

## SURFACE USE AND DAMAGE AGREEMENT

This Surface Use and Damage Agreement (the "Agreement") is made and entered into this 16th day of March, 2018 by and between Cody and Dianne Clark, HWJT, whose address is 17412 County Road 35, Karval, Colorado 80823, ("Surface Owner"), and K3 Oil & Gas Operating Company, whose address is 24900 Pitkin Road, Suite 305, The Woodlands, Texas 77386 ("Operator").

### RECITALS:

A. Operator has rights to leasehold interests in an oil and gas lease(s) (the "Lease") covering the following described lands located in Lincoln County, Colorado (the "Lands"):

**Township 15 South, Range 54 West, 6th P. M.**

**Section 18: All of Section**

B. Surface Owner owns the surface estate in the Lands.

C. By virtue of the Lease, Operator has the right to enter upon and use the Lands for the purpose of exploring for, developing, producing and marketing hydrocarbons. This right includes, but is not limited to, the ability to (i) locate, drill, complete, operate, and maintain wells on the Lands, (ii) to construct and operate access roads, construct and operate hydrocarbon pipelines and water pipelines, and construct and operate power lines, and (iii) to construct and operate equipment such as compressors, blowers, and metering equipment related to the operation of the wells.

D. Prior to Operator commencing operations on the Lands, Operator and Surface Owner wish to address certain issues with respect to damages and usage.

### AGREEMENT

In consideration of the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Surface Owner and Operator agree as follows:

1. **Payments.** Upon commencement of Operations, Operator shall pay the following amounts as liquidated damages to Surface Owner in full settlement and satisfaction of the items identified below:

a) **Well Locations.** Operator shall pay [REDACTED] for each well drilled on the Lands. This amount shall be paid by Operator to Surface Owner before entering upon the Lands to drill each well.

b) **Roads.** Operator shall pay Surface Owner a one-time payment of [REDACTED] per rod for new roads constructed by Operator. Operator shall also have the right to improve existing roads on the Lands without additional consideration being owed to Surface Owner. Each well shall be serviced by only one road limited to twenty (20) feet in width. Operator shall maintain any utilized new or existing road in an all-weather surface condition during the Term of this Agreement.

c) Pipelines.

(i) For each hydrocarbon and water, Operator shall pay to Surface Owner the sum of [REDACTED] per rod unless pipelines are located in the same ditch at the same time, in which case a single payment shall be made.

(ii) All pipelines (hydrocarbon or water) located by Operator on the Lands shall be buried to the depth of at least 48 inches below the surface.

d) Power Lines. When feasible, Operator will construct power lines within 50 feet of an existing road, if one exists at the commencement of construction of said power lines. If Operator is unable to construct power lines within 50 feet of an existing road, Operator agrees to pay the sum of \$20.00 per rod.

e) Gathering, Metering and Compression Sites. The payments described in paragraph 1.b. shall include installation of meters, compression and other production equipment, and facilities.

**2. Operations Outside the Lands.** The parties acknowledge that Operator has rights to, or may in the future acquire, oil and gas leases covering parcels other than the Lands (the "Outside Lands"). The parties further acknowledge that, from an operations standpoint, it may be prudent for Operator to use roads, pipelines (gas, oil and water), and power lines that extend across both the Lands and the Outside Lands or install compressors, blowers, and other production equipment and facilities that serve wells on both the Lands and the Outside Lands. Operator may use the Lands in connection with such operations and activities on Outside Lands. Operator shall compensate Surface Owner for any such use on the same terms and conditions set forth in this Agreement. Upon the request of Operator, Surface Owner shall execute and deliver recordable surface leases and/or right-of-way agreements or easements for power lines, pipelines (gas, oil or water), and roads which are used in connection with both the Lands and any Outside Lands, such consent shall not be unreasonably withheld.

**3. Locations.** Wells shall be located in accordance with all applicable surface setback requirements of the Colorado Oil and Gas Conservation Commission ("COGCC") unless Operator obtains the prior written consent of Surface Owner to an exception location.

**4. Operations.** Operator shall maintain roads used by Operator on the Lands in good and passable condition.

**5. Fences.** It is agreed that Surface Owner or tenant may periodically have cattle or other livestock on the property, and after construction of the drill site, Operator shall fence the location and any pits to keep Operator's employees, agents, representatives and contractors within the bounds identified above and/or to keep cattle or other livestock from roaming into such areas. Subsequent to the reclamation of the drill site, Company will fence the entire reclaimed drill site with a permanent five (5) wire barbed wire fence. Fence corners shall be H-braced with minimum 4" diameter steel pipe posts and 6' steel T-posts shall be used in the fence line so that cattle and other livestock will not be able to stray onto the location. Additionally, Operator hereby agrees that all fences cut or disturbed by its entry on said lands will be repaired and/or replaced to return same to their condition prior to Operator's entry as nearly as practicable.

**6. Reclamation and Restoration.** Unless Surface Owner otherwise agrees in writing, Operator shall conduct all reclamation and restoration operations in accordance with the then applicable rules and regulations of the COGCC.

7. **Firearms and Explosives.** None of Operator's employees, agents, or contractors shall be permitted to carry firearms or any weapon while on the Lands, and such persons shall not hunt or fish the Lands. No dogs will be permitted on the Lands at any time. Operator shall notify all of its employees, agents and contractors entering the Lands on Operator's behalf that no dogs, firearms, weapons, hunting, fishing, or recreational activities will be allowed on the Lands.

8. **Surface Owner's 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 Surface Owner's land without Surface Owner's prior written consent.

