

NMNM 104865
CASE RECORDATION NO.

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COMPENSATORY ROYALTY AGREEMENT

THIS AGREEMENT is made and entered into this 14th day of January, 2001, by and between the United States of America, through the Secretary of the Interior or his designated representative, hereinafter sometimes referred to as the "USA", and Richardson Production Company, a Colorado corporation, hereinafter sometimes referred to as "Operator".

WITNESSETH:

WHEREAS, pursuant to the provisions of Order R-31 issued by the New Mexico Oil Conservation Division in Case No. 233 effective September 29, 1950, the West Kutz Pictured Cliffs (Gas) Pool was created, thereby providing for the development of the Pictured Cliffs (Gas) formation on the basis of 160 acre spacing and proration units; and, WHEREAS, pursuant to the provisions of Order R-8768 issued by the New Mexico Oil Conservation Division in Case No. 9420 effective November 1, 1988, the Basin Fruitland Coal (Gas) Pool was created, thereby providing for the development of the Basin Fruitland Coal (Gas) formation on the basis of 320 acre spacing and proration units;

WHEREAS, the USA has reviewed and accepted 160 acre spacing for the Pictured Cliffs (Gas) formation and 320 acre spacing for the Basin Fruitland Coal (Gas) formation;

WHEREAS, the E/2 of Section 14, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico is comprised of the tracts of land tabulated in Exhibit "A", attached hereto and by this reference made a part hereof. Ownership of oil and gas mineral rights and associated lease information is also tabulated on Exhibit "A". Operator is the owner of all or a portion of such oil and gas leasehold operating rights.

WHEREAS, the oil, gas and other mineral rights in and under the San Juan River North of Mid-Channel within the NW/4NE/4 of said Section 14, containing approximately 2.24 acres, more or less, are owned by the USA and are unleased and unleaseable.

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WHEREAS, Operator has submitted for approval Application for Permit to Drill the Navajo 14 #2 well, to be located 1948 feet FNL and 1037 feet FEL (SE/4NE/4) in Section 14-Township 29 North, Range 14 West. It is the intent of Operator to drill and attempt completion in the Fruitland Coal and Pictured Cliffs formations, and if successful, apply for approval to downhole commingle production from the two zones.

WHEREAS, in order to conserve natural resources, prevent waste, and protect correlative rights, the USA and Operator desire to enter into an agreement which will facilitate the orderly development of the subject lands in accordance with the rules and regulations established by the New Mexico Oil Conservation Division while, at the same time, recognizing the proprietary interests of the USA.

NOW, THEREFORE, in consideration of the premises and covenants and agreements hereinafter contained, the USA and Operator agree as follows:

1. Operator agrees to pay to the USA compensatory royalty in an amount equal to 12.5% of the value of all production from the Pictured Cliffs formation and from the Basin Fruitland Coal formation produced in the Navajo 14 #2 well, which is allocated to 2.24 acres, more or less, under which the USA owns the oil, gas and other mineral rights, with a minimum royalty of \$1.25 per net acre during the first five years of this agreement and \$2.00 per net acre after the first five years of this agreement.
2. Notwithstanding the foregoing, the compensatory royalty shall not be due and payable on production used on lease in conformity with good operating practices for drilling, pressure maintenance, operation and other production or development purposes, for repressurizing or recycling in accordance with a plan of development approved by the authorized officer of the Bureau of Land Management, or for production unavoidably lost.
3. The compensatory royalty shall be free of all taxes, royalties, expenses and investment costs.
4. The compensatory royalty shall be computed and shall be payable in accordance with applicable oil and gas operating regulations.
5. The obligation of Operator to pay compensatory royalty as provided herein shall commence as of the date of first sales from the Navajo 14 #2 well.

6. Any allocation of production from the Navajo 14 #2 well to the allocated 2.24 acre tract of land, more or less, under which the USA owns the oil, gas and other mineral rights, shall be based on the proportion that the number of surface acres in said tract bears to the total number of surface acres included within the spacing and proration unit(s) established for the Navajo 14 #2 well.

