

HOLLAND & HART LLP



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Board of Legal Specialization

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March 21, 2012

VIA HAND DELIVERY

David K. Brooks
Oil Conservation Division
New Mexico Energy, Minerals &
Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

RECEIVED OGD
2012 MAR 21 P 3:22

Re: Case No. 14582, Order No. R-13357: Application of Cimarex Energy Co. of Colorado for Approval of a Non-Standard Oil Spacing and Proration Unit and Compulsory Pooling, Lea County, New Mexico.

Dear Mr. Brooks:

Enclosed please find courtesy copies of the following documents filed today with the Division by Nearburg Exploration Company L.L.C.:

Motion to ReOpen Case No. 14582 For Additional Hearing On the Effect and Meaning Of Order R-13357.

Request For An Emergency Order Staying Cimarex's Proposal Under Order R-13357 To Drill A Well In The Second Bone Spring Reservoir.

Since you were the Hearing Office in Case No. 14582 and act as the Legal Examiner for the Division, I bring these filings to your attention. Nearburg respectfully requests that the Division schedule a conference as soon as possible to address the emergency relief sought, and to discuss setting this matter for hearing.

By email and by mail, I have provided copies of these filings to Jim Bruce, the attorney of record for Cimarex Energy Company in this matter. There are no other parties of record in this matter.

Your prompt attention to this matter is appreciated.

Sincerely,

Michael H. Feldewert

cc: Via E-Mail and U.S. Mail
Jim Bruce, Esq.
ATTORNEY OF
RECORD FOR CIMAREX ENERGY COMPANY

Holland & Hart LLP

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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:

RECEIVED OOD
27 MAR 21 PM 3:24
CASE NO. 14582
ORDER NO. R-13357

APPLICATION OF CIMAREX ENERGY CO.
FOR APPROVAL OF A NON-STANDARD OIL
SPACING AND PRORATION UNIT AND
COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

REQUEST FOR AN EMERGENCY ORDER STAYING
CIMAREX'S PROPOSAL UNDER ORDER R-13357 TO DRILL A WELL IN THE
SECOND BONE SPRING RESERVOIR

Nearburg Exploration Company, L.L.C. ("Nearburg"), a party of record in the above-referenced matter, hereby requests that the Oil Conservation Division enter an Emergency Order staying Cimarex's February 17, 2012, well proposal and the corresponding purported election and payment period. *See* Attachment A. Nearburg requests that this well proposal, and the corresponding election and payment period, be stayed until the Division has had an opportunity to address whether this proposed well is authorized by Order R-13357, and if so under what terms and conditions. In conjunction with this motion, Nearburg has filed a Motion to Reopen Case No. 14582 for additional hearing and testimony to address the effect and meaning of Order No. R-13357. In support of this motion, Nearburg states:

1. Cimarex's February 17, 2012, letter proposes to drill the Lynch 23 Federal No. 3H well in the E/2 E/2 of Section 23, Township 20 South, Range 34 East, N.M.P.M., Lea County, New Mexico, at "a depth of approximately 10,500 feet to test the Bone Spring formation...." *See* Attachment A at p. 1, para. 2 (emphasis added). Cimarex's letter further suggests this well proposal

is submitted under Order No. 13357 and that this Order will serve as “our Operating Agreement to govern the operations” for this proposed horizontal well. *Id.* at paras. 1, 4.

2. The Authority for Expenditure accompanying Cimarex’s letter indicates that the target for the proposed horizontal well is the Second Bone Spring reservoir, which exists in this area at a depth of approximately 10,500 feet.

3. Order No. 13357 was entered in January of 2011 and creates a non-standard 160-acre oil spacing and proration unit consisting of the E/2 E/2 of Section 23. *See* Ordering ¶ 1. This Order further pools the uncommitted interest owners “in the Bone Spring formation” underlying this non-standard spacing and proration unit for the purpose of drilling the Lynch 23 Federal Well No. 2H. *See* Ordering ¶¶ 2, 3.

4. Order No. 13357 does not identify the depth to which the Lynch Federal Well No. 2H was to be drilled nor the Bone Spring reservoir targeted by this approved horizontal well. However, the record supporting Order No. 13357 demonstrates the Federal Well No. 2H targeted the Third Bone Spring reservoir at a depth of approximately 11,089 feet. *See* Case No. 14582 Tr. 1/6/2011 at 10:14-16 (“The target that we will be drilling for is the third Bone Spring sand down at 11,089 feet TBD.”).

