

SURFACE USE AGREEMENT

THIS SURFACE USE AGREEMENT ("Agreement") is effective the 24th day of November, 2009, and is between PETROLEUM EXPLORATION AND MANAGEMENT LLC ("PEM") or Assign(s) with an address of 20203 Highway 60, Platteville, Colorado, 80651 and GRAY'S INC. ("Surface Owner") with an address of c/o Daniel Gray, 3310 23rd Street, Greeley, Colorado, 80634. PEM and the Surface Owner are sometimes individually referred to as a "Party" and together as the "Parties."

- A. Surface Owner owns the surface estate of a certain tract of land located in the SW/4 of Section 16, Township 4 North, Range 67 West, Weld County, Colorado, more particularly described on Exhibit A attached hereto and referenced to hereinafter as the "Property."
- B. Surface Ownership of the Property is subject to oil and gas leasehold interest leased by Shepler & Thomas, Inc. and now assigned to PEM. Pursuant to that certain State of Colorado Oil and Gas Lease No. S-38114 ("Lease").
- C. PEM operates three producing oil and/or gas wells on the Property; in the NWSW identified as the State 16-6, in the NESW identified as the State 16-5, and in the SESW identified as the State 16-4 ("Existing Wells") and has and will have through the existing Shepler & Thomas, Inc. lease, and since assigned to PEM, with the continuing right to conduct oil and gas production operations on the Property and drill additional wells on the Property pursuant to the terms of the lease.
- D. Wells that PEM have or will have the right to drill and undertake to drill on the Property in the future are hereinafter referred to as the "Future Wells".
- E. Surface owner currently conducts farming operations on the Property, but has plans to develop the surface of the Property for residential and/or commercial purposes.
- F. Current Colorado Oil and Gas Conservation Commission ("COGCC") rules and regulations allow owners and/or lessees of the oil and gas for the Property to locate oil and/or gas wells in five drilling windows in a quarter section, one in approximately the center of each quarter section in a 400 foot by 400 foot window and one in the center of the quarter section in a 800 foot by 800 foot window.
- G. This Agreement sets forth the rights and obligations of the Parties with respect to the development of the Property by Surface Owner and development of the oil and gas leasehold owned by PEM, such rights and obligations to be binding upon the Parties and their successors and assigns.

NOW THEREFORE, in consideration of the covenants and mutual promises set forth in this Agreement, including in the recitals, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. AREAS RESERVED FOR THE EXISTING WELLS AND FUTURE WELLS RELATED PRODUCTION FACILITIES.

- a. Oil and Gas Operations Areas. Surface Owner shall set aside and provide to PEM the two areas on the Property hereinafter referred to as the "Oil and Gas Operations Areas," one location is in



the Center of the South-West quarter, where the locations are platted within this document on "Exhibit B". This location will incorporate Four (4) well heads. A second location is located on the East side of the quarter section, consisting of Four (4) well head and a tank battery site serving all Eight (8) described wells. The Center location of the quarter section and Center of the S/2 location (East side of Quarter section) will be the only vertical wells drilled. All other wells will be drilled directionally to their respective bottom holes. A gravel road accessing from the east property line north to the 16P well Pad and tank battery and then continuing west to the center of the SW/4 well pad will be constructed and maintained. Access roads and well head(s) are identified on Exhibit A attached as official document with this agreement.

- b. Surface Owner shall make the Oil and Gas Operation areas available to PEM in their present condition along with the Existing Wells, including, but not limited to, drilling and production activities, workovers, well deepenings, recompletions, fracturing and drilling of twinned and replacement wells. Except for the Oil and Gas Operation Areas, Production Facility Location (defined within), and the access road and easements associated with flow-lines, PEM shall not occupy the surface of the Property except in the event of an emergency or for reasonable incidental, temporary and non-damaging activities. The Oil and Gas Operations Areas shall each include the surface area that is reflected on Exhibit B.
- c. PEM shall also have the right to locate, build, repair and maintain tanks, separators, dehydrators, compressors and all other associated oil and gas drilling and production equipment and facilities within the Oil and Gas Operations Areas. This again is documented as Exhibit B.
- d. PEM agrees that it shall locate oil and gas drilling and production equipment and facilities only within the Oil and Gas Operations Areas and the location identified on Exhibit B as the "Production Facility Location." The Production Facility Location shall include the surface area reflected on Exhibit B.

2. WELL LOCATIONS AND PRODUCTION AND PRODUCTION FACILITY LOCATION.

PEM shall have the right to drill Future Wells within the Oil and Gas Operations Areas, including horizontal and directional wells that produce from and drain both the Property and lands other than the Property; provided that, such lands are validly pooled with all or any portion of the lands included in the Lease and so long as the well locations are permitted locations under the then acceptable well spacing or well location regulations of the COGCC or exceptions to the regulations granted by the COGCC or its Director. Future Wells and/or associated production equipment and facilities will be located within and no closer than 150 feet from the boundaries of the Oil and Gas Operations Area or the Production Facility Location, as the case may be. As part of the consideration of this Agreement, Surface Owner hereby consents to, waives its rights, and covenants that it will not protest or object to any exception location or application for an exception location by PEM; provided that, the exception location request or application is consistent with this agreement.

