

DISTRICT COURT, GARFIELD COUNTY, COLORADO 109 8 th Street, Glenwood Springs, CO 81601 Telephone: (970) 945-5075	
Plaintiffs: IVO LINDAUER, SIDNEY and RUTH LINDAUER, and DIAMOND MINERALS, LLC, on behalf of themselves and all others similarly situated, v. Defendant: WILLIAMS PRODUCTION RMT COMPANY	<input type="checkbox"/> COURT USE ONLY <input type="checkbox"/> Case Number: 2006cv317 Div.: Ctrm.:
SETTLEMENT AGREEMENT	

This Agreement is made between Plaintiffs Ivo Lindauer, Sidney and Ruth Lindauer, and Diamond Minerals, LLC, on behalf of themselves and all others similarly situated, and Defendant Williams Production RMT Company, effective June 1, 2008.

RECITALS

WHEREAS, on September 20, 2006, Plaintiffs filed suit in Colorado State District Court for Garfield County, Colorado (“Court”), Case No. 2006CV317, alleging that Defendant has underpaid royalty and overriding royalty interest owners on gas production in Garfield County, Colorado, and has not made refunds of excess ad valorem tax withholding for certain years.

WHEREAS, Plaintiffs seek to bring this suit as a class action on behalf of all other royalty and overriding royalty owners who are similarly situated.

WHEREAS, Defendant denies the allegations that it has underpaid royalty and overriding royalty and maintains that it was in the process of determining the ad valorem tax refunds when the lawsuit was filed.

WHEREAS, the parties recognize that they will expend substantial resources in continuing this litigation and agree that settlement of most of the claims raised is in their respective interests.

WHEREAS, the parties have been able to agree to settlement of all but two distinct and severable claims in this litigation, and as to those two claims, have agreed on the manner in which those claims should be resolved by the Court.

WHEREAS, subject to the two Reserved Claims described below, the parties desire by this Agreement to (1) resolve all class claims relating to past calculation of royalty and overriding royalty, (2) establish certain rules to govern future royalty and overriding royalty payments so as to avoid or minimize disputes over royalty payments in the future, and (3) resolve all claims relating to past withholding for ad valorem tax payments, and establish a procedure for refunds of any such excess withholding in the future.

WHEREAS, after substantial discovery relating to the claims and defenses (including information obtained in two prior cases that were tried in the Garfield County district court involving other royalty owners), the parties participated in a mediation conducted by former Colorado Supreme Court Justice William D. Neighbors on April 3, 2007, and thereafter continued to exchange documents, voluminous accounting data, and other relevant information before reaching this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED by the Settling Parties that, subject to final approval by the Court and the entry of Judgment as to the Settled Claims, the class claims of the Settlement Class Members other than the two Reserved Claims described below be settled and dismissed with prejudice, subject to the following terms and conditions:

SECTION 1

1. DEFINITIONS

As used in the Settlement Agreement and the Exhibits hereto, the following terms have the meanings specified below.

1.1 “Action” means the class action identified in the caption of this Settlement Agreement.

1.2 “Administrative Expenses” means the reasonable expenses incurred in providing notice to the Plaintiff Class, including costs of printing, publishing and mailing the Notice, as well as expenses incurred by Class Counsel in locating members of Plaintiff Class and performing the activities referred to in paragraph 8.10.

1.3 “Class Counsel” means Nathan A. Keever of Dufford, Waldeck, Milburn & Krohn, L.L.P.; G.R. Miller of Miller, Agro & Robbins, LLC; and Thomas D. Kitch, Gregory J. Stucky, and David G. Seely of Fleeson, Goosing, Coulson & Kitch, LLC.

1.4 “Class Representatives” means Ivo Lindauer, Sidney and Ruth Lindauer, and Diamond Minerals, LLC.

1.5 “Class Wells” means the wells located on or with production allocated to the oil and gas leases listed on Exhibit A.

1.6 “Deduction” means any monetary or volumetric deduction taken by Williams when calculating and paying royalty or overriding royalty to any member of the Plaintiff Class since September 2000 for costs attributed to operations between the initial point(s) of measurement of gas produced from the Class Wells to the point of access into a Mainline

Transmission Pipeline.

1.7 “Distribution Check” means a check payable to a Settlement Class Member in the net amount owed to such Settlement Class Member pursuant to this Agreement.

1.8 “Distribution Date” means the date on which the Distribution Check is sent to each Settlement Class Member.

1.9 “Effective Date” means the date on which the Court’s Judgment for the Settled Claims becomes Final and Unappealable as set forth in paragraph 1.12.

1.10 “Fairness Hearing” means the hearing to be held before the Court at which an order in a form substantially similar to Exhibit F hereto shall be presented for approval.

1.11 “Final Distribution Schedule” means a schedule that shows the net amount due each Settlement Class Member under Section 3 of this Settlement Agreement, after prorata reduction for any award of attorney’s fees and expenses and Administrative Expenses.

1.12 “Final and Unappealable Judgment” means the following: If no appeal from the Judgment has been filed, the Judgment becomes “Final and Unappealable” upon the expiration of the time under Colorado Appellate Rule 4(a) for filing a notice of appeal from the Judgment. If a timely appeal from the Judgment is filed and either the Judgment is affirmed or the appeal is dismissed, the Judgment becomes “Final and Unappealable” upon the earlier of (i) the filing of no petition for writ of certiorari after such affirmance or dismissal within the time for filing such a petition, or (ii) expiration of the time for rehearing of the denial or dismissal of such a petition after such affirmance or dismissal, or (iii) expiration of the time for seeking rehearing of the Supreme Court’s affirmance of such affirmance or dismissal.

