

## **SURFACE USE AGREEMENT**

This Surface Use Agreement ("Agreement") is made effective this 23<sup>rd</sup> day of February, 2011, by and between Paul Nelson Dairy Farm, LLC, of 9000 County Road #52, Milliken, Colorado 80543, hereinafter jointly and severally referred to sometimes herein as "Owner"; and Trilogy Resources, LLC, hereinafter sometimes referred to as "Operator"; each of the foregoing sometimes referred to individually as a "Party," or collectively as the "Parties."

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

### **1. OWNERSHIP.**

Owner is the surface owner of certain lands, such lands and improvements thereon hereinafter sometimes referred to as the "Lands", located in Weld County, Colorado more specifically described as follows:

Township 4 North, Range 67 West, 6<sup>th</sup> P.M.  
Section 5: N/2

### **2. OPERATOR'S OIL AND GAS OPERATIONS ON THE LANDS.**

Operator intends to drill or cause to be drilled oil and/or gas wells on the Lands, as depicted approximately on Exhibit "A" attached hereto ("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, the Access Roads to the well sites and certain other Facilities to be constructed on the Lands are depicted on Exhibit A, attached and incorporated into this instrument by this reference. Any material changes to the locations of the well sites, Access Roads and Facilities may be made by Operator with the consent of Owner, which shall not be unreasonably withheld.

#### **4. CONDUCT OF OPERATIONS.**

Operator's operations on the Lands shall be conducted pursuant to the terms of the Leases, this Agreement, the rules and regulations of the Colorado Oil & Gas Conservation Commission ("COGCC"), and applicable Colorado statutes and case law.

4. **COMPENSATION** Operator agrees to pay Owner the sum of \$\_\_\_\_\_ ("Amount") for each wellsite and the sum of \$\_\_\_\_\_ ("Amount") for each tank battery location prior to the commencement of drilling operations for each such Well. This amount shall be deemed full and agreed consideration for 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 well and facilities. Such damages will include, without limitation, damages to growing crops and crop land; the removal, transportation and care of any livestock; construction and use of access roads; and the preparation and use of the wellsite areas. Any subsequent major operations for said wells (refrac, deepening, re-drilling, etc.) except in case of emergency, shall require ten (10) days prior notice to owner.

- A. Operator agrees to pay Owner the sum of \$\_\_\_\_\_ per day beginning April 16, 2011 and continues until construction operations are completed and Owner can plant the crop for the 2011 season.

#### **7. ADDITIONAL SURFACE USE PROVISIONS, ACCESS ROADS, FENCES AND FACILITIES.**

With respect to its operations on the Lands, Operator shall comply with the following provisions:

##### **A. Access Roads:**

- (i) Access Roads shall not exceed 20 feet in width.
- (ii) Operator will maintain all Access Roads in good repair and condition.

##### **B. Surface Restoration:**

Upon permanent cessation of Operator's operations on the Lands, all areas thereof occupied or utilized by Operator shall be restored by Operator to their original contour as nearly as is reasonably practicable.

##### **C. Other:**

- (i) Operator will install culverts on the Lands that may be necessary to maintain present drainage and irrigation otherwise affected by its operations on the Lands.

(ii) If by reason of the activities of the Operator, including, but not limited to, drilling, completing, equipping, and operating of the Wells, there is damage to personal property of the Owner, including, but not limited to, irrigation wells, fences, culverts, bridges, pipelines, ditches, or irrigation systems, for which Owner has not been previously compensated pursuant to Paragraph 5, and upon Owner's notification to Operator, Operator shall repair or replace such items after consultation with and to the reasonable satisfaction of the Owner, which repair or replacement shall be accomplished by Operator within twenty-one (21) days after final consultation with Owner.

(iii) 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 shall be removed and disposed away from the Lands by Operator no later than 30 days after the completion of the Wells. No such items shall be burned or buried on the Lands by Operator.

(iv) Operator shall keep the wellpad free and clear of noxious weeds and trash during operations.

(v) Operator shall remove all guy line anchors for drilling and completion rigs promptly after Operator's rig use is completed.

(vi) Operator agrees to fence off the perimeter of the well sites with temporary fencing if reasonably requested by Owner. Operator will install cattle guards where necessary and shall be responsible for restoring Owner's existing fence to its original condition at any point of access.

#### **8. 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 any other terms, conditions or covenants of this Agreement, Owner shall notify Operator of such alleged default in full and complete detail, in a writing delivered to Operator by certified mail, return receipt requested. Operator shall have thirty (30) days from its actual receipt of the written notification in which to pay, in the event of alleged non-payment, or to commence and diligently pursue a cure of any other alleged default, and upon such lapse of time, should such alleged default still remain in effect, then and only then shall Owner have the right and option to declare a default under this Agreement.

#### **9. WAIVER.**

Except as otherwise agreed in a subsequent writing subscribed to by both parties, no waiver by owner of any breach by the Operator of any of its obligations, agreements, or covenants hereunder shall be deemed to be a waiver of any subsequent or continuing breach of the same, nor shall any forbearance by Owner to seek a remedy for any particular alleged or actionable breach by the Operator be deemed to be a waiver by Owner of its rights or remedies with respect to any other alleged or actionable breach; however in no event shall Operator be liable for consequential damages.

