there were mailed, by certified mail-return receipt requested, true and correct copies of Luff's Petition and the Notice of Public Hearing in said matter to each of the persons/entities affected by the Petition. From review of the records of Luff Exploration Company, the persons/entities shown on the attached Exhibit "A" are those persons/entities affected by the petition. Copies of the "Certified Mail Receipts" are attached hereto as Exhibit "B". The Domestic Return Receipts (green cards) will be submitted prior to the hearing date.

\[Signature\]

Richard D. George

STATE OF COLORADO )
COUNTY OF DENVER )

Sworn and subscribed before me on the 22nd day of October, 2014

\[Stamp\]

Kristal Davila - Notary Public
My Commission Expires 06/24/2015
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**Sent To:**

1. POWDER MORNING, LLC
   - Address: 100 Fillmore Street, Suite 450
   - City, State: Denver, CO 80206

2. R&G RESOURCES, LLC
   - Address: 5288 W. Burgundy Place
   - City, State: Littleton, CO 80123

3. LEILA G. REISTER
   - Address: 4 Red Fox Lane
   - City, State: Littleton, CO 80127

4. RONALD L. SONJU
   - Address: 256 1225 Vienna Drive
   - City, State: Sunnyvale, CA 94089
IN THE MATTER OF THE APPLICATION OF
LUFF EXPLORATION COMPANY, DENVER,
COLORADO, TO AMEND APPLICABLE
ORDERS FOR THE BUFFALO FIELD TO
INCLUDE THE NW/4 OF SECTION 14 AND THE
NE/4 OF SECTION 15, TOWNSHIP 22 NORTH,
RANGE 4 EAST, HARDING COUNTY, SOUTH
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ESTABLISH A 960-ACRE SPACING UNIT FOR
THE FIELD CONSISTING OF THE E/2 OF
SECTION 10, THE W/2 OF SECTION 11, AND
THE NW/4 OF SECTION 14 AND THE NE/4 OF
SECTION 15, TOWNSHIP 22 NORTH, RANGE 4
EAST, HARDING COUNTY, SOUTH DAKOTA,
AND AUTHORIZE THE DRILLING OF A
HORIZONTAL WELL WITH ONE OR MORE
LATERALS IN THE RED RIVER “B” ZONE AT
ANY LOCATION NOT CLOSER THAN 500 FEET
TO THE BOUNDARY OF SAID SPACING UNIT;
TO AUTHORIZE THE ISSUANCE OF A PERMIT
FOR SUCH HORIZONTAL WELL; AND FOR
OTHER RELIEF AS THE BOARD DEEMS
APPROPRIATE.

RICHARD D. GEORGE, being duly sworn on oath, deposes and says that he is Manager of Engineering
for Luff Exploration Company, the applicant in the above entitled matter, that I personally hand delivered a
copy of Luff’s Petition and the Notice of Public Hearing in said matter to each of the persons/entities listed on
Exhibit “1”.

Richard D. George

STATE OF COLORADO
COUNTY OF DENVER

Sworn and subscribed before me on the 22nd day of October, 2014

Kristal Davila - Notary Public
My Commission Expires 06/24/2015
EXHIBIT "1"
CASE NO. 12-2014
SPACING: E/2 OF SECTION 10, W/2
SECTION 11, NE/4 OF SECTION 14 AND
NW/4 OF SECTION 15, T22N, R4E
HARDING COUNTY, SOUTH DAKOTA

CHESSMAN ENERGY, LLC.
33722 MEADOW MOUNTAIN RD.
EVERGREEN, CO 80439

CHESSMAN ENERGY, LLC.
33722 MEADOW MOUNTAIN RD.
EVERGREEN, CO 80439

GEORGE DANIEL ALMON
910 OLIVE STREET
DENVER, CO 80220

EDMONDS ENERGY CORP.
8027 WEST HARVARD DRIVE
LAKEWOOD, CO 80227

KENNETH D. LUFF, TRUSTEE OF THE
KENNETH D. LUFF TRUST
1580 LINCOLN STREET, SUITE 850
DENVER, CO 80203

SIPPEL FREEMAN LLC
975 FOREST STREET
DENVER, CO 80220

SHARON K. BERGET
2486 SOUTH LANSING WAY
AURORA, CO 80014

KATS RESOURCES LLC
2359 S. JUNIPER CIRCLE
LAKEWOOD, CO 80228
October 17, 2014

Brett Koenecke
May, Adam, Gerdes & Thompson LLP
503 South Pierre Street
P. O. Box 160
Pierre, SD 57501-0160

