

## SURFACE USE AND EASEMENT AGREEMENT

This Agreement is made and entered into this 5<sup>th</sup> day of September, 2006 between, Timothy C. Wood, whose address is 910 Pike Drive, Mansfield, OH 44903, (hereinafter "SURFACE OWNER") and Petrogulf Corporation, whose address is 518 17<sup>th</sup> St., Suite 1455, Denver, CO 80202, (hereinafter "OPERATOR").

NOW THEREFORE, For the consideration set forth in Exhibit "A" attached hereto and made a part hereof, the SURFACE OWNER hereby grants to the OPERATOR, the use of the surface as well as access across the surface to certain lands as described below and as depicted on the attached Exhibit "B" for the purpose of conducting surveys and stratigraphic tests; conducting exploration, drilling, completion, production, gathering and reworking operations; constructing Well Sites, access roads; laying gas pipelines, water lines, communication lines; and performing all additional operations associated with the exploration, capture, production, gathering and sale of gas on SURFACE OWNER'S property or such gas in the vicinity of SURFACE OWNER'S property (hereinafter referred to as "Property") located in Las Animas County, Colorado, to wit:

**SEE EXHIBITS "A" AND "B" ATTACHED HERETO AND MADE A PART HEREOF.**

The following shall set out those terms and conditions under which OPERATOR may enter and conduct OPERATIONS on the Property:

### Wells

1. Well sites on the Property shall utilize no more than .75 acres of land, unless more space is initially needed to create a usable level well pad in order to accommodate a SURFACE OWNER'S request to relocate well pad. The permanent size of well sites on the Property shall not exceed .75 acres. The surface area surrounding the well shall be reclaimed to the standards of the Colorado Oil and Gas Conservation Commission ("COGCC") for interim reclamation within a reasonable time and no later than 12 months after a well has been drilled. Final reclamation shall take place no later than 12 months after a well has been plugged and abandoned or sooner if required by the regulations of the COGCC.
2. In the event that SURFACE OWNER chooses to construct a dwelling within 350' of an existing well or its associated production facilities, there shall be no additional requirements and or burdens placed on OPERATOR for sound and/or visual mitigation, so long as dwelling was not permitted prior to OPERATOR'S receipt of an approved permit to drill from the COGCC.
3. If pits are used, such pits shall be fenced and screened to prevent hazards to humans and wildlife. OPERATOR shall be solely responsible for mitigation of soil and groundwater contamination from operations. If drilling waste, other than drilling waste permitted to remain by COGCC, is in pits, upon completion of the well, OPERATOR shall remove such waste from pits and pits shall be reclaimed as close to their original condition as possible in accordance with the regulations of the COGCC. If mud is used in drilling, pit(s) shall be lined. Interim reclamation of pits shall include, at a minimum, the provisions contained in Sections 7 and 11 and elsewhere in this Agreement.
4. OPERATOR shall be fully bonded per COGCC regulations and insured with a surety liability bond which includes environmental protection throughout the life of the well and until final reclamation has been completed.
5. OPERATOR shall use best efforts to prevent the spillage of oil and/or lubricants onto the well pad. In the event there is a spill, the spill area shall be reclaimed as soon as possible to state and federal standards.

6. OPERATOR shall use best efforts to minimize disturbance to existing vegetation near the well site. OPERATOR will prune rather than remove vegetation in instances where removal is not necessary.
7. Interim reclamation of well sites shall include, at a minimum, removal of construction or drilling waste materials, infill of pits and holes no longer necessary for the operation of the well, removal of compaction from the soil in areas no longer necessary for the operation of the well, by cross-ripping the soil to a depth of eighteen inches, replacement of soil in any other disturbed areas, reseeding, and revegetation. Subsidence in any reclaimed area shall be corrected by OPERATOR by adding additional soil. Soils set aside for infill of any pits shall be spread out to avoid a "hill like" appearance within the well site area, including knocking down berms after drilling and re-seeding berm areas.
8. Produced water shall not be disposed of by surface discharge. If produced water is of sufficient quality as determined by Federal, State, and local regulations, road spreading will be allowed for purposes of dust suppression and re-vegetation. Discharging water into properly permitted pits as permitted by COGCC regulations and by this Agreement shall not constitute surface discharge.
9. Prior to commencement of drilling operations, OPERATOR shall, at its expense, have an independent expert perform a baseline test of existing water wells on the SURFACE OWNER'S property, copies to be provided to SURFACE OWNER. The baseline test shall measure, at a minimum:

