

LANCE OIL & GAS COMPANY, INC.

PO Box 70



July 15, 2005

RE: Offer for Oil and Gas Lease
Township 29 North, Range 13 West
Section 17: N/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 Lance offers is a paid-up Oil and Gas Lease which provides for a five (5) year primary term, 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. 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

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 13574 Exhibit No. 3
Submitted by:
LANCE OIL & GAS CO., INC.
Hearing Date: October 6, 2005

LANCE OIL & GAS COMPANY, INC.
PO Box 70
Kirtland, New Mexico 87417

Certified Mail

August 15, 2005

Re: Fruitland Coal/Pictured Cliffs Well Proposal
Township 29 North, Range 13 West, NMPM
Section 17: N/2
San Juan County, New Mexico

Dear *&*&*

Lance Oil & Gas Company, Inc. is proposing to drill two wells in the referenced area within 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 _____ and a 12.5% (1/8th) royalty in the event of production. Enclosed for your convenience are two copies of this lease. If you choose to participate as a royalty owner please execute the lease in the presence of a notary public and return it to the above address. A check for the bonus consideration will be sent within 10 working days.
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

Phone (505) 598-5601

responsibilities, including drilling rates, operating rates, maintenance provisions and plugging liabilities when the well is abandoned.

3. Sell your mineral interest to Lance Oil & Gas Company, Inc. for _____.
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.

Should you have any questions concerning any of these options please contact the undersigned at the phone number listed below.

Yours truly,

Anne Jones
Sr. Landman