

**LEASE BONUS
SURFACE USE AND RELEASE AGREEMENT**

THIS SURFACE USE AND RELEASE AGREEMENT ("**Agreement**") is made and entered into this 3 day of March 2011, by and between Larson Farms LLC. ("**Surface Owner**"), whose address is 29470 Weld County Road 66, Gill, Colorado, 80624 and St. James Energy Operating, Inc. a Utah corporation qualified to do business in Colorado ("**Operator**") whose address is 11177 Eagle View Drive Sandy, Utah, 84092, each sometimes referred to each as a "**Party**" or collectively as the "**Parties**"

WITNESSETH

OWNERSHIP- Owner is the Surface owner of certain lands located in Weld County, Colorado, as more specifically described as follows ("Lands"):

That portion of Section 24, Township 6 North, Range 64 West of the 6th PM, lying to the East of the Crow Creek traversing the Section, comprising 335 acres more or less.

Assessors Parcels Numbers 080124000046
 080124000047

OPERATOR- Concurrent with this Agreement Operator has entered into a new oil and gas lease ("The Lease") with Owner for the purposes of drilling new wells upon the above described property under the terms as set forth in the new lease and the terms of this Agreement.

And now therefore in consideration of the covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

AGREEMENT

1. **Operator's Oil and Gas Operations on the Lands-** In order for Operator to drill, construct, complete, produce, maintain, and operate the Wells and all facilities associated therewith, it is necessary that Operator enter and utilize a portion of the surface of the Lands. A "**Facility**" (collectively, the "**Facilities**") shall include, but not be limited to, access roads, ("**Access Roads**"), pipelines, flow lines, separators, tank batteries, electric lines and other property necessary for Operator to conduct operations on the Wells. 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 Land.

Subject to the terms of this Agreement, Surface Owner hereby grants to Operator, its agents, employees, contractors and assigns, access over and across the land for the purpose of surveying and determining well locations; building, maintaining and utilizing access roads; and drilling, completing and producing or abandoning the Well(s) and installing related production gathering and transportation facilities.

The approximate location of the two well site pad locations, the Access Roads to the Well Site and certain other facilities to be constructed on the Lands are depicted on Exhibit "A". Any material changes to such locations may be made by Operator with the written consent of Owner, which will not be unreasonably withheld, but will not unduly interfere with Owner's existing use of the surface estate. Operator agrees not to use any more of the surface of the Lands than is reasonably necessary to conduct its operations;

2. **All Drilling to be Preformed From Two PAD Locations-** Operator and Owner mutually understand that as many as Twelve (12) wells will be drilled upon the lands. Operator agrees that all surface well site locations drilled upon the Lease shall be performed from two distinct well "PAD" locations. The wells to be drilled shall be drilled directionally from these two PAD locations. The locations of these two drill site PAD locations have been designated by Owner and are identified and set out on Exhibit A to this Agreement.
3. **Timing of Development-** Of the twelve wells to be drilled, Operator has designated Seven (7) of these well locations to be drilled as Phase I of the overall project. These first seven wells are designated on Exhibit A-1 to this Agreement and correspond to the mineral acreage ownership where Owner is the 100% beneficiary of the royalty payments pursuant to these first seven wells.

It is the intent of Operator to immediately begin to permit with the State Oil and Gas Commission these first seven wells in anticipation of drilling Phase I during the Fall/Winter of 2011/2012.

Based on the successful completion of Phase I of the program, operation will commence the drilling of the final Five (5) wells, Phase II within 12 months after the completion of the Phase I wells. The five Phase II wells are identified on Exhibit A-2 of this Agreement

4. **Quality of Operations-** Operators unparalleled level of success in maximizing production from new wells drilled in the Codell Niobrara formation in Weld County, Colorado, stems from management and field staffs focus on maximizing production from its new wells. Additionally, Operator only contracts with the finest third party service companies in the world, and on all wells contemplated by this Agreement, the cementing of casing, and fracturing of the wells will be performed by either Halliburton or BJ Services (Baker/Hughes).
5. **Actual Drill Site PAD Area of Use-** Operator agrees to limit the size of the two construction pad sites to:
 - a. PAD I (two wells) to be spaced a distance no greater than 20 feet apart, comprising a total area no greater than 40 feet in length and 40 feet in width.
 - b. PAD II (ten wells) Each well to be spaced a distance no greater than 20 feet apart, comprising a total area no greater than 200 feet in length by 40 feet in width.

