

SURFACE USE AGREEMENT

This agreement is made and entered into between **Kathryn A. Brown, a/k/a Kathryn Brown and Christine A. Carter**, ("Owner"), whose address is 831 Badger Creek Road, Sheridan, Wyoming 82801, and **NANCE PETROLEUM CORPORATION**, 550 North 31st Street, Suite 500, Billings, Montana 59101, ("Operator"). It is agreed as follows:

1. **Mineral Leases**. Operator is the lessee/operator of mineral leases underlying portions of the following lands and Owner owns the surface of all of the following lands located in Sheridan County, Wyoming, to wit:

Township 57 North, Range 81 West, 6th P.M.
Section 8: N2, N2SW4, SE4
Section 9: S2NW4, SW4

Owner owns the surface of the above described lands and are hereafter referred to as the "Lands." This agreement shall apply to the Lands and likewise shall apply to any additional surface lands owned, purchased or leased by Owner under which Operator may acquire mineral leases in the future. Operator desires to enter onto the Lands for the purposes of conducting coalbed natural gas operations under the lands. Owner grants Operator rights of ingress and egress to allow Operator to develop coalbed natural gas, subject to the terms of this Agreement. Owner grants Operator all rights of ingress and egress to allow Operator to develop coalbed natural gas, subject to the terms of this Agreement.

2. **Right-of-Way**. Owners grant Operator, its employees, and others authorized by Operator, a private right-of-way to enter upon and use the Lands of Owners for the purpose of drilling, completing, servicing, maintaining, and operating coalbed gas and dewatering wells on the Lands, for constructing and maintaining access roads to wells located on the Lands, installing gathering pipelines to transport gas and water produced from wells drilled on the Lands, and installing pod buildings and compressor facilities to service wells drilled on and produced products from the Lands, provided, however, that this Agreement shall not be construed to allow Operator to construct or maintain any gas pipeline other than a gathering system of pipelines to compressor stations and shall not cover or allow market gas pipelines from compressor stations.

3. **Location and Notification**. Operator agrees to notify Owners in advance of the location of all wells, pipelines, power lines, roads, and other facilities prior to entry upon the Lands to construct or install any such wells, pipelines, power lines, roads, or other facility. Operator shall reasonably attempt to locate all wells, pipelines, roads, and other facilities so as to cause the least interference with Owner's operations on lands. Operator shall not install compressor stations or pod buildings in excess of one compressor station and one pod building for every eight wells drilled and producing gas and/or water from the Lands. The compressor stations and pod buildings shall be located at sites so as to permit the proper servicing and operation of the wells, and minimize the impact to Owners and their operations. Operator agrees to notify Owners prior to entry upon the Lands for the purpose of drilling any well located on the Lands. Operator agrees to notify Owners upon the completion or plugging and abandonment of any well drilled by Operator on the Lands. Operator agrees to notify and consult with Owners regarding the location of any pod building and compressor station prior to construction of those

regarding the location of any pod building and compressor station prior to construction of those facilities. A pod building and/or compressor station constructed on the Lands may serve wells located on property other than the Lands provided that the same shall also serve a well or wells on the Lands.

4. **Termination of Rights.** The rights granted by Owners to Operator shall terminate when any of the following events occurs: a) all of the oil and gas leases under which Operator is conducting its operations on the Lands terminate; or b) when Operator, or any successor operator, ceases its operations on the Lands; or c) upon Operator's written notification to Owners of Operator's intention to cease its operations hereunder; or d) if Owners elect to terminate this agreement upon the failure of Operator to commence action to cure any breach hereunder after sixty (60) days from the date of the receipt by Operator of written notice from Owners of any such breach. Upon termination of this agreement, Operator will execute and deliver to Owners a good and sufficient recordable release and surrender of all of Operator's rights hereunder and will promptly remove all equipment and property used or placed by Operator on the Lands unless otherwise agreed by Owners in writing.

5. **Non-exclusive Rights.** The rights granted by Owners to Operator are non-exclusive, and Owners reserve the right to use all access roads and all surface and subsurface uses of the land affected by this agreement, and the right to grant successive easements thereon or across on such terms and conditions as Owners deem necessary or advisable, provided such uses and easements do not conflict with the rights granted herein.

