

SURFACE USE AGREEMENT

This Surface Use Agreement (the "Agreement") is entered into this 1st day of June, 2010, by and between Thomas L. Johnston and Retta A. Johnston ("Surface Owners," whether one or more) with an address of 7828 S. Larimer County Road Fort Collins, CO 80528, and Ranchers Exploration Partners, LLC ("Ranchers") with an address of 7257 West 4th Street, Suite 3, Greeley, CO 80634.

Ranchers, at its sole discretion, shall have the exclusive right to assign its duties, responsibilities and obligations as operator of the Property to a competent oil and gas operator of its choosing (the "Contract Operator"), and said Contract Operator shall be bound by the terms, conditions, obligations, liabilities and indemnifications contained herein. Ranchers and Contract Operator may hereinafter be referred to as Ranchers, and any reference herein to Ranchers shall, by definition, include and apply to the Contract Operator.

Ranchers, or the Contract Operator, plans to drill and complete or plug and abandon a well(s) in the NW¹/₄ of the NW¹/₄ of Section 24, Township 6 North, Range 68 West, Larimer County, Colorado (the "Property"), and the Surface Owner owns an undivided 100% share of the well pad on said property and the proposed access road surface on said property.

Ranchers and Surface Owner have agreed to the settlement of surface damages in the amount of \$5,000.00 for the well site and any access road and turn-around that will need to be built or upgraded, for a total payment of \$5,000.00 (the "Payment"). In consideration of such Payment and in consideration of the obligations set forth herein, Ranchers and Surface Owner agree as follows:

1. **Compensation for Surface Damages.** Said Payment is a one-time payment and constitutes the full and entire consideration to be paid Surface Owner by Ranchers for the use of its ownership of the surface and all damages (except as provided in paragraph 2 hereof) to the above mentioned lands in Section 24, associated with the drilling, testing, completion, recompletion, reworking, reentry, pumping, production, and general maintenance and operations of the well site located on the Property and adjacent lands. The Payment is for all damages to the Property, including, but not limited to, damages to growing crops, if any, topsoil, removal, transportation and care of livestock, if any, construction of access roads, preparation and use of the drill site area, preparation and use of reserve pits, construction, installation and maintenance of production equipment and facilities such as flow lines, gas pipelines, separators, tank batteries, pumping units, compressor stations, and other equipment or facilities necessary or convenient to the production, transportation and sale of oil, gas and other materials produced by or used for production of oil and/or gas from the Property and adjacent lands. With respect to the construction, access roads, preparation and use of the drill site area, preparation and use of reserve pits, and construction, installation and maintenance of production equipment and facilities such as flow lines, gas pipelines, separators, tank batteries, pumping units, compressor stations, and other equipment or facilities necessary or convenient to the production, transportation and sale of oil, gas and other materials produced by or used for production of the well, Ranchers may exercise the rights granted in this Agreement at any time and from time to time without further additional consideration being payable to Surface Owner. No rentals, annual or otherwise, shall be paid Surface Owner for the rights hereunder granted.

*All access roads must be approved by Thomas Johnston
and/or Retta Johnston.
R A J. M. Richards 8/26/2010*

2. **Indemnification.** Surface Owner, their heirs, successors, assigns, invitees, and licensees, do hereby relieve, release, indemnify, defend, and hold harmless Ranchers and its agents, licensees, contractors, and sub-contractors and agree to defend Ranchers from any claim of damage to any person or property arising out of use of the access road or the Property for damages proximately caused by Surface Owner, their heirs, successors, assigns, invitees, and licensees, which damages include specifically but without limitation, all damages sounding in tort (whether by way of nuisance, trespass, ultra-hazardous activity or otherwise) and/or involving environmental contamination and its incident response, compensation or liability, and also including all expenses, reasonable attorneys' fees, court costs, and witness fees, and other monies expended by or incurred by Ranchers, its agents, licensees, contractors, and sub-contractors, in the event it shall become necessary for Ranchers, its agents, licensees, contractors, and sub-contractors to defend themselves from any claims made by anyone as a result of the use of the access roads by Surface Owner, their heirs, successors, assigns, invitees, and licensees.

