

# LANCE OIL & GAS COMPANY, INC.

PO Box 70



Kirtland, New Mexico 87417

January 6<sup>th</sup>, 2005

Richard M. & Nina L. Hatch  
P.O. Box 57  
Fruitland, NM 87415

Re: Fruitland Coal/Pictured Cliffs Well Proposal  
Township 29 North, Range 14 West, NMPM  
Section 18: E/2  
San Juan County, New Mexico

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 13648 Exhibit No. — 6  
Submitted By:  
Lance Oil & Gas, Inc  
Hearing Date: March 2, 2006  
RECORD THE

Dear Richard M. & Nina L. Hatch:

Lance Oil & Gas Company, Inc. is proposing to drill a well in the referenced area within the near future. Title examination indicates that you are a mineral interest owner within this area of development. At this time we would like to inform you of your choices in regard to the proposed well in this area:

1. ☐ Enter into an oil and gas lease that provides for a five year primary term with bonus consideration of \$50.00 and a 12.5% (1/8<sup>th</sup>) royalty in the event of production. Enclosed for your convenience are two copies of this lease. If you choose to participate as a royalty owner please execute the lease in the presence of a notary public and return it to the above address. A check for the bonus consideration will be sent within 10 working days.
2. ☐ Participate as a "working interest" owner. An Authority for Expenditure ("AFE") is enclosed itemizing the estimated cost of drilling and completing the wells involving your mineral interest. Your proportionate share of the well with the estimated drilling and completion cost are indicated at the bottom of the AFE. In the event you wish to participate as a working interest owner, please sign the AFE and return to the above address with your check for the amount indicated as your share of the estimated cost. Upon receipt of the executed AFE a Joint Operating Agreement (AAPL Form 610) will be sent for your review and execution. The Operating Agreement will outline your working interest responsibilities, including drilling rates, operating rates, maintenance provisions and plugging liabilities when the well is abandoned.
3. ☐ Sell your mineral interest to Lance Oil & Gas Company, Inc. for \$100.00.
4. Pooling statutes for the State of New Mexico provide authorization for the State to "compulsory pool" your interest in the proposed wells. These statutes provide for the following ... "any unleased mineral interest shall be considered a seven-eighths (7/8<sup>th</sup>) working interest and a one-eighths 1/8<sup>th</sup>) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out production shall be withheld only from the working interests' share of production..." any non-consenting working interest owner who does not pay its share of estimated well

costs should have withheld from production its share of reasonable well costs, plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well." In addition you would be responsible for your proportionate share of plugging liabilities when the well is abandoned and any maintenance necessary to maintain production.

Please indicate your choice of participation by checking in the appropriate box and returning one copy of this letter in the enclosed return envelope. If we have not received your response within 15 days from date of this letter, Lance will initiate a Compulsory Pooling hearing.

Should you have any questions concerning any of these options please contact either Parks Brown or the undersigned at 505-598-5601, ext. 62.

Yours truly,

Anne Jones  
Sr. Landman