

**STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING CALLED  
BY THE OIL CONSERVATION DIVISION FOR  
THE PURPOSE OF CONSIDERING:**

**APPLICATION OF XTO ENERGY, INC. FOR  
COMPULSORY POOLING, SAN JUAN COUNTY,  
NEW MEXICO.**

Case No. 13,849

**VERIFIED STATEMENT OF CHRISTOPHER SPENCER**

Christopher Spencer, being duly sworn upon his oath, deposes and states:

1. I am a landman for XTO Energy Inc., and have personal knowledge of the matters stated herein.
2. Pursuant to Division Rule 1207.A(1)(b), the following information is submitted in support of the compulsory pooling application filed herein:
  - (a) No opposition is expected because the working interest owners being pooled (i) have been contacted regarding the proposed wells, and have simply not decided whether to join in the wells, or (ii) are unlocatable.
  - (b) A plat outlining the spacing unit being pooled, and marking the location of the subject wells, is attached hereto as Exhibit A. Applicant seeks an order pooling all working interests in the Basin-Fruitland Coal Gas Pool underlying Lots 3, 4, S/2NW/4, and SW/4 (the W/2) of Section 5, Township 30 North, Range 13 West, NMPM, to form a standard 320.72-acre gas spacing unit within that vertical extent. The unit is to be dedicated to (i) the Lunt Well No. 1, to be drilled at an orthodox gas well location in the SW/4NW/4 of Section 5, and (ii) the Lunt Well No. 2, to be drilled at an orthodox gas well location in the SW/4SW/4 of Section 5.
  - (c) The parties being pooled, their working interests in the well unit, and their addresses, are as follows:

Jack Pierson  
P.O. Box 1119  
Onley, Virginia 23418

1.24953%

Oil Conservation Division  
Case No. 13,849  
Exhibit No. 1

Harvey Dell Cranmore  
Apartment B  
1848 West Robinson Street  
Norman, Oklahoma 73069

1.24953%

William C. Mann  
c/o Kirtley Craig  
534 Park Drive  
Longmeadow, Massachusetts 01106

1.24953%

(d) Copies of the proposal letters sent to the uncommitted working interest owners are attached hereto as Exhibit B.

(e) The interest owners being pooled are beneficiaries of the Estate of William C. Russell, deceased. In order to locate these interest owners, applicant examined the San Juan County records, out-of-state probate records on Mr. Russell, and telephone and internet directories.

(f) A good faith effort has been made to obtain the voluntary joinder of the interest owners in the wells.

(g) Pursuant to Division rules, applicant requests that a 200% risk charge be assessed against the non-consenting interest owners.

(h) Copies of the Authority for Expenditure for the proposed wells are attached hereto as Exhibits C and D. The drilling and completion costs set forth therein are fair and reasonable, and are comparable to those of other wells of this depth drilled in this area of San Juan County.

(i) Overhead charges of \$5,500.00/month for a drilling well, and \$550.00/month for a producing well, are requested. These rates are fair and reasonable, and are in line with rates charged by other operators in this area for wells of this depth. Applicant requests that these rates be adjusted pursuant to the COPAS accounting procedure.

(j) Applicant requests that it be designated operator of the wells.

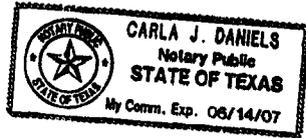
VERIFICATION

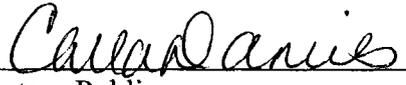
STATE OF TEXAS            )  
  ) ss.  
COUNTY OF TARRANT    )

Christopher Spencer, being duly sworn upon his oath, deposes and states that: He is a landman for XTO Energy Inc.; he is authorized to make this verification on its behalf; he has read the foregoing statement, and knows the contents thereof; and the same is true and correct to the best of his knowledge, information, and belief.

  
\_\_\_\_\_  
Christopher Spencer

SUBSCRIBED AND SWORN TO before me this 11<sup>th</sup> day of January, 2007 by Christopher Spencer.



  
\_\_\_\_\_  
Notary Public

My Commission Expires: \_\_\_\_\_

EXHIBIT A

DIST. 3

DISTRICT I  
1825 N. French Dr., Hobbs, N.M. 88240

State of New Mexico  
Energy, Minerals & Natural Resources Department

Form C-102  
Revised October 12, 2005

DISTRICT II  
1301 W. Grand Ave., Artesia, N.M. 88210

OIL CONSERVATION DIVISION  
1220 South St. Francis Dr.  
Santa Fe, NM 87505

Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

DISTRICT III  
1000 Rio Brazos Rd., Aztec, N.M. 87410

DISTRICT IV  
1220 South St. Francis Dr., Santa Fe, NM 87505

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number 30-045-34038		2 Pool Code 71629		3 Pool Name Basin Fruitland coal	
4 Property Code 30166		5 Property Name LUNT FC			6 Well Number 1
7 OGRD No. 467067		8 Operator Name XTO ENERGY INC.		9 Elevation 5582	

