

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is made effective June 1, 2005, by and between Westport Oil and Gas Company, L.P. Westport ("Westport") and the Designated Class Representatives defined in paragraph 1.5 below ("Plaintiffs") acting on behalf of themselves and the Potential Class Members defined in paragraph 1.18 below.

RECITALS

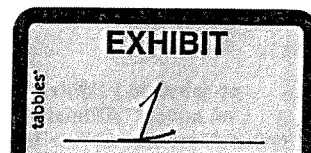
WHEREAS, Plaintiffs have filed suit against Westport in Wyoming State District Court for Campbell County ("Court"), Civil Action No. 26698 as severed from *Rodney R. Addison, et al. v. Anchor Bay Corporation, et al.*, Civil Action No. 23706 (the "Addison Case") and from *William L. and Bernadette L. Barlow Trust, et al. v. Williams Production RMT Company, et al.*, Civil Action No. 25092 (the "Barlow Case"), alleging private claims and class action claims seeking, among other things, declaratory, injunctive, compensatory and other relief ("Class Suit");

WHEREAS, Westport has leased lands and has produced or may produce natural gas and associated hydrocarbons from coal bed seams ("Shallow Gas") in wells within Campbell County, Wyoming, and may drill further wells in Campbell, Sheridan and Johnson Counties after the effective date of this Agreement;

WHEREAS, Westport has paid royalties and/or overriding royalties and/or other burdens associated with non-cost bearing interests ("Royalties") to the specific payees set forth in Exhibit A ("Royalty Payees") for production of Shallow Gas from the Wells described on Exhibit B ("Existing Wells") operated by Westport located on those oil and gas leases in Campbell County, Wyoming described in Exhibit C ("Producing Leases" whether or not fully and accurately described on Exhibit C), and, after the effective date of this Settlement Agreement, will pay Royalties to the Royalty Payees for production of Shallow Gas from the Existing Wells and may pay Royalties to the Royalty Payees for production of Shallow gas from wells that were not in pay status as of the Effective Date of this Agreement ("New Wells") located on the Producing Leases;

WHEREAS, Westport may pay royalties and/or overriding royalties and/or other burdens associated with non-cost bearing interests to the owners of such interests ("Future Payees") for production of Shallow Gas from wells that were not in pay status as of the Effective Date of this Agreement, operated by Westport located on or attributable to additional oil and gas leases in Campbell, [Sheridan and Johnson Counties], Wyoming, in which Westport now owns an interest (whether producing or nonproducing as of the Effective Date of this Agreement) and any leases Westport acquires after the Effective Date of this Agreement (the "Additional Leases");

WHEREAS, Plaintiffs have made claims in the Class Suit against Westport for the insufficient payment of Royalties and alleged violations of the *Wyoming Royalty Payment Act*, Wyo. Stat. §§ 30-5-301 to 30-5-305 ("WRPA"), arising from alleged improper deductions from Royalties for costs of production as defined by that Act, including, without limitation, the cost, expense or value of fuel consumed or services performed by Westport or various third parties for gas gathering and/or transportation, compression, pressuring, dehydration or separation upstream



of the outlets of reciprocating compressors and dehydrators ("Disputed Deductions") and alleged improper adjustments to the price paid ("Valuation" as more fully defined in the Definitions Section of this Agreement);

WHEREAS, Plaintiffs have made claims in the Class Suit against Westport for alleged interest due to Plaintiffs for the Valuation and Disputed Deductions claims pursuant to Wyoming law, including without limitation Wyo. Stat. § 30-5-303(a) ("Interest");

WHEREAS, Plaintiffs have made claims in the Class Suit against Westport for amounts due for improper reporting of information under Wyoming law, including without limitation Wyo. Stat. § 30-5-303(c) ("Reporting Assessments");

WHEREAS, Plaintiffs have made claims in the Class Suit against Westport to recover all court costs and reasonable attorney's fees incurred in the Class Suit to prosecute individual and class claims, including those provided in Wyo. Stat. § 30-5-303(b) ("Attorney's Fees");

WHEREAS, Plaintiffs intend to seek certification of a class, including Plaintiffs, under Wyo. R. Civ. P. 23(b)(2) for declaratory and injunctive relief, and a class under Wyo. R. Civ. P. 23(b)(3) for money damages allegedly due to Royalty Payees arising from the Disputed Deductions, Valuation, Interest, Reporting Assessment, and Attorney's Fees claims alleged against Westport;

WHEREAS, Plaintiffs made claims against Defendant in the *Addison Case* and the *Barlow Case* pertaining to the payment and reporting of Royalties by Defendant for production from other existing wells not included on Exhibit B, including wells located on the Producing Leases and on other leases operated by Defendant in Campbell County, Wyoming, but, as a result of Plaintiffs investigation into the facts and circumstances of such payments and reporting, Plaintiffs did not make those claims in the Amended Complaint filed in the Class Suit and, therefore, those claims are effectively dismissed without prejudice;

WHEREAS, Westport has and will pay Royalties pursuant to various oil and gas leases or other written instruments that grant or reserve or create or define the royalty or overriding royalty interests or non-cost bearing interests owned by the Plaintiffs and the Royalty Payees (collectively "Instruments");

WHEREAS, the Class Suit raises disagreements between the Parties concerning the meaning of the royalty provisions of the Instruments and concerning the meaning and/or application to those Instruments of definitions contained within the *Wyoming Royalty Payment Act*;

WHEREAS, Plaintiffs contend that Royalties have not been properly valued, paid or reported;

