



SURFACE USE AGREEMENT

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This Agreement, entered into this 22nd day of August, 2003, between the parties, Steven K. Schlachter whose address is HC 86, Box 16, Holyoke, Colorado 80734 (SURFACE OWNER) and Lance Oil & Gas Company, Inc. whose address is 1099 18th Street, Suite 1200 Denver, CO 80202 (OPERATOR) provides that OPERATOR will be allowed to enter onto and conduct surveying, drilling, completion, construction of pipelines, production operations, reworking operations and all additional operations associated therewith on SURFACE OWNERS property (SUBJECT LANDS) and other neighboring lands for so long as oil and/or gas is being produced or capable of being produced from any well drilled on the SUBJECT LANDS or other neighboring lands and whatever additional time is needed to complete surface remediation to COGCC standards.



SUBJECT LANDS are described as follow:

Township 9 North, Range 43 West, 6th P.M., Phillips County, Colorado.
Section 22: SW less and except the North 200 feet thereof.

OPERATOR has indicated that it owns, or is attempting to secure, drilling rights under the SUBJECT LANDS and desires to conduct operations to drill, complete, and produce oil and gas wells on the SUBJECT LANDS or adjacent lands. The following shall set out those terms and conditions under which OPERATOR may enter and conduct operations on SUBJECT LANDS.

1. No permanent roads will be constructed by OPERATOR, prior to consulting with SURFACE OWNER regarding the location of such roads.
2. No recreational use of SUBJECT LANDS by OPERATOR is allowed.
3. Possession of firearms on SUBJECT LANDS by OPERATOR is prohibited.
4. Production well locations shall utilize no more than 3 acres of land while drilling and no more than 1 acres for permanent facilities.
5. As compensation for this SURFACE USE AGREEMENT, OPERATOR will pay to SURFACE OWNER the following:

WELL SITE LOCATION

A one time payment of ~~\$2,000.00~~ per drill site, before initiating construction of the location.

EXISTING ROAD USAGE

A payment of ~~\$1.50~~ per rod per year for existing private road use. SURFACE OWNER agrees to grant, at OPERATORS request, easements across the SUBJECT LANDS as necessary for the use of existing roads.

NEW ROADS

A one time payment of ~~\$15.00~~ per rod for the construction of any new road, payable upon completion of the road and a payment of ~~\$1.50~~ per rod per year for road use thereafter.

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SURFACE OWNER agrees to grant, at OPERATORS request, easements across the SUBJECT LANDS as necessary for the construction, and use of new roads.

NEW POWER LINES

A payment of ~~10.00~~ per rod for all new power lines constructed from existing power lines to the well site. SURFACE OWNER agrees to grant, at OPERATORS request, easements across the SUBJECT LANDS as necessary for the construction, installation, operation replacement and maintenance of said lines. Location of all new lines shall be mutually agreed upon between SURFACE OWNER and OPERATOR to minimize interference with farming operations.

PIPELINE RIGHT OF WAY PAYMENT

A payment of ~~5.00~~ per rod for pipeline right-of-way, payable upon completion of pipeline and SURFACE OWNER agrees to grant, at OPERATORS request, easements across the SUBJECT LANDS as necessary for the construction, installation, operation, replacement and maintenance of said lines.

In addition Operator shall make a one time payment for crop damage as follows:

Dryland Wheat	3.00 Bu x 36 Bu/ac = \$108.00/ac
Irrigated Wheat	3.00 Bu x 70 Bu/ac = \$210.00/ac
Irrigated Corn	1.92 Bu x 127 Bu/ac = \$243.84/ac

6. Upon completion of drilling activities and production and exploration of the OPERATORS oil and gas leases on the SUBJECT LANDS, OPERATOR shall turn all roads and other types of rights-of-ways or sites as near as practical, to the original condition, unless otherwise provided or agreed. All disturbed areas caused by Operators activities shall be reseeded, unless otherwise provided or agreed. Cattle guards shall be removed and fences restored to as near as practical to the original condition, unless otherwise provided or agreed. OPERATOR shall remove and dispose of all trash and drilling fluids and control noxious weeds in disturbed areas. OPERATOR shall also take reasonable steps to mitigate the effects of its activities including environmental remediation to COGCC standards.
7. Payments herein provided are acknowledged by SURFACE OWNER as sufficient and in full for damages, caused or created by reason of the responsible and customary entry, rights-of-way, drilling operations and subsequent operation of said well site. OPERATOR agrees to compensate SURFACE OWNER for extraordinary loss or damage caused by the OPERATOR, its agents, or employees to its property or livestock, and that of its surface lessee, if any. OPERATOR shall use all reasonable steps to mitigate any damage caused by the drilling of the wells, including, but not limited to damage done to any existing streams.
8. All existing access roads used by OPERATOR under this Agreement shall be maintained by OPERATOR in as good a condition as, or better than, existed prior to OPERATORS entry upon said lands. New access roads shall be maintained by OPERATOR in usable condition. All roads used by OPERATOR shall be crowned and ditched with an all weather material.
9. OPERATOR shall be responsible for noxious weed control within the right-of-way on stated access.