1.13 “Judgment” means the order in a form substantially similar to Exhibit F hereto.

1.14 “Leasehold Estates” means those leasehold interests that Williams has owned or operated in Garfield County, Colorado, at any time during the period from September 2000 through May 2008. Those leases are listed under the categories set forth on Exhibit A.

1.15 “Mainline Transmission Pipeline” means the transmission pipelines indicated below, and transmission pipelines located downstream of those pipelines. The parties agree that the following pipelines in the Piceance Basin qualify as Mainline Transmission Pipelines: CIG, NWPL, Questar, TransColorado, Wyoming Interstate Gas, PSCO as specified below (including the interests in that pipeline owned by Public Service Company and Rocky Mountain Natural Gas), and Rockies Express. The parties also agree that gathering pipeline systems in the Piceance Basin, such as Williams’ Grand Valley Gathering System and the gathering system operated by Canyon Gas Resources and/or Energy Transfers, do not qualify as a Mainline Transmission Pipeline. The parties further agree that to the extent the PSCO pipeline is connected directly to Williams’ wells and operates like the Grand Valley Gathering System, then that portion of the PSCO pipeline does not qualify as a Mainline Transmission Pipeline. (The portion of the PSCO pipeline into which the Grand Valley Gathering System delivers gas does qualify as a Mainline Transmission Pipeline.) With respect to pipeline systems not identified in this paragraph (or not yet constructed), the parties agree that a pipeline that collects gas directly from many wells and then delivers the gas to a common collection point in the field or brings gas to a Plant is not a Mainline Transmission Pipeline; however, a pipeline that transports the gas beyond common collection points in the field towards end use or downstream markets for the gas without processing or treatment of the gas after entry into that pipeline (and after any compression required to bring the gas to the equivalent levels of pressure maintained on the above listed

transmission pipelines) is a Mainline Transmission Pipeline, regardless of whether the pipeline is regulated by the Federal Energy Regulatory Commission.

1.16 “Natural Gas Liquids” or “NGLs” means liquid hydrocarbons recovered or obtained by or on behalf of Williams from the gas after the gas is measured at or near the well. It includes liquid hydrocarbons recovered from the Grand Valley Gathering System and the Plants.

1.17 “Net Settlement Fund” means the Settlement Amount less all amounts approved by the Court for payment of (i) attorneys’ fees and expenses to Class Counsel, and (ii) Administrative Expenses.

1.18 “Notice” means the notice as approved by the Court at the Preliminary Approval Hearing pursuant to C.R.C.P. 23 (c)(2). A proposed Notice is attached as Exhibit B.

1.19 “Opt-Out Claimant” means a member of the Plaintiff Class who submits a timely and valid request for exclusion in accordance with the Preliminary Order, and who does not revoke that request for exclusion in writing at least seven (7) days before the Fairness Hearing.

1.20 “Plaintiff Class” means all royalty owners, including overriding royalty interest owners, who have been entitled to receive royalty payments under oil and gas leases located in Garfield County, Colorado, owned in whole or in part, or operated by, Williams at any time during the period from September 20, 2000, through May 31, 2008. Excluded from the “Plaintiff Class” are the following:

(a) The United States of America insofar as its mineral interests are managed by the Minerals Management Service;

(b) Indian Tribes and their allottees;

(c) Parties to prior settlement agreements with Williams relating to payment of royalty (Puckett Land Company);

(d) Royalty owners in oil and gas leases that provide a specific formula for payment of royalty tied to an index price, but only to the extent they receive royalty under such leases (the oil and gas lease dated July 20, 2005 between Mary Anne Bosely, *et al.* as “Lessor” and Williams as “Lessee,” and the oil and gas lease dated May 9, 2006, between Jonathon H. Wellendorf and Diana L. Wellendorf as “Lessor” and Williams as “Lessee”);

(e) Parties who have previously litigated royalty payment issues with Williams, for the time period covered by the judgments entered in those cases (Joan L. Savage and William F. Clough);

(f) the Meriam Zela Grynberg Trust, the Rachel Susan Grynberg Trust, and the Stephen Mark Grynberg Trust, which are plaintiffs asserting royalty payment claims in *Grynberg v. Williams*, Civil Action No. 02-CV-5167, pending in the Denver District Court;

(g) EnCana Oil & Gas (USA) Inc., ExxonMobil, and Chevron USA (but these royalty owners will be given an opportunity to opt in to the Plaintiff Class);

(h) Williams Production RMT Company and Barrett Resources Corporation and any of their affiliates; and

(i) The legal representatives, heirs, successors, or assigns of any excluded party.

1.21 “Plants” means Williams’ existing and future plants in the Piceance Basin which treat or process gas from the Class Wells.

1.22 “Preliminary Approval Hearing” means the hearing to be held before the Court at which an Order in a form substantially similar to Exhibit E hereto shall be presented for approval.

1.23 “Preliminary Distribution Schedule” means a schedule created by Williams that shows the amount due each member of Plaintiff Class under Section 3 of this Agreement, without (i) deletion of Opt-Out Claimants, and (ii) prorata reduction for any award of attorney’s fees and expenses and Administration Expenses. The Preliminary Distribution Schedule shall also identify the category of the Royalty Instrument(s) associated with each class member as well as the name and most current identification number assigned to each such member by Williams in the normal course of business.

1.24 “Preliminary Order” means the order in a form substantially similar to Exhibit E hereto.