WHEREAS, Westport contends that it has fairly and properly valued and paid Royalties to the Royalty Payees for Shallow Gas and believes that it has fully complied with its reporting obligations;

WHEREAS, Westport denies all of the allegations in the Class Suit and denies that it has violated the *Wyoming Royalty Payment Act*, or violated any other law or breached any contract or other agreement with or obligation owed to the Royalty Payees, and denies any and all liability for the claims the Plaintiffs and Royalty Payees allege;

WHEREAS, all parties to this litigation recognize that they will expend substantial resources in continuing this litigation;

WHEREAS, the Parties desire to settle and resolve all past claims so that the Plaintiffs and the Settlement Class Members are bound by a release of past claims against Westport and the Additional Released Parties defined below associated with the valuation, measurement, payment and reporting of Royalties to the Royalty Payees for Shallow Gas marketed by Westport from the Wells located on the Producing Leases;

WHEREAS, the Parties also desire by this Agreement to establish a Future Royalty Valuation Methodology regarding valuation, calculation and reporting requirements to govern future Royalties so as to eliminate future conflict or litigation over Royalty payment and reporting, and which the Parties have agreed will satisfy the requirements of the Instruments and the *Wyoming Royalty Payment Act* regardless of any variations in the terms and provisions of the Instruments; and which will be binding on the Parties and on the Settlement Class Members as to future Royalties for Shallow Gas produced from or attributable to the Producing Leases from Existing Wells or New Wells.

WHEREAS, the Parties desire to have the option to establish the same Royalty valuation, calculation and reporting requirements to govern future Royalties owed by Westport for Shallow Gas produced from or attributable to wells that were not in pay status as of the Effective Date of this Agreement located on all or a portion of the Additional Leases after Westport has had an opportunity to identify the persons or entities to whom to give notice as to such Additional Leases.

WHEREAS, the Parties wish to establish a format by which Westport may report such future Royalties without risk of incurring future Reporting Assessments using a reporting format to be called the Future Royalty Reporting Format as defined in this Agreement;

NOW, THEREFORE, for good and valuable consideration between Westport and the Plaintiffs and Settlement Class Members as provided in this Agreement and in consideration of the foregoing Recitals which are substantive provisions hereof, the Parties agree as follows:

1 DEFINITIONS

The following definitions shall apply solely for purposes of this Agreement and any pleadings, motions or documents used to implement this Agreement;

- 1.1 "Administration Costs"** shall mean all actual costs which Plaintiffs' counsel will incur in administering the settlement, including, among others, responses to inquiries, expenses for printing and mailing the Settlement Class Notice, for producing and mailing Distribution Checks payable to Settlement Class Members, and for producing and mailing form 1099 tax information.

- 1.2 **"Additional Released Parties"** shall have the meaning set forth in Section 2.10.1.
- 1.3 **"Approval Event"** shall mean the earliest date on which all of the following conditions are met:
- 1.3.1 Settlement Class Notice has been provided to Potential Settlement Class Members by mail or as the Court may otherwise determine is appropriate;
 - 1.3.2 The Settlement Order and Judgment approving the terms of this Agreement has been entered; and
 - 1.3.2.1 The time for appeal of any objections to the Settlement Order and Judgment has expired without appeal; or
 - 1.3.2.2 The Settlement Order and Judgment has been affirmed following any appeal by an objecting party. In the event such an appeal is filed but on grounds, which the Plaintiffs and Westport agree should not preclude completion of the settlement, they may agree in writing to waive this Paragraph 1.3.2.2 and consider the Approval Event to have occurred.
- 1.4 **"Attorney's Fees Claims"** shall mean claims Attorney's Fees as defined in the Recitals. The term does not include Attorney's Fees for future benefits procured for Settlement Class Members, and no claim is or will be made for Attorney's Fees for such future benefits.
- 1.5 **"Designated Class Representatives"** shall mean Spear Lazy S Land Company, Star Investment Corp., and Patsy L. Larson and such persons from the named Plaintiffs in the Class Suit as they may designate to act on their behalf.
- 1.6 **"Disputed Deductions"** shall have the meaning set forth in the Recitals.
- 1.7 **"Distribution Check"** shall mean a check, with Endorsement Language, payable to a Settlement Class Member to accomplish distribution of the net amount that is payable to such Settlement Class Member pursuant to this Agreement.
- 1.8 **"Distribution Date"** shall mean the date of issuance of the Distribution Check payable to each Settlement Class Member.
- 1.9 **"Endorsement Language"** shall be the release language contained on each Distribution Check to a Settlement Class Member which states: "In full accord, satisfaction and payment in full for Payee's Settled Claims as Settled Claims are defined in the Settlement Agreement with Westport Oil and Gas Company, L.P., formerly known as Westport Energy, Corp. and for the future undertakings provided in Paragraph 2.10 of the Settlement Agreement. A copy of the Settlement Agreement and Notice of Proposed Class Action Settlement may be

obtained from Class Counsel, Freudenthal, Salzburg & Bonds, P.C., 123 East 17th Street, P.O. Box 387, Cheyenne, WY 82003-0387."

1.10 "Future Gas Royalty Claims" shall mean all claims for Valuation, Disputed Deductions, Interest, Reporting Assessments and Attorney's Fees for Royalties paid to Settlement Class Members attributable to Shallow Gas produced from or attributable to the Producing Leases after May 31, 2005, from Existing Wells or New Wells.