9. **Term.** This Agreement shall become effective when it is fully executed and, except as provided to the contrary herein, shall remain in full force and effect for the life of the Lease (and extension or renewal of the Lease) or any other oil and gas lease held by Operator covering all or any portion of the Lands, or until Operator has plugged and abandoned all Wells in which Operator owns a working interest and complied with the requirements of all applicable regulations, relevant oil and gas leases and this Agreement pertaining to removal of equipment, reclamation, cleanup and surface restoration, whichever is later in time. In the event of a partial termination of the Lease, this Agreement shall terminate as to any part of the Lands no longer subject to the Lease, *but only insofar* as such part of the Lands is not, at the time of partial Lease termination, being used by Operator for any well pad, facility pad, roads, or pipelines in, on through, or under any part of the Lands which remains subject to the Lease or a lease covering Outside Lands as provided in Paragraph 3. When this Agreement terminates, wholly or in part, the Parties shall execute any further releases reasonably necessary to evidence the fact that this Agreement shall no longer apply to the Lands or any portion thereof.

10. **Counterparts.** This agreement may be executed in one or more counter-parts by any of the parties hereto and all counter-parts so executed shall be taken as a single Agreement and shall have the same force and effect as if all parties had in fact executed but a single instrument. A facsimile signature on the Agreement shall be deemed just as valid as an original signature. This Agreement will not be binding on or constitute evidence of a contract between the parties until such time as a counterpart of this document has been executed by each party.

11. **Compliance with Laws and Non-Opposition.**

a) Operator shall conduct its operations in a manner which complies with applicable laws, rules, regulations and Lease terms.

12. **Waiver.** In addition to the terms and conditions of this Agreement, and unless otherwise expressly stated herein, Operator shall also comply with all applicable COGCC Rules. Except as expressly stated herein, no part of this Agreement shall be construed to relieve Operator from any or all of the applicable COGCC Rules. If there is a conflict between this Agreement and any applicable COGCC Rule, the COGCC Rule shall prevail and govern as to the point in conflict, unless specifically waived in writing by Surface Owner and as may be allowed by the applicable COGCC Rule. This Agreement does not constitute a waiver of any COGCC Rule unless specifically provided for herein. To the extent this Agreement deals with a subject covered by any COGCC Rule, but the Agreement does not provide a standard for performance, then the standard shall be provided by the relevant COGCC Rule. Owner hereby waives all COGCC requirements that it be given advance notice by Company of the Operations or activities associated with Operations, including but not limited to any notice required by COGCC Rule 305, consultation requirements of COGCC Rule 306, and the statutory notice required by Section 34-60-106(14), C.R.S.

a) Surface Owner shall not, directly or indirectly, oppose or encourage opposition to Operator in any agency, administrative or other governmental proceedings, including but not limited to the COGCC, Lincoln County, or other governing body proceedings, related to Operator's operations on the Lands, provided that Operator's position in such proceedings, or Operator's requested actions, are authorized by this Agreement.

**13. Notices.** All notices and communications required or permitted under this Agreement shall be in writing and addressed as set forth below. Any communication or delivery hereunder shall be deemed to have been duly made when received by the receiving Party. All notices shall be addressed as follows:

If to Operator:

K3 Oil & Gas Operating Company  
24900 Pitkin Road, Suite 305  
The Woodlands, TX 77386  
Attention: Henson Barnes  
Telephone: (832)813-8571  
Facsimile: (832)234-0815  
Email: Henson.Barnes@K3oil.com

If to Surface Owner:

Cody and Dianne Clark  
17412 County Road 35  
Karval, CO 80823  
Telephone: (719)439-3896

Any party may, by written notice so delivered to the other parties, change the address or individual to which delivery shall thereafter be made.

**14. Conflicts with the Lease.** Except as expressly provided for in this Agreement, nothing herein shall in any manner diminish or alter Operator's rights or obligations under the Lease.

**15. Governing Law.** This Agreement shall be construed in accordance with, and governed by, the laws of the State of Colorado without regard to principles of conflicts of law.

**16. Memorandum of Agreement.** This Agreement shall not be recorded in the records of the Clerk and Recorder of Lincoln County, Colorado. Surface Owner and Operator will jointly execute a memorandum of this agreement for the purpose of placing third parties on a notice of this Agreement. The memorandum shall be recorded by Operator in the records of the Clerk and Recorder of Lincoln County, Colorado.

**17. Personal Authority.** Each of the undersigned represents he or she is authorized to execute this Agreement on behalf of the Operator or Surface Owner, as indicated below and, therefore, bind the party on whose behalf he or she has executed this Agreement.

**18. Binding Effect.** This Agreement shall be binding upon the parties hereto and their respective heirs, successors and assigns and shall run with the Lands.

**19. Entire Agreement.** This agreement constitutes the entire agreement between the Surface Owner and Operator and supersedes, in all respects, all prior written or oral agreements, if any, between the parties relating to the settlement of surface damages and there are no agreements, understandings, warranties or representations between the Surface Owner and Operator except as set forth herein. Neither this Agreement nor any of the provisions hereof can be changed, waived, discharged or terminated, except by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought. It is agreed that the rights and obligations of Operator hereunder may be transferred or assigned in whole or in part. It is expressly understood that the terms of the Agreement shall be binding upon the parties hereto, their successors, assigns, heirs, trustees and beneficiaries.

IN WITNESS WHEREOF, this Agreement is executed as of the 16 day of March, 2018.

**SURFACE OWNER**

Cody Clark  
By: Cody Clark

**OPERATOR**

K3 Oil & Gas Operating Company

Alex T. Warmath HB  
By: Alex T. Warmath  
Title: CEO

Dianne Clark  
By: Dianne Clark