3. WAIVER OF SETBACK REQUIREMENTS/OTHER STATE AND LOCAL RULES AND REGULATIONS.

Surface owner shall not plat any surface property line or install or construct fences, roadways, trees, bushes or any other temporary or permanent improvements within the Oil and Gas Operations Areas, Production Facility Location or the access roads, flowline easements identified herein, and no temporary or permanent building or other structure or improvement shall be located by Surface Owner within the Oil and Gas Operations Areas, Production Facility Location or the access roads, flowlines easements without the approval of PEM. The Oil and Gas Operations Areas and Production Facility Location shall be for the exclusive use of oil and gas operations and production and for the location of oil and gas wells and associated oil field drilling and production equipment.



Surface Owner Understands and acknowledges that the COGCC has rules and regulations that apply to the distance between a wellhead and public roads, production facilities, building units and surface property lines, among other things. In order to give full effect to the purposes of this Agreement, Surface Owner hereby consents to and waives its right to object to the location of oil and gas wells and associated production equipment and facilities within the Oil and Gas Operations Areas and to the location of production equipment and facilities within the Production Facility Location on the basis of setback requirements in the rules and regulations of the COGCC and of any local jurisdiction, as they may be amended from time to time. Surface Owner further and similarly waives its right to object to or request a hearing regarding other state or local requirements or regulations that are or become inconsistent with this Agreement or that would prohibit or interfere with the rights of PEM or its successors and assigns to explore for and produce the oil and gas in accordance with this Agreement. Surface Owner understands and agrees that PEM or its successors and assigns may cite the waiver in this Section 3 in order to obtain a location exception or variance under COGCC rules or from any state or local jurisdiction.

Surface Owner covenants and agrees that it will not object to the use of the surface of the Property by PEM so long as such use is consistent with this Agreement, and Surface Owner will provide PEM or its successors and assigns with whatever written support it may reasonably require to obtain permits or approvals from the COGCC or any local jurisdiction.

4. FLOWLINES and GAS GATHERING LINES

Upon the agreement of the Parties (which agreement shall not be unreasonably withheld), Existing or Future Pipelines may be relocated to different locations on the Property. Relocations of Existing and Future Pipelines shall be at the cost and expense of Surface Owner and pursuant to a separate pipeline relocation agreement to be entered into between Surface Owner and DCP Midstream.

At the time or times that Surface Owner desires to have Existing Pipelines or Future Pipelines relocated to the Pipeline Easements or other agreed upon locations, as the case may be, it shall give written notice to PEM, which shall promptly prepare, or commission the preparation *at* a cost estimate to perform the relocation. Such cost estimate shall include a 15% markup for administrative, supervision and other overhead costs related to the relocation. DCP Midstream will provide the cost estimate to Surface Owner as soon as practicable, and Surface Owner will thereafter determine whether or not to proceed with the relocation. If Surface Owner elects to have a pipeline relocated, it shall pay the estimated costs and markup to DCP Midstream and request in writing that the pipelines be relocated. DCP Midstream shall commence operations to relocate the pipeline as soon thereafter as is practicable.

PEM agrees that the Pipeline Easements are non-exclusive and further agrees that it will not object to the concurrent use of the Pipeline Easements by other oil and gas operators or utilities, as Surface Owner may grant from time to time, so long as the persons or entities with which the Pipeline Easements are shared comply with PEM pipeline guidelines, attached hereto as Exhibit C; provided, however, Surface Owner shall not permit to be placed, nor shall it place, any utility or structure within ten feet (10') horizontally or two feet (2') vertically of any pipeline of PEM without the written consent of PEM. Surface Owner agrees that any easement that it grants to other oil and gas operators or utilities for concurrent use of the Pipeline Easements shall be made subject to PEM's pipeline guidelines.

If Surface Owner proposes to construct roads that will cross over Existing Pipelines or Future Pipelines that are then installed on the Property, Surface Owner shall pay PEM the reasonable costs

based on then current industry standards to have PEM sleeve the portions of the pipelines that are to be crossed by such roads, such payment to be made in advance of the work. Surface Owner shall not install the portion of the road that crosses a pipeline until the pipeline has been sleeved.

PEM shall bury flow-lines and pipelines at a depth of approximately forty-eight inches (48") from the surface. Surface Owner shall maintain a minimum of forty-eight inches (48") and not more than seventy-two inches (72") of cover over pipelines and flowlines during Surface Owner's operations on the Property.

5. ACCESS.

Surface Owner understands and acknowledges that PEM will continue to have the right to use the access routes that it is currently using to access the Oil and Gas Operations Area that includes the Existing Well and the Production Facility Location as identified on Exhibit B. The access route to the Oil and Gas Operations Area in the SW/4 shall be at the location identified on Exhibit A and shall parallel the pipeline easement shown on the Exhibit.

