

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION
 - Engineering Bureau -
 1220 South St. Francis Drive, Santa Fe, NM 87505



RECEIVED

AUG 28 2006

Oil Conservation Division

1220 S. St. Francis Drive
 Santa Fe, NM 87505

ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

- [NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]
- [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
- [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
- [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
- [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
- [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

[1] **TYPE OF APPLICATION - Check Those Which Apply for [A]**

- [A] Location - Spacing Unit - Simultaneous Dedication
 NSL NSP SD

Check One Only for [B] or [C]

- [B] Commingling - Storage - Measurement
 DHC CTB PLC PC OLS OLM

- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
 WFX PMX SWD IPI EOR PPR

- [D] Other: Specify _____

[2] **NOTIFICATION REQUIRED TO: - Check Those Which Apply, or Does Not Apply**

- [A] Working, Royalty or Overriding Royalty Interest Owners
- [B] Offset Operators, Leaseholders or Surface Owner
- [C] Application is One Which Requires Published Legal Notice
- [D] Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
- [E] For all of the above, Proof of Notification or Publication is Attached, and/or,
- [F] Waivers are Attached

[3] **SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.**

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

Paul Lehrman

Print or Type Name

Paul Lehrman
 Signature

Sr. Landman

Title

8/14/06

Date

plehrman@westerngas.com
 e-mail Address

**REQUEST FOR ADMINISTRATIVE APPROVAL
FOR NON-STANDARD LOCATION
FOR LANCE OIL & GAS COMPANY, INC.
NW CHA CHA 11
720' FNL & 350' FEL, SECTION 20, TOWNSHIP 29 NORTH, RANGE 14 WEST, NMPM,
SAN JUAN COUNTY, NEW MEXICO
BASIN FRUITLAND COAL (71629)**

- 1) The referenced well is located on Navajo Tribal surface, Navajo Tribal minerals. The proposed location is non-standard because it was originally drilled as a Cha Cha Gallup Oil well. Lance is proposing to use the existing well bore and re-complete the well as a Fruitland Coal well. According to NMOCD rules well locations depending on formation drilled must be 660' from the quarter section lines. The existing well location is 720' from the North line and 350' from the East line of Section 20. Therefore the proposed NW Cha Cha #11 location is approximately 310' too far east. It would not be prudent to drill a separate well when this well was available and found to be sound mechanically.
- 2) C-102's (Exhibit "A") is attached showing the well location and the proration unit for the proposed Fruitland Coal well. A Sundry Notice (3160-5) for this well to was submitted to the Bureau of Land Management, Farmington Field Office on July 20, 2006, for approval of the proposed procedure and the sundry has been approved by the relative agencies (BLM/OCD).
- 3) A map (Exhibit "B") is attached showing the adjoining spacing units and existing Fruitland Coal/Pictured Cliffs wells. Lance controls the FC rights in the offsetting (encroaching) spacing unit (s), with the exception of the acreage to the south which is owned by the Navajo Nation and is currently unleased. The Navajo Nation is being contacted as required. Current Lance Well locations are noted on the plat.
- 4) The approved 3160-05 approved by both the Bureau of Land Management and the New Mexico Oil Conservation Division is attached hereto.
- 5) Certified letters have been sent to other working interest owners, offsetting operators, and offsetting surface owners to notify them of our intentions. Copies of the letters are attached to this application.
- 6) Use of the existing well bore and the necessity to not use a separate location, minimizing surface disturbance is the reason for this non-standard location request.
- 7) Topography is not an issue with this well.
- 8) Archaeology is not an issue with this well.
- 9) Directional drilling is not practical for such a shallow completion.
- 10) A non-standard location is requested because of the existing conditions and the use of an existing well bore.
- 11) I hereby certify that notice was sent to the following offset operators, working interest owners, leaseholders or Surface owners which adjoin the applicant's spacing unit.

Navajo Nation Minerals Dept.
Bureau of Land Management/Farmington Field Office



Paul Lehrman
Lance Oil & Gas Company, Inc.
August 14, 2006

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
1220 S. 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 June 10, 2003
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies
 AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

| | | |
|---|---|--|
| ¹ API Number 30-045-08142 | ² Pool Code 71629 | ³ Pool Name Basin Fruitland Coal |
| ⁴ Property Code | ⁵ Property Name NW Cha Cha | ⁶ Well Number 11 |
| ⁷ OGRID No. 229938 | ⁸ Operator Name Lance Oil & Gas Company, Inc. | ⁹ Elevation 5198 |

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 |
|---------------|---------|----------|-------|---------|---------------|------------------|---------------|----------------|----------|
| A | 20 | 29N | 14W | | 720 | NORTH | 350 | EAST | SAN JUAN |