In addition with respect to its operations upon to land, operator will comply with following provisions;

6. **Additional Surface Use Provisions, Access Roads, Fences, and Facilities**

a. Access Roads:

(i) Access Roads will not exceed 20 feet in width.

(ii) Operator will take reasonable steps to insure that all of its vehicles accessing the Lands on its behalf remain on the Access Roads.

(iii) Operator agrees to side-slope all Access Roads and construct with a minimum of 5 inches of gravel base to create an all weather road.

(iv) Operator will provide Owner with a minimum of 10 days prior written notice before restoring the surface of all Access Roads to be permanently abandoned by Operator. No later than 10 days following receipt of such notice, Owner may elect , in writing , not to have such Access Roads abandoned by Operator. In such event, Operator will have no liability under this Agreement, the Lease, or otherwise, to restore the surface of the Lands utilized as Access Roads. Failure to timely respond will be deemed as Owner's election that Operator proceed with the abandonment to the Access Roads and the restoration of the surface thereof.

(v) Operator will stockpile and save any topsoil removed while constructing Access Roads or from other areas and replace same and provide for rehabilitation or re-seeding as reasonably directed by Owner.

(vi) Operator will timely, adequately and properly maintain all access Roads in good repair and condition.

(vii) Operator will provide livestock guards and crossings along all Access Roads as Owner may reasonably require. Such livestock guards will be kept clean and in good repair. Operator will keep owner's gates closed at all times.

b. Fences:

(i) Owner may request that Operator install fences and livestock guards on the Lands. if installed, all such fences and livestock guards will be maintained in good condition by Operator, and upon termination of this Agreement, will become property of Owner.

(ii) During drilling operations, If requested by Owner, Operator

will install a temporary fence around the perimeter of the well pad site.

c. Surface Restoration:

Upon permanent cessation of Operator's operations on the lands, all areas thereof occupied or utilized by Operator will be restored by Operator to their original contour as nearly as is reasonably practicable, and re-seeded if so requested by Owner; provided, however, that Operator's intent to abandon any Access Roads will be subject to Owner's discretion.

d. Other:

(i) Operator will install culverts and any and all structures and improvements on the lands that may be necessary to maintain present drainage and irrigation otherwise affected by its operations of the Lands.

(ii) Operator agrees that all trash, refuse pipe, equipment, liquids, chemicals, or other materials brought on the Lands including bentonite dug up during pit excavation that not necessary for continued operations of the Wells will be removed and disposed away from the lands no later than 30 days after the completion of the Wells. No such items will be burned or buried on the Lands.

(iii) Operator agrees to work with Owner to minimize the surface impact of any new flow lines or oil and gas transmission lines which are to be constructed shall be buried to a minimum of not less than four (4) feet below grade level.

7. Conduct Of Operations-

a. Operator agrees to work with Surface Owner to minimize disturbance to farming and grazing activities, interference with irrigation pivots and systems, and the surface impact of the new drilling and flow lines and whenever possible to utilize existing roadways and entryways. In the event Operator's activities require construction repair and maintenance of any new or existing oilfield roadways (including coverts, gates, additional road base and gravel), it shall be at the sole expense of Operator.

b. Operator will prevent spills from any prohibited substances under any Environmental Law such as oil, gas, diesel and others; and if a spill occurs, Operator will immediately notify Surface Owner. Operator will utilize no products or substances for the drilling, fracking, or completion of the well that are not accepted and approved for such purposes by the Colorado Oil and Gas Commission.

c. Operator will monitor the weather for any changes such as increased winds that may drift or increased amounts of rain which may force run-off of any prohibited substances and will work with Surface Owner to prevent any problems from occurring.

d. Operator will use wire fencing to provide boundaries around any Well Site, Battery Tank or Access Road in accordance with reasonable directions from Surface Owner.

f. Upon drilling of the Well Operator will provide notice to Surface Owner and Surface Owner may replant the area to its specifications.

g. Operator shall provide such information pertaining to the Well or Operator's activities on the Land as Surface Owner may reasonably request from time to time.