pH	Aluminum
Hardness (ppm and grains/gallon)	Arsenic
Conductivity (mmhos/cm)	Barium
Sodium Absorption Ratio	Boron
Adjusted Sodium Absorption Ratio	Cadmium
Cation/Anion Ratio	Chromium
PPM of Calcium, Magnesium,	Lead
Potassium, Sodium, Iron	Manganese
Carbonate	Nitrate
Bicarbonate	Nitrite
Dissolved Oxygen	Ammonia Nitrogen
Hydroxide	Phosphorus
Chloride	Methane
Sulfur as SO <sub>4</sub>	Turbidity
Salt Concentration (TDS)	Hydrogen Sulfide

10. In the event it is proven that the quality of the water produced from the above-referenced water well is materially damaged as a result of OPERATOR'S operations on the Property, OPERATOR shall, at its expense, immediately repair or replace such water well so that such water well produces at least the quality shown by the testing described in Paragraph 9 above.
11. The parties have not been able to come to any agreement regarding the potential impacts to quantity of water in water wells. Each SURFACE OWNER will be responsible for negotiating water quantity issues with OPERATOR on an individual basis.
12. In order to protect water wells, all gas wells shall be cased as per the requirements of the COGCC.
13. Final reclamation of the well site shall be done in accordance with the reclamation rules of the COGCC.

#### Access

14. SURFACE OWNER shall grant necessary non-exclusive access easements to OPERATOR as described on an exhibit to be attached to the Surface Use Agreement.

15. Permanent access easements for roads, flowlines, cuts, fills, and shoulders shall not exceed thirty-five feet (35') in total width, with twenty feet (20') in width for traveled surface. Temporary construction access shall be fifty feet (50') maximum, with sixty feet (60') maximum at curves. Temporary construction access shall be limited to six months, except for emergency repairs. OPERATOR shall use best efforts to minimize actual temporary construction access area used. Operator shall re-vegetate all areas of easement upon completion of construction outside the twenty feet (20') wide travel area.
16. SURFACE OWNER shall be compensated for the access easements in accordance with the compensation schedule attached hereto as Exhibit "A". The payment shall be made in full by OPERATOR upon execution of this Agreement.
17. Surface damage to access easement areas shall be minimized. OPERATOR agrees to repair, at OPERATOR'S costs, any damage caused by OPERATOR to easements used for OPERATOR'S access. OPERATOR shall be responsible, at its own expense, for any road construction, improvements and culverts and culvert replacements necessary to support heavy truck traffic and for all maintenance on roads used by OPERATOR. In those instances where roads cross fence lines, cattle guards and/or braced gates shall be installed at the sole cost and expense of OPERATOR.
18. Access easements used by SURFACE OWNER and OPERATOR must remain safe and passable, even while under construction.
19. OPERATOR shall provide the SURFACE OWNER with an as-built survey showing the length of all roads and flowlines promptly after their construction or improvement.
20. To the extent practicable, the topsoil horizon, or the top six inches of soil, whichever is deeper, shall be segregated and stockpiled separately at all excavations pursuant to COGCC regulations. Erosion control, including but not limited to netting, mulching, re-seeding and weed control, must be put in place for any construction activities. Water bars shall be constructed on road grades or slopes to avoid erosion. Spacing of water breaks is dependent on slope and soil type. Culverts shall be placed in low areas for proper drainage.
21. Road construction that requires cuts-and-fills shall be minimized to the maximum extent possible.
22. Roads constructed by OPERATOR which are not required for routine operation and maintenance of producing wells and ancillary facilities, and disturbed areas associated with permanently plugged and abandoned wells, shall be permanently closed, re-contoured, reclaimed, and re-vegetated or the OPERATOR may, at the discretion of the SURFACE OWNER, turn the road over to the SURFACE OWNER or Association.
23. When conditions allow, roads through timbered areas shall take a curvilinear path to reduce sight distances.
24. OPERATOR shall construct, maintain and use access gates at all entrance points to the property where OPERATOR is granted access. OPERATOR shall ensure that such gate is closed and locked after each use.