Dear Mr. Koenecke:

Enclosed is a copy of the Notice of Opportunity for Hearing for Luff Exploration Company's application, Oil and Gas Case No. 12-2014, in Harding County, SD. The notice of hearing has been sent to the Nation's Center News, Buffalo, SD, for publication on Thursday, October 23, 2014.

The purpose of this letter is to advise you that it is the applicant's responsibility to serve notice on those persons "....whose property may be affected...." as specified in South Dakota Codified Laws 45-9-58.

Please file with this office the following:

1. Affidavit of Notification
2. Certified mail return receipts
3. A list of persons notified

Thank you for your cooperation.

Sincerely,

Robert Townsend, Administrator
Minerals and Mining Program

Enclosure

cy w/enc: John Morrison, Crowley Fleck PLLP, P. O. Box 2798, Bismarck, ND 58502
Richard George, Manager of Engineering, Luff Exploration Company,
1580 Lincoln Street, Suite 850, Denver, CO 80203

Notice is hereby given to Luff Exploration Company, Denver, Colorado, and to all interested persons that the Board of Minerals and Environment, hereinafter "board," will hold a contested case hearing on the above described matter on Thursday, January 15, 2015, at 10:15 a.m. CST at the Matthew Environmental Education and Training Center, Joe Foss Building, 523 East Capitol Avenue, Pierre, SD 57501, for the purpose of hearing the above matter if any party intervenes and requests a hearing as provided by law.

The board has jurisdiction and legal authority to issue orders for the development of the oil and gas resources of the state pursuant to South Dakota Codified Laws (SDCL) Chapters 45-9 and 1-26 and to Administrative Rules of South Dakota (ARSD) 74:09 and 74:12. The hearing is an adversary proceeding and any party has the right to be represented by a lawyer. These and other due process rights will be forfeited if they are not exercised at the hearing. The board may approve, conditionally approve, or deny the application. The board's decision will be based upon the evidence received at the hearing. The board's decision may be appealed to the Circuit Court and the State Supreme Court as provided by law.

If the amount in controversy exceeds two thousand five hundred dollars or if a property right may be terminated, any party to the contested case may require the agency to use the Office of Hearing Examiners by giving notice of the request to the agency no later than ten days after service of a notice of hearing issued pursuant to SDCL Chapter 1-26-17.
Any person who wishes to intervene in this proceeding as a party must file a petition to intervene pursuant to ARSD 74:09:01:04 on or before November 12, 2014. The above described matter will only be heard before the board if a person intervenes in this proceeding. If no petition to intervene is filed, the Secretary of the Department of Environment and Natural Resources will approve or conditionally approve the application in accordance with SDCL 45-9-74.

Notice is further given to individuals with disabilities that this hearing is being held in a physically accessible place. Please notify the Department of Environment and Natural Resources at least 48 hours before the public hearing if you have a disability for which special arrangements must be made at the hearing. The telephone number for making special arrangements is (605) 773-4201.

The application and notice of hearing are also posted on the department’s website at: http://denr.sd.gov/dcs/og/pubhearing.aspx. Additional information about this application is available from Bob Townsend, Administrator, Minerals and Mining Program, Department of Environment and Natural Resources, 523 East Capitol Avenue, Pierre, SD 57501, telephone (605) 773-4201, email bob.townsend@state.sd.us.