1.25 “Released Parties” means Williams and all other working interest owners in the Class Wells for whom Williams has paid royalty or overriding royalty and for whom Williams makes Settlement Payments to members of Plaintiff Class, as well as the past and present employees, officers, directors, representatives, agents, attorneys, parents, affiliates, subsidiaries, stockholders, predecessors, successors and assigns of Williams and all such working interest owners.

1.26 “Reserved Claims” means the two claims not resolved by this Settlement Agreement and reserved for resolution by the Court, as more particularly described in Section 7 of this Agreement.

1.27 “Royalty Instruments” means all oil and gas leases creating royalty interests and all other contracts or instruments creating overriding royalty interests, covering lands in Garfield

County, Colorado, under which Williams is or has been a lessee during the period from September, 2000 through May 31, 2008, and in which a Settlement Class Member owns or has previously owned an interest.

1.28 “Royalty Instrument Categorization” means the categorization of Royalty Instruments set forth in Exhibit A.

1.29 “Settled Claims” means any and all claims, demands, rights, liabilities, and causes of action of every nature and description whatsoever, known or unknown, suspected or unsuspected, asserted or unasserted, that might have been asserted prior hereto or in the future, directly, representatively, derivatively, or otherwise by the members of the Plaintiff Class based on any facts, circumstances, transactions, events, occurrences, statements, acts, omissions, failures to act, conflicts of interest, tortious acts, intentional acts, negligent acts, grossly negligent acts, acts of unjust enrichment, breaches of express provisions, breaches of implied covenants or any other duties arising under the leases or overriding royalty instruments, or breach of other statutory or common law duties which occurred at any time, which were or could have been properly alleged under Colorado Rule of Civil Procedure 23 by the Class Representatives on behalf of the Plaintiff Class arising from payment of royalty or overriding royalty by Williams, or the withholding of ad valorem taxes, except for the two Reserved Claims.

1.30 “Settlement Amount” means the total amount of Settlement Payments, prior to any reduction for amounts awarded by the Court for Class Counsel’s attorneys’ fees, litigation costs, expenses, and Administrative Expenses.

1.31 “Settlement Class Members” means all members of the Plaintiff Class except Opt-Out Claimants.

1.32 “Settlement Payments” means those payments described in Section 3 of this Settlement Agreement.

1.33 “Settling Parties” means Class Representatives and Williams.

1.34 “Statutory Interest” means the rate of 8%, compounded annually, pursuant to C.R.S. § 5-12-102.

1.35 “Transition Date” means the last day of Williams’ accounting month in which the Court executes Exhibit E.

1.36 “Weighted Average Sales Price” or “WASP” means all proceeds Williams and any affiliate receives for the applicable production month from third parties in arms-length transactions for all products, including residue gas, unprocessed gas, and NGL’s, allocated to each applicable grouping of Class Wells whose production Williams has appropriately assigned to an accounting sales pool, divided by the total volume related to each such sales pool (on an Mmbtu basis in the case of residue gas and unprocessed gas, and gallons or barrels in the case of NGLs). There is or will be a separate WASP for residue gas, unprocessed gas, and NGLs. With respect to any products that Williams has used or stored, Williams will calculate and pay royalty based on the WASP received in the month of production for the same types of products, less applicable deductions permitted under Section 4.

1.37 “Williams” means Williams Production RMT Company, together with its affiliated persons and entities, and includes Barrett Resources Corporation, which merged into Williams in 2001.

SECTION 2

2. PAST AND PRESENT ROYALTY PAYMENT METHODOLOGIES

Subject to any mistakes or miscalculations that Williams has made in its accounting (which Williams will be correcting under Section 3 of this Agreement), Williams makes the following representations of fact:

2.1 From September 2000 until merging with Williams in August 2001, Barrett Resources calculated royalties by starting with an arm's-length sales price and then deducting all expenses incurred between the wellhead and the point of sale, including but not limited to Deductions, which included a fee for utilizing its wholly-owned Grand Valley Gathering System (GVGS). During this period, the GVGS fee was \$0.22 per mcf plus a 2.5% fuel charge.

2.2 Effective with September 2001 production, Williams stopped taking Deductions. For production from September 2001 through December 2005, Williams paid royalties by calculating a Weighted Average Sales Price (or "WASP") for the residue gas and unprocessed gas. Williams applied the WASP to the volumes of gas measured at each wellhead and only deducted third-party fees which it actually incurred to move the gas on one or more Mainline Transmission Pipelines to the point of sale or consumption.

2.3 From January 2006 production until the Effective Date, Williams has included NGLs when calculating royalties on gas that is processed. Williams allocates NGLs back to the wells based on gas analyses performed for each well, so that each well producing processed gas shares proportionately in the NGL recovery. Williams then calculates the residue gas volume for each well based on the total volume of gas measured at the wellhead less the Mmbtu's removed as NGLs. Williams calculates royalty on the residue gas by applying the WASP for residue gas and

deducting only transportation costs incurred to move the gas on Mainline Transmission Pipelines. Williams calculates royalty on the NGLs based on the applicable WASP for NGLs, less any transportation costs incurred beyond the Plants.

2.4 From January 2006 production to the Effective Date, Williams has not deducted processing costs, including any volumetric reductions for Plant fuel, which it has incurred to extract NGLs; before this lawsuit was filed, however, it had been engaged in the planning necessary for it to begin deducting such costs from its royalty payments.