#### **Flowlines and Pipelines**

25. SURFACE OWNER hereby grants to OPERATOR an exclusive right, privilege and easement to locate, survey route, construct, entrench, maintain, protect, operate, inspect, repair, re-size and replace pipeline(s), gathering line(s), produced water line(s), and appurtenances thereto, which may include above and below ground valves, drips, meters, wire leads, markers, locators, and other surface structures or facilities which are essential to the operation of the pipeline(s), gathering line(s), and produced water line(s), for the purpose of transporting oil, gas, water, or other

substances which may be transported through a pipeline regardless of their kind or nature, on, over, under, across the Property (collectively the "Flowlines"). Any easements for Flowlines or pipelines for produced water shall be located within the access easement(s) as shown on Exhibit "B" and shall be constructed, maintained, abandoned and reclaimed by OPERATOR to the standards of both the State of Colorado and the Surface Use Easement Agreement between North Fork Ranch Landowners Association, Inc. and Petrogulf Corporation dated August 4, 2005.

26. SURFACE OWNER shall be compensated for the flowline easements in accordance with the compensation schedule attached hereto as Exhibit "A". The payment shall be made in full by OPERATOR upon execution of this Agreement.

#### Environmental and Safety

27. All trees removed for construction must be removed from the Property, bucked up for firewood, or left on site per the SURFACE OWNER'S request.
28. Receipt stations and major compression facilities (as defined by Las Animas County Regulations) shall not be installed on the Property.
29. OPERATOR shall use best efforts to ensure that sound levels from wellsites shall not exceed 42-47 db(A) at property lines or home sites. If necessary to minimize sound levels, additional sound attenuation shall be installed by OPERATOR, at its own expense, as required to achieve acceptable noise levels.
30. Absent the SURFACE OWNER'S consent, OPERATOR'S equipment and materials shall not be stacked, stored or maintained on the Property, other than short-term storage of well site construction equipment and materials.
31. Long-term visual impacts shall be minimized by painting exterior surfaces in earth tones consistent with the area, re-contouring and re-vegetating disturbed areas no longer needed for operations with plant species native to the area.
32. Timely re-contouring and re-vegetation, with plant species native to the area, of disturbed areas shall be required to limit runoff from disturbed areas that could cause sediment concentrations in surface waters to rise over present levels.
33. OPERATOR shall use best efforts to avoid areas of highly erosive soils when locating well sites, access routes, and flowline routes in an effort to substantially reduce the amount of soil loss, unless otherwise requested by SURFACE OWNER.

#### General

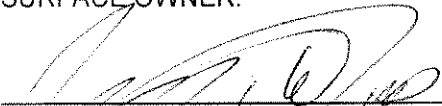
34. The terms of the Surface Use and Easement Agreement entered into between OPERATOR and the North Fork Ranch Landowners Association dated August 4, 2005 are incorporated by reference in this Agreement and made a part hereof.
35. OPERATOR and SURFACE OWNER have agreed to the locations of access roads, flowline easements, wells and equipment and map(s) showing each location are attached to this agreement.
36. OPERATOR shall notify SURFACE OWNER in writing 30 days prior to the commencement of heavy equipment operations on the Property. All other notifications shall be in accordance with local, state and federal regulations and as agreed herein.
37. Compensation shall be paid to SURFACE OWNER in accordance with the compensation schedule attached hereto as Exhibit "A." The payment shall be made in full by OPERATOR upon execution of this Agreement.

