

## SURFACE USE AND DAMAGE AGREEMENT

This Surface Use and Damage Agreement (**Agreement**) is made and entered into by and between **Maria Alma Gandara (formerly Mara Alma Garica)**, and her successors and assigns, whose address is [REDACTED], herein referred to as the "**Owner**," and **HRM Resources II, LLC**, and its successors and assigns, whose address is 410 17<sup>th</sup> Street, Suite 1600, Denver, CO 80202, hereinafter referred to as "**Operator**." Owner and Operator are sometimes referred to herein as a "**Party**" or collectively as the "**Parties**." This agreement shall become immediately effective upon signature of the Parties, or if signed in counterparts, upon the last signature of a Party. Upon the effective date of this Surface Use and Damage Agreement, the terms of this Agreement shall govern and shall supersede the terms of any previous Surface Use and Damage Agreement. Any such previous Agreement shall be null and void.

### WITNESSETH:

**WHEREAS**, Owner owns the surface of certain lands located in Adams County, Colorado, identified as follows:

**Township 1 South, Range 66 West, 6<sup>th</sup> P.M.**

Section 25: Com at SW Cor SE4 Sec 25 then N 40 Ft to POB Th Cont N 1210 Ft th E 1303/33 Ft th S 1210 Ft th W 1303/84 Ft to POB 36/19A

containing **40.00** acres, more or less (collectively, the "**Subject Lands**"); and

**WHEREAS**, Operator has entered into an oil and gas lease (the "**Oil and Gas Lease**") covering the minerals underlying the Subject Lands; and

**WHEREAS**, Owner uses the Subject Lands for agricultural purposes and it wishes to ensure that, by entering into this Agreement with Operator, the Subject Lands are not adversely impacted by Operator's exploration and production activities on the Subject Lands; and

**WHEREAS**, the Parties desire to enter into this Agreement to provide for the orderly and expeditious development of the oil and gas resources without delay and without the expense of bonding and litigation; and

**WHEREAS**, the Parties intend by this Agreement to define and assign responsibilities with regard to the activities discussed herein associated with the exploration, capture, production, storage and transportation of oil and/or gas from the Subject Lands and lands pooled therewith.

**NOW, THEREFORE**, in consideration of the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

## SECTION 1 – OPERATOR’S RIGHTS

**1.1 Surface Use Area.** Owner hereby grants Operator, its employees and designated agents, the exclusive right to enter upon the Subject Lands and use the Surface Use Area depicted on Exhibit A attached hereto for the purpose of drilling, staking, completing, equipping, producing and operating oil and gas wells on the Subject Lands and lands pooled therewith, together with the right to construct, install and maintain an access road, underground power lines, and flow and gathering lines depicted on Exhibit A (collectively, the “**Related Facilities**”) to gather and transport oil or gas from the well sites on the Surface Use Area to the tank battery located on such Surface Use Area. Except for the right to use the existing roads on the Subject Lands, Operator shall not have the right to access or occupy or use any portion of the Subject Lands other than the Surface Use Area and Related Facilities.

**1.2 Exception to COGCC Rules.** Owner understands and agrees that the Surface Use Area and Related Facilities are outside of a Greater Wattenberg Area (“**GWA**”) drilling window per Colorado Oil and Gas Conservation Commission (“**COGCC**”) Rule 318A.a, that the subject wells are greater than fifty (50) feet from an existing well per Rule 318A.c, and that good cause exists for locating oil and gas operations in the Surface Use Area and the area of the Related Facilities (as depicted on Exhibit A) instead of within the GWA drilling window or within fifty (50) feet of an existing well. By execution of this Agreement, and pursuant to COGCC Rule 318A.c(2), Owner consents to the surface location exception as outlined in this Agreement. Owner authorizes the surface location of any well located in the Surface Use Area and the surface locations of the Related Facilities to be outside of the GWA drilling window, and waives said Rules 318A.a and 318A.c.