SECTION 3

3. SETTLEMENT PAYMENTS FOR PAST PRODUCTION

3.1 With respect to all Royalty Instruments except those in categories 1, 2, 3 and 13 on Exhibit A, Williams will pay Settlement Class Members for all Deductions taken in calculating royalty from the September 2000 accounting month to the Transition Date. Williams will compute and pay Statutory Interest on the principal amount of each Deduction, from the date upon which it was taken until the Transition Date. After the Transition Date, Williams will compute and pay interest at the rate of 4% simple interest until the Distribution Date.

3.2 With respect to all Royalty Instruments for the September 2000 accounting month through the December 2005 production month, Williams will pay Settlement Class Members 75% of the additional value of NGLs recovered downstream of the initial measurement point at or near each Class Well, for each such well, as compared to the original payment of royalty on those Mmbtus based on a residue gas price. Williams will compute and pay royalty on the additional value of the NGLs as follows. Step 1: For each month of the period covered by this paragraph 3.2, Williams will first calculate the Mmbtus of wellhead production that were recovered and sold

as NGLs. Step 2: Williams will then compare the proceeds received from the sale of NGLs for that month with the value used to pay royalty on the Mmbtus recovered as NGLs (*i.e.*, the Mmbtus recovered as NGLs times the residue gas price). Step 3: Williams will multiply the difference between NGL value and residue gas value computed in Step 2 by 75%. Step 4: Williams will then divide the resulting number in Step 3 by total wellhead Mmbtus for that month (thus obtaining the value per wellhead Mmbtu for calculation of additional royalty). Step 5: Williams will multiply the resulting numbers in Step 4 by the wellhead Mmbtus for that month for each well. Step 6: Finally, for each well, Williams will multiply the answer from Step 5 times a Settlement Class Member's royalty percentage interest in wellhead Mmbtus for that month (which will yield the principal amount of additional royalty to be paid each month). In making calculations of additional royalty under this paragraph, Williams will not subtract any costs incurred at the Plants. In addition, for any months in which the original royalty value of the Mmbtus recovered and sold as NGLs is higher than the value calculated under this paragraph, Williams will not make any negative adjustments or otherwise reduce the total amount of additional royalty to be paid under this paragraph. Williams will pay Statutory Interest on the principal amount calculated each month under this paragraph from the date such amount would have been due until the Transition Date. After the Transition Date, interest will accrue at the rate of 4% simple interest until the Distribution Date.

3.3 With respect to all Royalty Instruments, Williams will reimburse all Settlement Class Members any amounts withheld from royalty payments for ad valorem taxes for the years 2000, 2001, and 2004, in excess of the taxes actually paid by Williams on behalf of each such royalty owner, together with Statutory Interest, beginning the month after the tax payment was due and continuing through the date of disbursement. (During the pendency of this litigation,

Williams has repeatedly expressed its intent to repay any excess ad valorem withholdings to its royalty owners, whether or not a settlement agreement was reached or approved and whether or not a particular royalty owner was covered by such agreement.)

3.4 With respect to all Royalty Instruments, Williams will also correct any errors discovered in the accounting for the period from the September 2000 accounting month to the Transition Date, including its prior use of index pricing to establish royalty value, to the extent those errors have not previously been corrected. Williams will pay Statutory Interest on any amounts found to be due, calculated from the date of the error until the Transition Date. After the Transition Date, interest will accrue at the rate of 4% simple interest until the Distribution Date.

3.5 With respect to any Royalty Instruments in category 12 on Exhibit A, Williams will refund any deductions (including transportation on Mainline Transmission Pipelines) taken in calculating royalty for the period from the September 2000 accounting month to the Transition Date. Williams will pay Statutory Interest on any amounts found to be due, calculated from the date the deduction was taken until the Transition Date. After the Transition Date, interest will accrue at the rate of 4% simple interest until the Distribution Date.

3.6 The amounts calculated above will be proportionately reduced by an amount awarded by the Court for Class Counsel's attorneys' fees, litigation costs, and Administrative Expenses.

3.7 The provisions in paragraph 3.1 relating to category 2 and 3 leases are not intended to represent an agreement by Class Representatives that Deductions are allowed by those leases. It appears that the Deductions in question were taken before any leases in those categories were issued by any member of the Plaintiff Class and therefore resolution of whether category 2 and 3 leases allow Deductions is not necessary for determination of settlement payments for past

production.

SECTION 4

4. FUTURE ROYALTY PAYMENTS

With respect to monthly royalty payments made after the Effective Date, Williams agrees to pay Settlement Class Members in the following manner:

4.1 With respect to all Royalty Instruments except those in categories 1, 2, 3, 12 and 13 on Exhibit A, Williams will not take any Deductions (except for processing deductions allowed by paragraph 4.4), regardless of (a) whether the costs relate to activities on or off the Leasehold Estates (except when the applicable Royalty Instrument expressly provides that no royalty is due on fuel consumed by Williams for lease operations on the Leasehold Estate), (b) what entity provides such services or how it is paid, and (c) where or how title to the gas is transferred.

4.2 With respect to Royalty Instruments in categories 2 and 3 on Exhibit A, nothing herein prohibits Williams from taking any Deductions it claims it is entitled to take under the terms of such Royalty Instruments, and nothing herein prohibits any Settlement Class Member from challenging such deductions.

4.3 With respect to Royalty Instruments in category 12 on Exhibit A, Williams will not take any deductions (including third party transportation) in calculating royalty, except to the extent it fractionates NGLs into component products, in which case paragraph 4.6 will apply.