8. **Compensation Amount Lease Bonus-** Operator agrees to pay upon execution of this Agreement, and the proper recording of a Oil and Gas Lease from Owner covering the approximate 335 acres (the lands) being the subject of this Agreement, a lease bonus equal to

9. **Compensation Amount Damages-** In addition to the Lease Bonus amount, Operator shall pay to Owner prior to the commencement of Phase I drilling activities or construction of tank battery locations, a lump sum in the amount of \$_____ to compensate Owner for unspecified damages for each of the two PAD locations and the two Tank Battery location sites.

Operator shall further pay an additional lump sum payment of \$_____ prior to commencement of Phase II drilling and construction activity as compensation for additional well site locations and Tank Battery location.

The Amount is hereby acknowledged by Owner as full and final consideration for Operator's use of the Lands for the purposes enumerated in this Agreement and for any and 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 Site(s) and Facilities. Such damages will include, without limitation, damage to growing crops, cropland, the removal, transportation and care of livestock, re-seeding, construction and use of Access Roads and the Preparation and use of the Well Site areas; provided, however, that if after the initial drilling, completing and equipping of the Wells and Facilities for production, Operator commences subsequent operations thereto, including, but not limited to, refracturing operations on the Wells, and such operations result in additional crop losses or other losses on the Lands affected thereby, Operator will timely reimburse Owner for the actual net value of such crop loss or

other losses sustained, if such other losses are a result of Operator's operations on the Lands. It is also recognized, understood and agreed upon by the parties hereto that the drilling operations on the above described premises shall not be conducted between April 1 and November 1 of any year without the specific written consent of the owners.

If by reason of the activities of the Operator, including, but not limited to, drilling completing, equipping, reworking, refracing and operating of the Wells, there is unanticipated damage to personal and/or real property of the Owner, including, but not limited to, irrigation wells, fences, culverts, bridges, pipelines, ditches, or irrigation systems, Operator will repair or replace such items after consultation with and to the reasonable satisfaction of the Owner.

10. **Default and Right to Cure-** In the event of alleged default by Operator in the payment of any of the sums hereinafter provided to be made, and obligations to be performed, on any other terms, conditions or covenants of this Agreement, Owner will notify Operator, by certified mail, return receipt requested, of the alleged default. Operator will have 20 business days from receipt of the written notification in which to dispute or otherwise respond to the notification before Owner may allege default.

Except as otherwise agreed in writing, no waiver by Owner of any breach by the Operator of any of its obligations; agreements, or covenants hereunder will be deemed to be a waiver of any subsequent or continuing breach of the same, nor will any forbearance by Owner to seek a remedy for any breach by the Operator be deemed to be a waiver by Owner of its rights or remedies with respect to such breach; however, in no event will Operator be liable for additional payment for reasonably anticipated damages to the Lands caused by Operator's oil and gas operations.

11. Termination-

- a. **Termination During Drilling Development Phase.** Operator intends to diligently pursue the drilling of the Twelve (12) wells specified within this Agreement. If at any point up and until all twelve wells are drilled, drilling operations cease for a period exceeding 12 months (assuming no regulatory or drilling moratoriums have been placed in effect), then Owner may demand from Operator the return of any acreage not already previously earned through the drilling of wells in Phase I or Phase II of Operators stated program. Such demand will be based on an assumed 40 acre tract earned for each completed well.

In such event, all payments and obligations of every type and nature due Owner pursuant to this Agreement will remain valid and continue as an ongoing obligation of Operator.