5. Cimarex’s geologist in Case No. 14582 confirmed that the Third Bone Spring reservoir is a “deeper and different sand” from other reservoirs within the Bone Spring formation. Tr. at 10:19. Cimarex’s geologist further confirmed that there is no communication between the Third Bone Spring reservoir and the shallower producing reservoirs within the Bone Spring formation, such as the Second Bone Spring reservoir. Tr. at 12:14-16. Accordingly, Cimarex’s testimony in support of the non-standard spacing and proration unit was limited to an analysis and study of the Third Bone Spring reservoir. Tr. at 10-12.

6. It is undisputed that the Bone Spring formation consists of at least four separate and geologically distinct reservoirs: The Leonard or Avalon Shale reservoir, the First Bone Spring reservoir, the Second Bone Spring reservoir, and the Third Bone Spring reservoir.

7. Despite the fact that Order No. 13357 was issued for the purpose of drilling a well in the *Third* Bone Spring reservoir, Cimarex's February 17, 2012, letter purports to utilize this same pooling order to require Nearburg to make an election within 30 days on the drilling of a horizontal well at 10,500 feet "to test" the *Second* Bone Spring reservoir—a shallower, independent and geologically distinct producing reservoir. *See* Attachment A.

8. Nothing in Order No. 13357 authorizes the drilling of a well other than the Lynch 23 Federal State Well No. 2H.

9. Nothing in Order No. 13357, or the supporting case file, authorizes the pooling and drilling of a "test well" in the Second Bone Spring reservoir.

10. Nothing in Order No. 13357, or the supporting case file, supports the creation of a non-standard spacing and proration unit for any producing reservoir in the Bone Spring formation other than the Third Bone Spring reservoir.

11. Nothing in Order No. 13357 requires Nearburg or any other interest owner in the E/2 E/2 of Section 23 to make an election "within thirty (30) days of receipt" of a proposal to drill a test well in the Second Bone Spring reservoir.

12. Cimarex's suggestion that a test well in the Second Bone Spring reservoir is authorized by Order R-13357 is fraught with problems, including the fact that:

- (a) All of the geologic testimony in Case No. 14582 was devoted to the Third Bone Spring reservoir; there is no testimony to support a non-standard spacing and proration unit for a well in the Second Bone Spring reservoir, the First Bone Spring reservoir, or the Avalon Shale reservoir within the Bone Spring formation.

(b) There is no debate that the Third Bone Spring reservoir is an independent and geologically distinct producing interval from the Second Bone Spring reservoir.

(c) None of the interest owners were put on notice that Cimarex sought to create a non-standard spacing and proration unit, and pool the interests under that unit, for anything other than a well in the Third Bone Spring reservoir.

(d) Order R-13357 does not authorize or anticipate a well in the Second Bone Spring reservoir, or any of the other distinct producing reservoirs in the Bone Spring formation. The Order, therefore, does not address whether a separate allowable is necessary and appropriate to prevent waste and protect correlative rights when multiple wells within a non-standard spacing and proration unit are producing from discrete and geologically separate reservoirs.

(e) Nearburg and other interest owners did not agree to participate in the well completed in the Third Bone Spring reservoir. Now that a well is proposed to test a different reservoir (the Second Bone Spring reservoir), there will likely be different elections and therefore differences in the participants in the revenue streams from the wells. If these wells have a shared allowable, there is considerable incentive for the operator to allocate the allowable to the Third Bone Spring well to the detriment of the Second Bone Spring well, thereby impairing the cash flow from the Second Bone Spring well.

13. An interest owner, such as Nearburg, cannot make an informed economic analysis and decision on a proposed well when it is not clear what allowable will be assigned to that well and what effect an existing well producing from a discrete and geologically separate reservoir will have on the assigned allowable.

14. In New Mexico, interests in oil and gas rights are constitutionally protected property rights subject to strict due process and other procedural protections. *Udden v. New Mexico Oil Conservation Comm'n*, 112 N.M. 528, 530, 817 P.2d 721 (1991).

15. Neither the record in Case No. 14582 nor the provisions of Order R-13357 address the drilling of a well in Second Bone Spring reservoir, and Nearburg was certainly not put on notice that the pooling order sought by Cimarex would extend to a "test well" in another, geologically distinct reservoir within the Bone Spring formation.

16. A stay of the election and payment period for Cimarex's proposed horizontal well in the Second Bone Spring reservoir is appropriate until such time as the Division has had the opportunity to address whether this second well is authorized by Order R-13357, and if so under what terms and conditions.

