

AGREEMENT IN PRINCIPLE BETWEEN
THE UNITED STATES ENVIRONMENTAL PROTECTION AGENCY,
PENNTEX RESOURCES ILLINOIS, INC., AND REX ENERGY OPERATING CORP.

This Agreement in Principle (“AIP”) is made and entered into by the United States Environmental Protection Agency (“EPA”), by PennTex Resources Illinois, Inc., a Delaware corporation with an address at 1975 Waddle Road, State College, Pennsylvania 16803 (“PennTex”), and Rex Energy Operating Corp., a Delaware corporation with an address at 1975 Waddle Road, State College, Pennsylvania 16803 (“Rex Energy”) (collectively, the “Parties”). This AIP concerns oil production facilities owned by PennTex and managed by Rex Energy in Lawrence County, Illinois (the “Lawrence Field”), which consists of leases, oil wells, injection wells, gathering facilities, water treatment plants, and associated pipelines, facilities, operations and equipment within an approximately 22.5 square mile area around Bridgeport, Illinois.

I. Introduction

1. EPA and the Agency for Toxic Substances and Disease Registry (“ATSDR”) have recently conducted ambient air monitoring in and around Bridgeport that demonstrates periodic levels of hydrogen sulfide in concentrations greater than background levels. Because the source and distribution of hydrogen sulfide in and around Bridgeport are not entirely understood, EPA believes that investigating the problem in stages is the most effective method of achieving significant reductions of ambient levels. It is believed by the EPA that oil production from the Lawrence Field may be a significant source of hydrogen sulfide emissions, but that there may be other sources of hydrogen sulfide emissions contributing to ambient levels in Bridgeport outside the control of PennTex and Rex Energy.
2. EPA requested information regarding the Lawrence Field from the predecessor of PennTex. At the Parties’ initial meeting, before any enforcement action was taken, PennTex and Rex Energy voluntarily began taking steps to reduce possible emissions of hydrogen sulfide and volatile organic compounds (“VOCs”) from PennTex’s operations within the Lawrence Field. Subsequently, PennTex and Rex Energy developed a plan designed to significantly reduce possible emissions of hydrogen sulfide and VOCs from PennTex’s facilities in the Lawrence Field that are closest to populated areas (the “Response Plan”).
3. In developing its Response Plan and entering into this AIP, neither PennTex nor Rex Energy admits to any liability under the Clean Air Act or any other law or regulation with respect to operations in the Lawrence Field. This AIP reflects the good faith intentions of the Parties to conduct further negotiations to reach a settlement agreement consistent with the terms set forth below (“Settlement Agreement”). This AIP, however, does not bind and is not enforceable by any of the Parties. The Parties enter into this AIP without resort to litigation and without any admission of law or fact.

4. This AIP reflects the Parties' common understanding of the material terms of a potential Settlement Agreement. The Parties acknowledge that a final Settlement Agreement must include other material terms that have not yet been agreed upon and approval by persons with final settlement authority for each of the Parties. Any final Settlement Agreement is subject to review and approval by the appropriate government officials. If agreement on all terms and conditions and on the form of such a final Settlement Agreement is not reached, then this AIP shall be null and void and no Party may seek to enforce it.

II. Terms

5. PennTex and Rex Energy agree to complete all work in accordance with the timeframes for specific projects as set forth in the Response Plan, a copy of which is attached to this AIP (see Attachment), subject to Force Majeure provisions as agreed to by the Parties in any Settlement Agreement. PennTex and Rex Energy agree to operate and maintain the control measures described in the Response Plan according to a written Operations and Maintenance ("O&M") Plan to be developed by PennTex and Rex Energy and to be reviewed and approved by EPA. In addition, PennTex and Rex Energy agree to conduct a safety review of operations at the tank batteries identified in the Attachment.
6. PennTex and Rex Energy agree to evaluate the effectiveness of the control measures installed in the Response Plan and operated and maintained in accordance with the O&M Plan for reducing hydrogen sulfide and VOC emissions based upon an agreed upon protocol. Such protocol shall include, but not be limited to, monitoring of emission controls. Within sixty (60) days following completion of the work identified in the Response Plan, PennTex and Rex Energy will report to EPA the results of its evaluation of these control measures and its recommendations to the United States for further action at facilities at which control measures are installed. The Parties will negotiate in good faith to reach agreement on the need for additional controls and a schedule for implementing any additional controls and/or other measures at these facilities.
7. PennTex and Rex Energy agree to evaluate the need for control measures at other facilities of PennTex within the Lawrence Field. Within sixty (60) days following the report described in Paragraph 6, PennTex and Rex Energy will present their recommendations to the EPA for further action.
8. EPA agrees to conduct monitoring and investigation to assist in the evaluation of the need to expand the scope of the Response Plan based upon the following criteria:
 - a. Impact (proximity, emission contribution); and
 - b. Technical and practical feasibility of controls.

EPA will conduct a review and investigation in order to respond to the recommendations made by PennTex and Rex Energy. The Parties will negotiate in good faith to reach

agreement on the need for additional controls, a schedule for implementing any additional controls or other measures in the Lawrence Field, and an agreement for any further monitoring to determine the effectiveness of the additional controls and/or other measures.

9. The Parties contemplate that any final Settlement Agreement will not constitute an admission of liability and, except as expressly provided in the final Settlement Agreement, the Parties reserve all rights, claims, and defenses they may have. Neither the nature nor existence of this AIP, nor the nature or existence of, execution of, or actions undertaken by PennTex or Rex Energy in accordance with any final Settlement Agreement, will constitute an admission of any liability by PennTex or Rex Energy, and this AIP will not be admissible into evidence for any reason.

III. Finalizing Settlement Agreement

10. The Parties agree to utilize this AIP as a framework for negotiating a final Settlement Agreement. The Parties agree that each will use its best efforts to finalize a settlement within ninety (90) days of execution of this AIP.

IV. Approval

11. The Parties understand and agree that the next step in the settlement process will be to negotiate a proposed final Settlement Agreement and to present it to the appropriate representatives of the Parties. The Parties acknowledge that final approval of a Settlement Agreement may require notice in the Federal Register, opportunity for public comment for at least thirty (30) days, and government consideration of any comments prior to entry. PennTex and Rex Energy understand and agree that EPA reserves its right to withdraw consent to a final Settlement Agreement based on comments received during any public comment period.

AS THE DULY AUTHORIZED REPRESENTATIVES OF THE PARTIES, THE
UNDERSIGNED ENDORSE THIS AGREEMENT IN PRINCIPLE:

FOR THE ENVIRONMENTAL PROTECTION AGENCY:

Date: _____

By: _____

Mary T. McAuliffe
Associate Regional Counsel
U.S. Environmental Protection Agency, Region 5

AS THE DULY AUTHORIZED REPRESENTATIVES OF THE PARTIES, THE
UNDERSIGNED ENDORSE THIS AGREEMENT IN PRINCIPLE:

FOR PENNTEX RESOURCES ILLINOIS, INC.:

Date: _____ By: _____
Lance T. Shaner
Chairman

FOR REX ENERGY OPERATING CORP.

Date: _____ By: _____
Benjamin W. Hulburt
Chief Executive Officer