

SURFACE DAMAGE AGREEMENT

This Surface Damage Agreement ("the Agreement") is entered into by and between **Donald L. Knutson and Della M. Knutson, individually and as Co-Trustees of the Donald L. Knutson Trust U/T/A dated June 19, 2007 and as Co-Trustees of the Della M. Knutson Trust U/T/A dated June 19, 2007, Whose address is 32180 County Road 3S, Genoa, CO 80818, as Owner, and Nighthawk Production, LLC, 1805 Shea Center Drive, Suite 290, Highlands Ranch, CO 80129, as Lessee.**

RECITALS

WHEREAS, Lessee is the owner of certain rights to develop the oil and gas mineral estate underlying the following described property (the "Property"):

Township 6 South, Range 54 West, 6th P. M.

Section 11: W2

as set forth in the Oil and Gas Lease recorded in **Lincoln County, Colorado, dated January 16, 2013** (the "Lease"), and

WHEREAS, Owner is the owner of the surface estate in and to the Property; and

WHEREAS, Lessee and Owner have agreed upon the terms and conditions by which Lessee may enter upon and use certain portions of the Property for oil and gas drilling and producing operations, and have agreed that damages will necessarily result therefrom and are incident thereto, and they desire to further set forth their agreement in this regard.

NOW THEREFORE, in consideration of the mutual promises, covenants and conditions contained herein, the receipt and sufficiency of which are hereby acknowledged, Owner and Lessee hereby agree as follows:

1. Use of Property. Owner hereby consents to the location of Lessee's proposed **Big Sky 4-11 Well** (the "Well") at a location specified on **Exhibit "A"** to this Agreement. Lessee's use of the Property is limited to reasonable use in the drilling and operating of the Well, access to the Well and the production flow line, if any, to be used solely for production from the proposed Well. All construction, maintenance and use of the Property shall be in accordance with the Lease and this Agreement. Lessee shall confine its drilling and production activities on the surface to a well site ("Well Site") that shall not exceed **Two and one half (2.5) acres**. The Well Site and access road shall be located as indicated on **Exhibit "A,"** which Exhibit shall consist of a standard U.S. Geological Survey topographic map showing the Well Site location and access road. Prior to commencement of construction of the Well Site location, Lessee agrees to provide Owner with a letter describing measures acceptable to Owner that Lessee will implement to prevent, contain and remedy any spill during drilling and completion of the Well.

2. Drilling and Production Facilities. The Well Site location shall be constructed so as to result in the least interference with surface usage as reasonably practicable under the circumstances. All pits shall be constructed so as not to pollute the adjoining land. Lessee shall take all reasonable precautions necessary to prevent land, air and water pollution, including pollution to all underground fresh water zones, as well as to prevent blowouts. Lessee shall collect all trash that accumulates in connection with its operations and promptly remove such trash and all junk or surplus equipment from the Property and properly dispose of same off of any adjacent lands owned by Owner pursuant to applicable regulations. Lessee shall take all reasonable precautions to prevent blowouts from occurring on the Property. Lessee shall utilize only such area around the Well as is reasonably necessary for such purposes, and Lessee shall,

additional surface area is acceptable to Owner, then Lessee shall pay Owner at the rates prescribed in Paragraph 4 of this Agreement. Thereafter, should Lessee desire to add additional equipment or accessory structures for production purposes, which additional equipment or accessory structures have not been identified previously by Lessee, then prior to installation of any such equipment or accessory structures, Lessee shall identify and advise Owner of its desire to install such additional equipment or accessory structures, work with Owner to mutually select a site or sites for locating such additional equipment or accessory structures, and pay Owner at the rates prescribed in Paragraph 4 of this Agreement for normal and customary damage to the surface of the Property caused by the addition of such equipment or accessory structures.