1.11 "Future Royalty Payment Methodology" shall mean the following:

1.11.1 As to the working interests in Shallow Gas produced subsequent to May 31, 2005, from the Existing Wells and New Wells operated by Westport and located on the Producing Leases for which Westport pays Royalties to the Royalty Payees, Future Royalty Payment Methodology shall mean: Royalties paid on the arm's-length sales price(s) received by Westport for the Shallow Gas, less the actual costs (i.e., monetary charges, fuel, etc.) incurred or paid to unaffiliated third parties ("Allowed Costs") in connection with all services provided from the exit of the "first pipeline segment" as defined below to the point of sale including, but not limited to, any further compression, gathering, transportation, separation, treating or dehydration. For purposes of this settlement, the "first pipeline segment" shall mean all activity in moving the gas from the well through a pipeline or to a point where single-stage screw compression, second stage reciprocating compression, and dehydration has been performed; provided, however, that if the gas is not at a pressure of at least 800 psig under normal operating conditions after the second stage reciprocating compression and dehydration has been performed, then the first pipeline segment shall extend until (i) the gas is at least 800 psig under normal operating conditions, or (ii) has been delivered into a regulated interstate pipeline, whichever first occurs. The point where the first pipeline segment ends, as defined in the preceding sentence, is hereinafter referred to as the "Market Point." The pipeline and other facilities downstream of the Market Point may be owned by the same entity as the owner of the first pipeline segment or may be owned by different entities.

1.11.2 The future payment of Royalties pursuant to Paragraph 1.11.1 shall be based on well head production volume less gas used, lost, flared, vented or consumed on or for the benefit of the lease, which occurs from the well head through the operation of the first screw compressor ("Primary Measurement Point"). Gas used, flared, vented or consumed between the Primary Measurement Point and the Market Point shall not be deducted for purposes of calculating Royalties. Volume or value on which Royalties shall be paid will be further reduced pro rata by amounts used or dollar charges measured by MMBTU used in the transportation of the Shallow Gas from the Market Point to the point of sale.

1.11.3 The Settlement Class Members will bear their proportionate share of taxes, however, they will not receive any tax benefits or credit associated with the costs or expenses they do not bear. If Westport does not have an arm's-length sale for particular transaction(s), the sales price for royalty purposes shall be based upon arm's-length sale(s) for the applicable month that are obtainable, comparable in terms of quality and quantity, and in closest proximity to the applicable Market Point. Comparable arm's-length sales price shall be less any Allowed Costs applicable to the specific arms-length transaction that is utilized. If in the future Westport does not have an arm's-length arrangement for any services permitted as an Allowed Cost, the cost of such service for royalty purposes shall be based upon the cost of comparable third party services in the same location which are available and enable the gas to be sold at the point of sale.

1.11.4 The parties acknowledge that Disputed Deductions were estimated based upon a methodology jointly agreed upon by Plaintiffs and Westport and that Westport may continue to use that methodology in its calculations under the Future Royalty Payment Methodology. 1.11.5 It is the intent of the parties that the provisions of 1.11.1 through, 1.11.4 inclusive constitute an express agreement in writing with specific language within the meaning of Wyo. Stat. 30-5-305(a) and that such provisions shall apply in lieu of the provisions of Wyo. Stat. 30-5-304.

1.11.7 In the event any working interest owner on whose behalf Westport pays Royalties pursuant to 1.11.1 through 1.11.4 elects after May 31, 2005, to take his, her or its share of production in kind and pay his, her or its own share of Royalties, to the extent such working interest owner complies with the Future Royalty Payment Methodology and provides reporting consistent with 1.12 within the reasonable capacity of his, hers or its accounting system, such working interest owner shall be entitled to the same benefits under Section 2.4.3 of this Settlement Agreement as Westport receives. This Agreement shall be deemed to be a separate agreement as to Westport and each such working interest owner and a default hereunder by one working interest owner subject hereto shall not be deemed to be a default by any other working interest owner subject hereto.

1.12 "Future Royalty Reporting Format" shall mean the reporting of Royalties paid to Settlement Class Members which provides (i) the quantity on which Royalties are owed (ii) the weighted average arm's length sales price, (iii) Lessor's proportionate share of the total Allowed Costs, (iv) Lessor's proportionate share of the total taxes, and (v) the resulting net proceeds realized by Lessee. The initial form for the Future Royalty Reporting Format shall be mutually agreeable and approved by the Court prior to implementation consistent with the reasonable capability of Westport's accounting system. The initial form for the Future Royalty Reporting Format may be changed to accommodate

changes in Westport's accounting systems or to accommodate the accounting systems of assignees of leases subject to this Settlement and working interest owners who elect to take in kind and pay their own royalties as provided in 1.11.6 provided the substantive content of information reported remains the same. The Future Royalty Reporting Format shall be implemented within four (4) months from the Approval Event.

1.13 "Gas Royalty Claims" shall mean those claims for royalty payments for Shallow Gas production from the Existing Wells from the effective date of Westport's interest in each Lease associated with the Existing Wells through May 31, 2005, inclusive, including, but not limited to, Valuation and Disputed Deductions.

1.14 "Interest" shall have the meaning found in the Recitals and includes all interest imposed under Wyoming law.

1.15 "Opt-Out Claimant" shall mean a Potential Class Member who submits a timely and valid request for exclusion of their particular interest in identified Lease(s) in accordance with the Order of Preliminary Approval and the Notice of Proposed Class Action Settlement, and who does not revoke that request for exclusion from the Settlement Class in writing prior to the Settlement Hearing. Such requests for exclusion must apply to all of that Opt-Out Claimant's interest in all Lease(s) containing the same or similar terms.

