

SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air Quality Division (DEQ/AQD), Herschler Building, 122 West 25th Street, Cheyenne, WY 82002, and Merit Energy Company (Merit), 13727 Noel Road, Dallas, TX 75251, enter into this Settlement Agreement (Agreement) to fully and finally resolve without litigation the violations cited in DEQ Notices of Violation Docket Nos. 3954-06 and 3968-06 (NOVs). NOV No. 3954-06 alleges that Merit failed to obtain a DEQ/AQD permit prior to constructing and operating a 2.5 Million Standard Cubic Foot per Day (MMSCFD) Tri-Ethylene Glycol (TEG) dehydrator with a 0.35 Million British Thermal Unit per Hour (MMBtu/hr) regenerator heater located at the Sage Grouse Compressor Station in Converse County, Wyoming, in violation of the Wyoming Environmental Quality Act (Act) and Wyoming Air Quality Standards and Regulations (WAQSR). NOV No. 3968-06 alleges that Merit failed to comply with certain conditions in Permit No. MD-1046 relating to operating a 40 MMSCFD TEG dehydrator flare located at the Sand Dunes Muddy Unit in Converse County, Wyoming, thereby violating the Act, WAQSR, and Permit No. MD-1046.

WYO. STAT. ANN. § 35-11-901(a)(ii) (Lexis Nexis 2005) authorizes stipulated settlement, including payment of a penalty, in lieu of litigation. To that end, Merit and the DEQ/AQD hereby stipulate and agree as follows:

1. The DEQ/AQD is responsible for enforcing the Act, the WAQSR, and associated permits.
2. WYO. STAT. ANN. § 35-11-801(a) states, "In granting permits, the director may impose such condition as may be necessary to accomplish the purpose of this act which are not inconsistent with the existing rules, regulations and standards."
3. 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.

Sandy Dunes Muddy Unit - NOV No. 3968-06

4. On or about August 23, 2004, the DEQ/AQD issued Permit No. MD-1046 to Merit. Permit Condition No. 8 states, "VOC [Volatile Organic Compound] and HAP [Hazardous Air Pollutant] emissions associated with the 40 MMSCFD glycol dehydration unit and process vent shall be controlled with a flare." Permit Condition No. 10 requires Merit to: "maintain and operate the flares during all periods of active operation of the 40 MMSCFD TEG Dehydration Unit and process vent such that the controls remain effective as viable emissions control devices." Permit Condition No. 11 states: "the presence of a flare pilot flame shall be monitored using a thermocouple and continuous recording device or any other equivalent device to detect the presence of a flame."

5. On July 26, 2006, DEQ/AQD Inspector Jeff Hancock observed that the flare was not operating when the 40 MMSCFD TEG Dehydration Unit was operating, thereby violating Permit Condition Nos. 8 and 10. Mr. Hancock also observed that Merit was not operating a continuous recording or equivalent device to detect the presence of a flame on the 40 MMSCFD TEG Dehydration Unit or flare, thereby violating Permit Condition No. 11.

6. On October 24, 2006, the DEQ/AQD issued NOV Docket No. 3968-06 to Merit alleging that Merit violated the Act, WAQSR, and Permit No. MD-1046 relating to operating a 40 MMSCFD TEG dehydrator flare located at the Sand Dunes Muddy Unit facility.

Sage Grouse Compressor Station - NOV No. 3954-06

7. Chapter 6, Section 2(a)(i) of the WAQSR mandates: "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."

8. On July 26, 2006, DEQ/AQD Inspector Jeff Hancock conducted an inspection of Merit's operations at the Sage Grouse Compressor Station facility. Mr. Hancock observed, and a subsequent record review confirmed, that a 2.5 MMSCFD TEG dehydrator with a 0.35 MMBtu/hr regenerator heater was operating at the facility without the required DEQ/AQD permits, thereby violating the Act and the WAQSR.

