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March 3, 2008

**Via FedEx Hand Delivery**

Leo V. Valdez  
1822 E. Marshall  
Phoenix, AZ 85016

RE: Leo Valdez No. 1- Section 13, T-28N, R-3-E  
Rio Arriba County, New Mexico

Dear Mr. Valdez,

The purpose of this transmittal letter is to inform you of Approach Operating, LLC's ("Approach") planned oil and gas activities on the surface of the Valdez land and to provide a comprehensive Surface Use and Compensation Agreement ("Agreement"). This letter and the proposed Agreement, which you will find enclosed, will provide information regarding rig site and drilling plans for the Leo Valdez No. 1 Well ("Well").

Although our exact drilling schedule is not known, we plan to survey the Well as soon as the spring thaw allows access to the site, which may be in April or May 2008. Once we have the Well surveyed, we will stake the location and provide you with a copy of the surveyor's plat. The Well will be permitted and drilled within a few weeks after the survey takes place and will target zones ranging from 2,000' to 6,000', but final projected depth is not yet determined. We expect the actual drilling time to be fewer than 10 days for a 2,000' well and 20 days or less for a deeper well. Of course, site preparation will precede drilling, and completion work will follow if the Well is successful.

The exact location of the proposed road accessing the Well is not known at this time. As depicted on Exhibit A to the enclosed Agreement, the proposed Well site is located off of Highway 84. If there already is an existing road off of Highway 84 onto the property, we would likely use that entrance. It is possible that we will need to coordinate with the Highway Department if access is had off of Highway 84.

We believe that this letter and the enclosed Agreement with its related Exhibits address all of the disclosures as required and contemplated by Article 12 of Section 70 of the New Mexico Statutes Annotated (70-12-1 to 70-12-10 NMSA 1978), called the Surface Owners Protection Act ("SOPA" or the "Act"), which you will also find enclosed. As you can see from the Act, you have 20 days from receipt of this letter to

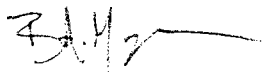
accept or decline the proposed Agreement, provided that failure to accept the Agreement within those 20 days will be considered a rejection under the Act. Please note that Approach has acquired the statutory SOPA \$25,000 blanket bond to cover its operations in New Mexico.

Approach's contact information is set forth above in this letterhead and you may send any correspondence to me. Feel free to send e-mail to me at [bmorgan@approachresources.com](mailto:bmorgan@approachresources.com).

I hope we can proceed with a minimum of inconvenience to you and want to assure you that we will do our best to conduct operations in a way that minimizes any interruption of your surface activities. As you can see from the proposed Agreement, we are more than willing to be respectful of the land – an attitude we carry to all of our surface operations wherever we work.

Should you have any questions or concerns, please contact me at your convenience. We look forward to working with you.

Very truly yours,



Brice A. Morgan  
Landman

Enclosures

## SURFACE USE AND COMPENSATION AGREEMENT

State: New Mexico  
County: Rio Arriba  
Operator: Approach Operating, LLC  
Surface Owner: Leo V. Valdez and Evangeline M. Valdez  
Effective Date: March 1, 2008 ("Effective Date")

THIS SURFACE USE AND COMPENSATION AGREEMENT ("Agreement") is made and entered into as of the Effective Date, by and between Approach Operating, LLC, 6500 West Freeway, Suite 800, Fort Worth, Texas 76116 ("Operator") and the Leo V. Valdez and Evangeline M. Valdez, as joint tenants ("Surface Owner").

### RECITALS

A. WHEREAS, Approach Oil & Gas Inc. ("AOG") is the owner of the oil and gas leasehold interest under that Oil and Gas Lease (the "Lease") dated February 27, 2007, issued by the Lessor named therein, recorded at Book 530, Page 2524 in the official records of the Rio Arriba County Clerk's office and covering, among others, those lands now owned by the Surface Owner (the "Property").

B. WHEREAS, AOG has designated Operator to develop AOG's oil and gas leasehold interest under the Lease.

C. WHEREAS, Surface Owner is the owner of the surface estate of the Property.

D. WHEREAS, Operator currently plans to develop the oil and gas leasehold interest under the Lease by drilling one or more oil and gas wells (individually, a "well" or "well site" and collectively, the "wells" or "well sites") on the Property, including the Leo Valdez No. 1 well at a location approximately LAT 36.660705 LONG 106.558818 in (projected) Section 13, T-28-N, R-3-E, Rio Arriba County, New Mexico.

### AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree as follows:

1. Surface Use. Surface Owner hereby grants Operator and Operator's representatives, agents, contractors, subcontractors, successors and assigns use of the Property for Operator's drilling, completing, producing and other related operations as set forth herein.

2. Compensation.

(a) In consideration for the use of and damages to, the Property as set forth herein, Operator shall pay Surface Owner the amount(s) at the time(s) set forth in Paragraph 2(b) below. The parties agree that said payment(s) constitute the full and entire consideration to be paid by Operator for use of the Property and all detriment, injuries and damages (except as provided in Paragraphs 4 and 22 hereof) associated with the drilling, testing, completion, recompletion, reworking, re-entry, operation and maintenance of the wells and well sites. The payment for damages to the Property includes, but is not limited to loss of value to the Property and

improvements affected by operations, noise, loss of use and access, loss of agricultural production including without limitation, damages to growing crops, sod, damage to croplands and removal, transportation and care of livestock, removal and loss of plant life, construction of access roads, preparation of the well site areas, preparation and use of reserve pits and construction, installation and maintenance of production equipment and facilities (collectively, the "Equipment") such as pumping units, flowlines, gathering lines, power lines, tank batteries, meters, separators and other equipment or facilities reasonably necessary for the production, transportation and sale of oil, gas and other materials produced by or used for production of the wells. With respect to the construction, installation and maintenance of Equipment, Operator may exercise its rights under its Lease, whether express or implied, and the rights granted by this Agreement at any time and from time to time without further or additional consideration being payable to Surface Owner except as may be otherwise provided herein. Surface Owner does hereby release Operator from any and all claims for damage that have arisen, or may arise from, out of or in connection with any of Operator's operations on the Property and accepts the payment(s) set forth in Paragraph 2(b) herein as full compensation for all such damages, except as otherwise specifically set forth herein.

(b) As compensation for the access, surface use and damages set forth herein, Operator shall pay Surface Owner the following:

i. Well Sites. \$5,000.00 for each well site. This amount shall be paid by Operator to Owner before entering the Property to drill the well.

ii. Roads. \$10.00 per rod for new roads constructed by Operator. This amount shall be paid by Operator to Surface Owner within fifteen (15) days after completion of construction of a new road.

ii. Pipelines. \$10.00 per rod for new pipelines constructed by Operator. This amount shall be paid by Operator to Surface Owner within fifteen (15) days after installation of a pipeline.

3. Location of Well Sites, Roads and Facilities. Surface Owner hereby agrees to the location of the initial well site(s) and roads as set forth on Exhibit A (map or aerial photo) attached hereto and made a part hereof. The well sites (also known as the drilling pad or rig pad) typically will encompass an area measuring approximately 1.55 acres as set forth on Exhibit B (drawing of typical drilling location). Surface Owner acknowledges that the locations and areas reflected on the Exhibits are approximate. In advance of each drilling operation, Operator will determine the approximate well site location and configuration it determines will be necessary for the well site on which it may conduct drilling, production and associated activities, for the placement of tanks, heater-treaters, separators, flowlines, gathering lines and other necessary facilities, and for access roads, and shall consult with Surface Owner regarding same. To the extent possible, main road corridors will be established connecting a main road to each well rather than a system of small roads connecting wells to wells.

4. Damage to Improvements; Personal Property. If, by reason of Operator's operations, there is damage to personal property located on the Property or if there is damage to the Property caused by the negligence of Operator that is not associated with reasonable and normal drilling, completion, recompletion, reworking, re-entry, production and maintenance operations, such as damage to improvements, structures, fences, culverts and cement ditches, Operator shall repair such damage, replace the personal property or promptly pay Surface Owner for such damage.

5. Roads. For access to well sites and facilities on which Operator has determined that terrain is not an obstacle, the width of any new roads shall not exceed twenty-five (25) feet for the traveled surface, together with a reasonable width, not to exceed fifteen (15) feet from the edge of the traveled surface, for fills, shoulders and crosses. For access to well sites and facilities located on mountainous terrain or sites that require access through mountainous terrain, Operator shall use its reasonable efforts to minimize the width of new roads taking into consideration the necessity for turns, turnouts, switchbacks, approaches, appropriate grade, drainage, erosion control and similar factors.

