Emergy, Minerals and Natural Resources   Effects N. French Dr., Flobbs, NM 81240   District	Submit 3 Copies To Appropriate District	State of New Mexico		Form C-103	
MELL API NO.	Office District I	Energy, Minerals and Natural Resources			
District					
12.20 South St. Francis Dr.   15. Indicate 1 type of 1 cases   15. Indicate 1 type   1		OIL CONSERVATION DIVISION			
Santa Fe, NM 8740   Santa Fe, NM 8740   Santa Fe, NM 87505   Santa Fe,					
Sample Per No.   Samp					
SUNDRY NOTICES AND REPORTS ON WELLS  (DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEPPIN OR PLUG BACK TO A  DEPTEMBY RESKYOUR. USE "APPLICATION FOR PREMIT (FORM C-10))-FOR SUCH  1. Type of Well: Oil Well   Gas Well   Other   OTHER SUCH    2. Name of Operator  2. Name of Operator  2. Name of Operator  3. Address of Operator  4. Well Location  Unit Letter   2130 ft from the North ine and Span   10. Pool name or Wildeat  Basin Fruitland Coal / Harper Hill FS PC  8. Well Number  11. Elevation (Show whether DR, RKB, RT, GR, etc.)  12. Show the State of Township   10. Pool name or Wildeat  Basin Fruitland Coal / Harper Hill FS PC  13. Address of Operator  14. Well Location  Unit Letter   2130 ft from the North ine and Span   10. Pool name or Wildeat  Basin Fruitland Coal / Harper Hill FS PC  15. Township   100.   21. Markey   10. Pool name or Wildeat  Basin Fruitland Coal / Harper Hill FS PC  16. Bebre-grade Tank adultation   0x Cessure   10. Pool name or Wildeat  17. Lese Name or Unit Agreement Name  WF Federal 25  8. Well Number  18. Well Number  19. GORID Number  29. GORID Number  29. GORID Number  29. GORID Number  29. GORID Number  10. Pool name or Wildeat  Basin Fruitland Coal / Harper Hill FS PC  10. Pool name or Wildeat  10. Pool name or Wildeat  Basin Fruitland Coal / Harper Hill FS PC  10. Pool name or Wildeat  1	District IV	Santa Fe, NM 87505		,	
SUNDRY NOTICES AND REPORTS ON WELLS   7. Lease Name or Unit Agreement Name   DO NOT USE THIS FORM FOR PROPOSALS 10 DRILL OR TO DEFERRED FOR PLUE BACK TO A DIFFERENT RESERVORE, USE "APPLICATION FOR REMAIT FORM C-191-FOR SUCH PROPOSALS].  1. Type of Well: Oil Well   Gas Well   Other   S.   Well Number   S.   Well Nu		e, NM		NMNM – 0207001	
DONOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEPEND OR PLUG BACK TO A DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT" (FORM CLIS) FOR SUCH PROPOSALS)  1. Type of Well: Oil Well				7 Lease Name or Unit Agreement Name	
DIFFERENT RESERVOIR, USE "APPLICATION FOR PERMIT" (FORM C-10) INFORMACION FOR PROPOSALS]   1. Type of Well: Oil Well   Gas Well   Other   S. Well Number   S.	<del>-</del>			7. Lease Name of Onit Agreement Name	
RROPOSALS)   S. Well Number   S. Well				WE Federal 25	
2. Name of Operator   2. Name of Operator   2. Name of Operator   2. Name of Operator   2. ORGRID Number	PROPOSALS.)				
2. Name of Operator Lance Oil & Gas Company, Inc.  3. Address of Operator P. O. Box 70, Kirtland, NN 87417  4. Well Location Unit Letter H. 2130 ft from the North Inc. and 35 feet from the East line Section 25 Township 30N ML Rainge 14W NMPM San Juan County  11. Elevation (Show whether DR, R&B, RT, GR, etc.)  11. Elevation (Show whether DR, R&B, RT, GR, etc.)  12. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data  NOTICE OF INTENTION TO:  PERFORM REMEDIAL WORK   PLUG AND ABANDON   COMMENCE DRILLING OPNS.   ALTERING CASING    PULL OR ALTER CASING   MULTIPLE COMPL   CASING/CEMENT JOB    13. Describe proposed or completed operations. Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion.  