General Provisions

9. DEQ/AQD and Merit agree to resolve these alleged violations in lieu of litigation under WYO. STAT. ANN. § 35-11-901(a)(ii) as follows:

A. Negotiated Settlement Amount. Merit agrees to pay the DEQ/AQD five thousand dollars and no cents (\$5,000.00) to resolve NOV No. 3968-06 and five thousand dollars and no cents (\$5,000.00) to resolve NOV No. 3954-06 as a negotiated settlement amount. Merit shall make full payment by check made payable to the Wyoming Department of Environmental Quality, Air Quality Division within thirty (30) days after Merit has been notified by DEQ/AQD that the final signature has been affixed to this Agreement. Merit shall mail the payment to Nancy Vehr, Sr. Asst. Attorney General, 123 Capitol Building, Cheyenne, WY 82002.

B. General Air Quality Training. Merit shall conduct and complete general air quality training for Merit's Wyoming employees and operators within six (6) months after the final signature has been affixed to this Agreement. Merit's general air quality training includes the content set forth in a Power Point presentation attached and incorporated herein as Attachment A. Within sixty days after Merit has

completed its general air quality training, Merit shall submit training completion documentation to the DEQ/AQD, Attn: Mr. Bob Gill.

C. Permit Specific Training. Merit shall conduct and complete permit specific training within six (6) months after the final signature has been affixed to this Agreement for Merit's Wyoming employees and operators for the facilities listed in Attachment B which is attached and incorporated herein. Within sixty days after Merit has completed its permit specific training, Merit shall submit training completion documentation to the DEQ/AQD, Attn: Mr. Bob Gill.

10. Merit, by entering into this Agreement, does not concede or admit to any fault or liability, and this Agreement constitutes no admission of fault or liability.

11. Full compliance with this signed Agreement shall constitute full satisfaction for all claims by the DEQ/AQD against Merit based on NOV Docket Nos. 3954-06 and 3968-06 and, solely in reliance on this Agreement, the DEQ/AQD will refrain from taking further enforcement action against Merit for these particular violations.

12. Merit waives any statute of limitations which may apply to an enforcement action by the DEQ/AQD involving the specific matters described in NOV Docket Nos. 3954-06 and 3968-06 in the event that Merit fails to fulfill any of its obligations under this Agreement.

13. This Agreement shall be admissible by either Merit or DEQ/AQD (hereinafter Merit and DEQ/AQD may be referred to individually as "Party" and collectively as "Parties") without objection by the other Party in any action between these Parties.

14. Neither Party hereto shall have any claim against the other for attorney 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.

15. Any changes, modifications, revisions or amendments to this Agreement which are mutually agreed upon by the Parties shall be incorporated by written instrument, executed and signed by all Parties to this Agreement.

16. 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.

17. This Agreement, consisting of five (5) pages, Attachment A consisting of 49 powerpoint slides, and Attachment B consisting of 1 page, represents the entire and integrated Agreement between the Parties and supersedes all prior negotiations, representations, and agreements, whether written or oral.

18. 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.

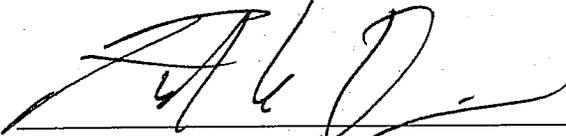
19. The Parties do not intend to create in any other individual or entity the status of third party beneficiary, and this Agreement shall not be construed so as to create such status. The rights, duties and obligations contained in this Agreement shall operate only between the Parties to this Agreement, 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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20. 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.

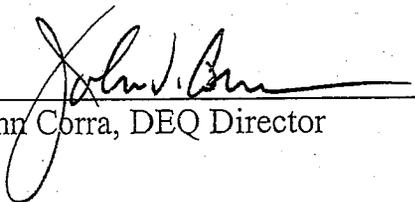
IN WITNESS THEREOF, the Parties, by their duly authorized representatives, have executed this Agreement on the days and dates set out below, and certify that they have read, understood, and agreed to the terms and conditions of this Agreement:

MERIT ENERGY COMPANY

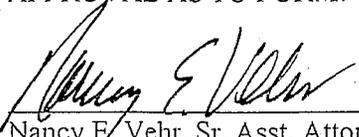
By:  5/30/07
Fred Diem, Vice-President Date

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY

By:  6/7/07
David Finley, AQD Administrator Date

By:  6/11/07
John Corra, DEQ Director Date

APPROVAL AS TO FORM:

 5/8/07
Nancy E. Vehr, Sr. Asst. Attorney General Date
Attorney for DEQ/AQD