

**SURFACE DAMAGE RELEASE AND
GRANT OF SURFACE EASEMENT**

STATE OF NEW MEXICO)
)
COUNTY OF LEA) KNOW ALL MEN BY THESE PRESENTS:

WHEREAS, The Merchant Livestock Company, Inc. ("Surface Lessee"), is the Lessee of all right, title and interest in and to the surface of the following described lands located in Lea County, State of New Mexico, to-wit:

LEGAL DESCRIPTION: SE/4, Section 4-21S-35E, Lea County, NM

WHEREAS, CHESAPEAKE OPERATING, INC. ("Operator"), is the Operator of a certain oil and gas well, known as the K.F. 4 State #1 (the "Well"), the drill site which is to be located on the above described lands.

WHEREAS, Surface Lessee and Operator desire to enter into an agreement for the payment of surface damages and the grant of an easement for ingress and egress relating to the drilling, completion, and maintenance of the Well, and an easement for the construction, operation and maintenance of a pipeline or pipelines to service the Well.

NOW THEREFORE, Surface Lessee, for and in consideration of the sum of Ten Dollars and 00/100 (\$10.00) and other good and valuable consideration paid by Operator, the receipt and sufficiency of which are hereby acknowledged, does hereby release, discharge and acquit Operator of all liability for damage to the surface of the above described lands arising from the clearing, use and conducting of operations on said lands as a well-drilling site, the setting of well and utility equipment and accessories, well completion, and the producing of oil, gas or other associated substances from the above described property.

Surface Lessee hereby additionally establishes, declares, grants and conveys to Operator an unrestricted easement over and on the above described lands for any and all operations conducted on said lands reasonable and necessary in connection with the drilling, completion and maintenance of the Well. The operations and activities covered by this Grant of Surface Easement include, but are not limited to: (a) the right of ingress and egress to the above described lands; (b) the building, establishment and maintenance of roads, pads, tanks, pipelines, utility equipment, fences, fixtures, production equipment and reserve pits; and (c) any other activities reasonable and necessary in connection with oil and gas operations on the above described lands.

Surface Lessee and Operator agree that Operator shall limit its use of the above described lands to an area of land 5.0 acres in size, more or less, surrounding or adjacent to the wellbore of the Well, and in addition thereto, a roadway for ingress and egress to the well site, as well as an easement for the construction, operation and maintenance of a pipeline or pipelines to service the Well. Said well site shall be at a location of the Operator's selection with due regard to the terrain and the current reasonable use of the land by the Surface Lessee.

The Surface Lessee and Operator further agree to the following special provisions:

1. Operator will contact Surface Lessee prior to commencing the construction of the location site.
2. Operator agrees to pay Surface Lessee, \$5000.00 for each location site.
3. Pipeline(s) rates are based on \$10.00 a rod.(State and BLM surface and \$40.00 (fee lands)
4. New roads, are to be paid at the rate of \$20.00 a rod.

BEFORE THE
OIL CONSERVATION DIVISION
Case # 13492&13493 Exhibit No. __
Submitted By:
Chesapeake Inc.
Hearing Date: August 22, 2005

BEFORE THE

The Surface Lessee hereby covenants and agrees to settle with the surface tenant of the property, if any, and agrees to indemnify and hold the Operator harmless from any and all claims by such tenant for surface and location damages affecting the property.

The foregoing sets out the entire agreement between Surface Lessee and Operator, and supersedes any prior oral or written agreements or negotiations not set out in writing herein or in the oil and gas lease covering the above described lands. No provisions of this agreement shall be modified, altered or waived except by written amendment executed by the parties or their representatives as set forth below.

This agreement shall be binding upon the successors and assigns of the parties hereto and shall be deemed to be a covenant running with the lands described above.

IN WITNESS WHEREOF, this instrument has been executed by the undersigned the 3 day of June, 2005.

SURFACE LESSEE

Merchant Livestock Company, Inc.

By: Mike Pearson

Tax ID# 85-0081965

OPERATOR

CHESAPEAKE OPERATING, INC.

By: Mike Hazlip
Mike Hazlip, Permian Land Manager