¹¹ Bottom Hole Location If Different From Surface

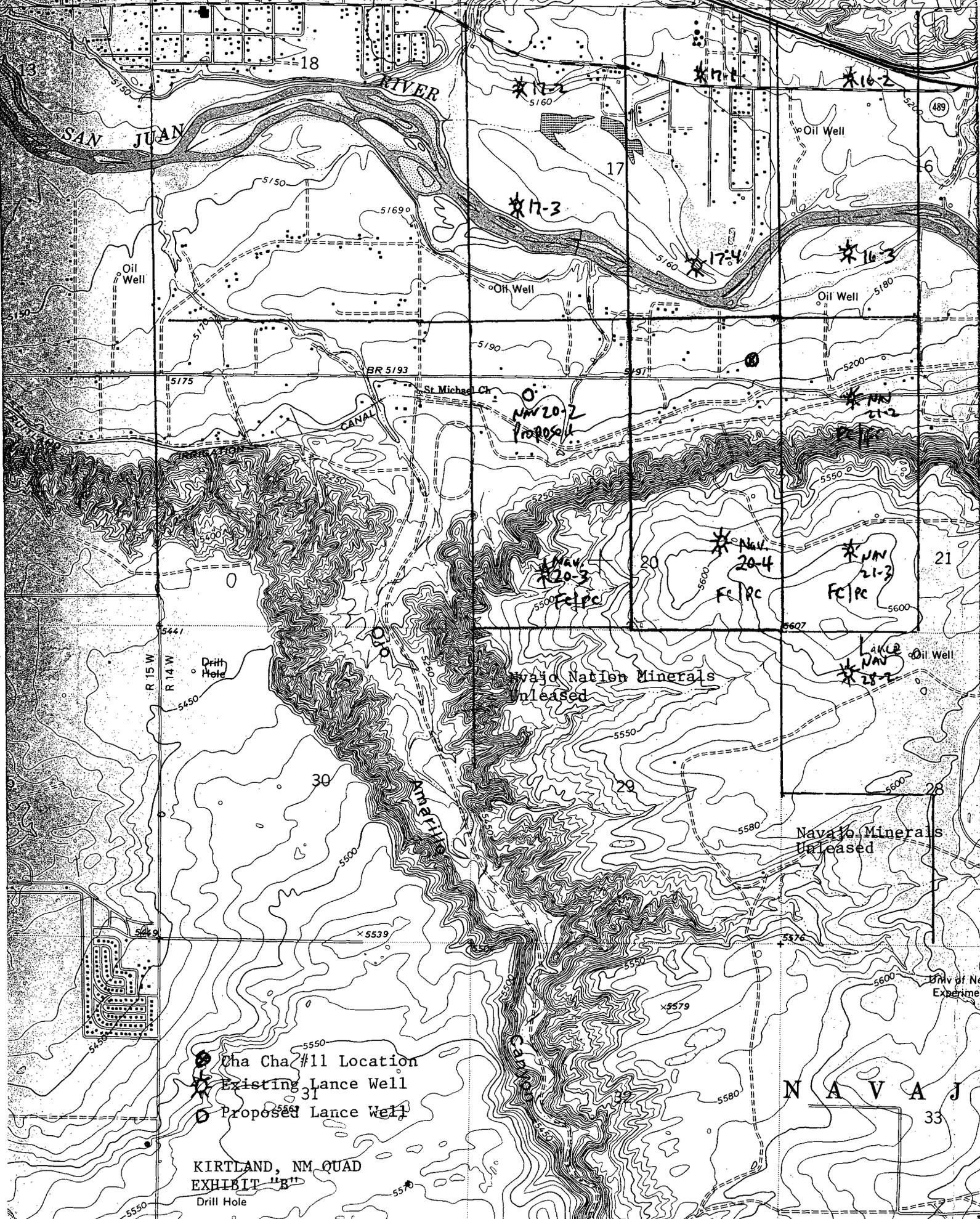
| UL or lot no. | Section | Township | Range | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |
|---|-------------------------------|----------------------------------|-------|-------------------------|---------------|------------------|---------------|----------------|--------|
| | | | | | | | | | |
| ¹² Dedicated Acres 320.00 Acres | 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

| | | | |
|---|--|---|---|
| <div data-bbox="211 1336 548 1415" style="border: 1px solid black; padding: 5px;"> E/2-FC 320.00 Acres </div> | <div data-bbox="771 1068 933 1127" style="border: 1px solid black; padding: 2px;"> 720' FNL </div> | <div data-bbox="844 1223 1036 1272" style="border: 1px solid black; padding: 2px;"> 350' FEL </div> | <p>¹⁷ OPERATOR CERTIFICATION</p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.</p> <p style="text-align: right;"><i>Paul Lehrman</i></p> <p>Signature</p> |
| | | | <p>Printed Name</p> <p>Paul Lehrman</p> <p>Title and E-mail Address</p> <p>Sr. Landman, plehrman@westerngas.com</p> <p>Date</p> <p>August 14, 2006</p> |
| <div data-bbox="592 1527 1023 1798" style="border: 1px solid black; padding: 5px;"> Lance Oil & Gas Company, Inc. NV Navajo 20 Well No. 4 (30-045-31056) 1875' FSL - 170' FEL E/2 Basin Fruitland Coal (Gas) Producing well. </div> | <p>¹⁸ SURVEYOR CERTIFICATION</p> <p>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.</p> | | |
| | <p>Date of Survey</p> <p>Signature and Seal of Professional Surveyor:</p> | | |
| <p>Certificate Number</p> | | | |

Standard 640-acre Section

Kirtland



● Cha Cha #11 Location
 ★ Existing Lance Well
 ○ Proposed Lance Well

KIRTLAND, NM QUAD
 EXHIBIT "B"
 Drill Hole

N A V A J

LANCE OIL & GAS COMPANY, INC.

PO Box 70



August 14, 2006

Certified Mail
Return Receipt Requested
Article No. 7005 1160 0003 4802 8492

Navajo Nation Minerals Dept.
Post Office Box 1910
Window Rock, AZ 86515

RE: Non-Standard Location Application
Proposed Fruitland Coal Well
Cha Cha #11
Township 29 North, Range 14 West, NMPM
720' FNL & 350' FEL
Section 20: NE/4
San Juan County, New Mexico

Gentlemen:

As required by New Mexico Oil Conservation Division (NMOCD) Rules, this letter will serve to notify you of the following non-standard location application for a well. This letter is a notice only. No action is required on your part unless you have questions or objections. Any objections must be filed in writing within 20 days of receipt of the application by the NMOCD.