4.4 With respect to all Royalty Instruments, Williams will account for the value of NGLs extracted from the gas (using the methodology described in paragraph 2.3). With respect

to all Royalty Instruments except those in categories 8, 9, 11, 12 and 13 on Exhibit A, in accounting for the value of NGLs extracted from the gas, Williams shall be permitted to deduct 50% of the amount allowed as a processing deduction under the regulations of the Mineral Management Service (the processing deduction will be limited to those costs incurred within a processing plant and will not exceed 1/3 of the value of the NGLs, since the MMS limit on processing costs is 2/3 of the value of the NGLs), but under no circumstances shall Williams be entitled to take any other Deduction when making such calculation. If Williams transports NGLs to sales points beyond the tailgate of a Plant, Williams can deduct such transportation costs when calculating royalties thereon. If Williams fractionates NGLs and sells the component products, royalty on the fractionated products will be determined by paragraph 4.6.

With respect to Royalty Instruments in categories 8, 9, and 11 on Exhibit A, the Plaintiff Class reserves the right to argue that such Royalty Instruments prohibit any or all deductions described in the first paragraph of this Section 4.4 when litigating the Reserved Claim described in paragraph 7.2.

With respect to Royalty Instruments in category 13 on Exhibit A, Williams will be permitted to deduct the same processing costs as allowed under federal leases.

Nothing herein precludes any royalty owner(s) from contending in any subsequent litigation that, when creating a second marketable product in the form of NGLs or subsequent fractionated products, Williams has failed to enhance (or increase proportionally) the total royalties received by such royalty owner(s).

4.5 Subject to the Reserved Claims, under all Royalty Instruments except those in categories 8, 9, 11 and 12 on Exhibit A, Williams shall be entitled to deduct a proportionate amount of any costs it actually incurs to transport gas in a Mainline Transmission Pipeline to

downstream sales points, including demand or reservation charges, commodity charges, and fuel charges; provided, however, that no such credit shall be permitted unless the Settlement Class Members also received the benefit of the price actually paid for such gas at such location.

Williams will not, however, deduct unused demand or reservation charges in calculating royalty, but shall be permitted to contend that such charges should be considered in determining whether Williams has “enhanced” the value of the gas, as described in Section 7.

4.6 If Williams transports NGLs to Conway or Bushton, Kansas, or other locations and Williams then fractionates such NGLs and sells the fractionated components, Williams will pay royalty on the fractionated components (ethane, propane, normal butane, iso-butane and natural gasoline) attributable to a well in which a Settlement Class Member has an interest, based on the published Mt. Belvieu, Texas “non-TET” monthly average Oil Price Information Service (“OPIS”) prices in effect for the then current production month, less transportation tariffs and fractionation fees (and the cost of extracting NGLs as allowed under paragraph 4.4). If the Mt. Belvieu, Texas “non-TET” OPIS prices cease to be published, Williams will pay royalty on fractionated products using a replacement price as published in OPIS. Upon request, Williams will provide the applicable OPIS prices to any Settlement Class Member

4.7 As provided by Colorado law, Williams will withhold from royalty payments amounts to cover the royalty or overriding royalty owner’s estimated share of severance, ad valorem, and conservation taxes. Williams will withhold for ad valorem taxes based on the latest tax rate from Garfield County multiplied by 87.5%. Each quarter, Williams will review the withholding rate to determine if it is still an accurate estimate and make adjustments accordingly. With respect to withholding for ad valorem taxes, Williams will reimburse royalty owners for any excess withholding within 90 days after receiving the bill for ad valorem taxes from Garfield

County. If Williams does not make the refunds by that date, it will pay Statutory Interest until the refunds are made.

4.8 Williams and the Settlement Class Members shall be bound prospectively by the royalty methodology set forth in this Section 4 of this Settlement Agreement.

SECTION 5

5. REPRESENTATIONS CONCERNING ROYALTY PAYMENTS

5.1 Taking into account the Settlement Payments in Section 4 to Settlement Class Members, Williams represents that, for the period beginning with the September 2000 accounting month:

(a) it has properly accounted for all volumes of gas extracted, sold or used from the Class Wells on the basis of Mmbtu's measured at the wellhead, and will do so in the future, on the basis on Mmbtus at the initial measurement point at or near each Class Well;

(b) except for those Royalty Instruments in categories 1, 2, 3 and 13 on Exhibit A and except for the processing deduction described in paragraph 4.4, Williams has not taken and will not take any Deductions;

(c) Williams has used and will use in the future the Weighted Average Sales Price to calculate royalty payments, except as provided in paragraph 4.6 relating to future sales of fractionated products.

5.2 Settlement Class Members are entitled to rely on the representations in this Section, as well as the description of past and future royalty methodologies in Sections 2 and 4.

The Court has continuing jurisdiction to enforce this paragraph.

SECTION 6

6. RETROACTIVE ADJUSTMENTS

6.1 Except with respect to the Reserved Claims, this Agreement is intended to settle all class claims (the Settled Claims) for the period ending with the Transition Date, and Williams shall not make any retroactive debit adjustments with respect to the Settled Claims for production to the Transition Date.

6.2 Williams may make appropriate retroactive adjustments in the ordinary course of business related to matters other than the Settled Claims, subject to the right of the affected royalty owner(s) to object thereto.

SECTION 7

7. CLAIMS NOT RESOLVED BY THIS SETTLEMENT AGREEMENT

7.1 This Settlement Agreement resolves all claims for all Royalty Instruments held by the Plaintiff Class, except one distinct claim that relates only to Royalty Instruments in categories 8, 9 and 11 on Exhibit A, and one distinct claim that relates to Royalty Instruments in categories 5, 6 and 7 on Exhibit A. These two unresolved claims are referred to as the Reserved Claims.

