

SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air Quality Division (“DEQ/AQD”), Herschler Building, 122 West 25th Street, Cheyenne, WY 82002, and Caerus Northern Rockies LLC (“Caerus”), 600 17th Street, Suite 1600N, Denver, CO 80202, enter into this Settlement Agreement (“Agreement”) to fully and finally resolve without litigation the alleged violations cited in DEQ Notice of Violation Docket No. 4828-11 (“NOV”). As more fully set forth below, the NOV generally alleges that Caerus failed to comply with permit requirements for controlling Volatile Organic Compounds (“VOC”) and Hazardous Air Pollutants (“HAP”) emissions at the Petrogulf State 36--1.5D PAD, Lovatt Draw State 36-12.2 PAD, and the Lovatt Draw State 35-5 PAD facilities (“Facilities”) 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 Nos. CT-7545, CT-7525 and MD-8384.

WYO. STAT. ANN. § 35-11-901(a)(ii) (West 2010) authorizes stipulated settlement, including payment of a penalty, implementation of compliance schedules, or other settlement conditions in lieu of litigation. To that end, Caerus and the DEQ/AQD hereby stipulate and agree as follows:

1. Caerus is a Delaware Limited Liability Corporation that owns and/or operates the Facilities.
2. The DEQ/AQD is responsible for enforcing the Act, the WAQSR, and permits issued thereunder, including Permit Nos. CT-7545, CT-7525 and MD-8384.
3. WYO. STAT. ANN. § 35-11-201 states: “No person shall cause, threaten or allow the discharge or emission of any air contaminant in any form so as to cause pollution which violates rules, regulations and standards adopted by the council.”
4. 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.”
5. 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.
6. On November 2, 2010, Permit CT-7545 was issued to Rosetta Resources for the Petrogulf State 36-1.5D PAD. On January 5, 2011, this facility and permit were transferred to Caerus. Condition 16 of Permit CT-7545 requires that emission control

equipment “be maintained and operated during any time the wells are producing such that the emissions are controlled at all times[.]”

7. On November 2, 2010, Permit CT-7525 was issued to Rosetta Resources for the Lovatt Draw State 36-12.2 PAD. On January 5, 2011, this facility and permit were transferred to Caerus. Condition 16 of Permit CT-7525 requires that emission control equipment “be maintained and operated during any time the wells are producing such that the emissions are controlled at all times[.]”

8. On November 15, 2010, Permit MD-8384 was issued to Rosetta Resources for the Lovatt Draw State 36-5 PAD. On January 5, 2011, this facility and permit were transferred to Caerus. Condition 16 of Permit MD-8384 requires that emission control equipment “be maintained and operated during any time the well is producing such that the emissions are controlled at all times[.]”

9. On March 29, 2011, DEQ/AQD Engineer/Inspectors Ms. Jennifer Frazier and Ms. Brandi O’Brien observed: two leaking thief hatches, an inoperable combustor and leaking liquids from tanks at the Petrogulf State 36-1.5 D PAD; an open dehydrator valve and liquids leaking from tanks at the Petrogulf 36-2.5 D PAD; an open thief hatch, an inoperable combustor, and liquids leaking from piping at the Riverside 36-1-3 well; a reboiler still vent that was venting vapors and an inoperable combustor at the Riverside 36-1-2 well; two leaking thief hatches at the Lovatt Draw 36-13.2, Lovatt Draw 36-12.3 and Lovatt Draw 36-12.4 PADs; a venting thief hatch and an inoperable combustor at the Lovatt Draw State 36-12.2 PAD; and all thief hatches venting, the side of the dehydration unit venting, and inoperable combustors for the tanks and dehydration units at the Lovatt Draw State 36-5-5 well.

10. On April 15, 2011, the DEQ/AQD issued the NOV to Caerus alleging that venting vapors to the atmosphere and inoperable tank or dehydration unit combustors or emission control systems during well production at the Facilities violated the Act, the WAQSR and Permits CT-7545, CT-7525, and MD-8384.

11. In lieu of litigation under WYO. STAT. ANN. § 35-11-901(a)(ii), the DEQ/AQD and Caerus agree that Caerus will pay the DEQ/AQD fifty two thousand five hundred dollars and no cents (\$52,500.00) as a stipulated penalty to fully and finally resolve the violations alleged above and in the NOV. Caerus shall make full payment by check, made payable to the Wyoming Department of Environmental Quality, Air Quality Division, within thirty (30) days after Caerus has been notified by the DEQ/AQD that the final signature has been affixed to this Agreement. Caerus shall mail the payment to Nancy Vehr, Sr. Asst. Attorney General, 123 Capitol Building, Cheyenne, WY 82002.

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

13. Full compliance with this signed Agreement shall constitute full satisfaction for all claims by the DEQ/AQD against Caerus based on the NOV and, solely in reliance on this Agreement, the DEQ/AQD will refrain from taking further enforcement action against Caerus for these particular alleged violations.

14. Caerus waives any statute of limitations which may apply to an enforcement action by the DEQ/AQD involving the specific matters described in the NOV in the event that Caerus fails to fulfill its obligations under this Agreement.

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

16. Neither Party hereto shall have any claim against the other for attorney 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.

17. 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.

18. 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.

19. 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.

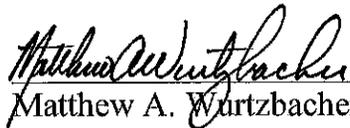
20. The State of Wyoming and the DEQ/AQD do not waive sovereign immunity by entering into this Agreement and specifically retain immunity and all defenses available to them as sovereigns pursuant to WYO. STAT. ANN. § 1-39-104(a) and all other state law.

21. 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 and their successors 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.

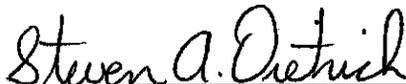
22. Each Party represents that they are authorized to enter into this Agreement and agree to be bound hereby. This Agreement shall become binding upon the Parties once executed by all Parties.

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.

CAERUS NORTHERN ROCKIES LLC:

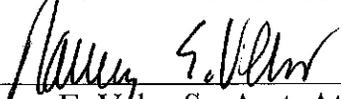
By:  9-14-11
Matthew A. Wurtzbacher, President and COO Date

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY:

By:  9-20-11
Steven A. Dietrich, AQD Administrator Date

By:  9/20/11
John Corra, DEQ Director Date

APPROVAL AS TO FORM:

 8/29/2011
Nancy E. Vehr, Sr. Asst. Attorney General Date
Attorney for DEQ/AQD