WHEREFORE, Nearburg requests that the Division enter an emergency order staying Cimarex's proposal to drill a test well in the Second Bone Spring reservoir under Order No. 13357, and the purported election and payment period, until the Division has had an opportunity to address whether Cimarex's proposed well is authorized by Order R-13357, and if so, under what terms and conditions.

Respectfully submitted,

HOLLAND & HART LLP

By: 

Michael H. Feldewert

Adam G. Rankin

Post Office Box 2208

Santa Fe, New Mexico 87504-2208

Phone: (505) 988-4421

Facsimile: (505) 983-6043

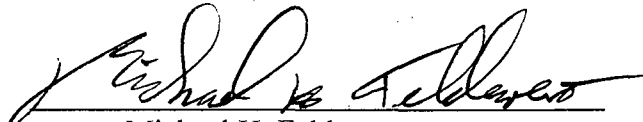
**ATTORNEYS FOR
NEARBURG EXPLORATION COMPANY, L.L.C.**

CERTIFICATE OF SERVICE

I hereby certify that on March 21, 2012, I served a copy of the foregoing upon the following

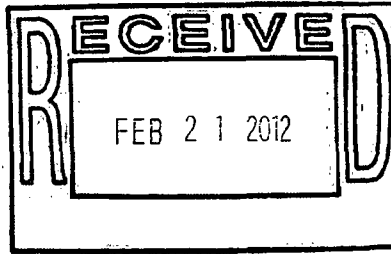
via Electronic Mail:

James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504-1056
(505) 982-2043
(505) 982-2151 Facsimile
jamesbruca@aol.com



Michael H. Feldewert

Cimarex Energy Co.
600 N. Marienfeld St.
Suite 600
Midland, Texas 79701
PHONE 432.571.7800



February 17, 2012

Nearburg Exploration Company, L.L.C.
Attn: Russell Wickman
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705-5421

Certified Mail-Return Receipt Requested No. 91 7108 2133 3938 9332 6597

Re: Proposal to Drill
Lynch 23 Federal #3H Well
E/2 E/2, Sec.23-T20S-R34E
Lea County, New Mexico

Dear Sir/Madam:

Cimarex Energy Co. hereby proposes the Lynch 23 Federal #3H Well under the NMOCD Order No. 13357 at a legal location in E/2 E/2, Sec. 23-T20S-R34E, Lea County, New Mexico.

The intended surface hole location for the well is approximately 305 feet FNL and 560 feet FEL and the intended bottom hole location is approximately 330 feet FSL, 660 feet FEL. The well is proposed to be drilled vertically to a depth of approximately 10,500 feet to test the Bone Spring formation and laterally in a southerly direction within the formation to the referenced bottom hole location. Total measured depth of the well is proposed to be approximately 14,975 feet from surface to terminus.

It should be understood that compliance with topography or cultural or environmental concerns, among others, might require modification of Cimarex's intended procedure. Cimarex will advise you of any such modifications.

Enclosed, in duplicate, is (i) our detailed AFE reflecting estimated costs associated with this proposal, and; (ii) one (1) copy of the NMOCD Order No. 13357, which will serve as our Operating Agreement to govern the operations of the Lynch 23 Federal No. 3H Well. If you intend to participate, please approve and return one (1) original of the enclosed AFE, along with the contact information to receive your well data, to the undersigned within thirty (30) days of receipt of this proposal. If you elect to purchase your own well control insurance, you must provide a certificate of such insurance to Cimarex prior to commencement of drilling operations; otherwise, you will be covered by insurance procured by Cimarex and will be responsible for your share of the cost.

ATTACHMENT

A

Please call the undersigned with any questions or comments.

Respectfully,

A handwritten signature in black ink, appearing to be 'Mike Wallace', with a long horizontal flourish extending to the right.

Mike Wallace

Landman

Phone: (432) 571-7873

Cell: (432) 301-0467

mwallace@cimarex.com

Well Proposal
February 17, 2012

**ELECTION TO PARTICIPATE
Lynch 23 Federal No. 3H Well
E/2 E/2, Sec. 23-T205-R34E, Lea Co., NM**

_____ Elects **TO** participate in the proposed Lynch 23 Federal No. 3H Well.

_____ Elects **NOT** to participate in the proposed Lynch 23 Federal No. 3H Well.

Dated this _____ day of _____, 2012.