**1.3 Wells.** The rights granted to Operator hereunder shall cover operations related to the drilling and producing of oil and gas wells on the Surface Use Area pursuant to the Operator’s Oil and Gas Lease covering the Subject Lands and lands pooled therewith.

**1.4 Termination of Rights.** This Agreement and Operator’s rights and obligations hereunder will terminate upon the last to occur of: (a) termination of Operator’s Oil and Gas Lease, or (b) upon complete reclamation and restoration of the surface according to the standards prescribed herein and by the state or federal rules, regulations and statutes as well as approval of such reclamation by state and/or federal authorities which have jurisdiction over such reclamation.

**1.5 Reservation of Rights.** Owner reserves the right to use all roads and reserves all surface and subsurface (excluding oil and gas as provided for in said Oil and Gas Lease) uses of the Subject Lands and the right to grant successive easements on or across the Subject Lands on such terms and conditions as Owner deems necessary or advisable, except for the right to access and use the Surface Use Area and Related Facilities, which right is vested solely in Operator. Any access or use rights granted to any third parties before or after the Effective Date of this Agreement shall not interfere with Operator’s exercise of its rights and responsibilities as provided herein. Owner agrees to advise Operator in writing of any approval granted by Owner for third-party use of the access road constructed by Operator so that Operator may assess the other users of such road for the maintenance thereof, though Operator shall not assess Owner any

maintenance for the use of such road. Operator shall not assume any liability associated with actions or inactions of any third parties granted such access.

## **SECTION 2 – OPERATIONS ON THE SUBJECT LANDS**

**2.1 Notification of Construction.** Operator shall notify and consult with Owner at least fifteen (15) days in advance before construction or installation of any of the facilities referred to in this Section 2.

### **2.2 Construction of Flow Lines.**

**a.** The flow lines referred to in this Section are not to exceed four (4) inches in diameter and shall be located as depicted on Exhibit A. Except as otherwise agreed to by Owner, in writing, all such flow lines shall be used only for oil or gas produced from wellheads located on the Surface Use Area.

**b.** Operator shall be responsible for segregating the topsoil, backfilling, repacking, reseeding and recontouring the surface of any disturbed areas so as not to interfere with Owner's operations and shall reclaim such areas to be returned to pre-existing conditions as best as possible with control of all noxious weeds. Operator shall provide Owner with a map or as-built drawing showing the surface location of all flow lines, transmission lines, and power lines after their installation. All flow lines located by Operator on the Subject Lands shall be buried to a depth of at least four (4) feet below the surface. Operator shall install metal locator strips above all lines installed. All easements for flow lines and power lines shall be limited to twenty (20) feet in width, being ten (10) feet on each side of the centerline of the flow line, except during construction when the easements shall not exceed fifty (50) feet in width.

**c.** Subject to certain conditions as described herein, if Operator fails to use any flowline for a period in excess of five (5) consecutive years, the flowline shall be deemed abandoned and Operator shall take the actions necessary to clean up, mitigate the effects of use, including purging any remaining oil or gas from the flow line, and shall render the flow line environmentally safe and fit for abandonment in place. The pipeline easement granted herein which has been deemed so abandoned shall thereon terminate and revert to Owner, and Operator shall execute and file the necessary releases to terminate said easement in the county land records.

**d.** Owner hereby gives notice to Operator that there may be stock and domestic waterlines on the Subject Lands, some of which are buried. Operator agrees that any areas disturbed to depths deeper than the stock water lines will be covered with a minimum of four (4) feet of dirt in order to prevent freezing or damage.

