OCT 3 0 2008

SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality (DEQ), Water Quality Division (WQD), and Pinnacle Gas Resources, Inc., (Pinnacle) a company 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 (NOV) Docket Number 4347-08 dated September 2, 2008. This violation occurred in Campbell County, Wyoming.**

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, Pinnacle 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. Since receiving the NOV, Pinnacle has provided the DEQ with documentation demonstrating the steps taken to address the alleged violations covered by this NOV, including the ongoing operational programs designed to prevent violations in the future.

3. Pinnacle agrees to pay a penalty of one thousand two hundred dollars and no cents ($1,200.00) as a settlement to resolve the above referenced NOV. Payment to the DEQ 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, 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 NOV Docket Number 4347-08.

4. This signed Settlement Agreement and payment by Pinnacle as cited in NOV 4347-08, shall constitute full satisfaction for and resolution of all claims by the DEQ against Pinnacle based on the violations alleged in NOV Docket Number 4347-08. Contingent upon Pinnacle's full compliance with the terms of this Settlement Agreement, the DEQ will refrain from taking further enforcement action against Pinnacle for these particular violations. By this Settlement Agreement, the parties intend to resolve with prejudice all allegations that were asserted in NOV Docket Number 4347-08.

5. Pinnacle waives any statute of limitations which may apply to an enforcement action by the DEQ involving the specific matters described in NOV Docket Number 4347-08 in the event that Pinnacle fails to fulfill its obligations under this Settlement Agreement.

6. Nothing in this agreement precludes DEQ from taking additional enforcement action; including the issuance of a NOV, Order, and/or pursuing additional penalties, should Pinnacle violate the Act, applicable rules and regulations, or WYPDES permit requirements in the future.

7. This Settlement Agreement or any actions taken in accordance with its provisions, does not constitute an admission by Pinnacle to any allegations, findings, determinations or conclusions contained in this Agreement, nor is this a retraction by the DEQ of the specific allegations in NOV Docket Number 4347-08. Except as specifically provided for herein, nothing in this Agreement shall prejudice, waive, or impair any right, remedy, or defense that Pinnacle may have against any entity.

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

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 Pinnacle 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. Pinnacle and the DEQ agree to comply with and be bound by the terms of this agreement and further agree they will not contest the basis or validity of this Settlement Agreement in any action taken by DEQ to enforce the terms of this Settlement Agreement. Therefore this Settlement Agreement is binding upon Pinnacle, 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: PINNACLE GAS RESOURCES, INC.

Signed: _____

Typed: Peter G. Schoonmaker

Title: CEO and President

Date: October 24, 2008

FOR THE WYOMING DEPARTMENT OF ENVIRONMENTAL QUALITY:

_____ Date: 10/8/08
John V. Corra
Director
Department of Environmental Quality

_____ Date: 10/8/08
John F. Wagner
Administrator
DEQ/Water Quality Division

JVC/JFW/KMW/bb/rm/8-0769

cc: Lee Hanley, 8ENF-W-NP, EPA Region 8 (PDF)
Bill J. DiRienzo ► Brian K. Lovett ► Leah J. Krafft (PDF)
IPS (for scanning) ► Docket 4347-08
Keith Guille, DEQ Public Information Officer (PDF File of signed copy by all parties)
DEQ Director