

## SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air Quality Division ("DEQ/AQD"), Herschler Building, 122 West 25<sup>th</sup> Street, Cheyenne, WY 82002, and Mountain Gas Resources, Inc. ("MGR"), 1099 18th Street, Suite 1200, Denver, CO 80202, enter into this Settlement Agreement ("Agreement") to fully and finally resolve without litigation DEQ Notice of Violation Docket No. 3983-06 ("NOV") alleging violations of the Wyoming Environmental Quality Act ("Act"), Wyoming Air Quality Standards and Regulations ("WAQSR"), and Permit No. CT-3412. The NOV alleges that MGR failed to submit annual compliance reports for the years 2003, 2004 and 2005 as required by Condition No. 21 of Permit No. CT-3412 for the Wild Rose Compressor Station facility ("Facility") located in Sweetwater County, Wyoming.

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, MGR and the DEQ/AQD hereby stipulate and agree as follows:

1. The DEQ/AQD is responsible for enforcing the Act and the WAQSR.
2. WYO. STAT. ANN. § 35-11-801(a) states in part, "In granting permits, the [DEQ] 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."
3. Chapter 6, § 2 of the WAQSR prescribes the applicability and procedures for issuing permits to sources under Wyoming's construction and modification permitting program.
4. On or about October 21, 2003, the DEQ/AQD issued Permit No. CT-3412 to MGR. Condition No. 21 of Permit CT-3412 required MGR to submit an annual compliance report ("Compliance Report") by January 31 of each year with the following information:
  - i. The number of days the average daily temperature of the condenser outlet temperature exceeded 100°F
  - ii. Availability for temperature monitoring systems in condition 21. Availability shall be calculated by summing the number of valid hourly averages for the calendar year divided by the operating hours for the dehydration unit or stabilizer for the calendar year.
  - iii. The dates and duration of each time during active operation of the glycol dehydration unit when the flare pilot flame was not present.
  - iv. The name of the person responsible for keeping the records, and the location of the records for viewing purposes.

5. On October 4, 2006, DEQ/AQD Engineer/Inspector Mr. Tony Hoyt observed that MGR did not submit annual Compliance Reports for the Facility for the years 2003, 2004 and 2005, and was informed by MGR that the data was not available to create past due Compliance Reports for the years 2003, 2004 and 2005.

6. On November 6, 2006, the DEQ/AQD issued the NOV to MGR alleging that MGR failed to submit annual Compliance Reports for the years 2003, 2004 and 2005 for the Facility as required by Condition No. 21 of Permit No. CT-3412 for the Facility.

7. DEQ/AQD and MGR agree that the total stipulated settlement amount ("Total Settlement Amount") to resolve the violations alleged in the NOV in lieu of litigation under WYO. STAT. ANN. § 35-11-901(a)(ii) is fifty thousand dollars and no cents (\$50,000.00) payable as follows:

A. MGR agrees to pay the DEQ/AQD, twenty-five thousand dollars and no cents (\$25,000.00) as a partial settlement amount ("Partial Settlement Amount"). MGR shall make full payment of the Partial Settlement Amount by check made payable to the Wyoming Department of Environmental Quality, Air Quality Division, within thirty (30) days after MGR has been notified by DEQ/AQD that the final signature has been affixed to this Agreement. MGR shall mail the payment to Nancy Vehr, Sr. Asst. Attorney General, 123 Capitol Building, Cheyenne, WY 82002.

B. In lieu of paying the balance remaining after payment of the Partial Settlement Amount ("Settlement Balance Amount"), MGR agrees to complete the following Supplemental Environmental Project ("SEP"):

i. MGR agrees to spend at least fifty thousand dollars and no cents (\$50,000.00) ("SEP Expenditure Amount") to construct a meteorological monitoring site at Spotted Horse in T56N, R75W, section 33 in Campbell County, Wyoming ("Meteorological Monitoring Site") and to collect the meteorological parameters specified below and operate this site in accordance with the requirements of 40 CFR Parts 50 and 58. Meteorological parameters shall be measured at multiple levels (2 meters, 10 meters, and 30 meters) to ensure that data used for modeling are representative of conditions in this geographic area. The following meteorological data ("Meteorological Data") shall be collected for a period such that at least five (5) complete and consecutive years of meteorological data which are suitable for input to dispersion models are obtained:

a. Horizontal wind speed at 10 meters and 30 meters above ground;

- b. Horizontal wind direction at 10 meters and 30 meters above ground;
- c. Lateral turbulence [Standard deviation of lateral wind direction (sq)] at 10 meters above ground;
- d. Vertical wind speed at 10 meters and 30 meters above ground;
- e. Vertical turbulence [Standard deviation of vertical wind speed (sw)] at 10 meters above ground;
- f. Delta temperature measurements between 2-10 meters and between 2-30 meters above ground (Temperature to be measured at 2m, 10m, and 30m);
- g. Solar Insolation or Net Radiation measurements at approximately 1 meter above ground; and,
- h. Surface Pressure.