- b. **Termination Post Drilling Obligations** This Agreement and the easements, rights and uses granted herein shall terminate upon the latter of (i) the cessation of operations for the production of oil, gas and other hydrocarbons substances from the Well or (ii) upon the expiration or termination of the rights of Operator or any successor to any of the Oil and Gas Interests. Upon termination of this

Agreement, Operator shall have ninety (90 days) within which to remove all equipment, materials and improvements on the Land. In such period, Operator shall (i) reclaim the Well Site, as nearly as reasonably practical, to its original condition; (ii) return all roads and other rights-of-way or sites as near as practicable to their original condition, (iii) re-seed each such Well Site and any Access Road or Facility in accordance with Section 6.f. and (iv) remove all autogates and restore any fences as near as practicable to their original condition, unless otherwise provided or agreed; provided, that all autogates in place for (3) years or more shall be the property of Surface Owner.

12. **Indemnity/Release-** 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 Lands at the request of Operator.
13. **Waiver of 30 Day Notice-** Owner does not waive the minimum 30-day written notice requirement for operations to begin and any other notice or consultation requirements of the COGCC. Without waiving the foregoing, Operator agrees it will provide an initial notice to Owner after it has submitted a request for permit to drill from the COGCC.
14. **Notice For Additional Operations-** Operator will 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.
15. **Notices-** Notice by either Party will be promptly given, orally if possible (with the exception of the default notice described in Paragraph 7), with 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 notice to the other:

Owner

Larson Farms LLC.
29470 Weld County Road 66
Gill, CO 80624

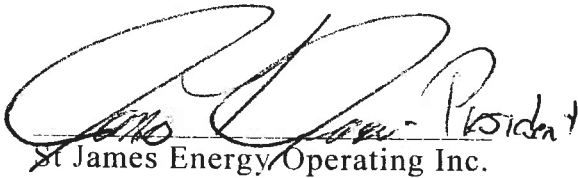
Operator

Saint James Energy Operating, Inc.
11177 Eagle View Drive
Sandy, UT 84092

16. **Binding Effect-** The covenants and conditions herein contained and all of the provisions of this Agreement will inure to the benefit of and will be binding upon the Parties hereto, their respective heirs, representatives, successors or assigns. Owner agrees to contact any and all tenants of Lands or any other third parties utilizing the surface of the Lands that may be affected by Operator's activities on the Lands. It will 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 for the payment of any consideration, if any, due such third party from Owner.

17. **Entire Agreement-** This instrument contains the entire agreement between the Parties and may not be modified orally or in any other manner other than by agreement in writing signed by all Parties or their respective successors or assigns.
18. **Term-** This Agreement will remain in full force and effect for so long as Operator has the right to conduct oil and gas operations on the Lands pursuant to the Leases; and paragraph 11 of this Agreement provided, however, that the termination of this Agreement will not relieve the Parties from their respective obligations or liabilities arising herein prior to such termination.
19. **Governing Law and Venue-** This Agreement is entered into in Colorado and will be governed by, construed and enforced in accordance with the laws of Colorado. If any provision of this Agreement is found to be in conflict with the Oil and Gas Lease Agreement signed between the Parties, the terms of this Agreement shall prevail.
20. **Confidentiality-** The parties warrant that the terms of this Agreement and all negotiations leading up to this Agreement will be kept confidential. The parties will not disclose any of the terms or negotiations to anyone other than the parties, their respective attorneys or accountant, unless a party hereto is made to disclose, or has been compelled to do so pursuant to the order of a court or competent jurisdiction as necessary to enforce the terms hereof or is required by law or taxing authorities.
21. **Agreement To Arbitrate Any Dispute Over This Agreement or Operator's Operations on the Lands-** If any dispute arises between Owner and Operator with respect to this Agreement, the Lease, or from Operator's operations on the Lands, such dispute will be resolved through arbitration. Any such arbitration will be conducted by the Judicial Arbitrator Group ("JAG") in Denver, Colorado, by a single arbitrator employed by or associated with JAG. Such arbitrator will have at least 10 years experience in oil and gas, either by work directly in the industry or as a lawyer or a judge familiar with oil and gas issues. Either Party may serve upon the other a demand for such arbitration, which should be served by fax and mail, or by hand delivery. Owner and Operator agree that if either of them initiates a demand for such arbitration, Owner and Operator will thereafter attempt to mutually agree on the selection of one of the JAG arbitrators to be the arbitrator. Owner and Operator will confer on the selection of such arbitrator within 10 days after the demand for arbitration is served, and will agree upon the selection of a JAG arbitrator, if possible, within 20 days after the arbitration demand has been served. In the event that Owner and Operator are unable to agree on the selection of such arbitrator within this 20-day time period, then Owner and Operator will each submit to JAG, via fax, the names of three arbitrators (meeting the requisite experience specified above) who are employed by or associated with JAG, who each would find acceptable to be the arbitrator. Such submission to JAG will be made on the fifth business day after the 20-day time period referenced above has expired. JAG will thereafter select from the names submitted by Owner and Operator a single arbitrator who will hear and decide the arbitration. The arbitrator will issue an arbitration decision within 30 days after the arbitration hearing is concluded. In the event that JAG no longer exists, the arbitration will be conducted by an American Arbitration Association arbitrator under the rules of the American Arbitration Association then existing. Any decision by the arbitrator relating to the dispute between Owner and Operator will be final and binding upon both Owner and Operator.

