

Keith Sulle

SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air Quality Division ("DEQ/AQD"), Herschler Building, 122 West 25th 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. 4198-07 ("NOV") alleging violations of the Wyoming Environmental Quality Act ("Act"), Wyoming Air Quality Standards and Regulations ("WAQSR"), and Permit MD-1143. The NOV alleges that MGR failed to: 1) obtain a construction permit for a condensate flaring process; 2) conduct NOx and CO testing during the initial performance test for the Waukesha L7044GSI compressor engine; 3) install thermocouples and devices to measure pressure drop across the catalysts and monthly record those measurements; 4) install and use a vapor recovery unit or flare for the Truck Loadout L; 5) comply with 40 CFR, Part 60, Subpart KKK requirements as required by the Act, the WAQSR, and Permit MD-1143 for the Red Desert Gas Plant facility ("Facility") located in Sweetwater County, Wyoming.

WYO. STAT. ANN. § 35-11-901(a)(ii)(West 2007) 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(c) states, "[a] permit to construct is required before the construction or modification of any industrial facility capable of causing or increasing air or water pollution in excess of standards established by the department is commenced."
3. 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."
4. Chapter 6, § 2 of the WAQSR prescribes the applicability and procedures for issuing permits to sources under Wyoming's construction and modification permitting program.
5. Chapter 6, Section 2(a)(i) of the WAQSR states, "[a]ny 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."

6. On October 9, 2007, DEQ/AQD Compliance Engineer, Mr. Carl Disel, inspected the Facility and noted the Emergency Flare F-1 began flaring creating clouds of black smoke. MGR explained that the water was dumped to the flare pit ran out and condensate was sent to the flare by mistake. MGR did not have an air quality construction permit prior to conducting this maintenance activity.

7. On or about April 14, 2005, the DEQ/AQD issued Permit No. MD-1143 to MGR for the Facility. Condition No. 8 of Permit No. MD-1143 specifies the initial performance test requirements for NO_x and CO emissions.

8. The DEQ/AQD reviewed the initial performance test conducted on August 21, 2007, and concluded that MGR had not conducted NO_x and CO testing using the appropriate EPA testing method for the Waukesha L7044GSI Engine (C-3) as required by Permit No. MD-1143.

9. Condition No. 15 of Permit No. MD-1143 requires the installation of thermocouples to measure the inlet catalyst temperatures and the installation of devices to measure the pressure drop across the catalysts for compressor engines C-2 and C-3. The inlet temperature and the pressure drop are required to be recorded monthly.

10. On October 9, 2007, Mr. Carl Disel, inspected engines C-2 and C-3 at the Facility. Mr. Disel noted that MGR had not installed the thermocouples and the devices to measure the pressure drop across the catalyst. It was later determined that the thermocouples and pressure sampling points were installed at the time of the inspection but data was not being recorded.

11. Condition No. 20 of Permit No. MD-1143 requires Volatile Organic Compound (VOC) and Hazardous Air Pollutant (HAP) emissions associated with loading trucks be controlled with a vapor recovery unit routed to a flare for combustion.

12. On October 9, 2007, DEQ/AQD engineer, Mr. Carl Disel, inspected the Truck Loadout L at the Facility. Mr. Disel noted that MGR had not installed a vapor recovery unit or flare at the Facility's Truck Loadout L.

13. Condition No. 28 of Permit No. MD-1143 requires compliance with 40 C.F.R., Part 60, Subpart KKK (Standards of Performance for Equipment Leaks of VOC From Onshore Natural Gas Processing Plants) for the Facility. Subpart KKK requires semiannual VOC monitoring reports.

14. In August 2006, MGR re-started the Facility. The DEQ/AQD has no record in its files of semi annual tests for the second half of 2006 or the first half of 2007.

15. On December 19, 2007, the DEQ/AQD issued the NOV to MGR alleging that MGR failed to 1) obtain a construction permit for a condensate flaring process; 2) conduct NOx and CO testing as required by Permit No. MD-1143 during the initial performance test for the Waukesha L7044GSI compressor engine; 3) install thermocouples and devices to measure pressure drop across the catalysts and monthly record those measurements; 4) install and use a vapor recovery unit or flare for the Truck Loadout L; 5) comply with 40 CFR, Part 60, Subpart KKK requirements as required by the Act, the WAQSR and Permit MD-1143 for the Facility.