Lance Oil & Gas Company, Inc. is applying to the NMOCD for a non-standard location for its proposed Lance Oil & Gas Cha Cha #11 re-entry/re-completion well in the Fruitland Coal formation. The minimum distance from quarter section lines required by NMOCD rules is 660'. Due to existing surface conditions (existing wellbore), the well is approximately 310' too close to the east Section line of Section 20 and therefore non-standard. The approved sundry from the Bureau of Land Management/New Mexico Oil Conservation Division is attached.

| | |
|--------------------------|---|
| Well Name: | Cha Cha #11 |
| Proposed Producing Zone: | Fruitland Coal |
| Acreage Dedication: | E/2 FC (320.00 Acres) of Section 20, T29N, R14W, NMPM, San Juan Co., NM |
| Location: | 720' FNL & 350' FEL, Section 20, T29N, R14W, NMPM, San Juan Co., NM |
| Applicant's Name: | Lance Oil & Gas Company, Inc. |
| Applicant's Address: | Post Office Box 70, Kirtland, New Mexico 87417 |
| Applicant's Phone No. | 505/598-5601, Ext. 5557 |

Submittal Information: Application for a non-standard location/non-standard proration unit will be filed with the NMOCD. If they determine the application complies with the regulations, it will be approved. Any questions can be submitted to the New Mexico Oil Conservation Division, whose address is 1220 South St. Francis Drive, Santa Fe, New Mexico 87505. Their phone number is 505/476-3440.

Thank you for your consideration in this matter.

Please call me at 505/598-5601, Extension 5557, (Lance's Land Office) if you have any questions.

Sincerely,

Paul Lehman
Sr. Landman

Enclosures

Phone 598-5601 Fax 598-0064

| SENDER: COMPLETE THIS SECTION | COMPLETE THIS SECTION ON DELIVERY |
|--|--|
| <ul style="list-style-type: none"> Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits. | <p>A. Signature X <input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>B. Received by (Printed Name) C. Date of Delivery</p> |
| <p>1. Article Addressed to:</p> <p style="text-align: center;"><i>Navajo Nation Minerals Dept. P.O. Box 1910 Window Rock, AZ 86515</i></p> | <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No</p> <p>3. Service Type <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.</p> <p>4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes</p> |
| <p>2. Article Number (Transfer from service label)</p> | <p style="text-align: center;">7005 1160 0003 4802 8492</p> |

PS Form 3811, February 2004 Domestic Return Receipt 102595-02-M-1540

PLACE STICKER AT TOP OF ENVELOPE TO THE RIGHT OF THE RETURN ADDRESS, FOLD AT DOTTED LINE
CERTIFIED MAIL™

7005 1160 0003 4802 8492
 7005 1160 0003 4802 8492

| U.S. Postal Service™ CERTIFIED MAIL™ RECEIPT (Domestic Mail Only; No Insurance Coverage Provided) | | | | | | | | | | | |
|---|---------|----|---------------|--|--|--|---|--|----------------------|----|--|
| For delivery information visit our website at www.usps.com | | | | | | | | | | | |
| OFFICIAL USE | | | | | | | | | | | |
| <table border="1"> <tr> <td>Postage</td> <td>\$</td> </tr> <tr> <td>Certified Fee</td> <td></td> </tr> <tr> <td>Return Receipt Fee (Endorsement Required)</td> <td></td> </tr> <tr> <td>Restricted Delivery Fee (Endorsement Required)</td> <td></td> </tr> <tr> <td>Total Postage & Fees</td> <td>\$</td> </tr> </table> | Postage | \$ | Certified Fee | | Return Receipt Fee (Endorsement Required) | | Restricted Delivery Fee (Endorsement Required) | | Total Postage & Fees | \$ | <p style="text-align: center;">Postmark Here</p> |
| Postage | \$ | | | | | | | | | | |
| Certified Fee | | | | | | | | | | | |
| Return Receipt Fee (Endorsement Required) | | | | | | | | | | | |
| Restricted Delivery Fee (Endorsement Required) | | | | | | | | | | | |
| Total Postage & Fees | \$ | | | | | | | | | | |
| <p>Sent To <i>Navajo Nation Minerals Dept.</i></p> <p>Street, Apt. No., or PO Box No. <i>Box 1910</i></p> <p>City, State, ZIP+4 <i>Window Rock, AZ 86515</i></p> | | | | | | | | | | | |
| <p>PS Form 3800, June 2002 See Reverse for Instructions</p> | | | | | | | | | | | |

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

August 14, 2006

Certified Mail
Return Receipt Requested
Article No. 7005 1160 0003 4802 8478

Bureau of Land Management
1235 La Plata Highway
Farmington, New Mexico 87401

RE: Non-Standard Location Application
Proposed Fruitland Coal Well
Cha Cha #11
Township 29 North, Range 14 West, NMPM
750' FSL & 350' FEL
Section 20: NE/4
San Juan County, New Mexico

Gentlemen:

As required by New Mexico Oil Conservation Division (NMOCD) Rules, this letter will serve to notify you of the following non-standard location application for a well. This letter is a notice only. No action is required on your part unless you have questions or objections. Any objections must be filed in writing within 20 days of receipt of the application by the NMOCD.

Lance Oil & Gas Company, Inc. is applying to the NMOCD for a non-standard location for its proposed Lance Oil & Gas Cha Cha #11 re-entry/re-completion well in the Fruitland Coal formation. The minimum distance from quarter section lines required by NMOCD rules is 660'. Due to existing surface conditions (existing wellbore), the well is approximately 310' too close to the east Section line of Section 20 and therefore non-standard. The approved sundry from the Bureau of Land Management/New Mexico Oil Conservation Division is attached.

