

SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air quality Division (“DEQ/AQD”), Herschler building, 122 West 25th Street, Cheyenne, WY 82002, and Nielson & Associates, Inc., (“Nielson”), P.O. Box 2850, Cody, Wyoming 82414 enter into this Settlement Agreement (“Agreement”) to fully and finally resolve without litigation the violations cited in DEQ/AQD Notice of Violation Docket No. 4361-08 (“NOV”). The NOV alleges that Nielson failed to acquire a construction permit at its Petrogulf State 36-1-5, 36-2-5 and 36-8-5 wet gas/condensate production facility (“Facility”) located in Sublette County, Wyoming, in violation of the Air Quality Act (“Act”), applicable Wyoming Air Quality Standards and Regulations (“WAQSR”).

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

1. The DEQ/AQD is responsible for enforcing the Act and WAQSR.
2. WYO. STAT. ANN. § 35-11-801(c) states: “A permit to construct is required before 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. Chapter 6, Section 2 of the WAQSR prescribes the applicability and procedures for issuing permits to sources under DEQ/AQD’s construction and modification permitting program.
4. Chapter 6, Section 2(a)(i) of the WAQSR states: “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.”
5. DEQ/AQD WAQSR, Chapter 6, Section 2 permitting guidance for Oil and Gas Production Facilities related to the Jonah/Pinedale area operations provides guidance to operators of oil and gas facilities as to the intent of the DEQ/AQD for meeting Wyoming’s regulatory requirements to obtain a construction permit prior to the construction or operation of new air emission sources. Permitting is required for multiple well facilities within the Jonah Pinedale Anticline area directing the installation of emission controls for hydrocarbon storage tanks and dehydrator units upon the first date of production and to submit a complete WAQSR, Chapter 6, Section 2, permit application within 40 days of first date of production. Additional cautions within the permitting guidance state that facilities cannot emit regulated air pollutants at rates which equal or exceed the major source levels.
6. On February 20, 2008, a DEQ/AQD inspector observed visible emissions from a thief hatch located at the Facility. It was also noted that the pilot flame on the combustor was not lit. In accordance with the Jonah Pinedale Anticline, Addendum to C6 S2 Oil and Gas Production Facilities Permitting Guidance, July 28, 2004, emissions from the hydrocarbon liquid storage tanks, pressure vessels and new dehydration units should have been controlled upon first date of production.

7. Nielson filed a WAQSR, Chapter 6, Section 2 permit application for the Facility on March 26, 2008. The DEQ/AQD review of the application for the Facility showed that Nielson submitted a permit application for the Facility approximately 22 months past the permit application due date.

8. By failing to comply with the emission control requirements and to provide a timely permit application, it is alleged that Nielson violated the construction permitting requirements of WAQSR, Chapter 6, Section 2(a)(i).

9. DEQ/AQD and Nielson 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 thirty thousand dollars and no cents (\$30,000.00) payable as follows:

A. In lieu of paying the thirty thousand dollar and no cents (\$30,000.00) Total Settlement Amount Nielson agrees to the following Supplemental Environmental Project ("SEP"):

i. On November 1, 2007 Nielson paid to DEQ/AQD the sum of (\$100,000.00) to fund the DEQ/AQD's planned ozone monitoring project in the upper Green River Basin to be conducted in 2008. This contribution was not used for the associated project. Rather than refunding the \$100,000, Nielson agrees to allow DEQ/AQD to allocate its \$100,000.00 contribution to a new ozone study to be conducted in late-2008 and 2009 as full settlement for the violations alleged in NOV 4361-08.

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

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

11. Full compliance with the signed Agreement shall constitute full satisfaction for all claims by the DEQ/AQD against Nielson based on the NOV and, solely in reliance on the Agreement, the DEQ/AQD will refrain from taking further enforcement action against Nielson for that particular violation.

12. Nielson waives any statute of limitations which may apply to an enforcement action by the DEQ/AQD involving the specific matters described in the NOV in the event that Nielson fails to fulfill its obligations under this Agreement.

13. This Agreement shall be admissible by either Nielson or DEQ/AQD (Nielson 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.

14. Neither Party hereto shall have any claim against the other for attorney's fees or other costs incurred with the allegations resolved hereby, including costs incurred in the preparation of the 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 four (4) 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.

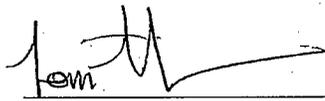
19. The Parties do not intend to create in any other individual or entity the status of third party beneficiary, and this Agreement shall not be construed so as to create such status. The rights, duties and obligations contained in the Agreement shall operate only between the Parties to this Agreement,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

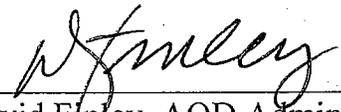
IN WITNESS THEREOF, the Parties, by their duly authorized representatives, have executed this Agreement on the days and dates set out below, and certify that they have read, understood, and agreed to the terms and conditions of this Agreement:

NIELSON & ASSOCIATES, INC.

By: 
Tom Fitzsimmons, Executive VP and COO

Nov. 24 2008
Date

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY:

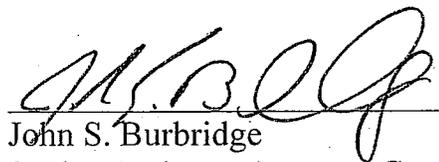
By: 
David Finley, AQD Administrator

12/4/08
Date

By: 
John Corra, DEQ Director

12/1/08
Date

APPROVAL AS TO FORM:

By: 
John S. Burbridge
Senior Assistant Attorney General
Attorney for DEQ/AQD

12-1-08
Date