### **2.3 Power Lines.**

**a.** Except as otherwise provided, or as otherwise agreed to by Owner in writing, all power transmission lines built by Operator will be buried below plow depth and or

constructed so as to cause the least possible interference with Owner's existing or future operations on the Subject Lands. Existing power lines need not be relocated.

b. To the maximum extent possible, Operator shall use power from any existing power lines that currently cross the Subject Lands. Operator shall pay for any upgrade or other charge resulting from such use.

c. At such time as Operator desires to abandon any buried power line located on the Subject Lands, it shall notify Owner of such desire, and Owner shall have sixty (60) days within which to make a written election to take over such power line for Owner's own use. If Owner elects to take over a power line, Owner shall assume all liability, costs and reclamation obligations associated therewith, and Operator shall have no further liability, nor responsibility, for costs or reclamation for the power line, or that portion thereof, which Owner elects to take over. Owner shall promptly file all necessary notices or applications. If Owner does not elect to take over a power line, Operator shall continue to assume all liability, costs and reclamation obligations associated therewith, and Owner shall have no liability, nor responsibility for costs or reclamation for the power line. In the event Owner does not elect to take over a power line, Operator shall de-energize said power lines as soon as reasonably practicable.

#### **2.4 Wells and Tank Battery.**

a. **Drilling Pad.** Operator shall be entitled to one (1) Drilling Pad on the Surface Use Area at a location of its choice on the Subject Lands in order to comply with the COGCC regulations, limited up to ten (10) acres not including the Related Facilities, unless otherwise agreed to in writing by Owner, with up to twenty (20) wellheads to be located on such Drilling Pad. The actual acreage used will be finalized upon receipt of a completed survey which will become attached to this Agreement as Exhibit "A". To the extent technologically and economically feasible, Operator shall use telemetry to monitor its operations so as to reduce the frequency of travel by Operator's employees, agents, or contractors on the Subject Lands.

b. **Permanent Operations Areas.** Once drilling of the wells on the Drilling Pad has been completed, the permanent operations area will be reduced as much as is feasibly possible to maintain a safe perimeter and operating area, to be finally determined upon surveying of the actual site.

c. **Tank Battery Site.** Operator may construct a tank battery site on the Surface Use Area limited to approximately three (3) acres, for 28 oil and/or water tanks, twenty (20) separators and other necessary equipment, for the purpose of production and storage of oil and gas. It shall be located on the Surface Use Area and will be depicted on Exhibit A.

**2.5 Maintenance.** Operator shall keep the Surface Use Area, access road, and other Related Facilities safe and in good condition, including, without limitation, control of noxious weeds, litter and debris. Operator shall conduct periodic trash pickup as deemed necessary. Operator shall comply with state and federal laws, rules and regulations governing the presence of any petroleum products, toxic or hazardous chemicals or wastes on the Subject Lands. All,

equipment and facilities placed on the property by Operator shall be painted in tones consistent with the surrounding area.

**2.6 Noise Mitigation.** Operator shall install all noise mitigation measures as required by the COGCC or local regulations.

**2.7 Access Road.** The access road shall be constructed by Operator and used to the following specifications:

a. Except in case of emergencies, no operations shall be conducted in the mud when activity leaves an impression of two inches in depth unless Operator requires immediate access in its sole opinion and option. Operator agrees, if such immediate access is required during muddy conditions, to repair the affected road as soon as reasonably practicable.

b. The surface of the access road shall not exceed sixteen (16) feet in width for traveled surface and shall be constructed with a two percent (2%) crown from the center of the road to the shoulder to promote positive drainage. Constructed roadway shall be limited to twenty (20) feet from the centerline of the road easement area for fills, shoulders and crossings whenever practicable or unless otherwise dictated by local, state or federal laws or regulations governing such road. Where requested by Owner, Operator shall install side ditches along roads to transport runoff to appropriate drainage structures.

c. If requested by Owner, access to the Subject Lands by Operator from any County road shall be controlled by a metal, hinged gate, which gate Operator shall construct and install in accordance with the reasonable specifications of Owner. Operator shall not access the Subject Lands from any adjoining landowner's property.

d. Operator agrees, if requested by Owner, to place an appropriate sign or signs on the access road and Owner's other roads designating them as "Private Roads, No Trespassing or Hunting" and to assist Owner in the control of the use of such roads by unauthorized users. The size and color of such signs shall be subject to Owner's approval. Owner may lock gates across its private roads provided that Operator shall have access over such roads and shall have the right to place its own locks on such gates. Owner shall give Operator fifteen (15) days advance notice of Owner's election to lock gates in order that Owner and Operator can consult with each other regarding the type of locks to be used and arrangements for Operator's access.

e. Operator shall employ best management practices to suppress dust from Operator's activities on the Subject Lands.