1.16 "Opt-Out Claims" shall mean those Settled Claims that belong to Opt-Out Claimants. Opt-Out Claims are not settled by this Agreement

1.17 "Parties" shall mean Westport and Plaintiffs.

1.18 "Potential Class Members" shall mean those Royalty Payees identified in Exhibit A.

1.19 "Preliminary Approval Hearing" shall mean the hearing to be held before the Court to determine (a) whether this Agreement, including the Exhibits, should be provisionally approved as fair, adequate and reasonable; (b) whether the Settlement Class and any subclasses should be provisionally certified; (c) whether the form of the Notice of Proposed Class Action Settlement should be approved and sent to the Potential Class Members; and (d) any other matter necessary to effectuate the terms of this Agreement.

1.20 "Preliminary Approval Order" shall mean the order entered by the Court after the Preliminary Approval Hearing provisionally certifying the Settlement Class, approving the form of the Notice of Proposed Class Action Settlement and directing that notices be mailed to the Potential Class Members as soon as practicable.

1.21 "Reporting Assessments" shall have the meaning found in the Recitals.

1.22 "Reporting Claims" shall mean all claims, whether in tort or contract or under statutes, or regulations or other authority, and whether equitable or arising under common law, held by Settlement Class Members and associated with Westport's reporting of

Royalties for Shallow Gas produced from or attributable to the Producing Leases from Existing Wells or New Wells, including without limitation such claims for Reporting Assessment for violations of the reporting requirements of the *Wyoming Royalty Payment Act*, including those specifically provided in Wyo. Stat. § 30-5-305(b).

1.23 “Royalties” or “Royalty” shall have the meaning found in the Recitals.

1.24 “Settled Claims” shall mean all claims, arising out of (a) Gas Royalty Claims, whether known or unknown; (b) Future Gas Royalty Claims provided that Paragraph 2.4 has been complied with, whether known or unknown; (c) Reporting Claims for all future time periods (provided that Paragraph 2.4 has been complied with) and past time periods whether known or unknown; (d) Interest (provided that Paragraph 2.4 has been complied with); and (e) Attorney’s Fees Claims (provided that Paragraph 2.4 has been complied with), whether known or unknown; excluding any future clerical errors by Westport in accounting for the volume, deductions, price, value or decimal interests.

1.25 “Settlement Amount” shall be Three Hundred Forty-Eight Thousand Eight Hundred Eighteen Dollars and Ninety-Three Cents (\$348,818.93) which shall be allocated as follows:

1.25.1 Two Hundred Ninety-Six Thousand Four Hundred Ninety-Six Dollars and Nine Cents (\$296,496.09) for settlement of individual and Settlement Class Gas Royalty Claims, Reporting Claims and Interest to be distributed to Plaintiffs and Settlement Class Members as provided herein;

1.25.2 Fifty-Two Thousand Three Hundred Twenty-Two Dollars and Eighty-Four Cents (\$52,322.84) for Attorney’s Fees and Administration Costs, provided that such amount shall not exceed fifteen percent (15%) of the amount specified in 1.25.

1.26 “Settlement Class” shall mean Settlement Class Members including without limitation the Plaintiffs.

1.27 “Settlement Class Claims” shall mean Settled Claims allegedly due to Settlement Class Members.

1.28 “Settlement Class Members” shall mean Potential Class Members other than Opt-Out Claimants.

1.29 “Settlement Class Notice” shall mean that notice as approved by the Court at the Preliminary Approval Hearing pursuant to Wyo. R. Civ. P. 23(c)(2) and to be mailed to Potential Class Members.

1.30 “Settlement Hearing” shall mean that hearing held by the Court after the Preliminary Approval Hearing and the mailing of the Settlement Class Notice at which the Plaintiffs shall request the Court, pursuant to Wyo. R. Civ. P. 23(c)(1) to determine that: (i) the terms of this Agreement, including the Exhibits and distribution to Settlement Class Members, are fair, adequate, and reasonable; (ii) the Settlement Classes

should be finally certified; (iii) the Settlement Order and Judgment should be entered; and (iv) the application of Class Counsel for Attorney's Fees should be approved.

1.31 "Settlement Order and Judgment" shall mean the order and judgment to be entered after the Settlement Hearing and pursuant to Wyo. R. Civ. P. 23(d), finding that the Settlement Class Members are bound by the settlement approved by the Court; finding that the Settlement Class should be finally certified; approving the terms of the settlement as set forth in this Agreement; entering judgment as to the composition of the Settlement Class; and approving Class Counsel's application for Attorney's Fees to be paid from the Settlement Amount. The Plaintiffs and Westport agree that the: "Settlement Order and Judgment" entered pursuant to this Agreement shall be a Final Judgment as defined by Wyo. R. Civ. P. 54(b), and further agree that the form of order will so provide for entry of final judgment as to disposition of the Settled Claims and approved expenses in accordance with Rule 54(b).

1.32 "Uncashed Settlement Class Members" shall means those Settlement Class Members, if any, whose Distribution Checks are not endorsed and presented to payor banks within 180 days after the Distribution Date.

1.33 "Valuation Claims" shall mean all claims of any nature, whether in tort or contract or arising under statutes, regulations, or other authority, and whether equitable, legal or arising under any other legal authority or common law, which Plaintiffs or the Settlement Class asserted or could have asserted in the Class Suit and associated with the royalty value and measurement of any and all Shallow Gas produced from or attributable to the Producing Leases from Existing Wells or New Wells for which Westport paid or pays Royalties to Settlement Class Members.

1.34 "Westport Suit" shall mean all individual claims and Settlement Class Claims as alleged in the Class Suit against Westport.

