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SURFACE USE AND EASEMENT AGREEMENT

This Agreement is made and entered into this 9<sup>th</sup> day of August 2007 between, Sara J. Ferguson, whose address is P.O. Box 842, Trinidad, CO 81082, (hereinafter "Surface Owner") and Petrogulf Corporation, whose address is 518 17<sup>th</sup> St., Suite 1455, Denver, CO 80202, (hereinafter "Operator").

WITNESSETH:

For and in consideration of the covenants and agreement herein contained and other valuable consideration, the parties hereto agree as follows:

1. OWNERSHIP: Surface Owner is vested with title to the surface estate of Lot 32, North Fork Ranch, Phase 5, according to the amended recorded plat thereof filed 8-3-92, under Reception No. 597122 in the Las Animas County, Colorado Public Records, located in Section 11, Township 33 South, Range 68 West, 6<sup>th</sup> P.M., Las Animas County, Colorado, hereinafter referred to as the "Subject Land." Operator is the owner of a lease hold interest in the mineral estate underlying the Subject Land.
2. NOTICE: Operator intends to enter the Subject Land to drill two (2) gas wells and no more than 2 gas wells on a single well pad, one into the Raton Formation and one into the Vermejo Formation on the Subject Land, the access route and well pad location being specifically set forth on the plat designated as Exhibit "A" attached hereto and made a part of this Agreement, and Operator has given Surface Owner notice as required by law of Operator's planned operations on the Subject Land. Operator and Surface Owner have agreed upon the location of the well pad, wells and related facilities, and the access route. The well pad described herein, along with the one Raton Formation well and the one Vermejo Formation well located on that pad and the access route will be the only oil and gas operations located on these Subject Land.
3. USE OF SURFACE ESTATE: It is mutually agreed that in order for Operator to drill, complete and produce the proposed wells, it is necessary that Operator enter upon and use a portion of the surface of the Subject Land and that the parties agree herein as to the amount of damages for such entry and use of the Subject Land.
4. EASEMENT: Surface Owner and Operator hereby recognize and agree in accord with the underlying oil and gas lease(s), that Operator, its agent, contractors, subcontractors, employees, and its assigns, is authorized and is hereby granted, until abandonment, as defined by the Colorado Oil & Gas Conservation Commission, ("COGCC"), the right to enter upon and use a portion of the Subject Land to construct one well pad with 2 gas wells, one non-exclusive

access road, one gas gathering line not to exceed 14 inches in diameter and one water pipeline. These lines shall be used for transporting gas and water produced from the subject wells only. The pad, wells, access route and lines are identified and located on Exhibit "A," consisting of 4 pages, attached hereto and made a part hereof.

5. COMPENSATION: Operator agrees to pay Surface Owner the following sums:
- a. Payment of ~~\$5,000.00~~ for entry and use of a portion of the Subject Land for purposes of drilling two gas wells from a single pad. Payment shall be made before Operator enters Subject Land with heavy equipment.
  - b. Payment of ~~\$5,000.00~~ for the access and pipeline easement. Payment shall be made before Operator enters Subject Land with heavy equipment.
  - c. Payment of ~~\$2,500.00~~ for burying slash, debris, and tree stumps, removed from the Subject Land only, and buried only within the access road and/or well location pad on the Subject Land. Burying slash, debris and/or tree stumps within the access road shall be done in manner that complies with the road construction standards set forth in Paragraph 30 herein. Payment shall be made before Operator enters Subject Land with heavy equipment.
  - d. The payment set forth above, which shall be paid to Surface Owner in the form of one lump sum payment, made before Operator enters the Subject Land with heavy equipment, does not include damage to personal property and/or fixtures. If damage to personal property occurs as a result of Operator's actions or operations on the Subject Land, Operator shall separately compensate Surface Owner for all such actual damages sustained by Surface Owner.