**10. INDEMNITY/RELEASE.**

Owner hereby releases and agrees to hold harmless Operator from any and all liability and further payment, other than what has been provided herein, for damages on the Lands which arise from, out of or in connection with the Operator's operations on the Lands, but only as to those operations which are described in and permitted by this Agreement, and for those operations which the Amount has been paid and received by Owner pursuant to this Agreement. Operator agrees to indemnify and hold Owner harmless from any and all claims, damages and causes of action arising out of and caused by Operator's operations on the Lands that may be asserted by any of Operator's agents, employees, subcontractors, contractors or persons entering upon the premises at the request of Operator.

**11. WAIVER OF 30-DAY NOTICE.**

Owner hereby waives the minimum 30-day written notice requirement for operations to begin and any other and/or future notice or consultation requirements of the COGCC, including without limitation the provisions and allowed waivers under COGCC Rules 305 and 306.

**12. NOTICE FOR ADDITIONAL OPERATIONS.**

Operator shall 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.

**13. NOTICES.**

Notice by either Party shall be timely given, orally if possible (with the exception of notices described in Paragraphs 6(C)(ii) and 7 above), with additional and immediate 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 written notice delivered in the way described in this paragraph to the other:

Owner:

Paul Nelson Dairy Farm, LLC  
9000 County Road #52  
Milliken, Colorado 80543  
(970) 587-2368

Operator:

Trilogy Resources, LLC  
1036 S. High Street  
Denver, Colorado 80209  
(720) 289-9879

**14. BINDING EFFECT.**

The covenants and conditions herein contained and all of the provisions of this Agreement shall inure to the benefit of and be binding upon the Parties hereto, and their respective heirs, representatives, successors and assigns. Owner agrees to notify any and all tenants of Lands and any other third parties utilizing the surface of the Lands who may be affected by Operator's activities on the Lands. It shall 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; and

payment of consideration, if any, which may be due any such third party from Owner as a result of Operator's actions on the Land under this Agreement shall be the sole obligation of Owner, and Owner shall protect, defend and indemnify Operator from any and all claims and demands from such third parties as a result of Operator's actions under this agreement.

15. **CONFIDENTIALITY.**

In addition to any other confidentiality requirements provided for herein, Owner agrees to keep the terms and conditions of this agreement confidential and shall not disclose such matters to any third party, unless owner is ordered to do so by specific order of the court in a legal proceeding. Notwithstanding the foregoing, owner may disclose terms to owner's legal advisors, and payment terms to owner's official tax advisors and appropriate government taxing authorities. While the specific terms hereof are to be held in strict confidence by Owner, Operator may at its option record a memorandum of this agreement in Weld County, Colorado and with any other appropriate agency of government.

16. **ENTIRE AGREEMENT.**

This instrument contains the entire agreement between the Parties and all prior negotiations and representations are merged within this instrument, and the terms of such may not be modified orally or in any other manner other than by agreement in writing signed by all Parties or their respective heirs, representatives, successors or assigns.

17. **TERMINATION.**

This Agreement shall remain in effect unless and until specifically abandoned by Operator in a writing delivered to Owner, or filed by Operator in the records of Weld County, Colorado. All rights to indemnification and requirements for reclamation and provisions relating thereto shall survive termination of this Agreement.

18. **COUNTERPARTS.**

This Agreement shall be executed in duplicate originals, each party to retain one such original. This Agreement shall be binding if properly signed and fully executed and sent by facsimile transmitted to the other Parties. Without affecting the validity of the foregoing manner of execution, the Parties agree to follow-up such facsimile executions with standard paper originals signed by the parties as soon as may be practical.

19. **GOVERNING LAW AND VENUE.**

This Agreement shall be governed by, construed and enforced in accordance with the laws of the state of Colorado; and Weld County, Colorado, shall be the forum for resolution of all disputes under this Agreement.

20. **FORCE MAJEURE.** The passage of any deadline or time relevant under this instrument shall be deemed tolled, and nonperformance of any required obligation that Operator may have under this instrument shall be excused without penalty to Operator as to any time period, in which Operator is prevented or hindered from performing due to any

governmental action or inaction, and any force majeure which shall include without limitation any act, circumstance, event or condition beyond the control of Operator which shall include without limitation any act, warning or threat of terrorism, war, revolution, rebellion, insurrection, riot, civil commotion, blockade, embargo, shortage of necessary expertise, and shortage or lack of transportation and delivery of necessary tools, equipment, material and supplies due to market conditions, act or restraint of government, strike, lockout, picketing, boycott, or damage by earthquake, fire, hurricane, tornado, flood, wind, storm, temperature extreme or other weather instability, disaster or condition, or by reason of any other circumstance or combination of same beyond Operator's control.

**21. ATTORNEY'S FEES AND COSTS.**

The Parties agree that in any action, claim or controversy resulting from a claimed breach of this Agreement, each party shall bears its own costs, expenses and attorney fees. The provisions of this paragraph do not apply to any actions other than breach, or a claim thereof, including without limitation indemnification provisions.

