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SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality (DEQ), Water Quality Division (WQD), and DNR Oil & Gas, Inc. (DNR), a corporation authorized to do business in Wyoming, enter into this Settlement Agreement to fully and finally resolve without litigation the violations alleged in **Notice of Violation Docket (NOV) Number 3963-06 dated November 14, 2006.**

W.S. §35-11-901(a)(ii) authorizes the DEQ to negotiate a stipulated settlement, including payment of a penalty, in lieu of litigation. To that end, DNR and the DEQ hereby stipulate and agree as follows:

1. The DEQ, pursuant to W.S. §35-11-104, is a department in the executive branch of the state government of Wyoming and is principally situated in Cheyenne, Wyoming. DEQ is the agency with the responsibility for administering the Wyoming Environmental Quality Act (Act) including all provisions of the Wyoming Water Quality Rules and Regulations (WWQRR).

2. DNR accepts responsibility for the violations alleged in NOV Docket Number 3963-06 which occurred in Laramie County, Wyoming.

3. Since receiving NOV Docket Number 3963-06, DNR has provided the WQD with documentation indicating the steps taken, or to be taken, to prevent the violation from occurring again. This includes either the submittal of a new permit application for the unpermitted facility, or the routing of the produced water to the permitted facility. DNR shall inform the WQD in writing of the action taken to ensure the unpermitted discharge is corrected. This information shall be received by the WQD on or before March 31, 2007.

4. DNR agrees to pay a total penalty of thirty thousand five hundred dollars and no cents (\$30,500.00) as a stipulated settlement to resolve this matter in lieu of litigation under W.S. §35-11-901(a)(ii). Payment shall be according to the following plan: DNR shall pay \$30,500.00 directly to the DEQ in five monthly installments of six thousand one hundred dollars and no cents (\$6,100.00) each. The first payment of \$6,100.00 to the DEQ shall be due and payable within thirty (30) days of the full execution of this Settlement Agreement or by March 15, 2007, whichever ever occurs first. The second payment of \$6,100.00 to the DEQ shall be due and payable by April 15, 2007. The third payment of \$6,100.00 to the DEQ shall be due and payable by May 15, 2007. The fourth payment of \$6,100.00 to the DEQ shall be due and payable by June 15, 2007. The final payment of \$6,100.00 to the DEQ shall be due and payable by July 15, 2007. Payment to DEQ shall be by check made payable to the Wyoming Department of Environmental Quality, Water Quality Division and shall be sent to: Mr. Brian R. Bohlmann, P.E., Compliance & Enforcement Coordinator, Department of Environmental Quality, Water Quality Division, Herschler Building 4th Floor-West, 122 West 25th Street, Cheyenne, Wyoming 82002. The checks should reference NOV Docket Number 3963-06.

5. Except as provided in paragraph 4 above, this signed Settlement Agreement and payment by DNR as specified above shall constitute full satisfaction for and resolution of all claims by the DEQ against DNR based on the violations alleged in Notice of Violation Docket Number 3963-06. Contingent upon DNR's compliance with the terms of this Settlement Agreement, the DEQ will refrain from taking further enforcement actions against DNR for these particular violations. By this Settlement Agreement, the parties intend to resolve with prejudice all allegations that were asserted in NOV Docket Number 3963-06.

6. DNR waives any statute of limitations which may apply to an enforcement action by the DEQ involving the specific matters described in Notice of Violation Docket Number 3963-06 in the event that DNR fails to fulfill their obligations under this Settlement Agreement.

7. Nothing in this agreement precludes DEQ from taking additional enforcement action, including the issuance of a Notice of Violation, Order, and/or pursuing additional penalties, should DNR violate the Act or applicable rules and regulations in the future.

8. This Settlement Agreement shall be admissible by either party without objection by the other party in any subsequent action between these parties.

9. Notwithstanding any other language in this Settlement Agreement, the State of Wyoming and DEQ do not waive sovereign immunity by entering into this Settlement Agreement with DNR and specifically retain all immunity and all defenses available as sovereigns under state and federal law.

10. Each party shall bear its own attorney fees and costs, if any incurred, through the date this Settlement Agreement is signed by both parties.

11. This Settlement Agreement is binding upon DNR, its successors and assigns, and upon the DEQ.

12. The persons signing this Settlement Agreement certify that they are duly authorized to bind their respective parties to this Settlement Agreement.

13. Full execution of this Settlement Agreement shall be determined by the latest date when signed by all parties.

FOR: DNR OIL & GAS, INC.

Signed: Charles B. Davis

Typed: Charles B. Davis

Title: President

Date: 2/21/2007

FOR THE WYOMING DEPARTMENT OF ENVIRONMENTAL QUALITY:

John V. Corra
John V. Corra
Director
Department of Environmental Quality

Date: 2/12/07

John F. Wagner
John F. Wagner
Administrator
Water Quality Division

Date: 2/9/07

JVC/JFW/BRB/bb/7-0124.SA

cc: Julie Orr, 8ENF-W-NP, EPA Region 8 (signed copy by all parties only)
Brian R. Bohlmann, P.E., WYPDES Compliance & Enforcement Coordinator
Bill DiRienzo ► Brian K. Lovett ► Leah J. Krafft
IPS (for scanning) ► Docket 3963-06
Keith Guille, DEQ Public Information Officer (PDF File of signed copy by all parties only)