

## SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT (this "Agreement"), dated as of July 30, 2007, is by and among STATE OF MONTANA, DEPARTMENT OF REVENUE ("Plaintiff"), and WILLIAM M. FULTON JR., a.k.a. WILLIAM M. FULTON, a.k.a. BILL FULTON ("Fulton"), FULTON PRODUCING COMPANY, a Montana corporation ("FPC"), FULTON FUEL COMPANY, a Montana corporation ("FFC"), MONTANA GAS COMPANY, a Montana corporation ("MGC"), FULCO, INCORPORATED, a Montana corporation ("FI"), FUELCO INC., a Montana corporation ("Fuelco"), NORTHERN EXPLORATION COMPANY, a Montana corporation ("NEC"), WESTERN EXPLORATION, LTD., a Montana limited partnership ("WEL"), MCW TRANSMISSION L.P., a Delaware limited partnership ("MCW"), MINER'S COULEE GAS GATHERING SYSTEM, LTD., a Montana limited partnership ("MCGGS"), SIERRA PRODUCTION COMPANY, a Nevada corporation ("SPC"), STEPHCO INC., a Montana corporation ("SI"), GARY McDERMOTT ("McDermott"), MCR, L.L.C., a Montana limited liability company ("MCR"), MCR TRANSMISSION, LLC, a Montana limited liability company ("MCRT"), and BANK OF OKLAHOMA, NATIONAL ASSOCIATION, a national banking association ("BOK").

### RECITALS

A. Plaintiff and Defendants have made claims against each other in an action entitled *State of Montana, Department of Revenue v. Fulton Producing Company, et al.*, BDV-2007-6, in the Montana First Judicial District Court, Lewis & Clark County (the "Case").

B. Plaintiff and Defendants have entered into mediation proceedings with respect to the Case.

C. As a result of the mediation proceedings, Plaintiff and Defendants have reached agreement as to the terms and conditions pursuant to which they desire to provide for the settlement and release of all of the Subject Obligations and the dismissal with prejudice of the Case.

### SETTLEMENT AND RELEASE

NOW, THEREFORE, in consideration of the foregoing Recitals, which are deemed substantive terms in this Agreement, and in consideration of the mutual promises and covenants herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Plaintiff and Defendants forever fully and completely settle and compromise any and all Subject Obligations (as defined below) that any of them may have, including without limitation any and all claims for interest, penalties, and attorneys' fees related to those claims and further agree as follows:

1. Definitions. For all purposes hereof, the following terms shall have the meanings set forth below:

“Case” shall have the meaning set forth in Recital A above.

“Defendants” shall mean Fulton, FPC, FFC, MGC, FI, Fuelco, NEC, WEL, MCW, MCGGS, SPC, SI, McDermott, MCR, MCRT and BOK.

“Final Installment” shall have the meaning set forth in Section 2(b) below.

“Fulton Group” shall mean Fulton, FPC, FFC, MGC, FI, Fuelco, NEC, WEL, MCW, MCGGS, SPC and, SI.

“Initial Installment” shall have the meaning set forth in Section 2(a) below.

“Letter of Credit” shall have the meaning set forth in Section 4(c) below.

“Litigation Costs” shall mean any and all costs incurred by or on behalf of any of the Parties in connection with or in any way relating to the Case, including without limitation court costs, filing fees, document preparation costs, costs of preparing and responding to discovery requests and attorneys’ fees and disbursements.

“McDermott Group” shall mean McDermott, MCR and MCRT.

“Party” shall mean Plaintiff or any of the Defendants.

“Prior Settlement Agreements” shall mean the Settlement and Closing Agreement dated as of January 28, 1998, among Plaintiff and Fulton Producing Company, Fulton Fuel Company, FULCO, Inc., Northern Exploration Company and William M. Fulton, Jr. and the Tax Settlement Agreement dated as of January 23, 1998, among Liberty County, Montana and Fulton Producing Company, Fulton Fuel Company and MCW Transmission, Ltd.

“Subject Obligations” shall mean the following tax and other liabilities (and not any other tax liability of any other person or entity, any other type of tax or liability or any other tax year): (a) FPC’s 1981 through 1984 net proceeds tax liabilities to Blaine County, Glacier County, Liberty County, Pondera County, and Teton County; (b) FI’s 1981 through 1984 net proceeds tax liabilities to Pondera County and Teton County; (c) NEC’s 1981 through 1984 net proceeds tax liabilities to Teton County; (d) MCW’s, FFC’s and FPC’s real property, personal property and oil and gas production tax liabilities to Liberty County for tax years through 1997; (e) FFC’s, FI’s, NEC’s and Fulton’s oil and gas production tax liabilities to the State of Montana for tax years 1989 through 1995; (f) any and all liabilities and obligations under the Prior Settlement Agreements; (g) any and all other claims made in the Case by Plaintiff; and (h) any and all counterclaims made in the Case by any of the Defendants.

2. Payments. If, on or before July 31, 2007, counterparts of this Agreement executed by all Defendants shall have been delivered to Plaintiff and to McDermott and a counterpart of this Agreement executed by Plaintiff shall have been delivered to McDermott, on behalf of all Defendants, the Fulton Group will pay or cause to be paid to Plaintiff (by wire-transfer or other guaranteed funds, wire instructions: send payments by wire transfer to "Montana State Treasurer," bank routing number 092900383, account number 156041200221, providing the following third-party information: (1) Department of Revenue, (2) Fulton Group taxes, and (3) 2007 Settlement)) tax, penalties and interest totaling \$1,792,000 in full settlement of the Subject Obligations, due and payable as follows:

- (a) \$1,400,000 on or before July 31, 2007 (the "Initial Installment"); and
- (b) \$392,000 on or before January 26, 2008 (the "Final Installment").

