



02287296

1016326
1 of 76/30/2010 4:11 PM
AGR R\$36.00 D\$0.00Linda Daley
Laplata County Clerk**RECEIVED**

FEB 6 2012

COGCC**SURFACE USE AGREEMENT**Form 2
2287292

THIS SURFACE USE AGREEMENT is made this 14th day of April, 2010 by and between Don L. Gosney and Gosney & Sons, Inc. dba Lazy G Production Company, LLC (Gosney), with an address of P O Box 367, Bayfield, Colorado 81122, and Kelsall Ignacio Properties, LLC, (Landowner), with an address of 1118 E. Missouri Avenue, Suite B2, Phoenix, Arizona 85014.

WHEREAS, Landowner owns 100% of the surface of the N1/2NW1/4 East of the Center of the Pine River, SW1/4NW1/4, SE1/4NW1/4, NW1/4NE1/4, SW1/4NE1/4, NE1/4NE1/4, and SE1/4NE1/4 of Section 4 except about 5 acres in the name of Yeager, and SW1/4NW1/4 and NW1/4NW1/4 of Section 3, Township 33 North, Range 7 West, N.M.P.M., La Plata County, Colorado (hereinafter the Property); and

WHEREAS, Gosney is the owner of oil and gas leasehold interests underlying or in proximity to the Property; and

WHEREAS, the parties have reached an agreement regarding Gosney's use of the Property related to oil and gas development thereon for the purpose of drilling and operating wells from a surface location or locations on the Property;

NOW, THEREFORE, based on the above premises and mutual covenants contained herein, the parties agree as follows:

1. **Consideration.** Upon execution of this agreement, Gosney shall pay Landowner the sum of [REDACTED] and any other good and valuable consideration that has been agreed upon in writing with respect to the use of the Property.

2. **Wellsites.** Gosney shall only use such portions of the Property as are reasonably necessary. The wellsites shall be located as mutually agreed. Upon completion of wells, Gosney will reclaim the wellsites to as small an area as practicable, which shall include re-contouring to existing grade, replacement of topsoil to at least the depth and quality as existed prior to disturbance, and re-seeding with seed acceptable to the Landowner. Permanent gravel will be limited to the road and areas immediately around any surface equipment to the minimum extent necessary for safe operating conditions. Gosney shall have the use of an area for reworking and repair of the wells to the minimum extent necessary for safe operating conditions. Rig anchors may be left in place, if well marked in a manner which will avoid damage to Landowner's equipment.

3. **Access Roads.** Gosney shall construct access roads to the wellsites in locations as mutually agreed. Gosney will make reasonable efforts to minimize the access road impact to Landowner, Landowners farming operations and other surface uses. The non-exclusive road easements created shall be 20 feet in width. Gosney agrees

After Recording Return to:
Gosney & Sons, Inc.
Matt Barnett
P.O. Box 367
Bayfield, Co 81122

2/7

to place at least six inches of road base gravel and at least three inches of topping gravel on road surfaces.

4. **Pipeline Tie-In.** Gosney may install one gas and one water gathering pipeline in a single trench for each well on the Property. Such pipelines to be used to transport only oil and gas and water produced from the north half of Section 4 shall be buried to a minimum depth of 36 inches below the surface.

5. **Noise Abatement.** Gosney will comply with COGCC Rule 802 concerning Noise Abatement, and shall install sound walls, sound insulated buildings, buried hospital grade mufflers in series, and/or other devices, as necessary. Gosney agrees to quiet its operations to the reasonable satisfaction of the Landowner, using the best then available technology that is practical and economical

6. **Equipment.** No equipment placed on location shall exceed twenty feet in height above ground level at the well without Landowner permission. The minimum necessary equipment shall be placed on the location at all times; such equipment shall be placed only on the graveled production areas. No tanks in excess of twenty feet tall or wellsite compressors without noise abatement equipment as set forth above shall be used to produce any well located on the subject lands. The wellhead and all visible equipment shall be fenced by a stock fence, acceptable to the Landowner, constructed in conformance with all applicable regulations.

7. **Pits.** Gosney shall comply with rules set forth in COGCC Rule 904 regarding drilling reserve pits. Gosney shall close and reclaim the drilling reserve pits during interim reclamation in accordance with the COGCC Series 1000 Rules.

8. **Reclamation.**

A. Interim reclamation. After the initial construction of a new well (including, but not limited to, the construction of road access, pipelines, wellpad, well drilling and well completion), those areas of land not required to be used for ongoing production operations will be promptly reclaimed. These areas to be reclaimed include the pipeline surface disturbance and the wellpad surface disturbance outside ongoing production use area. Reclamation shall consist of removal of all foreign substances, grading disturbed areas to irrigation grade, replacement of topsoil to the depth and quality that existed prior to disturbance, and seeding with a readily available seed mixture specified by Landowner. Reclamation shall be performed in a reasonable amount of time after initial construction, recognizing practical limitations of weather and season. Seeding shall be performed by drilling and fertilizing. Any and all work shall be acceptable to Landowner. However, all mitigation shall meet or exceed all COGCC rules and regulations. Gosney shall maintain such disturbed areas and facilities free of noxious weeds, and Gosney shall not permit such weeds to spread onto Landowner's property.

