

## SURFACE DAMAGE AND RELEASE AGREEMENT

This Surface Damage and Release Agreement ("Agreement") is made and entered into this 27th day of February 2007, by and between Donald R. Egan individually and the STANLEY H. EGAN TRUST FOR THE BENEFIT OF DONALD R. EGAN, dated April 20, 2005., ("Owner"), and Texas American Resources Company ("Operator"), a Texas corporation; sometimes referred to each as a "Party," or collectively as the "Parties."

WITNESSETH:

For and in consideration of the covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. OWNERSHIP. Owner is the surface owner of certain lands located in Adams County, Colorado as more specifically described as follows ("Lands"):

Township 2 South, Range 65 West, 6<sup>th</sup> P.M.  
Section 36: E/2, E/2W/2

Operator represents that its parent company, TARH E&P Holdings, LP, owns a working or operating interest in a valid oil and gas lease or leases covering all or portions of the Lands or lands pooled or included in a spacing unit therewith (each a "Lease," collectively, the "Leases").

2. OPERATOR'S OIL AND GAS OPERATIONS ON THE LANDS. Operator may drill or cause to be drilled an oil and/or gas well or wells on the Lands ("Wells"). In order for Operator to drill, construct, complete, produce, maintain, and operate the Wells and all facilities associated therewith, including, but not limited to, access roads ("Access Roads"), pipelines, flow lines, separators, tank batteries, electric lines and any other facilities or property necessary for Operator to conduct operations on the Wells (each a "Facility," collectively, the "Facilities"), it is necessary that Operator enter and utilize a portion of the surface of the Lands. The Parties enter into this Agreement to evidence their entire agreement regarding the payment of surface damages, entry, surface use, and any other matters relating to Operator's use of the Lands.

3. LOCATION. The approximate location of the Wells is depicted on Exhibit "A." Any material changes to such locations may be made by Operator with the consent of Owner, which will not be unreasonably withheld, but will not unduly interfere with Owner's existing use of the surface estate. Operator agrees not to use any more of the surface of the Lands than is reasonably necessary to conduct its operations.

4. CONDUCT OF OPERATIONS. Operator's operations on the Lands will be conducted pursuant to the terms of the Leases, this Agreement, and the rules and regulations of the Colorado Oil and Gas Conservation Commission ("COGCC").

5. COMPENSATION AMOUNT. Operator will pay Owner the sum of Five Thousand Dollars (\$5000.00) per Well location and the associated Facilities prior to the commencement of actual drilling operations ("Amount"). The Amount is hereby acknowledged by Owner as full and final consideration for Operator's use of the Lands under this Agreement and Owner, on behalf of itself and its respective predecessors, heirs, assigns and any person or entity claiming by, through or under any of them does hereby release Operator and all affiliates, joint owners, employees, contractors or other persons working for, with, or succeeding to Operator for any and all damages caused or created by reason of the reasonable and customary ingress, egress, rights-of-way, drilling, completion, production and maintenance operations associated with the Wells and Facilities. Such damages will include, without limitation, damage to growing crops, cropland, the removal, transportation and care of livestock, re-seeding, construction and use of Access Roads and the preparation and use of the Well site areas, but subject to the rules and regulations of the COGCC regarding such matters; provided, however, that if after the initial drilling, completing and equipping of the Wells and Facilities for production, Operator commences subsequent operations thereto, including, but not limited to, re-fracturing operations on the Wells, and such operations result in additional crop losses on the Lands affected thereby, Operator will timely reimburse Owner for the actual net value of such crop loss, if any. If Owner owns less than 100% interest in the Lands, then the Amount paid to each Owner shall be proportionately reduced by the percentage in which they own in the Lands.

6. ADDITIONAL SURFACE USE PROVISIONS, ACCESS ROADS, FENCES AND FACILITIES. With respect to its operations on the Lands, Operator will comply with the following provisions:

A. Access Roads:

- (i) Access Roads will not exceed 25 feet in width.
- (ii) Operator will take reasonable steps to insure that all of its vehicles accessing the Lands on its behalf remain on the Access Roads.
- (iii) Operator will provide Owner with a minimum of 10 days prior written notice before restoring the surface of all Access Roads to be permanently abandoned by Operator. No later than 10 days following receipt of such notice, Owner may elect, in writing, not to have such Access Roads abandoned by Operator. In such event, Operator will have no liability under this Agreement, the Lease, or otherwise, to restore the surface of the Lands utilized as Access Roads. Failure to timely respond will be deemed as Owner's election that Operator proceed with the abandonment of the Access Roads and the restoration of the surface thereof.
- (iv) Operator will maintain all Access Roads in good repair and condition and free of trash, weeds and other debris.