Lance requests approval to allocate production from the WF Federal 25 #1 well to Basin Fruitland Coal and Harper Hill Fruitland Sand Fictured Cliffs sandstone reservoirs in proportion to the recoverable reserves in-place calculated for each reservoir in accordance with legally-accepted reservoir engineering practices. Pursuant to NMOCD Rule 303C(3)(b)(ii), a copy of the application to downhole Commingle bas been provided to the BLM. The methodology was throughly reviewed with the BLM and NMOCD on Thursday afternoon, July 13, 2006. An attachment is enclosed entitled "Supplement to Downhole Commingle application - Fruitland Coal & Pictured Cliffs Sandstone Allocation Methodology." The WF Federal 25 #1 well to Basin Fruitland Coal to downhole commingle and proposed completion in the wife received in the BLM and NMOCD on Thursday afternoon, July 13, 2006. An attachment is enclosed entitled "Supplement to Downhole Comminging Application - Fruitland Coal & Pictured Cliffs Sandstone Allocation Methodology." The WF Federal 25 #1 well to Basin Fruitland Coal & Fruit	1. Type of Well: Oil Well Gas Well Other				
Lance Coil & Gas Company, Inc.   201 200   229938   229938   229938   23938	2 Name of Operator		2000		
3. Address of Operator P. O. Box 70, Kirtland, NM 87417  4. Well Location  Unit Letter H  25  Township 30N M Range 14W NMPM San Juan County  11. Elevation (Show whether DR, RKB, RT, GR, etc.)  12. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data  NOTICE OF INTENTION TO:  PERFORM REMEDIAL WORK   PLUG AND ABANDON   CHANGE PLANS   SUSSEQUENT REPORT OF:  PULL OR ALTER CASING   MULTIPLE COMPL   CASING/CEMENT JOB    13. Describe proposed or completed operations. (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion.  Lance requests approval to allocate production from the WF Federal 25 #1 well to Basin Fruitland Coal and Harper Hill Fulland Sand Remoon, July 13, 2006. An attachment is enclosed entitled "Supplement to Downhole Commingle Aetenoon, July 13, 2006. An attachment is enclosed entitled "Supplement to Downhole Commingle Application - Fruitland Coal & Pictured Cliffs Sandstone Allocation Methodology". The WF Federal 25 #1 well to Basin Fruitland Coal and Harper Hill Fruitland Sand Remoon, July 13, 2006. An attachment is enclosed entitled "Supplement to Downhole Commingle Application - Fruitland Coal & Pictured Cliffs Sandstone Allocation Methodology". The WF Federal 25 #1 well is perforated as follows:  Basin Fruitland Coal: 1,076 - 83 * KB, 1,104 - 07 * KB, 1,161 - 73 * KB Harper Hill FS PC: 1,184 - 1,194 * KB  All working, royalty and overriding royalty interests are identical in all commingled zones. The production. A Cl02 for each zone to be commingled showing its spacing unit and acreage dedication is attached. Lance is requesting approval to allocate production based upon a split of Basin Fruitland Coal = 89 109% and Harper Hill FS PC: 1,184 - 1,194 * KB  All working, royalty and overriding royalty interests are identical in all commingled zones. The production. A Cl02 for each zone to be commingled showing its s	-			1	
P. O. Box 70, Kirtland, NM 87417  4. Well Location  Unit Letter H : 2130 ft from the North line and 375 feet from the East line Section 25 Township 30N M Range 14W NMPM San Juan County  11. Elevation (Show whether DR, RKB, RT, GR, etc.)  12. Check Township 30N M Range 14W NMPM San Juan County  12. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data  NOTICE OF INTENTION TO:  PERFORM REMEDIAL WORK   PLUG AND ABANDON   CHANGE PLANS   COMMENCE DRILLING OPNS   PAND A    TEMPORARILY ABANDON   MULTIPLE COMPL   CASING/CEMENT JOB   PAND A    OTHER: Application for Downhole Commingle   OTHER:  13. Describe proposed or completed operations. (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion.  13. Describe proposed or completed operations. (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion.  14. Change Plans   The Plans		Lot Jakon S			
Well Location		7 SE WE CO			
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Section 25 Township 30 N.		E.	, c\3/		