### Wells and Wellpad

6. The Well Pad on the Subject Land shall utilize no more than 1.0 acres of usable land plus cut and fill of up the minimum amount necessary to comply with a 3 to 1 cut and fill ratio which has been identified in Exhibit A attached hereto. The surface area surrounding the well(s) shall be reclaimed according to the requirements set forth herein in Paragraph 12 within a reasonable time. The entire well pad shall be constructed in a manner that utilizes Best Management Practices as required by the Colorado Water Quality Control Division (the "Division") for purposes of avoiding erosion, sedimentation and stormwater run-off as required by the Division. A stormwater management plan covering all of Operator's facilities located on the Subject Land including well pad and access route shall be

provided to Surface Owner prior to commencement of construction operations. In addition, all cut and fill shall be done in accordance with the agreed to survey more fully described in Exhibit "A," page 4, titled "Pad Detail" which identifies the allowable cut and fill ratios on the entire pad. The top soil or A horizon shall be removed and segregated, even in the event there is less than 6 inches of top soil present and said top soil shall be protected from degradation and erosion by utilizing best management practices. Upon completion of construction of the Well Pad, Operator shall provide Surface Owner with an "as-built" survey of the Well Pad.

7. In the event that Surface Owner chooses to construct a dwelling within 350 feet 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 the dwelling was not permitted prior to operator's receipt of an approved permit to drill from the COGCC.
8. During initial drilling operations, Operator will utilize evaporation pits constructed on the wellpad for holding produced water as needed. A produced water flowline will be installed simultaneously with the gas line in a single trench as identified in Exhibit "A" and will be utilized for carrying produced water from the well within 3 months of initial pumping. Evaporation pits will remain usable on an as-needed basis only on the well-pad. There will be no surface discharge of water on Subject Land.
9. Operator, in conjunction with closure of drilling and/or production pits under the requirements set forth by the COGCC in Rule 905, shall provide Surface Owner with a copy of the soil and water samples taken by Operator to ensure Surface Owner that the allowable concentrations of contaminants has not exceeded COGCC Table 910-1. In the event allowable concentrations exceed those set forth in Table 910-1 in any category, Operator shall remove all pit contents and dispose of contents off of the Subject Land and replace with clean fill. If ground water has been contaminated by Operator's pits, Operator shall remediate in accordance with state and federal environmental laws and regulations.
10. Operator shall not conduct activities on Subject Land without being insured. Operator shall carry a comprehensive general liability insurance or a self-insurance program approved by the Colorado Insurance Commission, in the amount of not less than ~~\$400,000.00~~ per occurrence for property damage and not less than ~~\$1,000,000~~ for personal injury, insuring the applicant against all claims or causes of action made against the applicant for damages arising out of the drilling, maintenance, operation or other work done with respect to operations on the Subject Land.
11. Operator shall minimize disturbance to existing vegetation near the well pad.

Operator will prune rather than remove vegetation in instances where removal is not necessary.

12. In addition to the reclamation standards of the COGCC for interim reclamation, and the construction permitting requirements of the Colorado Water Quality Control Division, interim reclamation of the well pad shall include, at a minimum, removal of construction materials, removal of compaction from the soil in areas no longer necessary for the operation of the well or wells by cross-ripping the soil to a depth of eighteen inches, replacement of soil in any other disturbed areas, and reseeded. Reseeding shall be performed following completion of well pad and access route, by using a native grass mix seed and shrub mix seed that is properly certified by the USDA Natural Resources Conservation Services, Trinidad Field Offices, Las Animas County, Colorado. Certification shall be obtained by Operator directly contacting the soil conservationist at the Trinidad Field Offices, currently staffed by Levi Montoya, who has already completed an on-site inspection of the Subject Land for determining the appropriate seed mixture. Slopes will be hydro-seeded with the certified seed mixture under proper fall season conditions. Determination of final stabilization shall follow Division standards. Subsidence in any reclaimed area shall be corrected by Operator by adding additional clean topsoil. Soils set aside for infill of any pits shall be spread out to avoid a "hill like" appearance within the well pad area, including knocking down berms after drilling and reseeding berm areas. Such soils will be contoured and shaped to follow the natural shape of the surrounding land.
13. Operator, shall have an independent expert perform a baseline test of the initial water sample from the Abeyta's water well as well as the stream which crosses the Subject Land, at a location directly below the point where the stream intersects with the draw on the Subject Land, which is also identified on Exhibit "A". Copies of test results shall be provided to Surface Owner. Baseline testing shall be completed no later than one week before actual drilling operations commence. After the commencement of drilling operations and upon written request by Surface Owner to Operator, specifically to Operator's Raton Basin Operations Manager, currently Mr. John Whisler, Operator shall test the Abeyta's water well and the stream within 20 days of receiving the written request at the identified testing point.

