

SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air Quality Division (“DEQ/AQD”), Herschler Building, 122 West 25th Street, Cheyenne, WY 82002, and Yates Petroleum Corporation (“Yates”), 105 South Fourth Street, Artesia, NM 88210, enter into this Settlement Agreement (“Agreement”) to fully and finally resolve without litigation the alleged violations cited in DEQ Notice of Violation Docket No. 4256-08 (“NOV”). As more fully set forth below, the NOV generally alleged that Yates failed to operate emission control devices during well production at the Cacklin Lou State 2, 7, 15 Production facility (“Facility”) located in Sublette County, Wyoming, thereby violating the Wyoming Environmental Quality Act (“Act”), applicable Wyoming Air Quality Standards and Regulations (“WAQSR”) and DEQ/AQD permit no. CT-4442.

WYO. STAT. ANN. § 35-11-901(a)(ii) (West 2007) authorizes stipulated settlement, including payment of a penalty, implementation of compliance schedules or other settlement conditions in lieu of litigation. To that end, Yates and the DEQ/AQD hereby stipulate and agree as follows:

1. Yates is a New Mexico corporation that owns and/or operates various gas production wells and facilities.
2. The DEQ/AQD is responsible for enforcing the Act, the WAQSR and permits issued thereunder, including permit no. CT-4442.
3. WYO. STAT. ANN. § 35-11-801(a) states: “In granting permits, the director may impose such conditions as may be necessary to accomplish the purpose of this act which are not inconsistent with the existing rules, regulations and standards.”
4. Chapter 6, Section 2 of the WAQSR prescribes the applicability and procedures for issuing permits to sources under Wyoming’s construction and modification permitting program.
5. On or about October 31, 2006, the DEQ/AQD issued permit no. CT-4442 to Yates for the Facility. Condition nos. 14(A) and 15 of permit no. CT-4442 required emission control devices installed to be maintained and operated during dufing all periods of active well site operation. On February 20, 2008, DEQ/AQD inspector Ms. Jennifer Frazier observed chattering Enardo valves, an indication of vapors venting through the Enardo valves to the atmosphere. The DEQ/AQD alleges Yates’ venting vapors from Enardo valves during well production is a failure of a control device and violates the Act, the WAQSR, and condition no. 15 of permit no. CT-4442.

6. DEQ/AQD and Yates agree that to resolve the alleged violations described above and more fully set forth in the NOV in lieu of litigation under WYO. STAT. ANN. § 35-11-901(a)(ii), Yates will pay the DEQ/AQD twenty thousand dollars and no cents (\$20,000.00) as a stipulated penalty. Yates shall pay the stipulated penalty by check made payable to the Wyoming Department of Environmental Quality, Air Quality Division, within thirty (30) days after Yates has been notified by DEQ/AQD that the final signature has been affixed to this Agreement. Yates shall mail the payment to Nancy Vehr, Sr. Asst. Attorney General, 123 Capitol Building, Cheyenne, WY 82002.

7. Yates, by entering into this Agreement, does not concede or admit to any liability or fault, and this Agreement constitutes no admission of liability or fault.

8. Full compliance with this signed Agreement shall constitute full satisfaction for all claims by the DEQ/AQD against Yates based on NOV Docket No. 4256-08 and, solely in reliance on this Agreement, the DEQ/AQD will refrain from taking further enforcement action against Yates for these particular violations.

9. Yates waives any statute of limitations which may apply to an enforcement action by the DEQ/AQD involving the specific matters described in NOV Docket No. 4256-08 in the event that Yates fails to fulfill its obligations under this Agreement.

10. This Agreement shall be admissible by either Yates or DEQ/AQD (hereinafter Yates and DEQ/AQD may be referred to individually as "Party" and collectively as "Parties") without objection by the other Party only in an action between these Parties relating to the violations alleged herein; provided, however, that nothing herein constitutes an admission by Yates of liability or fault.

11. Neither Party hereto shall have any claim against the other for attorneys' fees or other costs incurred with the allegations resolved hereby, including costs incurred in the preparation of this Agreement. Each Party shall bear its own attorney fees and costs, if any, incurred through the date this Agreement is signed by both Parties. Each party assumes the risk of any liability arising from its own conduct. Neither party agrees to insure, defend or indemnify the other.

12. Any changes, modifications, revisions or amendments to this Agreement which are mutually agreed upon by the Parties shall be incorporated by written instrument, executed and signed by all Parties to this Agreement.

13. The construction, interpretation and enforcement of this Agreement shall be governed by the laws of the State of Wyoming. The Courts of the State of Wyoming shall have jurisdiction over this Agreement and the Parties, and the venue shall be the First Judicial District, Laramie County, Wyoming.

14. This Agreement, consisting of four (4) pages represents the entire and integrated agreement between the Parties and supersedes all prior negotiations, representations, and agreements, whether written or oral.

15. The State of Wyoming and the DEQ/AQD do not waive sovereign immunity by entering into this Agreement and specifically retain immunity and all defenses available to them as sovereigns pursuant to WYO. STAT. ANN. § 1-39-104(a) and all other state law.

16. The Parties do not intend to create in any other individual or entity the status of third party beneficiary, and this Agreement shall not be construed so as to create such status. The rights, duties and obligations contained in this Agreement shall operate only between the Parties to this Agreement, and shall inure solely to the benefit of the Parties to this Agreement. The Parties to this Agreement intend and expressly agree that only Parties signatory to this Agreement shall have any legal or equitable right to seek to enforce this Agreement, to seek any remedy arising out of a Party's performance or failure to perform any term or condition of this Agreement, or to bring an action for the breach of this Agreement.

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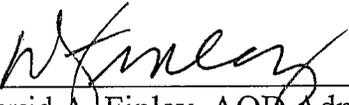
17. Each Party represents that they are authorized to enter into this Agreement and agree to be bound hereby. This Agreement shall become binding upon the Parties once executed by all Parties.

IN WITNESS THEREOF, the Parties, by their duly authorized representatives, have executed this Agreement on the days and dates set out below, and certify that they have read, understood, and agreed to the terms and conditions of this Agreement:

YATES PETROLEUM CORPORATION

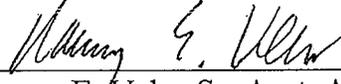
By:  9/1/08
David Lanning, Chief Operating Officer Date

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY

By:  9/26/08
David A. Finley, AQD Administrator Date

By:  9/29/08
John Corra, DEQ Director Date

APPROVAL AS TO FORM:

 9/3/2008
Nancy E. Vehr, Sr. Asst. Attorney General Date
Attorney for DEQ/AQD