6. Due Regard. Operator shall conduct its operations on the Property in a manner that gives due regard for the then existing surface use, with special regard to agriculture, ranching and hunting, and shall seek all reasonable alternatives to accommodate the Surface Owner.

7. Facilities and Improvements. No permanent facilities will be permitted on the Property other than wellheads, pumping units, gathering pipelines, tanks, separators, meters and other production facilities, which will be removed as soon as reasonably practicable after cessation of production and abandonment of operations, taking into account contractor availability, weather and surface conditions at the time. Prior to erecting any facilities in addition to those shown on Exhibit C, including storage tanks or building pits, and prior to constructing flowlines, pipelines, compressor stations or other improvements, Operator shall advise Surface Owner of Operator's intentions, and Surface Owner and Operator shall work together in good faith to mutually decide on the location of such improvements. If Surface Owner and Operator are unable to agree on the location of such facilities, Operator's reasonable determination will be final. No daily residency on any well site or other operations site is permitted except as may be required during drilling or completion operations.

8. Traffic Minimization. To the extent reasonably practicable and economically feasible, Operator shall use radio telemetry or similar electronic means for the purpose of monitoring and recording information about wells, meters and pipelines on the Property, so as to minimize the amount of vehicle traffic on the Property. If deemed appropriate by Operator (considering terrain, distance and temperature) and to the extent reasonably practicable and economically feasible, Operator may use pipelines rather than trucking to transport production to the boundary of the Property or to central storage facilities. Operator and Surface Owner shall cooperate to establish reasonably located pipeline corridors and facilities.

9. Minimization of Surface Use. To the extent reasonably practicable, Operator shall (a) combine facilities on the Property in locations consistent with Surface Owner's goals, (b) minimize the amount of surface used in operations, including the size of pads and (c) minimize the number of and noise from compressors.

10. Proximity to Structures and Improvements. Operator shall not conduct surface operations within two hundred feet (200') of the high water mark of a surface tank or pond or within five hundred feet (500') of any house, barn or other structure now or hereafter located on the above described the Property.

11. Roads: Maintenance, Drainage, Removal and Restoration. Operator shall be responsible for maintenance and improvements of new roads constructed by Operator on the Property until termination of operations. Once a location is abandoned, any road materials on a road constructed by Operator to the abandoned site or location shall be removed, and the surface used for the road shall be reseeded with native grass (to the extent such grass was in existence before Operator's operations) and otherwise substantially restored to the condition that existed before the Operator's operations, or such road(s) may be left in place as the Surface Owner may decide. Operator agrees to install culverts necessary to maintain present drainage and irrigation and to control erosion.

12. Pipelines. In cultivated terrain, Operator shall bury all pipe lines below ordinary plow depth, "double ditch" all pipelines buried and refill ditches when necessary. In all other terrain, Operator may elect to bury pipe lines to the depth and in the manner deemed appropriate by it, including no burial.

13. Geophysical Operations. Prior to initial entry on any part of the Property for the purpose of conducting seismic or geophysical operations, the Operator or anyone acting on its behalf shall contact the Surface Owner who shall reasonably designate access. Operator shall use reasonable efforts to conduct its operations so as to cause the least possible damage to the surface.

14. Rules for Personnel On-Site. Operator shall instruct its employees and contractors to adhere to the following rules:

- (a) No interior or exterior fence shall be altered or cut without prior notice.
- (b) All gates shall remain closed at all times.
- (c) All exterior or boundary gates shall remain locked at all times.
- (d) No weapons or firearms of any kind, and no fishing equipment, will be taken onto the Property.
- (e) Unless Surface Owner agrees, all work (other than drilling, re-entry, recompletion, workover operations, oil or water hauling and emergencies) shall be completed prior to sundown.
- (f) Operator shall promptly haul off trash, and will not burn or bury trash or debris.
- (g) No sightseeing or deviation from the most direct route to or from drilling or operations site is permitted.
- (h) Operator's and sub-contractors' vehicles may not exceed twenty-five (25) miles per hour on Operator's lease roads or on Surface Owner's roads within the Property.