22. **Successors-** This Agreement constitutes a cotenant running with the Land and will be binding upon and inure to the benefit of, and be enforceable by, the Parties and their respective successors, administrators, trustees, executors and assigns.
23. **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.
24. **Attorney's Fees and Costs-** The Parties agree that the prevailing Party in any action resulting from a breach of this Agreement will be entitled to its reasonable attorney's fees and costs incurred therein.


St James Energy Operating Inc.


Larson Farms LLC

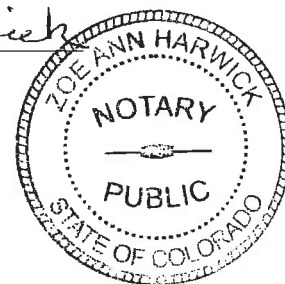
ACKNOWLEDGEMENTS
OWNER

STATE OF COLORADO)
)
COUNTY OF weld) ss.

On the 3rd day March, 2011 before me personally appeared Jack Larson, ^{as manager of Larson Farms, LLC} individually, known to me to be the person whose name is subscribed to the within instrument and acknowledged that he executed the same for the purposes therein.

My Commission expires: Feb. 8, 2014
Notary Public

Zoe Ann Harwick



Larson Farms LLC

Jack Larson
Larson Farms LLC

By: Jack Larson
Title: Managing General Partner

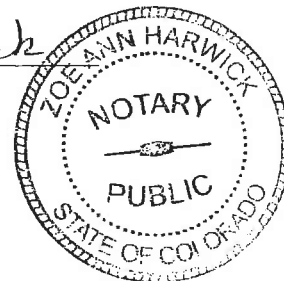
OPERATOR

STATE OF ~~UTAH~~ Colorado)
)
COUNTY OF weld) ss.

On the 3 day March, 2011 before me personally appeared James Jensen, ^{as President of Saint James Operating Company} individually, known to me to be the person whose name is subscribed to the within instrument and acknowledged that he executed the same for the purposes therein.