Signature: _____

Title: _____

If your election above is TO participate in the proposed Lynch 23 Federal No. 3H Well, then:

_____ Elects **TO** be covered by well control insurance procured by Cimarex Energy Co.

_____ Elects **NOT** to be covered by well control insurance procured by Cimarex Energy Co. and agrees to provide Cimarex Energy Co. with a certificate of insurance prior to commencement of drilling operations or be deemed to have elected to be covered by well control insurance procured by Cimarex Energy Co.

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:

CASE NO. 14582
ORDER NO. R-13357

APPLICATION OF CIMAREX ENERGY CO. FOR APPROVAL OF A NON-
STANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on January 6, 2011 at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 7th day of February, 2011, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) Cimarex Energy Co. ("Applicant"), seeks approval of a non-standard 160-acre oil spacing and proration unit and project area ("the Unit") in the Bone Spring formation consisting of the E/2 of the E/2 (Units A, H, I and P) of Section 23, Township 20 South, Range 34 East, NMPM, in Lea County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit in the Bone Spring formation [South Lea-Bone Spring Pool (37580)].

(3) The Unit is to be dedicated to Applicant's Lynch 23 Federal Well No. 2H ("the proposed well"), a horizontal well to be drilled from a standard surface location in the northeast quarter of the northeast quarter (Unit A) of Section 23. The well will penetrate the Bone Spring formation at a standard oil well location in the northeast quarter of the northeast quarter (Unit A) of Section 23 and continue horizontally in the Bone Spring to a standard terminus, or bottomhole location, in the southeast quarter of the southeast quarter (Unit P) of Section 23.

(4) Spacing in the South Lea-Bone Spring Pool is governed by statewide Rule 15.9.A, which provides for standard, 40-acre units, each comprising a governmental quarter-quarter section. The Unit consists of four adjacent quarter-quarter sections.

(5) Applicant appeared at the hearing through counsel and presented geologic evidence by affidavit to the effect that:

(a) this area is suitable for development by horizontal drilling; and

(b) all quarter-quarter sections to be included in the Unit are expected to be productive in the Bone Spring, so that formation of the Unit as requested will not impair correlative rights.

(6) No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes that:

(7) Approval of the proposed non-standard unit will enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste, and will not impair correlative rights.

(8) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(9) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the Unit at the proposed location.

(10) There are interest owners in the Unit that have not agreed to pool their interests. There are no unlocated owners in the Unit, and there is no evidence of a title dispute.

(11) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(12) Cimerex Energy Co. [OGRID 215099] should be designated the operator of the proposed well and of the Unit.

(13) Any pooled 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.

(14) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,000 per month while drilling and \$700 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations."

IT IS THEREFORE ORDERED THAT:

(1) A non-standard 160-acre oil spacing and proration unit (the Unit) is hereby established in the South Lea-Bone Spring Pool (37580), consisting of the E/2 E/2 of Section 23, Township 20 South, Range 34 East, NMPM, in Lea County, New Mexico.

(2) Pursuant to the application of Cimarex Energy Co., all uncommitted interests, whatever they may be, in the oil and gas in the Bone Spring formation underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to Applicant's Lynch 23 Federal Well No. 2H ("the proposed well"), a horizontal well to be drilled from a standard surface in the northeast quarter of the northeast quarter (Unit A) of Section 23. The well will penetrate the Bone Spring formation at a standard oil well location in the northeast quarter of the northeast quarter (Unit A) of Section 23 and continue horizontally in the Bone Spring to a standard terminus, or bottomhole location, in the southeast quarter of the southeast quarter (Unit P) of Section 23.

(4) The operator of the Unit shall commence drilling the proposed well on or before February 1, 2012, and shall thereafter continue drilling the well with due diligence to test the Bone Spring formation.

(5) In the event the operator does not commence drilling the proposed well on or before February 1, 2012, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraphs (1) and (2) shall be of no further effect, and the unit and project area created by this order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence. If the proposed well is not completed in all of the quarter-quarter sections included in the proposed unit within 120 days after commencement of drilling, then the operator shall apply to the Division for an amendment to this Order to contract the Unit so that it includes only those quarter-quarter sections in which the well is completed.

(7) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule 13.9, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(8) Cimarex Energy Co. [OGRID 215099] is hereby designated the operator of the proposed well and of the Unit.

(9) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(10) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(11) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(12) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(13) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and

- (b) as a charge for the risk involved in drilling the well,
200% of the above costs.

