

**LANCE OIL & GAS COMPANY, INC.**  
PO Box 70



Certified Mail

November 3, 2005

Mineral Owner

Re: Fruitland Coal/Pictured Cliffs Wells Proposal  
Township 29 North, Range 14 West, NMPM  
Section 7: W/2  
San Juan County, New Mexico

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 13627 Exhibit No. — 12  
Submitted By:  
Lance Oil & Gas, Inc  
Hearing Date: January 19, 2006  
BEFORE THE

Dear Mineral Owner

Lance Oil & Gas Company, Inc. is proposing to drill two wells in the W/2 of Section 7, T29N-R14W, one in the NW/4 as a Fruitland Coal/Pictured Cliffs well and one Fruitland Coal infill well in the SW/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 wells in this area:

1.  Enter into an oil and gas lease that provides for a five year primary term with bonus consideration of \$000.00 and a 12.5% (1/8<sup>th</sup>) 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 each 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 \$0000.00
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 (7/8<sup>th</sup>) working interest and a one-eighths (1/8<sup>th</sup>) 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