# SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air Quality Division ("DEQ/AQD"), Herschler Building, 122 West 25th Street, Cheyenne, WY 82002, and Merit Energy Company, LLC ("Merit"), 13727 Noel Road, Suite 500, Dallas, TX 75240, enter into this Settlement Agreement ("Agreement") to fully and finally resolve without litigation the alleged violations cited in DEQ Notice of Violation Docket No. 4818-11 ("NOV"). As more fully set forth below, the NOV generally alleges that Merit failed to comply with permit conditions for the control of vapor emissions from process equipment at the Sand dunes Muddy Unit facility ("Facility") located in Converse County, Wyoming, thereby violating the Wyoming Environmental Quality Act ("Act"), applicable Wyoming Air Quality Standards and Regulations ("WAQSR") and DEQ/AQD Permit MD-1046A.

WYO. STAT. ANN. § 35-11-901(a)(ii)(West 2010) authorizes stipulated settlement, including payment of a penalty, implementation of compliance schedules or other settlement conditions in lieu of litigation. To that end, Merit and the DEQ/AQD hereby stipulate and agree as follows:

1. Merit is a Delaware limited liability company that owns and/or operates the Facility.

2. The DEQ/AQD is responsible for enforcing the Act, the WAQSR and permits issued thereunder, including DEQ/AQD Permit MD-1046A.

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 September 20, 2007, the DEQ/AQD issued Permit MD-1046A to Merit for the Facility. Condition 13 of Permit MD-1046A requires process equipment be maintained and operated during production such that emissions are eliminated at all times.

6. On January 4, 2011, DEQ/AQD Inspector, Mr. Jeff Hancock, inspected the Facility and observed steam coming from the dehydrator building. Upon further

inspection, Mr. Hancock saw that a check valve on the top of the overhead still was leaking such that not all the gas was going to the flare.

7. On March 23, 2011, the DEQ/AQD issued the NOV to Merit alleging that Merit failed to control volatile organic compounds (VOC) and hazardous air pollutant (HAP) emissions from the glycol dehydration unit as required by Condition 13 of Permit MD-1046A.

8. In lieu of litigation, the DEQ/AQD and Merit agree to resolve the violations alleged in the NOV for a total amount of twenty-five thousand dollars and no cents ($25,000.00) payable as follows:

A. Merit agrees to pay the DEQ/AQD, twelve thousand five hundred dollars and no cents ($12,500.00) as a stipulated civil penalty ("Stipulated Civil Penalty"). Merit shall make full payment of the Stipulated Civil Penalty by check made payable to the DEQ/AQD, within thirty (30) days after Merit has been notified by the DEQ/AQD that the final signature has been affixed to this Agreement. Merit shall mail the payment to Nancy Vehr, Sr. Asst. Attorney General, 123 Capitol Building, Cheyenne, WY 82002.

B. In addition to paying the Stipulated Civil Penalty, Merit agrees to complete the following Supplemental Environmental Project ("SEP"):

i. A SEP is a project that is beneficial for the environment and is otherwise not required by applicable statutes, regulations, permits or orders. The Storage Tank Replacement SEP will benefit the environment by reducing emissions of Volatile Organic Compounds (VOCs) by approximately 44 Tons Per Year (TPY) and implementing controls where previously not required.

ii. Storage Tank Replacement SEP. Merit agrees to replace two (2) uncontrolled 5000 bbl crude storage tanks with three 400 bbl capacity tanks which will be controlled by the re-run heater VRU at the Muddy Unit Facility. ("Storage Tank Replacement SEP"). Merit agrees to complete this SEP by December 31, 2011. Prior to construction or modification of this Facility, and within six (6) months after the final signature has been affixed to this Agreement, Merit shall submit a permit modification application to reflect the SEP. Merit estimates it will expend at least thirty thousand dollars and no cents ($30,000.00) in capital construction costs to complete the Storage Tank Replacement SEP ("Storage Tank Replacement SEP Cost Estimate"). Within thirty (30) days after Merit has completed the Storage

Tank Replacement SEP, Merit shall submit a Storage Tank Replacement SEP Completion Report to the DEQ/AQD, Attn: Mr. Robert Gill, 122 West 25th Street, Cheyenne, WY 82002. The Storage Tank Replacement Report shall describe the completed SEP, and include itemized costs and certification that the SEP has been fully implemented pursuant to the provisions of this Agreement.

iii. In the event that Merit does not spend at least twenty five thousand dollars ($25,000.00) in capital construction costs to complete the Storage Tank Replacement SEP, or does not provide the DEQ/AQD with an adequate Storage Tank Replacement SEP Completion Report, Merit agrees to pay the DEQ/AQD an additional stipulated penalty within ninety (90) days after the due date for the Storage Tank Replacement SEP Completion Report. The additional stipulated penalty will be calculated by taking the Storage Tank SEP Cost Estimate and subtracting the amount that Merit actually spent in capital construction costs on the Storage Tank Replacement SEP and then dividing that difference by a factor of two (2).

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

9. Merit, by entering into this Agreement, neither admits nor denies the validity of any allegation contained in the NOV, nor does Merit concede or admit to any liability or fault, and this Agreement constitutes no admission of fault or non-compliance.

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

11. Merit 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 Merit fails to fulfill its obligations under this Agreement.

12. This Agreement shall be admissible by either Merit or DEQ/AQD (hereinafter Merit and 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 violations alleged herein; provided, however, that nothing herein constitutes an admission by Merit of liability or fault.

13. 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.

14. 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.

15. 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.

16. 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.

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

18. 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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19. 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:

MERIT ENERGY COMPANY, LLC:

By: Christopher S. Hagge A.V. 8-9-11
Chris Hagge Date
Title: Vice President

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY:

By: Steven A. Dietrich 8-15-11
Steven A. Dietrich Date
AQD Administrator

By: Todd D. Hatch 8/15/11
John Corra, DEQ Director Date

APPROVAL AS TO FORM:

Nancy E. Vehr 7/25/2011
Nancy E. Vehr, Sr. Asst. Attorney General Date
Attorney for DEQ/AQD