(14) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(15) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7,000 per month while drilling and \$700 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III 1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

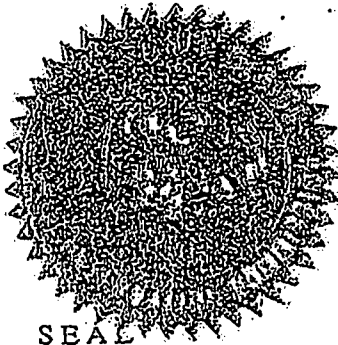
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(17) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(18) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(19) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


DANIEL SANCHEZ
Acting Director



Project Cost Estimate

Lease Name: Lynch 23 Fed

Well No.: #3

Intangibles	Codes	Dry Hole Cost	Codes	After Casing Point	Completed Well Cost
Roads & Location Preparation / Restoration	DICC 100	\$70,000	DICC 100	\$10,000	\$80,000
Damages	DICC 105	\$5,000	DICC 105	\$0	\$5,000
Mud / Fluids Disposal Charges	DICC 255	\$90,000	DICC 235	\$105,000	\$195,000
Day Rate 35.5 DH Days 4.5 ACP Days @ 20,000 Per Day	DICC 115	\$710,000	DICC 120	\$90,000	\$800,000
Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)	DICC 120	\$45,000			\$45,000
Bits	DICC 125	\$110,000	DICC 125	\$0	\$110,000
Fuel \$3.50 Per Gallon 1000 Gallons Per Day	DICC 135	\$130,000	DICC 130	\$16,000	\$146,000
Water / Completion Fluids Per Day	DICC 140	\$60,000	DICC 135	\$149,000	\$209,000
Mud & Additives	DICC 145	\$75,000			\$75,000
Surface Rentals 1,000 Per Day	DICC 150	\$36,000	DICC 140	\$150,000	\$186,000
Downhole Rentals	DICC 155	\$124,000	DICC 145	\$10,000	\$134,000
Formation Evaluation (DST, Coring including evaluation, G&G Services)	DICC 160	\$0			\$0
Mud Logging 15 Days @ 1,200 Per Day	DICC 170	\$21,000			\$21,000
Open Hole Logging	DICC 180	\$0			\$0
Cementing & Float Equipment	DICC 185	\$130,000	DICC 155	\$110,000	\$240,000
Tubular Inspections	DICC 190	\$10,000	DICC 160	\$2,000	\$12,000
Casing Crews	DICC 195	\$23,000	DICC 165	\$18,000	\$41,000
Extra Labor, Welding, Etc.	DICC 200	\$15,000	DICC 170	\$8,000	\$23,000
Land Transportation (Trucking)	DICC 205	\$15,000	DICC 175	\$20,000	\$35,000
Supervision 1,700 Per Day	DICC 210	\$74,000	DICC 180	\$30,000	\$104,000
Trailer House / Camp / Catering 700 Per Day	DICC 280	\$34,000	DICC 255	\$5,000	\$39,000
Other Misc Expenses	DICC 220	\$1,000	DICC 190	\$35,000	\$36,000
Overhead 300 Per Day	DICC 225	\$11,000	DICC 195	\$2,000	\$13,000
Remedial Cementing	DICC 231	\$0	DICC 215	\$0	\$0
MOB/DEMOB	DICC 240	\$150,000			\$150,000
Directional Drilling Services 14 Days @ 14,000 Per Day	DICC 245	\$196,000			\$196,000
Dock, Dispatcher, Crane	DICC 250	\$0	DICC 230	\$0	\$0
Marine & Air Transportation	DICC 275	\$0	DICC 250	\$0	\$0
Solids Control 1,100 Per Day	DICC 260	\$39,000			\$39,000
Well Control Equip (Snubbing Svcs.)	DICC 265	\$36,000	DICC 240	\$14,000	\$50,000
Fishing & Sidetrack Operations	DICC 270	\$0	DICC 245	\$0	\$0
Completion Rig 4 Days @ 4,000 Per Day			DICC 115	\$16,000	\$16,000
Coil Tubing 3 Days @ 50,000 Per Day			DICC 260	\$150,000	\$150,000
Completion Logging, Perforating, WL Units, WL Surveys			DICC 200	\$70,000	\$70,000
Stimulation			DICC 210	\$2,050,000	\$2,050,000
Legal / Regulatory / Curative	DICC 300	\$10,000	DICC 280	\$0	\$10,000
Well Control Insurance \$0.35 Per Foot	DICC 285	\$5,000			\$5,000
Contingency 5% of Drilling Intangibles	DICC 435	\$111,000	DICC 220	\$153,000	\$264,000
Construction For Well Equipment			DWEA 115	\$15,000	\$15,000
Construction For Lease Equipment			DLEQ 110	\$10,000	\$10,000
Construction For Sales P/L			DICC 265	\$0	\$0
Total Intangible Cost		\$2,336,000		\$3,238,000	\$5,574,000

