

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 Notices of Violation Docket Nos. 5104-13 and 5110-13. As more fully set forth below, the Notices of Violation alleged that Yates violated permit requirements by venting tank vapors and failing to route the vapors to the emission control devices at the Blue Rim State #9, #11, and 15 PAD facilities located in Sublette County, Wyoming and the Larsen Ranch Federal 6-32 facility (Facilities) located in Sweetwater County, Wyoming, thereby violating the Wyoming Environmental Quality Act (Act), applicable Wyoming Air Quality Standards and Regulations (Air Quality Rules), and certain conditions of Air Quality Permit Nos. MD-10131, MD-12083, and CT-7619A.

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, 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 these Facilities.
2. The DEQ/AQD is the executive branch agency of Wyoming government responsible for enforcing the Act and the Air Quality Rules.
3. Wyo. Stat. Ann. § 35-11-801(a) states, “[i]n 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 Air Quality Rules prescribes the applicability and procedures for issuing permits to sources under Wyoming’s construction and modification permitting program.
5. On April 29, 2010, the DEQ/AQD issued Permit No. MD-10131 to Yates for the Blue Rim State #9, #11 Production facility. Condition No. 17 of Permit No. MD-10131 requires hatch vapors to be routed to an emission control system or device. On October 26, 2012, a DEQ/AQD Inspector observed vapors venting from the thief hatch on the last condensate tank on the right as she ascended the catwalk at the facility. On January 9, 2013, the DEQ/AQD issued Notice of Violation Docket No. 5104-13 to Yates

alleging in part that by venting vapors from the thief hatch at the facility, Yates violated the Act, the Air Quality Rules, and Condition No. 17 of Permit No. MD-10131.

6. On December 6, 2011, the DEQ/AQD issued Permit No. MD-12083 to Yates for the Blue Rim State 15 PAD facility. Condition No. 13 of Permit No. MD-12083 requires water tank vapors to be routed to a combustion device. On October 26, 2012, a DEQ/AQD Inspector observed vapors venting from two open top produced water tanks at the facility. On January 9, 2013, the DEQ/AQD issued Notice of Violation Docket No. 5104-13 to Yates alleging in part that by venting vapors from the two water tanks at the facility, Yates violated the Act, the Air Quality Rules, and Condition No. 13 of Permit No. MD-12083.

7. On March 29, 2010, the DEQ/AQD issued Permit No. CT-7619A to Yates for the Larsen Ranch Federal 6-32 facility. Condition No. 9 of Permit CT-7619A requires valve emissions to be routed to an emission control system or device. On November 1, 2012, a DEQ/AQD Inspector observed vapors venting from an Enardo valve at the facility. On January 14, 2013, the DEQ/AQD issued Notice of Violation Docket No. 5110-13 to Yates alleging in part that by venting vapors from an Enardo valve at the facility, Yates violated the Act, the Air Quality Rules, and Condition No. 9 of Permit No. CT-7619A.

8. 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 twenty one thousand dollars and no cents (\$21,000.00) as a stipulated civil penalty amount to resolve the violations alleged above and in Notices of Violation Docket Nos. 5104-13 and 5110-13. 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.

9. 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.

10. Full compliance with this signed Agreement shall constitute full satisfaction for all claims by the DEQ/AQD against Yates based on Notices of Violation Docket Nos. 5104-13 and 5110-13, 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 these Notices of Violation. By this Settlement Agreement, the Parties intend to resolve all allegations that were asserted in these Notices of Violation.

11. 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 these Notices of Violation.

12. 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.

13. 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.

14. 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.

15. 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.

16. 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.

17. 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.

18. 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.

19. 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: Tim Barber 2/15/2013
Tim Barber, Rockies Division Regulatory Mgr. Date

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY

By: Steven A. Dietrich 2-27-13
Steven A. Dietrich, AQD Administrator Date

By: Todd Parfitt 2/27/13
Todd Parfitt, DEQ Director Date

APPROVAL AS TO FORM:

Nancy E. Vehr 2/13/2013
Nancy E. Vehr, Sr. Asst. Attorney General Date
Attorney for DEQ/AQD