3. Road. Owner consents to Lessee's construction of a temporary access road in the specific location shown on **Exhibit "A"**. Such road shall be an unimproved two track road, limited to twenty five (25) feet in width. Lessee agrees to use the road only when weather permits and to confine all travel incidents to the drilling, maintenance and production of the Well and Well Site to this road. During the period of Lessee's operations on the Property, Lessee agrees to maintain the road used by Lessee on the Property in good condition and repair and to promptly repair on demand from Owner any damage caused by Lessee to such road. Upon completion of Lessee's operations on the Property, Lessee shall fully reclaim the road. Lessee shall construct and maintain metal gates and bison-width auto-passes (cattle guards) at all places where any roads used by Lessee cross through fences on the Property, and Lessee, its agents and representatives shall keep such gates closed when not actually passing through such gates. The Owner may take such actions as it deems appropriate to ensure that the public does not use any road constructed by Lessee provided the Owner shall not interfere with the Lessee's use thereof.

4. Surface and Crop Damage Compensation. Within five (5) days following the Effective Date of the start of well site being developed, Lessee shall pay to Owner [REDACTED] as compensation to Owner for all normal and customary damages associated with an incident to drilling the Well, constructing the access road and using the Well Site. If Lessee requests and Owner approves use of acreage in excess of the amount prescribed in Paragraph 1 of this Agreement, Lessee shall pay additional compensation at the rate of [REDACTED] per acre or portion thereof. Lessee shall pay [REDACTED] per rod or portion thereof for any linear right-of-way to serve gas gathering pipelines (which pipelines will be no more than four (4) inches in diameter) and any underground electrical lines or water flow lines not laid in the same ditch as the gas gathering pipeline. In no event shall Lessee install any overhead power lines on the Property. **If Lessee obtains the Owner's consent** to use water from the ranch on which the Property is located, then Lessee shall pay Owner compensation of [REDACTED] **for the right to use such water.** Owner, at Owner's sole discretion, may refund some or all of these damage payments if Lessee performs mutually agreed upon water development or land clean-up activities. All of this compensation is for normal and customary damage to the Property and does not cover any damages other than normal and customary damages. Lessee agrees to additionally compensate Owner for any additional damages including but not limited to the following:

- (a) Trespass on any lands other than the designated Well Site, access road, flow line easement and production site;
- (b) The use of the Property in a manner inconsistent with the terms of this Agreement and the Lease;
- (c) The failure to maintain the Property in accordance with the terms of this Agreement and the Lease;
- (d) The failure to reclaim and restore the surface of the Property in accordance with the terms of this Agreement and the Lease;
- (e) The failure to comply with the terms of this Agreement and the Lease or with the

profile tanks and horizontal separators unless waived by Owner. For noise reduction purposes, any permanent production engine shall use the best available mufflers (hospital-grade or more effective) and equipment available for oil and gas production operations. No later than ten (10) days following completion of construction on the Well Site, Lessee shall install and maintain rail guards or a fence around the production equipment and wellhead in a position and manner acceptable to Owner, which fence shall contain gates if necessary. The rail guards, gates and fence at a minimum shall prevent access of bison and other livestock. Lessee will paint the production equipment and tankage in subdued colors approved by Owner, and Lessee will repaint the same from time to time to keep it appearing clean and well kept. No used or surplus equipment or material shall at any time be stored on the Property. Lessee will maintain the production site and all related facilities in a good, clean workmanlike manner, will prevent the growth of noxious and other weeds, and will generally operate the facilities as a prudent operator, responding to Owner's reasonable requests for maintenance.

6. Pipelines; Proximity to Structures. All pipelines and/or flowlines are to be buried at least **36 inches** below the ground, which will be from the top of the pipe to the surface of the ground. Only crude oil and natural gas (no other derivatives) and produced waters will be allowed to be transported through any pipelines and/or flowlines located on the Property. Lessee shall not conduct any operations within one thousand three hundred twenty (**1,320**) feet of any residence, four hundred (**400**) feet of any permanent livestock holding pens, permanent livestock corrals or permanent livestock barns or two hundred (**200**) feet of any permanent livestock watering facilities without express written consent of Owner.