The Parties understand that future development of the Property by Surface Owner may include the construction of access roads as a part of the surface development of the Property. In connection with the surface development of the Property, the Parties may agree to the relocation of access roads identified on Exhibit B to other locations on the Property pursuant to a separate relocation agreement to be entered into between them, such relocations to be at the expense of Surface Owner (such agreement of the Parties not to be unreasonably withheld). Such relocated access routes are hereinafter referred to as the "Paved Access Roads." PEM agrees to access the Property according to the Paved Access Roads after such time as the particular access road has been constructed, and Surface Owner provides written notice to PEM that construction is complete. PEM may continue to use the existing access routes identified on Exhibit B until receipt of notice from Surface Owner.

Surface Owner in all events and at all times shall provide PEM with continuous access to the Oil and Gas Operations Areas, Production Facility Location and Pipeline Easements. Neither Party shall unreasonably interfere with the use by the other of an access road.

At such time as Surface Owner constructs the Paved Access Roads, Surface Owner shall keep the portions of the Paved Access Roads that are jointly used by PEM and Surface Owner in good condition and repair until such roads are dedicated to a local jurisdiction.

Access roads or portions of access roads that are jointly used by PEM and Surface Owner shall be generally thirty (30) feet in width, and, when Surface Owner constructs the roads on the Property, Surface Owner shall construct or improve all paved or improved joint access road~ so as to withstand the weight of oilfield equipment. Specifically, Surface Owner shall construct the roads so that they can be used to withstand the weight of 104,000 pounds and 26,000 pounds per axle.

Access roads or portions of access roads that are used exclusively by PEM shall be generally twenty (20) feet in width, and PEM shall install and maintain such roads or portions of roads to those state and local standards that apply to oil and gas operations.

Surface Owner shall obtain and pay the costs to obtain from the local jurisdiction, as necessary, permits for curb cuts as deemed necessary by PEM, said curb cuts to be forty (40) feet in width.

6. BATTERIES AND EQUIPMENT.

PEM shall have the right to locate, build, repair and maintain tanks, separators, dehydrators, compressors and all other equipment necessary or convenient for the operation and production of the Existing Well(s) and Future Wel(l)s only within the Oil and Gas Operations Areas and Production Facility Location. Location for all tanks, separators and other production equipment for the "new drill" wells will be 75' East of the 16P four (4) well pad on the extreme east boundary of the quarter section. (identified on Exhibit "B") All wells in the center of the SW/4 will also be produced through the tank battery location to the East Boundary of the quarter section. (also identified on Exhibit "B")

7. NOTICE OF FUTURE OPERATIONS

PEM shall provide Surface Owner with notice of future oil and gas operations on the Property in accordance with COGCC rules and regulations. PEM shall also provide thirty (30) days prior written notice to Surface Owner and/or any homeowner's association fanned by Surface Owner associated with the Property of the commencement of drilling operations for Future Wells to be drilled on the Property; provided, however, PEM shall only provide such notice to the homeowner's association at such time as Surface Owner provides PEM with written notice that a homeowner's association has been formed and the name and address of the homeowner's association. Regardless of the foregoing notice requirements, PEM shall have immediate access to all wells, equipment, facilities and pipelines and flowlines in the event of an emergency. PEM shall provide Surface Owner with written notice of the emergency as soon as practical thereafter.

After receipt of notice of the commencement of drilling operations, but not less than five (5) working days prior to the commencement of drilling operations within an Oil and Gas Operations Area, either PEM or Surface Owner may request an on-site meeting. The purpose of the meeting shall be to inform Surface Owner of the prospective oil and gas operations on the Property and to coordinate site access, hazards, barricades, restoration or other matters related to the development of the surface estate and the oil and gas estate.

8. NOTICE OF HEARINGS.

Surface Owner shall provide PEM with written notice not less than thirty (30) days before each hearing for consideration of a plat application or other land use application as described in C.R.S. 24-65.5-101 et. Seq. for the Property or portions of the Property to be held before a local jurisdiction.

9. PLATS AND LOCAL APPLICATIONS.

Surface Owner shall identify the Oil and Gas Operations Areas, Production Facility Location and all access routes and Pipeline Easements on its plats and in all applications for development it files with a local jurisdiction, and the plats shall include restrictions that no property line or temporary or permanent building, structure or other improvement related to the surface development shall be located, constructed or installed within the Oil and Gas Operations Areas or Production Facility Location, or, except as may be otherwise identified on Exhibit C, within the Pipeline Easements. Surface Owner shall promptly record the approved plats in the Office of the Clerk and Recorder of Weld County, Colorado.



