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BENNETT, MAIN & GUBBRUD
A PROFESSIONAL CORPORATION
618 STATE STREET
BELLE FOURCHE, SOUTH DAKOTA 57717-1489
TEL (605) 892-2011
FAX (605) 892-4084
EMAIL: bellelaw@bellelaw.com

DEPT OF ENVIRONMENT & NATURAL
RESOURCES - RAPID CITY

MAX MAIN*
DWIGHT A. GUBBRUD*
*LICENSED IN SOUTH DAKOTA AND WYOMING

EST. 1908

RETIRED
DONN BENNETT

May 6, 2010

Via U.S. Mail and email

Fred V. Steece, Oil & Gas Supervisor
SD DENR - Oil & Gas Office
2050 West Main, Suite #1
Rapid City, SD 57702-2493

RE: Spyglass Cedar Creek LP; State #1-2H Horizontal Well APD.

Dear Fred:

This letter confirms my previous email stating that Spyglass Cedar Creek LP ("Spyglass") wants to proceed with the Notice of Recommendation Procedure for the above-referenced horizontal well, as allowed by ARSD 74:10:11.01:01(5). In addition, Spyglass requests approval of an exception location pursuant to ARSD 74:10:03:11 and 74:10:11.01:01(4). Pursuant to the State of South Dakota's Mineral Acres Book, it appears the State of South Dakota is the mineral owner in all of Section 2, T17N, R1E, BHM.

Thank you for your assistance, and please let me know if you have any questions.

Sincerely,

BENNETT, MAIN & GUBBRUD, P.C.



Max Main

MM/njo

cc: client - March Kimmel (email)

Steece, Fred

From: Steece, Fred
Sent: Friday, April 30, 2010 9:03 AM
To: 'mkimmel@xanthuscapital.com'; 'Kic@cox.net'
Cc: McGillivray, Mack; Hegg, Jenny
Subject: Horizontal APD

March:

We received your APD for horizontally drilling the #1-2H State, 17 N-1E-2 NENE, Harding County, SD. As you know the Jumpoff Field has not been spaced for horizontal drilling. As I told Karen Christensen, and I might have discussed this also with you, Spyglass has two options for horizontal spacing: 1) request a hearing before the Board of Minerals and Environment or 2) choose the Notice of Recommendation (NOR) procedure. In both events we publish notices in 4 newspapers and a waiting period of 20 days after the final publication date is required for any possible intervention. Intervention in case 1 is handled at the hearing. Intervention in case 2 would reset the clock and a hearing would be scheduled, thus requiring additional time.

In the long run, if your first horizontal well is successful, you might want to schedule a hearing to space a larger area for horizontal drilling, as the NOR (above) would apply to this one well only.

Give me a call if you have any questions.

Fred V. Steece
Oil and Gas Supervisor

STATE OF SOUTH DAKOTA
SECRETARY OF THE
DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES

<p>IN THE MATTER OF THE PETITION OF SPYGLASS CEDAR CREEK LP FOR APPROVAL TO DRILL A HORIZONTAL WELL IN THE EAGLE SAND FROM A SURFACE LOCATION 1190 FEET FROM THE NORTH LINE AND 1163 FEET FROM THE EAST LINE, TO A BOTTOM HOLE LOCATION OF 2635 FEET FROM THE NORTH LINE AND 665 FEET FROM THE EAST LINE OF SECTION 2, TOWNSHIP 17 NORTH, RANGE 1 EAST, HARDING COUNTY, SOUTH DAKOTA; AND FOR APPROVAL TO DRILL AN EXCEPTION LOCATION</p>	<p>NOTICE OF RECOMMENDATION</p> <p>CASE NO. 11-2010</p>
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Notice is hereby given to the public and all interested persons that pursuant to South Dakota Codified Laws (SDCL) Chapter 1-26 and Chapter 45-9, the above described application has been filed with the Department of Environment and Natural Resources.

The Secretary recommends approval of the application with the following conditions:

1. The operator will comply with all applicable requirements of South Dakota Codified Laws 45-9 and Administrative Rules of South Dakota 74-10.
2. A 12-mil plastic liner will be used in the mud pit.
3. Surface runoff will be diverted around the drill site.
4. The surface hole will be drilled with fresh water.
5. Cement will be circulated to the ground surface on the surface casing.
6. After production casing is set, a cement bond log will be run and filed with the department.
7. If horizontally drilled:
 - A. The coordinates of the production casing shoe and the well terminus will be filed with the department.
 - B. The azimuth of the horizontal segment of the well will be filed with the department along with the results of periodic down hole surveys.
8. If abandoned, the following cement plugs will be set:
 1. A 100-foot cement plug immediately above the kick off point, if horizontally drilled.
 2. A 25-foot cement plug at the top of the surface casing.
9. Heavy, mud-laden fluid will be used between all plugs.
10. A washed set of sample cuttings (or cores, if cut) will be shipped to the state free of charge.
11. Please notify this office prior to plugging so a witness can be on location. If plugging will occur after regular work hours (8:00 a.m. to 5:00 p.m. MT), call Fred V. Steece at 605-343-8617 or Mack McGillivray at 605-341-0207.

The Secretary also recommends approval of the exception location because the well will be positioned near the crest of the Camp Crook anticline, which should allow the well to recover the maximum amount of the natural gas resource in the proposed location.

Authority for the Secretary to approve this application is contained in the Administrative Rules of South Dakota (ARSD) 74:10:03:01.01, 74:10:03:11 and 74:10:11.01. Unless a person files a petition requesting a hearing on the above described application pursuant to ARSD 74:09 on or before July 6, 2010, the Secretary's recommendation will be considered final, and the Secretary will approve the application in accordance with that recommendation.

The applicant's petition and notice of recommendation are also posted on the department's website at: <http://denr.sd.gov/des/og/oghome.aspx>. Additional information about this petition is available from Fred V. Steece, Oil and Gas Supervisor, Department of Environment and Natural Resources, 2050 West Main Street, Suite #1, Rapid City, SD 57702, telephone 605.394.2229, email fred.steece@state.sd.us.

Dated: May 18, 2010



Steven M. Pirner
Secretary

Published twice at the total approximate cost of _____.