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

- 13.5 If Surface Owner drills a water well on the Subject Land into a formation other than the Raton or Vermejo Formations, Operator agrees to perform a baseline water test upon completion of the water well and up to three (3) additional tests as requested in writing by Surface Owner. Operator shall complete each test within 20 days of receiving a written request from the Surface Owner. Operator shall test for the same constituents listed in Paragraph 13 herein. If Surface Owner drills a water well into the Raton or Vermejo Formations Operator is not obligated to perform testing on Surface Owner's water well.
14. In the event, test results show that the quality of the water from the above-referenced existing and future water well(s) is materially damaged as a result of Operator's operations on the Subject Land, 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 13 above. In the event the test results of the above-referenced stream show that the quality of the stream water has been materially damaged as a result of Operator's operations, Operator shall be responsible for remediating the stream under applicable state and federal environmental laws and regulations.
15. Operator shall not, without the Surface Owner's prior written consent, use any water from existing or future wells, steams, reservoirs and springs on the Subject Land. Operator shall not disturb, interfere with, fill, or block any stream, reservoir, spring or other source of water on the North Fork Ranch.
16. In order to protect water wells, both gas wells shall be cased to the depth of 50 feet below the deepest freshwater aquifer or per the requirements of the COGCC.
17. Final reclamation of the well pad shall include, in addition to the requirements set forth by the COGCC, at a minimum, removal of pumping operation equipment and materials, removal of compaction from the soil by cross-ripping the soil to a depth of eighteen inches, replacement of soil in any other disturbed areas, and reseeding. Reseeding shall be performed by hydro-seeding under proper fall season conditions using a native grass mix seed and shrub mix seed that is properly certified by the USDA Natural Resources Conservation Services, Trinidad Field Offices, Las Animas County, Colorado. Certification shall be obtained by Operator directly contacting the soil conservationist at the Trinidad Field Offices, currently staffed by Levi Montoya, who has already completed an

on-site inspection of the Subject Land for determining the appropriate seed mixture. Determination of final stabilization shall follow Division standards. Subsidence in any reclaimed area shall be corrected by Operator by adding additional clean topsoil. Soils set aside for infill of any pits shall be spread out to avoid a "hill like" appearance within the well pad area, including knocking down berms after drilling and reseeding berm areas. Such soils will be contoured and shaped to follow the natural shape of the surrounding land. Final reclamation shall be completed within 12 months of both wells being plugged and abandoned. In the event Operator fails to complete final reclamation within 12 months, Operator shall pay, as a penalty to Surface Owner, the sum of \$1,000.00, monthly, for every month beyond the twelve full months from the date the last well was plugged and abandoned. This fine shall remain in effect, with \$1,000.00 due and payable to Surface Owner(s) on the last day of each month until final reclamation, in accordance with the requirements set forth herein, is completed.

18. In the event three phase electric power is installed along the community road that divides Tracts 15 and 5 currently owned by Kenneth Hodges, at the point where Tract 5 and 15 meet at Tract 5's most Northwesterly corner, as agreed by Surface Owner and Operator during initial onsite visit of Subject Land, Operator will, at its own expense bring the line in to the Well pad and electrify the wells and related facilities within twelve months.

#### **Access, Flowlines & Pipelines**

19. Operator and Surface Owner agree that the Subject Land will be accessed by crossing Lot 15 of the North Fork Subdivision which is owned by Kenneth Hodges, whose address is PMB 295, 3101 S.W. 34<sup>th</sup> Avenue #905, Ocala, FL 34474.
20. The access easement granted to Operator by Surface Owner across the Subject Land, as identified in Exhibit "A" of this Agreement is non-exclusive.
21. 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.
22. Access easements used by Surface Owner and Operator must remain safe and passable, even while under construction.
23. Exhibit "A", attached hereto, provides a general diagram of the agreed-to location

of the access road, flowlines and pipelines. Upon completion of construction of the access easement and pipelines and flowlines, Operator shall provide the Surface Owner with an as-built survey showing the exact location as well as length of all roads and flowlines.