7. In the event either of the spacing and proration unit(s) established for the Navajo 14 #2 well are subsequently revised, then there shall be allocated to the 2.24 acre tract of land, more or less, under which the USA owns the oil, gas and other mineral rights, that proportion of total production from the revised spacing and proration unit(s) that the number of surface acres out of the tract of land owned by the USA, and included in the revised spacing and proration unit(s), bear to the total number of surface acres included in the revised spacing and proration unit(s).

8. During the term of this Agreement, the proceeds of production from the Navajo 14 #2 well attributable to the working interest associated with the oil, gas and other mineral rights owned by the USA shall be paid to Operator.

9. During the term of this Agreement, the USA shall not execute, nor shall it enter into an agreement for the issuance of, a lease covering the Pictured Cliffs formation and/or Basin Fruitland Coal formation in and under the allocated 2.24 acre tract of land under which the USA owns the oil, gas and other mineral rights.

10. This Agreement shall be effective upon the acceptance of this Agreement by the USA, as evidenced by its execution hereof, and shall remain in full force and effect for so long as the allocated 2.24 acre tract of land under which the USA owns the oil, gas and other mineral rights, or any portion thereof, is committed to the spacing and proration unit(s), or any revision thereof, which is established for the well; provided, however, in no event shall this Agreement remain in force and effect beyond any period of six (6) months during which there is not a well on the subject spacing and proration unit(s) completed in the Pictured Cliffs formation or Fruitland Coal formation and capable of producing in paying quantities oil, gas and/or condensate therefrom.

11. Operator will not use or occupy the surface of the allocated 2.24 acre tract of land under which the USA owns the oil, gas and other mineral interests unless such use or occupancy is authorized in writing by the appropriate surface management agency.

12. Any and all subsurface operations conducted with respect to the allocated 2.24 acre tract of land under which the USA owns the oil, gas and other mineral rights shall be subject to the operating regulations promulgated by the Bureau of Land Management.

13. In connection with the performance of work under this Agreement, Operator agrees to comply with all of the provisions of Section 202(1) to (7), inclusive, of Executive Order 11246, as amended (30 F.R. 12319).

14. This Agreement and the rights, privileges and obligations thereunder, may be assigned by Operator, either in whole or in part.

15. This Agreement shall be binding upon, and shall inure to the benefit of, the USA and Operator and their successors and assigns.

IN WITNESS WHEREOF, this Agreement is executed on the day and year first above written.

"USA"

The United States of America

By: Henry M. McDougall
Title: Legal Instruments Examiner

"OPERATOR"

Richardson Production Company

By: Cathleen Colby
Title: Attorney-in-Fact

EXHIBIT "A"

E/2 Section 14-Township 29 North-Range 14 West, NMPM

	Tract Description	Acres	Ownership / Lease
Tract I	Lot 1	33.14	Fee / Fee
Tract II	North of Mid Channel of San Juan River within E/2NE/4	2.37	Fee / Fee
Tract III	South of Mid Channel of San Juan River within E/2NE/4	2.29	Navajo Nation / 14-20-603-2198
Tract IV	Accreted land between San Juan River and Lot 15	29.70	Navajo Nation / 14-20-603-2198
Tract V	Lot 15	14.27	Navajo Nation / 14-20-603-2198
Tract VI	Lot 20	23.24	BLM / NM SF078110
Tract VII	Accreted land between San Juan River and Lot 20	4.90	BLM / NM SF078110
Tract VIII	North of Mid Channel of San Juan River within NW/4NE/4	2.24	BLM / Open
Tract IX	South of Mid Channel of San Juan River within NW/4NE/4	2.33	Navajo Nation / 14-20-603-2198
Tract X	Accreted land between San Juan River and Lot 23	13.13	Navajo Nation / 14-20-603-2198
Tract XI	Lot 23	38.86	Navajo Nation / 14-20-603-2198
Tract XII	SE/4	<u>160.00</u>	Navajo Nation / 14-20-603-2198
	Total Acres	326.47	