Dated: October 17, 2014

Steven M. Pirner
Secretary

Published once at the total approximate cost of ________.
October 8, 2014

Department of Environment and Natural Resources
Minerals & Mining Program, - Oil and Gas Section
2050 West Main, Suite #1
Rapid City, SD 57702-2493

RE: Petition to Amend Orders for the Buffalo Field
Our file: 4385.55

Dear Sirs:

Enclosed please find the original Petition as referenced above. Please file the same. If you have any questions, please feel free to contact me. Thank you for your attention to this.

Very truly yours,

MAY, ADAM, GERDES & THOMPSON LLP

BRETT KOENECKE

BK/sjs

Enclosure

Cc/encl: John W. Morrison

COMES NOW the petitioner, Luff Exploration Company (“Luff”), and respectfully alleges as follows:

1. Luff represents the owners of interests in the oil and gas leasehold estate underlying all or portions of the E/2 of Section 10, the W/2 of Section 11, the NW/4 of Section 14 and the NE/4 of Section 15, Township 22 North, Range 4 East of the Black Hills Meridian, Harding County, South Dakota.

2. In Order No. 2, the Board established 160-acre spacing for the Buffalo Field. Numerous orders of the Board including Order Nos. 2-78, 20-97, 2-10, 6-13 and 4-14 have extended the boundaries of the field and amended the spacing units established for the field. As
a result of such orders, all of the captioned lands other than the NW/4 of Section 14 and the NE/4 of Section 15 are now included within the Buffalo Field. Pursuant to Order No. 4-14, the W/2 of Section 2, the E/2 of Section 3, the NE/4 of Section 10 and the NW/4 of Section 11 currently constitute a 960-acre spacing unit for the Buffalo Field with one horizontal well authorized to be drilled in the Red River “B” zone on such spacing unit.

3. The NW/4 of said Section 14 and the NE/4 of Section 15 are not included within any field established by order of the Board.

4. Luff has recently drilled the Castle Rock D-11H well on the 960-acre spacing unit consisting of the W/2 of Section 2, the E/2 of Section 3, the NE/4 of Section 10 and the NW/4 of Section 11. To adequately and efficiently drain the reservoir, Luff believes that another well should be drilled on an azimuth that nearly parallels the azimuth of the Castle Rock D-11H well extending from the NW/4 of Section 14 to the NE/4 of Section 10. Luff plans to drill such a well so that no portion of the lateral of the proposed new well in the Red River “B” formation would be any closer than 1,000 feet to the lateral of the Castle Rock D-11H well in the Red River “B” formation. To accommodate such a well, Luff believes that a new 960-acre spacing unit should be established which overlaps the spacing unit for the Castle Rock D-11H well and which consists of the E/2 of Section 10, the W/2 of Section 11, the NW/4 of Section 14 and the NE/4 of Section 15.

5. Luff respectfully requests that the Board amend its prior orders including Order Nos. 2, 2-78, 20-97, 2-10 and 4-14 so as to establish an overlapping 960-acre spacing unit for the Buffalo Field consisting of the lands described above and allow a horizontal well with one or more laterals to be drilled in the Red River “B” pool at any location thereon not closer than 500 feet to the boundary of such spacing unit.

6. In Luff’s opinion, extending the field outline, forming the requested spacing unit and drilling the well described above will optimize primary recovery, prevent waste, avoid the drilling of unnecessary wells, and protect correlative rights.
7. The spacing unit requested to be created is not smaller than the maximum area that can be efficiently and economically drained by the proposed well and the size, shape and location thereof will result in the efficient and economic development of the pool as a whole.

8. The Board is authorized to grant the requested spacing unit by SDCL 45-9-20 through 45-9-29 and ARSD 74:12:02:06. Luff further requests that the order authorize the issuance of a permit for the drilling of horizontal wells in accordance with this application.

WHEREFORE, applicant respectfully requests that the Board issue its notice of opportunity for hearing and, if any interested party intervenes in accordance with said notice, set this matter for hearing at the regularly scheduled hearings in November, 2014, or such other date as may be established by the Board, and that the Board enter its order granting the relief requested.

Dated this __ day of October, 2014.

LUFF EXPLORATION COMPANY

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By:  ___________________________
     BRETT M. KOENECKE