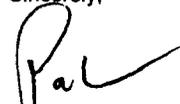
| | |
|--------------------------|---|
| Well Name: | Cha Cha #11 |
| Proposed Producing Zone: | Fruitland Coal |
| Acreage Dedication: | E/2 FC (320.00 Acres) of Section 20, T29N, R14W, NMPM, San Juan Co., NM |
| Location: | 750' FSL & 350' FEL, Section 20, T29N, R14W, NMPM, San Juan Co., NM |
| Applicant's Name: | Lance Oil & Gas Company, Inc. |
| Applicant's Address: | Post Office Box 70, Kirtland, New Mexico 87417 |
| Applicant's Phone No.: | 505/598-5601, Ext. 5557 |

Submittal Information: Application for a non-standard location/non-standard proration unit will be filed with the NMOCD. If they determine the application complies with the regulations, it will be approved. Any questions can be submitted to the New Mexico Oil Conservation Division, whose address is 1220 South St. Francis Drive, Santa Fe, New Mexico 87505. Their phone number is 505/476-3440.

Thank you for your consideration in this matter.

Please call me at 505/598-5601, Extension 5557, (Lance's Land Office) if you have any questions.

Sincerely,



Paul Lehrman
Sr. Landman

Enclosures

Phone 598-5601 Fax 598-0064

PLACE STICKER AT TOP OF ENVELOPE TO THE RIGHT OF THE RETURN ADDRESS. FOLD AT DOTTED LINE.

CERTIFIED MAIL™

7005 1160 0003 4802 8478
 7005 1160 0003 4802 8478

| | |
|---|---------------|
| U.S. Postal Service™ CERTIFIED MAIL™ RECEIPT (Domestic Mail Only; No Insurance Coverage Provided) | |
| For delivery information visit our website at www.usps.com | |
| OFFICIAL USE | |
| Postage \$ Certified Fee Return Receipt Fee (Endorsement Required) Restricted Delivery Fee (Endorsement Required) Total Postage & Fees \$ | Postmark Here |
| Sent To <i>BLM</i> Street, Apt. No., or PO Box No. <i>1235 La Plata Hwy</i> City, State, ZIP+4 <i>Farm NM 87401</i> | |
| PS Form 3800, June 2002 See Reverse for Instructions | |

| SENDER: COMPLETE THIS SECTION | COMPLETE THIS SECTION ON DELIVERY |
|--|---|
| <ul style="list-style-type: none"> Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits. | A. Signature <i>X</i> <input type="checkbox"/> Agent <input type="checkbox"/> Addressee |
| 1. Article Addressed to: <div style="text-align: center;"> <i>BLM</i> <i>1235 La Plata Hwy</i> <i>Farm NM</i> <i>87401</i> </div> | B. Received by (Printed Name) C. Date of Delivery |
| | D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No |
| 2. Article Number (Transfer from service label) | 3. Service Type <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D. |
| 4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes | 7005 1160 0003 4802 8478 |
| PS Form 3811, February 2004 | Domestic Return Receipt 102595-02-M-1540 |

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
OMB No. 1004-0135
Expires: January 31, 2004

SUNDRY NOTICES AND REPORTS ON WELLS

Do not use this form for proposals to drill or to re-enter an abandoned well. Use Form 3160-3 (APD) for such proposals.

SUBMIT IN TRIPLICATE- Other instructions on reverse side.

| | | |
|--|---|--|
| 1. Type of Well <input checked="" type="checkbox"/> Oil Well <input type="checkbox"/> Gas Well <input type="checkbox"/> Other | | 5. Lease Serial No. 14 - 20 - 603 - 2200A |
| 2. Name of Operator Lance Oil & Gas Company, Inc. | | 6. If Indian, Allottee or Tribe Name NAVAJO |
| 3a. Address P. O. Box 70, Kirtland, NM 87417 | 3b. Phone No. (include area code) 505-598-5601 | 7. If Unit or CA/Agreement, Name and/or No. NW Cha Cha Unit |
| 4. Location of Well (Footage, Sec., T., R., M., or Survey Description) 720' FNL & 350' FEL Section 20, T29N - R14W, NMPM | | 8. Well Name and No. NW Cha Cha #11 |
| | | 9. API Well No. 30 - 045 - 08142 |
| | | 10. Field and Pool, or Exploratory Area Cha Cha Gallup |
| | | 11. County or Parish, State San Juan County, NM |

12. CHECK APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

| TYPE OF SUBMISSION | TYPE OF ACTION | | | |
|--|--|--|--|---|
| <input checked="" type="checkbox"/> Notice of Intent | <input type="checkbox"/> Acidize | <input type="checkbox"/> Deepen | <input type="checkbox"/> Production (Start/Resume) | <input type="checkbox"/> Water Shut-Off |
| <input type="checkbox"/> Subsequent Report | <input type="checkbox"/> Alter Casing | <input type="checkbox"/> Fracture Treat | <input type="checkbox"/> Reclamation | <input type="checkbox"/> Well Integrity |
| <input type="checkbox"/> Final Abandonment Notice | <input type="checkbox"/> Casing Repair | <input type="checkbox"/> New Construction | <input checked="" type="checkbox"/> Recomplete | <input type="checkbox"/> Other |
| | <input checked="" type="checkbox"/> Change Plans | <input checked="" type="checkbox"/> Plug and Abandon | <input type="checkbox"/> Temporarily Abandon | |
| | <input type="checkbox"/> Convert to Injection | <input type="checkbox"/> Plug Back | <input type="checkbox"/> Water Disposal | |

13. Describe Proposed or Completed Operation (clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recomplete horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zones. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports shall be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompletion in a new interval, a Form 3160-4 shall be filed once testing has been completed. Final Abandonment Notices shall be filed only after all requirements, including reclamation, have been completed, and the operator has determined that the site is ready for final inspection.)