10. GOVERNMENTAL PROCEEDINGS

Surface Owner covenants and agrees that it will not directly or indirectly object in any forum to the use by PEM of the surface of the Property consistent with this Agreement and hereby waives any such right to object. Surface Owner further covenants and agrees that it will provide such other written approvals and waivers that are requested by PEM and consistent with this Agreement, including, but not limited to, all approvals and waivers to drill a well or to conduct oil and gas operations on the Property because of any law or regulation, including any local ordinance and regulations of the COGCC, and including, for example, waivers to state and local setback requirements from a surface property line or for an exception location. Surface Owner further waives any rights it has to require or request a surface inspection for wells proposed to be drilled on the Property for the purpose of requesting that conditions be attached to a permit to drill the well. Surface Owner further consents to the location of multiple wells within an Oil and Gas Operations Area that are greater or less than fifty feet apart so long as all such wells are located within the Oil and Gas Operations Area.

PEM agrees not to assert claims (except any claim for a breach of this Agreement) associated with the development of the surface estate for the Property, including objections to the development plans for the Property so long as Surface Owner is in compliance with this Agreement. .

11. SURFACE DAMAGES.

Surface Owner agrees to a payment of \$30,000.00 surface damage from PEM for the SRC State 33-16D, SRC State 16DD, SRC State 16TD, SRC State 16B, SRC State 16LD, and SRC State 16HD location(s) (\$5,000.00 each location). The SRC State 16P and SRC State 14-16D will receive no Surface Damage payment as PEM agrees to drill the 14-16D location directionally at PEM's expense for the right to drill the 16P location vertically. Other such payments for the use of the Property or portions thereof by PEM consistent with this Agreement, pursuant to any current or future COGCC or local regulation, state statute, common law or prior agreement for each and every well and related well site that is or will be drilled and located within the Oil and Gas Operations Areas and for associated oil and gas equipment and facilities to be located within the Oil and Gas Operations Areas and the Production Facility Location and for flowlines, access routes and pipeline easements. PEM or its assignees may provide a copy of this Agreement to the COGCC or any local jurisdiction, person or entity or court of law as evidence of this waiver. Mutual agreement has been met between the Surface Owner and PEM for PEM to Drill the SWSW quarter location (Location 14-16D on Exhibit A) from the Center of the SW Quarter twinned well pad at no cost to the Surface Owner. In return the Surface Owner has agreed to allow PEM to Drill the East borderline exception location (location 16P on Exhibit A) vertically with no surface damage compensation.

12. COMPLIANCE WITH REGULATIONS.

PEM shall conduct its operations in accordance with COGCC rules and regulations and valid and applicable regulations and ordinances of governmental authorities; provided, however, nothing in this Agreement creates a private right of action under any state statute or state or local rule or regulation, including the regulations of the COGCC and the provisions of the Colorado Oil and Gas Conservation Act at C.R.S. 34-60-101 *et. seq.*



13. LIMITATION OF LIABILITY, RELEASE AND INDEMNITY.

a. No party shall be liable for, or be required to pay for, special, punitive, exemplary, incidental, consequential or indirect damages to the other party for activities undertaken within the scope of this Agreement.

b. Except as to claims arising out of pollution or environmental damage or out of other provisions of this Agreement, each party shall be and remain responsible for its own liability for all losses, claims, damages, demands, suits, causes of action, fines, penalties, expenses and liabilities, including without limitation, attorney's fees and other costs associated therewith (all of the aforesaid herein referred to collectively as "Claims"), arising out of or connected with each such party's ownership or operations on the Property, no matter when asserted, subject to applicable statutes of limitations. Each party shall release, defend, indemnify and hold the other party, its officers, directors, employees, successors and assigns, harmless against all such Claims. This provision does not, and shall not be construed to, create any rights in persons or entities not a party to this Agreement, nor does it create any separate rights in parties to this Agreement other than the right to be indemnified for Claims as provided herein.

c. Upon the assignment or conveyance of a party's entire interest in the Property, that party shall be released from the indemnifications in Section 13.b. for all actions or occurrences happening after such assignment or conveyance.

14. ENVIRONMENTAL INDEMNITY.

The provisions of Section 13 above, except for Section 13.a, shall not apply to any environmental matters, which shall be governed exclusively by the following, subject to the limitations of Section 13.a. above:

a. "Environmental Claims" shall mean all Claims asserted by governmental bodies or other third parties for pollution or environmental damage of any kind, arising from operations on or ownership of the Property or ownership of the oil and gas leasehold interest, whichever is applicable, and all cleanup and remediation costs, fines and penalties associated therewith, including but not limited to any Claims arising from Environmental Laws or relating to asbestos or to naturally occurring radioactive material. Environmental Claims shall not include the costs of any remediation undertaken voluntarily by any party, unless such remediation is performed under the imminent threat of a Claim by a governmental body or other third party.

b. "Environmental Laws" shall mean any laws, regulations, rules, ordinances, or order of any governmental authorit(ies), which relate to or otherwise impose liability, obligation, or standards with respect to pollution or the protection of the environment, including but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. § 6901 et. seq.), the Resource Conservation and Recovery Act of 1976 (42 U.S.C. §§ 6901 et. seq.), the Clean Water Act (33 U.S.C. §§ 466 et seq.), the Safe Drinking Water Act (14 U.S.C. §§ 1401 1450), the Hazardous Material Transportation Act (49 U.S.C. §§ 1801 et seq.), the Clean Air Act, and the Toxic Substances Control Act (15 U.S.C. §§ 2601 2629).

c. Environmental Indemnification. PEM shall protect, defend, indemnify, and hold harmless Surface Owner, the applicable homeowners association, and any owner who acquires any interest in the Property from Surface Owner, from any and all Environmental Claims relating to the Property or oil and gas leasehold thereunder that arise out of



its individual ownership and operations within the Oil and Gas Operations Areas or Production Facility Location and its ownership and operations of Pipeline Easements or rights-of-way on the Property. Surface Owner shall fully protect, defend, indemnify and hold harmless PEM from any and all Environmental Claims relating to the Property that arise out of its ownership, operations, or development of the Property.