7. Restoration and Reclamation. Lessee shall comply with all applicable statutes, rules, regulations and ordinances of all federal, state and local governments, agencies and authorities in regard to restoration and reclamation. Upon completing a commercial well, completing drilling operations, plugging and abandoning the Well, or ceasing use of any portion of the Property by Lessee, Lessee shall reclaim and restore such portion of the Property as nearly as reasonably practical to allow it to be used for those purposes which Owner intends to use the Property. Such restoration and reclamation shall be completed as soon as practicable, but no later than ninety (90) days after said completion or abandonment, weather permitting. In the case of reasonable delay in such restoration and reclamation by Lessee due to inclement weather, Lessee shall complete such restoration and reclamation as soon as reasonably possible. Such restoration and reclamation includes, but is not limited to, the removal of all drilling and associated equipment and facilities, the removal of all drilling and produced substances and disposal of such substances off the Property, the leveling of all drilling pits and other excavations, and the reseeding, with native grass seed mix selected and provided by Owner and paid for by Lessee, of all areas affected by Lessee's use of the Property, subject to repeat reseeding(s) and weed control as reasonably required and directed by Owner, until such time as a satisfactory native grass covering is obtained. Within ninety (90) days after the termination of the Lease and weather permitting, Lessee shall remove any and all property placed by Lessee on the Property or Owner may cause same to be removed at Lessee's expense. Lessee's obligations and liabilities under this Paragraph are continuing and shall survive the termination of the Lease.

8. Water Use; Water Well Option; Wastewater. Lessee shall not use water from any fresh or usable water sands or strata, including water from any formation which would be protected under the federal Underground Injection Control program, for any water flood or other enhanced recovery operations for pressure maintenance purposes. Further, no fresh or useable water may be used for secondary recovery without the prior written consent of the Owner. Subject to the foregoing, Owner may, in its sole discretion, offer to sell Lessee fresh water from surface impoundments or other surface or ground water sources to the extent reasonably necessary for drilling and development operations on the Leased Premises so long as such use does not unreasonably interfere with agriculture or livestock operations. The Owner shall have the right to designate the location from which water shall be taken. Upon completion of the drilling operations any permits obtained by Lessee for water wells and any water wells drilled pursuant to such permits may be conveyed to the Owner, or such water wells will be plugged by

9. Compliance and Indemnification. Lessee shall comply with all applicable federal, state and local statutes, rules, regulations and ordinances applicable to the Property and Lessee's operations thereon. Lessee agrees to protect, defend, indemnify and hold harmless Owner, and his respective agents, employees, tenants, successors and assigns from and against all liabilities, losses, expenses, claims, demands, and causes of action of every kind and character, whether for death or personal injury to persons (including agents and employees of Lessee and Lessee's subcontractors) for loss or damage to the Property, in any way and at any time arising out of, incident to, or in connection with this Agreement, operations conducted on the Property, or breach of the terms hereof, regardless of whether any such liability, loss, expense, claim, demand or cause of action is based on the sole or concurrent negligence of any party indemnified hereunder. This obligation is continuing and shall survive the termination of this Agreement. Prior to commencement and construction of the drill site location for the Well, Lessee shall purchase and keep in force a policy or policies of commercial general liability insurance relating to the use of the Property in an aggregate amount of at least Five Million Dollars (\$5,000,000.00) and name Owner as an additional insured on the policy or policies. The Lessee agrees to furnish to Owner a certificate or certificates naming Owner as an additional insured and further providing that the insurer(s) shall give Owner ten (10) days prior written notice of any termination, cancellation or material modification made to such insurance policy(ies).

10. Term. If not sooner terminated by the terms of this Agreement, this Agreement shall terminate upon termination of the Lease.

11. Owner acknowledges that this notice complies with, or hereby waives, all COGCC requirements that it be given advance notice by Company of the proposed Operations. Owner acknowledges receiving from Company a brochure prepared by the COGCC which describes the rights and responsibilities of Owner as a surface owner.

12. Notice. Any notice or other communication required to be given by one party to the other pursuant to this Agreement shall be in writing and shall be given and deemed to have been given when delivered personally or by overnight courier or three (3) days after being mailed postage pre-paid, registered or certified, and addressed as follows:

To Lessee: Nighthawk Production LLC
1805 Shea Center Drive
Suite 290
Highlands Ranch, Colorado 80129
Chuck Wilson – Chief Operating Officer
303-407-9600

To Owner: Donald and Della Knutson
32180 County Road 3S
Genoa, Colorado 80818
Phone: 719-763-2021

or to such other address(es) as Lessee and Owner may from time to time designate by written notice to the other.