Lance Oil and Gas Company, Inc requests approval to recomplete the NW Cha Cha #11 from the Gallup Formation to the Fruitland Coals. The proposed procedure is attached to the Sundry Notice and entails a permanent P&A of the Gallup and Mesaverde Formation up to 1,200' KB. Initially, Lance will chemically cut the 5-1/2" casing at 900' KB and attempt to pull the casing and run new 5-1/2" casing to 850' KB. If successful in running the new 5-1/2" casing, completion operations will follow and entail perforating and fracture stimulating the Fruitland Coals.

If pulling the old 5-1/2" casing is unsuccessful, then the well will be permanently P&A'd from the chemical cut at 900' KB to surface.

A detailed wellbore diagram is attached for your perusal. Your timely approval would be appreciated as Lance anticipates commencing the workover operations as soon as the well is approved and a daylight workover rig can be obtained.

**SEE ATTACHED FOR
CONDITIONS OF APPROVAL**

14. I hereby certify that the foregoing is true and correct

| | |
|---|------------------------------------|
| Name (Printed/Typed) Thomas M. Erwin, P.E. | Title Production Superintendent |
| Signature <i>Thomas M. Erwin</i> | Date 07/20/2006 |

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

| | | |
|---|----------------|---------------------|
| Approved by <i>[Signature]</i> | Title PE | Date AUG 03 2006 |
| Conditions of approval, if any, are attached. Approval of this notice does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon. | Office F-DU | |

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

(Instructions on page 2)

OPERATOR

**NW Cha Cha #11
Re-Completion and / or P&A Procedure
NE/4 Section 20, T29N – R14W
San Juan County, New Mexico**

Gallup & Mesaverde P&A

Lance Oil & Gas Company, Inc requests approval to recomplete the NW Cha Cha #11 from the Gallup Formation to the Fruitland Coals. The proposed procedure entails a permanent P&A of the Gallup and Mesaverde Formation up to 1,200' KB. The permanent P&A includes setting a cement retainer at 4,631' KB and pressure testing the casing to 1,000 psig. If casing does not test, then spot or tag subsequent plugs as appropriate and will be decided after consultation with the BLM / NMOCD. If casing pressure tests okay, a balanced cement plug will be set inside the 5-1/2" casing to cover the Gallup interval from 4,266' - 4,631' KB. A second balanced plug will be spotted inside the casing from 1,200' – 1,583' KB to cover the Mesaverde formation top.

Chemical Cut Casing at 900' KB & Run 5-1/2" Casing to 850' KB

A free point wireline tool will be run to determine the free point of the casing. Lance anticipates the casing will be chemically cut at 900' KB and pulled from the wellbore depending upon the free point results. A worst case scenario would include fishing and washing over the casing from surface to 900' KB. If the old 5-1/2" casing is successfully pulled, a new string of 5-1/2", 15.5 #/ft, J-55, ST&C will be run to 850' KB and cemented to surface. Completion operations will entail perforating and fracture stimulating the Fruitland Coals.

Pictured Cliffs P&A

If Lance is still unable to pull the old casing after chemically cutting and washing over the casing, plans would be revised to P&A the wellbore. The third cement plug would be revised to set a cement retainer at 850' KB, mix and pump 50 sacks Type III cement and squeeze the chemical cut at 900' KB with 30 sacks cement outside the casing and leave 20 sacks of cement inside the casing. Plug #4 would be set to cover the Pictured Cliffs formation and entails perforating 616' KB with three squeeze holes. A cement retainer would be set at 566' KB and attempt to establish circulation to surface out the bradenhead. If able to break circulation, then cement from 616' KB to surface with approximately 220 sacks Type III cement and circulate good cement out bradenhead. If unable to circulate to surface, then mix and pump 42 sacks Type III cement and squeeze 26 sacks outside the casing and leave 16 sacks inside casing.

Casing Shoe & Surface P&A

Plug #5 would be set to cover the 8-5/8" casing shoe and entails perforating 267' KB with three squeeze holes. Attempt to establish circulation to surface out the bradenhead. Mix and pump 80 sxs Type III cement down the 5-1/2" casing and leave a continuous cement plug to surface on the outside and inside of 5-1/2" casing. A P&A marker would be installed to comply with BLM and NMOCD regulations.

A current wellbore diagram is attached for your perusal. Your timely approval would be appreciated as Lance anticipates commencing the workover operations as soon as the well is approved and a daylight workover rig can be obtained.

BLM CONDITIONS OF APPROVAL

The following surface rehabilitation Conditions of Approval must be complied with as applicable, before this well can be approved for final abandonment (see 43 CFR 3162.3-4). **Surface rehabilitation work shall be completed within one year of the actual plugging date. Notification for completion of this work can be submitted with a Sundry Notice.**

1. All fences, production equipment, purchaser's equipment, concrete slabs, deadman (anchors), flowlines, risers, debris and trash must be removed from the location.
2. Production pits will be closed according to the Unlined Surface Impoundment Closure Guidelines, as approved in the Environmental Assessment of December 1993. Any oil stained soils may be remediated on-site according to these guidelines or disposed of in an approved disposal facility.
3. The well pad will be shaped to the natural terrain and left as rough as possible. All compacted areas and areas devoid of vegetation shall be ripped to a minimum of 12" before seeding.
4. Access roads will be shaped to conform to the natural terrain and left as rough as possible to detour vehicular travel. Access will be ripped to a minimum of 12" in depth and waterbarred prior to seeding. All erosion problems created by the development must be corrected prior to acceptance of release. Waterbars should be spaced as shown below:

| % Slopes | Spacing Interval |
|------------------|-------------------------|
| Less than 20% | 200' |
| 2 to 5% | 150' |
| 6 to 9% | 100' |
| 10 to 15% | 50' |
| Greater than 15% | 30' |

All water bars should divert to the downhill side of the road.

