

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

IN THE MATTER OF
SPYGLASS CEDAR CREEK, LP'S
VIOLATIONS OF
SDCL CHAPTER 45-9 AND
ARSD ARTICLE 74:12

CONSENT AGREEMENT

The South Dakota Department of Environment and Natural Resources (the "Department") through the Board of Minerals and Environment (the "Board"), together with Spyglass Cedar Creek, LP ("Spyglass") (collectively, the "Parties"), agree to settle this above-referenced matter on the following terms:

PRELIMINARY STATEMENT

1. The Department is the state agency, along with the Board, that regulates the production of oil and gas resources in the State of South Dakota (the "State"), pursuant to South Dakota Codified Law ("SDCL") Chapter 45-9. The Board has been granted authority by the South Dakota Legislature to administer and enforce the provisions of SDCL Chapter 45-9, and may delegate that authority to the Department, pursuant to SDCL 45-9-13 and 45-9-54.
 2. Spyglass is a Texas limited partnership with its principal office located in San Antonio, Texas. Spyglass owns and operates forty (40) oil and gas wells located in South Dakota under the following Permit numbers: 1780, 1778, 1781, 1789, 1793, 1814, 1825, 1826, 1827, 1828, 1829, 1863, 1864, 1865, 1866, 1867, 1868, 1869, 1876, 1877, 1885, 1886, 1887, 1888, 1890, 1948, 1949, 1950, 1960, 1961, 1964, 1965, 1966, 1967, 1968, 1969, 1971, 1975, 1978, and 1979.
 3. The Department issued a Notice of Violation ("NOV") dated July 10, 2018 and a Petition to Revoke Drilling Permits & Petition for Forfeiture of Surety ("Petition") dated July 12, 2018.
 4. The Parties enter this Consent Agreement ("Agreement") to avoid waste and ensure prompt compliance with the State's oil and gas conservation laws. This Agreement is entered into to resolve the matters alleged in the NOV and Petition ("Covered Matters"). This Agreement is in the public interest, and is the most appropriate means of resolving this matter.
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STIPULATIONS AND VIOLATIONS

5. Spyglass admits that it operates forty (40) gas wells located in Harding County, South Dakota, as identified in the Department's NOV dated July 10, 2018.
6. Spyglass does not dispute the findings in the NOV. Spyglass does not dispute the violations of Administrative Rules of South Dakota ("ARSD") 74:12 or the violations of the conditions of its Applications for Permit to Drill, specifically as follows:
 - a. Spyglass does not dispute that nine (9) wells (Permit Nos. 1979, 1780, 1781, 1778, 1789, 1869, 1885, 1886, and 1948) were drilled between 2006 and 2010, but have never produced gas and remain unplugged.
 - b. Spyglass does not dispute that one (1) well (Permit No. 1826) has regularly produced gas, but has not been productive since 2010.
 - c. Spyglass does not dispute that ten (10) wells (Permit Nos. 1865, 1887, 1949, 1950, 1964, 1966, 1968, 1975, 1978, and 1828) have regularly produced gas, but have not been productive since 2011 and remain unplugged.
 - d. Spyglass does not dispute that twenty (20) wells (Permit Nos. 1888, 1793, 1814, 1825, 1827, 1829, 1863, 1864, 1867, 1868, 1866, 1876, 1877, 1890, 1960, 1961, 1965, 1967, 1969, and 1971) have regularly produced gas, but have not been productive since 2012 and remain unplugged.
 - e. Spyglass does not dispute that nine (9) wells have no sign or a sign that is not legible, in violation of ARSD 74:12:02:09.
 - f. Spyglass does not dispute that it has not submitted a completion report for the Gilbert 1-34 well in violation of ARSD 74:12:02:17.
 - g. Spyglass has provided electronic copies of the requested logs, but does not dispute that it has not submitted all of the twenty-two (22) requested cement bond logs for its wells in violation of ARSD 74:12:02:12.
 - h. Spyglass does not dispute that it has not installed and/or maintained sufficient gauges on thirty (30) of its wells in violation of ARSD 74:12:02:16.
 - i. Spyglass does not dispute that fourteen (14) of its wells have pits that are not properly reclaimed, have erosion issues, have unused equipment or debris on site, or have pit liner material at the surface in violation of ARSD 74:12:03:07.
 - j. Spyglass does not dispute that it has not maintained an adequate bond as required by SDCL 45-9-15.