24. Road construction that requires cuts-and-fills shall be minimized to the maximum extent practicable and in any event shall utilize best management practices to avoid stormwater runoff as required by the Division and COGCC rules and regulations
25. 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.
26. When conditions allow, roads through timbered areas shall take a curvilinear path to reduce sight distances. The road will be constructed as surveyed.
27. Operator shall construct, maintain and use access gates at all entrance points to the property used by Operator. Operator shall ensure that such gate is closed and locked after each use.
28. A speed limit of 15MPH will be observed on all roads on the Subject Land.
29. The Pipeline/Flowline Easement identified in Exhibit "A" shall be for the exclusive use of Operator, except that utilities, including electric, telephone and cable may be placed within the easement parallel to the Flowline so long as such utilities are placed at a minimum distance of ten feet (10') from the Flowline; and except that roads may cross such easements at substantially right angles. Prior to the placement of utilities within the easement, Surface Owner shall provide Operator with thirty (30) days notice at which time Operator shall be given the opportunity to consult with Surface Owner and provide its consent to the placement of the utilities; such consent shall not be unreasonably withheld.
30. All pipelines shall be buried in a single trench in an easement not to exceed fifteen (15) feet in width. The access road shall run parallel to the pipeline, as identified in Exhibit "A" and shall be located in an easement twenty (20) feet in width and shall be crowned and adequately drained with culverted adequate water crossings. The combined width of the Permanent access easement for roads, flowlines, cuts, fills, and shoulders shall not exceed thirty-five feet (35') in total width. 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 from the start of construction, except for emergency repairs. Operator shall use best efforts to minimize actual temporary construction access

area used. Operator shall revegetate all areas of easement upon completion of construction outside the twenty feet (20') wide travel area.

### Environmental and Safety

31. All trees removed for construction must be bucked up for firewood and left on site for use by Surface Owner within 30 days of cutting.
32. Major oil and gas facilities shall not be located on the Subject Land. Major facilities include the following:
  - (a) Compressor stations and associated facilities that serve multiple wells employing engines and/or motors with a cumulative horsepower rating of 200 bhp or more.
  - (b) Water injection stations and associated facilities.
  - (c) Storage yards and construction staging yards that occupy an area of one or more acres.
  - (d) Any facility related to the production of oil and/or gas that contains engines and/or motors with a cumulative horsepower rating of 200 bhp or more.
  - (e) Gas treating facilities that serve multiple wells or gathering systems.
  - (f) Pipelines for which the power of eminent domain is available.
  - (g) Booster pumps
33. Operator shall comply with the North Fork Master Surface Use Agreement, dated August 4, 2005, by and between, Petrogulf Corporation, (signed by Betty A. Pennigton, Vice President) and the Northfork Ranch Landowners Association, Inc.(signed by Marcia Dasko, Treasurer and Timothy C. Wood, Secretary); which states in Paragraph 31 of the Agreement: Petrogulf 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. Operator will install four-sided, twelve (12) foot tall sound abatement panels around all engines and pumps on the well pad and any other necessary noise abatement equipment so as to not exceed the noise levels stated in the North Fork Ranch Master Surface Use Agreement. Panels shall be installed 18 inches off of the ground so that the overall height of panels reaches 13.6 feet. In the event sound levels do not exceed the allowable noise levels without sound abatement panels, Operator shall still install four-sided, twelve (12) foot high sound abatement panels installed 18 inches off of the ground, for visual improvements and further sound level reduction.

