SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality (DEQ), Water Quality Division (WQD) and Pennaco Energy, Inc. (Pennaco), a wholly owned subsidiary of Marathon Oil Company (Marathon) and 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 3859-06, dated May 9, 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, Pennaco 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 Environmental Quality Act (Act) including all provisions of the Wyoming Water Quality Rules and Regulations (WWQRR).

2. Pennaco accepts responsibility for the loss of CBM produced water containment from the Raging Bull Reservoir, alleged in NOV Docket Number 3859-06. The allegations listed in NOV Docket Number 3859-06 occurred in Sheridan County, Wyoming.

3. Pennaco has provided the WQD with information by letter dated June 1, 2006, demonstrating the steps taken to address the loss of CBM produced water containment from the Raging Bull Reservoir alleged by this NOV, including the ongoing operation programs designed to prevent/minimize loss of CBM produced water Reservoir containment. Prior to resuming CBM produced water discharges into the Raging Bull reservoir, Pennaco has committed to lining the reservoir. A report shall be received by the WQD within 30 days after the reservoir has been lined indicating the date of completion for the reservoir and the date the discharge of CBM produced water was resumed into the reservoir.

4. Pennaco agrees to pay a total penalty of fifteen thousand dollars and no cents ($ 15,000.00) as a stipulated settlement to resolve this matter in lieu of litigation under W.S. §35-11-901(a)(ii). DEQ has reduced Pennaco's penalty from $22,500.00 to $15,000.00 cash settlement due to Pennaco's timely efforts taken to control the flow of water and Pennaco's commitment to line the Raging Bull reservoir. Pennaco shall pay $15,000.00 directly to the DEQ/WQD. The payment is due and payable within thirty (30) days of the full execution of this Settlement Agreement or by March 31, 2007, which ever occurs first. 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., WYPDES Compliance & Enforcement Coordinator, Department of Environmental Quality Water Quality Division, Herschler Building 4th Floor-West, 122 West 25th Street, Cheyenne, Wyoming 82002. **The check should reference Docket Number 3859-06.**

5. Except as provided in paragraph 4 above, this signed Settlement Agreement and payment by Pennaco as specified above shall constitute full satisfaction for and resolution of all claims by the DEQ against Pennaco related to all allegations and all violations alleged in Notice of Violation Docket Number 3859-06. Contingent upon Pennaco's compliance with the terms of this Settlement Agreement, the DEQ will refrain from taking further enforcement action against Pennaco for these alleged violations. By this Settlement Agreement, the parties intend to resolve with prejudice all claims related to all allegations that were asserted in NOV Docket 3859-06.

6. Pennaco 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 3859-06, in the event that Pennaco fails to fulfill its obligations under this Settlement Agreement.

7. Nothing in this agreement precludes DEQ from additional enforcement action, including the issuance of a Notice of Violation, Order, and/or pursing additional penalties, should Pennaco 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. This Settlement Agreement does not constitute an admission by Pennaco or a retraction by the DEQ of the violations alleged in NOV Docket Number 3859-06.

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 Pennaco 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 Pennaco Energy, Inc., 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. Full execution of this Settlement Agreement shall be determined by the latest date of all parties signing.

FOR: PENNACO ENERGY, INC.

Signed: PM Hedderman Date: 2/15/07

Typed: P. M. Hedderman

Title: Operations Manager

FOR THE WYOMING DEPTARTMENT OF ENVIRONMENTAL QUALITY:

John V. Corra Date: 2/12/07

John V. Corra
Director
Department of Environmental Quality

John F. Wagner Date: 2/9/07

John F. Wagner
Administrator
Water Quality Division

JVC/JFW/BRB/bb/7-0126.SA

cc: Julie Orr, 8ENF-W-NP, EPA Region 8 (signed copy by all parties)
Brian R. Bohlmann, P.E., WYPDES Compliance & Enforcement Coordinator
James B. Eisenhauer, Sheridan DEQ Office (signed copy by all parties)
Bill J. DiRienzo ► Brian K. Lovett ► Leah J. Krafft
IPS (for scanning) ► Docket 3859-06
Keith Guille, DEQ Public Information Officer (PDF file of a signed copy by all parties)