15. EXCLUSION FROM INDEMNITIES.

The indemnities of the Parties herein shall not cover or include any amounts which the indemnified party is actually reimbursed by any third party. The indemnities in this Agreement shall not relieve any party from any obligations to third parties.

16. NOTICE OF CLAIM FOR INDEMNIFICATION.

If a Claim is asserted against a party for which the other party would be liable under the provisions of Sections 14 or 15 above, it is a condition precedent to the indemnifying party's obligations hereunder that the indemnified party give the indemnifying party written notice of such Claim setting forth all particulars of the Claim, as known by the indemnified party, including a copy of the Claim (if it is a written Claim). The indemnified party shall make a good faith effort to notify the indemnifying party within ten (10) days of receipt of a Claim and shall affect such notice in all events within such time as will allow the indemnifying party to defend against such Claim.

17. COMPLIANCE WITH COMMON LAW AND STATUTORY AND REGULATORY REQUIREMENTS.

Surface Owner expressly acknowledges that this Agreement satisfies the obligations and requirements of PEM pursuant to COGCC rules and regulations and Colorado statutes to consult in good faith with Surface Owner regarding existing and proposed oil and gas operations on the Property. Surface Owner further expressly acknowledges that this Agreement shall be deemed to be specifically applicable to, and to fully satisfy, the obligations of PEM to accommodate the use of the surface of the Property by Surface Owner, existing and future, and Surface Owner waives any statutory and common law claims to the contrary, including, but not limited to, any claims pursuant to C.R.S. 34-60~127.

18. TERM.

This Agreement shall become effective on the date set forth above and shall remain in full force and effect until the last to occur of: i) the expiration or termination of the oil and gas leasehold interests that PEM owns and/or may acquire in the Property; and ii) PEM has plugged and abandoned all wells owned in whole or in part by PEM and complied with the requirements of all applicable oil and gas leases pertaining to removal of equipment, reclamation, cleanup and all other applicable provisions of the leases and existing laws and regulations. At such time as this Agreement terminates, the parties, or their successors and assigns, shall execute a release to evidence the fact that the Agreement has terminated.



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19. NOTICES.

Any notice or other communication required or permitted under this Agreement shall be given in writing either by: i) personal delivery; ii) expedited delivery service with proof of delivery; iii) United States mail, postage prepaid, and registered or certified mail with return receipt requested; or iv) prepaid telecopy or fax, the receipt of which shall be acknowledged, addressed as follows:

If to PEM:

Petroleum Exploration and Management LLC
20203 Highway 60
Platteville, Colorado 80651
Attention: Manager of Land

If to Surface Owner:

Gray's Inc.
c/o Daniel Gray
3310 23rd Street
Greeley, Colorado 80634

Any party may, by written notice as provided in this Section, change the address or individual to whom delivery shall thereafter be made.

20. RECORDING.

This Agreement and any amendment hereto, shall be recorded by PEM in the records of the Clerk and Recorder of Weld County, Colorado, on or after the Effective Date, and PEM shall provide the other Parties with a copy showing the recording information as soon as practicable thereafter.

21. SUCCESSORS AND ASSIGNS.

This Agreement and all of the terms, covenants and conditions included in this Agreement shall be binding upon the Parties and their successors and assigns, and the benefits and burdens of this Agreement shall inure to their successors and assigns.

22. COVENANTS RUN WITH THE LAND.

This Agreement and all of the covenants in it shall be covenants running with the land and shall be binding upon all parties that succeed to any interest of Surface Owner in the Property. Any subsequent sale of the Property shall be subject to the terms of this Agreement, and, to the extent that such successor acquires a property interest in the Property or portion thereof, such buyers, as successors in interest to Surface Owner, will be acquiring all of the rights of Surface Owner under this Agreement and assuming those obligations undertaken by Surface Owner pursuant to this Agreement

23. APPLICABLE LAW.

This Agreement shall be governed by and construed in accordance with the laws of the State of Colorado, without reference to its conflict of laws provisions.

24. ENTIRE AGREEMENT.

This Agreement and the letter agreement identified in Section 11 set forth the entire understanding between the Parties hereto with respect to the matters addressed herein and supersede any previous communications, representations or agreement, whether oral or written. This Agreement shall not be amended, except by written document signed by both Parties.

25. CONSTRUCTION.

The Parties have participated jointly in the negotiating and drafting of this Agreement. In the event ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties, and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "including" shall mean including, without limitation.