B. Surface Restoration:

Upon permanent cessation of Operator's operations on the Lands, all areas thereof occupied or utilized by Operator will be restored by Operator to their original contour as nearly as is reasonably practicable, and re-seeded if so requested by Owner; provided however, that Operator's intent to abandon any Access Roads will be subject to the provisions of Paragraph 6(A)(iii) herein.

C. Other.

- (i) If by reason of the activities of the Operator, including, but not limited to, drilling, completing, equipping, and operating of the Wells, there is unanticipated damage to personal property of the Owner, including, but not limited to, irrigation wells, fences, culverts, bridges, pipelines, ditches, or irrigation systems, Operator will repair or replace such items after consultation with and to the reasonable satisfaction of the Owner. Owner will notify Operator of any items damaged after the Well's construction and Operator will repair or replace such items within a reasonable time after consultation with the Owner.
- (ii) Operator agrees that all trash, refuse pipe, equipment, liquids, chemicals, or other materials brought on the Lands that are not necessary for continued operations of the Wells will be removed and disposed away from the Lands no later than 30 days after the completion of the Wells. No such items will be burned or buried on the Lands.

7. **DEFAULT AND RIGHT TO CURE.** In the event of alleged default by Operator in the payment of any of the sums hereinabove provided to be made, in obligations to be performed, or by either Party regarding any other terms, conditions or covenants of this Agreement, the Party alleging the default will notify other Party, by certified mail, return receipt requested, of the alleged default. The Party receiving the default notice will have 30 business days from receipt of the written notification in which to dispute the default or cure or commence curing the default if the default is of a nature that cannot be cured within 30 days.

Except as otherwise agreed in writing, no waiver by Owner of any breach by the Operator of any of its obligations, agreements, or covenants hereunder will be deemed to be a waiver of any subsequent or continuing breach of the same, nor will any forbearance by Owner to seek a remedy for any breach by the Operator be deemed to be a waiver by Owner of its rights or remedies with respect to such breach; however, in no event will Operator be liable for additional payment for reasonably anticipated damages to the Lands caused by Operator's oil and gas operations.

8. **INDEMNITY/RELEASE.** Operator shall protect, defend, hold harmless and indemnify Owner and Owner's employees, agents, successors and assigns, against and from any and all liability, loss, damage, claim, demand, suit, action, proceeding, penalty, fine, cost, and expense of whatsoever nature, including, without limitation, court costs, attorneys fees and consultants fees, incurred by Owner for any personal injury to or death of persons whomsoever, liens against the Lands or any loss or destruction of or damage to property whatsoever, including but not limited to environmental and reclamation liabilities under existing and future laws and regulations,

where such personal injury, death, loss, destruction, lien or damage is caused by, or arises out of operations on the Lands conducted by Operator and/or its contractors or agents, their officers, employees, servants, and/or licensees hereunder.

9. **NO WAIVER OF 30-DAY NOTICE.** Owner hereby does not waive the minimum 30-day written notice requirement for operations to begin and any other notice or consultation requirements of the COGCC. Operator agrees it will provide notice to Owner of its submittal of a request for permit to drill to the COGCC.

10. **NOTICE FOR ADDITIONAL OPERATIONS.** Operator will comply with COGCC rules and regulations requiring that advance notice be provided to Owner for subsequent operations on the Wells, including, but not limited to, reworking operations thereto.

11. **NOTICES.** Notice by either Party will be promptly given, orally if possible (with the exception of the default notice described in Paragraph 7), with subsequent written confirmation sent by United States mail, postage prepaid and addressed to either Party at the address as designated below; or to such other place as either Party may from time to time designate by notice to the other:

Owner

Donald R. Egan  
12284 WHEELING COURT  
HENDERSON CO 80640

Operator

Texas American Resources Company  
410 17<sup>th</sup> Street, Suite 1610  
Denver, CO 80202

12. **BINDING EFFECT.** The covenants and conditions herein contained and all of the provisions of this Agreement will inure to the benefit of and will be binding upon the Parties hereto, their respective heirs, representatives, successors or assigns. Owner agrees to contact any and all tenants of Lands or any other third parties utilizing the surface of the Lands that may be affected by Operator's activities on the Lands. It will be Owner's sole responsibility to advise such third parties of the existence of this Agreement and Operator's right to utilize the surface of the Lands pursuant to this Agreement for the payment of any consideration, if any, due such third party from Owner.

