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NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

August 27, 2002

Gary L. Horner, Esq.
P. O. Box 2497
Farmington, New Mexico 87499

Re: NMOCD Case 12910
Application of Richardson Production Company
For Compulsory Pooling E/2 of Section 14, T29N, R14W
San Juan County, New Mexico

Dear Mr. Horner:

On August 22, 2002, by Mr. David Brooks, Esq., the hearing examiner for the New Mexico Oil Conservation Division ("Division"), decided that the parties should make another attempt to reach a voluntary agreement and to advise the Division at the hearing to be held on September 19, 2002 of the status of that effort.

It is our understanding at the hearing that Ms. Fischer will not lease her interest to Richardson but instead want to participate in the Navajo "14" Well No. 2 (Subject Well) which has been drilled in Unit L of Section 14 and will be downhole commingled for Fruitland coal gas production dedicated to a spacing unit consisting of the E/2 of Section 14 and for Pictured Cliff formation gas production dedicated to a spacing unit consisting of the NE/4 of Section 14.

In accordance with Examiner Brook's decision, I have been authorized by Mr. David Richardson of Richardson Production Company to communicate the following offer to you for Ms. Mary Fischer ("Fischer"):

(a) Fischer shall voluntarily commit her entire mineral interest in Lot 1 of Section 14 to the spacing unit. Fischer believes she owns 50% of 8/8 of 45 mineral acres (22.5 net acres). In accordance with the BLM calculations for the acreage in Lot 1, Richardson believes Fischer owns 50% of 8/8 of 35.51 mineral acres (17.75 net acres); (the disputed difference is 50% of 8/8 of 10 acres or 5 net acres).

(b) Fischer agrees to commit 8/8 of her entire interest such that she will be a working interest owner in the well in accordance with Richardson's Joint Operating Agreement, enclosed ("JOA");

(c) Fischer shall pay to Richardson her undisputed share of the costs of drilling and completing the Subject Well in accordance with the JOA which means that Fischer shall not be charged with any penalty for drilling and completing this well,

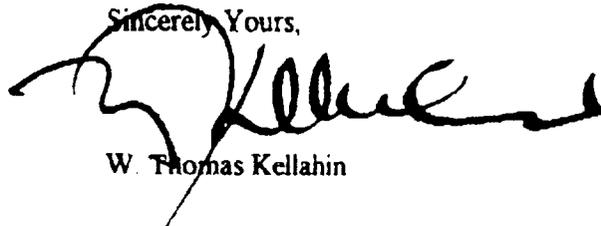
(d) Richardson shall disburse to Fischer her undisputed share of the production from the Subject Well in accordance with the JOA which means that Fischer shall not be charged with any penalty for drilling and completing this well;

(e) Fischer shall not receive any royalty or overriding royalty out of her 8/8 interest or out of any other interest.

(f) Richardson shall not be required to "carry" Fischer's interest or to recover Fischer's share of the costs of drilling and completing the well out of Fischer's share of production

(g) Richardson shall escrow Fischer's disputed percentage until Fischer provides to Richardson written confirmation that the Bureau of Land Management on behalf of the Navajo Tribe waives any claim to the disputed interest.

Sincerely Yours,

A handwritten signature in black ink, appearing to read "W. Thomas Kellahin". The signature is fluid and cursive, with a large initial "W" and a long, sweeping underline.

W. Thomas Kellahin

CC. David Richardson

**RICHARDSON OPERATING COMPANY
AUTHORITY FOR EXPEDITURES
BASED ON BLM LEASEHOLD CALCULATIONS**

Well Name: Navajo 14 #2 well SECTION 14 PC NE4, FC E/2

Location: T29N R14W

Date: 8/27/2002

Proposed Depth: 850' Fruitland Coal
1050' Pictured Cliffs

Objective Formation: Commingled Pictured Cliffs
and Fruitland Coal

I. Drilling Costs (Included Run Casing)

	Tangible	Intangible	Total	Fruitland Coal	Pictured Cliffs
Survey and Permits		5,000		2,500	2,500
Title Opinion		4,000		2,000	2,000
Damages		6,000		3,000	3,000
Drilling (incl. water and mud) 1050' @ 15.00/ft.		15,750		6,375	9,375
BOP Rental		750		375	375
Dirt Work		3,000		1,500	1,500
Pit Lining		2,000		1,000	1,000
Surface Casing 200' @ 7.65/ft.	1,530			765	765
Casing Head	1,000			500	500
Cement Surface		1,500		750	750
Power Tongs		1,000		500	500
Casing 1050' @ 5.00/ft.	5,250			2,125	3,125
Trucking		2,000		1,000	1,000
Logs		5,000		2,500	2,500
Engineering		5,000		2,500	2,500
Cement Longstring		4,000		1,619	2,381
Total Cost to Run Casing	7,780	55,000	62,780	29,009	33,771
6.0625% Farmington, NM Tax			3,806	1,759	2,047
10% Contingency			6,278	2,901	3,377
Grand Total to Run Casing			72,864	33,669	39,195

II. Completion Costs

Rig Anchors		750		375	375
Logs		2,500		1,250	1,250
Perf		3,000		1,500	1,500
Wellhead & Fittings	3,000			1,500	1,500
Tubing 1050' @ 2.10/ft.	2,205			893	1,313
Stimulation		50,000		25,000	25,000
Tool Rental		2,000		1,000	1,000
Trucking		2,000		1,000	1,000
Battery Installation		4,000		2,000	2,000
Restore Location		2,000		1,000	1,000
Engineering		5,000		2,500	2,500
Treater, Separator	6,000			3,000	3,000
Flowline	3,000			1,500	1,500
Tank & Fittings	5,000			2,500	2,500
Gravel	2,000			1,000	1,000
Workover Rig		12,000		6,000	6,000
Completion Fluids		2,000		1,000	1,000
Pipeline Hookup		13,000		6,500	6,500
Division Order Opinion		1,000		500	500
Frac Tank Rental		2,000		1,000	1,000
Flowback		2,000		1,000	1,000
Fence Location	5,000			2,500	2,500
Total Completion Costs	26,205	103,250	129,455	64,518	64,938
6.0625% Farmington, NM Tax			7,848	3,911	3,937
10% Contingency			12,946	6,452	6,494
Drilling Costs			72,864	33,669	39,195
Grand Total Well Costs			223,113	108,549	114,564

WI Share of Costs

JITLAND COAL				
.4385% Mary Fischer	DATE _____	APPROVED _____		\$5,903
.5615% RICHARDSON OPERATING COMPANY	DATE _____	APPROVED _____		\$102,646
			TOTAL	\$108,549
PICTURED CLIFFS				
.6656% Mary Fischer	DATE _____	APPROVED _____		\$12,219
.3344% RICHARDSON OPERATING COMPANY	DATE _____	APPROVED _____		\$102,345
			TOTAL	\$114,564
			Fischer	\$18,122
			Richardson	\$204,990