38. It is hereby agreed and understood by the parties hereto that this Agreement shall not alter or supercede the rights of the OPERATOR under the oil and gas lease(s) covering the OPERATOR'S Lease Area, except surface use rights as specifically described herein.
39. SURFACE OWNER agrees that OPERATOR may file in the county records a "Memorandum of Surface Use Agreement" to provide third party notice of the existence of this Agreement.
40. This Agreement shall supercede all preceding surface agreements related to gas development, if any, executed by SURFACE OWNER and OPERATOR or any of OPERATOR'S predecessors in interest covering the Property.
41. In the event that either SURFACE OWNER or OPERATOR fail to comply with any right, duty or obligation hereunder, the non-defaulting party shall so notify the defaulting party in writing and, if the default is not corrected within sixty (60) days from the receipt of said written notice, the non-defaulting party shall have the right to enforce the provisions of this Agreement in law or in equity along with any other rights and remedies provided under the law of the State of Colorado.
42. OPERATOR agrees to defend, indemnify and hold SURFACE OWNER harmless from any and all third party claims, demands or judgments connected directly with OPERATOR'S operations on the OPERATIONS AREA.
43. If SURFACE OWNER owns less than 100% interest in the surface of the OPERATIONS AREA described herein, the compensation described herein shall be proportionately reduced.
44. Unless otherwise agreed, the rights and obligations granted by SURFACE OWNERS to OPERATOR under this Agreement shall terminate when OPERATIONS cease to exist, as determined by OPERATOR. Upon termination or surrender of this Agreement, and at SURFACE OWNER'S request, OPERATOR will execute and deliver to SURFACE OWNER a good and sufficient recordable release of all of OPERATOR'S rights under this Agreement.
45. All express and implied covenants of this Agreement shall be subject to all federal, state, county or municipal laws, executive orders, rules and regulations, and OPERATOR'S obligations and covenants hereunder, whether express or implied, shall be suspended at the time or from time to time as compliance with such obligations and covenants is prevented or hindered or is in conflict with federal, state, county or municipal laws, rules, regulations or executive orders asserted as official by or under public authority claiming jurisdiction, or Act of God, adverse field or weather conditions, inability to obtain materials in the open market or transportation thereof, wars, strikes, lockouts, riots or other conditions in circumstances not wholly controlled by OPERATOR; and, this Agreement shall not be terminated in whole or in part, nor OPERATOR held liable for damages for failure to comply with any such obligations or covenants, if compliance therewith is prevented or hindered by, or is in conflict with, any of the foregoing eventualities.
46. This Agreement shall inure to the benefit of, and shall be binding upon, the parties hereto and to their respective employees, contractors, subcontractors, affiliates, subsidiaries, agents, heirs, lessees, successors, legal representatives and assigns.
47. This Agreement shall be construed in accordance with the laws of the State of Colorado.
48. This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.


This Agreement, incorporates Exhibits "A" and "B" attached hereto and made a part hereof, and constitutes the entire agreement between the SURFACE OWNER and OPERATOR concerning this Surface Use and Easement Agreement, and no representations or statements, either verbal or written, have been made between SURFACE OWNER and OPERATOR which modify, add to, or otherwise change the terms of this Agreement. All modifications and amendments to this Agreement of every nature and kind shall only be made in writing, signed by both SURFACE OWNER and OPERATOR.

EXECUTED as of the day and year first above written.

SURFACE OWNER:

  
\_\_\_\_\_  
Timothy C. Wood

OPERATOR: Petrogulf Corporation

  
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Betty A. Pennington  
Executive Vice President

Social Security/Tax ID# 

Exhibit "A"

THIS EXHIBIT "A" IS ATTACHED HERETO AND MADE A PART HEREOF TO THAT SURFACE USE AND EASEMENT AGREEMENT BY AND BETWEEN TIMOTHY C. WOOD, AS SURFACE OWNER, AND PETROGULF CORPORATION, AS OPERATOR.

This confidential Compensation Schedule is entered into between the SURFACE OWNER and OPERATOR this 5<sup>th</sup> day of September, 2006 and supplements the Surface Use and Easement Agreement between the parties of even date herewith ("SUEA").

As consideration for this Agreement, OPERATOR shall pay to SURFACE OWNER the following consideration for use of said property in accordance with the following schedule:

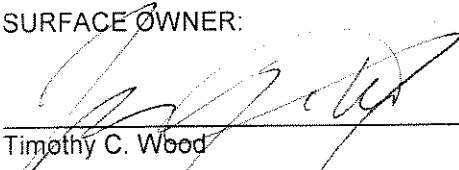
1. A payment of \$5,000.00 which covers the use of the entire Well Site, and an additional payment of \$10 per rod as damage compensation for the road, communication lines, water discharge lines and gas gathering pipelines, all located within the Well Site and Easement Corridor as defined herein and as depicted on the attached Exhibit "B". It is understood that the damage compensation payment of \$5,000.00 will cover any damages associated with the drilling of both Wood 2-31V and Wood 2-31R wells within the Well Site area. OPERATOR shall also pay SURFACE OWNERS a payment of \$2,500.00 as excess damages for the use of the Well Site, the road, communication lines, water discharge lines and gas gathering pipelines, all located within the Well Site and Easement Corridor as defined herein and as depicted on the attached Exhibit "B".
2. OPERATOR assumes the responsibility for maintenance of roads used for accessing and developing the mineral estate. This maintenance shall be performed by OPERATOR in accordance with the standards set forth within the SUEA. This maintenance shall include, but not limited to: grading, resurfacing and watering for dust suppression.
3. The terms of this Compensation Schedule are confidential and may not be disclosed to any third party.


