



Surface Use Agreement

This Surface Use Agreement ("Agreement") is made effective this 13th day of May, 2014, by and between **Glen A. Young**, whose address is 1952 County Road 41, Hudson, CO 80642, hereinafter jointly and severally referred to sometimes herein as "**Owner**"; and **Verdad Oil and Gas Corporation**, a Texas Corporation, with offices at 5950 Cedar Springs Road, Suite 200, Dallas, Texas 75235, hereinafter sometimes referred to as "**Operator**"; each of the foregoing sometimes referred to individually as a "Party," or collectively as the "Parties."

For and in consideration of the covenants and agreements contained herein, and for other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged by the Owner, the Parties agree as follows:

1. OWNERSHIP

Owner is the surface owner of certain lands, such lands and improvements thereon hereinafter sometimes referred to as the "Lands", located in Weld County, Colorado more specifically described as follows:

TOWNSHIP 1 NORTH, RANGE 65 WEST, 6TH P.M.

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Operator, or its affiliates, owns a working interest in valid leases covering all or portions of the Lands or lands pooled or included in a spacing unit therewith (each a "Lease," collectively, the "Leases"). Additionally, Operator may have responsibilities under a Joint Operating Agreement ("JOA") with respect to the Lands.

2. OPERATOR'S OIL AND GAS OPERATIONS ON THE LANDS

Operator intends to drill or cause to be drilled oil and/or gas well(s) on the Lands, as depicted approximately on Exhibit "A" attached hereto. In order for Operator to drill, construct, complete, produce, maintain, and operate the well(s) and all facilities associated therewith, including, but not limited to, access roads, pipelines, gathering lines, flow lines, separators, tank batteries, electric lines and any other facilities, or property necessary for Operator to conduct operations on the well(s) (each a "Facility," collectively, the "Facilities"), it is necessary that Operator enter and utilize a portion of the surface of the Lands.

The Parties enter into this Agreement to evidence their entire agreement regarding the payment of surface damages, entry, surface use, and any other matters relating to Operator's use of the Lands.



3. Location

The approximate location of the well(s), well site and certain other Facilities to be constructed on the Lands are depicted on Exhibit A, attached and incorporated into this instrument by this reference. Any material changes to the locations of the well sites, access roads and facilities may be made by Operator with the consent of Owner, which shall not be unreasonably withheld.

4. Conduct of Operations

Operator's operations on the Lands shall be conducted pursuant to the terms of the Leases, this Agreement, the rules and regulations of the Colorado Oil & Gas Conservation Commission ("COGCC"), and applicable Colorado statutes and case law.

5. Compensation

Operator agrees to pay owner the sum of [REDACTED] prior to the commencement of drilling operations. This amount shall be deemed full and agreed consideration for all damages caused or created by reason of the reasonable and customary ingress, egress, rights-of-way, drilling, completion, production and maintenance operations associated with the well and facilities. The operations area shall be limited to approximately five (5) acres of land while drilling and completion operations are being conducted. Lessee shall restrict the production site to as small a dimension as reasonably practical for prudent operations. Damages will include, without limitation, damages to growing crops and crop land; the removal, transportation and care of any livestock; the re-seeding, construction and use of access roads; and the preparation and use of the wellsite areas. Any subsequent major operations for said wells (refrac, deepening, re-drilling, etc.) except in case of emergency, shall require ten (10) days prior notice to owner.

6. Additional Surface Use Provisions:

With respect to its operations on the Lands, Operator shall comply with the following provisions:

a. **Surface Reclamation:**

- i. Upon permanent cessation of Operator's operations on the Lands, all areas thereof occupied or utilized by Operator shall be restored by Operator to their original contour as nearly as is reasonably practicable.

b. **Access Roads/Facility:**



- i. Owner hereby grants, bargains, sells, assigns and conveys to Operator and its successors and assigns an easement and right-of-way for the purpose of constructing, using and maintaining access roads (not to exceed 20 feet in width), locations for facility equipment and subsurface gathering lines for each well drilled upon Owner's land, flowlines, pipelines, and pipeline interconnections for one year from the date of commencement of surface activities for drilling operations and so long thereafter as oil or gas is produced or capable of being produced from any well(s) drilled on Owner's land. Ways of ingress and egress, well site areas, surface equipment locations and tanker truck service areas shall be agreed to by and between Owner and Operator prior to commencement of operations.