The process of the proposed of completion or recompletion.   Security of the shower provided to the BLM. The methodology was thoroughly reviewed with the BLM and NMOCD on Thursday afternoon, July 13, 2006. An attachment is enclosed entitled "Supplement to Downhole Commingling Application - Fruitland Coal & Pictured Cliffs Sandstone Allocation Methodology".   Basin Fruitland Coal: 1,076' - 83' KB, 1,104 - 07' KB, 1,161' - 73' KB Harper Hill FS PC: 1,184' - 1,194' KB   Production Superintendent   DATE 9/27/pC   SIGNATURE   DATE 9/27/pC   SIGNATURE   Signature Power of the signature of the Power of the Power of the signature of the Power	Unit Letter H :			feet from theEastline	
Starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion.  Lance requests approval to allocate production from the WF Federal 25 #1 well to Basin Fruitland Coal and Harper Hill Fruitland Coal and Easth Protured Cliffs Sandstone Allocation Methodology". The WF Federal 25 #1 well is perforated as follows:  Basin Fruitland Coal: 1,076' - 83' KB, 1,104 - 07' KB, 1,161' - 73' KB Harper Hill FS PC: 1,184' - 1,194' KB  All working, royalty and overriding royalty interests are identical in all commingled showing its spacing unit and acreage dedication is attached. Lance is requesting and the interest are in the react on commanded showing its spacing unit and acreage dedication is attached. Lance is requesting any proposed work of the Protuction of the Protucti	Section 25	Township $30N/8l$	Range 14V	W NMPM San Juan County	
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Pit Liner Thickaess:   mil   Below-Grade Tank: Volume   bbls; Construction Material	Pit or Below-grade Tank Application 🔲	or Closure 🗌			
Pit Liner Thickaess:   mil   Below-Grade Tank: Volume   bbls; Construction Material	Pit type Depth to Groundw	vater Distance from nearest fresh v	vater well Dis	tance from nearest surface water	
NOTICE OF INTENTION TO:    SUBSEQUENT REPORT OF:   PERFORM REMEDIAL WORK   PLUG AND ABANDON   COMMENCE DRILLING OPNS   PAND A   OTHER: Application for Downhole Commingle			<del></del>		
NOTICE OF INTENTION TO:  PERFORM REMEDIAL WORK   PLUG AND ABANDON   CHANGE PLANS   COMMENCE DRILLING OPNS   PAND A   PULL OR ALTER CASING   MULTIPLE COMPL   CASING/CEMENT JOB   PAND A   CASING/CEMENT JOB   OTHER:  13. Describe proposed or completed operations. (Clearly state all pertitinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion.  Lance requests approval to allocate production from the WF Federal 25 #1 well to Basin Fruitland Coal and Harper Hill Fruitland Sand Pictured Cliffs sandstone reservoirs in proportion to the recoverable reserves in-place calculated for each reservoir in accordance with legally-accepted reservoir engineering practices. Pursuant to NMOCD Rule 303C(3)(b)(iii), a copy of the application to downhole commingle has been provided to the BLM. The methodology was thoroughly reviewed with the BLM and NMOCD on Thursday afternoon, July 13, 2006. An attachment is enclosed entitled "Supplement to Downhole Commingling Application - Fruitland Coal & Pictured Cliffs Sandstone Allocation Methodology". The WF Federal 25 #1 well is perforated as follows:  Basin Fruitland Coal: 1,076' - 83' KB, 1,104 - 07' KB, 1,161' - 73' KB Harper Hill Fruitland Coal & 1,184' - 1,194' KB  All working, royalty and overriding royalty interests are identical in all commingled zones. The produced fluids from all commingled zones are compatible with each other and commingling will not decrease the value of production. A C102 for each zone to be commingled showing its spacing unit and acreage dedication is attached. Lance is requesting approval to allocate production based upor a split of Basin Fruitland Coal - 89, 109% and Harper Hill Fruitland Sand Pictured Cliffs - 10.891%. Your timely approval would be appreciated as Lance has a rig in the area to commence pulling the bridge plug as soon as possible.  I hereby certify that the informátion above is true and complete to					
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### LANCE OIL & GAS COMPANY, INC.

