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 4th 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. 4952-12 (NOV). As more fully set forth below, the NOV alleged that Yates failed to obtain a DEQ/AQD construction permit prior to constructing the K-Bar State #27H production facility (Facility) located in Campbell County, Wyoming, thereby violating the Wyoming Environmental Quality Act ("Act") and applicable Wyoming Air Quality Standards and Regulations ("WAQSR").

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, 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, including this Facility.

2. The DEQ/AQD is the executive branch agency of Wyoming government responsible for enforcing the Act and the WAQSR.

3. Wyo. Stat. Ann. § 35-11-201 states, "[n]o 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(c) states: "A permit to construct is required before construction or modification of any industrial facility capable of causing or increasing air or water pollution in excess of standards established by the department is commenced."

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. Chapter 6, Section 2(a)(i) of the WAQSR states: "Any person who plans to construct any new facility or source, modify any existing facility or source, or to engage in the use of which may cause the issuance of or an increase in the issuance of air contaminants into the air of this state shall obtain a construction permit from the State of Wyoming, Department of Environmental Quality before any actual work is begun on the facility."

7. The DEQ/AQD issued WAQSR Ch. 6 § 2 permitting guidance for Oil and Gas Production Facilities (Guidance) in June 1997, with subsequent revisions in November 1998, January 2000, August 2001, July 2004, August 2007, and March 2010. The Guidance indicates what DEQ/AQD accepts as meeting the intent of Wyoming's regulatory requirement to obtain a construction permit prior to the construction or operation of new air emission sources. The March 2010 revision states: "Total emissions from any facility or source shall not exceed major source levels prior to emission control installation. Major source levels are 10 TPY [tons per year] of any single HAP [hazardous air pollutant], 25 TPY of any combination of HAP or 100 TPY of any regulated pollutant. Flash emissions prior to control installation will be determined using approved emission models or methods based on actual reported production and operating conditions. Reported production includes that sold during well completion activities which are reported to WOGCC. Flash emissions are directly proportional to production rates, provided operational parameters remain consistent, so it is acceptable to prorate emissions based on production."

8. The DEQ/AQD alleges that during the DEQ/AQD's analysis of Yates' application for the Facility, the DEQ/AQD calculated that prior to the installation of emission controls, the Facility's emissions of volatile organic compounds (VOCs) was 279.1 tons and HAPs was 2.9 tons. The DEQ/AQD determined that the Facility emitted VOCs above the major source levels prior to Yates' installation of emission controls and thereby violated Chapter 6, Section 2(a)(i) of the WAQSR.

9. On March 8, 2012, the DEQ/AQD issued the NOV to Yates alleging that Yates's failure to obtain a construction permit prior to constructing and operating from the Facility violated the Act and the WAQSR.

10. Without admitting liability, and in lieu of litigation under Wyo. Stat. Ann. § 35-11-901(a)(ii), Yates agrees to pay to the DEQ/AQD the amount of nine thousand four hundred dollars and no cents ($9,400.00) as a stipulated penalty amount to resolve the violations alleged above and in the NOV. Yates shall make full payment by check made payable to the Wyoming DEQ/AQD, 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.

11. Yates, by entering into this Agreement, does not concede or admit to any liability or fault, and this Agreement constitutes no admission of liability, fault or noncompliance with any allegations, findings, determinations or conclusions contained in this Agreement or in the NOV.

12. Full compliance with this signed Agreement shall constitute full satisfaction for all claims by the DEQ/AQD against Yates based on the NOV and, solely in reliance on this Agreement, the DEQ/AQD will refrain from taking further enforcement action against Yates for the violations set forth in the NOV. By this Settlement Agreement, the Parties intend to resolve all allegations that were asserted in the NOV.

13. In the event that Yates fails to fulfill its obligations under this Agreement, Yates waives any statute of limitation claims that may apply in an enforcement action by the DEQ/AQD involving the specific matters described in the NOV.

14. This Agreement shall be admissible by either Yates or the DEQ/AQD (hereinafter Yates and the 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.

15. Neither Party hereto shall have any claim against the other for attorneys' fees or other costs incurred with the allegation 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.

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

17. 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.

18. 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.

19. 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.

20. 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.

21. 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: Lisa Norton — 4/30/12

Lisa Norton, Environmental Division Director — Date

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY

By: Steven A. Dietrich — 5-2-12

Steven A. Dietrich, AQD Administrator — Date

By: John Corra — 5/7/12

John Corra, DEQ Director — Date

APPROVAL AS TO FORM:

Nancy E. Vehr — 4/26/2012

Nancy E. Vehr, Sr. Asst. Attorney General — Date

Attorney for DEQ/AQD