Where:  $sq = \sigma_{\theta}$  (horizontal wind deviation)

Note: If a tower height greater than 30 meters is selected, all references to 30 meters in this condition should be replaced with the dimension of the selected tower height.

ii. MGR shall submit the Meteorological Data generated by this Meteorological Monitoring Site to the DEQ/AQD, Attn: Cara Keslar and Ken Rairigh, in a DEQ/AQD approved electronic format on a quarterly basis, within 60 days following the end of each quarter. MGR shall compile the Meteorological Data for use in dispersion models utilizing the Solar Radiation-Delta T method and the modified sigma theta method for determining atmospheric stability.

iii. As part of the monitoring plan, MGR shall address the quality assurance requirements for the monitoring network, as required by 40 CFR, Part 58 ("QA Plan"). MGR shall maintain the QA Plan for as long as the Meteorological Monitoring Site is operated.

iv. MGR shall complete construction of the Meteorological Monitoring Site by no later than September 30, 2007 ("SEP Construction Deadline") and shall commence data collection by October 1, 2007, unless MGR and the DEQ/AQD mutually agree to an extension. MGR shall submit a SEP Construction Completion Report to the DEQ/AQD, Attn: Mr. Robert Gill, 122 West 25th Street, Cheyenne, WY 82002, by no later than September 30, 2007 ("SEP Construction Completion Report Deadline"). The SEP Construction

Completion Report Deadline shall be extended if the SEP Construction Deadline is extended. The SEP Construction Completion Report shall describe the Meteorological Monitoring Site, itemized costs and receipts, and certification that construction has been completed and Meteorological Data Collection initiated pursuant to this Agreement. DEQ/AQD and MGR agree that if MGR does not complete construction by the SEP Construction Deadline then MGR will pay the DEQ/AQD the Settlement Balance Amount by no later than October 31, 2007.

v. MGR shall complete the Meteorological Monitoring Data collection and quarterly data submissions by October 31, 2012 ("SEP Data Collection Deadline") unless MGR and the DEQ/AQD mutually agree to an extension. MGR shall submit a SEP Data Collection Completion Report to the DEQ/AQD, Attn: Mr. Robert Gill, 122 West 25th Street, Cheyenne, WY 82002, by no later than November 30, 2012 ("SEP Data Collection Completion Report Deadline"). The SEP Data Collection Completion Report Deadline shall be extended if the SEP Construction Deadline is extended. The SEP Data Collection Completion Report shall describe itemized costs incurred for data collection, and certification that data collection has been completed pursuant to this Agreement. DEQ/AQD and MGR agree that if MGR does not complete data collection by the SEP Data Collection Deadline then MGR will pay the DEQ/AQD the Settlement Balance Amount by no later than December 31, 2012.

vi. DEQ/AQD and MGR agree that if the amount MGR actually spends to complete this SEP is less than the SEP Expenditure Amount, then MGR will pay the DEQ/AQD a prorated settlement amount ("Prorated Settlement Balance Amount") calculated by dividing the amount MGR actually spent on the SEP in half ("Adjusted SEP Offset Amount") and then subtracting the Adjusted SEP Offset Amount from the Settlement Balance Amount. MGR agrees to pay any Prorated Settlement Balance Amount by no later than thirty (30) days after submitting the SEP Data Collection Completion Report to DEQ/AQD.

vii. MGR hereby certifies that as of the date it signs this Settlement Agreement, MGR is not required to perform or develop the SEP by any federal, state or local law or regulation; nor is MGR required to perform or develop the SEP pursuant to any other agreement or relief in any other case. MGR further certifies that it has not received and is not presently negotiating to receive credit for this SEP in any other pending action.

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

9. Full compliance with this signed Agreement shall constitute full satisfaction for all claims by the DEQ/AQD against MGR based on NOV Docket No. 3983-06 and, solely in reliance on this Agreement, the DEQ/AQD will refrain from taking further enforcement action against MGR for these particular violations.

10. MGR waives any statute of limitations which may apply to an enforcement action by the DEQ/AQD involving the specific matters described in NOV Docket No. 3983-06 in the event that MGR fails to fulfill its obligations under this Agreement.

11. This Agreement shall be admissible by either MGR or DEQ/AQD (hereinafter MGR 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 relating to the violations alleged herein.

12. 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.

13. 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.

14. 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.

15. This Agreement, consisting of six (6) 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.

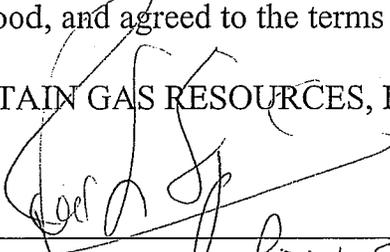
17. The Parties do not intend to create in any other individual or entity the status of

third party beneficiary, and this Agreement shall not be construed 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.

18. 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:

MOUNTAIN GAS RESOURCES, INC.:

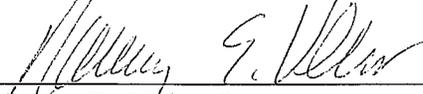
By:  6/18/2007  
Name: Rich L. Specht Date  
Title: Operations mgr Rockies

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY:

By:  6/21/07  
David Finley, AQD Administrator Date

By:  6/26/07  
John Corra, DEQ Director Date

APPROVAL AS TO FORM:

 6/14/07  
Nancy E. Vehr, Sr. Asst. Attorney General Date  
Attorney for DEQ/AQD