6. **Payments.** Operator agrees to pay Owners the following amounts with respect to wells drilled to a depth of no more than 3,000 feet below the surface or to the base of the Fort Union Formation, whichever is deeper:

a. **Strat Test.** Five hundred dollars (\$500.00) per strat test (wells drilled only to obtain geologic information and which are not completed for production) on the Lands. This amount shall be paid by Operator to Owners prior to the commencement of any drilling operations for such strat tests.

b. **Wells.** Five hundred dollars (\$500.00) for each well drilled on the Lands. This amount shall be paid by Operator to Owners prior to the commencement of any drilling operations for each such well. Operator shall also pay to Owners an annual payment of five hundred dollars (\$500.00) each year for each well completed and producing during that year. Provided, however, that the maximum annual payment for any well pad will be \$1,000, notwithstanding the fact that more than two (2) producing wells may be located on any particular well site or pad. This annual payment shall be paid until the well is plugged and abandoned, and the location and any roads and pipelines constructed in connection therewith have been reclaimed as provided herein. Fifty percent (50.0%) of each annual payment shall be in consideration for the easement for use of the Lands, and fifty percent (50.0%) shall be compensation for surface damages.

c. **Access.** Operator shall pay to Owners an initial access fee of three dollars (\$3.00) per rod for use of existing roads on the Lands, and five dollars (\$5.00) per rod for new roads constructed by Operator on the Lands. Operator shall pay to Owners an annual damage

payment of one and one-half dollars (\$1.50) per rod for use of existing roads, and one and one-half dollars (\$1.50) per rod for new roads constructed by Operator on the Lands.

d. Power Lines and Pipelines. For Power line(s) or pipeline(s) installed by Operator or at Operator's request by a power or utility provider, Operator shall pay to Owners the sum of five dollars (\$5.00) per rod for each such line unless pipelines and/or power lines are located in the same trench and at the same time, in which case a single payment will be made. Fifty percent (50.0%) of each payment shall be in consideration for the easement for use of the Lands, and fifty percent (50.0%) shall be compensation for surface damages. Any removal of any pipeline or underground power line shall be at the rate of five dollars (\$5.00) per rod which shall be compensation for surface damages and if any pipeline or underground power line has to be dug up for repair or maintenance purposes, the area disturbed shall be paid for at a rate of five dollars (\$5.00) per rod as compensation for surface damages. Payments for lines shall be made by Operator to Owners within thirty (30) days after installation, or removal, or repair of such line. The lines referred to in this paragraph are lines used in connection with wells drilled on the Lands under the leases described in paragraph 1 above. Operator shall be responsible for back filling, re-packing, re-seeding, and re-contouring the surface so as not to interfere with Owner's operations. Operator shall provide Owners with a survey showing the location of all power lines, pipelines and gathering systems promptly after their installation. All pipelines and gathering systems located by Operator on the Lands shall be buried to a depth of at least three (3) feet below the surface. All rights-of-way for power lines and pipelines shall be limited to sixty (60) feet during construction, repair or removal operations and thereafter twenty (20) feet in width, being ten (10) feet on each side of the centerline of the line. All power lines shall be installed underground to a depth of at least three (3) feet below the surface whenever reasonably practical to do so.

e. Pod Buildings, Infiltration Ponds and Compressor Stations. For each pod building and infiltration or storage pond constructed on the Lands by Operator, Operator shall pay Owners the sum of \$1,000.00 per year, or \$1,000.00 per acre, whichever is greater, for each year such pod building and infiltration pond remains on the Lands. Infiltration ponds will be fenced with topsoil stockpiled inside the fence. Measurement of the pond area will include the enclosed fenced area. Pod buildings shall be painted so as to minimize the visual impact of such buildings. Upon the termination of this agreement, Operator agrees to remove all such pod buildings and infiltration ponds, reclaim and re-seed the Lands in and around such pod buildings and infiltration ponds to return such lands as near as possible to their original state. For each compressor station constructed on the Lands by Operator or by others on the Lands, Operator agrees to pay to Owners the sum of \$1,500.00 per year, or portion thereof, for each year such compressor station remains on the Lands. Each initial payment for location of a compressor station shall be made prior to constructing such building. Each compressor station shall be properly fenced so as to separate Owners' livestock from such station. Upon termination of this agreement, Operator agrees to remove all such compressor stations constructed on the Lands, reclaim and re-seed the area where such stations were located to return such lands as near as possible to their original state. The lands occupied by any single compressor station shall not exceed one (1) acre in size. Notwithstanding anything to the contrary stated in this paragraph if a pod building and compressor station are located within the same building and do not occupy more than one (1) acre, then the annual payment for such building shall be \$1,500.00.

f. Telecommunication Lines. For new underground telephone lines, Operator shall pay Owner a one-time payment of \$3.00 per rod, unless such telecommunication lines are installed in the same trench and at the same time as the pipelines or power lines described herein, in which case there will be no duplication of payment, provided that Operator pays the highest applicable price. Telemetry or remote automation devices placed at well, pod or compressor sites do not require payment.

g. Associated Facilities. No additional payments will be required for above ground check valves, inline meters, pigging stations, cathodic protection or pipeline markers.

h. Payment Adjustments and Timing. The amount of the payments due from Operator to Owners under this Agreement shall be increased by 5% every five years, beginning five years from the date of this Agreement, and thereafter the amount to be paid by Operator to Owners shall be so adjusted on each fifth anniversary of this Agreement, provided, however, that it shall be the obligation of Owners to notify Operator in writing of the subject increase at least thirty (30) days in advance of each fifth anniversary of this Agreement

The initial payments to be made by Operator shall be made in the amounts and at the times stated above. All annual payments shall be made, in advance, on January 10 of each year beginning January 10, 2006, and annually thereafter during the terms of this Agreement.