This Compensation Schedule shall be binding upon the successors and assigns of the parties and upon any person or entity which acquires an interest in all or any portion of the Property.

This Compensation Schedule may be executed in counterparts.

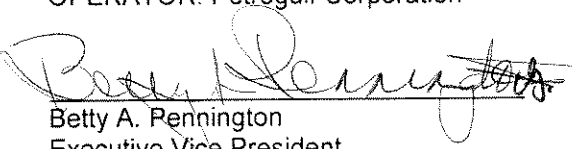
EXECUTED as of the day and year first above written.

SURFACE OWNER:

  
\_\_\_\_\_  
Timothy C. Wood

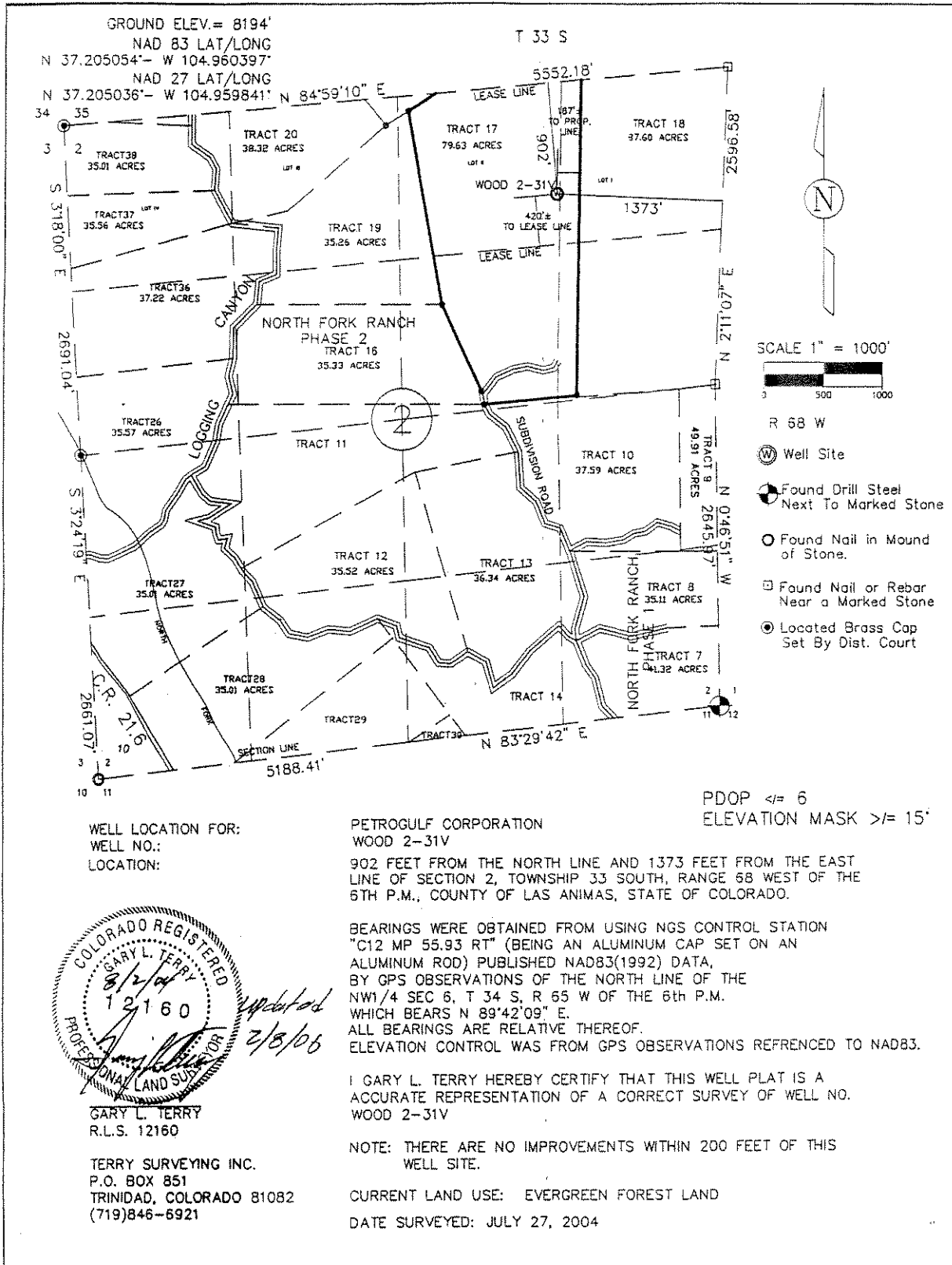
Social Security/Tax ID# 

OPERATOR: Petrogulf Corporation

  
\_\_\_\_\_  
Betty A. Pennington  
Executive Vice President

# Exhibit "B"

THIS EXHIBIT "B" IS ATTACHED HERETO AND MADE A PART HEREOF TO THAT SURFACE USE AND EASEMENT AGREEMENT BY AND BETWEEN TIMOTHY C. WOOD, AS SURFACE OWNER AND PETROGULF CORPORATION, AS OPERATOR

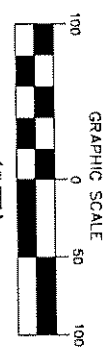
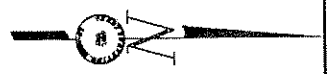
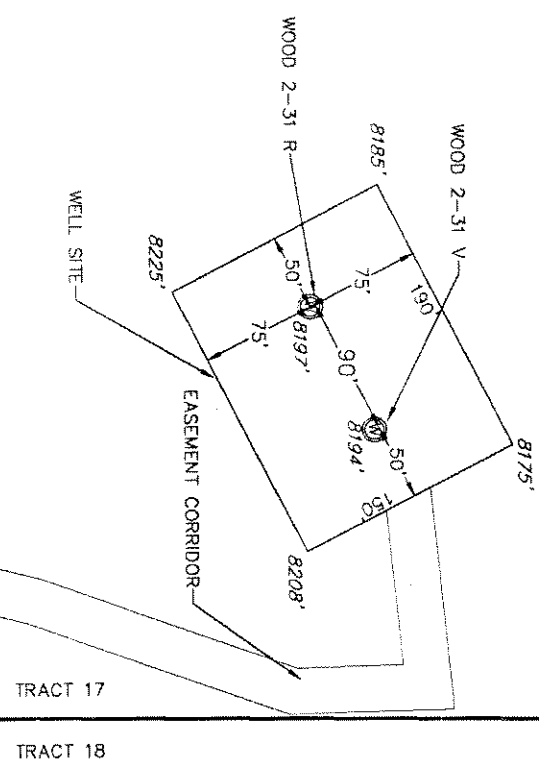






PAD DETAIL  
 WOOD 2-31 V&R  
 TOWNSHIP 33 SOUTH, RANGE 68 WEST

TRACT 17  
 NORTH FORK RANCH  
 Total area = 28,500 sf



TERRY SURVEYING, INC.  
 P.O. BOX 851, TOWNSEND, CO. 81082 (719) 846-6921

PETROGULF CORP.  
 WOOD 2-31 V&R  
 SECTION 2, TOWNSHIP 33 SOUTH, RANGE 68 WEST, LAS ANIMAS COUNTY, COLORADO