Any defined terms contained in this Agreement are incorporated by reference in this Paragraph 1 ("Definitions") unless otherwise defined in the Definitions.

2 SETTLEMENT

The parties agree to the settlement and release of all Settled Claims, whether or not pled or alleged against Westport, under the following terms and conditions:

2.1 Preliminary Approval Hearing; Determination of Portion of Total Settlement Amount Due to Settlement Class Members

The Parties agree (i) no other parties except Settlement Class Members and Westport will be bound by holdings made in the Westport Suit to effectuate this Agreement and Westport shall be bound only as to those matters related to the Settled Claims for the Existing Wells and New Wells on which Westport paid or will pay Royalties; and (ii) the formation of a Settlement Class for the Settled Claims is not and shall not be construed or used as an admission regarding any fact or any substantive or procedural issue.

Westport shall provide the last known addresses, tax identification numbers, to the extent available to Westport, and internal owner numbers for Potential Class Members maintained in its corporate records to Plaintiffs' Counsel as soon as reasonably practicable but no later than five business days after the date this Agreement is fully executed.

For each Potential Class Member, Westport shall provide Class Counsel with ownership information, accounting information, sufficient data and supporting documentation (in both hard copy and usable electronic form) for Class Counsel to administer this settlement and calculate the allocation of settlement proceeds to Settlement Class Members. Allocation shall be based upon a reasonable estimate of the extent to which Royalties paid by Westport through May 2005 vary from the amount of Royalties which would have been paid had the applicable Future Royalty Payment Methodology for each Royalty Payee been in effect.

Class Counsel shall have the right to inspect, review and confirm all data and documentation provided by Westport, subject to the Confidentiality Agreement executed by Class Counsel and counsel for Westport in connection with settlement negotiations, except to the extent required by the Court to evaluate the Settlement Agreement.

Prior to the Settlement Hearing, the Parties shall consult upon the amounts to be paid to each of those Potential Class Members but the Plaintiffs and Class Counsel shall make the final determination of those amounts, subject to the approval of the Court.

Notwithstanding anything to the contrary, Plaintiffs and Westport hereby agree and acknowledge that this Agreement and any of its terms shall not be admissible, estop or be used by either party in this proceeding or others for any purpose other than to carry out this settlement. Westport shall not be estopped or precluded in any way from contesting the appropriateness or manageability of a class or certification of a class for any purpose other than to carry out this settlement.

2.2 Permissible Attorney's Fees; Payment

Plaintiffs represent to Westport that the portion of the Settlement Amount identified in Paragraph 1.25.2 shall pay all Attorney's Fees, costs and expenses of administering this settlement subject to approval of this Agreement by the Court as embodied in the Settlement Order and Judgment.

2.3 Westport's Obligation to Pay Settlement Amount

Westport shall deposit the Settlement Amount, less any portion of said amount attributable to Opt-Out Claimants, by wire transfer to a trust account designated by Class Counsel within two business days of the occurrence of (a) the Approval Event, and (b) receipt of written notice from Class Counsel that Distribution Checks are ready to be mailed to Settlement Class Members. Interest earned on the Settlement Amount, if any, shall be treated as interest earned on an IOLTA

account and distributed accordingly. In no event shall Class Counsel receive or benefit from any interest earned on such account. Upon receipt of Westport's wire transfer of the net Settlement Amount, Westport shall have fully complied with its obligations as to past Settled Claims.

Plaintiffs' Counsel will provide Westport, within five (5) days after entry of the Settlement Order and Judgment, an itemization of the portions of the Settlement Amount attributable to Opt-Out Claimants. Within 240 days after the Distribution Date, any amounts attributable to Uncashed Settlement Class Members shall be paid to the State of Wyoming pursuant to the Wyoming Uniform Unclaimed Property Act, Wyo. Stat. § 34-24-101, et seq. A list of Uncashed Settlement Class Members shall be provided to Westport by Class Counsel within 260 days after the Approval Event.

2.4 Future Claims and Proceedings as to Producing Leases

2.4.1 Payment of Royalties to Settlement Class Members for Shallow Gas Produced From or Attributable to the Producing Leases After May 31, 2005. from Existing Wells or New Wells.

For Shallow Gas produced after May 31, 2005, from Existing Wells or New Wells on or attributable to Producing Leases operated by Westport, Westport agrees to pay its working interest share of Royalties and any other Royalties it distributes to Settlement Class Members on the applicable Future Royalty Payment Methodology with the following conditions:

2.4.1.1 Westport and Plaintiffs acknowledge that Westport must make system changes to accommodate the new accounting methodology. For the production periods commencing June 1, 2005, through 120 days following the Approval Event, Westport may pay according to its present methodology but shall make prior period adjustments within the 120 days following the Approval Event to conform payments for those periods to the Future Royalty Payment Methodology.

2.4.2 Reporting of Royalties to Settlement Class Members for Shallow Gas Produced From or Attributable to the Producing Leases After May 31, 2005. from Existing Wells or New Wells.

For Shallow Gas produced after May 31, 2005, from Existing Wells or New Wells on or attributable to the Producing Leases, Westport agrees to report Royalties to Settlement Class Members according to the Future Royalty Reporting Format within the time period provided in Paragraph 2.4.1.1.

2.4.3 Acceptance of Royalty Valuation Methodology and Reporting Format.

Plaintiffs and Settlement Class Members, for themselves and their heirs, successors and assigns agree that the payment and reporting of future Royalties according to the Future Royalty Payment Methodology and Future Royalty Reporting Format, if adhered to by Westport and reported accurately, shall fully satisfy Westport's legal obligations to Plaintiffs under all Instruments, statutes and case law, with respect to Westport's payment and reporting of Royalties.