All payments shall be made to **Kathryn Brown and Christine A. Carter** or their successors and assigns.

7. Locations. All well site locations for wells drilled to a depth of no more than three thousand (3,000) feet or to the base of the Fort Union Formation, whichever is deeper, shall be limited to approximately one (1) acre in size while drilling operations are being conducted, and no more than one-half (½) acre in size for permanent facilities. No well shall be drilled within 300 feet of any residence, house or barn existing on the Lands as of the effective date of this agreement without the prior written consent of Owners. No housing or dwelling unit shall be constructed or placed on the Lands by Operator.

8. Maintenance and General Operations.

Violation { **a. Roads, Wellpads, Compressor Stations.** Operator shall at all times keep the wells sites, road rights-of-way, pod buildings, compressor stations, and other areas disturbed by Operator safe and in good order, free of noxious weeds, litter, and debris. Operator shall not allow or permit erosion on any disturbed sites and shall promptly repair, reclaim and reseed all erosion sites. Unless Owner is notified, no off-road travel is permitted, and particularly no off-road travel which has the effect of widening the road or area of damage. Operator shall have dust control program in place that will protect surrounding grasslands and air quality. Operator shall not permit the release or discharge of any toxic or hazardous chemicals or wastes on the Lands. All cattle guards and fences installed by Operator shall be kept clean and in good repair.

b. Drilling. Only truck mounted rigs will be allowed to drill wells to a depth of no more than three thousand (3,000) feet below the surface or to the base of

the Fort Union Formation, whichever is deeper. No seismic operations shall be permitted.

c. **First Opportunity for Work.** Owner shall be given "first opportunity" to act as an independent contractor including, but not limited to road construction, dust control, weed control, fence building and repair, reclamation and reseeding of all erosion sites and ground disturbances provided that Owner has the equipment necessary to accomplish the work and can complete the work at prevailing rates and in a timely manner.

d. **Reseeding and Reclamation.** Reseeding shall be done with suitable grasses selected by Owner, during a planting period and at a rate selected by Owner. In the absence of direction from Owner, no reseeding (except for borrow pits) will be required on any access roads existing prior to Operator's development. It shall be the duty of Operator to insure that a growing ground cover is established upon the disturbed soils and Operator shall reseed as necessary to accomplish that duty. It shall further be the duty of Operator to inspect and control all noxious weeds as may become established within areas used or disturbed by Operator. Operator shall inspect disturbed areas from time to time and as Owner shall reasonably request in order to determine the growth of ground cover and/or noxious weeds. Operator shall reseed ground cover and control noxious weeds from time to time to the extent necessary to accomplish its obligations hereunder. Operator recognizes that this shall be a continuing obligation and Operator shall reseed ground cover and/or control noxious weeds until areas disturbed by Operator are returned to as good condition as existed prior to construction.

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e. **Communications and Identifications.** Prior to the commencement of operations, Operator shall identify the supervisory individuals who will be conducting operations on Owner's property and specify which are representatives of and who have authority to act in behalf of each other. Owner and Operator shall also provide to each other details for rapid communications among authorized representatives, including 24-hour office and cell telephone and fax numbers, and e-mail addresses. Operator's employees and contractors shall at all times carry identification.

9. **Produced Water.** Operator shall notify and consult with Owner as to the method and location of surface discharge of produced water, including but not limited to the use and infiltration ponds, construction of stock watering sights, rubber tire tanks, improvements to existing reservoirs, and methods of regulating livestock access to water discharge locations; provided however, (1) such discharge will be permitted only if it does not unreasonably degrade or adversely affect the quality of water in reservoirs and water courses on the Lands (2) all water produced and discharged from Operator's wells shall be produced and discharged in accordance with all applicable rules and regulations of the governmental authorities having jurisdiction over such matters, and (3) all produced water from the Lands will be discharged on the Lands provided Owner can beneficially use the produced water. Whenever possible, the produced water shall be discharged directly into an existing drainage system or reservoir, if permitted by applicable laws and regulations, and if such discharge will not unreasonably degrade or adversely affect the quality of water in the drainage system or reservoir, so that Owners may make beneficial use of the water. Produced water shall be discharged in a way so as to reasonably minimize the amount of surface disturbance and damage to the Lands. Provided that operator is not in breach of this Agreement, Owners will not oppose an

application by Operator before any governmental authority to lawfully disperse or dispose of produced water. Upon request, Operator will provide Owner copies of any water or soil test reports required by regulatory agencies.