c. Other:

- i. If by reason of the activities of the Operator, including, but not limited to, drilling, completing, equipping, and operating of the well(s), there is damage to personal property of the Owner, including, but not limited to, irrigation wells, fences, culverts, bridges, pipelines, ditches, crops, grasses, trees or irrigation systems, for which Owner has not been previously compensated pursuant to Paragraph 5, and upon Owner's notification to Operator, Operator shall repair or replace such items after consultation with and to the reasonable satisfaction of the Owner, which repair or replacement shall be accomplished by Operator within twenty-eight (28) days after final consultation with Owner.
- ii. Operator agrees that all trash, refuse pipe, equipment, liquids, chemicals, or other materials brought on the Lands that are not necessary for continued operations of the Wells shall be removed and disposed away from the Lands by Operator no later than 30 days after the completion of the Wells. No such items shall be burned or buried on the Lands by Operator.
- iii. Operator shall keep the well pad free and clear of noxious weeds and trash during operations.
- iv. Operator agrees to fence off the perimeter of the well sites with temporary fencing if reasonably requested by Owner. Operator will install cattle guards where necessary and shall be responsible for restoring Owner's existing fence to its original condition at any point of access.
- v. *Operations and preparation of well site shall not commence before September 1, 2014.*
- vi. *Operator shall notify and coordinate land surveying, well-staking, pad preparation and operations with Owner of the lands.*



7. Default and Right to Cure

In the event of alleged default by Operator in the payment of any of the sums hereinabove provided to be made, in obligations to be performed, or any other terms, conditions or covenants of this Agreement, Owner shall notify Operator of such alleged default in full and complete detail, in a writing delivered to Operator by certified mail, return receipt requested. Operator shall have thirty (30) days from its actual receipt of the written notification in which to pay, in the event of alleged non-payment, or to commence and diligently pursue a cure of any other alleged default, and upon such lapse of time, should such alleged default still remain in effect, then and only then shall Owner have the right and option to declare a default under this Agreement.

8. Waivers

Except as otherwise agreed in a subsequent writing subscribed to by both parties, no waiver by Owner of any breach by the Operator of any of its obligations, agreements, or covenants hereunder shall be deemed to be a waiver of any subsequent or continuing breach of the same, nor shall any forbearance by Owner to seek a remedy for any particular alleged or actionable breach by the Operator be deemed to be a waiver by Owner of its rights or remedies with respect to any other alleged or actionable breach; however in no event shall Operator be liable for consequential damages.

9. COGCC Waivers

Owner hereby waives the minimum 30-day written notice requirement for operations to begin and any other and/or future notice or consultation requirements of the COGCC, including without limitation the provisions and allowed waivers under COGCC Rules 305 and 306.

Additionally, Owner hereby waives the Greater Wattenberg Area ("GWA") special well location, spacing and unit designation requirements of the COGCC, including without limitation the provisions and allowed waivers under COGCC rules 318A.a, 318A.c and 603.a.(2). These GWA waivers are solely intended to minimize surface disturbance on Owner's lands while fully complying with Owner's wishes of this Surface Use Agreement.

10. Indemnity/Release

Owner hereby releases and agrees to hold harmless Operator from any and all liability and further payment, other than what has been provided herein, for damages on the Lands which arise from, out of or in connection with the Operator's operations on the Lands, but only as to those operations which are described in and permitted by this Agreement, and for those operations which the Amount has been paid and received by Owner pursuant to this Agreement. Operator agrees to indemnify and hold Owner harmless from any and all claims, damages and causes of action arising out of and caused by Operator's operations on the Lands that



may be asserted by any of Operator's agents, employees, subcontractors, contractors or persons entering upon the premises at the request of Operator.

11. Notice for Additional Operations

Operator shall comply with COGCC rules and regulations requiring that advance notice be provided to Owner for subsequent operations on the Wells, including, but not limited to, reworking operations thereto.