26. INCORPORATION OF EXHIBITS.

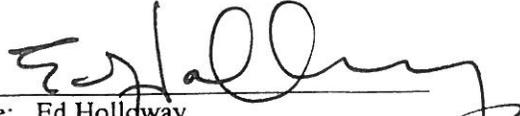
Exhibits A and B are hereby incorporated into this Agreement by this reference.

27. EXECUTION AND BINDING EFFECT.

This Agreement may be executed in any number of counterparts each of which shall be deemed an original instrument, but all of which together shall constitute one and the same instrument.

The Parties have executed this Agreement on the dates set forth in the acknowledgements, but to be effective as provided herein.

PETROLEUM EXPLORATION AND MANAGEMENT LLC

By: 
Name: Ed Holloway
Its: President

GRAYS INC

By: 
Name: Daniel Gray
Its: Co-President

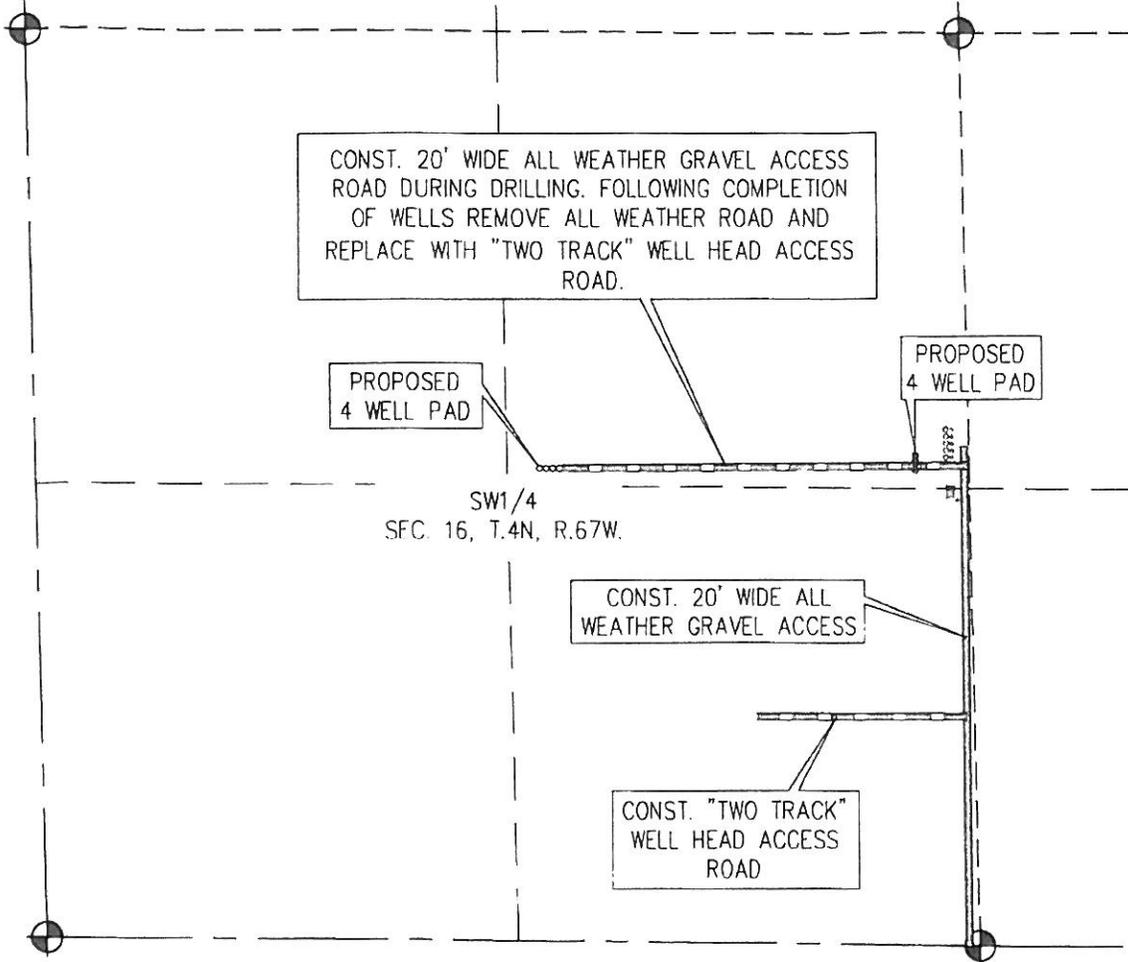


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Baseline Engineering Corp. 710 11th Avenue Suite 105 Greeley, Colorado 80631

EXHIBIT A

SECTION 16
TOWNSHIP 4 NORTH
RANGE 67 WEST



NOTES

- 1) THIS SKETCH DOES NOT REPRESENT A BOUNDARY SURVEY
- 2) ALL ROADS TO BE BUILT TO COGCC MINIMUM STANDARDS.