10. **Consolidation.** Whenever possible, Operator will consolidate its facilities for as many wells as is practical, locating incoming electrical power at a central point and when practical locating power lines underground.

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11. **Dry Hole.** If Operator does not discover gas in paying quantities at a well site, decides not to use the well as a dewatering well, and determines the well to be a "dry hole," or upon cessation of production from a well, Operator will give Owners thirty (30) days written notice of the opportunity to take over any such well and convert the well to a water well. If Owners elect to take over any such well Owners shall thereafter assume all liability and costs associated with that well, including but not limited to the ultimate plugging and abandonment in conformance with applicable laws, rules, regulations, and ordinances, and both parties shall execute any and all documents necessary to provide that the water in the well shall become the property and responsibility of Owners. If Owners do not elect to take over the well and convert it to a water well, the Operator shall plug and abandon the well as required by applicable law and regulations, fill and level the location, re-contour the location, distribute the top soil, make the location ready for re-seeding, and re-seed the area. All cleanup and restoration requirements shall be completed, if weather permits, by Operator within six (6) months after termination of drilling or production activities at the well site. *violation*

12. **Roads.** Any new roads shall be limited to fifteen (15) feet on each side of the centerline for the actually traveled road bed, together with a reasonable width, not to exceed thirty (30) feet in width on each side of the centerline of the actually traveled road bed for fills, shoulders and crossings. Operator shall, if requested by Owners, place signs on any roads designating them as private roads. Operator will maintain and keep in good repair all roads used by Operator on the Lands. *not done*

13. **Fences and Reclamation.** Operator shall install stock panels around any dangerous area, including any pits, where Operator drills the above-referenced wells. Operator shall rehabilitate and restore all areas disturbed by Operator's operations as near as practical to their original condition within six (6) months after termination of activities at the site or right-of-way.

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14. **Power lines and Pipelines.** Operator shall back fill, compact, re-seed, and re-contour the area disturbed by Operator's construction, installation, repair, or removal of any power line or pipeline. Operator shall reimburse Owner for any damages incurred by Owner resulting from electrical power interruptions directly related to Operator's operations. Upon termination of Operator's operation on the Lands, pipelines shall be deemed abandoned and Operator shall promptly take actions necessary to clean up, mitigate the effects of use and render the pipeline environmentally safe and fit for abandonment in place. All such clean-up and mitigation shall be performed in compliance with all federal, state and local laws and regulations. *N/A*

15. **Improvements.** Operator agrees to obtain Owners' consent prior to cutting or damaging any fences, cattle guards, or their improvements of Owners, which consent Owners may withhold in their discretion, or may condition such consent upon the payment of money or performance of other

acts by Operator. Upon final termination of Operator's rights under this agreement, Operator shall return all roads and other rights-of-way constructed by Operator or sites, as near as practical, to the condition which they were in prior to the execution of this agreement, unless otherwise agreed to by Owners. All areas disturbed by Operator's activities will be re-seeded unless otherwise agreed to by Owners. All cattle guards and fences installed by Operator or on roads used by Operator shall be kept clean and in good repair by Operator during the term of this agreement.

16. **Fencing of Access Roads.** Operator will not fence any access roads without the prior written consent of Owners.

Water well was diminished

17. **Payments.** The payments herein provided are acknowledged by Owners as sufficient and in full satisfaction for damages to Owners caused or created by the reasonable and customary entry, right-of-way and operation and use of the roads and well sites, but do not include damage to livestock, buildings, or improvements or injuries to persons or to any damage or destruction caused to Owner's water wells or water supply on the Lands. Operator shall be liable for damages if, as a result of its operations hereunder, any water on or under the Lands which had been potable and is affected to the extent that it is rendered non-potable for human, cattle, or other ranch animals consumption, or any water supply, well, or reservoir on the Lands is destroyed or its output diminished. This agreement does not relieve Operator from liability due to Operator's negligence or due to spills or discharges of any hydrocarbon, toxic, or hazardous chemicals or wastes, or from leaks or breaks in Operator's pipelines.

18. **No Warranty.** Owner makes no warranty of title or otherwise in entering into this agreement.

19. **Nondisturbance.** Operator and its employees and authorized agents shall not disturb, use, or travel upon any of the land of Owners not subject to this agreement.

20. **Firearms and Explosives.** None of Operator's employees or authorized agents or any other person under the direction or control of Operator shall be permitted to carry firearms or any weapon while crossing the Lands, and such persons shall not hunt, fish, prospect for antlers, fossils, or antiquities, recreate, consume alcoholic beverages or carry on illegal activities on the Lands and shall not trespass across the Lands while not in an official capacity. No dogs will be permitted on the Lands at any time. No explosives shall be used on the surface of the Lands. Operator will notify all of its contractors, agents and employees that no dogs, firearms, weapons, hunting, fishing, prospecting for antlers, fossils or antiquities or recreational activities will be allowed on the Lands.

