

LANCE OIL & GAS COMPANY, INC.

PO Box 70



Kirtland, New Mexico 87417

March 30th, 2005

RE: Offer for Oil and Gas Lease
Township 29 North, Range 13 West
Section 16: S/2
San Juan County, New Mexico

Dear _____:

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.

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 based on \$50.00 per net acre, or \$_____ for your _____ total net mineral acres. The lease also provides for a standard 1/8th royalty in the event of production.

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. In order to expedite our leasing operation and avoid additional bank charges, we have not enclosed a bank draft. Instead, we will mail your bonus check direct to you within ten (10) days of receipt of this fully executed lease.

If you should have any questions please feel free to contact the undersigned at (505) 598-5601.

Sincerely,

Anne Jones

Sr. Landman

HEARING DATE: October 6, 2005
BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 13573 Exhibit No. 3
Submitted by:
LANCE OIL & GAS CO., INC.
Hearing Date: October 6, 2005

LANCE OIL & GAS COMPANY, INC.
PO Box 70



Certified Mail

September 6, 2005

Re: Fruitland Coal/Pictured Cliffs Wells Proposal
Township 29 North, Range 13 West, NMPM
Section 16: S/2
San Juan County, New Mexico

Dear Mineral Owner

Lance Oil & Gas Company, Inc. is proposing to drill a Fruitland Coal/Pictured Cliff well in the SW/4 of the subject section and a Fruitland Coal infill/Pictured Cliffs well in the SE/4 in the near future. Title examination indicates that you are a mineral interest owner within this area of development. At this time we would like to inform you of your choices in regard to the proposed well in this area:

1. Enter into an oil and gas lease that provides for a five year primary term with bonus consideration of \$564.06 and a 12.5% (1/8th) royalty in the event of production. Previously a lease was mailed to you, should you choose to elect this option please sign the lease, have a notary public witness your signature and return to us in the envelope provided. If you are unable to locate the lease, please contact the undersigned and a new lease will be provided.
2. Participate as a "working interest" owner. An Authority for Expenditure ("AFE") is enclosed itemizing the estimated cost of drilling and completing the wells involving your mineral interest. Your proportionate share of the well with the estimated drilling and completion cost are indicated at the bottom of the AFE. In the event you wish to participate as a working interest owner, please sign the AFE and return to the above address with your check for the amount indicated as your share of the estimated cost. Upon receipt of the executed AFE a Joint Operating Agreement (AAPL Form 610) will be sent for your review and execution. The Operating Agreement will outline your working interest responsibilities, including drilling rates, operating rates, maintenance provisions and plugging liabilities when the well is abandoned.

Phone (505) 598-5601

3. Sell your mineral interest to Lance Oil & Gas Company, Inc. for \$1,128.11.
4. Pooling statutes for the State of New Mexico provide authorization for the State to "compulsory pool" your interest in the proposed wells. These statutes provide for the following ... "any unleased mineral interest shall be considered a seven-eighths (7/8th) working interest and a one-eighths 1/8th) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out production shall be withheld only from the working interests' share of production.. ... "any non-consenting working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs, plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well." In addition you would be responsible for your proportionate share of plugging liabilities when the well is abandoned and any maintenance necessary to maintain production.

Please indicate your choice of participation by checking in the appropriate box and returning one copy of this letter in the enclosed return envelope. If we have not received your response within 15 days from date of this letter, Lance will initiate a Compulsory Pooling hearing.

These wells will NOT impact your surface use. You WILL receive money based on production of these wells, your mineral interest and the election of options listed above.

Should you have any questions please contact me at (505) 598-5601 extension 62. I will be happy to answer any questions you might have concerning these options.

Yours truly,

Anne Jones
Sr. Landman