

SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air Quality Division (DEQ/AQD), Herschler Building, 122 West 25th Street, Cheyenne, WY 82002, and Recovery Energy, Inc. (Recovery Energy), 1515 Wynkoop Street, Suite 200, 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. 5035-12 (NOV). As more fully set forth below, the NOV alleged that Recovery Energy installed and operated an 80-hp Arrow VRG 380/A62 pumping unit engine without controls or a permit and failed to obtain DEQ/AQD construction permit prior to constructing and operating the Wenzel 12-34 and Holgerson 33A-33 production facilities (Facilities) located in Laramie 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) (2012) authorizes stipulated settlement, including payment of a penalty, implementation of compliance schedules or other settlement conditions in lieu of litigation. To that end, Recovery Energy and the DEQ/AQD hereby stipulate and agree as follows:

1. Recovery Energy is a Nevada corporation that owns and/or operates the Facilities.
2. The DEQ/AQD is responsible for enforcing the Act and the WAQSR.
3. Wyo. Stat. Ann. § 35-11-801(c) provides: “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.”
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. Chapter 6, Section 2(a)(i) of the WAQSR provides: “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.”
6. 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. Unless a DEQ/AQD construction permit has been obtained prior to start up, the Guidance requires Facilities to file an air quality construction permit application within 90 days of the First Date of Production for new facilities. The Guidance also notes that pumping unit engines greater than 50 horsepower must be permitted prior to installation.

7. The DEQ/AQD received Recovery Energy's air quality construction permit application for the Wenzel 12-34 facility on March 11, 2011. Recovery Energy stated in its application that the First Date of Production for this facility was January 26, 2010. The DEQ/AQD alleges that Recovery Energy submitted this permit application approximately eleven (11) months past the due date. On August 20, 2012, the DEQ/AQD issued the NOV to Recovery Energy, alleging that Recovery Energy's failure to obtain a DEQ/AQD construction permit prior to constructing and operating this facility violated the Act and the WAQSR.

8. The DEQ/AQD received Recovery Energy's air quality construction permit application for the Holgerson 33A-33 facility on March 11, 2011. Recovery Energy stated in its application that the First Date of Production for this facility was February 18, 2010. The DEQ/AQD alleges that Recovery Energy submitted this permit application approximately ten (10) months past the due date. On August 20, 2012, the DEQ/AQD issued the NOV to Recovery Energy, also alleging that Recovery Energy's failure to obtain a DEQ/AQD construction permit prior to constructing and operating this facility violated the Act and the WAQSR.

9. During the DEQ/AQD's analysis of Recovery Energy's permit application for the Wenzel 12-34 facility, the DEQ/AQD determined that Recovery Energy had installed an 80-hp Arrow VRG 380/A62 pumping unit engine at this facility without a DEQ/AQD construction permit and without air pollution controls. On August 20, 2012, the DEQ/AQD issued the NOV to Recovery Energy, further alleging that Recovery Energy's failure to obtain a DEQ/AQD construction permit prior to constructing and operating the 80-hp pumping unit engine at this facility violated the Act and the WAQSR.

10. During the DEQ/AQD's analysis of Recovery Energy's permit application for the Holgerson 33A-33 facility, the DEQ/AQD determined that Recovery Energy had installed an 80-hp Arrow VRG 380/A62 pumping unit engine at this facility without a DEQ/AQD construction permit and without air pollution controls. On August 20, 2012, the DEQ/AQD issued the NOV to Recovery Energy, finally alleging that Recovery Energy's failure to obtain a DEQ/AQD construction permit prior to constructing and operating the 80-hp pumping unit engine at this facility violated the Act and the WAQSR.

11. Without admitting liability, and in lieu of litigation pursuant to Wyo. Stat. Ann. § 35-11-901(a)(ii), Recovery Energy agrees to pay to the DEQ/AQD the amount of seven thousand dollars and no cents (\$7,000.00) as a stipulated penalty amount to resolve the violations alleged in the NOV. Recovery Energy shall make full payment by check made payable to the Wyoming DEQ/AQD, within thirty (30) days after Recovery Energy has been notified by DEQ/AQD that the final signature has been affixed to this Agreement. Recovery Energy shall mail the payment to Nancy Vehr, Sr. Asst. Attorney General, 123 Capitol Building, Cheyenne, WY 82002.

12. Recovery Energy, 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.

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

14. In the event that Recovery Energy fails to fulfill its obligations under this Agreement, Recovery Energy 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.

15. This Agreement shall be admissible by either Recovery Energy or the DEQ/AQD (hereinafter Recovery Energy 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.

16. 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.

17. Any changes, modifications, revisions or amendments to this Agreement that 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 five (5) 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 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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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:

RECOVERY ENERGY, INC.:

By: Brad Gabbard 12/13/2012
Brad Gabbard, CFO Date

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY

By: Steven A. Dietrich 12-19-12
Steven A. Dietrich, AQD Administrator Date

By: Todd Parfitt 12/20/12
Todd Parfitt, DEQ Director Date

APPROVAL AS TO FORM:

Nancy E. Vehr 12/10/2012
Nancy E. Vehr, Sr. Asst. Attorney General Date
Attorney for DEQ/AQD