

SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air Quality Division (“DEQ/AQD”), Herschler Building, 122 West 25th Street, Cheyenne, Wyoming 82002, and Abraxas Petroleum Corporation (“Abraxas”), 18803 Meisner, San Antonio, Texas 78258, enter into this Settlement Agreement (“Agreement”) to fully and finally resolve without litigation the alleged violations cited in the DEQ Notice of Violation docket number 5396-14 (“Notice of Violation”). The Notice of Violation alleged that Abraxas violated the Wyoming Air Quality Standards and Regulations (“Air Quality Rules”) by failing to obtain a permit for the Prairie Falcon 3H oil and gas site located in Niobrara County.

Wyo. Stat. Ann. § 35-11-901(a)(ii) (2013) authorizes stipulated settlement, including payment of a penalty, implementation of compliance schedules, or other settlement conditions in lieu of litigation. To that end, Abraxas and the DEQ/AQD hereby agree as follows:

1. Abraxas is a Nevada corporation authorized to do business in Wyoming. Abraxas is the owner and operator of the Prairie Falcon 3H oil and gas site located in Niobrara County.
2. The DEQ/AQD is the executive branch agency of Wyoming government responsible for enforcing the Air Quality Rules.
3. Chapter 6, Section 2(a)(i) of the Air Quality Rules requires a person to obtain a permit from DEQ/AQD prior to constructing, modifying, or using a facility or source that “may cause the issuance of or an increase in the issuance of air contaminants[.]”
4. The Prairie Falcon 3H oil and gas site first began producing in November of 2011 and, as of November of 2013, had produced 9,984 Bbls. of oil and 24,194 Mcf. of gas without having applied for or receiving an air quality permit.
5. On April 10, 2014, DEQ/AQD issued Notice of Violation 5386-14 to Abraxas. The Notice of Violation alleged that Abraxas was in violation of Chapter 6, Sections 1 and 2 of the Air Quality Rules. The alleged violation was that Abraxas failed to obtain a permit prior to commencing construction of the Prairie Falcon 3H oil and gas site.
6. Without admitting liability, and in lieu of litigation pursuant to Wyo. Stat. Ann. § 35-11-901(a)(ii), Abraxas agrees to pay to the DEQ/AQD the amount of five thousand dollars and no cents (\$5,000.00) as a stipulated penalty to resolve the violations alleged in the aforementioned Notice of Violation. Abraxas agrees to make full payment by check made payable to the Wyoming DEQ/AQD, within thirty (30) days after Abraxas has been notified by DEQ/AQD that the final signature has been affixed to this Agreement. Abraxas agrees to mail the payment to Ann Shed, DEQ/AQD, Herschler Building, 122 West 25th Street, Cheyenne, Wyoming 82002.

7. Abraxas further agrees to obtain a permit for the Prairie Falcon 3H site, and to perform all emissions testing required by the new permit.

8. Abraxas, by entering into this Agreement, does not concede or admit any liability, fault, or statutory noncompliance. Except as specifically provided for herein, nothing in this Agreement shall prejudice, waive, or impair any right, remedy, or defense that Abraxas may have against any entity.

9. Full compliance with this signed Agreement shall constitute full satisfaction for all claims by the DEQ/AQD against Abraxas arising from the allegations contained within the Notice of Violation and this Agreement. In reliance on this Agreement, the DEQ/AQD will refrain from taking further enforcement action against Abraxas for these particular alleged violations. By this Agreement, the Parties intend to resolve with prejudice all allegations that are contained within the Notice of Violation and this Agreement.

10. In the event that Abraxas fails to fulfill its obligations under this Agreement, Abraxas waives any statute of limitation claims that may apply in an enforcement action by the DEQ/AQD involving the specific matters described in the Notice of Violation or otherwise set forth in this Agreement.

11. This Settlement Agreement shall not be admissible against Abraxas in a civil proceeding, unless the proceeding is brought by the Office of Attorney General to: (1) enforce the terms of this Agreement; or (2) pursue violations of a statute within the DEQ/AQD jurisdiction, or of a rule adopted or an order or permit issued by the DEQ/AQD under such a statute.

12. Each party assumes the risk of any liability arising from its own conduct. Neither party agrees to insure, defend, or indemnify the other. Neither DEQ/AQD nor Abraxas shall have any claim against the other for attorneys' fees, or any other costs related to the preparation and resolution of this Agreement.

13. Any changes, modifications, revisions, or amendments to this Agreement are invalid unless mutually agreed upon by both parties, incorporated by written instrument, executed, and signed by all parties to this Agreement.

14. The laws of the State of Wyoming shall govern the construction, interpretation, and enforcement of this Agreement. 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.

15. 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.

16. 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.

17. 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 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.

18. In the event that Abraxas assigns any or all of its proprietary interest in the Prairie Falcon 3H site, DEQ/AQD reserves the right to enforce this Agreement against any and all subsequent owners and operators.

19. Each party represents that they are authorized to enter into this Agreement, agrees to comply with and to be bound by the terms of this Agreement, and further agrees that they will not contest the basis or validity of this Agreement. This Agreement shall become binding upon the parties once executed.

[INTENTIONALLY LEFT BLANK]

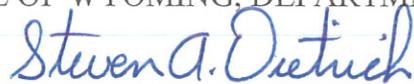
IN WITNESS THEREOF, the parties, by their duly authorized representatives, have executed this Agreement on the days and dates set out below, and certify that they have read, understood, and agreed to the terms and conditions of this Agreement:

ABRAXAS PETROLEUM CORPORATION:

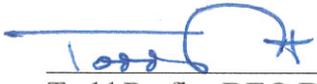
By: 
William Wallace
Vice President of Operations

6/11/14
Date

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY:

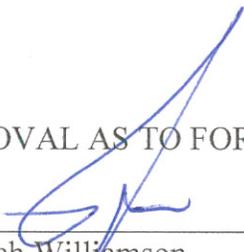
By: 
Steven A. Dietrich, AQD Administrator

6-20-14
Date

By: 
Todd Parfitt, DEQ Director

6/23/14
Date

APPROVAL AS TO FORM:


Jeremiah Williamson
Assistant Attorney General
Attorney for DEQ/AQD

6/25/14
Date