3. Joint and Several Liability. Each member of the McDermott Group hereby agrees to guaranty, and to be jointly and severally liable for the complete and timely payment of, the Initial Installment and the Final Installment.

4. Dismissal, Releases and Letter of Credit. The parties agree to proceed as follows in performance of this Agreement: (a) upon execution of this Agreement, Plaintiff shall concurrently execute releases of warrants for distraint which have been filed to secure the Subject Obligations ("Warrants for Distraint") and all Parties shall concurrently with the execution of this Agreement also execute the stipulation for dismissal with prejudice, the form of which is attached hereto as Exhibit "A" and made a part hereof, (b) upon the delivery of this Agreement and the payment of the Initial Installment as set forth in Section 2(a) above, BOK shall concurrently deliver to Plaintiff an irrevocable standby letter of credit in the form of Exhibit "B" attached hereto and made a part hereof (the "Letter of Credit"), securing the payment of the Final Installment, (c) DOR shall immediately upon receipt of the Initial Installment and Letter of Credit file releases as appropriate of the Warrants for Distraint and deliver to Defendants copies of the releases and evidences of the filings, and (d) the Parties shall dismiss with prejudice the Case and all claims and counterclaims made therein by filing in District Court the stipulation for dismissal with prejudice. Upon the performance of (a) - (c) of this Section, inclusive, each of the Parties hereby releases any and all liens, security interests and subordinations granted pursuant to law, including but not limited to Warrants for Distraint, and under the Prior Settlement Agreements and, if so requested by any other Party, agrees to execute and deliver, or cause to be executed and delivered, appropriate documents in recordable form evidencing such releases. If this Agreement is not executed and delivered as described above or if the Initial Payment is not made as set forth in Section 2(a) above, this Agreement and the agreements and undertakings of the Parties set forth herein shall be void and of no force or effect.

5. Litigation Costs. Plaintiff shall have no claim against any of the Defendants for any Litigation Costs incurred by Plaintiff, and no Defendant shall have any claim against Plaintiff for any Litigation Costs incurred by such Defendant; provided that the foregoing is not intended, and shall not be construed, to alter or otherwise affect any now-existing or

hereafter-created indemnities or other agreements between or among any of the Defendants with respect to such Litigation Costs.

6. Final Settlement. This Agreement is intended to constitute a complete and final settlement among the Plaintiff and Defendants of the Case and of the Subject Obligations, and, conditional upon the performance by the other of the obligations undertaken hereunder: (a) Plaintiff does hereby release each Defendant and Triassic Limited Partners, L.P., a dissolved Delaware limited partnership, and its successors, and their respective attorneys, employees, agents, representatives and assigns, from any liability for costs, fees and expenses and from any damages, known or unknown, liquidated or unliquidated, arising in any manner from or in connection with the Case or any of the Subject Obligations, and (b) each Defendant does hereby release Plaintiff and its attorneys, employees, agents, representatives and assigns, from any liability for costs, fees and expenses and from any damages, known or unknown, liquidated or unliquidated, arising in any manner from or in connection with the Case or any of the Subject Obligations.

7. Choice of Law and Venue. This agreement is governed by the laws of Montana. The parties agree that any litigation concerning it must be brought in the First Judicial District in and for the County of Lewis and Clark, State of Montana and each party shall pay its own costs and attorney fees.

8. Authorization, Execution and Delivery. Each of the Parties represents and warrants to the others that: (a) it has duly authorized the execution and delivery of this Agreement; and (b) the representative of such Party signing below has been duly authorized to execute and deliver the same on behalf of such Party.

9. Press Release. If any press release is made by any of the Parties with respect to the settlement contemplated hereby, it will be a press release mutually agreed upon in writing by Plaintiff, Fulton and McDermott.

10. Counterparts. The Parties may execute duplicate, identical copies by counterpart or by facsimile counterpart, and their execution by such means will constitute binding acceptance of this Agreement.

EXECUTED to be effective as of the date first set forth above.

/S/  
**WILLIAM M. FULTON JR., a.k.a. WILLIAM M. FULTON, a.k.a. BILL FULTON**

**FULTON FUEL COMPANY**

By: /S/  
William M. Fulton, Jr., President

**MCW TRANSMISSION, L.P.**  
By: Fulton Fuel Company, its General Partner

By: /S/  
William M. Fulton, Jr., President

**MONTANA GAS COMPANY**

By: /S/  
William M. Fulton, Jr., \_\_\_\_\_

**FULTON PRODUCING COMPANY**

By: /S/  
William M. Fulton, Jr., \_\_\_\_\_

**FULCO, INCORPORATED**

By: /S/  
William M. Fulton, Jr., President

**FUELCO INC.**

By: /S/  
William M. Fulton, Jr., President

**WESTERN EXPLORATION, LTD.**

By: Fulton Fuel Company, its General  
Partner

By:       /S/        
William M. Fulton, Jr., President

**NORTHERN EXPLORATION COMPANY**

By:       /S/        
William M. Fulton, Jr., President

**MINER'S COULEE GAS GATHERING LTD.**

By:       /S/        
William M. Fulton, Jr., \_\_\_\_\_

**STEPHCO INC.**

By:       /S/        
William M. Fulton, Jr., President

**SIERRA PRODUCTION COMPANY**

By:       /S/        
William M. Fulton, Jr., President

      /S/        
**GARY McDERMOTT**

**MCR, L.L.C.**

By:       /S/        
Gary McDermott, Manager