**22. 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.

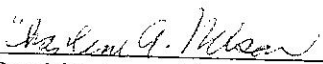
**23. BINDING EFFECT.**

This Agreement constitutes a covenant running with the Lands and shall be binding upon and inure to the benefit of, and be enforceable by, the Parties and their respective successors, affiliates, administrators, trustees, authorized representatives, executors and assigns.

DONE effective the date first written above, by the parties:

OWNER:  
PAUL NELSON DAIRY FARM, LLC

OPERATOR:  
TRILOGY RESOURCES, LLC

  
Paul Nelson, Manager

Charlene A. Nelson CO Owner

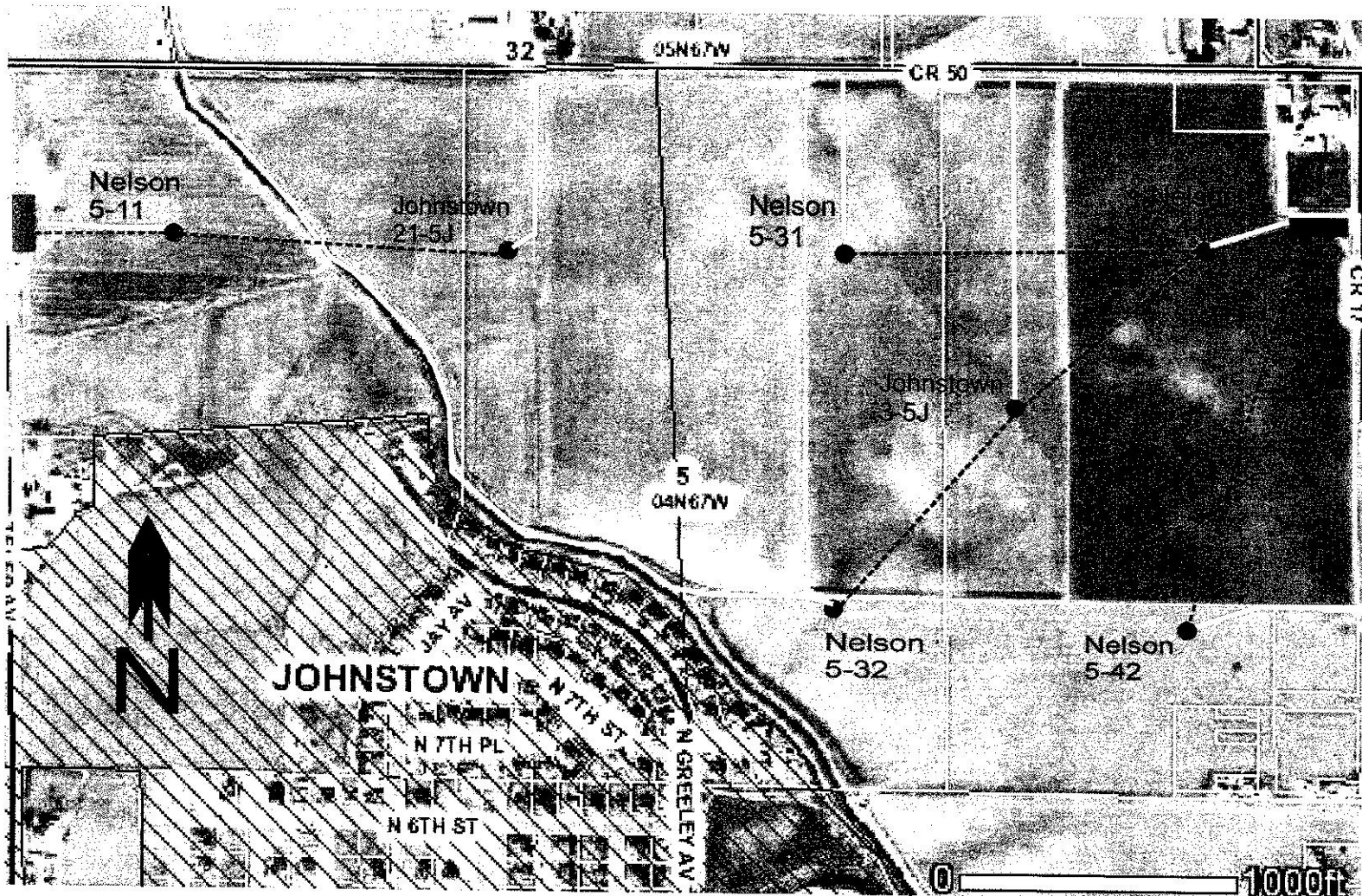




# EXHIBIT "A"

This Exhibit "A" is attached to and made a part of that certain Surface Use Agreement by and between Paul Nelson Dairy Farm, LLC, as "Owner" and Trilogy Resources, LLC, as "Operator".

## TOWNSHIP 4 NORTH, RANGE 67 WEST, 6th P.M. Section 5: N/2



Access Roads  
Flow Lines

