

Keith Guille

SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air Quality Division ("DEQ/AQD"), Herschler Building, 122 West 25th Street, Cheyenne, WY 82002, and Shell Rocky Mountain Production LLC ("Shell"), 4582 S. Ulster Street Parkway, Suite 500, Denver, CO 80237, enter into this Settlement Agreement ("Agreement") to fully and finally resolve without litigation the alleged violations cited in DEQ Notice of Violation Docket No. 4008-07 ("NOV"). As more fully set forth below, the NOV alleged that Shell failed to comply with Condition No. 8 of DEQ/AQD Permit No. MD-1347 by failing to route vapors from the dehydration unit to the combustion device at the Falcon 36 PAD facility ("Facility") located in Sublette County, Wyoming, thereby violating the Wyoming Environmental Quality Act ("Act"), applicable Wyoming Air Quality Standards and Regulations ("WAQSR") and DEQ/AQD Permit No. MD-1347.

WYO. STAT. ANN. § 35-11-901(a)(ii) (West 2007) authorizes stipulated settlement, including payment of a penalty, implementation of compliance schedules or other settlement conditions in lieu of litigation. To that end, Shell and the DEQ/AQD hereby stipulate and agree as follows:

1. Shell is a Delaware limited liability company that owns and/or operates various gas production wells and facilities, including the Facility.
2. The DEQ/AQD is responsible for enforcing the Act, the WAQSR and permits issued thereunder, including permit MD-1347.
3. WYO. STAT. ANN. § 35-11-801(a) states: "In granting permits, the 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, Section 2 of the WAQSR prescribes the applicability and procedures for issuing permits to sources under Wyoming's construction and modification permitting program.
5. On or about April 4, 2006, the DEQ/AQD issued Permit No. MD-1347 to Shell for the production unit at the Falcon 36 PAD facility located in Sublette County, Wyoming. Condition No. 8 of Permit No. MD-1347 states: "For the four 4.0 MMCFD TEG dehydration units with overhead condensers, reboiler still vent vapors shall be directed to the condensers. Condensed still vent liquids shall be collected and routed to a liquids storage tank. Non-condensable reboiler vapors shall be routed to the two combustion devices for incineration. Condensation and incineration of the reboiler still vent vapors shall reduce the mass content of total HAPs and VOCs in the vapors vented to the devices by at least ninety-five percent (95%) by weight."

6. The DEQ/AQD alleges that on January 3, 2007, DEQ/AQD inspector Ms. Jennifer Frazier observed the valve from one dehydration unit open and venting vapors to the atmosphere.

7. The DEQ/AQD alleges Shell's failure to route vapors from the dehydration unit to the combustion device violated the Act, the WAQSR, and Condition No. 8 of DEQ/AQD Permit No. MD-1347.

8. The DEQ/AQD's cover letter accompanying the NOV noted that the combustor was not operating at the time of the DEQ/AQD's inspection on January 3, 2007. Subsequently, Shell provided strip chart data demonstrating the combustor was operational during the time period of the inspection.

9. Without admitting liability, Shell agrees to resolve the alleged violation described above and more fully set forth in the NOV in lieu of litigation under WYO. STAT. ANN. § 35-11-901(a)(ii) as follows:

- A. Assessment of a stipulated penalty in the amount of ten thousand dollars and no cents (\$10,000.00) in settlement of this matter ("Total Stipulated Penalty").
- B. In consideration of the Supplemental Environmental Project ("SEP") to be performed by Shell under paragraph C of this section, the DEQ/AQD agrees to accept a reduced stipulated penalty in the amount of five thousand dollars and no cents (\$5,000.00) ("Reduced Stipulated Penalty"). Shell agrees to pay the Reduced Stipulated Penalty by check made payable to the Wyoming Department of Environmental Quality, Air Quality Division, within thirty (30) days after Shell has been notified by DEQ/AQD that the final signature has been affixed to this Agreement. Shell will mail the payment to Nancy Vehr, Sr. Asst. Attorney General, 123 Capitol Building, Cheyenne, WY 82002.
- C. In lieu of paying the balance remaining after payment of the Reduced Stipulated Penalty ("Stipulated Penalty Balance Amount"), Shell agrees to complete the following Supplemental Environmental Project ("SEP"):
 - i. Shell agrees to install electric power from existing service along Paradise Road to the Vible Multiple Well pad to power heat trace pumps that it currently runs by motive gas. This SEP will benefit the environment by eliminating currently