13. **CONFIDENTIALITY.** The Parties agree to keep the terms and conditions of this Agreement confidential and will not disclose such matters to any third party, other than to a Party's officers, directors, partners, members, employees, attorneys, accountants, prospective buyers or local, state or federal governmental authorities who have a bona fide need to have access to such information, without the advance written consent of the other, or if ordered to do so in a legal proceeding. While the specific terms hereof are to remain confidential between the Parties, Operator may record a memorandum of this Agreement in Adams County, Colorado.

14. **ENTIRE AGREEMENT.** This instrument contains the entire agreement between the Parties and may not be modified orally or in any other manner other than by agreement in writing signed by all Parties or their respective successors or assigns.

15. **TERM.** This Agreement will remain in full force and effect for so long as oil and gas operations are conducted on the Lands pursuant to the Leases; provided, however, that the termination of this Agreement will not relieve the Parties from their respective obligations or liabilities arising herein prior to such termination.

16. **COUNTERPARTS.** This Agreement may be executed by facsimile, in counterparts, each of which will be considered an original and enforceable against either Party.

17. **GOVERNING LAW AND VENUE.** This Agreement will be governed by, construed and enforced in accordance with the laws of Colorado.

18. **AGREEMENT TO ARBITRATE ANY DISPUTE OVER THIS AGREEMENT OR OPERATOR'S OPERATIONS ON THE LANDS.** If any dispute arises between Owner and Operator with respect to this Agreement or from Operator's operations on the Lands or both, such dispute will be resolved through arbitration. Any such arbitration will be conducted by the Judicial Arbitrator Group ("JAG") in Denver, Colorado, by a single arbitrator employed by or associated with JAG. Such arbitrator will have knowledge of oil and gas law, either as a lawyer licensed to practice law in Colorado or a judge familiar with oil and gas issues. Either Party may serve

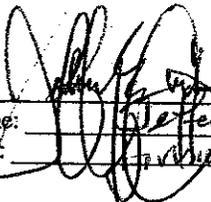
upon the other a demand for such arbitration, which should be served by fax and mail, or by hand delivery. Owner and Operator agree that if either of them initiates a demand for such arbitration, Owner and Operator will thereafter attempt to mutually agree on the selection of one of the JAG arbitrators to be the arbitrator. Owner and Operator will confer on the selection of such arbitrator within 10 days after the demand for arbitration is served, and will agree upon the selection of a JAG arbitrator, if possible, within 20 days after the arbitration demand has been served. In the event that Owner and Operator are unable to agree on the selection of such arbitrator within this 20-day time period, then Owner and Operator will each submit to JAG, via fax, the names of three arbitrators (meeting the requisite experience specified above) who are employed by or associated with JAG, whom each would find acceptable to be the arbitrator. Such submission to JAG will be made on the fifth business day after the 20-day time period referenced above has expired. JAG will thereafter select from the names submitted by Owner and Operator a single arbitrator who will hear and decide the arbitration based upon applicable Colorado law. The arbitrator will issue an arbitration decision within 30 days after the arbitration hearing is concluded. In the event that JAG no longer exists, the arbitration will be conducted by an American Arbitration Association arbitrator under the rules of the American Arbitration Association then existing. Any decision by the arbitrator relating to the dispute between Owner and Operator will be final and binding upon both Owner and Operator.

19. **SUCCESSORS.** This Agreement constitutes a covenant running with the Lands and will be binding upon and inure to the benefit of, and be enforceable by, the Parties and their respective successors, administrators, trustees, executors and assigns.

20. **AUTHORITY OF SIGNATORIES.** The signatories below declare, warrant and represent that they have the authority to enter into this Agreement on behalf of their respective principals, if any.

IN WITNESS WHEREOF, the Parties have set their hands, the day and year first written above.

Texas American Resources Company

By:   
Name: Jeffrey C. Carlson  
Title: Area Manager - Land and Legal

OWNER:

  
Donald R. Egan, Individually

STANLEY H. EGAN TRUST FOR THE BENEFIT OF DONALD R. EGAN

By:   
Donald R. Egan, Trustee

By:   
Dan C. Buckner, Trustee

Exhibit "A" attached hereto and made part hereof that certain Surface Damage And Release Agreement dated February 27, 2007



Section 36, Township 2 South, Range 65 West, 6th P.M. Adams County, CO