13. Release. Owner releases and discharges Lessee from all actions, causes of actions, suits, claims and demands for and on account of normal and customary damage to the Property or any growing crop, caused by or on account of Lessee's use of the Property to access and drill the Well. This release does not cover any damage caused by Lessee to the Property other than normal and customary damages.

14. Agents and Successors. The terms of this Agreement shall inure to the benefit of and be binding upon Owner, Lessee and their respective successors, assigns, agents, employees, partners, associated and affiliated companies, insurance carriers and contractors.

17. Conservation Reserve Program (CRP) lands. Lessee will pay Lessor the amount determined by the Federal Service Agency for the nine (9) year cost and the remaining period of time on the current contract, for terminating the CRP lands (2.60 acres more or less) used to develop the well site and well site access..

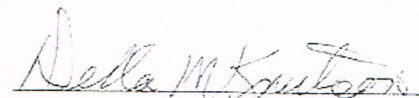
IN WITNESS WHEREOF, this Agreement is executed by the parties hereto effective as of the Effective Date.

OWNER:



Donald L. Knutson

Co-Trustee of the Donald L. Knutson
Trust U/T/A dated June 19, 2007, and as
Co-Trustee of the Della M. Knutson
Trust U/T/A dated June 19, 2007



Della M. Knutson

Co-Trustee of the Donald L. Knutson
Trust U/T/A dated June 19, 2007, and as
Co-Trustee of the Della M. Knutson
Trust U/T/A dated June 19, 2007

Date: 2-14-13

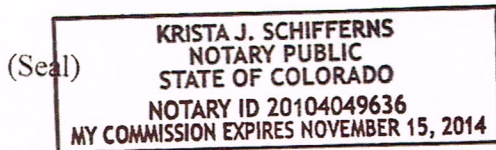
State of COLORADO }
County of LINCOLN } ss.

ACKNOWLEDGMENT

Before me, the undersigned, a Notary Public, in and for said County and State, on this 14 day of February, 2013, personally appeared **Donald L. Knutson and Della M. Knutson, individually and as Co-Trustees of the Donald L. Knutson Trust U/T/A dated June 19, 2007, and as Co-Trustees of the Della M. Knutson Trust U/T/A dated June 19, 2007,** who executed the within and foregoing instrument of writing and acknowledged to me that **they** did duly execute said instrument for the purposes and consideration therein expressed.

My commission expires:

11-15-14



Krista J. Schifferns
Notary Public

Arriba, CO

Address

LESSEE: NIGHTHAWK PRODUCTION LLC

BY: Michael Thomsen

Michael Thomsen - President

DATE: Feb 20, 2013

ACKNOWLEDGMENT

State of COLORADO }
County of DOUGLAS } ss.

Before me, the undersigned, a Notary Public, in and for said County and State, on this ____ day of _____, 20____, personally appeared **Michael Thomsen - President,** who executed the within and foregoing instrument of writing and acknowledged to me that **he** did duly execute said instrument for the purposes and consideration therein expressed.

My commission expires:

7/27/16

(Seal)



Mindy Jo Obando
Notary Public:

1805 Shea Centre Dr. #290

Highlands Ranch CO 80129
Address

Exhibit "A"

Access Road Map of Surface Use Agreement for Big Sky 4-11 Well

High Prairie

Physical Address: 141 Commerce St.
Maple, SD 57151-0001
Ph: 605-631-8022 Fax: 605-631-8023
www.highprairie.net

Map of Big Sky 4-11

High Prairie Surveying of Kiowa, Colorado has in accordance with a request from Nighthawk Production LLC has determined the location of Big Sky 4-11 to be 615 feet FNL and 522 feet FWL (90' off Section lines) of SECTION 11, Township 6S, Range 54W of the 6th Principal Meridian, Lincoln County, Colorado

Date: September 10, 2012 Drawn by: 09-10-12

Re: Staked by Keith Westfall
Drawn: Drawn by Dustin Cotter

Access Road Map