34. Absent the Surface Owner's consent, Operator's equipment and materials shall not be stacked, stored or maintained on the Subject Land, other than short-term storage of well site construction equipment and materials.
35. Only employees, contractors, subcontractors and agents of the Operator, possessing proper identification, will be allowed on the Subject Land, and only for well-related work and or maintenance activities. No pets, such as dogs, are allowed on the Subject Land. No trash, cigarette butts, or other refuse will be discarded on the Subject Land or neighboring lots by Operator's personnel.
36. 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 in accordance with Paragraphs 12 and 17.
37. Access, Flowlines, pipelines and well pad shall be designed and constructed in a manner that minimizes disturbed area.
38. Operator shall use best efforts to avoid areas of highly erosive soils when locating the well pad, wellsite on the well pad, the access route, and flowline routes in an effort to substantially reduce the amount of soil loss, unless otherwise requested by Surface Owner.

#### **General**

39. Operator shall notify Surface Owner in writing 30 days prior to the commencement of heavy equipment operations on the Subject Land. All other notifications shall be in accordance with local, state and federal regulations and as agreed herein.
40. In the event that Operator shall fail to perform any of the terms, conditions, or covenants herein or pay the specific sums when due, and such default shall exist for thirty (30) days after receipt of written notice of such default to Operator, then Operator shall be deemed to have breached this agreement and the Surface Owner shall be entitled to pursue any and all remedies allowed or permitted by law. Except as otherwise agreed in writing, no waiver by Surface Owner of any breach by the Operator of any of its obligations, or covenants hereunder shall be deemed to be a waiver of any subsequent or continued breach of the same of any other covenant, agreement or obligation, nor shall any forbearance by Surface Owner to seek a remedy for any breach by the Operator be deemed a waiver by Surface Owner of its right or remedies with respect to such breach.
41. **NOTICES:** All notices, statements or designations under this Agreement by either party shall be sufficiently given and served if 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 notice to the other:

Surface Owner:

Sara J. Ferguson  
P.O. Box 842  
Trinidad, CO 81082

Operator:

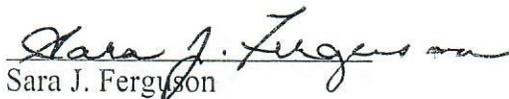
Petrogulf Corporation  
518 17th Street, Suite 1455  
Denver, CO 80202

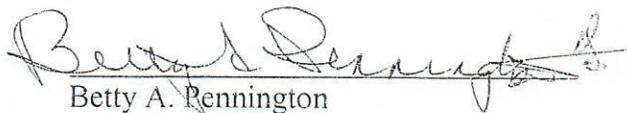
42. INDEMNITY: Operator agrees to indemnify and hold Surface Owner harmless from any and all claims, damages to persons or property, liability and causes of action arising out of Operator's operations on the Subject Land.
43. BINDING EFFECT: The covenants and conditions herein contained and all of the provisions of this Agreement shall inure to the benefit of and shall be binding upon the parties hereto, their respective heirs, representatives, successors or assigns.
44. ENTIRE AGREEMENT: This Agreement 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. This Agreement shall not be amended except in writing signed by both parties.
45. COMPLIANCE WITH LAWS AND CONSTRUCTION: Operator shall conduct its operations in a manner which fully complies with applicable laws, rules, regulations and lease terms and stipulations. This agreement shall be construed in accordance and subject to the laws of the State of Colorado and subject to the jurisdiction of the Colorado Courts.

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

**SURFACE OWNER:**

**OPERATOR: Petrogulf Corporation**

  
Sara J. Ferguson

  
Betty A. Rennington  
Executive Vice President

STATE OF COLORADO )  
 ) ss  
COUNTY OF )

On this 8<sup>th</sup> day of August, 2007, before me personally appeared Sara J. Ferguson, to me known to be the person described in and who executed the foregoing instrument and acknowledged that she executed the same as her free act and deed for the uses and purposes therein set forth.

WITNESS my hand and official seal.

My Commission Expires 10/14/2007



Paula K. Trippe  
Notary Public

STATE OF COLORADO )  
 ) ss.  
CITY & COUNTY OF DENVER )

The foregoing instrument was acknowledged before me on this 14<sup>th</sup> day of August, 2007, by Betty A. Pennington, Executive Vice President of Petrogulf Corporation, a Colorado Corporation.