**2.8 Operator's Use of Roads.** In the interests of safety and dust control, Operator and its contractors, agents, and employees shall not exceed twenty (20) miles per hour in their use of roads located on the Subject Lands. If livestock is present, the speed limit shall be ten (10) miles per hour. Livestock and wildlife species, including but not limited to deer, antelope, game birds, and songbirds, shall have the right-of-way on roads located on the Subject Lands, and Operator and its contractors, agents, and employees shall come to a stop and give ample time for wildlife and livestock to move from the roadway.

**2.9 Fences.** Operator shall construct stock-tight fences around any dangerous area, including any pits where Operator drills wells. Operator shall, at its expense, construct permanent fencing around all wellheads, tanks and other surface facilities. All fencing to be constructed shall be aesthetically pleasing and as approved by Owner which may include either a privacy fence or other similar type fencing. Owner shall not unreasonably withhold approval of fencing. Maintenance around Operator's surface facilities shall be the responsibility of Operator, and Owner shall not be responsible for damage to such fences or Operator's surface facilities in the event livestock gain access to these areas. Operator shall repair and/or replace any and all damage done to any fences or gates, or any other improvements of Owner, which result from Operator's operations of the Subject Lands. All fences shall be repaired in a manner consistent with surrounding fences and reasonable and customary ranching practices.

**2.10 Improvements.** No existing fences, cattle guards, or other improvements shall be cut or damaged by Operator without the consent of Owner, which consent shall not be unreasonably withheld or delayed. In the event existing fences, cattle guards, or other improvements are cut or damaged by Operator, the damage shall be repaired by Operator or Owner shall be compensated for the repair costs.

**2.11 Non-Disturbance.** Operator and its employees and authorized agents shall not disturb, use or travel on any of the land of Owner not subject to this Agreement without Owner's consent.

**2.12 Fire.** Operator shall take reasonable steps to prevent fire and to promptly extinguish fires. No trash or timber slash will be burned by Operator on the Subject Lands. Operator shall reimburse Owner for the reasonable expense of fire suppression incurred by Owner and shall immediately reimburse Owner for any charges assessed to Owner by a local, county, state or federal fire control agency.

**2.13 Behavior of Operator's Employees, Agents and Contractors.**

a. Operator is authorized to use the Surface Use Area solely for purposes of oil and gas exploration, production and development; accordingly Operator has no authority to, and Operator shall not, permit any of its employees or contractors operating hereunder to, among other things: bring any dog, firearm, explosive device, weapon, alcoholic beverage, or illegal drugs on Owner's property; hunt, prospect for antlers, fossils or antiquities, recreate, consume alcoholic beverages, or carry on any illegal activities on the Subject Lands. In the event Operator discovers any employee, contractor or representative of Operator failing to abide by the terms of this Section, Owner shall provide Operator with as much information as possible regarding any individual violating this provision and Operator agrees to take appropriate action regarding such violation.

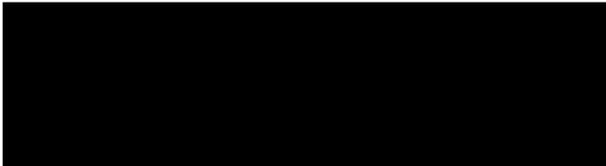
b. Use of 4-wheelers on the Subject Lands will be restricted to occasions when surface conditions require their use or with Owner's prior written approval. Recreational activities of a 4-wheeler are forbidden. Operator will notify all of its contractors, agents, employees and representatives of this restriction.