After the Approval Event, Westport may, at its own option and expense, file a copy of the Settlement Order and Judgment, including this Agreement and all Exhibits, and may also file at its sole election and expense a short form of notice of the Settlement Order and Judgment with the appropriate County Clerks and Recorders, accompanied by the legal descriptions of the lands subject to the leases or overriding royalty interests under which Westport paid, pays or will pay Royalties to Settlement Class Members, and which includes a reference to the Settlement Order and Judgment in the Court's docket, in order to assure notice of this Agreement to successors and, assigns of the Parties.

2.4.4 Disputes Arising Out of Obligation Imposed By Paragraph 2.4. For Shallow Gas Produced From or Attributable to the Producing Leases After May 31, 2005. from Existing Wells or New Wells.

For Shallow Gas produced after May 31, 2005, from Existing Wells or New Wells on or attributable to the Producing Leases, Westport and Plaintiffs agree the Court shall retain jurisdiction over the Parties, Settlement Class Members and their heirs, trustees, executors, administrators, agents, successors and assigns, to resolve any disputes arising out of the Parties' future undertakings pursuant to this Paragraph 2.4.

2.5 Future Claims and Proceedings as to the Producing and Additional Leases

2.5.1 Within six (6) months after the Approval Event, Westport and Plaintiffs may petition the Court for certification of a second settlement class as to all or any portion of the Additional Leases for the purpose of agreeing on the Future Royalty Payment Methodology and Future Reporting Format for such Leases. Such petition may also include royalty and overriding royalty owners in Existing Wells and New Wells located on the Producing Leases who were not included in the initial settlement class for whatever reason and, as to such owners, the settlement may include a proposed settlement amount in addition to the proposal to agree on the Future Royalty Payment Methodology and Future Reporting Format.

2.5.2 This Agreement shall apply to the second settlement class and the petition described in Section 2.5.1 above to the same extent as if the second settlement class had been part of the original Potential Settlement Class.

2.5.3 For purposes of Section 2.4, the Future Royalty Payment Methodology and Future Reporting Format shall be applicable to Westport's working interest in the Additional Leases operated by Westport from the date of first production of each well on such Leases, provided, however, that Westport shall have 120 days after the Approval Event for such Additional Leases to implement the Future Royalty Payment Methodology and Future Reporting Format, subject to prior period adjustments for any period prior to implementation.

2.5.4. Westport shall pay as an administrative costs of the second settlement class the sum of Ten Thousand Dollars (\$10,000.00) plus Fifteen Dollars (\$15.00) per owner in the second settlement class.

2.6 Entry of Settlement Order and Judgment

Plaintiffs and Plaintiffs' Counsel acknowledge that they will take all steps necessary, individually and jointly, to obtain entry of (1) the Preliminary Approval Order with respect to the Settled Claims and (2) the Settlement Order and Judgment on the Settled Claims for the Class Suit. The parties further agree that upon the Approval Event and wire transfer of the net Settlement Amount they shall stipulate to and cooperate to obtain an Order of Dismissal with Prejudice of the Settled Claims.

2.7 Request for Exclusion by Potential Class Members

Any Potential Class Member may request not to participate as a Settlement Class Member by submitting a timely request for exclusion in accordance with the Preliminary Approval Order and the Notice of Proposed Class Action Settlement, provided however, a Potential Class Member who elects to opt-out must opt-out as to all of that Opt-Out Claimant's interest in all lease(s) containing the same or similar terms.

2.7.1 Any Potential Class Member who submits a timely request for exclusion, and who does not revoke that request for exclusion in writing prior to the Settlement Hearing, is an Opt-Out Claimant. An Opt-Out Claimant is deemed to have waived any and all claims to any part of Westport's Payable Settlement Amount attributable to those opt-out claims.

2.7.2 A Potential Class Member who submits a timely request for exclusion, but who thereafter revokes that request for exclusion in writing prior to the Settlement Hearing, will be deemed to be a Settlement Class Member and not an Opt-Out Claimant.

2.7.3 The Plaintiffs agree to (i) participate as Settlement Class Members; (ii) not request exclusion; (iii) not object to the Court's approval of this Agreement; and (iv) affirmatively present their support for final judicial approval of this Agreement.

2.7.4 Neither Plaintiffs, Class Counsel, Westport nor Westport's Counsel shall in any way encourage or counsel any Potential Class Members to opt out of the class, object to the class, appeal from an order approving the class or seek to reduce the size of the class except as to those persons identified in writing between Class Counsel and Westport's counsel.

2.7.5 Plaintiffs and Westport waive any right to appeal or collaterally attack the Settlement Order and Judgment.

2.7.6 No later than three business days prior to the final district court hearing on this Settlement Agreement, Class Counsel and Westport shall exchange with one another by facsimile a list of all objections and requests to opt out of the Settlement Class which have been received from Potential Class Members.

2.8 Entry of Judgment

With the exception of Westport's agreements as to future payment and reporting of Royalties to Settlement Class Members and the Parties' and Settlement Class Members' agreements to be bound by same, it is intended that the Settlement Order and Judgment shall provide with respect to all Settled Claims, that Westport's liability for the Settled Claims shall be extinguished.