DRAWN BY	NLE	DATE	08/03/2006
CHECKED BY	G. TERRY	DRAWING NO.	WOOD-31 PAD DETAIL
SHEET	1	OF	1

STATE OF OHIO )

COUNTY OF )

) ss

On this 28<sup>th</sup> day of August, 2006, before me personally appeared **Timothy C. Wood**, to me known to be the person described in and who executed the foregoing instrument and acknowledged that he executed the same as his free act and deed for the uses and purposes therein set forth.

WITNESS my hand and official seal.

My Commission Expires June 13, 2010

*Annette E. Kightlinger*  
Notary Public



**ANNETTE E. KIGHTLINGER**  
NOTARY PUBLIC, STATE OF OHIO  
My Commission Expires  
June 13, 2010

STATE OF COLORADO )

CITY & COUNTY OF DENVER )

) ss.

On this 6<sup>th</sup> day of September, 2006, before me personally appeared Betty A. Pennington, who by me being duly sworn did say that she is the Executive Vice President of Petrogulf Corporation, and that said instrument was signed on behalf of said corporation by authority of a resolution of its Board of Directors and said Betty A. Pennington acknowledged to me that said corporation executed the same for the use and purpose herein stated.

WITNESS my hand and official seal.

My commission expires: 09/19/2009