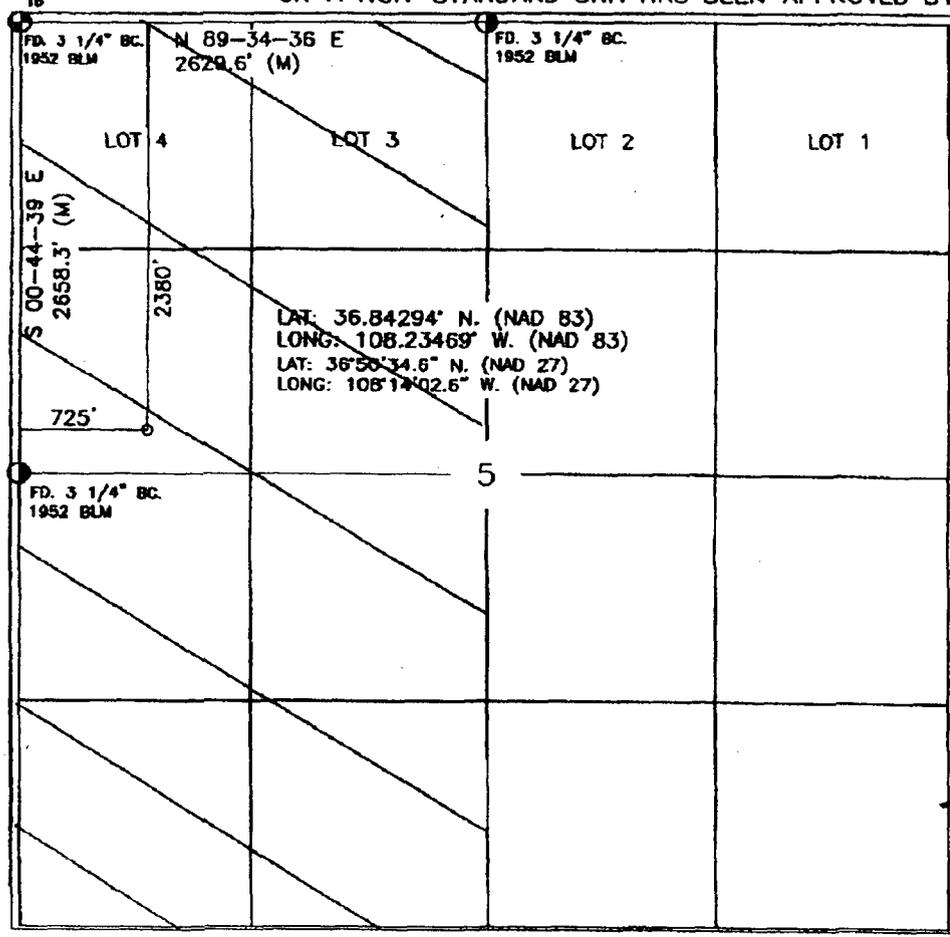
10 Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
E	5	30-N	13-W		2380	NORTH	725	WEST	SAN JUAN

11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
12 Dedicated Acres W/2 320.72		13 Joint or Infill		14 Consolidation Code		15 Order No.			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



17 OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

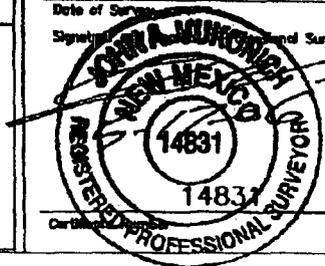
*Kelly Small* 7/2/06  
Signature Date  
KELLY SMALL  
Printed Name

18 SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

APRIL 25, 2006  
Date of Survey

Signature of Surveyor:



8

# EXHIBIT A

DISTRICT I  
1625 N. French Dr., Hobbs, N.M. 88240

DISTRICT II  
1301 W. Grand Ave., Artesia, N.M. 88210

DISTRICT III  
1600 N.W. Bruce Rd., Aztec, N.M. 87410

DISTRICT IV  
1220 South St. Francis Dr., Santa Fe, NM 87505

State of New Mexico  
Energy, Minerals & Natural Resources Department  
**OIL CONSERVATION DIVISION**  
1220 South St. Francis Dr.  
Santa Fe, NM 87505

Form C-102

Revised October 12, 2005

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

AMENDED REPORT

## WELL LOCATION AND ACREAGE DEDICATION PLAT

<sup>1</sup> API Number 30-045-34037	<sup>2</sup> Pool Code 71629	<sup>3</sup> Pool Name Basin Fruitland Coal
<sup>4</sup> Property Code 36166	<sup>5</sup> Property Name LUNT FC	
<sup>6</sup> COGID No. 1696675380	<sup>7</sup> Operator Name XTO ENERGY INC.	
	<sup>8</sup> Well Number 2	<sup>9</sup> Elevation 5537

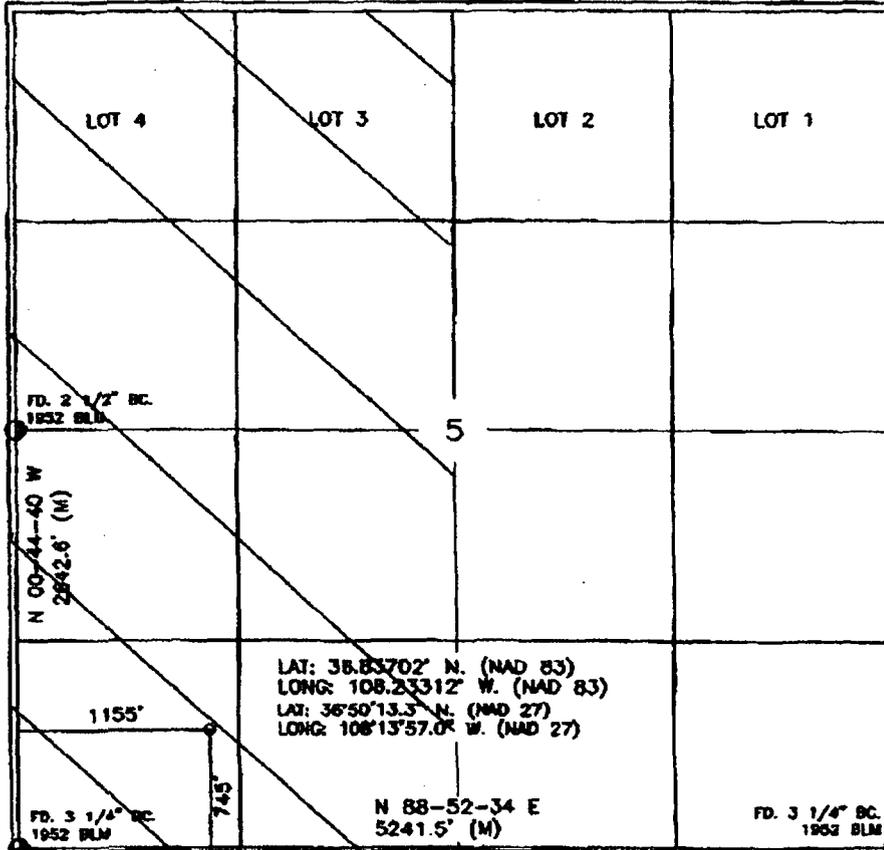
### 10 Surface Location

LR or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
M	5	30-N	13-W		745	SOUTH	1155	WEST	SAN JUAN

### 11 Bottom Hole Location If Different From Surface

LR or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
<sup>12</sup> Dedicated Acres W/2 320.72		<sup>13</sup> Joint or Infill		<sup>14</sup> Consolidation Code		<sup>15</sup> Order No.			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



### 17 OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or a leased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the State.

