



SURFACE DAMAGE AGREEMENT

THIS AGREEMENT made and entered into this 20 day of SEPT, 1994, by and between Per Sten Johnson and Iva Joy Johnson, husband and wife, hereinafter referred to as OWNER, and Strachan Exploration, Inc., hereinafter referred to as OPERATOR.

WITNESSETH:

For and in consideration of the covenants and agreements herein contained and other valuable considerations, the parties hereto agree:

1.) OPERATOR intends to drill the South Piceance Creek #3 Well and South Piceance Creek #4 Well at legal locations in the SW NW Section 19, T3S-R95W and the SW SW Section 19, T3S-R95W, 6th P.M., Rio Blanco County, Colorado. Operator shall use the Bureau of Land Management's Sprague Gulch Road and Right-of-Way and other additional BLM Rights-of-Way for access to and from the Owner's property, known as the Piceance Creek Ranch.

2.) OPERATOR desires a Right-of-Way from the OWNER to traverse the OWNER's property from the BLM lands to the two proposed well sites to support the construction of these two drill sites, the drilling, completion and operations of these two wells, the construction of producing facilities and pipelines and the restoration of these sites upon termination of production.

OPERATOR desires to construct and maintain to the OWNER's satisfaction an all weather road, properly ditched and graded with appropriate culverts, fences or gates. This road shall follow the path of an existing jeep trail in a north-easterly direction from the SW corner of the NW NW Section 30, T3S-R95W to the Well #3 location in the SW NW Section 19, T3S-R95W. At the property boundary, OPERATOR proposes to install a cattle guard and steel gate and post the property boundary with necessary signage.

OPERATOR agrees at all times to keep this entire length of road and associated Right-of-Way in a safe and prudent manner and free of noxious weeds, litter and debris.

OPERATOR agrees to compensate owner \$ 4.00 per rod for the use of the road, which is anticipated to be 4,800' (291 rods) in length. This compensation shall constitute a one time bonus payment for the use of this Right-of-Way and road during the life of the OPERATOR's project known as the South Piceance Creek Prospect.

OPERATOR also agrees to compensate the OWNER \$ 1 per rod per year for the use of this 4,800' (291 rod) road and Right-of-Way. This payment shall be due and payable each January of each year this road and Right-of-Way is still in use.

OPERATOR agrees that upon termination of all operations by the OPERATOR on sites accessed by this Right-of-Way, OPERATOR shall reseed the area to the OWNER's satisfaction within nine (9) months of such termination of operations. All rights of ingress and egress implied in this agreement shall terminate upon acceptance by the OWNER of the reclamation by the OPERATOR on the Right-of-Way.

3.) OPERATOR plans to construct a drill pad for its drilling operations for each said well which will be approximately 2 acres in size. OPERATOR agrees to pay the OWNER the sum of \$ 2,000.00 for each of the well sites. This payment shall constitute a one time payment for the use of each site for the drilling, production and abandonment of each well during the life of the OPERATOR's project known as the South Piceance Creek Prospect.

OPERATOR agrees to at all times keep the well sites safe and in good order and free of noxious weeds, litter and debris. All trash shall be hauled away; none is to be buried or burned at the site for any reason. If OPERATOR does not discover oil, gas or hydrocarbons of commercial quantity, and determines the well to be a "dry hole", OPERATOR shall restore said area by replacing the top soil and reseeding the site with appropriate grasses within nine (9) months after termination of drilling or producing activities at the well site.

4.) OPERATOR agrees that no dogs, firearms or hunting will be permitted on the property covered by this agreement without the express written consent of the OWNER and that OPERATOR agrees to notify all its contractors, agents and employees of this restriction.

5.) In the event that the OPERATOR shall require a Right-of-Way for the construction of a gas or water gathering or transmission line, OPERATOR agrees to compensate Owner at the one time payment rate of \$ 4.00 per rod for such Right-of-Way over lands owned by Owner, and OPERATOR agrees to prudently maintain such Right-of-Way. At this time it is anticipated that the pipeline R-O-W would run

beneath the lease road between the #4 Well and the #3 well, down the hill from the #3 well to the abandoned Equity Oil, Gardiner #2 well, located in the SW NE Section 24, T3S-R96W within the BLM Sprague Gulch R.O.W.; thence north beneath the Sprague Gulch Road to the Exxon #1 site in the SW SW Section 18, T3S-R95W. Such a Right-of-Way is anticipated to be 6,800' (412 rods) in length. However, should it become necessary at a later date to adjust the proposed pipeline route, OPERATOR shall do so in a prudent and responsible manner.

OPERATOR also agrees to compensate the OWNER \$ 1 per rod per year for this pipeline Right-of-Way for that portion of the pipeline Right-of-Way that lies outside of the BLM Sprague Gulch Road Right-of-Way. The anticipated length of Right-of-Way for the #3 well subject to this annual payment is 800' (49 Rods) and for the #4 well is 2,500' (152 Rods). This payment shall be due and payable each January of each year this pipeline Right-of-Way is still in use beginning with the first January following the installation of such length of pipeline.

6.) OPERATOR shall have the option to purchase an amount of water from OWNER, subject to availability, to drill the subject wells, said amount not to exceed 5,000 barrels of water. OWNER also grants OPERATOR a temporary Right-of-Way from said water source to the well sites. If OPERATOR exercises the option to purchase said water, OPERATOR will pay OWNER the sum of \$.25 per barrel for this water and Right-of-Way.

7.) The terms and provisions of this agreement shall constitute covenants running with the lands and shall be binding upon the parties hereto and shall inure to the benefit of and bind their heirs, executors, successors and assigns.

OWNER:

Per Sten Johnson 9-20-94
Per Sten Johnson

Iva Joy Johnson 9/20/94
Iva Joy Johnson

OPERATOR

Strachan Exploration, Inc.

BY: Stephen M. Strachan 9/15/94

Stephen M. Strachan, President