21. **No Storage Rights.** This Agreement shall in no way give Operator or its subcontractors the right to stack or store equipment, supplies, or parts on Owners' Lands excepting necessary supplies at the wellsite during drilling or reworking operations.

22. **No Living Quarters.** Operator shall not cause to be constructed any living quarters on the wellsite or on any of the Owners' Lands.

23. **Consultation re: Lambing, and Calving.** Operator shall, prior to lambing and calving seasons, consult with Owners as to the location of lambing and calving grounds so as to minimize

Operator's use of Surface Lands during that time. For the purpose of this Agreement, lambing and calving season shall be deemed to occur between March 15th and May 31st.

24. **Payment for Fires.** Any fires caused by Operator's operations, its personnel, agents or assignees shall be compensated at the rate of ¼ ton Alfalfa Hay (approximately \$100.00/ton + \$25.00 feeding charges) per acre for the range land burned. Operator shall pay Owner reasonable replacement costs for any fences, structures and improvements damaged or destroyed by fire caused by Operator's operations, its personnel, agents or assignees. Owners shall invoice Operator for the reasonable replacement costs and Operator shall pay the invoice within thirty (30) days. Operator shall be liable for the costs of controlling and extinguishing such fires.

25. **Minimize Visual Impact.** Operator will attempt to minimize visual impact on the landscape of the Surface Lands by:

- (a) Burial of secondary power lines from a production pod/central gathering facility to as many wells as practicable.
- (b) Keeping building structures as small and few as possible and using earth tone or beige color on the exterior thereof.
- (c) Using two track roads for access to wells and use of automation where feasible and practical to minimize the need to check wells and production pod/central gathering facilities frequently. Use of four wheelers or snow machines is permitted when muddy or snow conditions allow no practical alternatives as long as no recreation is involved.
- (d) Picking and burial of oversized rocks unearthed or disturbed by road site or pipeline construction and not leaving them strewn about.

26. **Environmental Responsibility.** The duty to conform to environmental laws and to abate the environmental damages resulting from activities of Operator, both present and future, is the responsibility of the Operator. Operator will defend, indemnify and hold harmless the Owners from any and all violations of environmental law including, but not limited to, hazardous waste, solid waste disposal, clean air, clean water and endangered species caused by Operator's operations.

27. **Water.** Operator shall not use any water from existing wells, reservoirs and springs on the Lands. Operator shall not disturb, interfere with, fill, or block any creek, reservoir, spring, or other source of water on the Lands. The parties shall enter into the Water Well Mitigation Agreement shown on the attached Exhibit "A".

28. **Other Matters Require Separate Agreement.** Any facilities not specifically mentioned in this Agreement shall be negotiated under a separate agreement.

29. **Roads and Signs.** Operator agrees to place appropriate signs on main access roads designating such roads as a "private road", and to assist Owners in the control of the use of the road by unauthorized personnel. If unauthorized use of the road right-of-way is deemed a nuisance by Owners, Owners may require the installation of steel swing locked gates along the access road. Owner's livestock, vehicles and personnel shall have the right of way at all times. A speed limit of

forty (40) mph will be observed by all Operator's personnel, contractors and subcontractors at all times. Violators may be reported by Owners to Operator and Operator will use its best efforts to control such violations. Barrow pits on newly constructed roads shall be sloped so that reseeded can be accomplished by a tractor and drill. Operator agrees to reseed barrow pits of any access road used for production that it constructs. Operator agrees to keep sites and right-of-ways in good order and free of litter and debris. Operator agrees to control noxious weeds on wellsites, other facility sites, along the right-of-way and along water discharge drainages to prevent spreading of noxious weeds. All roads shall be limited to sixteen (16) feet on each side of the centerline for the actually traveled road bed, together with a reasonable width, not to exceed thirty (30) feet in total width for fill, shoulder, and crossing, unless agreed to in writing by Owners and Operator.

30. Gates and Cattle guards. In those instances where access roads cross fence lines, now in existence or installed by Owners during the term of this Agreement, steel gates (or equivalent materials) or cattle guards shall be installed at the sole cost and expense of Operator. The steel gates shall not be less than sixteen (16) feet wide by four (4) feet high constructed and mounted so as to prevent the passing through or under of adult and young livestock. The gates shall be hinged and mounted so as to permit the gates to swing to a position parallel to and adjacent to the fence. The cattle guards shall not be less than twelve (12) feet wide by eight (8) feet across and shall be set on concrete sills not less than twenty-four (24) inches high by sixteen (16) inches wide. Fence braces shall be installed on each side of the gates or cattle guards. The fence braces shall be constructed of like quality material and installed in a like style and form as the fence braces currently being constructed on the Surface Lands. The maintenance of said gates and cattle guards shall be the responsibility of Operator. Operator shall keep gates utilized in good repair to prevent the passing through of livestock. Operator shall keep cattle guards utilized in good repair and cleaned to prevent crossing of livestock. Any gate opened for access shall be closed immediately following such access. No gates shall be left open and unattended. Operator shall be liable for any and all costs, losses and damages resulting from a gate being left open by Operator or its employees or agents.