7. Paragraphs 6(a)-(j) and 17, the violations of ARSD 74:12 and conditions of Spyglass's Applications for Permit to Drill, are hereby deemed admitted for purposes of this Agreement and for any subsequent proceeding if necessary. As a result, in the event that Spyglass fails to comply with this Agreement or any agreed-upon amendment(s) pursuant to Paragraph 15 of this Agreement, the Board may, at its sole discretion and without prior notice to Spyglass, enter an appropriate order(s) to foreclose on the cash or surety described in Paragraph 13 of this Agreement; require wells be shut in; confiscate drilling equipment left at the well sites; order the revocation of Spyglass's Permits to Drill; and/or take any other appropriate action the Department or Board deems proper, pursuant to SDCL 45-9 or other applicable enforcement statutes.

SETTLEMENT TERMS

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and conditions in this Agreement, and desiring to be legally bound, the Parties agree as follows:

8. Spyglass will engage a crew to bring the field back into compliance and agrees to make all wells in compliance with ARSD 74:12 regarding adhering with appropriate signage, submitting completion reports and cement bond logs, installing and/or maintaining sufficient valves and gauges, and conducting proper interim reclamation on or before July 1, 2019.
9. Spyglass agrees to return ten (10) wells to production on or before July 1, 2019.
10. Spyglass agrees to return ten (10) additional wells to production on or before September 1, 2019.
11. Spyglass agrees to submit for approval plans for recompletion or plugging of five (5) wells, including Permit Nos. 1780, 1778, 1979, 1781, and 1789 on or before July 1, 2019, and the remaining four (4) wells, Permit Nos. 1869, 1885, 1886, and 1948, by September 1, 2019.
12. Spyglass agrees to perform a mechanical integrity test and submit a Sundry Request for temporary abandonment for any remaining wells that have not been returned to production or have not been plugged by September 1, 2019.
13. Spyglass agrees to use its best efforts, undertaken diligently and in good faith, in obtaining and posting a good and sufficient surety with the Department, in the amount of \$200,000.00, by January 15, 2019. The surety may be in the form of cash (to be held by the Department) or surety bond. Any surety bond must be secured through a company licensed to transact surety business in South Dakota. Failure to post the surety by January 15, 2019 shall result in immediate default of this Agreement and the NOV, and Spyglass consents to the entry of an order by the Board of Enforcement Relief, pursuant to its statutory authority without further hearing.

14. Spyglass agrees that in the event that it fails to comply with this Agreement, as it may be modified pursuant to Paragraph 15 of this Agreement, the Board may, at its sole discretion and without prior notice to Spyglass, enter an appropriate order(s) to foreclose on the aforementioned cash or surety bond; confiscate drilling equipment left at the well sites; require wells be shut in; and/or order the revocation of Spyglass's Permits to Drill.
15. Spyglass may propose and submit an amendment(s) to this Agreement in writing to the Department if, despite its good faith efforts, Spyglass is delayed and/or prevented from performing its obligations under this Agreement as a result of war; rebellion; riots; acts of God; governmental law, order, or regulation; or other explained good cause. The Department shall, within fifteen (15) days, review the proposed amendment and respond in writing, approving the proposed amendment upon a finding of the above or good cause for delay and/or prevention of Spyglass's obligations under this Agreement. A conference may be held between the parties or their representatives to resolve any disputes regarding the proposed amendment. Any proposed amendment the parties are unable to resolve shall be subject to final approval of the Board.
16. Upon the signing of this Agreement by the Parties and posting of the bond, the Parties will submit a Joint Motion to Dismiss based upon this Agreement, which shall be attached thereto. The Joint Motion to Dismiss shall be submitted to the Board and shall request that the Board approve this Agreement and dismiss the pending action. It is specifically agreed by the Parties that the Board shall retain jurisdiction over the matter to enforce the terms and conditions of this Agreement. The submission of the Joint Motion to Dismiss shall not in any way limit or restrict the authority of the State of South Dakota or its agencies, including the Department, to initiate appropriate action against Spyglass for failure to comply with the terms and conditions of this Agreement.