B. Subsequent Surface Disturbance. All subsequent disturbances to areas reclaimed under 8.A. herein shall also be reclaimed by Gosney within a reasonable amount of time, recognizing practical limitations of weather and season. Gosney shall notify Landowner of such subsequent disturbances; including but not limited to, well servicing, well re-drill, or pipeline repairs, within 15-days of starting such activity; with the exception of emergency repairs. For the purposes of this paragraph, subsequent disturbance does not include disturbance to the graveled areas of the road and wellpad used during normal production operations, and Gosney may maintain or excavate in these areas without subsequent damage payment to Landowner. Compensation for surface damages for subsequent disturbance shall be paid to Landowner on the same per acre basis that has been agreed upon in connection with the execution of this Agreement, including any side letter agreement, but shall not be less than one-half the per acre market value of the property used for roads and gathering lines nor less than the per acre market value of property utilized for other purposes.

C. Final Abandonment. After cessation of production or continuous operation of any well, all disturbed areas will be promptly reclaimed by Gosney in accordance with COGCC Rules 1003 and 1004, and Landowner's property shall be fully restored to its current use, including removal of any portion of roads and graveled areas which Grantor does not authorize to be left in place, recontouring to conform to surrounding grade, restoration of topsoil, and re-seeding.

9. Indemnification. Gosney agrees to indemnify, defend and hold Landowner harmless from and against any and all expenses, liability, injury, losses or damages resulting from or relating to Gosney's operation and maintenance of the well(s), equipment, road and gathering pipelines and related operations and activities on the property, provided, however, Gosney does not indemnify Landowner for expenses, losses or damages resulting in whole or in part from Landowner's conduct on the Property. Gosney shall promptly repair any and all damage to Landowners property, improvements and fixtures which results from Gosney's operations.

10. Gas Tap: Landowner shall be entitled to take gas from an odorized gas tap provided by Gosney at the well(s) at no cost to Landowner. Landowner shall provide all equipment and piping necessary to deliver such gas to its point of use at his own risk. Landowner's aggregate gas use from such tap(s) on all wells operated by Gosney on the Property shall be limited to 5000 mcf per annum. Because of Landowner's irrigation-related use for gas it is recognized that Landowner's gas use may vary seasonally; Landowner shall be permitted to take gas as required for his use up to the limit set out above.

11. Term. This agreement shall be effective as of the above date and shall continue until production at the wells ceases and Notices of Plugging and Abandonment are filed with the COGCC. Gosney shall have ninety days within which to remove all facilities and fixtures.

4/7

12. **Compliance with the Law.** Gosney shall comply with all applicable county, state and federal laws, regulations and permit requirements.

13. **Heirs/Assigns.** This agreement shall be binding upon and shall inure to the benefit of the parties and their respective heirs, successors and assigns.

14. **Recording.** Either party shall have the right to record this Agreement in the records of La Plata County, Colorado, and shall have the further right, but not the obligation, to record from time to time any as-built plats that may be drawn approximately depicting and identifying the location of the access road, pipelines and the drillsites on the Property. Such as-built plat recordings will follow the general form of Exhibit A attached hereto. Upon so recording, each such plat shall be deemed to be an amendment to this Agreement and incorporated herein.

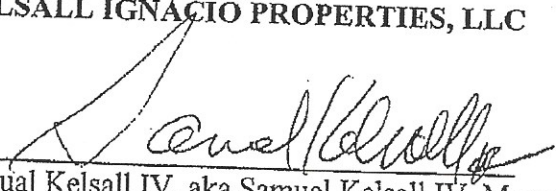
15. **Entire Agreement.** This Agreement, and any Side Letter Agreement made a part hereof, is the final agreement between the parties and supersedes any and all prior oral agreements regarding surface use related to the wells and facilities and improvements described herein. Except as provided in paragraph 13 above, this Agreement shall not be amended except in writing signed by both parties.

16. **Applicable Law.** This agreement shall be interpreted under the laws of the state of Colorado.

17. **Notice.** Owner hereby waives the thirty (30) day notification prior to commencement of drilling operations as required by Rule 305.b of the COGCC rules and has received the brochure, Information for Oil and Gas Operators, Surface Owners and Surface Tenants as per COGCC Rule 305.c.(6).

IN WITNESS WHEREOF, the parties have executed this Agreement effective on the day and year first above written.

KELSALL IGNACIO PROPERTIES, LLC

By 
Samual Kelsall IV, aka Samuel Kelsall IV, Manager

6/7

STATE OF Colorado)
)ss.
COUNTY OF La Plata)

SUBSCRIBED AND SWORN to before me this 29th day of June,
2010, by Samual Kelsall IV, aka Samuel Kelsall IV, Manager of Kelsall Ignacio
Properties, LLC.

Witness my hand and official seal.



Notary Public

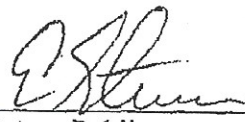
My Commission Expires: 2/22/2011



STATE OF Colorado)
)ss.
COUNTY OF La Plata)

SUBSCRIBED AND SWORN to before me this 30th day of June,
2010, by Don L. Gosney, individually and as President of Gosney & Sons, Inc. dba Lazy
G Production Company, LLC.

Witness my hand and official seal.



Notary Public

My Commission Expires: 2/22/2011



7/7

EXHIBIT A

MEMORANDUM OF SURFACE USE AGREEMENT

On the 14th day of April, 2010, Kelsall Ignacio Properties, LLC ("Landowner") entered a Surface Use Agreement ("Agreement") with Don L. Gosney and Gosney & Sons, Inc. dba Lazy G Production Company, LLC ("Gosney"). The Landowner granted certain surface use rights, subject to the terms, conditions and limitations set forth in the Agreement to Gosney.

The attached plat identifies the location of the surface uses set forth in the Agreement.