*Lucy Small et al*  
\_\_\_\_\_  
Date  
\_\_\_\_\_  
Printed Name

### 18 SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

FEBRUAR  
Date of Survey  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
REGISTERED PROFESSIONAL SURVEYOR  
Certificate Number



November 2, 2006

Ms. Harvey Dell Cranmore  
3314 Colquitt Road  
Shreveport LA 71118-3635

Re: Estate of William C. Russell  
Oil and Gas Lease Ownership  
SE/4 SW/4 of Section 5, NE/4 NW/4 and SE/4 SW/4 of Section 8,  
and S/2 SW/4 of Section 17  
Township 30 North, Range 13 West  
San Juan County, New Mexico

Dear Ms. Cranmore:

According to the public records of San Juan County, New Mexico, William C. Russell appears as the last record title owner of rights in and to three oil and gas leases located in San Juan County, New Mexico. Our extended research led us to discover that Mr. Russell died in 1993. We have obtained a copy of Mr. Russell's will and related probate documents from the appropriate Surrogate Court. You are listed in the will as successor to one-tenth (1/10<sup>th</sup>) of the interest formerly owned by Mr. Russell in the oil and gas leases covering the captioned lands.

XTO Energy Inc. owns interest in oil and gas leases adjacent to the lands described above. We plan to drill three wells in pooled units that include the lands covered by oil and gas leases in which you appear as a record title interest owner. The wells will be drilled to the Fruitland Coal Formation, which is a known gas producing formation in the San Juan Basin. The subject leases give you the right to produce and develop oil and gas owned by the mineral owners who granted the leases. You do not own the minerals under the lands, but rather the right to drill for and produce them.

The New Mexico Oil Conservation Division (NMOCD) is the regulatory agency for the State of New Mexico that oversees oil and gas operations. NMOCD rules provide that 320 acres may be allocated to each gas well that is completed in the Fruitland Coal Formation. The rules also provide that one additional infill well may be drilled in each 320 acre gas pool. The planned wells are anticipated to produce natural gas, and are not expected to produce oil. XTO plans to drill the following three initial wells to seek Fruitland Coal gas:

EXHIBIT B

Lunt No. 1 – W/2 of Section 5, Township 30N, Range 13West  
Lunt No. 2 – W/2 of Section 5, Township 30N, Range 13West  
Lunt No. 11 – W/2 of Section 8, Township 30N, Range 13West

It is possible that up to six Fruitland Coal wells could be drilled in the 320 acre pools that would comprise the lands in which you are shown to own an interest. Your ownership in each of the three planned wells is calculated as follows:

LUNT NO. 1 AND LUNT NO. 2

SE/4 SW/4 of Section 5 (40 acres) ÷ W/2 of Sec. 5 (320.12 acres) = 12.49531%  
12.49531% x 1/10 as per Mr. Russell's will = 1.249531%

LUNT NO. 11

NE/4 NW/4 and SE/4 SW/4 of Section 8 (80 acres) ÷ W/2 of Sec. 8 (320 acres) = 25%  
25% x 1/10 as per Mr. Russell's will = 2.5%

XTO owns the working interest in the remainder of the oil and gas leases, and will own 87.50469% in the Lunt No. 1 and No. 2 wells, and 75% in the Lunt No. 11. XTO does not currently have a proposal to drill in Section 17 lands. If a well is eventually drilled in Sec. 17 lands that include the lands in which you own an interest, your ownership in the well would be 1.25% (40 acres / 320 acres x 1/10).

The type of ownership you are shown to own is a leasehold working interest, which entitles you to invest in the drilling of oil and gas wells and receive a return on that investment after paying your share of royalties to the mineral owner(s) and costs associated with drilling and operating the wells. In essence, the interest is a cost and risk bearing oil and gas interest. XTO owns the majority of the leasehold working interest in the pooled lands in which we plan to drill. Accordingly, XTO proposes to drill and operate the wells.

Enclosed is an operating agreement covering the lands in which you are shown to own an interest, along with well proposal letters and Authorities for Expenditure (AFE) for each proposed well. The operating agreement is a common contract that is used throughout the oil and gas industry. The operating agreement form enclosed is a standard agreement form that is widely used in the San Juan Basin of New Mexico. As an owner, you may choose to become a working interest partner in the proposed wells. As such, you may choose to participate in each well XTO proposes. You may also elect not to participate in the drilling and completion of each well. Should you choose not to invest in the drilling and completion of a well, the operating agreement provides that the investing parties would recover their costs and expenses, subject to non-consent penalties as set-out in the agreement. Basically, the investing parties would be allowed to recover four times the drilling and completion costs of a proposed well. After 400% of the costs have been recovered by the investing parties, the non-investing parties would return as owners in the well and be able to receive revenue from well production, net of well operating costs,

Ms. Harvey Dell Cran. re

November 1, 2006

Page 3

mineral royalties, taxes, etc. The enclosed three well proposal letters and AFEs are for you to indicate your preference regarding well participation. Additional wells may be drilled, depending on the results of the first ones.

In the alternative to you participating in the cost and drilling of the wells, XTO Energy Inc. is willing to purchase your interest in the subject lands for \$13,000. If you agree to sell your interest to XTO, please so indicate by signing and returning one copy of this letter to my attention at the letterhead address. Upon receipt of this letter indicating your desire to sell your interest, I will prepare the appropriate conveying document for your review.