ADDITIONAL TERMS

17. Spyglass agrees that it was properly notified of the violations listed herein.
18. This Agreement does not, except as specifically provided herein, modify, amend, or alter the conditions and requirements of Spyglass' Drilling Permits or South Dakota Rule or Law.
19. Nothing in this Agreement shall in any way limit or restrict the authority of the State of South Dakota or its agencies, including the Department, to initiate appropriate action against Spyglass for failure to comply with its environmental permits, including any state statute or regulation, which do not arise from and are not related to the Covered Matters at issue under this Agreement; and claims based on criminal liability.
20. The terms of this Agreement may be modified only by a subsequent written agreement signed by the Parties.

21. This Agreement constitutes the entire understanding of the Parties with respect to the Covered Matters.
22. Each party shall bear its own costs incurred in this action, including attorney fees.
23. The Parties agree that they have had adequate time to consult with legal counsel regarding the terms of this agreement. The Parties further agree that they have been apprised by their respective legal counsel as to their rights and obligations under this agreement and the potential penalties for failure to carry out the terms of this agreement. The Parties agree that they knowingly, intelligently, and voluntarily enter into this agreement.
24. This Agreement becomes effective upon approval by the Board.
25. Each undersigned representative of the Parties to this Agreement certifies that he or she is fully authorized to enter into this Agreement and each of the terms and conditions hereof, and to execute and legally bind such Party to it.
26. This Agreement may be executed in any number of counterparts, and each counterpart shall be deemed to be an original, but all of such counterparts combined shall constitute one agreement. Any signature hereto may be delivered by facsimile or other electronic transmission and be deemed an original.
27. Notifications given under this Agreement shall be submitted to the below addresses. The Parties further agree to notify the other if the below contact information should change.

For the Department:

South Dakota Department of Environment and Natural Resources
523 East Capitol Avenue
Pierre, SD 57501

For Spyglass:

March Kimmel
Spyglass Cedar Creek LP
its General Partner
Xanthus Capital LLC
Spyglass Cedar Creek LP
Petroleum Center
9002 N.E. Loop 410
Building D, Suite D211
San Antonio TX 78209

With a copy to:
Lawrence Bender
Fredrikson & Byron, P.A.
1133 College Drive, Suite 1000
Bismarck, ND 58501

ACKNOWLEDGEMENT

In making this Agreement, it is understood that each of the Parties to this Agreement does hereby rely wholly upon their own judgment, belief, and knowledge and that each of the Parties enters into this Agreement without reliance upon any statement or representation by another. The Parties acknowledge that they have been represented by counsel and that they have consulted their respective attorneys regarding the terms of this Agreement. The Parties acknowledge and agree that they have read and understood the terms of this Agreement and that they are voluntarily entering into this Agreement with full knowledge of its implications. The Parties intend to be bound by this Agreement.

DEPARTMENT OF ENVIRONMENT
AND NATURAL RESOURCES

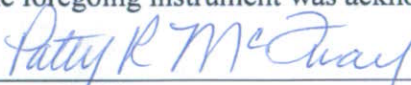


By: Steven M. Pirner, Secretary

Date: 12/20/18

STATE: South Dakota)
) ss.
COUNTY: Hughes)

The foregoing instrument was acknowledged before me on this 20 day of December, 2018.



Notary Public
My Commission Expires: 09/06/2022



My Commission Expires
09-06-2022

