

from
Larry
Hatley
to Denny

N~~4~~ 23 - 25N - 2W

SURFACE DAMAGE AGREEMENT

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SEP 11 1990
OIL CON. DIV.
DIST. 3

This agreement made this 20th day of September, 1989, between Mesa Grande Resources, Inc., Operator and Dorothy Hatley Blair and Larry Hatley, Attorney-in-Fact, surface owners. It shall extend to and bind their respective heirs, successors, and assigns.

1. Operator desires to drill and operate an oil and gas well located on NE¹/₄, Section 23, T25N-R2W, NMPM, Rio Arriba County, New Mexico; 1610 feet from the North property line, and 890 feet from the East property line.
2. Operator and surface owners desire to reach an agreement for compensation for the surface owners' loss of use and damages to the wellsite and for the loss of use and damages caused by the construction of an access road.
3. In consideration for the initial damages and loss of use due to the wellsite and initial loss of use and damages caused by the construction of the access road, Operator agrees to pay to the surface owners the sum of \$5,000.00. The sum represents payment for a wellsite location sufficiently large to permit drilling and completion of a Mesa Verde Gas Well to approximately 6200 feet in depth and for access roads to said wellsite.
4. The parties agree that the wellsite and road shall be constructed in accordance with the conditions and specifications set forth in this agreement.
5. It is understood and agreed that the consideration is in payment for the loss of use, diminished property value, and damages to the land, improvements, crops, pasture, trees, and waters, located within the designated wellsite and road to be constructed for access to the site.
6. Operator shall make payment to the surface owners for the initial damages for the above mentioned wellsite and access road at or before the commencement of drilling.
7. It is further understood and agreed by the parties that said consideration does not include, and specifically excludes payment for damages to or arising out of:
 - a. Improvements, including but not limited to cattle guards, fences, buildings, and other structures not located within the designated wellsite or the boundaries of the access road.
 - b. Any activities not directly related to the extraction of oil or gas from that particular well.

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- c. Crops, pasture, trees, waters, and lands not included within the wellsite or on the access road.
 - d. Any livestock, animals, or wildlife located on the property of the surface owners.
 - e. Personal injuries or property damages to surface owners his family, employees, agents, or invitees, arising out of the Operator's operations.
 - f. Erosion caused by construction of the wellsite, access road, or any other operations by Operator and his operations.
 - g. Any other new wellsites, pipelines, access roads, and other operations by Operator on the surface owners' property. New agreements and negotiations will be agreed upon if and when the time arises.
8. In addition to the consideration set forth, Operator agrees:
- a. If it is necessary to remove or clear trees or downed timber from the wellsite, site of access road, or any other roads, that; all pinon 2 inches or larger in diameter are to be cut into lengths no longer than 22 inches, cedar of any size is to be trimmed and left in full lengths and all the above is to be stacked either side of the right-of-way; all trees are to be topped and limbed; all stumps and slash are to be buried; and all timber will be moved before drilling commences.
 - b. The Operator shall not permit any of his employees, agents, subcontractors or their animals, vehicles, or equipment to be off wellsite at any time except to travel to and from the wellsite unless agreed upon by both parties of this agreement. All traffic shall be confined to the access road and existing roads to the above mentioned wellsite.
 - c. All drilling fluid additives shall be enclosed at all times to prevent animals and livestock from contacting or consuming them. All pits will be fenced immediately upon their construction to the specifications of the surface owners. Fences shall be maintained on all three sides during the entire operation, and the fourth side will be fenced immediately after drilling rig leaves. The wellsite shall be leveled, filled and reseeded within one year following the completion of the well as either a producer or a dry hole.
 - d. The wellsite, surrounding areas, access roads shall be kept free of all trash and debris and waste materials or supplies at all times.

NE QTR 23

- e. Operator shall use and cover a pit for trash and all litter. All trash and litter shall be contained within the above mentioned pit at all times.
- f. All production equipment shall be painted to blend with surroundings within one year after completion of the well and shall be maintained in a clean and well painted condition thereafter.
- 9. The access road to said location shall be no more than _____ feet wide and shall be for surface travel only.
- 10. All roads for ingress and egress from FLAW-KEE #1 C&P 1/24/81 used by Operator and his operations shall be kept and maintained by Operator, in sufficiently good condition to permit travel at all times by a conventional automobile(s). Gate going into surface owners' property for access to well shall be kept closed at all times to prevent livestock from exiting or entering property.
- 11. All roads will be crowned, ditched and drained to surface owners' specifications.
 - a. All permanent production equipment shall be muffled so as to not be audible beyond 300 yards within thirty days of installation.
- 12. Surface owners shall not be held liable or responsible for any personal injuries incurred by Operator, Operator's employees, agents, subcontractors, invitees, and animals, or any accidental damage to any part of said well or related equipment or production.

By: _____ Co-Surface Owner
Dorothy Hatley Blair

By: Larry Hatley Co-Surface Owner
Larry Hatley, Attorney-in-Fact

MESA GRANDE RESOURCES, INC.

By: E. Alex Phillips
E. Alex Phillips, President