Further, Ranchers relieves, releases, indemnifies, defends, and holds harmless and agrees to defend Surface Owner, their heirs, successors, assigns, invitees, and licensees from any and all claim of damage to any person or property arising out of use of the Property for operations by Ranchers and its agents, licensees, contractors, and sub-contractors for damages proximately caused by Ranchers or its agents, which damages include specifically but without limitation, all damages sounding in tort (whether by way of nuisance, trespass, ultra-hazardous activity or otherwise) and/or involving environmental contamination and its incident response, compensation or liability, and also including all expenses, reasonable attorneys' fees, court costs, witness fees, and other monies expended by or incurred by Surface Owner, their heirs, successors, assigns, invitees and licensees in the event it shall become necessary for Surface Owner, their heirs, successors, assigns, invitees and licensees to defend themselves from any claims made by anyone as a result of Ranchers' operations, on, across or over the Property. Ranchers shall comply with all lawful and applicable federal, state, and local regulations in effect upon the Property. As between Surface Owner and Ranchers, Surface Owner shall have no liability for the release or discharge by Ranchers, its contractors or agents of oil, gas or any other substance on or under the property, except as any such release or discharge is caused in whole or in part by Surface Owner, Surface Owner's tenant, licensees, invitees, or agents, and Ranchers will indemnify and hold Surface Owner harmless from and against all costs and expenses (including reasonable attorney's fees) for any such release or discharge by Ranchers.

3. **Reclamation.** Ranchers agree to restore the surface of the Property in accordance with the minimum well site restoration requirements established by the Colorado Oil & Gas Conservation Commission.
4. **Standard of Care.** Ranchers shall conduct its oil and gas operations, including construction and maintenance of access roads, well sites, and pipelines in a good and workman-like manner consistent with oilfield custom and usage and shall comply with all applicable federal, state, and local laws, rules, and regulations in its conduct of operations. Ranchers shall repair or replace any fences cut or gates damaged by Ranchers' use and shall install gate(s), including double gates and cattle guards, or something similar, where required by Surface Owner and at locations specified by the Surface Owner, to protect livestock.

5. **Consent and Right of Immediate Occupancy.** Surface Owner grants Ranchers the right of immediate occupancy of the Property for well sites, access roads, power lines, and pipelines as shall be reasonably necessary for these purposes contemplated under this Agreement. This Agreement constitutes written consent of Surface Owner for Ranchers to proceed with the drilling, testing, completion, recompletion, reworking, reentry, pumping, producing, and general operation and maintenance of the above described drill site on the Property.
6. **Sale of Water for Drilling.** If sufficient water is available at the time of drilling and if both parties are in agreement at that time, Surface Owner and Ranchers may agree to the purchase of Surface Owner's nearby water, within 1 mile of the drill site, at the price of \$20.00 per 1,000 gallons.
7. **Surface Owner's Right to Use the Access Roads.** Ranchers acknowledge that Surface Owner(s) own an undivided interest in the surface estate in the Property. Ranchers hereby agrees that Surface Owner, their heirs, successors, assigns, invitees, and licensees, have the right to use the access roads at their sole risk, cost, and expense and subject to the indemnities contained in this Agreement. Surface Owner, their heirs, successors, assigns, invitees, and licensees shall not interfere with Ranchers' operations on the Property, the access road, the well site, and any of Ranchers' attendant equipment and operations. Due to the inherent danger of oil and gas operations, Surface Owner, their heirs, successors, assigns, invitees, and licensees shall at no time have access to the drill site, and nothing contained herein shall confer such right upon Surface Owner. Further, due to the competitive nature of the oil and gas business, Surface Owner, their heirs, successors, assigns, invitees, and licensees shall not disclose any information regarding the well to any other party or entity, whether in written or oral form.
8. **Disuse and Reclamation.** If Ranchers fails to use the well site or pipeline for a period in excess of 36 consecutive months, unless the well is "shut in" as defined under State regulation and industry standards, the well and pipeline shall be deemed abandoned and Ranchers shall promptly take all actions necessary or desirable to clean up, mitigate the effects of use, and render the well site and 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.
9. **Surface Owner's Obligation upon Sale or Encumbrance of Property.** Surface Owner agrees to provide a copy of this Agreement to any potential successor or assign of Surface Owner prior to the closing of any sale or encumbrance of all or any portion of the Property, and any such successor and/or assign shall be bound by the terms, conditions, obligations, and indemnifications contained herein in the same manner and to the same degree as the Surface Owner.
10. **Assignment of Rights.** All rights and obligations under this Agreement shall run with the Property and the underlying oil and gas leases and shall inure to the benefit of and be binding upon the heirs, successors, designees, or assigns of each party.