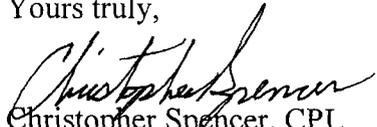
If you choose to retain your interest, then please:

- 1) Review and sign the enclosed Operating Agreement and additional signature page where indicated.
- 2) Make your participation elections by indicating your preference and signing each of the enclosed election letters. If you choose to participate in the wells, please also sign the Authority for Expenditure (AFE) for each well, and advise of any requirements you may have for receiving data relating to well drilling and completion.
- 3) Return the signed Operating Agreement along with the well participation elections and AFEs to my attention at the letterhead address. If you elect to participate in the wells, please include a check for your proportionate share of the drilling and completion costs, as set-out in the election letters.

There are certain risks involved in drilling for oil and gas, and XTO makes no guarantee, representation or warranty as to the level of risk exposure in drilling the proposed wells. It is recommended that you make your own personal evaluation and participation decision based on your assessment of the risk associated with drilling the proposed wells.

XTO plans to begin drilling on the subject lands in December, 2006. Accordingly, your prompt response is requested. Due to rig availability, it is crucial that XTO have this matter finalized in a timely manner. As a procedural matter, if we cannot quickly come to terms with you, we will initiate compulsory pooling proceedings with the NMOCD prior to drilling our proposed wells as required by New Mexico statutes.

Yours truly,

  
Christopher Spencer, CPL  
Landman

/cks

Encl.

*Ms. Harvey Dell Cranmore*  
*November 1, 2006*  
*Page 4*

I agree to sell my interest described hereinabove to XTO Energy Inc. for the amount stated, subject to a mutually acceptable Assignment of Oil and Gas Leases.

Signed this \_\_\_\_\_ day of November, 2006.

---

HARVEY DELL CRANMORE



November 2, 2006

VIA U. S. CERTIFIED MAIL

Ms. Harvey Dell Cranmore  
3314 Colquitt Road  
Shreveport LA 71118-3635

Re: New Well Proposal  
Lunt No. 1 (FC)  
W/2 of Sec. 5, T30N, R13W  
San Juan County, New Mexico

Dear Ms. Cranmore:

XTO hereby proposes the drilling and completion of the Lunt No. 1 Well in the captioned unit to test the Fruitland Coal Formation. The proposed location for this well is 2,380' FNL and 725' FWL, Sec. 5, T30N-R13W. In connection with this proposal, please find enclosed our AFE #600519 in the total amount of \$529,500.00. Based on the title research we have conducted, you own a 1.24953% working interest in the well, making your share of the estimated costs \$6,616.26. Also enclosed for your review is our Operating Agreement covering the planned Fruitland Coal Unit.

Please make your participation election below and sign and return Page Two of this letter and the enclosed AFE along with the signed signature page to the enclosed operating agreement to my attention at the address shown on the bottom of this page. We hope to drill this well in December, 2006, and ask for your very earliest election to this proposal. Please address any technical questions to Mr. Robin Tracy, Senior Reservoir Engineer, at (817) 885-2422. Please call me at (817) 885-2540 with any land related questions.

Yours truly,

  
Christopher Spencer, CPL  
Landman

/cks

Enclosures

*Ms. Harvey Dell Cranmore*  
*Lunt No. 1*  
*Well Proposal*  
*November 2, 2006*  
*Page Two*

\_\_\_\_\_ **Elect to participate** in the drilling and completion of the Lunt No. 1 Well described hereinabove.

\_\_\_\_\_ **Elect to go Non-Consent** in the drilling and completion of the Lunt No. 1 Well described hereinabove, subject to the Non-Consent penalties as set-out in the governing operating agreement.

\_\_\_\_\_  
HARVEY DELL CRANMORE

\_\_\_\_\_  
DATE



November 2, 2006

VIA U. S. CERTIFIED MAIL

Ms. Harvey Dell Cranmore  
3314 Colquitt Road  
Shreveport LA 71118-3635

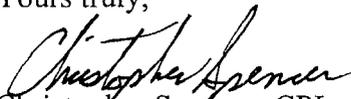
Re: New Well Proposal  
Lunt No. 2 (FC)  
W/2 of Sec. 5, T30N, R13W  
San Juan County, New Mexico

Dear Ms. Carnmore:

XTO hereby proposes the drilling and completion of the Lunt No. 2 Well in the captioned unit to test the Fruitland Coal Formation. The proposed location for this well is 745' FSL and 1,155' FWL, Sec. 5, T30N-R13W. In connection with this proposal, please find enclosed our AFE #600520 in the total amount of \$529,500.00. Based on the title research we have conducted, you own a 1.24953% working interest in the well, making your share of the estimated costs \$6,616.26. Also enclosed for your review is our Operating Agreement covering the planned Fuitland Coal Unit.

Please make your participation election below and sign and return Page Two of this letter and the enclosed AFE along with the signed signature page to the enclosed operating agreement to my attention at the address shown on the bottom of this page. We hope to drill this well in December, 2006, and ask for your very earliest election to this proposal. Please address any technical questions to Mr. Robin Tracy, Senior Reservoir Engineer, at (817) 885-2422. Please call me at (817) 885-2540 with any land related questions.

Yours truly,

  
Christopher Spencer, CPL  
Landman

/cks

Enclosures

*Ms. Harvey Dell Crann. . e*  
*Lunt No. 2*  
*Well Proposal*  
*November 2, 2006*  
*Page Two*

\_\_\_\_\_ **Elect to participate** in the drilling and completion of the Lunt No. 2 Well described hereinabove.

\_\_\_\_\_ **Elect to go Non-Consent** in the drilling and completion of the Lunt No. 2 Well described hereinabove, subject to the Non-Consent penalties as set-out in the governing operating agreement.