**2.14 Communication and Contacts Between Owner and Operator.**

Notices as provided for herein shall be made in the manner provided for to:

**OWNER:**

Maria Alma Gandara



**OPERATOR:**

HRM Resources II, LLC

Attn: L. Roger Hutson

410 17<sup>th</sup> Street, Suite 1100

Denver, CO 80202

Phone: (303) 893-6621

Email: lrhutson@hrmres.com

**2.15 Notice.** Notice may be given to either Party by depositing the same via certified mail return receipt requested in the United States Mail postage prepaid, duly addressed to the other Party at the address set forth above, or at such other address as each Party may subsequently provide to the other. Such notice shall be deemed delivered when the Party posting same in the United States Mail receives the returned mail receipt signed by the other Party, or one of its authorized representatives.

**2.16 Insurance.** All vehicles traveling upon the Subject Lands and owned or operated by Operator, its contractors, agents, or employees shall be covered by automobile liability insurance covering owned, non-owned, and hired automobiles with limits of at least One Million Dollars (\$1,000,000) for injury to or death of any one person for any one occurrence, and Five Hundred Thousand Dollars (\$500,000) property damage per occurrence. In addition, Operator shall carry comprehensive general liability insurance with minimum coverage limits of One Million Dollars (\$1,000,000) for injury or death for any one occurrence, and One Million Dollars (\$1,000,000) for property damage per occurrence. Operator and its contractors, agents, and employees using the Subject Lands shall provide Owner with certificates evidencing such insurance at the time of initial construction and any time afterward at Owner's request.

**2.17 Equipment Storage and Maintenance; Employee Housing.** Operator's equipment shall not be stacked or stored or maintained on the Subject Lands, except in the Surface Use Area, nor shall employees be housed on any of the Subject Lands, without the express written consent of Owner and additional compensation paid for such storage. Rigs may be stacked on the Surface Use Area for not more than fourteen (14) days, unless weather or mechanical reasons reasonably prevent such removal.

**2.18 Operator Representation and Warranty as to Third Party Lands.** Operator represents and warrants to Owner that, for any oil and gas produced pursuant to this Agreement from lands other than the Subject Lands, the Operator has, or will timely have, all necessary rights to explore, develop and produce oil and gas from such other lands.

**2.19 Owner's Right to Relocate Related Facilities.** Owner reserves the right to relocate portions of the Related Facilities without disrupting Operator's activities and at Owner's expense upon not less than thirty (30) days prior written notice to Operator.

**2.20 Seismic Operations.** Operator shall notify Owner prior to the commencement of any seismic operations on the Subject Lands and shall pay Owner [REDACTED] for each surface acre on the Subject Lands used in connection with such operations. Operator shall not conduct any seismic or geophysical operations when surface conditions are not relatively dry. At all times, Operator shall use reasonable efforts to conduct its seismic operations so as to cause the least damage reasonably possible to the surface.

**2.21 Water Quality and Quantity.** Baseline water quality and quantity tests shall be conducted and paid for by Operator on all water wells on the Subject Lands prior to drilling and such wells shall be tested on a yearly basis thereafter. Testing parameters will be those customarily used and those required by regulation. Test results shall be provided to Owner. Owner shall be entitled to conduct its own tests at its cost. Results of Owner's tests will be provided to Operator.

### SECTION 3 – PAYMENTS TO OWNER

As consideration for the rights granted herein by Owner to Operator, Operator shall pay to Owner the amounts set out below.

**3.1 Surface Use Payments.** [REDACTED]

**3.2 Annual Rental Payments.** [REDACTED]

**3.3 Payment Limitation.** The payments herein provided are acknowledged as sufficient and in full satisfaction for ordinary damages caused or created by the reasonable and customary entry, rights of way, operation and use of the roads and well sites, but do not include damage to livestock, buildings or improvements or injuries to persons or damage or destruction to Owner's water wells or water supply or other amounts that may be due hereunder.