5. All disturbed areas will be seeded with the prescribed certified seed mix (reseeding may be required).
6. Notify Surfacing Managing Agency seven (7) days prior to seeding so that they may be present for that option.
7. The period of liability under the bond of record will not be terminated until the lease is inspected and the surface rehabilitation approved.

Other SMA's may vary slightly in their restoration requirements. It is your responsibility, as the operator, to obtain surface restoration requirements from other SMA's. We need to be provided with a copy of these requirements. Any problems concerning stipulations received from other SMA's should be brought to us.

On private land, we should be provided with a letter from the fee owner stating that the surface restoration is satisfactory.

**UNITED STATES DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
FARMINGTON FIELD OFFICE
1235 LA PLATA HIGHWAY
FARMINGTON, NEW MEXICO 87401**

Attachment to notice of

Re: Permanent Abandonment

Intention to Abandon:

Well: 11 Northwest Cha Cha Unit

CONDITIONS OF APPROVAL

1. Plugging operations authorized are subject to the attached "General Requirements for Permanent Abandonment of Wells on Federal and Indian Lease."
2. Farmington Office is to be notified at least 24 hours before the plugging operations commence (505) 599-8907.
3. The following modifications to your plugging program are to be made:

You are also required to place cement excesses per 4.4 of the attached General Requirements.

Office Hours: 7:45 a.m. to 4:30 p.m.

**GENERAL REQUIREMENTS FOR
PERMANENT ABANDONMENT OF WELLS ON FEDERAL AND INDIAN LEASES
FARMINGTON FIELD OFFICE**

1.0 The approved plugging plans may contain variances from the following minimum general requirements.

1.1 Modification of the approved plugging procedure is allowed only with the prior approval of the Authorized Officer, Farmington Field Office.

1.2 Requirements may be added to address specific well conditions.

2.0 Materials used must be accurately measured. (densimeter/scales)

3.0 A tank or lined pit must be used for containment of any fluids from the wellbore during plugging operations and all pits are to be fenced with woven wire. These pits will be fenced on three sides and once the rig leaves location, the fourth side will be fenced.

3.1 Pits are not to be used for disposal of any hydrocarbons. If hydrocarbons are present in the pit, the fluids must be removed prior to filling in.

4.0 All cement plugs are to be placed through a work string. Cement may be bull-headed down the casing with prior approval. Cement caps on top of bridge plugs or cement retainers may be placed by dump bailer.

4.1 The cement shall be as specified in the approved plugging plan.

4.2 All cement plugs placed inside casing shall have sufficient volume to fill a minimum of 100' of the casing, or annular void(s) between casings, plus an excess volume sufficient to provide for 50 linear feet of fill above the plug.

4.3 Surface plugs may be no less than 50' in length.

4.4 All cement plugs placed to fill annular void(s) between casing and the formation shall be of sufficient volume to fill a minimum of 100' of the annular space plus 100% excess, calculated using the bit size, or 100' of annular capacity, determined from a caliper log, plus an excess volume sufficient to provide for 50 linear feet of fill above the plug.

4.5 All cement plugs placed to fill an open hole shall be of sufficient volume to fill a minimum of 100' of hole, as calculated from a caliper log, plus an excess volume sufficient to provide for 50 linear feet of fill above the plug. In the absence of a caliper log, an excess of 100% shall be required.

5.0 All cement plugs spotted across, or above, any exposed zone(s), when; the wellbore is not full of fluid or the fluid level will not remain static, and in the case of lost circulation or partial returns during cement placement, shall be tested by tagging with the work string.

5.1 The top of any cement plug verified by tagging must be at or above the depth specified in the approved plan, without regard to any excess.

- 5.2 Testing will not be required for any cement plug that is mechanically contained by use of a bridge plug and/or cement retainer, if casing integrity has been established.
- 5.3 Any cement plug which is the only isolating medium, for a fresh water interval or a zone containing a prospectively valuable deposit of minerals, shall be tested by tagging.
- 6.0 Before setting any cement plugs the hole needs to be rolled. All wells are to be controlled by means of a fluid that is to be of a weight and consistency necessary to stabilize the wellbore. This fluid shall be left in place as filler between all plugs.
- 6.1 Drilling mud may be used as the wellbore fluid in open hole plugging operations.
- 6.2 The wellbore fluid used in cased holes shall be of sufficient weight to balance known pore pressures in all exposed formations.
- 7.0 A blowout preventer and related equipment (BOPE) shall be installed and tested prior to working in a wellbore with any exposed zone(s); (1) that are over pressured, (2) where the pressures are unknown, or (3) known to contain H₂S.
- 8.0 Within 30 days after plugging work is completed, file a Sundry Notice, Subsequent Report of Abandonment (Form 3160-5), five copies, with the Field Manager, Bureau of Land Management, 1235 La Plata Highway, Suite A, Farmington, NM 87401. The report should show the manner in which the plugging work was carried out, the extent, by depth(s), of cement plugs placed, and the size and location, by depth(s), of casing left in the well. Show date well was plugged.
- 9.0 All permanently abandoned wells are to be marked with a permanent monument as specified in 43 CFR 3162.6(d). Unless otherwise approved.
- 10.0 If this well is located in a Specially Designated Area (SDA), compliance with the appropriate seasonal closure requirements will be necessary.

All of the above are minimum requirements. Failure to comply with the above conditions of approval may result in an assessment for noncompliance and/or a Shut-in Order being issued pursuant to 43 CFR 3163.1. You are further advised that any instructions, orders or decisions issued by the Bureau of Land Management are subject to administrative review pursuant to 43 CFR 3165.3 and appeal pursuant to 43 CFR 3165.4 and 43 CFR 4.700.