\_\_\_\_\_  
HARVEY DELL CRANMORE

\_\_\_\_\_  
DATE



November 2, 2006

Mr. Jack Pierson  
25584 Coastal Blvd.  
Onley PA 18360

Re: Estate of William C. Russell  
Oil and Gas Lease Ownership  
SE/4 SW/4 of Section 5, NE/4 NW/4 and SE/4 SW/4 of Section 8,  
and S/2 SW/4 of Section 17  
Township 30 North, Range 13 West  
San Juan County, New Mexico

Dear Mr. Pierson:

According to the public records of San Juan County, New Mexico, William C. Russell appears as the last record title owner of rights in and to three oil and gas leases located in San Juan County, New Mexico. Our extended research led us to discover that Mr. Russell died in 1993. We have obtained a copy of Mr. Russell's will and related probate documents from the appropriate Surrogate Court. You are listed in the will as successor to one-tenth (1/10<sup>th</sup>) of the interest formerly owned by Mr. Russell in the oil and gas leases covering the captioned lands.

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Lunt No. 1 – W/2 of Section 5, Township 30N, Range 13West  
Lunt No. 2 – W/2 of Section 5, Township 30N, Range 13West  
Lunt No. 11 – W/2 of Section 8, Township 30N, Range 13West

It is possible that up to six Fruitland Coal wells could be drilled in the 320 acre pools that would comprise the lands in which you are shown to own an interest. Your ownership in each of the three planned wells is calculated as follows:

LUNT NO. 1 AND LUNT NO. 2

SE/4 SW/4 of Section 5 (40 acres) ÷ W/2 of Sec. 5 (320.12 acres) = 12.49531%  
12.49531% x 1/10 as per Mr. Russell's will = 1.249531%

LUNT NO. 11

NE/4 NW/4 and SE/4 SW/4 of Section 8 (80 acres) ÷ W/2 of Sec. 8 (320 acres) = 25%  
25% x 1/10 as per Mr. Russell's will = 2.5%

XTO owns the working interest in the remainder of the oil and gas leases, and will own 87.50469% in the Lunt No. 1 and No. 2 wells, and 75% in the Lunt No. 11. XTO does not currently have a proposal to drill in Section 17 lands. If a well is eventually drilled in Sec. 17 lands that include the lands in which you own an interest, your ownership in the well would be 1.25% (40 acres / 320 acres x 1/10).

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drilling and completion costs of a proposed well. After 400% of the costs have been recovered by the investing parties, the non-investing parties would return as owners in the well and be able to receive revenue from well production, net of well operating costs, mineral royalties, taxes, etc. The enclosed three well proposal letters and AFEs are for you to indicate your preference regarding well participation. Additional wells may be drilled, depending on the results of the first ones.

In the alternative to you participating in the cost and drilling of the wells, XTO Energy Inc. is willing to purchase your interest in the subject lands for \$13,000. Enclosed are an Assignment of Oil and Gas Leases and bank draft in the amount of \$13,000. The assignment (if executed) will serve to convey all of your interest in the described lands and leases to XTO.

If you choose to sell your interest to XTO, then please:

- 1) Review and sign both copies of the enclosed Assignment of Oil and Gas Leases, having your signature acknowledged by a notary public, and return to my attention at the letterhead address.
- 2) Endorse the enclosed bank draft and deposit in the Collections Department at your bank. Your bank will then forward to XTO's bank for payment.

If you choose to retain your interest, then please:

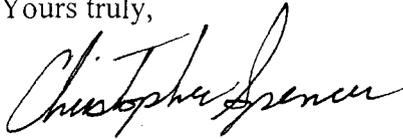
- 1) Review and sign the enclosed Operating Agreement and additional signature page where indicated.
- 2) Make your participation elections by indicating your preference and signing each of the enclosed election letters. If you choose to participate in the wells, please also sign the Authority for Expenditure (AFE) for each well, and advise of any requirements you may have for receiving data relating to well drilling and completion.
- 3) Return the signed Operating Agreement along with the well participation elections and AFEs to my attention at the letterhead address. If you elect to participate in the wells, please include a check for your proportionate share of the drilling and completion costs, as set-out in the election letters.

There are certain risks involved in drilling for oil and gas, and XTO makes no guarantee, representation or warranty as to the level of risk exposure in drilling the proposed wells. It is recommended that you make your own personal evaluation and participation decision based on your assessment of the risk associated with drilling the proposed wells.

*Mr. Jack Pierson*  
*November 2, 2006*  
*Page 4*

XTO plans to begin drilling on the subject lands in December, 2006. Accordingly, your prompt response is requested. Due to rig availability, it is crucial that XTO have this matter finalized in a timely manner. As a procedural matter, if we cannot quickly come to terms with you, we will initiate compulsory pooling proceedings with the NMOCD prior to drilling our proposed wells as required by New Mexico statutes.

Yours truly,

A handwritten signature in cursive script, appearing to read "Christopher Spencer".

Christopher Spencer, CPL  
Landman

/cks

Encl.



November 2, 2006

VIA U. S. CERTIFIED MAIL

Mr. Jack Pierson  
25584 Coastal Blvd.  
Onley PA 18360

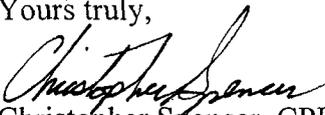
Re: New Well Proposal  
Lunt No. 1 (FC)  
W/2 of Sec. 5, T30N, R13W  
San Juan County, New Mexico

Dear Mr. Pierson:

XTO hereby proposes the drilling and completion of the Lunt No. 1 Well in the captioned unit to test the Fruitland Coal Formation. The proposed location for this well is 2,380' FNL and 725' FWL, Sec. 5, T30N-R13W. In connection with this proposal, please find enclosed our AFE #600519 in the total amount of \$529,500.00. Based on the title research we have conducted, you own a 1.24953% working interest in the well, making your share of the estimated costs \$6,616.26. Also enclosed for your review is our Operating Agreement covering the planned Fruitland Coal Unit.

