

**THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

Before Commissioners: Shari Feist Albrecht, Chair
Jay Scott Emler
Pat Apple

In the matter of the failure of Torchlight) Docket No.: 15-CONS-638-CPEN
Energy Operating, LLC ("Operator") to)
comply with K.A.R. 82-3-111 at the Hoffman) CONSERVATION DIVISION
#1-25 in McPherson County, Kansas.)
_____) License No.: 35023

ORDER APPROVING SETTLEMENT AGREEMENT

The above-captioned matter comes before the State Corporation Commission of the State of Kansas. Having examined the files and records, and being duly advised in the premises, the Commission finds and concludes as follows:

1. The Staff of the Kansas Corporation Commission and the captioned operator have executed a settlement agreement, which is attached to and incorporated into this Order.
2. The Commission finds and concludes that the settlement agreement provides a fair and efficient resolution of the issues in this docket.

THEREFORE, THE COMMISSION ORDERS:

- A. The attached Settlement Agreement is approved and incorporated into this Order.
- B. Any party affected by this Order may file with the Commission a petition for reconsideration pursuant to K.S.A. 77-529(a). The petition shall be filed within 15 days after service of this Order. If service of this Order is by mail, three days are added to the deadline. The petition shall be addressed to the Commission and sent to 266 N. Main, Ste. 220, Wichita, Kansas 67202. Pursuant to K.S.A. 55-606 and K.S.A. 77-529(a), reconsideration is prerequisite for judicial review of this Order. Any party taking an action permitted by this summary

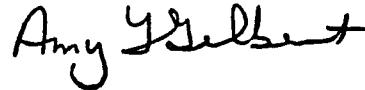
proceeding before the deadline for a petition for reconsideration does so at their own risk of further proceedings.

C. The Commission retains jurisdiction over the subject matter and the parties for the purpose of entering such further order or orders as it may deem necessary.

BY THE COMMISSION IT IS SO ORDERED.

Albrecht, Chair; Emler, Commissioner; Apple, Commissioner

Dated: AUG 20 2015



Amy L. Gilbert
Secretary to the Commission

Mailed Date: August 20, 2015

LRP

SETTLEMENT AGREEMENT

This Settlement Agreement is between Torchlight Energy Operating, LLC, ("Operator") (License #35023), and the Staff of the Corporation Commission of the State of Kansas ("Staff"). The effective date of this Settlement Agreement shall be the date it is approved by an Order of the Commission. If the Commission does not approve this Settlement Agreement by a signed Order, then this Settlement Agreement shall not be binding on either party. This Settlement Agreement shall settle the proceedings in Commission Docket Number 15-CONS-638-CPEN.

A. Background

1. On February 2, 2015, the Commission issued a Penalty Order in this docket, requiring Operator to pay \$100 for one violation of K.A.R. 82-3-111. The Penalty Order required Operator to bring the Hoffman #1-25 well into compliance with Commission regulations by plugging the well, returning it to service, or obtaining temporary abandonment status for the well. The Penalty Order directed that Operator's license was to be suspended if Operator was not in compliance within 30 days.

2. On March 19, 2015, Staff suspended Operator's license for non-compliance with the Penalty Order. Operator had paid the \$100 penalty, but had not brought the Hoffman #1-25 into compliance.

3. On June 2, 2015, the Commission issued another Penalty Order in this docket, assessing a \$10,000 penalty for Operator's failure to bring the Hoffman #1-25 into compliance. At the time the Penalty Order was issued, Operator no longer had a valid lease on the well, which is a horizontal well completed into the Maquoketa formation. The Penalty Order stated that if Operator failed to comply with both penalty orders within 30 days, then Staff was directed to plug the five unplugged wells on Operator's license, and to assess the plugging costs to Operator.

4. The June 2, 2015, Penalty Order also directed Staff to shut-in and seal all of Operator's oil and gas operations until such time as compliance was obtained. Staff has sealed the five unplugged wells on Operator's license. The five wells ("the subject wells") are:

- Hoffman #1-25, API #15-113-21349-01-00
- Evans #30-1T, API #15-113-21369-00-00
- Hudson #4-1T, API #15-113-21372-00-00
- Hudson #9-1T, API #15-113-21371-00-00
- Toll #30-1T, API #15-113-21370-00-00

5. On June 26, 2015, Operator appealed the June 2, 2015, Penalty Order. On June 30, 2015, Operator sold the subject wells. Acceptable Transfer of Operator ("T-1") Forms have been submitted to Staff for each of the subject wells, transferring the subject wells to ARDC Inc. (License #32062).

B. Terms of Settlement

6. The \$10,000 penalty remaining in this docket is reduced to \$2,500. Operator has already paid the \$2,500. If this Settlement Agreement is not approved by the Commission, then the \$2,500 payment will be returned to Operator pending the disposition of this docket.

7. Effective immediately, Staff shall promptly unseal the subject wells. Upon Commission approval of this Settlement Agreement, Operator's license shall be reinstated.

8. Operator remains responsible for the subject wells being returned to compliance with Commission regulations. If any of the subject wells have not been plugged, returned to production, or approved for temporary abandonment status by October 30, 2015, then Staff is directed to assess an additional \$7,500 penalty against Operator and to suspend Operator's license. If the October 30, 2015, deadline is not met, then at its discretion, Staff may also obtain an Order from the Commission, directing Staff to plug the wells and to assess the costs to

Operator. Operator agrees to waive its right to appeal any Order obtained pursuant to this Paragraph.

9. Upon request, Staff's Counsel shall promptly provide an update to Operator's Counsel concerning the compliance status of the subject wells, typically on the next business day following the request, until such time as Staff's Counsel notifies Operator's Counsel that full compliance has been obtained at the subject wells.

C. Conclusion

Both parties believe that this Settlement Agreement represents a fair and appropriate resolution to the matters in this docket, and that the Settlement Agreement accomplishes the Commission's duty to enforce Kansas laws pertaining to the protection of usable waters and the prevention of pollution caused by oil and gas activities.

This Settlement Agreement has been agreed to by the undersigned:

Commission Staff

Torchlight Energy Operating, LLC

By: Jon Myers

By: Willard McAndrew III

Printed Name: JON MYERS

Printed Name: Willard McAndrew III

Title: LITIGATION COUNSEL

Title: COO

Date: 8/11/15

Date: 08/07/2015

CERTIFICATE OF SERVICE

I certify that on August 20, 2015, I caused a complete and accurate copy of this Order to be served via United States mail, with the postage prepaid and properly addressed to the following:

Jon Schlatter
Morris Laing et al.
300 N. Mead, Suite 200
Wichita, Kansas 67202
Attorney for Torchlight Energy Operating, LLC

David Arndt
Torchlight Energy Operating, LLC
5700 Plano Parkway, Suite 3600
Plano, Texas 75093

Dan Fox
KCC District #2
3450 N. Rock Road, Bldg. 600, Suite 601
Wichita, Kansas 67226

/s/ Paula Murray
Paula Murray
Legal Assistant
Kansas Corporation Commission