

## SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air Quality Division (“DEQ/AQD”), Herschler Building, 122 West 25<sup>th</sup> Street, Cheyenne, Wyoming 82002, and Peterson Energy Operating, Inc. (“Peterson Energy”), 2154 W Eisenhower Boulevard, Loveland, Colorado, 80537, enter into this Settlement Agreement (“Agreement”) to fully and finally resolve without litigation the alleged violations cited in Notice of Violation Docket Number 5548-15. The Notice of Violation alleged that Peterson Energy violated the Wyoming Air Quality Standards and Regulations (“Air Quality Rules”) by failing to properly submit a permit application and submit application fees for the Marquardt 31-4 Production Facility, located in Laramie County (“Facility”).

Wyo. Stat. Ann. § 35-11-901(a)(ii) authorizes stipulated settlement, including payment of a penalty, implementation of compliance schedules, or other settlement conditions in lieu of litigation. To that end, Peterson Energy and the DEQ/AQD hereby agree as follows:

1. Peterson Energy is a Colorado corporation authorized to do business in Wyoming. Peterson Energy is the owner and operator of the Facility.

2. Peterson Energy is a “person” within the definition of the Wyoming Environmental Quality Act. Wyo. Stat. Ann. § 35-11-103(vi).

3. The DEQ/AQD is the executive branch agency of Wyoming government responsible for enforcing the Air Quality Rules.

4. The Wyoming Environmental Quality Act provides, “[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.” Wyo. Stat. Ann. § 35-11-201

5. Chapter 6, Section 2 of the Air Quality Rules 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 Air Quality Rules 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.”

7. Chapter 6, Section 2(o)(i) of the Air Quality Rules states, “A permit fee will be assessed on the owner or operator (applicant), based on the cost to the Department in reviewing and acting on permit applications submitted to the Division under this section.”

8. DEQ/AQD issued Chapter 6, Section 2 permitting guidance for Oil and Gas Production Facilities in June 1997, with revisions in March 2010 and September 2013 (“Guidance”). The Guidance states, “...[U]nless a permit is issued prior to start up, a C6 S2 Oil & Gas Production Facilities permit application shall be filed within 90-days after the First Date of Production for a new facility...”

9. In May 2011, Bear Oil and Gas began production at the Facility.

10. On January 30, 2012, DEQ/AQD received an initial permit application from Bear Oil and Gas (“January 30, 2012 application”).

11. DEQ/AQD determined that the January 30, 2012 application was incomplete, and requested additional information from Bear Oil and Gas.

12. On March 23, 2012, DEQ/AQD sent a second letter to Bear Oil and Gas requesting additional information for the January 30, 2012 application.

13. DEQ/AQD never received additional information from Bear Oil and Gas, and accordingly, never issued a permit for the Facility.

14. On April 1, 2012, Peterson Energy purchased the Facility.

15. On June 5, 2012, DEQ/AQD issued a final bill to Bear Oil and Gas for the January 30, 2012 application.

16. Bear Oil and Gas did not pay DEQ/AQD for the January 30, 2012 application.

17. On September 30, 2014, DEQ/AQD received a permit application for the Facility from Peterson Energy, more than two years after Peterson Energy purchased the Facility (“September 30, 2014 application”).

18. Peterson Energy has not remitted payment to DEQ/AQD for the September 30, 2014 application.

19. On March 5, 2015, DEQ/AQD issued Notice of Violation 5548-15 to Peterson Energy. The Notice of Violation alleged that Peterson Energy had failed to

timely submit a permit application for the Facility, and also that it had failed to submit required permit application fees.

20. Without admitting liability, and in lieu of litigation pursuant to Wyo. Stat. Ann. § 35-11-901(a)(ii), Peterson Energy agrees to pay DEQ/AQD the amount of two thousand five hundred dollars (\$2,500) as a stipulated penalty to resolve the violations alleged in the aforementioned Notice of Violation. Peterson Energy agrees to make full payment by check made payable to the Wyoming DEQ/AQD, within thirty (30) days after Peterson Energy has been notified by DEQ/AQD that the final signature has been affixed to this Agreement. Peterson Energy agrees to mail the payment to Ann Shed, DEQ/AQD, Herschler Building, 122 West 25<sup>th</sup> Street, Cheyenne, Wyoming 82002.

21. Peterson Energy, by entering into this Agreement, does not concede or admit any liability, fault, or statutory noncompliance. Except as specifically provided for herein, nothing in this Agreement shall prejudice, waive, or impair any right, remedy, or defense that Peterson Energy may have against any entity.

22. Full compliance with this signed Agreement shall constitute full satisfaction for all claims by the DEQ/AQD against Peterson Energy arising from the allegations contained within the Notice of Violation and this Agreement. In reliance on this Agreement, the DEQ/AQD will refrain from taking further enforcement action against Peterson Energy for these particular alleged violations. By this Agreement, the Parties intend to resolve with prejudice all allegations that are contained within the Notice of Violation and this Agreement.

23. In the event that Peterson Energy fails to fulfill its obligations under this Agreement, Peterson Energy 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 or otherwise set forth in this Agreement.

24. This Agreement shall be admissible by either Peterson Energy or the DEQ/AQD without objection by the other party in any action between DEQ/AQD and Peterson Energy relating to the violations alleged herein.

25. Each party assumes the risk of any liability arising from its own conduct. Neither party agrees to insure, defend, or indemnify the other. Neither DEQ/AQD nor Peterson Energy shall have any claim against the other for attorneys' fees, or any other costs related to the preparation and resolution of this Agreement.

26. Any changes, modifications, revisions, or amendments to this Agreement are invalid unless mutually agreed upon by both parties, incorporated by written instrument, executed, and signed by all parties to this Agreement.

27. The laws of the State of Wyoming shall govern the construction, interpretation, and enforcement of this Agreement. 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.

28. 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.

29. 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.

30. 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 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.

31. In the event that Peterson Energy assigns any or all of its proprietary interest in the Facility, Wyoming, DEQ/AQD reserves the right to enforce this Agreement against any and all subsequent owners and operators.

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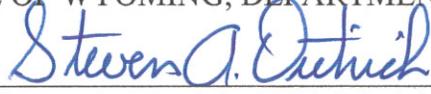
32. Each party represents that they are authorized to enter into this Agreement, agrees to comply with and to be bound by the terms of this Agreement, and further agrees that they will not contest the basis or validity of this Agreement. This Agreement shall become binding upon the parties once executed.

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:

PETERSON ENERGY OPERATING, INC.:

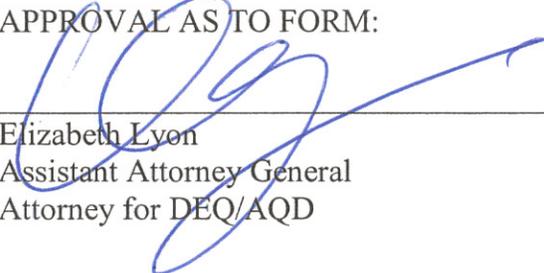
By:  8/3/15  
Andy Peterson Date  
President

STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY:

By:  8-12-15  
Steven A. Dietrich, AQD Administrator Date

By:  8/13/15  
Todd Parfitt, DEQ Director Date

APPROVAL AS TO FORM:

 8/14/15  
Elizabeth Lyon Date  
Assistant Attorney General  
Attorney for DEQ/AQD