Please make your participation election below and sign and return Page Two of this letter and the enclosed AFE along with the signed signature page to the enclosed operating agreement to my attention at the address shown on the bottom of this page. We hope to drill this well in December, 2006, and ask for your very earliest election to this proposal. Please address any technical questions to Mr. Robin Tracy, Senior Reservoir Engineer, at (817) 885-2422. Please call me at (817) 885-2540 with any land related questions.

Yours truly,

  
Christopher Spencer, CPL  
Landman

/cks

Enclosures

*Mr. Jack Pierson  
Lunt No. 1  
Well Proposal  
November 2, 2006  
Page Two*

\_\_\_\_\_ **Elect to participate** in the drilling and completion of the Lunt No. 1 Well described hereinabove.

\_\_\_\_\_ **Elect to go Non-Consent** in the drilling and completion of the Lunt No. 1 Well described hereinabove, subject to the Non-Consent penalties as set-out in the governing operating agreement.

\_\_\_\_\_  
MR. JACK PIERSON

\_\_\_\_\_  
DATE



November 2, 2006

VIA U. S. CERTIFIED MAIL

Mr. Jack Pierson  
25584 Coastal Blvd.  
Onley PA 18360

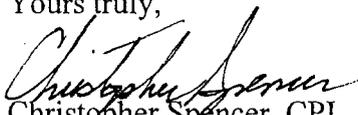
Re: New Well Proposal  
Lunt No. 2 (FC)  
W/2 of Sec. 5, T30N, R13W  
San Juan County, New Mexico

Dear Mr. Pierson:

XTO hereby proposes the drilling and completion of the Lunt No. 2 Well in the captioned unit to test the Fruitland Coal Formation. The proposed location for this well is 745' FSL and 1,155' FWL, Sec. 5, T30N-R13W. In connection with this proposal, please find enclosed our AFE #600520 in the total amount of \$529,500.00. Based on the title research we have conducted, you own a 1.24953% working interest in the well, making your share of the estimated costs \$6,616.26. Also enclosed for your review is our Operating Agreement covering the planned Fruitland Coal Unit.

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Yours truly,

  
Christopher Spencer, CPL  
Landman

/cks

Enclosures

*Mr. Jack Pierson  
Lunt No. 2  
Well Proposal  
November 2, 2006  
Page Two*

\_\_\_\_\_ **Elect to participate** in the drilling and completion of the Lunt No. 2 Well described hereinabove.

\_\_\_\_\_ **Elect to go Non-Consent** in the drilling and completion of the Lunt No. 2 Well described hereinabove, subject to the Non-Consent penalties as set-out in the governing operating agreement.

\_\_\_\_\_  
JACK PIERSON

\_\_\_\_\_  
DATE



November 2, 2006

Mr. William C. Mann  
c/o Kirtley Craig  
534 Park Drive  
Longmeadow MA 01106

Re: Estate of William C. Russell  
Oil and Gas Lease Ownership  
SE/4 SW/4 of Section 5, NE/4 NW/4 and SE/4 SW/4 of Section 8,  
and S/2 SW/4 of Section 17  
Township 30 North, Range 13 West  
San Juan County, New Mexico

Dear Mr. Dintelman:

According to the public records of San Juan County, New Mexico, William C. Russell appears as the last record title owner of rights in and to three oil and gas leases located in San Juan County, New Mexico. Our extended research led us to discover that Mr. Russell died in 1993. We have obtained a copy of Mr. Russell's will and related probate documents from the appropriate Surrogate Court. You are listed in the will as successor to one-tenth (1/10<sup>th</sup>) of the interest formerly owned by Mr. Russell in the oil and gas leases covering the captioned lands.

XTO Energy Inc. owns interest in oil and gas leases adjacent to the lands described above. We plan to drill three wells in pooled units that include the lands covered by oil and gas leases in which you appear as a record title interest owner. The wells will be drilled to the Fruitland Coal Formation, which is a known gas producing formation in the San Juan Basin. The subject leases give you the right to produce and develop oil and gas owned by the mineral owners who granted the leases. You do not own the minerals under the lands, but rather the right to drill for and produce them.

The New Mexico Oil Conservation Division (NMOCD) is the regulatory agency for the State of New Mexico that oversees oil and gas operations. NMOCD rules provide that 320 acres may be allocated to each gas well that is completed in the Fruitland Coal Formation. The rules also provide that one additional infill well may be drilled in each 320 acre gas pool. The planned wells are anticipated to produce natural gas, and are not

expected to produce oil. XTO plans to drill the following three initial wells to seek Fruitland Coal gas:

Lunt No. 1 – W/2 of Section 5, Township 30N, Range 13West

Lunt No. 2 – W/2 of Section 5, Township 30N, Range 13West

Lunt No. 11 – W/2 of Section 8, Township 30N, Range 13West

It is possible that up to six Fruitland Coal wells could be drilled in the 320 acre pools that would comprise the lands in which you are shown to own an interest. Your ownership in each of the three planned wells is calculated as follows:

LUNT NO. 1 AND LUNT NO. 2

SE/4 SW/4 of Section 5 (40 acres) ÷ W/2 of Sec. 5 (320.12 acres) = 12.49531%

12.49531% x 1/10 as per Mr. Russell's will = 1.249531%

LUNT NO. 11

NE/4 NW/4 and SE/4 SW/4 of Section 8 (80 acres) ÷ W/2 of Sec. 8 (320 acres) = 25%

25% x 1/10 as per Mr. Russell's will = 2.5%

XTO owns the working interest in the remainder of the oil and gas leases, and will own 87.50469% in the Lunt No. 1 and No. 2 wells, and 75% in the Lunt No. 11. XTO does not currently have a proposal to drill in Section 17 lands. If a well is eventually drilled in Sec. 17 lands that include the lands in which you own an interest, your ownership in the well would be 1.25% (40 acres / 320 acres x 1/10).