2.9 Future Events

As to Settlement Class Members, the parties agree that Westport shall pay and report Royalties to Settlement Class Members according to the Future Royalty Payment Methodology and the Future Royalty Reporting Format for all Shallow Gas production after May 31, 2005, produced from or attributable to the Producing Leases from Existing Wells or New Wells operated by Westport as provided in this Agreement regardless of whether the Wyoming Supreme Court subsequently rules on or the Wyoming Legislature subsequently clarifies or amends the provisions of the *Wyoming Royalty Payment Act* concerning the payment or reporting of Royalties.

2.10 Release of Settled Claims and Agreement to Be Prospectively Bound

Following the Approval Event, and upon Westport's payment of the net Settlement Amount as provided in Paragraph 2.3, Plaintiffs, and each member of the Settlement Class, and their respective heirs, assigns, trustees, executors, administrators and agents, agree:

2.10.1 They and each of them hereby release, acquit, hold harmless and forever discharge Westport and its parent, subsidiaries, affiliates, divisions, officers, directors, shareholders, employees, agents and attorneys and any other working interest owners on whose behalf Westport paid Royalties (collectively, the "Additional Released Parties") to the fullest extent permitted by law, for and from any and all Settled Claims which they now

hold, whether existing or contingent, known or unknown, asserted or unasserted and which were or could have been asserted in the Class Suit. Westport has provided to Plaintiffs' counsel a written list of the Working interest owners on whose behalf Westport has paid Royalties.

2.10.2 The above release of Reporting Claims for Shallow Gas by each Settlement Class Member for gas produced after May 31, 2005, shall be effective only if and to the extent for those periods and as to those Settlement Class Members that Westport substantially complies with the provisions of Paragraphs 2.4.1 and Paragraph 2.4.2 of this Agreement for the affected accounting period and Settlement Class Member.

2.10.3 Settlement Class Members shall be bound prospectively by the Future Royalty Payment Methodology, provided Westport's payment of Royalties to those Settlement Class Members conforms to the Future Royalty Payment Methodology.

2.10.4 Settlement Class Members shall be bound prospectively by the Future Royalty Reporting Format provided Westport's reporting of Royalties to those Settlement Class Members conforms to the Future Royalty Payment Format.

2.10.5 The provisions of Paragraphs 2.10.3 and 2.10.4 shall be appurtenant to and run with the respective interests of Westport, Plaintiffs and the Settlement Class Members as to Westport's working interest share of the Shallow Gas produced or to be produced from or attributable to the Producing Leases from Existing Wells and New Wells operated by Westport for which Westport pays Royalties to the Settlement Class Members.

2.11 Court's Settlement Orders

The Plaintiffs and Westport further agree, and the Court's order shall provide that:

2.11.1 As of the Approval Event, any Settlement Class Member who has not timely and properly opted out of the Class shall be deemed, by that fact, to have released Westport whether or not the Settlement Class Member endorses and presents a Distribution Check.

2.11.2 The foregoing release of the Settlement Class Claims made by Plaintiffs and Settlement Class Members is effective to release any interests or claims of Plaintiffs' Counsel against Westport with respect to the Settlement Class Claims and Settled Claims.

2.11.3 As of the Approval Event, Settlement Class Members shall be deemed, by that fact, to have agreed and accepted prospectively the provisions of Paragraphs 2.10.3, 2.10.4 and 2.10.5.

2.11.4 The issues and claims settled involve the computation and payment of royalties. Neither the pleadings in the Westport Suit nor this Agreement raise or address (i) issues or claims with respect to surface damages, or (ii) issues or claims with respect to communitization, pooling or unitization. Such issues or claims are not part of this Agreement and are also excluded from the Court's Settlement Order and Judgment.

The release and agreements set forth herein shall constitute a full and complete defense to any action, claim or proceedings brought by any Settlement Class Members, and to the fullest extent permitted by law their heirs, trustees, executors, administrators, agents, successors and assigns for such claims, except for any action to enforce the terms of this Agreement.

3 EFFECT OF DISAPPROVAL

The Parties further agree as follows:

3.1 District Court Disapproval

If for any reason the Settlement Order and Judgment is not approved or entered by the District Court:

3.1.1 This Agreement shall terminate;

3.1.2 Any order(s) or judgment(s) entered pursuant to this Agreement shall be vacated;

3.1.3 The Class Suit against Westport shall proceed as if this Agreement and its terms, had never been executed; and

3.1.4 This Settlement Agreement, its terms and all negotiations relating thereto may not be used in this Class Suit, any other proceedings or otherwise for any purpose except to the extent necessary to enforce this Agreement.

3.2 Appeal Following District Court Approval

In the event that the Settlement Order and Judgment entered by the District Court is appealed by any Potential Class Members based upon an objection duly made to the Proposed Class Settlement, then:

3.2.1 Either Plaintiffs or Westport shall have the right in their respective discretion, to declare this Agreement terminated by written notice to the other Party within twenty (20) days of the filing of such appeal, and if either Party does so, the provisions of 3.1.2 through 3.1.4 shall apply.

3.2.2 The Parties may agree to waive any unsatisfied condition for release of the Payable Settlement Sum and otherwise agree to consummate this

Agreement if no stay of the Settlement Order and Judgment has been entered.

3.2.3 If the parties do not take the actions described in 3.2.1 or 3.2.2, then this Settlement Agreement shall remain in effect pending such appeal.