My commission expires: 09.19.2009

Yakov ANDRUS  
Notary Public  
PUBLIC  
STATE OF COLORADO  
My Commission Expires 09-19-2009

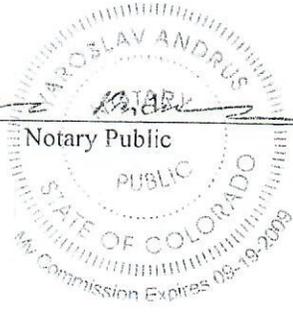


Exhibit "A"  
Page 1 of 4

THIS EXHIBIT "A," CONSISTING OF 4 PAGES, IS ATTACHED HERETO AND MADE A PART HEREOF TO THAT SURFACE USE AND EASEMENT AGREEMENT BY AND BETWEEN SARA J. FERGUSON, AS SURFACE OWNER, AND PETROGULF CORPORATION, AS OPERATOR

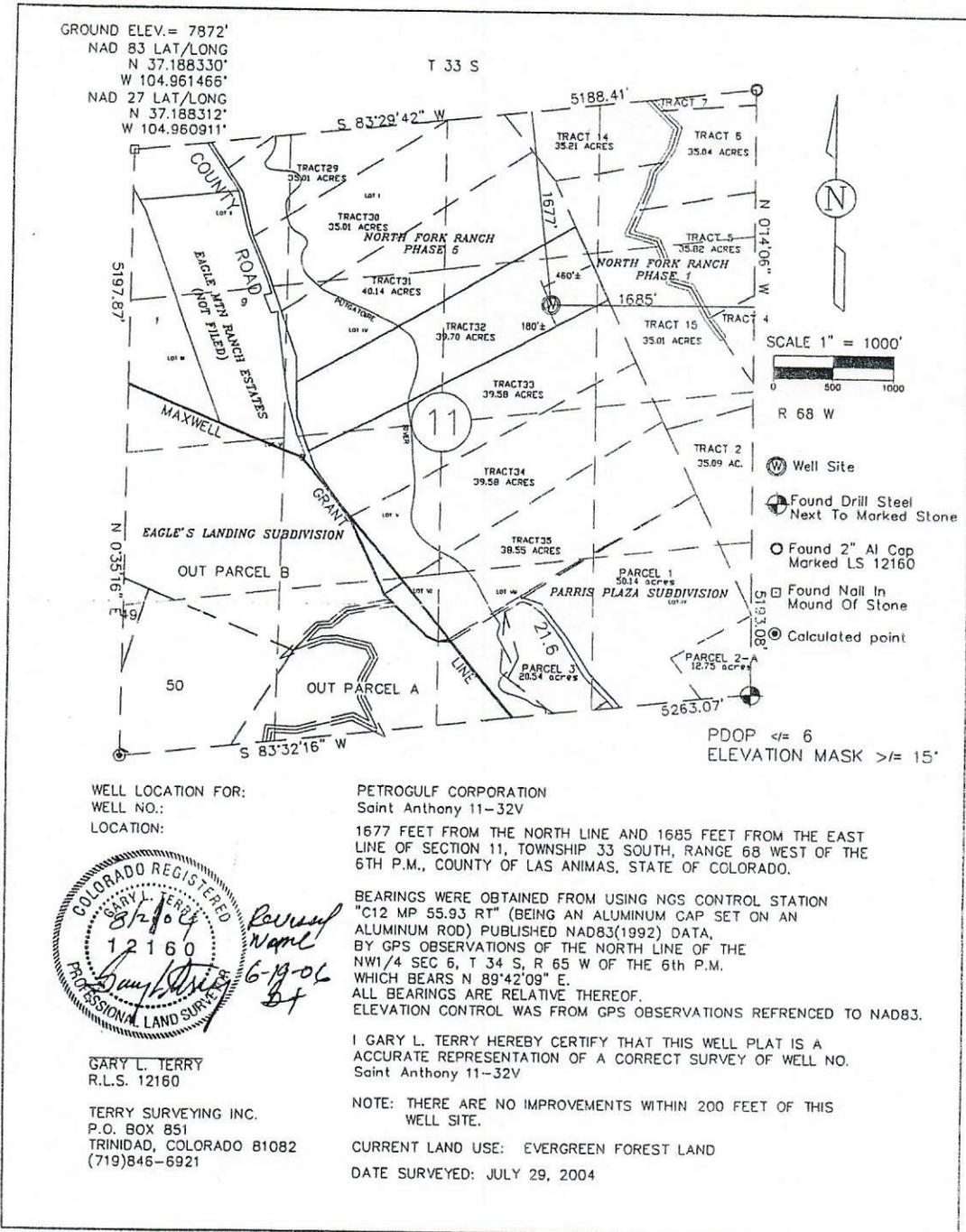


Exhibit "A"  
Page 2 of 4

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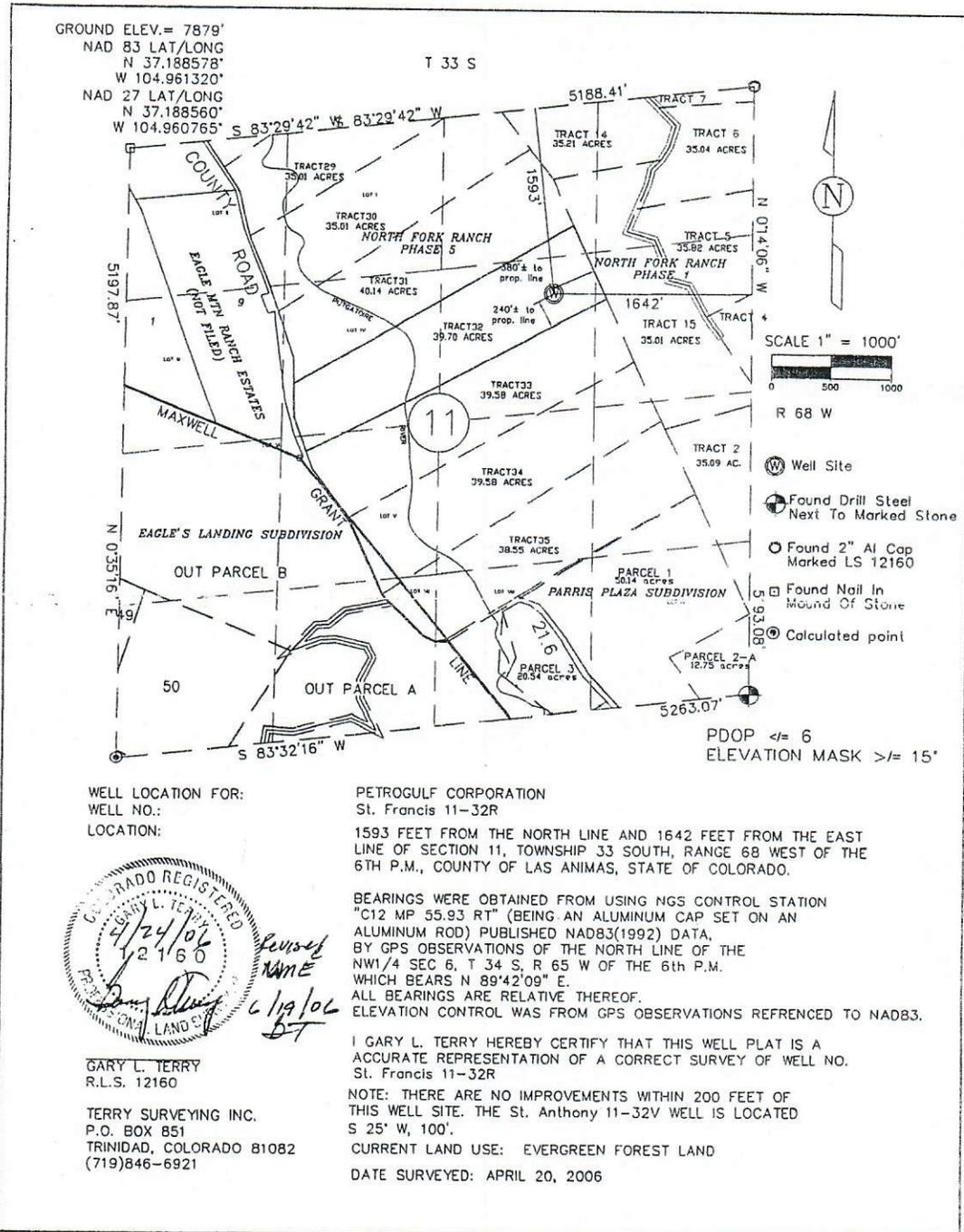