31. Road Repair and Maintenance. Operator agrees to maintain and repair, at Operator's expense, any damage caused by Operator to existing roads used for Operator's access. Operator agrees to provide reasonable maintenance as needed for the access roads it uses.

32. Topsoil. Operator agrees to remove, separately stockpile and replace all topsoil on drill pits. Operator agrees to install stock panels around pits to protect Owners' livestock and to prevent spreading of litter and debris.

33. No Liability for Damage by Livestock. Owners shall not be liable for any damage caused by livestock to any of Operator's facilities.

33. Abandonment of Roads. At such time as Operator no longer desires to utilize any portion of any access road which Operator constructed on the Surface Lands, Operator shall notify Owners of its desire to cease use of the access road. Owners, in their sole discretion, may choose to either allow the access road to remain or may require the Operator to reclaim the access road corridor. If the Owners elect to have the access road corridor reclaimed, Operator shall reclaim the access road corridor to its approximate original contour and shall reseed the access road corridor with a seed mixture appropriate for the area and acceptable to Owners. If Owners elect to allow the access road

to remain, Operator shall be released from any and all further responsibility or liability for maintaining or reclaiming the access road corridor.

34. **Time.** Time is of the essence of this Agreement.

35. **Enforcement Costs.** If Operator defaults and does not timely cure such default, and Owners prevail in any action at law or in equity because of such default, and failure to cure, Owners shall also be entitled to recover reasonable attorney's fees and costs.

36. **Indemnification.** To the maximum extent permitted by law, Operator shall hold Owners, and if applicable, Owners' officers, directors, employees, agents, heirs, and successors, harmless and free from liability from all claims, liabilities, demands, suits, losses, damages, and costs (including without limitation, any attorney fees) which arise out of Operator's activities on the Lands (including without limitation, any claims that Operator's operations hereunder are either illegal, unauthorized, or constitute an improper interference with any person's rights).

37. **Compliance with Law.** Operator shall conduct operations and activities in accordance with existing local, state and federal laws, rules and regulations.

38. **Release.** To the maximum extent permitted by law, Operator releases, waives and discharges Owners, and if applicable, Owners' officers, directors, employees, agents, heirs, and successors, from any and all liabilities for personal injury, death, property damage, or otherwise arising out of Operator's operations under this Agreement or use of the Lands.

39. **Notice.** Notice may be given by either party to this Agreement to the other by depositing the same in the United States mail, first class postage prepaid, and duly addressed to the other party at the address set forth herein below. Such notice shall be deemed delivered five (5) business days after depositing such notice as set forth herein. Nothing herein shall prevent one party from changing its address for purposes of notice by informing the other party in writing of such change no less than ten (10) days prior to the effective date of such change of address. Operator and Owner will each from time to time designate an individual, with appropriate twenty-four hour telephone numbers, who is to be the primary contact person for discussions and decisions concerning matters related to this Agreement. Current contact information is as follows:

Operator: Nance Petroleum Corporation
Ronald B. Santi
Office (406-245-6248)
Fax (406-245-9106)

Duane Zimmerman
Office (406-869-8641)
Cell (406-860-1432)

Owner: Kathryn Brown and Christine A. Carter
831 Badger Creek Road
Sheridan, Wyoming 82801
Phone (307) 750-2474

40. **Recording.** This Agreement shall not be placed of record without the prior written consent of both Owner and Operator. If there is a breach of this Agreement by Operator, Operator agrees to file an appropriate release of this Agreement in the Office of the County Clerk for Sheridan County, Wyoming upon the termination of this Agreement. The Parties agree to place of record in Sheridan County, Wyoming a Memorandum Of Agreement that provides notice of the existence of this Agreement, , and to place of record such subsequent Memoranda of Agreement to comply with the requirements of W.S. § 34-1-141, *et seq.* (1998).

41. **Construction Of Agreement And Venue.** This Agreement shall be construed under the laws of the State of Wyoming. If a lawsuit is brought arising out of or in conjunction with this Agreement, the Parties consent to the jurisdiction of, and waive any objection to venue in any State of Wyoming District Court of competent jurisdiction.

42. **Binding Effect.** The terms of this Agreement shall run with the land and shall be binding on the heirs, successors and assigns of the Parties until surrendered by Operator, its successors and permitted assigns.