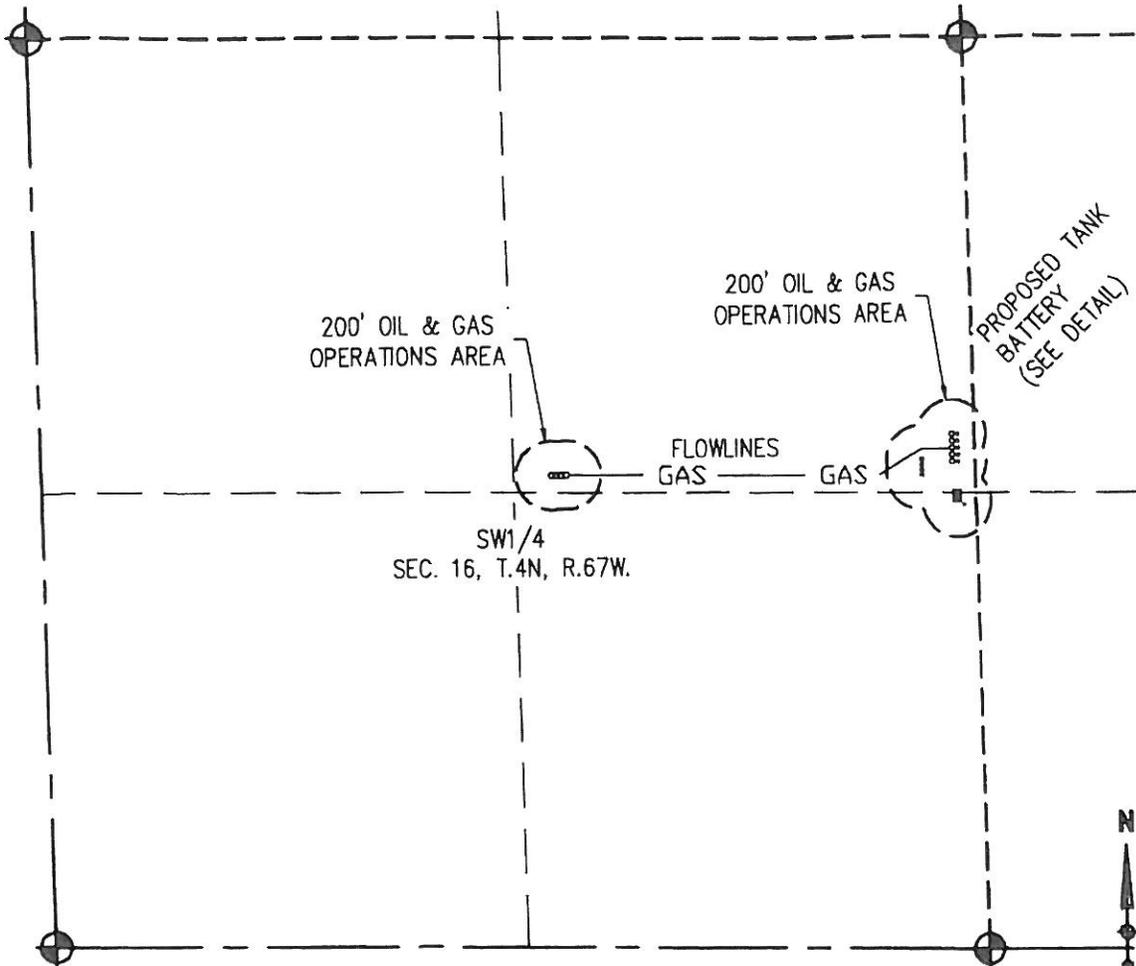


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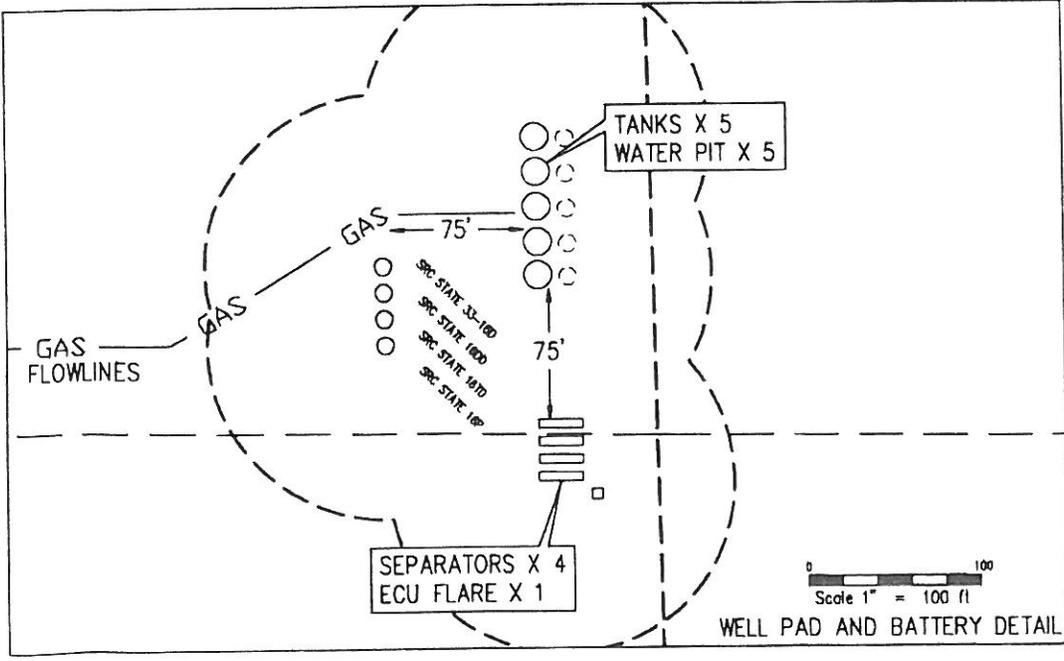