11. **Term of Grant.** Rights granted by this Agreement shall continue so long as Ranchers, its successors or assigns, are actively engaged in operations on the Property, or until written surrender of such rights by Ranchers, its successors or assigns, whichever is the earlier. Ranchers shall have the authority to surrender separately any part of the Property, in which event, the surrendered portion of the Property shall no longer be subject to this Agreement.
12. **Ownership of the Access Road, Bridges, Gates, and Improvements upon Termination.** The access road, bridges, gates, cattle guards, culverts, fences, and all other improvements constructed by Ranchers on the Lands, except the pipeline and well-site equipment, shall become the Surface Owner's property upon termination of this Agreement, unless Surface Owner expressly rejects such vesting within 10 business days of receipt of notice of Ranchers, its successors or assigns of its intent to quit the premises.
13. **Rehabilitation and Restoration.** All well-sites, access roads, and pipeline paths constructed by Ranchers shall be restored as near as possible to their original conditions and reseeded with a seed mixture of the Surface Owner's choice upon surrender or abandonment of the well or wells in accordance with acceptable industry practices and in compliance with all applicable laws and regulations in effect at the time of restoration. Provided however, that Surface Owner at their option may elect to have Ranchers (or its successor) leave the well-sites, the access roads, or any respective portions or segments thereof in an unrestored or partially restored state, with the understanding that Surface Owner shall then assume responsibility for any restoration thereafter required by law.
14. **Notices and Payment.** Notices shall be in writing and shall be given by certified or registered mail to Ranchers and Surface Owner at the following addresses

Operator:

Ranchers Exploration Partners, LLC
7257 W.4th.Street, Suite 3
Greeley, CO 80634
Attn: Walter Lowry
(303) 884-5505

Surface Owner:

Thomas L. and Retta A. Johnston
7828 S. Larimer County Road
Fort Collins, CO 80528
(970) 686-2931

or to such address as either party may designate to the other in writing not less than thirty (30) days before that event which triggers notices. Notices shall be effective the third day after the date of mailing, postage prepaid.

15. **Governing Law.** The laws of the State of Colorado shall control the rights of the parties under this contract.

16. **Waiver.** By signing this Agreement, neither party waives its statutory and common law rights to occupancy and enjoyment of their respective estates, except as expressly provided in this Agreement with regard to the access road and the well site and such additional access roads and additional well sites affecting the Property as may be negotiated between them, their heirs, successors, and assigns.

17. **Counterparts.** This Agreement may be executed in counterparts. Each counterpart shall constitute an original and all counterparts together shall constitute one and the same document.

Agreed to and accepted the day and year first above written.

RANCHERS ENERGY, INC.

By: _____

Walter D. Lowry, General Manager



STATE OF COLORADO)
) ss.
COUNTY OF DENVER)

The foregoing instrument was acknowledged before me this 30th day of August, 2010, by Walter D. Lowry. Witness my hand and official seal.

Karri Wright
Notary Public

My Commission Expires: 4/15/2013

Thomas L. Johnston (**SURFACE OWNER**):

Retta A. Johnston (**SURFACE OWNER**)

By: Thomas L. Johnston
Thomas L Johnston

By: Retta A. Johnston
Retta A. Johnston

STATE OF COLORADO)
) ss.
COUNTY OF ^{weid}~~LARIMER~~)

The foregoing instrument was acknowledged before me this 26 day of August, 2010, by Thomas L. Johnston and Retta A. Johnston. Witness my hand and official seal.

Christina M. Ashley
Notary Public

My Commission Expires: 10-18-2012