## SECTION 4 – RECLAMATION

**4.1 Reclamation and Restoration.** Unless Owner otherwise agrees in writing, upon termination of any of Operator's operations on the Subject Lands or upon drilling or completion of any wells, Operator shall restore and level the surface of the Subject Lands affected by such terminated operations as nearly as possible to the contours which existed prior to such operations. Operator shall use water bars and such other measures as appropriate to prevent erosion and non-source pollution. Where requested, Operator shall restore all roads, drainage and irrigation ditches disturbed by Operator's operations as nearly as possible to the condition that existed prior to such operations. Any surface disturbed by Operator's activities shall be reseeded with native grasses and all noxious weeds eliminated. Reseeding shall continue until vegetation is established in a healthy growth condition. Any surface facilities no longer in use shall be removed and the surface restored, within two (2) years after the date upon which Operator ceases to use such surface facility. Reclamation upon drilling or completion of any wells shall happen as soon as reasonably practicable, but no later than six (6) months after said drilling or completion activities. In addition, Operator shall comply with all requirements in accordance with the prescribed rules and regulations of the COGCC.

## SECTION 5 – ENFORCEMENT AND RESOLUTION OF DISPUTES

**5.1 Default.** In the event that a Party shall fail to comply with any of their duties or obligations hereunder, the other Party shall so notify the defaulting Party in writing by certified mail and if said default is not corrected within thirty (30) days after receipt of said notice or activity is not initiated to cure such default in those instances where said default could not be cured within said thirty (30) day period, the non-defaulting Party shall have the right to terminate this Agreement, to enforce the provisions of this Agreement in law or in equity and/or have such other rights and remedies as may be provided to it under the laws of the State of Colorado. The defaulting Party agrees that it shall be responsible for all costs and expenses, including reasonable attorney's fees, incurred by the non-defaulting Party as a result of said default as may be determined by a court of law or equity.

## SECTION 6 – MISCELLANEOUS

**6.1 No Warranty.** Owner makes no representation or warranty in entering into this Agreement as to any matter of title, condition, suitability for Operator's purposes, or regulatory status of the Subject Lands.

**6.2 Indemnification.** Operator shall defend, indemnify and hold Owner harmless from any damage, injury, claim, judgment or other liability arising, either directly or indirectly, on account of any damage or injury to any person or property resulting from Operator's use of the Subject Lands, including use by Operator's employees, agents, representatives or contractors.

**6.3 Liability for Damage Resulting from Produced Water.** Operator shall be responsible for complying with the rules and regulations applicable to the removal and/or disposal of waters produced by its operations as established by the State of Colorado and other applicable authorities, and Operator agrees to indemnify, defend and hold Owner harmless from

any claims, demand, judgment or liability arising as a result of damages to persons or property caused by or in connection with the removal or utilization of said water. Nothing in this paragraph shall be interpreted to allow Operator to discharge produced water on the Subject Lands without Owner's prior written permission. Nothing herein permits Operator to use water from Owner's wells located on the Subject Lands. In the event that Operator seeks to use said water, Operator shall negotiate with Owner a fair and reasonable price therefor.

**6.4 Compliance with Law.** Operator shall conduct all of its operations and activities on the Subject Lands in accordance with all applicable local, state and federal laws, rules and regulations.

**6.5 Memorandum of Agreement.** This Agreement shall not be recorded, but either Party may record with the County Clerk for Weld County, Colorado, a memorandum reciting that the Parties have entered into this Agreement which affects the Subject Lands.

**6.6 Taxes.** Operator shall be responsible for and shall pay any additional taxes that may be assessed against the Subject Lands by reason of any improvements placed thereon by Operator.

**6.7 Construction of Agreement.** This Agreement shall be construed under and governed by the laws of the State of Colorado.