12. Notices

Notice by either Party shall be timely given, orally if possible (with the exception of notices described in Paragraphs 6(C)(ii) and 7 above), with additional and immediate subsequent written confirmation sent by United States mail, postage prepaid and addressed to either Party at the address as designated below; or to such other place as either Party may from time to time designate by written notice delivered in the way described in this paragraph to the other:

13. Binding Effect

The covenants and conditions herein contained and all of the provisions of this Agreement shall inure to the benefit of and be binding upon the Parties hereto, and their respective heirs, representatives, successors and assigns. Owner agrees to notify any and all tenants of Lands and any other third parties utilizing the surface of the Lands who may be affected by Operator's activities on the Lands. It shall be Owner's sole responsibility to advise such third parties of the existence of this Agreement and Operator's right to utilize the surface of the Lands pursuant to this Agreement; and payment of consideration, if any, which may be due any such third party from Owner as a result of Operator's actions on the Land under this Agreement shall be the sole obligation of Owner, and Owner shall protect, defend and indemnify Operator from any and all claims and demands from such third parties as a result of Operator's actions under this agreement.

14. Confidentiality

In addition to any other confidentiality requirements provided for herein, Owner agrees to keep the terms and conditions of this agreement confidential and shall not disclose such matters to any third party, unless owner is ordered to do so by specific order of the court in a legal proceeding. Notwithstanding the foregoing, owner may disclose terms to owner's legal advisors, and payment terms to owner's official tax advisors and appropriate government taxing authorities. While the specific terms hereof are to be held in strict confidence by Owner, Operator may at its option record a memorandum of this agreement in Weld County, Colorado and with any other appropriate agency of government.



15. Entire Agreement

This instrument contains the entire agreement between the Parties and all prior negotiations and representations are merged within this instrument, and the terms of such may not be modified orally or in any other manner other than by agreement in writing signed by all Parties or their respective heirs, representatives, successors or assigns.

16. Termination

This Agreement shall remain in effect unless and until specifically abandoned by Operator in a writing delivered to Owner, or filed by Operator in the records of Weld County, Colorado. All rights to indemnification and requirements for reclamation and provisions relating thereto shall survive termination of this Agreement.

17. Counterparts

This Agreement shall be executed in duplicate originals, each party to retain one such original. This Agreement shall be binding if properly signed and fully executed and sent by facsimile transmitted to the other Parties. Without affecting the validity of the foregoing manner of execution, the Parties agree to follow-up such facsimile executions with standard paper originals signed by the parties as soon as may be practical.

18. Governing Law and Venue

This Agreement shall be governed by, construed and enforced in accordance with the laws of the state of Colorado; and Weld County, Colorado, shall be the forum for resolution of all disputes under this Agreement.

19. Force Majeure

The passage of any deadline or time relevant under this instrument shall be deemed tolled, and nonperformance of any required obligation that Operator may have under this instrument shall be excused without penalty to Operator as to any time period, in which Operator is prevented or hindered from performing due to any governmental action or inaction, and any force majeure which shall include without limitation any act, circumstance, event or condition beyond the control of Operator which shall include without limitation any act, warning or threat of terrorism, war, revolution, rebellion, insurrection, riot, civil commotion, blockade, embargo, shortage of necessary expertise, and shortage or lack of transportation and delivery of necessary tools, equipment, material and supplies due to market conditions, act or restraint of government, strike, lockout, picketing, boycott, or damage by earthquake, fire, hurricane, tornado, flood, wind, storm, temperature extreme or other weather instability, disaster or condition, or by reason of any other circumstance or combination of same beyond Operator's control.



20. Attorney's Fees and Costs

The Parties agree that in any action, claim or controversy resulting from a claimed breach of this Agreement, each party shall bears its own costs, expenses and attorney fees. The provisions of this paragraph do not apply to any actions other than breach, or a claim thereof, including without limitation indemnification provisions.

21. Authority of Signatories

The signatories below declare, warrant and represent that they have the authority to enter into this Agreement on behalf of their respective principals, if any.

22. Binding Effect

This Agreement constitutes a covenant running with the Lands and shall be binding upon and inure to the benefit of, and be enforceable by, the Parties and their respective successors, affiliates, administrators, trustees, authorized representatives, executors and assigns.

Agreed to and made effective the date first written above, by the parties:

Owner:

Operator:

Verdad Oil and Gas Corporation

By: Glen A. Young
Glen A. Young

By: Arthur Beecherl, 5/13/14
Arthur Beecherl, Vice President of Operations



Exhibit "A"

TOWNSHIP 1 NORTH, RANGE 65 WEST, 6TH P.M., WELD COUNTY, CO
SECTION 28: N/2 EXCLUDING ALL THAT PT LYING EAST OF DENVER-HUDSON CANAL