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Page 3 of 4

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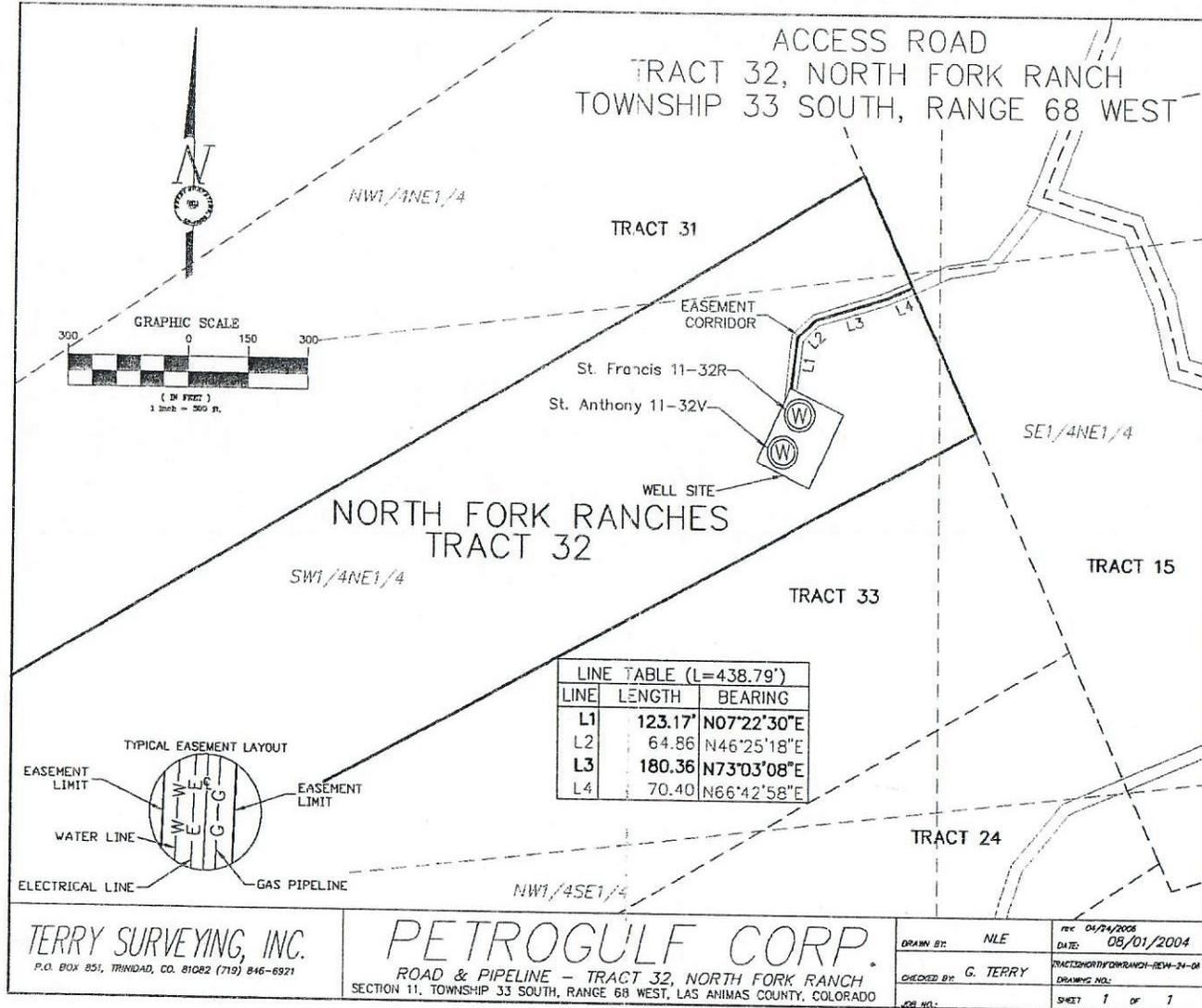


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