The type of ownership you are shown to own is a leasehold working interest, which entitles you to invest in the drilling of oil and gas wells and receive a return on that investment after paying your share of royalties to the mineral owner(s) and costs associated with drilling and operating the wells. In essence, the interest is a cost and risk bearing oil and gas interest. XTO owns the majority of the leasehold working interest in the pooled lands in which we plan to drill. Accordingly, XTO proposes to drill and operate the wells.

Enclosed is an operating agreement covering the lands in which you are shown to own an interest, along with well proposal letters and Authorities for Expenditure (AFEs) for each proposed well. The operating agreement is a common contract that is used throughout the oil and gas industry. The operating agreement form enclosed is a standard agreement form that is widely used in the San Juan Basin of New Mexico. As an owner, you may choose to become a working interest partner in the proposed wells. As such, you may choose to participate in each well XTO proposes. You may also elect not to participate in the drilling and completion of each well. Should you choose not to invest in the drilling

and completion of a well, the operating agreement provides that the investing parties would recover their costs and expenses, subject to non-consent penalties as set-out in the agreement. Basically, the investing parties would be allowed to recover four times the drilling and completion costs of a proposed well. After 400% of the costs have been recovered by the investing parties, the non-investing parties would return as owners in the well and be able to receive revenue from well production, net of well operating costs, mineral royalties, taxes, etc. The enclosed three well proposal letters and AFEs are for you to indicate your preference regarding well participation. Additional wells may be drilled, depending on the results of the first ones.

In the alternative to you participating in the cost and drilling of the wells, XTO Energy Inc. is willing to purchase your interest in the subject lands for \$13,000. Enclosed are an Assignment of Oil and Gas Leases and bank draft in the amount of \$13,000. The assignment (if executed) will serve to convey all of your interest in the described lands and leases to XTO.

If you choose to sell your interest to XTO, then please:

- 1) Review and sign both copies of the enclosed Assignment of Oil and Gas Leases, having your signature acknowledged by a notary public, and return to my attention at the letterhead address.
- 2) Endorse the enclosed bank draft and deposit in the Collections Department at your bank. Your bank will then forward to XTO's bank for payment.

If you choose to retain your interest, then please:

- 1) Review and sign the enclosed Operating Agreement and additional signature page where indicated.
- 2) Make your participation elections by indicating your preference and signing each of the enclosed election letters. If you choose to participate in the wells, please also sign the Authority for Expenditure (AFE) for each well, and advise of any requirements you may have for receiving data relating to well drilling and completion.
- 3) Return the signed Operating Agreement along with the well participation elections and AFEs to my attention at the letterhead address. If you elect to participate in the wells, please include a check for your proportionate share of the drilling and completion costs, as set-out in the election letters.

There are certain risks involved in drilling for oil and gas, and XTO makes no guarantee, representation or warranty as to the level of risk exposure in drilling the proposed wells.

*Mr. William C. Mann*

*November 2, 2006*

*Page 4*

It is recommended that you make your own personal evaluation and participation decision based on your assessment of the risk associated with drilling the proposed wells.

XTO plans to begin drilling on the subject lands in December, 2006. Accordingly, your prompt response is requested. Due to rig availability, it is crucial that XTO have this matter finalized in a timely manner. As a procedural matter, if we cannot quickly come to terms with you, we will initiate compulsory pooling proceedings with the NMOCD prior to drilling our proposed wells as required by New Mexico statutes.

Yours truly,

A handwritten signature in cursive script that reads "Christopher Spencer".

Christopher Spencer, CPL  
Landman

/cks

Encl.



November 2, 2006

VIA U. S. CERTIFIED MAIL

Mr. William C. Mann  
c/o Kirtley Craig  
534 Park Drive  
Longmeadow MA 01106

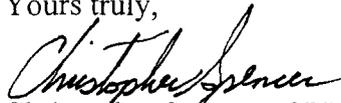
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W/2 of Sec. 5, T30N, R13W  
San Juan County, New Mexico

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Yours truly,

  
Christopher Spencer, CPL  
Landman

/cks

Enclosures

*Mr. William C. Mann*  
*Lunt No. 1*  
*Well Proposal*  
*November 2, 2006*  
*Page Two*

\_\_\_\_\_ **Elect to participate** in the drilling and completion of the Lunt No. 1 Well described hereinabove.

\_\_\_\_\_ **Elect to go Non-Consent** in the drilling and completion of the Lunt No. 1 Well described hereinabove, subject to the Non-Consent penalties as set-out in the governing operating agreement.

WILLIAM C. MANN

By: \_\_\_\_\_  
(Signature)

Name & Title: \_\_\_\_\_

Date: \_\_\_\_\_



November 2, 2006

VIA U. S. CERTIFIED MAIL

Mr. William C. Mann  
c/o Kirtley Craig  
534 Park Drive  
Longmeadow MA 01106

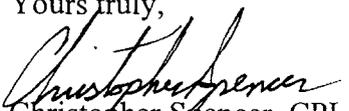
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Lunt No. 2 (FC)  
W/2 of Sec. 5, T30N, R13W  
San Juan County, New Mexico

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Yours truly,

  
Christopher Spencer, CPL  
Landman

/cks

Enclosures

*Mr. William C. Mann*  
*Lunt No. 2*  
*Well Proposal*  
*November 2, 2006*  
*Page Two*

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\_\_\_\_\_ **Elect to go Non-Consent** in the drilling and completion of the Lunt No. 2 Well described hereinabove, subject to the Non-Consent penalties as set-out in the governing operating agreement.

