

## SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air Quality Division (DEQ/AQD), Herschler Building, 122 West 25<sup>th</sup> Street, Cheyenne, Wyoming 82002, and Chesapeake Operating, LLC (Chesapeake Operating), 6100 North Western Avenue, Oklahoma City, Oklahoma, 73118, enter into this Settlement Agreement (Agreement) to fully and finally resolve without litigation the alleged violations cited in Notice of Violation Docket Number 5451-14 (Notice of Violation). The NOV referred to Smith Creek 6-32 A Pad, but it was intended to refer to Smith Creek 6-32 70 A Pad. The Notice of Violation alleged that Chesapeake Operating violated the Wyoming Air Quality Standards and Regulations (Air Quality Rules) by exceeding opacity limits from a single source at the Smith Creek 6-32 70 A Pad Facility, located in Converse County, Wyoming.

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, Chesapeake Operating and the DEQ/AQD hereby agree as follows:

1. Chesapeake Operating is an Oklahoma limited liability corporation authorized to do business in Wyoming. Chesapeake Operating is the owner and operator of the Smith Creek 6-32 70 A Pad Facility, located in Converse County, Wyoming.

2. The DEQ/AQD is the executive branch agency of Wyoming government responsible for enforcing the Air Quality Rules.

3. Wyo. Stat. Ann. § 35-11-201 provides, “[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 [environmental quality] council.”

4. Chapter 3, Section 2(a) and (e)(i) of the Air Quality Rules limits visible emissions from a single source to 20% opacity, with an allowance of an aggregate of six minutes per hour of no more than 40% opacity.

5. On July 18, 2014, DEQ/AQD Inspector Chris Hanify went to Smith Creek 6-32 70 A Pad Facility. He performed Method 9 visible emissions monitoring on the vents of the SandCastle™ silos. Mr. Hanify observed readings averaging 35.4% and 47.5% opacity, in apparent violation of the Air Quality Rules.

6. On August 21, 2014, DEQ/AQD issued the Notice of Violation to Chesapeake Operating. The Notice of Violation alleged that Chesapeake Operating was in violation of the Air Quality Rules for exceeding the opacity limit for a single source.

7. Without admitting liability, and in lieu of litigation pursuant to Wyo. Stat. Ann. § 35-11-901(a)(ii), Chesapeake Operating agrees to pay to the DEQ/AQD the amount of six thousand dollars and no cents (\$6,000.00) as a stipulated penalty to resolve the violations alleged in the aforementioned Notice of Violation. Chesapeake Operating agrees to make full payment by check made payable to the Wyoming DEQ/AQD, within thirty (30) days after Chesapeake Operating has been notified by DEQ/AQD that the final signature has been affixed to this Agreement. Chesapeake Operating agrees to mail the payment to Ann Shed, DEQ/AQD, Herschler Building, 122 West 25<sup>th</sup> Street, Cheyenne, Wyoming 82002.

8. Chesapeake Operating, 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 Chesapeake Operating may have against any entity.

9. Full compliance with this signed Agreement shall constitute full satisfaction for all claims by the DEQ/AQD against Chesapeake Operating 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 Chesapeake Operating 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 Chesapeake Operating fails to fulfill its obligations under this Agreement, Chesapeake Operating 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 Agreement shall be admissible by either Chesapeake Operating or the DEQ/AQD without objection by the other party in any action between DEQ/AQD and Chesapeake Operating relating to the violations alleged herein.

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 Chesapeake Operating 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 Chesapeake Operating assigns any or all of its proprietary interest in the Smith Creek 6-32 70 A Pad Facility, located in Converse County, Wyoming, DEQ/AQD reserves the right to enforce this Agreement against any and all subsequent owners and operators.

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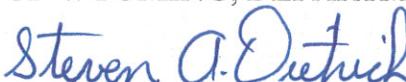
19. Each party represents that they are authorized to enter into this Agreement, agrees to comply with and to be bound by the terms of this Agreement, and further agrees that they will not contest the basis or validity of this Agreement. This Agreement shall become binding upon the parties once executed.

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:

CHESAPEAKE OPERATING COMPANY:

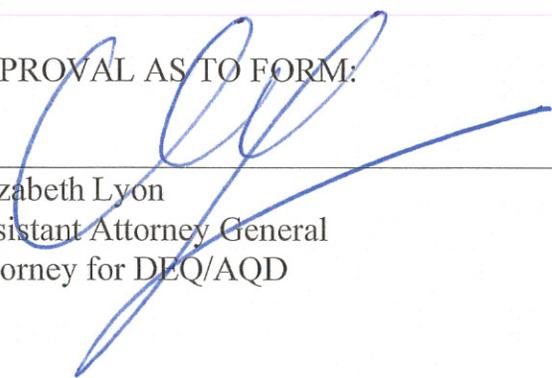
By:  \_\_\_\_\_ Date 12/2/14  
Jim Govenlock  
Vice President,  
Rockies Business Unit

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY:

By:  \_\_\_\_\_ Date 12-11-14  
Steven A. Dietrich, AQD Administrator

By:  \_\_\_\_\_ Date 12/11/14  
Todd Parfitt, DEQ Director

APPROVAL AS TO FORM:

 \_\_\_\_\_ Date 12/11/14  
Elizabeth Lyon  
Assistant Attorney General  
Attorney for DEQ/AQD