4 MISCELLANEOUS

4.1 For the purposes of this Agreement, any notice required or permitted to be given pursuant to this Agreement shall only be deemed to have been given if provided in writing by (i) personal delivery, (ii) certified mail, return receipt requested or (iii) overnight delivery (with delivery confirmation) addressed to the respective party at the address below:

Westport Oil & Gas Company:

Judith M. Matlock
Davis Graham & Stubbs LLP
1550 17th Street, Suite 500
Denver, Colorado 80202
(303) 892-7380
(303) 893-1379 (fax)

Thomas J. Nicholas, III
Hirst & Applegate
1720 Carey Avenue, Suite 200
P.O. Box 1083
Cheyenne, WY 82003
(307) 632-0541

Plaintiffs/Class Counsel:

Steven F. Freudenthal
Freudenthal, Salzburg & Bonds, P.C.
123 East 17th Street
P.O. Box 387
Cheyenne, WY 82003-0387
(307) 634-2240
(307) 634-0336 (fax)

Howard M. Schrinar
509 Edward Drive
Cheyenne, WY 82009
(307) 631-3912

In addition to the above, the Parties agree that all notices shall be sent by facsimile to the fax numbers noted above (with receipt confirmed) in addition to the other required notice. The address for any party may be changed by providing notice in the same manner as set forth above.

4.2 Nothing in this Agreement shall be construed to create a partnership or other association between the Parties with respect to the actions contemplated in this Agreement.

4.3 This Agreement and the attached Exhibits set forth the entire agreement among the Parties concerning the Westport Settlement and the resolution of the claims asserted therein. This Agreement and the attached Exhibits are intended to be a fully integrated agreement of the Parties, and there are no covenants, promises, agreements, conditions or other understandings, stated or implied, oral or written, with respect to the subject matter except as set forth in the Agreement. All

previous covenants, promises, agreements, conditions or other understandings, either oral or written, with respect to the subject matter are deemed superseded by this Agreement. No subsequent amendments or alterations of the terms of this Agreement shall be valid unless made in writing and signed by the authorized representatives of all the Parties. The following Exhibits referred to herein are incorporated by this reference and are made a part of the Agreement as though fully stated in the Agreement:

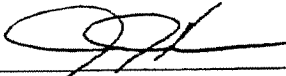
| | |
|-----------|------------------------------------------------|
| Exhibit A | List of Potential Class Members-Royalty Payees |
| Exhibit B | Existing Wells |
| Exhibit C | Producing Leases |

- 4.4 The Parties agree to execute documents or instruments as may be required and take whatever action may be reasonably necessary to effectuate the purpose and intent of this Agreement.
- 4.5 This Agreement shall be binding upon and inure to the benefit of the Parties, the Settlement Class Members and their respective successors and assigns.
- 4.6 The waiver by any Party to this Agreement of the breach of any provision shall not constitute a waiver of any subsequent breach of the same or any other provision.
- 4.7 The Parties have entered into this Agreement after investigation of the facts, examination of the respective claims, controversies and disputes (whether asserted or unasserted) and defenses, due consultation with counsel and other experts, have read and fully understand the terms of this Agreement, and are fully advised and satisfied with the terms of the settlement and release and represent that the person signing on behalf of each such party has full authority to bind such party to the terms set forth herein.
- 4.8 The Parties agree that the settlement embodied in this Agreement, and all actions taken pursuant hereto, is made to compromise and settle the Settled Claims without further limitation. It is not and shall not be interpreted as an admission of any liability or wrongdoing by Westport, nor shall it be construed as an admission of any strength or weakness in the Class Claims against Westport. Westport believes that it has properly paid and reported royalties in Wyoming, and Westport denies any wrongdoing or liability. No statement appearing in this Agreement or in any Exhibit to this Agreement or any other document to carry out the terms of this Agreement is, or should be interpreted as, an admission or statement against interest by Westport. This Settlement Agreement, its terms and all negotiations relating thereto, shall not be used by any person in this Class Suit, in any other proceedings or otherwise for any purpose except to the extent necessary to enforce this Agreement.

- 4.9 Prior to any Party or Settlement Class Member filing any suit, motion or action to enforce the terms of this Agreement, the Party shall give notice of any alleged breach or default to the other Party as set forth in Paragraph 4.1 and give that Party thirty (30) days within which to cure or resolve any dispute.
- 4.10 In the event of a dispute over the terms of this Agreement, the prevailing party shall be entitled to recover its reasonable attorney's fees and costs incurred in enforcing the provisions of the Agreement.
- 4.11 Each of the Parties shall bear its own costs, expenses, and attorney's fees in connection with this settlement and performance of the obligations imposed hereunder, except as otherwise specifically provided in this Agreement.
- 4.12 In construing this Agreement and in determining the rights of the Parties and Settlement Class Members, no Party shall be deemed to have solely drafted or created the Agreement.
- 4.13 This Agreement shall be governed by and construed in accordance with the laws of the State of Wyoming without regard to any conflict of laws principle that would cause this Agreement to be construed in accordance with the laws of any other State.
- 4.14 The Parties agree that the provisions of this Agreement are not severable.
- 4.15 This Agreement may be signed in original counterparts, and when so executed by each party shall for all purposes be considered an original.
- 4.16 The provisions of this Agreement shall, where possible, be interpreted in a manner to sustain their legality and enforceability.

Executed effective the 1st day of June, 2005.

WESTPORT OIL AND GAS COMPANY, L.P.

By: 
James J. Kleckner, Vice President

Approved

KING LAW
DEPT.

PLAINTIFFS AND DESIGNATED CLASS REPRESENTATIVES

SPEAR LAZY S LAND COMPANY

By: SAM R. RATCLIFF

Title: PRESIDENT

STAR INVESTMENT CORP.

By: SAM R. RATCLIFF

Title: PRESIDENT

Patsy L. Larson