WILLIAM C. MANN

By: \_\_\_\_\_  
(Signature)

Name & Title: \_\_\_\_\_

Date: \_\_\_\_\_





**XTO ENERGY INC.**  
**AUTHORITY FOR EXPENDITURE**

AFE NO.: 600519	DISTRICT: SAN JUAN
AFE DESC: D&C BASIN FC GAS WELL	FIELD: BASIN
DATE: 02/17/2006	ACCOUNTING ID: 79157
AFE TYPE: DEVELOPMENT DRILLING	WELL NAME: LUNT 01 FC
OPERATOR: 81 - XTO ENERGY INC.	STATE/COUNTY: NEW MEXICO / SAN JUAN
SECTION/TOWNSHIP/RANGE: 5/30N/13W	XTO WI DECIMAL: 0.875280000

DETAIL OF EXPENDITURES	DRYHOLE	COMPLETION	SUPPLEMENT	TOTAL
Tubing Head / X-mas Tree	0.00	10,000.00	0.00	10,000.00
Wellhead Comp Install	0.00	9,000.00	0.00	9,000.00
<b>WIP-Lease &amp; Well Equip. TOTAL:</b>	<b>8,000.00</b>	<b>123,000.00</b>		<b>131,000.00</b>
<b>TOTAL THIS AFE:</b>	<b>167,500.00</b>	<b>362,000.00</b>		<b>529,500.00</b>

\*\*\* This AFE is an estimate only. By returning one signed copy, you agree to pay your share of the actual costs incurred. \*\*\*

REMARKS:

Non Operator Approval	
Prepared By: <u>Kristen Lynch</u>	DATE _____
Approved By: <u>Trenis Lusk</u>	COMPANY _____
Signature: _____	BY _____
	TITLE _____



**XTO ENERGY INC.**  
**AUTHORITY FOR EXPENDITURE**

AFE NO.: 600520	DISTRICT: SAN JUAN
AFE DESC: D&C BASIN FC GAS WELL	FIELD: BASIN
DATE: 02/17/2006	ACCOUNTING ID: 79158
AFE TYPE: DEVELOPMENT DRILLING	WELL NAME: LUNT 02 FC
OPERATOR: 81 - XTO ENERGY INC.	STATE/COUNTY: NEW MEXICO / SAN JUAN
SECTION/TOWNSHIP/RANGE: 5/30N/13W	XTO WI DECIMAL: 0.875280000

DETAIL OF EXPENDITURES	DRYHOLE	COMPLETION	SUPPLEMENT	TOTAL
Drilling/Rig Move	75,000.00	0.00	0.00	75,000.00
Completion Unit	0.00	10,000.00	0.00	10,000.00
Surf/Int Csg Crew/Laydown Service	2,000.00	0.00	0.00	2,000.00
Roads & Location	12,000.00	0.00	0.00	12,000.00
Mud/Chemicals	5,000.00	0.00	0.00	5,000.00
Well Logging: Open Hole	9,000.00	0.00	0.00	9,000.00
Surf/Int Cement & Related Services	5,500.00	0.00	0.00	5,500.00
Bits, Mills, Reamers	5,000.00	0.00	0.00	5,000.00
Drlg Rentals: Sub-Surface	1,000.00	0.00	0.00	1,000.00
Drlg Rentals: Surface	7,000.00	0.00	0.00	7,000.00
Rig Fuel, Power & Water	10,000.00	0.00	0.00	10,000.00
Cased Hole Logging/Perf	0.00	11,000.00	0.00	11,000.00
Stimulation & Pumping Services	0.00	160,000.00	0.00	160,000.00
Drlg Supervision (Co & Contract)	11,000.00	0.00	0.00	11,000.00
Drlg Overhead	2,000.00	0.00	0.00	2,000.00
Drlg Trucking & Hot Shot	4,000.00	0.00	0.00	4,000.00
Completion Dress Location	0.00	1,000.00	0.00	1,000.00
Fluid Haul/Solid Control	6,000.00	0.00	0.00	6,000.00
Flowback	0.00	1,000.00	0.00	1,000.00
Frac Tanks/Fluid Hauling	0.00	15,000.00	0.00	15,000.00
Prod Csg Cement & Related Service	0.00	12,000.00	0.00	12,000.00
Prod Csg Crew/Laydown Service	0.00	3,000.00	0.00	3,000.00
Cmpl Rentals: Sub-Surface	0.00	1,000.00	0.00	1,000.00
Cmpl Rentals: Surface	0.00	1,000.00	0.00	1,000.00
Cmpl Engr/Supervision	0.00	3,000.00	0.00	3,000.00
Cmpl Overhead	0.00	3,000.00	0.00	3,000.00
Cmpl Trucking & Hot Shot	0.00	3,000.00	0.00	3,000.00
Plug and Abandon Unsuccessful Well	5,000.00	0.00	0.00	5,000.00
Cmpl Fluid/Chem/Transp	0.00	15,000.00	0.00	15,000.00
<b>WIP-Intan. Devlpmt Costs TOTAL:</b>	<b>159,500.00</b>	<b>239,000.00</b>		<b>398,500.00</b>

P  
EXHIBIT

Tubing	0.00	5,000.00	0.00	5,000.00
Wellhead Equipment	3,000.00	0.00	0.00	3,000.00
Pumping & Lifting Equipment	0.00	20,000.00	0.00	20,000.00
Tank Batteries	0.00	32,000.00	0.00	32,000.00
Lease & Flow Lines	0.00	10,000.00	0.00	10,000.00
Sub-surface Pump, Rods, & Acces	0.00	5,000.00	0.00	5,000.00
Automation Equipment	0.00	12,000.00	0.00	12,000.00
Surface Casing	5,000.00	0.00	0.00	5,000.00
Production / Liner Casing	0.00	20,000.00	0.00	20,000.00



**XTO ENERGY INC.**  
**AUTHORITY FOR EXPENDITURE**

AFE NO.: 600520	DISTRICT: SAN JUAN
AFE DESC: D&C BASIN FC GAS WELL	FIELD: BASIN
DATE: 02/17/2006	ACCOUNTING ID: 79158
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<b>TOTAL THIS AFE:</b>	<b>167,500.00</b>	<b>362,000.00</b>		<b>529,500.00</b>

\*\*\* This AFE is an estimate **only**. By returning one signed copy, you agree to pay your share of the actual costs incurred. \*\*\*

REMARKS:

Non Operator Approval	
Prepared By: <u>LeAnna Hanhardt</u>	DATE _____
Approved By: <u>Trenis Lusk</u>	COMPANY _____
Signature: _____	BY _____
	TITLE _____