15. Fresh Water Well. Should Operator drill a fresh water well for use in connection with Operations, when such water well is no longer required by Operator for operations Operator shall offer to Surface Owner the right to take over the water well and all related equipment.

16. Produced Water; Water Impoundment. To the extent water is produced in connection with operations, such water shall be disposed of pursuant to the rules and regulations of the New Mexico Oil Conservation Division and records as may be required by the Oil Conservation Division shall be maintained evidencing such disposal. Produced water or water transported to well sites may be stored in tanks or surface pits as permitted by the Oil Conservation Division. Operator shall not impound or use surface water from the Property unless otherwise agreed by Surface Owner.

17. Visual Elements. Operator shall cause its tank batteries and separators to be painted in a color which blends with the local environment. Operator will not place any logos or similar marks on permanent facilities and equipment, except as required by law.

18. Operations Coordination. Operator shall meet from time to time with Surface Owner or Surface Owner's Ranch Manager or their designee and cooperate in good faith to establish operating policies and procedures to ensure the implementation of the restrictions described herein. For purposes of this Agreement, Surface Owner designates \_\_\_\_\_ to meet with Operator, subject to change at the sole option of Surface Owner.

19. Use of Topsoil, Contouring and Drainage. The topsoil shall be removed from the area over the pits, stockpiled and held in reserve until the contour of the site is re-established. The well sites

shall be ripped and returned to as near the original slope and contour as is reasonably practicable following completion operations. Following completion, recompletion, reworking and/or re-entry operations, Operator shall return the topsoil to its relative position over excavated areas and shall place any culverts necessary to practically and adequately drain the well sites and tank battery site and to control erosion. Operator and Surface Owner recognize and agree that Operator, especially in mountainous terrain, cannot guarantee that the area will be restored to its original contour or agricultural productivity in the absolute sense. Operator will, however, use commercially reasonable efforts to restore the same as near to its original slope and contour to the extent practicable.

20. Weed and Dust Control. Operator shall use reasonable commercial efforts consistent with standard oilfield practice in the area to control weeds and suppress dust on the wellsites, access roads and tank battery sites.

21. Clean-up. After completion of any drilling activity and permanent cessation of production activity, Operator shall make thorough, extensive cleanup of the Property that will include, without limitation, the removal of all waste material, trash, debris, drilling fluids, hydrocarbons and other materials from Operator's activities and operations. Except as otherwise provided in Paragraph 19 above and in this Paragraph 21 or otherwise required by law, Operator may elect to defer any interim reclamation; provided, that following plugging and abandonment, cleanup, closure and remediation shall be completed according to the standards in effect as of the Effective Date and shall be deemed complete in all respects on the issuance of the closure and release letter by the New Mexico Oil Conservation Division.

22. Indemnification. Operator will indemnify, defend and hold harmless Owner and, if applicable, Owner's officers, directors, partners, employees, successors and assigns, from all third party claims, demands and judgments arising out of Operator's use of the Property.

23. Surface Tenants. Operator shall not be responsible for allocating compensation between Surface Owner and any tenant or surface lessee, except that Operator shall compensate a tenant or surface lessee for any damage to leasehold improvements owned by the surface tenant or lessee damaged as a result of Operator's oil and gas activities if the improvements were approved and authorized by Surface Owner.

24. Operator's Rights. This Agreement is not intended to diminish the ability of Operator, AOG, their affiliates, subsidiaries, successors or assigns to fully explore, develop and produce oil and gas from the Property pursuant to the Lease. If Surface Owner desires Operator to impose additional requirements that would not diminish such rights but that would cause Operator to incur unreasonable additional cost, or if Surface Owner desires Operator to take an action with respect to the surface that is not reasonably practicable or economically feasible for Operator, Operator may comply with Surface Owner's requests if Surface Owner assumes the cost of complying with such requests.

25. Confidentiality. Without the prior written consent of Operator, neither Surface Owner nor its directors, officers, employees, partners, shareholder, members, clients, advisors, associates or consultants will disclose to any person or third party any of the terms, conditions or, without limitation, other facts with respect to this Agreement. The terms "person" and "third party" as used in this Agreement shall be broadly interpreted to include, without limitation, any corporation, company, partnership or individual.

