

SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality (DEQ), Water Quality Division (WQD) and Petro-Canada Resources (USA) Inc.(Petro-Canada), a corporation authorized to do business in Wyoming, enter into this Settlement Agreement to fully and finally resolve without litigation the violations alleged in **Notices of Violation Docket (NOV) Numbers 3857-06 dated May 30, 2006 and 3953-06 dated October 24, 2006.**

W.S. §35-11-901(a)(ii) authorizes the DEQ to negotiate a stipulated settlement, including payment of a penalty, implementation of compliance schedules or other settlement conditions, in lieu of litigation. To that end, Petro-Canada 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 Petro-Canada conducts coal bed methane (CBM) production operations in Campbell and Johnson Counties in Wyoming, including those that are or have been conducted under WYPDES permits: WY0050270, WY0051985, and WY0039853.

Docket number 3857-06 alleges violations involving iron staining at outfalls associated with the above referenced Petro-Canada operations and Petro-Canada discharged backwash water from a treatment facility associated with WY0050270.

Docket number 3953-06 alleges violations involving a number of unpermitted discharges from Petro-Canada operations due to infrastructure failure and discharged to a reservoir prior to receiving groundwater clearance.

3. Since receiving the NOV, Petro-Canada has provided the DEQ with documentation of corrective actions taken to address the identified concerns and prevent future violations.

4. Petro-Canada agrees to pay a total civil penalty of seventeen thousand six hundred dollars and no cents (\$17,600.00) as a stipulated settlement to resolve this matter and all allegations contained in NOVs 3857-06 and 3953-06 as described above in lieu of litigation under W.S. §35-11-901(a)(ii). Three thousand two hundred dollars and no cents (\$3,200.00) of the total shall be for alleged violations occurring in Johnson County as noted in NOV Docket Number 3953-06 and fourteen thousand four hundred dollars and no cents (\$14,400.00) of the total shall be for alleged violations occurring in Johnson and Campbell Counties as noted in NOV Docket 3857-06. Payment is due and payable within thirty (30) days of the full execution of this Settlement Agreement. 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. Kevin M. Wells, WYPDES Compliance and Enforcement Coordinator, Department of Environmental Quality, Water Quality Division, Herschler Building, 4th Floor-West, 122 West 25th Street, Cheyenne, Wyoming 82002.

5. Petro-Canada's full compliance with the terms of this signed Settlement Agreement shall constitute full satisfaction for and resolution of all claims by the DEQ against Petro-Canada based on the specific allegations in NOV Docket Numbers 3857-06 and 3953-06.. Contingent upon Petro-Canada's compliance with the terms of this Settlement Agreement, the DEQ will refrain from taking further enforcement action against Petro-Canada for these particular alleged violations.

6. Petro-Canada waives any statute of limitations which may apply to an enforcement action by the DEQ involving the specific matters described in NOV Docket Numbers 3857-06 and 3953-06 in the event that Petro-Canada fails to fulfill its obligations under this Settlement Agreement.

7. Nothing in this Settlement Agreement precludes DEQ from taking additional enforcement action, including the issuance of a NOV, Order, and/or pursuing additional penalties, in the event that Petro-Canada violates the Act or applicable rules and regulations in the future.

8. This Settlement Agreement represents a good faith settlement and resolution of the NOV in lieu of litigation and shall not constitute or be construed as an admission by Petro-Canada or a retraction by DEQ of the specific allegations in NOV Docket Numbers 3857-06 and 3953-06.

9. This Settlement Agreement shall be admissible by either party without objection by the other party in any subsequent action to enforce its terms.

10. 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 Petro-Canada and specifically retain all immunity and all defenses available as sovereigns under state and federal law.

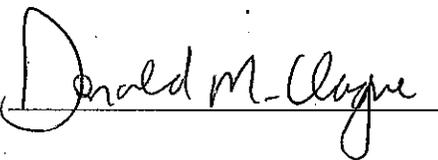
11. Each party shall bear its own attorney fees and costs, if any incurred, through the effective date of this Settlement Agreement.

12. This Settlement Agreement is binding upon Petro-Canada Resources (USA) Inc., its successors and assigns, and upon the DEQ.

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

14. The effective date of this Settlement Agreement, when signed by all parties, is the date of the latest signature below.

FOR: PETRO-CANADA RESOURCES (USA), INC.

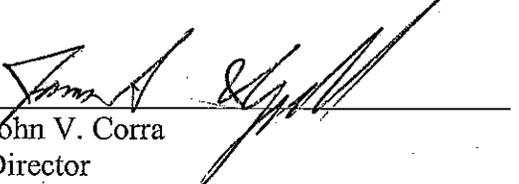
Signed: 

Date: May 14, 2007

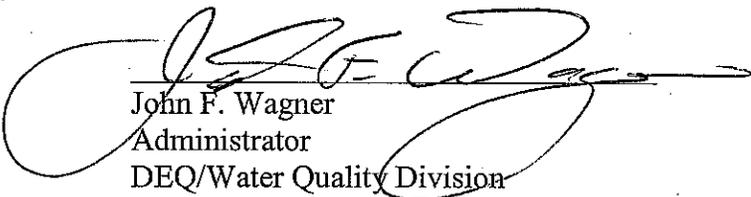
Typed: Donald M. Clague

Title: President

FOR THE WYOMING DEPARTMENT OF ENVIRONMENTAL QUALITY:


John V. Corra
Director
Department of Environmental Quality

Date: 4/27/07


John F. Wagner
Administrator
DEQ/Water Quality Division

Date: 4/26/07

JVC/JFW/KMW/bb/7-0333.SA

- cc: Aaron Urdiales, 8ENF-W-NP, EPA Region 8 (PDF)
James B. Eisenhauer, WYPDES Inspection Coordinator, Sheridan DEQ Office (PDF)
Dennis Lamb, Water & Wastewater District Engineer, Casper DEQ Office (PDF)
Bill J. DiRienzo ► Brian K. Lovett ► Leah J. Krafft
IPS (for scanning) ► Docket 3857-06
IPS (for scanning) ► Docket 3953-06
Keith Guille, DEQ Public Information Officer (PDF)
Mike Barrash, Senior Assistant Attorney General