7.2 The first Reserved Claim is whether Williams is entitled to deduct a pro-share of any expenses incurred beyond the tailgates of the Plants when calculating royalties under the Royalty Instruments in categories 8, 9 and 11 on Exhibit A. The Plaintiff Class contends that these instruments expressly prohibit the deduction of such expenses, and Williams contends that those royalty instruments are subject to the same rules as silent leases under *Rogers v. Westerman*

Farm Co., 29 P.3d 887 (Colo. 2001). (The Plaintiff Class also specifically reserves the right to argue that the Royalty Instruments in Categories 8, 9 and 11 on Exhibit A prohibit Williams from deducting any processing costs when paying royalties on NGLs.) If the Plaintiff Class does not prevail on this Reserved Claim, these Royalty Instruments will be subject to the outcome of the second Reserved Claim.

7.3 The second Reserved Claim is whether Williams can establish that it has “enhanced” or proportionately increased the value of (and royalties paid on) gas produced prior to the Transition Date under Royalty Instruments in categories 5, 6 and 7 on Exhibit A by transporting that gas on a Mainline Transmission Pipeline to the points of sale (and deducting a pro-rata share of those transportation costs in calculating royalty).

When this claim is being adjudicated, the Plaintiff Class stipulates that it will claim that (1) the gas is marketable and has reached the commercial marketplace when it arrives at one or more locations used by the publication Inside FERC to establish the CIG-Rocky Mountain, the Northwest Pipeline-Rocky Mountain, and the Questar Pipeline-Rocky Mountain Index Prices; (2) the volume weighted average of these three Indexes is the best available evidence for determining whether Williams has met the test for determining if it has enhanced the royalties paid to the Plaintiff Class by incurring expenses to transport the gas to points of sale beyond these locations; and (3) for gas not entering one of those three pipelines (such as gas being transported on the TransColorado or PSCO pipelines), they will not claim that Williams must transport the gas to sales locations in New Mexico or Wyoming in order to render the gas marketable (and at a commercial marketplace) under Colorado law.

While this claim is being adjudicated, Williams stipulates that it will claim that (1) the gas is first marketable and at the location of the commercial marketplace when it reaches one of the

outlets of the Plants or the entry to a Mainline Transmission Pipeline, and (2) that the value to be used to determine whether the “enhancement” test has been met are the prices received for the gas at those locations.

The second Reserved Claim will include two principal sub-issues: the location of the first commercial marketplace (for purposes of determining enhancement, not whether the gas is marketable under *Rogers v. Westerman Farm*); and the period used to determine whether enhancement has been achieved.

7.4 Nothing contained in this section shall bar or otherwise prejudice Williams’ right to contend that an “enhancement” test does not exist under Colorado law or that the test is different from the one that the Plaintiff Class contends exists. In addition, notwithstanding Williams’ agreement in paragraph 4.5 to pay royalty in the future without deducting unused demand or reservation charges on Mainline Transmission Pipelines, Williams will be permitted to contend that such unused demand or reservation charges should be considered by the Court when determining whether Williams has satisfied any enhancement test that may apply.

7.5 In litigation of the Reserved Claims, evidence relating to the Settled Claims will be inadmissible and the Plaintiff Class will not seek to introduce evidence, testimony or argument relating to those claims.

7.6 The Reserved Claims are strictly limited to claims for breach of contract and are confined to the time period from and after the September 2000 accounting month. The Plaintiff Class will release all other claims, including claims for moratory interest on the Reserved Claims. Williams agrees that, if the Plaintiff Class obtains judgment on one or both of the Reserved Claims for damages commencing with the September 2000 accounting month, it will pay

Statutory Interest on the amount awarded.

7.7 The Reserved Claims will be tried to or otherwise resolved by the Court, without a jury.

7.8 Except as set forth in this Section 7, nothing contained in this Settlement Agreement shall alter whatever obligation Williams may have under the “enhancement” test. Nothing contained herein precludes any member of the Plaintiff Class from contending that Williams has failed to meet the “enhancement test” with reference to gas produced after the Transition Date.

7.9 Williams agrees to support certification of the plaintiff class(es) under C.R.C.P. 23 with respect to the Reserved Claims.

SECTION 8

8. IMPLEMENTATION OF THE SETTLEMENT AGREEMENT AND DISTRIBUTION OF THE SETTLEMENT FUND

8.1 Within forty-five (45) days of the execution of this Agreement, Williams will supplement accounting information previously provided to Class Counsel to show the paid history royalty accounting information for the Plaintiff Class from and after the September 2000 accounting month. Class Counsel may use that information only for purposes of this litigation and shall otherwise preserve the confidentiality of any such information designated as confidential.

8.2 As soon as practicable after this Settlement Agreement has been executed, counsel for the parties shall jointly submit to the Court the Motion substantially in the form as Exhibit C.

8.3 At the Preliminary Approval Hearing, the Settling Parties shall jointly urge the

Court to enter an Order substantially similar in form to Exhibit D.

8.4 At least forty-five (45) days before the Fairness Hearing, Williams will provide Class Counsel with a copy of the Preliminary Distribution Schedule for review and shall file it with the Court. Within fifteen (15) days after the Fairness Hearing, Williams will provide Class Counsel and the Court with a copy of the Final Distribution Schedule.

8.5 At the Fairness Hearing, counsel for the parties shall jointly move the Court for entry of the Judgment substantially in the form attached as Exhibit E. Williams will also present the Preliminary Distribution Schedule for the Court's approval.

