

## SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air Quality Division (DEQ/AQD), Herschler Building, 122 West 25th Street, Cheyenne, WY 82002, and Saga Petroleum Limited Liability Company of Colorado (Saga), 600 17th Street, Suite 1700 N, Denver, CO 80202, enter into this Settlement Agreement (Agreement) to fully and finally resolve without litigation the alleged violations cited in DEQ Notice of Violation Docket No. 5011-12 (Notice of Violation). As more fully set forth below, the Notice of Violation alleged that Saga failed to obtain a DEQ/AQD construction permit prior to constructing and operating a refrigeration plant with pneumatic controllers and failed to operate the dehydrator incinerator as smokeless at the YU Bench Compressor Station facility (Facility) located in Park County, Wyoming, thereby violating the Wyoming Environmental Quality Act (Act), applicable Wyoming Air Quality Standards and Regulations (WAQSR), and Condition 10 of Permit MD-5743.

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

1. Saga is a Colorado limited liability company that owns and/or operates various gas production wells and facilities, including this Facility.
2. The DEQ/AQD is the executive branch agency of Wyoming government responsible for enforcing the Act, the WAQSR, and related permits.
3. Wyo. Stat. Ann. § 35-11-201 states, “[n]o person shall cause, threaten or allow the discharge or emission of any air contaminant in any form so as to cause pollution which violates rules, regulations and standards adopted by the [environmental quality] council.”
4. 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.”
5. 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.
6. 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.”

7. The DEQ/AQD alleges that on May 2, 2012, a DEQ/AQD Engineer inspected the Facility and observed a small refrigeration plant with pneumatic controllers. Following a review of the DEQ/AQD files, the DEQ/AQD determined that Saga did not have an air quality permit for the refrigeration plant at the Facility.

8. On January 22, 2009, the DEQ/AQD issued Permit MD-5743 to Saga for the Facility. Permit Condition 10 requires incinerators at the Facility to be designed, constructed, operated and maintained as smokeless, with no visible emissions except for periods not to exceed a total of five (5) minutes during any two (2) consecutive hours as determined by 40 C.F.R. part 60, Appendix A, Method 22.

9. The DEQ/AQD also alleges that on May 2, 2012, a DEQ/AQD Engineer inspected the Facility and observed black smoke emitting from the dehydrator incinerator for the 30-minute duration of the inspection.

10. The DEQ/AQD further alleges that on May 9, 2012, a DEQ/AQD Engineer inspected the Facility and observed black smoke emitting from the dehydrator incinerator for the one-hour duration of the inspection.

11. On June 25, 2012, the DEQ/AQD issued the Notice of Violation to Saga alleging that Saga’s failure to obtain an air quality construction permit prior to constructing and operating the refrigeration plant violated the Act and the WAQSR. The DEQ/AQD further alleged in the Notice of Violation that Saga’s failure to operate the incinerator as smokeless violated the Act, the WAQSR, and Condition 10 of Permit MD-5743.

12. Without admitting liability, and in lieu of litigation under Wyo. Stat. Ann. § 35-11-901(a)(ii), Saga agrees to resolve the alleged violations described above and set forth in the Notice of Violation as follows:

A. Stipulated Payment. Saga shall pay the DEQ/AQD five thousand dollars and no cents (\$5,000.00) as a stipulated penalty amount. Saga shall make full payment by check made payable to the Wyoming DEQ/AQD within thirty (30) days after Saga has been notified by DEQ/AQD that the final signature has been affixed to this Agreement. Saga shall mail the payment to Nancy Vehr, Sr. Asst. Attorney General, 123 Capitol Building, Cheyenne, WY 82002.

B. Projects. Saga agrees to complete the following two projects by October 31, 2012:

i. Replace the glycol pump on the Facility's dehydrator with an electrically powered unit.

ii. Replace the fuel gas used for pneumatically controlled valves with a compressed air system.

iii. Stipulated Penalties. In the event that Saga fails to complete these two projects by October 31, 2012, Saga agrees to pay a ten thousand dollars and no cents (\$10,000.00) stipulated penalty to the DEQ/AQD on or before December 1, 2012.

iv. Project Completion Report. By December 1, 2012, Saga will provide the DEQ/AQD with documentation that these projects were completed and became operational.

C. Permit Application. By August 31, 2012, Saga agrees to submit a complete permit application for the Facility's refrigeration plant to the DEQ/AQD. In the event that Saga fails to submit this permit application to the DEQ/AQD by August 31, 2012, Saga agrees to pay a ten thousand dollars and no cents (\$10,000.00) stipulated penalty to the DEQ/AQD on or before October 1, 2012.

13. Saga, by entering into this Agreement, does not concede or admit to any liability or fault, and this Agreement constitutes no admission of liability, fault or noncompliance with any allegations, findings, determinations or conclusions contained in this Agreement or in the Notice of Violation.

14. Full compliance with this Agreement shall constitute full satisfaction for all claims by the DEQ/AQD against Saga based on the Notice of Violation and, solely in reliance on this Agreement, the DEQ/AQD will refrain from taking further enforcement action against Saga for these particular alleged violations. By this Agreement, the Parties intend to resolve all allegations that were asserted in the Notice of Violation.

15. In the event that Saga fails to fulfill its obligations under this Agreement, Saga waives any statute of limitation claims that may apply in an enforcement action by the DEQ/AQD involving the specific matters described in the Notice of Violation.

16. This Agreement shall be admissible by either Saga or the DEQ/AQD (hereinafter Saga 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 related to the violations alleged herein.

17. 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.

18. Any changes, modifications, revisions or amendments to this Agreement that are mutually agreed upon by the Parties shall be incorporated by written instrument, executed and signed by all parties to this Agreement.

19. 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.

20. 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.

21. 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.

22. 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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23. 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.

SAGA PETROLEUM LIMITED LIABILITY COMPANY OF COLORADO:

By: David A. Petty 8-20-2012  
David A. Petty, Manager EH&S Date

STATE OF WYOMING DEPARTMENT OF ENVIRONMENTAL QUALITY:

By: Steven A. Dietrich 8-23-12  
Steven A. Dietrich, AQD Administrator Date

By: John Corra 8/23/12  
John Corra, DEQ Director Date

APPROVAL AS TO FORM:

Nancy E. Vehy 8/16/2012  
Nancy E. Vehy, Sr. Asst. Attorney General Date  
Attorney for DEQ/AQD