**6.8 Binding Effect.** This Agreement is binding upon the successors and assigns of the Parties.

**6.9 Force Majeure.** Should Operator be prevented from complying with any covenant of this Agreement, express or implied, by reason of scarcity of, or inability to obtain or use, equipment or material, by severe weather conditions, or because of any federal or state law or any order, rule or regulation, or by the failure to act, of a governmental authority, or by any other event or cause beyond Operator's reasonable control ("**Force Majeure**"), then, while so prevented, Operator's obligations to comply with such covenant shall be suspended, and Operator shall not be liable in damages for failure to comply therewith; and the operations and responsibilities of Operator under this Agreement that are so affected shall be suspended while and so long as Operator is prevented by Force Majeure from conducting such operations and responsibilities.

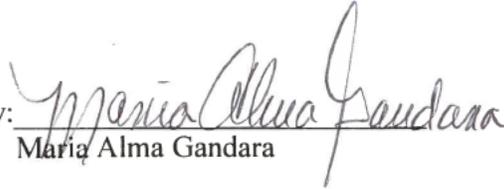
**6.10 Survival.** The Operator's obligations and responsibilities hereunder shall survive the termination of this Agreement, including, without limitation, all reclamation obligations.

**6.11 Signatures.** By signing below, the Parties signing acknowledge and represent that each of them has the authority to sign this Agreement and the power to bind both Owner and Operator. The Parties further agree that this Agreement may be executed in counterparts.

**IN WITNESS WHEREOF**, the Parties hereto have executed two (2) originals of this Agreement as of the Effective Date.

**Maria Alma Gandara (formerly Maria Alma Garcia)**

**HRM Resources II, LLC**

By:   
Maria Alma Gandara

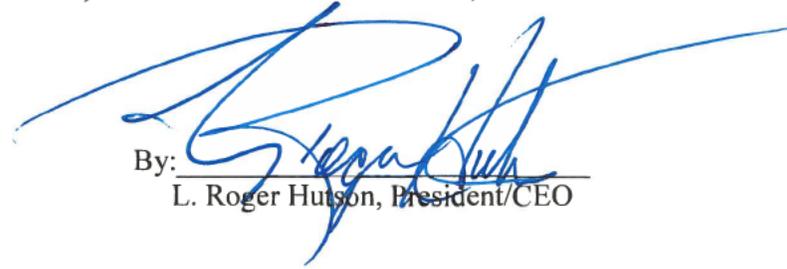
By:   
L. Roger Hutson, President/CEO

Exhibit A  
Surface Use Area  
and Related Facilities

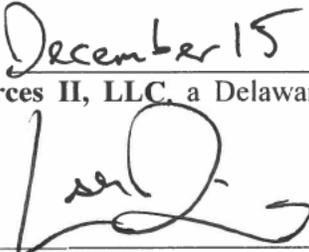
To be completed and attached upon surveying of Drilling Pad.

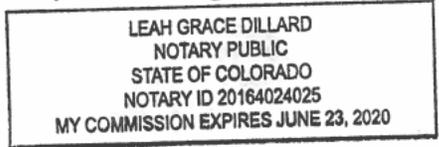
ACKNOWLEDGMENTS

STATE OF COLORADO §  
CITY AND COUNTY OF DENVER §

This instrument was acknowledged before me on December 15, 2016, by L. Roger Hutson, as President/CEO of **HRM Resources II, LLC**, a Delaware limited liability company, on behalf of said company.

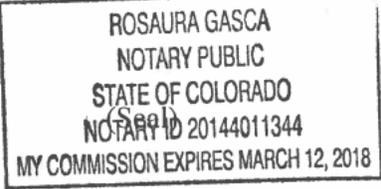
My Commission expires: June 23, 2020  
(Seal)

  
\_\_\_\_\_  
Notary Public's Signature



STATE OF COLORADO §  
CITY AND COUNTY OF Adams §

This instrument was acknowledged before me on December 14, 2016, by **Maria Alma Gandara**

My Commission expires: March 12, 2018  


  
\_\_\_\_\_  
Notary Public's Signature

STATE OF COLORADO §  
CITY AND COUNTY OF Adams §