16. During settlement discussions, MGR provided information demonstrating that the truck loading equipment which would have required control with a vapor recovery unit under MD-1143 had not been constructed yet and the sections of the plant which were subject to the Subpart KKK monitoring requirements under permit MD-1143 have not been operating. Therefore, the violations alleged in the NOV and reflected by items 4 and 5 in paragraph 15 above did not occur.

17. The DEQ/AQD and MGR agree that MGR will pay the DEQ/AQD ten thousand dollars and no cents (\$10,000.00) as a stipulated cash penalty to resolve the violations alleged in the NOV in lieu of litigation pursuant to WYO. STAT. ANN. § 35-11-901(a)(ii). MGR shall make full payment by check, made payable to the Wyoming Department of Environmental Quality, Air Quality Division, within thirty (30) days after MGR has been notified by the 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.

18. The DEQ/AQD and MGR also agree that MGR shall install a chain and padlock on the valves which could be inadvertently opened to allow water/condensate to be routed to the pit flare. The keys to the padlock shall be kept at the facility with the supervisor. Within 60-days of signing the Settlement Agreement, MGR shall provide verification to the DEQ/AQD that the chain and padlock have been installed. MGR shall submit the verification to Mr. Robert Gill, Compliance Program Manager, DEQ/AQD, 122 West 25th St., Herschler Bldg, 2nd Floor East, Cheyenne, WY 82002. MGR shall keep a record of when and why the valves are opened.

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

20. Full compliance with this signed Agreement shall constitute full satisfaction for all claims by the DEQ/AQD against MGR based on NOV Docket No. 4198-07 and, solely in reliance on this Agreement, the DEQ/AQD will refrain from taking further enforcement action against MGR for these particular violations.

21. 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. 4198-07 in the event that MGR fails to fulfill its obligations under this Agreement.

22. This Agreement shall be admissible by either MGR or the DEQ/AQD (hereinafter MGR and the 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.

23. 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.

24. 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.

25. 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.

26. This Agreement, consisting of five (5) pages represents the entire and integrated agreement between the Parties and supersedes all prior negotiations, representations, and agreements, whether written or oral.

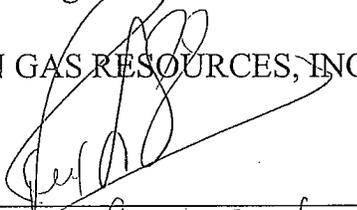
27. The State of Wyoming and the DEQ/AQD do not waive sovereign immunity by entering into this Agreement and specifically retain immunity and all defenses available to them as sovereigns pursuant to WYO. STAT. ANN. § 1-39-104(a) and all other state law.

28. 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.

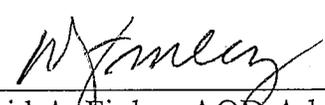
29. Each Party represents that they are authorized to enter into this Agreement and agree to be bound hereby. This Agreement shall become binding upon the Parties once executed by all Parties.

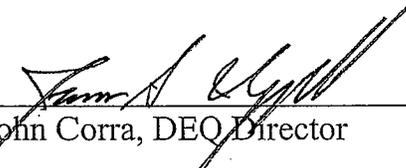
IN WITNESS THEREOF, the Parties, by their duly authorized representatives, have executed this Agreement on the days and dates set out below, and certify that they have read, understood, and agreed to the terms and conditions of this Agreement:

MOUNTAIN GAS RESOURCES, INC.:

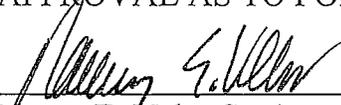
By:  5/15/2008
Name: Rex L. Spacher Date
Title: MGR

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY:

By:  5/29/08
David A. Finley, AQD Administrator Date

By:  5/29/08
John Corra, DEQ Director Date

APPROVAL AS TO FORM:

 5/7/08
Nancy E. Vehr, Sr. Asst. Attorney General Date
Attorney for DEQ/AQD