10. OPERATOR agrees to defend, indemnify and hold SURFACE OWNER harmless from any and all claims, demands, or judgements connected directly with OPERATOR'S operations on the SUBJECT LANDS.
11. From time to time, it will be necessary to allow various parties, such as surveyors, archaeologists, etc. access to the SUBJECT LANDS. Such parties will be instructed to notify SURFACE OWNER, SURFACE OWNERS designated agent or ranch management prior to entry for access instructions.
12. In an event of a default by the OPERATOR in payment of any of the sums herein above, OWNER shall notify OPERATOR, in writing, and OPERATOR shall have thirty days after the date of notification within which to cure such default and make the required payment. Waiver of any default shall not be deemed a waiver of subsequent defaults, but notice thereof shall be given by the SURFACE OWNER to OPERATOR as herein provided. In the event the OPERATOR does not cure the default within the time specified, the rights of the OPERATOR hereunder shall be suspended including the right of ingress and egress, until such default has been cured, and SURFACE OWNER shall not be liable for any loss or damage to OPERATOR occasioned by the SURFACE OWNERS enforcement of this provision.
13. SURFACE OWNER agrees to keep the terms of this Agreement thereof confidential and not to disclose the Agreement to any person or entity other than such of SURFACE OWNER's officers, directors, partners, employees, attorneys, accountants, consultant or financial advisors who have a bona fide requirement to have access to the Agreement in order for SURFACE OWNER to carry out the purposes of the Agreement and who have agreed in writing supplied to, and enforceable by Operator, to be likewise bound by the confidentiality requirements hereof. SURFACE OWNER shall be responsible and liable for any use or disclosure of this Agreement in violation hereof.

Nothing contained herein is intended to prevent disclosure of the Agreement or any part thereof, if, in the written opinion of SURFACE OWNER's legal counsel, such disclosure is legally compelled or required to be made in a judicial, administrative, or governmental proceeding pursuant to a valid subpoena or other applicable order, provided, however, SURFACE OWNER provides OPERATOR with reasonable prior written notice before disclosing the Agreement or any portion thereof in any such proceeding and, in making such disclosure, SURFACE OWNER shall disclose only that portion of the Agreement required to be disclosed and shall take all reasonable efforts to preserve the confidentiality thereof, including obtaining protective orders and supporting OPERATOR's intervention.

SURFACE OWNER agrees that if the confidentiality provision of this Agreement is breached, or if a breach thereof is threatened, OPERATOR's remedy at law may be inadequate, and therefore, without limiting any other remedy available to Operator at law or in equity, an injunction, restraining order, specific performance, and other forms of equitable relief or money damages or any combination thereof shall be available to OPERATOR and shall also entitle OPERATOR to the costs, expenses and fees, including reasonable attorneys fees.

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This agreement may be executed in multiple counterparts, and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute, for all purposes, one agreement.

This agreement shall be binding upon the parties hereto, their heirs, administrators, successors and assigns, effective as of this date set forth above.

ACCEPTED AND AGREED to this 22nd day of August, 2003.

SURFACE OWNER(S):

Steve R. Schlachter

BY Steven K. Schlachter

OPERATOR: Lance Oil & Gas Company, Inc.

By:

Mark R. Petry
Mark R. Petry, Attorney-In-Fact

OWNER ACKNOWLEDGMENT

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STATE OF Colorado)
COUNTY OF Phillips) ss.

The foregoing instrument was acknowledged before me this 22nd day of August, 2003. by
STEVEN K. SCHLACHTER

My Commission Expires: 9/14/2003

Eldene Hinde
Name of Notary Printed ELDENE HINDE

OPERATOR ACKNOWLEDGMENT

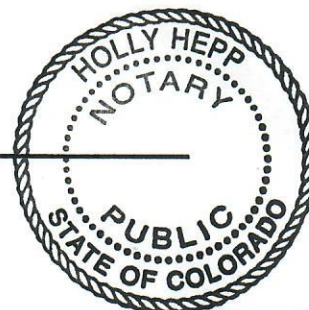
STATE OF COLORADO)
COUNTY OF DENVER) ss.



The foregoing instrument was acknowledged before me this 20th day of August, 2003. by
Mark R. Petry, Attorney-In-Fact for Lance Oil & Gas Company, Inc., a Delaware corporation on behalf of
the corporation.

My Commission Expires: _____

Holly Hepp
Name of Notary Printed



My Commission Expires Oct. 7, 2006