

Keith Smille

SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air Quality Division ("DEQ/AQD"), Herschler Building, 122 West 25th Street, Cheyenne, WY 82002, and Forest Oil Corporation ("Forest Oil"), 707 17th Street, Suite 3600, Denver, CO 80202, enter into this Settlement Agreement ("Agreement") to fully and finally resolve without litigation the alleged violations cited in DEQ Notice of Violations Docket No. 4307-08 ("NOV"). As more fully set forth below, the NOV generally alleged that Forest Oil failed to reduce the mass content of total hazardous air pollutants (HAP) and volatile organic compound (VOC) emissions from the dehydration unit by at least ninety-eight percent (98%) at the Elm Federal 23-12 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-6159.

WYO. STAT. ANN. § 35-11-901(a)(ii) (West 2008) authorizes stipulated settlement, including payment of a penalty, implementation of compliance schedules, or other settlement conditions in lieu of litigation. To that end, Forest Oil and the DEQ/AQD hereby stipulate and agree as follows:

1. Forest Oil is a New York corporation 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 No. MD-6159.
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 October 23, 2007, the DEQ/AQD issued Permit MD-6159 to Forest Oil for the Facility. Condition 8 of Permit MD-6159 requires the mass content of total HAP and VOC emissions from the dehydration unit to be reduced by at least ninety-eight (98%).
6. On February 12, 2008, DEQ/AQD Engineer/Inspector Ms. Jennifer Frazier observed a significant amount of vapors from the large dehydration unit continuously

venting to the atmosphere. The strip chart labeled "dehy combustor" indicated no operational pilot flame, meaning the combustor was not operational. The DEQ/AQD obtained additional information which showed the combustor was not operational when the fuel line to the pilot flame was frozen for twelve (12) days.

7. In lieu of litigation under WYO. STAT. ANN. § 35-11-901(a)(ii), the DEQ/AQD and Forest Oil agree that Forest Oil will pay the DEQ/AQD thirty thousand dollars and no cents (\$30,000.00) as a stipulated cash penalty to resolve the violations alleged above and in the NOV. Forest Oil shall make full payment by check, made payable to the Wyoming Department of Environmental Quality, Air Quality Division, within thirty days after Forest Oil has been notified by the DEQ/AQD that the final signature has been affixed to this Agreement. Forest oil shall mail the payment to Nancy Vehr, Sr. Asst. Attorney General, 123 Capitol Building, Cheyenne, WY 82002.

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

9. Full compliance with this signed Agreement shall constitute full satisfaction for all claims by the DEQ/AQD against Forest Oil based on NOV Docket No. 4307-08, and solely in reliance on this Agreement, the DEQ/AQD will refrain from taking further enforcement action against Forest Oil for these particular alleged violations.

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

11. This Agreement shall be admissible by either Forest Oil or the DEQ/AQD (hereinafter Forest Oil 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; provided, however, that nothing herein constitutes an admission by Forest Oil of liability or fault.

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 four (4) 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.

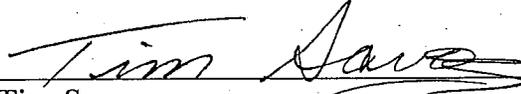
17. The Parties do not intend to create in any other individual or entity the status of third party beneficiary, and this Agreement shall not be construed so as to create such status. The rights, duties and obligations contained in this Agreement shall operate only between the Parties to this Agreement,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

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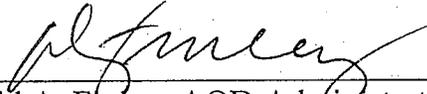
18. Each Party represents that they are authorized to enter into this Agreement and agree to be bound hereby. This Agreement shall become binding upon the Parties once executed by all Parties.

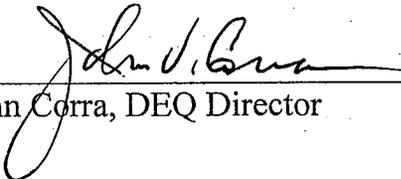
IN WITNESS THEREOF, the Parties, by their duly authorized representatives, have executed this Agreement on the days and dates set out below, and certify that they have read, understood, and agreed to the terms and conditions of this Agreement.

FOREST OIL CORPORATION:

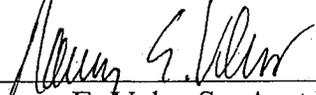
By:  10/1/09
Tim Savoy Date
Vice-President - Operations Support

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY:

By:  10/13/09
David A. Finley, AQD Administrator Date

By:  10/13/09
John Corra, DEQ Director Date

APPROVAL AS TO FORM:

 9/17/09
Nancy E. Vehr, Sr. Asst. Attorney General Date
Attorney for DEQ/AQD