WORKOVER PROCEDURE

NW Cha Cha # 11

Block "A" Sec. 20, T29N – R14W

San Juan County, New Mexico

Discussion

The NW Cha Cha # 11 was completed in 1960 as a Gallup oil producer. It has not produced since September 2004.

The proposed procedure is to abandon the Gallup Formation and pull 5-1/2" casing from 900 ft to surface. Open hole logs and a new string of 5-1/2" casing will be ran and cemented to surface. The Fruitland Coal (S8 & S9 intervals) will be fracture stimulated and the well will be placed on production as a Fruitland Coal gas producer. Estimated costs to complete this work and replace existing flowlines are \$447M.

Costs for this work are presented as a worst case scenario. Five days of fishing / washing over casing are assumed at a cost of \$20M/day. If casing is pulled and open hole logs ran without incident, this well should be placed on production at \$100M less than AFE'd in this proposal. Also, no construction work will be performed on flowlines until the new string of 5-1/2" casing is cemented in place.

Based on mapping reservoir pressure in offset wells, un-risked reserves from the S8 (350 MMCF) & S9 (190 MMCF) intervals of the Fruitland Formation are 540 MMCF. Risked reserves of 445 mmcf and AFE'd costs of \$375M indicate a _____% ROR, NPV15 of _____ and a discounted payout of _____ months at current pricing.

Your approval of the attached AFE is recommended.

Well Data

API Number: 30-045-08142
Location: Block "A", Sec. 20, T29N – R14W
720' FNL – 350' FEL
San Juan County, New Mexico
Elevation: 5,198' GL, 5,210' KB
Completion Date: 09-23-1960
Surface Casing: 8-5/8", 22.7#/ft set at 217'. Cemented to surface.
Production Casing: 5-1/2", 14#/ft J-55 Set at 4,832'. Cemented with 175 sx. Calculated TOC @ 3,800'. No CBL in well file.
Perforations: Gallup Formation from 4,681' to 4,689'.
Current Status: Well is SI. Pumping unit is on location, rods & tubing are in the well.

Procedure

1. Set and test rig anchors. MIRU workover rig with pump, tank and power swivel. RU and POOH with rods and pump. LD rods on float and shop pump.
2. NDWH, NU 3M BOP's. TOO H and LD tubing on float. Send rods and tubing in for inspection.
3. PU 4-3/4" bit, 5-1/2" casing scraper and 2-7/8", J-55 EUE 8rd work string. TIH and clean out to a minimum depth of 4,500'. TOO H.
4. PU and TIH with a 5-1/2" CICR. Set retainer at +/- 4,400'. RU Halliburton. Mix and pump 50 sx of Halliburton Standard Cement (15.2 lb/gall, 1.25 ft³/sx) cement. Sting out of retainer, roll hole to fresh water. TOO H and spot a second cement plug from 3,000' to 2,700' with 50 sx of Halliburton Standard Cement as above. TOO H and spot a final cement plug from 1,500' to 1,200' with 50 sx of Halliburton Standard Cement. Roll hole to 2% KCL water. RD Halliburton.
5. TOO H, LD work string. ND BOP's. Dig down and expose 8-5/8" x 5-1/2" casing head.
6. RU Baker 5-1/2" casing spear. Spear and pull the 5-1/2" casing off of casing slips. RU Wireline Specialties 1-7/16" freepoint tool, RIH and determine free point of 5-1/2" casing.
7. Contact Denver Office. Discuss options based on freepoint data. RIH and chemical cut the 5-1/2". RD WL unit.
8. NU annular on the 8-5/8" head with at least a two inch return line to surface pit coming off below the annular.
9. Pull or wash over casing as needed. POOH and LD 5-1/2" casing.
10. RU Halliburton logging truck. Run a triple combo from 850' to base of surface casing. POOH, RD Halliburton.
11. RU and RIH with a 5-1/2" guide shoe, 1 jt of 5-1/2", 15.5 #/ft J-55 ST&C casing, 5-1/2" float collar, and 5-1/2", 15.5#/ft J-55 ST&C casing to surface.
12. RU Halliburton and cement the casing with 40 sx of Halliburton PRB II Cement with ¼ lb/sx of Flocele (500 ft. of fill, 11.50 lb/gall, 17.86 gall/sx, 2.94ft³/sx, 40% excess) followed by 50 sx of Halliburton PRB II Cement with ¼ lb/sx of Flocele (400 ft. of fill, 12.50 lb/gall, 12.59 gall/sx, 2.23ft³/sx, 40% excess).
13. Displace with 2% KCL water. Bump plug at 500 psi over final displacement pressure. Bleed off and check for flow. Leave SI overnight if float doesn't hold. If

float holds, RD cementing equipment. RD Halliburton. WOC a minimum of thirty six (36) hours.

NOTE: Once 5-1/2" casing is ran. Pipeline construction is to be started.

14. ND annular. Make cut and weld on slip type wellhead. Insure that braden head is piped to surface for NMOCD pressure tests.
15. RU WL unit. Run a CBL-VDL-GR-CCL from PBTD to surface.
16. Will perforate & frac the Fruitland Coal intervals based on open hole logs.
17. Clean out sand fill. Run tubing and rods.
18. Put well on production.

