

SURFACE DAMAGE AGREEMENT & RELEASE

KNOW ALL MEN BY THESE PRESENTS:

That for and in consideration of the sum of [REDACTED], this day paid to the undersigned by SG Interests I, Ltd. (hereinafter "SG"), receipt of which is hereby acknowledged, the undersigned and their heirs, successors, and assigns, as the "Owners" of the hereinafter described lands, do hereby release SG, its successors, agents and employees from any and all claims for damages to the surface of the hereinafter described lands resulting directly or indirectly from the drilling, completion, operation, maintenance and/or abandonment of the _____ Katie Eileen 34-7-35 #1 _____ situated upon and under the hereinafter described lands.

The undersigned further releases SG, its successors, agents and employees from any and all claims for damages for loss of growing crops on the hereinafter described lands resulting directly or indirectly from the drilling, completion, operation, maintenance and/or abandonment of the well identified above. * *MS*

The consideration paid hereunder shall also compensate the undersigned for damages sustained or which may be sustained, as a direct or indirect result of the construction, maintenance and subsequent use of any and all access roads and production facilities necessary for SG, its successors, agents, and employees to properly conduct operations and maintenance activities associated with the well identified above.

The lands to which this Release shall apply are described as follows:

Township 34 North, Range 7 West, N.M.P.M.

Section 35: SW/4SE/4

La Plata County, CO

The wellsite not to exceed two acres in size and to be located around the wellbore that is 1610 feet from the East line and 990 feet from the South line.

The terms of this written Agreement shall constitute the full agreement between the parties hereto and no modification or amendment of this Agreement shall be effective unless made in writing and signed by the parties.

See Exhibit "A", attached to and made a part hereof for additional provisions to this agreement.

IN WITNESS WHEREOF, this Release is voluntarily entered into and executed this 28th day of October, 1997/6, but is effective as of the date operations were commenced on the well.

"OWNERS"

SG INTERESTS I, LTD.

Alexis M. O'Hare

Alexis M. O'Hare

Gary S. Weber

By: Gordy Gas Corporation,
General Partner
Gary S. Weber, Vice President

Mary C. O'Hare

Mary C. O'Hare

* The parties hereto understand that Maralex Resources, Inc. serves as contract field operator of the subject property on behalf of SG, and for as long as Alexis M. O'Hare is the surface owner of said lands, all field operations of wells drilled on said lands shall be performed by Alexis M. O'Hare. Accordingly, Owner hereby agrees to indemnify SG from any and all claims relating to items contained in this Agreement over which Maralex Resources, Inc. and Alexis M. O'Hare have sole control.

Exhibit "A"

Attached to and made a part of that certain Surface Damage Agreement dated 10/28/96 by and between A. M. O'Hare and Mary C. O'Hare (Surface Owner) and SG Interests I, Ltd, (Operator).

WORK IN LIEU OF SURFACE DAMAGE PAYMENT:

In lieu of a payment for surface damages and Right-of-Way for initial drilling and completion of the Katie Eileen 34-7-35 #1 well, Surface Owner and Operator agree that the following work will be performed on the lands described herein:

1. Operator agrees to pay for the cost to install a bridge to run over the Pine River Canal, which is strong enough to support drilling and completion rigs. Surface Owner will purchase and own the bridge itself.

2. Operator agrees to pay for a crossing on the Spring Creek Extension Ditch. Said crossing shall be in compliance with the requirements of the Spring Creek Ditch Company Association. Surface Owner will pay for the culvert to be installed at a point designated by Surface Owner.

3. Operator agrees to pay to install an all-weather road which leads into the well location. Said road must include a minimum of 4" diameter road base and must be a minimum of 6" in depth and a minimum of 12' wide. The rock base shall be added after the completion rig is removed from the location. The route of the road will be at the sole discretion of the surface owner. Operator shall pay for the purchase and installation of culverts, if deemed necessary to minimize drainage erosion of the road.

4. Operator shall install a hospital grade muffler on the pump engine, with the muffler directed to the northwest.

5. Operator agrees to plant trees on the south side of the location to minimize the visual impact of the well and location. The cost of trees to be planted is hereby limited to \$500.

ADDITIONAL PROVISIONS:

1. The reserve pit shall be fenced on three sides while the drilling rig is on location. The fourth side shall be fenced within one (1) day after the drilling rig is removed from the location.
2. The reserve pit shall not be lined with a plastic pit liner.
3. The reserve pit shall be reclaimed within six (6) months of completion of the well.
4. The Surface Owner shall allow the use of fresh water from his ditches for drilling and completion operations of the well, if available.
5. There shall be no tank battery located on the drillsite. The tank battery shall be located, per Surface Owner's specifications, in close proximity to the barn.
6. The route of the road into the location shall be specified by the Surface Owner in order to minimize tree removal and surface damage.
7. Both water and gas pipelines shall follow the access road to be constructed under this Agreement.
8. Operator agrees to re-seed the location with a seed mixture to be provided by the Surface Owner.
9. Operator agrees to restore any irrigation ditches to their original condition if they are damaged by drilling and completion operations.
10. Operator agrees to maintain weed control on the location throughout the life of the well.
11. Operator agrees to paint the production equipment in a color chosen by Surface Owner which shall blend in with the surrounding terrain.

The provisions of this Exhibit "A" and the Surface Damage Agreement to which it is attached shall be binding and inure to the benefit of the successors and assigns of Surface Owner and to the successors, assigns, agents, employees, licensees, permittees, contractors and subcontractors of Operator and may not be assigned by Operator without Surface Owner's prior written consent.

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