Baseline Engineering Corp. 710 11th Avenue Suite 105 Greeley, Colorado 80631
EXHIBIT B

SECTION 16
TOWNSHIP 4 NORTH
RANGE 67 WEST



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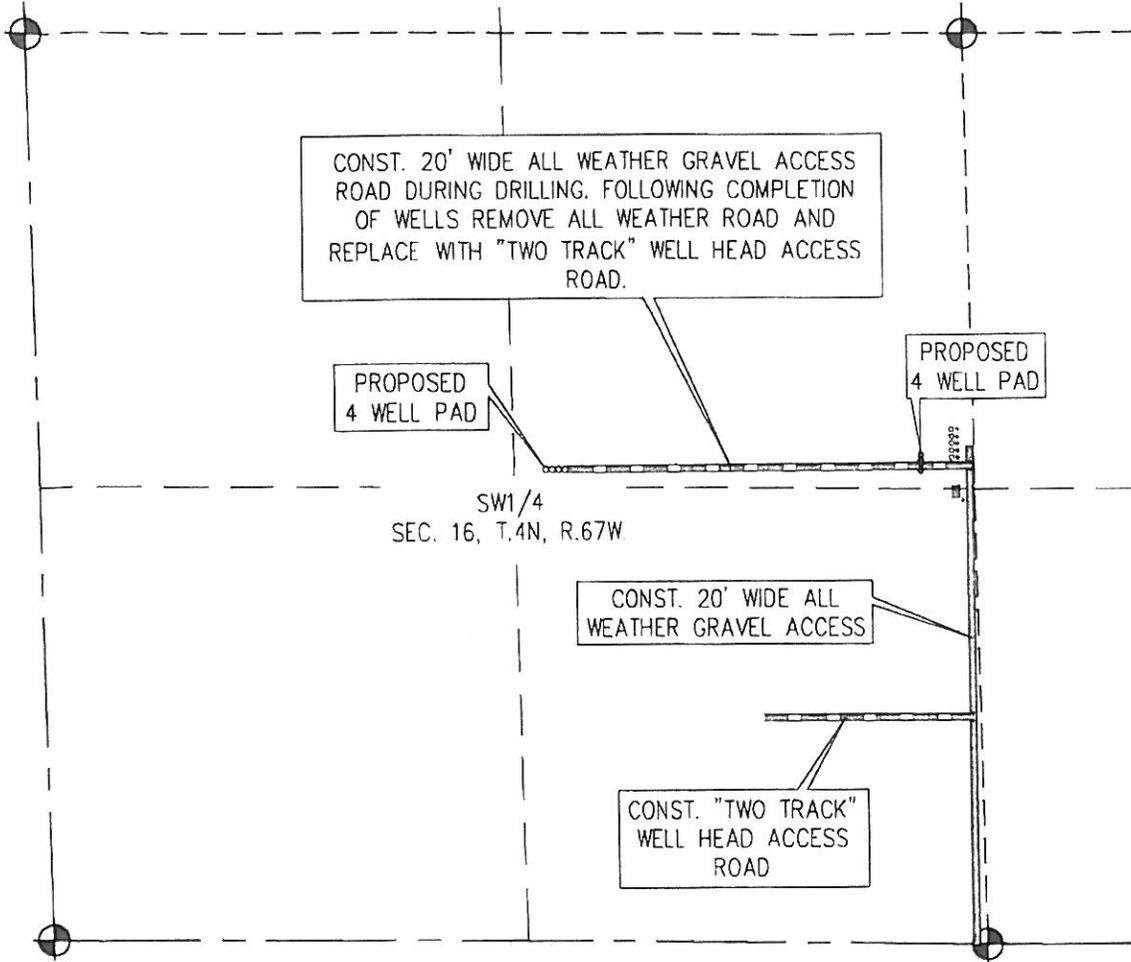


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Baseline Engineering Corp. 710 11th Avenue Suite 105 Greeley, Colorado 80631
EXHIBIT A

SECTION 16
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 Scale 1" = 500 ft

Baseline Engineering Corp. 710 11th Avenue Suite 105 Greeley, Colorado 80631
EXHIBIT B

SECTION 16
TOWNSHIP 4 NORTH
RANGE 67 WEST

