

LANCE OIL & GAS COMPANY, INC.

PO Box 70

Kirtland, New Mexico 87417



October 24, 2005

Certified Mail 7002 3150 0002 0908 0096

Joe D. & Sharon Kay Serrano
4 CR 6565
Kirtland, NM 87417-9434

RE: Offer for Oil and Gas Lease
Township 29 North, Range 14 West
Section 7: W/2
San Juan County, New Mexico

Dear Mineral Owner:

Lance Oil & Gas Company, Inc. has been acquiring leases in the above area and plan to drill for gas in the near future. Our operations will include the drilling of wells, which will result in these lands being included in a spacing unit of 320.0 acres. Our title examination indicates that you own a mineral interest in these lands and we would like to submit our proposal for an oil and gas lease within the current standards for your area. Please be aware that we are not proposing to put a well on your property, we have locations for the two wells we plan to drill in the W/2 of Section 7.

The oil and gas lease we offer provides for a five (5) year primary term, a paid-up oil and gas lease for, and bonus consideration of \$50.00 for your 0.1700 total net mineral acres. The lease also provides for a standard 1/8th royalty in the event of production. The lease provides that written permission from the owner must be obtained prior to any drilling activity. This means that no surface disturbance on your lands associated with your minerals can occur without your written approval.

If you find the terms of this lease form acceptable, please **execute the enclosed lease in the presence of a notary public and return it in the envelope provided. Please also complete the W-9 Request for Taxpayer Identification Number and Certification and return with the lease.** The COPY is for your records. We will mail your bonus check direct to you within ten (10) days of receipt of this fully executed lease.

This is a situation where you will receive a bonus consideration for signing the lease, plus royalty payments from the two wells we plan to drill in this spacing unit without any surface disturbance to your property. The amount of royalty will depend upon the volume of gas produced from the well and the market price of gas at production date.

If you should have any questions please feel free to contact either Parks Brown or the undersigned at (505) 598-5601 ex 62.

Sincerely,

Anne Jones
Sr. Landman

OIL CONSERVATION DIVISION
Case No. 13627 Exhibit No. **10**
Submitted By:
Lance Oil & Gas, Inc
Hearing Date: January 19, 2006