uncontrolled natural gas emissions including Volatile Organic Compounds (VOCs) estimated at 8.69 tons per year (TPY) and Hazardous Air Pollutants (HAPs) estimated at 0.4 TPY.

- ii. Shall agrees to complete the SEP by November 1, 2008 ("SEP Deadline"). By January 1, 2009, Shell will submit documentation ("SEP Completion Report") describing the completed SEP, itemized costs and receipts, the SEP completion date, and certification that the SEP has been fully implemented pursuant to the provisions of this Agreement to the DEQ/AQD, Attn: Mr. Robert Gill, 122 West 25th Street, Cheyenne, WY 82002.
- iii. The DEQ/AQD and Shell agree that if Shell does not complete the SEP by the SEP Deadline then Shell will pay the DEQ/AQD the Stipulated Penalty Balance Amount by January 1, 2009.
- iv. Shell estimates its cost to perform this SEP is twenty-two thousand dollars and no cents (\$22,000.00). The DEQ/AQD will review Shell's SEP Completion Report to calculate the final penalty offset amount. The DEQ/AQD will offset the Total Stipulated Penalty by one dollar (\$1.00) for every two dollars (\$2.00) which Shell spends to complete this SEP up to a maximum penalty offset of five thousand dollars and no cents (\$5,000.00). DEQ/AQD will notify Shell in writing if any of the expenditures were not applied towards calculating the penalty offset amount, as well as any remaining penalty balance. Shell agrees to pay the DEQ/AQD any remaining penalty balance within thirty (30) days after being notified by the DEQ/AQD.
- v. Upon completion of the SEP, Shell agrees to submit a permit modification application to the DEQ/AQD requesting that permit MD-1342 be modified to add a condition stating that: "Any heat trace pumps operating at the Vible Multiple Well Pad shall be operated using commercial electric power in lieu of motive gas, except in those circumstances where electricity may be temporarily unavailable as a result of events beyond Shell's control."

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

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

11. Full compliance with this signed Agreement shall constitute full satisfaction and release for all claims by the DEQ/AQD against Shell based on NOV Docket No. 4008-07 and, solely in reliance on this Agreement, the DEQ/AQD will refrain from taking further enforcement action against Shell for this particular violation.

12. In the event that Shell fails to fulfill its obligations under this Agreement, Shell waives any statute of limitation claims which may apply in an enforcement action by the DEQ/AQD involving the specific matters described in NOV Docket No. 4008-07.

13. This Agreement shall be admissible by either Shell or the DEQ/AQD (hereinafter Shell and the DEQ/AQD may be referred to individually as "Party" and collectively as "Parties") without objection by the other Party only in an action between these Parties relating to the specific NOV herein; provided, however, that nothing herein constitutes an admission by Shell of liability or fault.

14. Neither Party hereto shall have any claim against the other for attorneys' fees or other costs incurred with the allegation 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 six (6) pages 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:

SHELL ROCKY MOUNTAIN PRODUCTION LLC:

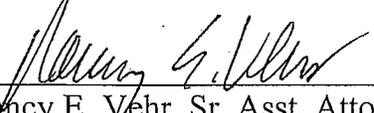
By:  Oct 20 '08
Name: DAVID TODD Date
Title: U.S. Onshore Asset Manager

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY

By:  10/28/08
David A. Finley, AQD Administrator Date

By:  10/30/08
John Corra, DEQ Director Date

APPROVAL AS TO FORM:

 9/29/08
Nancy E. Vehr, Sr. Asst. Attorney General Date
Attorney for DEQ/AQD