26. Notice. Any notice, communication, request, instruction or other document required or permitted hereunder will be given in writing by hand delivery, certified mail, facsimile transmission or electronic mail (email), addressed as follows:

IF TO OPERATOR:

Approach Operating, LLC  
One Ridgmar Centre  
6500 West Freeway, Suite 800  
Fort Worth, TX 76116  
Facsimile 817-989-9001  
Email: [ralphm@approachresources.com](mailto:ralphm@approachresources.com)  
Attention: Ralph Manoushagian

IF TO SURFACE OWNER:

Leo V. Valdez and Evangeline M. Valdez

\_\_\_\_\_  
Facsimile: \_\_\_\_\_  
Email: \_\_\_\_\_  
Attention: \_\_\_\_\_

Notices will be effective (a) upon delivery in the case of hand delivery, (b) five days after mailing by certified mail and (c) on the day of transmission in the case of facsimile or email transmission, unless received after regular business hours in which event notice is deemed received on the next business day, provided in either event that a copy of the notice is also mailed by certified mail to the party to whom notice is being given on the day the facsimile or email is transmitted. Any party will have the right to change its address for notices hereunder by giving written notice of such change to the other party at the address so written above.

27. Personal Authority. The undersigned acknowledge that they have the authority on behalf of the Surface Owner and the Operator, as applicable, to execute this document and therefore bind both parties to it.

28. Successors and Assigns. This Agreement and all the terms, provisions, covenants and obligations herein contained shall be binding upon and inure to the benefit of and be enforceable by the Operator, Surface Owner and their respective successors and assigns.

29. Governing Law; Venue. This Agreement shall be governed by and construed under the laws of the State of New Mexico. THE PARTIES HEREBY EXPRESSLY CONSENT TO EXCLUSIVE JURISDICTION AND VENUE IN THE COURTS LOCATED IN THE COUNTY IN NEW MEXICO IN WHICH THE OPERATOR'S STATUTORY AGENT IS LOCATED.

30. Facsimile Signature; Counterparts. This Agreement may be executed by facsimile signature and in multiple counterparts, each of which shall be an original document but all of which taken together shall constitute one and the same agreement.

31. Entire Agreement; Third Party Beneficiaries. This Agreement, including the documents and information supplied in writing, and instruments referred to herein, constitutes the entire agreement and supersedes all other prior agreements, and understandings, both oral and written, between the parties with respect to the subject matter hereof. This Agreement shall be binding upon and inure solely to the benefit of the parties hereto and their successors and assigns, and nothing in this Agreement, express or implied, is intended to confer upon any other person any rights or remedies of any nature whatsoever under or by reason of this Agreement.



IN WITNESS WHEREOF, the parties have executed this Agreement on the date set forth by their signatures below, to be effective as of the Effective Date first written above.