8.6 Within fifteen (15) days from the Effective Date, Williams shall (1) distribute the Net Settlement Fund, in accordance with the Final Distribution Schedule in the form as approved by the Court at the Fairness Hearing, by mailing the Distribution Checks to Settlement Class Members at the most current addresses then reasonably available, with each Distribution Check accompanied by a transmittal letter in the form attached as Exhibit G; and (2) shall pay to Class Counsel the attorneys' fees and costs and Administrative Expenses assessed by the Court.

8.7 Within ten (10) business days after the Distribution Date, Williams will file an affidavit certifying that the checks were sent to the Settlement Class Members in the amounts set forth on the Final Distribution Schedule.

8.8 One hundred (100) days after the Distribution Date, Williams will file an accounting of the Distribution Checks, showing (1) the Distribution Checks that have been cashed; (2) the Distribution Checks that have been returned to Williams; (3) the Distribution Checks that have not been returned but remain uncashed; and (4) all available information relating to the Distribution Checks described in (2) and (3).

8.9 Thereafter, the Court shall enter any further orders it deems proper in connection with the disposition of such remaining portion of the Net Settlement Fund, including, but not limited to, directing Class Counsel to take reasonable steps to distribute such remaining portion of the Net Settlement Fund to the proper Settlement Class Members or their successors or assigns.

8.10 Any portion of the Net Settlement Fund that remains after reasonable efforts have been exhausted to distribute the Net Settlement Fund to Settlement Class Members or their successors or assigns shall become the property of Williams.

8.11 If any Settlement Class Member receives a Distribution Check to which such Settlement Class Member is not entitled, that Settlement Class Member shall refund the amount of such Distribution Check to the Net Settlement Fund.

8.12 No Settlement Class Member shall have any claim against the Settling Parties or their respective counsel based on distributions made in accordance with the Final Distribution Schedule approved by the Court at the Fairness Hearing.

SECTION 9

9. UNDERTAKINGS OF THE SETTLING PARTIES

9.1 The Settling Parties agree to deal in good faith in implementing this Settlement Agreement and agree to cooperate and exercise their best efforts to the extent necessary to effectuate and implement all of its terms and conditions, as quickly as possible, by taking all actions contemplated by this Settlement Agreement, including its Exhibits.

9.2 The Class Representatives agree to participate as Settlement Class Members and agree to not request exclusion.

9.3 The Settling Parties agree to affirmatively present their support for final judicial approval of this Settlement Agreement.

9.4 The Settling Parties agree not to encourage in any way any member of the Plaintiff Class to become an Opt-Out Claimant or discourage any member of Plaintiff Class or any party with the right to opt in from participating in this settlement as a Settlement Class Member.

9.5 The Settling Parties agree to waive any right to appeal or collaterally attack the Judgment entered pursuant to this Settlement Agreement.

9.6 In proceedings before the Court and before any appellate courts, if necessary, the Settling Parties agree affirmatively to present support for certification of a Plaintiff Class (including, as appropriate, subclasses) and for final judicial approval of this Settlement Agreement.

SECTION 10

10. ATTORNEYS' FEES AND EXPENSES

10.1 Class Counsel shall apply to the Court for (i) reimbursement of their reasonable litigation expenses; (ii) reimbursement of Administrative Expenses; and (iii) an award of attorneys' fees of 25% of the Settlement Amount after reduction of (i) and (ii) above. Such award and reimbursements shall be paid out of the Settlement Amount as provided herein.

10.2 Williams will take no position regarding the award of fees and reimbursement of expenses.

10.3 This Settlement Agreement is not contingent upon the Court's approval of Class Counsel's application for attorneys' fees and expenses.

SECTION 11

11. TAXES

Class Representatives and Settlement Class Members shall be responsible for filing any tax returns and for paying any taxes that may be due on their proportionate share of the Net Settlement Fund. Williams shall have no liability or responsibility for paying any taxes with respect to amounts paid under this Settlement Agreement.

SECTION 12

12. EXCESSIVE OPT-OUT CLAIMANTS

If greater than twenty percent (20%) of the members of the Plaintiff Class request to exclude themselves pursuant to the Notice, Williams shall have the right to terminate the Settlement Agreement, in which event the provisions of Section 14 of this Settlement Agreement shall govern.

SECTION 13

13. CONDITIONS OF SETTLEMENT

13.1 This Agreement shall be effective only on the condition that all of the following events occur:

- (a) The Court enters the Preliminary Order, substantially in the form of Exhibit E;
- (b) The Court enters the Judgment, substantially in the form of Exhibit F, and
- (c) There is an Effective Date.

13.2 Upon the occurrence of all of the events referenced in Section 13.1 above, all Settlement Class Members shall be deemed to have: (a) dismissed the Action against Williams with prejudice as to the Settled Claims, and (b) acknowledged full and complete satisfaction of, and fully, finally and forever settled, released and discharged the Settled Claims against Released Parties.

SECTION 14

14. NON-OCCURRENCE OF CONDITIONS OF SETTLEMENT

14.1 In the event that the conditions of settlement, as provided in Section 13.1 above, are not satisfied:

- (a) This Settlement Agreement shall terminate;
- (b) Any Judgment entered pursuant to this Settlement Agreement shall be vacated;
- (c) The litigation commenced by Plaintiffs' Complaint shall proceed as if this Settlement Agreement had never been executed;
- (d) The certification of the Settlement Class (whether conditional or final) shall be vacated and the Action shall proceed as though the Settlement Class had never been certified; and
- (e) This Settlement Agreement may not be used in this Action or otherwise for any purpose, including whether the case should properly be certified as a class action pursuant to C.R.C.P. 23.