43. **Default.** In the event of the failure of Operator to timely make any payment required hereunder or any other breach of this agreement, Owners shall notify Operator of such failure. Operator shall have sixty (60) days following receipt of such notice to cure such failure to timely make payment or to commence action to cure such breach. The waiver of any default hereunder shall not be deemed to be a waiver of a subsequent default, but notice thereof shall be given to Operator as herein provided. If Operator does not cure the failure to make payment or commence action to cure the breach or default so specified within the time specified following receipt of notice, the rights of Operator hereunder will be suspended, including the right of ingress and egress, until such time as the default has been cured, and Owners will not be liable for any loss or damage to Operator occasioned by Owners enforcement of this provision. Operator may make any disputed payment under protest with a reservation of all rights.

44. **Logs and Information.** Operator shall provide complete copies of all logs of all wells drilled under the above described leases free of cost to Owners upon the Owners' request.

→ 45. **Assignment.** Operator may assign this Agreement, in whole or in part, with the prior written consent of the Owners, which shall not be unreasonably withheld in the case of assignment to a reputable Operator who expressly assumes the obligations of Operator hereunder with the proven financial capability to fully perform all of the Operator's responsibilities under this Agreement, both at the present time and for the reasonably foreseeable term of this Agreement. In the case, however, that Operator assigns this Agreement without first obtaining such written consent of Owners, then any such assignment by Operator shall not relieve Operator of its obligations hereunder and upon any such assignment, Operator and its assignees and successor assignees shall remain jointly and severally responsible in the full, faithful and complete performance of all promises and obligations undertaken herein by the Operator.

46. **Paragraph Titles.** The underlined paragraph titles are included primarily for convenience of reference. To the extent of any conflict between the meaning of any title and the text, the text shall control.

47. **Severability.** If any provision of this Agreement is declared by any court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, the remaining provisions shall not be affected thereby. Such remaining provisions shall be fully severable, and the remainder of this Agreement shall be fully enforceable, as if such invalid provisions never had been inserted in the Agreement.

48. **Counterparts.** This Agreement may be executed in two or more original counterparts, each of which shall be an original, but all of which together shall constitute one and the same instrument.

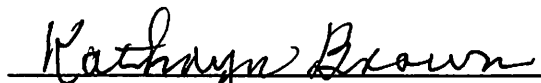
49. **Acknowledgments.** Each Party acknowledges that the consideration it has given or received hereunder is fair and adequate consideration for the grants, covenants, undertakings, and promises contained herein; that this Agreement has been negotiated in good faith and at arms' length; that they or their undersigned representative have read and understand each and all of the provisions herein and are authorized to execute this Agreement in their or its behalf and to bind them or it to the terms hereof.

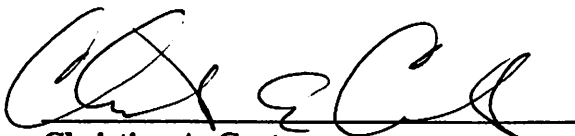
50. **Entire Agreement.** As of the effective date hereof, this instrument contains the entire agreement of the Parties with respect to the subject matters hereof.

The Parties execute this agreement, effective as of the date set forth below, notwithstanding the actual date of signing, if different.

Effective this 9th day of January, 2006.

Owner:


Kathryn Brown


Christine A. Carter

Operator:

NANCE PETROLEUM CORPORATION

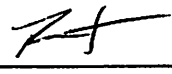
By: 
Title: Ronald B. Santi, Vice President, Land
550 North 31st Street, Suite 500
Billings, MT 59101

EXHIBIT "A"

WATER WELL MITIGATION AGREEMENT

This agreement is made and entered into between **Kathryn A. Brown, a/k/a Kathryn Brown and Christine A. Carter**, whose address is 831 Badger Creek Road, Sheridan, Wyoming 83801 ("Owner"), and **NANCE PETROLEUM CORPORATION**, 550 North 31st Street, Suite 500, Billings, Montana 59101, ("Operator").

WHEREAS, Owner has existing water wells within its property boundaries, providing Owner water for domestic and agricultural/livestock water, and

WHEREAS, Operator has acquired leases for the development of Coalbed Methane Gas ("CBM") and intends to drill and complete wells for the production of CBM, and

AND WHEREAS, the development and production of CBM usually requires the production of water in conjunction with CBM and may require the localized reduction of water levels within certain individual strata of the Ft. Union Coals, and

WHEREAS, Operator has advised Owner that the production of water in association with gas could adversely affect the productive capacity of Owner's existing water well which draw water from the Ft. Union aquifer.

NOW, THEREFORE, as consideration for the mutual covenants herein, in order to facilitate the multiple usage of the natural resources consistent with sound environmental practices, to mitigate potential adverse effects on the Owner's water wells, to assure prompt and effective remediation, and to reduce the need for regulatory intervention by State and Federal agencies, the Owner and Operator agree as follows:

DEFINITIONS

Ft. Union Coals.- The Ft. Union Coals, as used herein, shall mean those individual coalbeds or several coalbeds contained within the Tongue River member of the Ft. Union Formation, bounded above by the Wasatch Formation of Eocene, and below by the Lebo Shale member.