**SURFACE OWNER:**

By: \_\_\_\_\_  
Leo V. Valdez

Date: \_\_\_\_\_

By: \_\_\_\_\_  
Evangeline M. Valdez

Date: \_\_\_\_\_

**OPERATOR:**

**APPROACH OPERATING, LLC**

By: \_\_\_\_\_

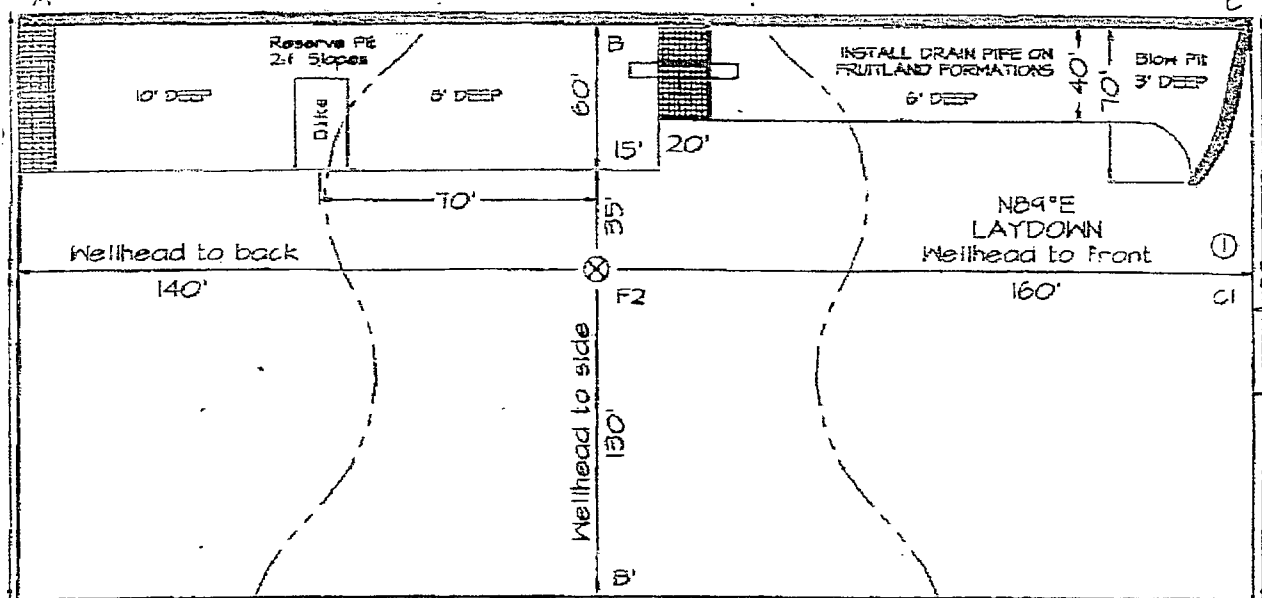
Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**Exhibit B**  
**to Surface Use and Compensation Agreement**  
**Approach Operating, LLC, Operator**  
**Leo V. Valdez and Evangeline M. Valdez, Surface Owner**

(Drawing of typical drilling location)



225' X 300' = 1.55 acres

**Exhibit C**  
**to Surface Use and Compensation Agreement**  
**Approach Operating, LLC, Operator**  
**Leo V. Valdez and Evangeline M. Valdez, Surface Owner**

(Drawing of typical producing location)

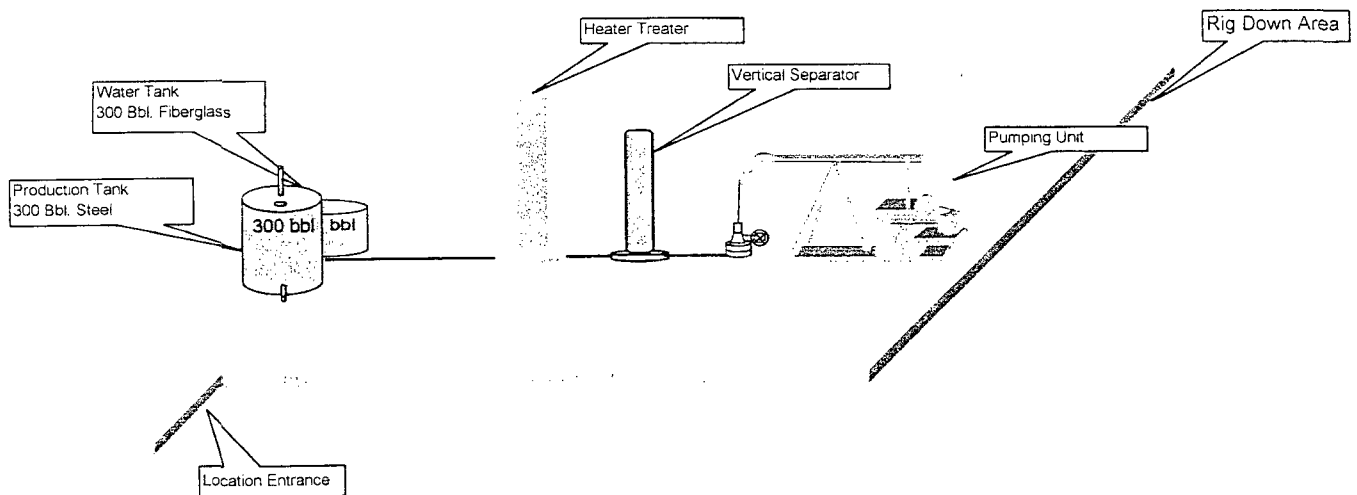


Exhibit A  
to Surface Use and Compensation Agreement  
Approach Operating, LLC, Operator  
Leo V. Valdez and Evangeline M. Valdez, Surface Owner

(Aerial photo of proposed location)