NW Cha Cha Unit #11

Current

Cha Cha Gallup

720' FNL & 350' FEL, Section 20, T-29-N, R-14-W

San Juan County, NM / API #30-045-08142

Lat: N _____ / Long: W _____

Today's Date: 3/2/06

Spud: 9/5/60

Comp: 9/23/60

Elevation: 5198' GL

5210' KB

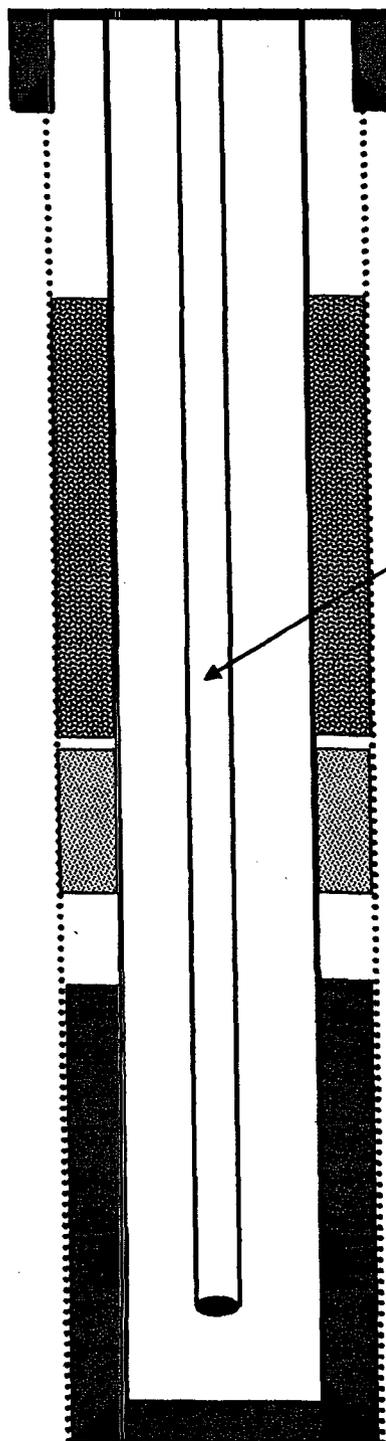
12.25" Hole

Pictured Cliffs @ 566'

Mesaverde @ 1533'

Gallup @ 4316'

7.875" Hole



8.625" 22.7# K-55 Casing set @ 217'
200 sxs cement circulated to surface

Well History

Mar '74: Ran casing inspection survey; leak at 2478'. Squeeze leak with 400 sxs Class B cement; DO. CO to 4762'. Run rods and tubing; return well to production.

May '00: Isolate casing leaks 2607' and 2641'. Squeeze leaks with 125 sxs Class G cement; DO. Casing did not PT. Re-squeeze with 13 sxs Matrix cement at 2666'; DO. PT okay. Return to production.

2-3/8" tubing at 4772'
(may have rods and pump in well)

Casing leak at 2478', squeeze with 400 sxs cement (1974)

Casing leak at 2607' and 2641', squeeze with total 138 sxs cement (2000)

Top of Cmt @ 3695' (Calc 75%)

Gallup Perforations:
4681' - 4689'

5.5", 14#, J-55 Casing @ 4832'
Cemented with 175 sxs (262 cf)

TD 4832'
PBSD 4796'

**NW Cha Cha #11
Re-Completion and / or P&A Procedure
NE/4 Section 20, T29N – R14W
San Juan County, New Mexico**

Gallup & Mesaverde P&A

Lance Oil & Gas Company, Inc requests approval to recomplete the NW Cha Cha #11 from the Gallup Formation to the Fruitland Coals. The proposed procedure entails a permanent P&A of the Gallup and Mesaverde Formation up to 1,200' KB. The permanent P&A includes setting a cement retainer at 4,631' KB and pressure testing the casing to 1,000 psig. If casing does not test, then spot or tag subsequent plugs as appropriate and will be decided after consultation with the BLM / NMOCD. If casing pressure tests okay, a balanced cement plug will be set inside the 5-1/2" casing to cover the Gallup interval from 4,266' - 4,631' KB. A second balanced plug will be spotted inside the casing from 1,200' -- 1,583' KB to cover the Mesaverde formation top.

Chemical Cut Casing at 900' KB & Run 5-1/2" Casing to 850' KB

A free point wireline tool will be run to determine the free point of the casing. Lance anticipates the casing will be chemically cut at 900' KB and pulled from the wellbore depending upon the free point results. A worst case scenario would include fishing and washing over the casing from surface to 900' KB. If the old 5-1/2" casing is successfully pulled, a new string of 5-1/2", 15.5 #/ft, J-55, ST&C will be run to 850' KB and cemented to surface. Completion operations will entail perforating and fracture stimulating the Fruitland Coals.

Pictured Cliffs P&A

If Lance is still unable to pull the old casing after chemically cutting and washing over the casing, plans would be revised to P&A the wellbore. The third cement plug would be revised to set a cement retainer at 850' KB, mix and pump 50 sacks Type III cement and squeeze the chemical cut at 900' KB with 30 sacks cement outside the casing and leave 20 sacks of cement inside the casing. Plug #4 would be set to cover the Pictured Cliffs formation and entails perforating 616' KB with three squeeze holes. A cement retainer would be set at 566' KB and attempt to establish circulation to surface out the bradenhead. If able to break circulation, then cement from 616' KB to surface with approximately 220 sacks Type III cement and circulate good cement out bradenhead. If unable to circulate to surface, then mix and pump 42 sacks Type III cement and squeeze 26 sacks outside the casing and leave 16 sacks inside casing.

Casing Shoe & Surface P&A

Plug #5 would be set to cover the 8-5/8" casing shoe and entails perforating 267' KB with three squeeze holes. Attempt to establish circulation to surface out the bradenhead. Mix and pump 80 sxs Type III cement down the 5-1/2" casing and leave a continuous cement plug to surface on the outside and inside of 5-1/2" casing. A P&A marker would be installed to comply with BLM and NMOCD regulations.

A current wellbore diagram is attached for your perusal. Your timely approval would be appreciated as Lance anticipates commencing the workover operations as soon as the well is approved and a daylight workover rig can be obtained.