My Commission expires: Feb. 8, 2014
Notary Public

Zoe Ann Harwick



Saint James Energy Operating, Inc

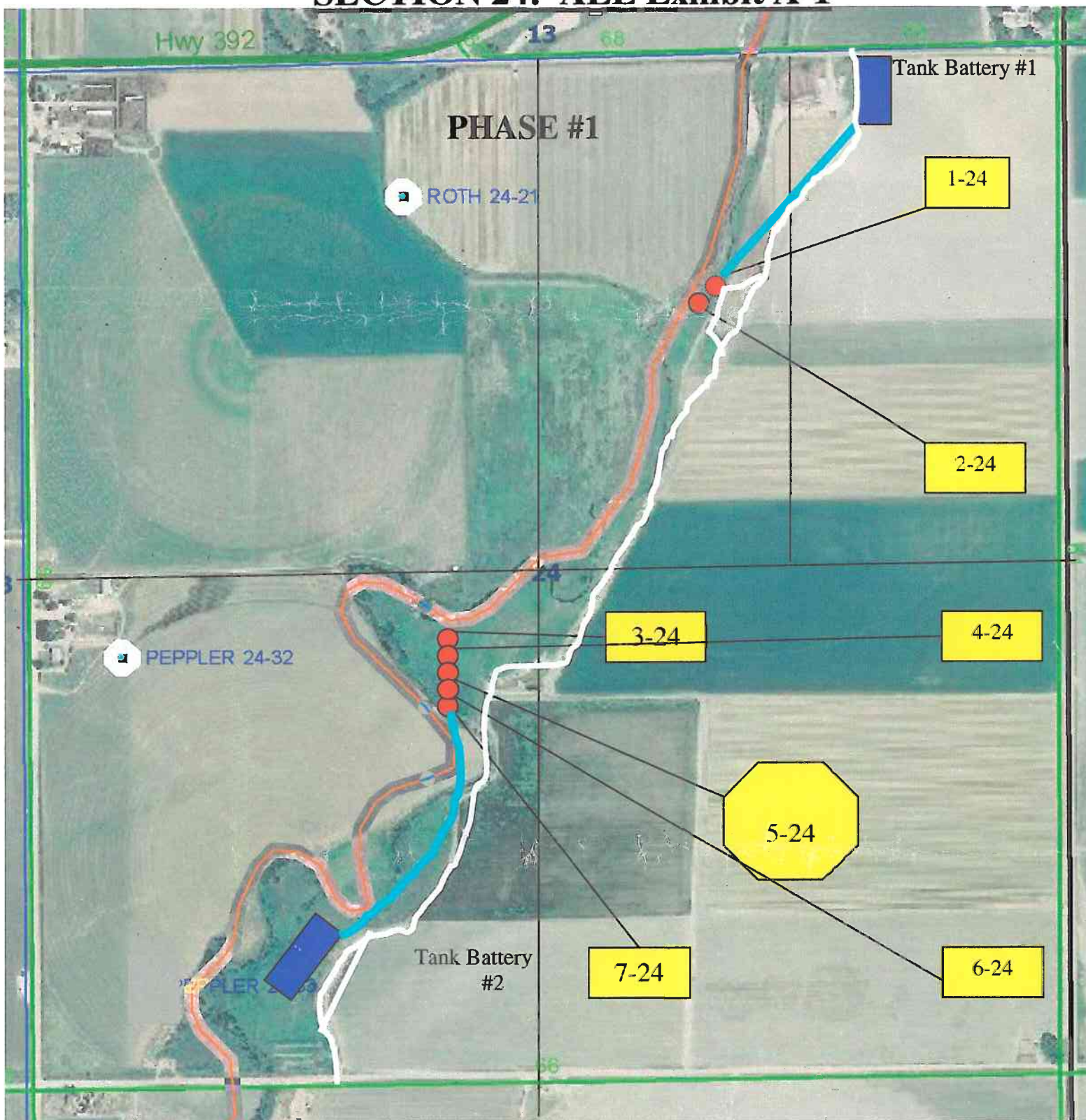
James L. Jensen President
By: James L. Jensen

Title: President

THIS PLAT SHOWS THE RELATIONSHIP AND LOCATIONS OF THE BOTTOM HOLE LOCATIONS AND THE TOP HOLE WEL SITES. THIS WELL TO TANK BATTERY PLANS ARE DESCRIBED BELOW.

TOWNSHIP 6 NORTH, RANGE 64 WEST, 6TH P.M.

SECTION 24: ALL Exhibit A-1



TANK BATTERY



FLOW LINES



ACCESS ROAD

THIS PLAT SHOWS THE RELATIONSHIP AND LOCATIONS OF THE BOTTOM HOLE LOCATIONS AND THE TOP HOLE WEL SITES. THIS WELL TO TANK BATTERY PLANS ARE DESCRIBED BELOW.

TOWNSHIP 6 NORTH, RANGE 64 WEST, 6TH P.M.

SECTION 24: ALL Exhibit A-2