SECTION 15

15. NO ADMISSION OF LIABILITY

The settlement embodied in this Settlement Agreement is made to compromise and settle the Action without further litigation. It is not, and it should not be interpreted as, an admission of any liability or wrongdoing by Williams, nor should it be construed as an admission of any strength or weakness in the claims against Williams. Williams denies any wrongdoing or liability.

SECTION 16

16. MISCELLANEOUS

16.1 Each of the Settling Parties has relied upon its own counsel's advice in entering into this Settlement Agreement and not upon the advice of any other party's counsel.

16.2 The Settling Parties and their counsel have mutually contributed to the preparation of this Settlement Agreement and the Exhibits thereto. Consequently, no provision of this Agreement or the Exhibits shall be construed against any party because that party or its counsel drafted the provision.

16.3 All of the Exhibits to this Settlement Agreement are material and integral parts hereof, and they are fully incorporated herein by reference. The Exhibits to this Settlement Agreement are as follows:

Exhibit A – List of Class Royalty Instruments and Categorization Thereof;

Exhibit B – Notice of Class Action and Proposed Settlement;

Exhibit C – Joint Motion 1) to Enter an Order Certifying a Plaintiff Class, Preliminarily Approving Settlement Agreement, Approving Form of Notice, and Scheduling Fairness Hearing, and 2) to Establish a Hearing Date for the Joint Motion;

Exhibit D – Order Establishing Hearing Date;

Exhibit E – Order Certifying a Plaintiff Class, Preliminarily Approving Settlement Agreement, Approving Form of Notice, and Scheduling Fairness Hearing;

Exhibit F – Judgment; and,

Exhibit G – Transmittal Notice to Accompany Distribution Checks.

16.4 The placement of any particular lease in the lease categories on Exhibit A, or the treatment of such categories in this Settlement Agreement, shall not be used as a basis for advancing any position with respect to the resolution of the Reserved Claim described in paragraph 7.2; provided, however, that in the proceedings on the Reserved Claim, the parties can make arguments about different lease language in the categories on Exhibit A.

16.5 If Williams voluntarily makes any payment to EnCana Oil & Gas (USA) Inc., ExxonMobil, or Chevron U.S.A. in connection with Deductions from the September 2000 accounting month to the Transition Date, such payment will not exceed any payment those companies would have received under this Agreement.

16.6 Overriding royalty instruments will be initially treated as falling within category 5 on Exhibit A, except for overriding royalty instruments placed in a different category on the attached Exhibit A. Category 5 includes leases and other royalty instruments that are silent on allocation of costs under *Rogers v. Westerman Farm Co.*, 29 P.3d 887 (Colo. 2001). However, the Notice of Class Action and Proposed Settlement (attached as Exhibit B) will give Plaintiff

Class members who believe their overriding royalty instrument expressly addresses cost deductions the opportunity to provide a copy of their instrument to Class Counsel for review and determination as to the appropriate category under Exhibit A. If the Settling Parties cannot agree on the appropriate category for an overriding royalty (including any new categories that may be necessary), they will submit the issue to the Court for determination.

16.7 This Settlement Agreement may be amended or modified only by a written instrument signed by or on behalf of the Settling Parties or their successors in interest.

16.8 This Settlement Agreement may be executed in multiple counterparts.

16.9 This Settlement Agreement and the Exhibits hereto constitute the entire agreement among the Settling Parties.

16.10 The provisions of this Settlement Agreement shall, where possible, be interpreted in a manner to sustain their legality and enforceability.

16.11 A waiver by one party to this Agreement of the breach of any provision shall not constitute a waiver of any other prior or subsequent breach of the same or any other provision.

16.12 This Settlement Agreement (including the Exhibits hereto) and all documents relating hereto shall be construed and interpreted under the laws of the State of Colorado.

16.13 This Settlement Agreement and the Exhibits thereto shall be binding upon and inure to the benefit of, successors and assigns of the parties, including Settlement Class Members.

The Settling Parties hereby approve this Settlement Agreement on the dates indicated below.

PLAINTIFFS AND CLASS
REPRESENTATIVES

Date: 10/9/08

By: Ivo E. Lindauer
Ivo Lindauer

Date: 10/10/08

By: Sidney Lindauer
Sidney Lindauer

Date: 10-10-08

By: Ruth Lindauer
Ruth Lindauer

Date: 10/10/08

By: Diamond Minerals, LLC
Diamond Minerals, LLC

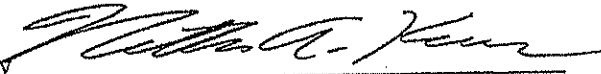
WILLIAMS PRODUCTION RMT
COMPANY

Date: 10/2/08

By: Jeff Hill

APPROVED:

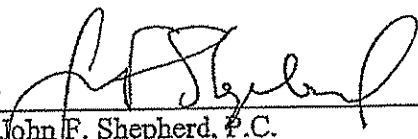
DUFFORD, WALDECK, MILBURN & KROHN, LLP

By 
Nathan A. Keever

G.R. MILLER, P.C.
FLEESON, GOOING, COULSON & KITCH, LLC
Thomas D. Kitch
Gregory J. Stucky
David G. Seely

CLASS COUNSEL

HOLLAND & HART LLP

By 
John F. Shepherd, P.C.
ATTORNEYS FOR DEFENDANT