Circle of Influence (COI) - The area that falls within a circle, the center of which is the location of a producing CBM well, which has a radius of one mile (5,280 feet).

Impaired Water Well - Any water well or spring existing on the Owner's property within the COI, existing at the time of the CBM development, that experiences a reduction of capacity to deliver water in quantity and/or quality sufficient to support the ordinary and customary use of the well or spring.

Strat Test - Any test well that is drilled with the purpose of obtaining geologic information that is not completed for production and is subsequently plugged and abandoned. Strat tests may produce water and/or gas for a period not to exceed thirty (30) days without creating a COI.

CBM Well - Any well drilled and completed for the production of CBM that withdraws water and/or gas and water from the aquifer for a period of exceeding sixty (60) days.

AGREEMENT

1. Upon the establishment of a COI, the Operator, at its sole cost and risk, will measure, or cause to be measured, the static water level and productive capacity ("the baseline measurement") of all water wells and springs within the COI and will attempt to determine the depth and configuration of these wells through consultation with the Owner and from the records of the State Engineer of the State of Wyoming. Upon request, Owner shall provide Operator with the location of all wells and springs within one mile of Operator's drilling operations. The Operator shall also test for the presence of methane in the water wells.

2. Owner shall, upon reasonable notice, allow the testing of water wells and springs within the COI, including a static water level test which may require the cessation of withdrawals of water from the well or spring for a period not to exceed twenty-four (24) hours.

3. Operator shall establish a continuing water well monitoring program, the intent of which is to enable the Operator to identify changes in the capacity of the Owner's water wells and springs within the COI. The Owner shall allow continued periodic testing of the water wells and springs within the COI for this purpose. Operator shall provide all test data, both "baseline data" and monitoring data to the Owner.

4. If a water well or spring within the COI becomes impaired as defined herein, Owner shall first take reasonable steps to verify that the impairment is not due to mechanical, electrical, down hole integrity, or pump problems, and, if none of these problems appear to be the cause of the impairment, Owner shall notify Operator of the impairment. Notice shall be made by phone and by writing, delivered by hand or by registered mail to the Operator.

5. Within sixty (60) days of the receipt of notice of impairment, Operator shall restore the Owner's access to water of sufficient quantity and quality to offset such impairment by reconfiguring, redrilling the well, the drilling of a new well, or by other means. It is recognized that additional power costs may be associated with any reconfiguration of an impaired water well which additional power costs shall be paid for by Operator. The specific site of the well or water access may be changed by mutual agreement of Operator and Owner.

6. Operator agrees that upon notice of impairment and during the curative period, to provide and make available water for domestic and livestock usage in quantity, quality, and location required for the maintenance of normal and customary domestic, grazing, and livestock operations. Operator shall develop emergency procedures for immediate delivery of water to any such affected Owner within twenty-four (24) hours of notice. Operator shall notify all Owners within any COI of the Operator's representative appointed to handle such matters, providing a local contact and a twenty-four (24) hour emergency contact. Owner shall make a good faith effort to inform Operator, by phone, fax, or other expedient method of communicating, of any impending loss or damage to livestock, allowing Operator a reasonable opportunity to mitigate such damage.

7. In the event it is determined that there is an impaired water well or spring, as defined above, in any COI, that COI shall be expanded based on the location of the impaired wells or springs, The

COI shall be divided into quadrants (NE, NW, SW, SE) and based upon which quadrant the impaired water well or spring is located in, that quadrant shall be expanded by the area included within an arc one-eighth (1/8) of a mile wide (660 feet) outside the existing COI. Likewise, should it be determined that there is an impaired water well or spring within the expanded quadrant of the COI, that quadrant shall be again expanded by another 660 feet increment. This expansion approach shall be used to expand any COI in any direction where impairment is determined during the life of the CBM well.

8. At any time that the Lessee undertakes activities to enhance Owner's water well capacity or to restore Owner's impaired water well capacity, and should such activities require permits from regulatory agencies or permissions from third parties for surface entry, Owner shall aid and assist Operator in the obtaining of permits and permissions necessary to conduct the operations. All costs of the operations, including fees for obtaining permits and permissions, shall be borne by the Operator.

9. In the event that the interpretation or enforcement of this Agreement results in legal action, the costs of such action, including reasonable attorneys' fees, shall be borne by the defaulting party.

10. The terms and provisions contained herein shall run with the land and shall be binding on the heirs, successors, and assigns of Owner and Operator. This Agreement shall terminate upon the expiration of the last Oil and Gas Lease or the plugging and abandonment of the last CBM well to which this Agreement applies, whichever is the later date.

This Agreement may be executed in any number of counterparts, each of which shall be considered an original.

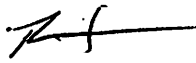
Owner:


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