# WF Federal 25 #1 SENE Section 25, T30N - R14W San Juan County, New Mexico

# Supplement to Downhole Commingling Application Fruitland Coal - Pictured Cliffs Sandstone Allocation Methodology

The WF Federal 25 #1 is capable of producing from both the Basin Fruitland Coal and the Harper Hill FS PC intervals. Currently, open perforations exist in both intervals; however, a plug is in-place over the Pictured Cliffs perforations keeping production from this interval behind pipe until downhole commingling is approved. Pursuant to Order R-11363, Lance Oil and Gas seeks approval to downhole commingle the "Pre-approved pools and areas": Basin Fruitland Coal (71629) and Harper Hill FS PC (78160) in this well.

The Basin Fruitland Coal is perforated from 1,076' - 83' KB, 1,104' - 07' KB, 1,161' - 73' KB. The Harper Hill FS PC is perforated from 1,184' to 1,194' KB. Lance Oil & Gas Company, Inc. (Lance) requests downhole commingling of production from the two zones with an allocation of future production to each zone that is not evenly split. Further, Lance intends to allocate production to the Basin Fruitland Coal and the Pictured Cliffs sandstone reservoir in proportion to the recoverable reserves in-place calculated for each reservoir, rather than by a production-based method.

In requesting this approach, Lance is acknowledging the fact that coal reservoirs and sandstone reservoirs are very different in their gas storage capacity and productive performance. The reserves extracted from each reservoir horizon, therefore, will be substantially disproportionate over the expected life of the well. Lance recommends this reserve-based allocation method because production-based methods suffer from the fact that once the juxtaposed coal and sand reservoirs are frac'd, they communicate with each other and the production attributable to each is very difficult to determine accurately. In addition, because sandstone and coal reservoirs perform so differently, the proportion of production attributable to each change very significantly over the life of the well as drawdown occurs. This adds yet another level of uncertainty and complexity to production-based allocation methods.

Calculations of reserves, on the other hand, can be done with accuracy in either reservoir type, and in accord with legally-accepted standard reservoir engineering practices. Lance advocates using this approach to allocating the total recoverable resource because it is a more fair way of assessing the resource volume that will be eventually produced from either zone. The reserves method acknowledges that all of the recoverable reserves in each zone will be extracted over the life of the well, and assures that respective parties will be properly credited for those reserves. The approach also avoids problematic issues with determining relative rates of production from each reservoir – particularly after frac'ing – and the change in those rates that occurs over time. Instead it leaves in-place a fixed proportion of production from each reservoir until all reserves are recovered. This further simplifies accounting for companies and interest owners by keeping the allocation constant over time until the end of the well's productive life.

On July 13<sup>th</sup>, 2006, Lance Oil & Gas Company, Inc. presented the results of a reservoir study to the BLM and NMOCD that demonstrated how reserves for each reservoir can be determined with accuracy using this method for our wells and how an allocation by this method would work. The reserve calculation is accomplished using industry-accepted and legally-accepted engineering and geological methods for calculating gas-in-place for CBM reservoirs and for gas sand reservoirs.

For CBM reservoirs the volume of recoverable reserves is given by

#### $RGIP = Rf^*[1359.7*A*h*RhoB*Gc]$

#### Where:

A = The drainage area of the well, which is taken as the spacing unit for the reservoir and is in this area being developed at 160 Acres.

h = Thickness of the coal using a density cutoff of 2.0 g/cc.

RhoB = Average bulk density of the coal seam.

Gc = In-situ average gas content of the coal seam(s).

For Gas Sand reservoirs, this is given by:

## $RGIP = Rf^*[(43,560*A*h*(1-Sw)*PHIe)/Bg]$

#### Where:

Rf = Recovery Factor, determined by the ratio of final gas formation volume factor to initial gas formation volume factor in the reservoir.

A = The drainage area of the well, which is taken as the spacing unit for the reservoir and is in this area being developed at 160 Acres.

h = Thickness of the reservoir interval over which there is sufficient gas saturation (1-Sw) for significant productivity.

Sw = The average total water saturation in the reservoir over the interval having sufficient gas saturation for significant productivity.

PHIe = Average "effective" porosity in the reservoir over the interval having sufficient gas saturation for significant productivity.

By using this method, the proposed allocation we propose for the WF Federal 25 #1 is:

Fruitland Coal - 89.109% Pictured Cliffs - 10.891%

If you have any questions about the proposal, please contact Mr. Bill Lyons with Lance Oil and Gas Company, Inc, San Juan Basin Business Unit, 1099 18<sup>th</sup> Street, Suite 1200, Denver, CO 80202