Tangible - Well Equipment				
Casing	Size	Feet	\$ / Foot	
Drive Pipe				DWEB 150 \$0 \$0
Conductor Pipe				DWEB 130 \$0 \$0
Water String				DWEB 135 \$0 \$0
Surface Casing	13 3/8"	1665.00	\$53.00	DWEB 140 \$88,000 \$88,000
Intermediate Casing	9 5/8"	5500.00	\$44.00	DWEB 145 \$242,000 \$242,000
Drilling Liner				DWEB 145 \$0 \$0
Drilling Liner				DWEB 145 \$0 \$0
Production Casing or Liner	5 1/2"	15000.00	\$21.00	DWEA 100 \$315,000 \$315,000
Production Tie-Back				DWEA 100 \$0 \$0
Tubing	2 7/8"	10000.00	\$8.00	DWEA 105 \$80,000 \$80,000
N/C Well Equipment				DWEA 115 \$35,000 \$35,000
Wellhead, Tree, Chokes				DWEB 115 \$26,000 DWEA 120 \$19,000 \$45,000
Liner Hanger, Isolation Packer				DWEB 100 \$0 DWEA 125 \$0 \$0
Packer, Nipples				DWEA 130 \$15,000 \$15,000
Pumping Unit, Engine				DLEQ 100 \$125,000 \$125,000
Lift Equipment (BHP, Rods, Anchors)				DLEQ 105 \$50,000 \$50,000
Tangible - Lease Equipment				
N/C Lease Equipment				DLEQ 115 \$10,000 \$10,000
Tanks, Tanks Steps, Stairs				DLEQ 120 \$0 \$0
Battery (Heater Treater, Separator, Gas Treating Equipment)				DLEQ 125 \$25,000 \$25,000
Flow Lines (Line Pipe from wellhead to central facility)				DLEQ 130 \$15,000 \$15,000
Offshore Production Structure for Facilities				DWEA 135 \$0 \$0
Pipeline to Sales				DWEA 140 \$0 \$0
Total Tangibles			\$356,000	\$689,000 \$1,045,000

P&A Costs	DICC 295	\$150,000	DICC 275	-\$150,000	\$0
Total Cost		\$2,842,000		\$3,777,000	\$6,619,000



Authorization For Expenditure

Company Entry
Cimarex Energy Co.Date Prepared
February 6, 2012

Region	Well Name	Well No.	Prospect or Field Name	Property Number	Drilling AFE No.
Permian	Lynch 23 Fed	#8	Quail Ridge		

Location	County	State	Type Well
Sec 23 / T20S / R34E SHL: 305' FNL & 560' FEL, BHL: 330' FSL & 660' FEL	Lea	NM	Oil <input checked="" type="checkbox"/> Expl <input checked="" type="checkbox"/> Gas <input type="checkbox"/> Prod <input type="checkbox"/>

Estimate Type	Est. Start Date	Est. Comp Date	Formation	Ttl Measured Depth
Original Estimate <input checked="" type="radio"/>			2nd Bone Spring	14,975'
Revised Estimate <input type="radio"/>				Ttl Vertical Depth
Supplemental Estimate <input type="radio"/>				10,500'

Project Description
Drill and complete a Bone Spring Horizontal Producer

	Dry Hole Cost	After Casing Point	Completed Well Cost
Intangibles			
Drilling Costs	\$2,435,000		\$2,335,000
Completion Costs		\$3,238,000	\$3,238,000
Total Intangible Costs	\$2,336,000	\$3,238,000	\$5,574,000
Tangibles			
Well Equipment	\$355,000	\$639,000	\$895,000
Lease Equipment		\$50,000	\$50,000
Total Tangible Well Cost	\$355,000	\$689,000	\$1,045,000
Plug and Abandon Cost	\$150,000	-\$150,000	\$0
Total Well Cost	\$2,842,000	\$3,777,000	\$6,619,000

Comments on Well Costs
1. All tubulars, well or lease equipment is priced by COPAS and CEPS guidelines using the Historic Price Multiplier.

Well Control Insurance
Unless otherwise indicated below, you, as a non-operating working interest owner, agree to be covered by Operator's well control insurance procured by Operator so long as Operator conducts operations hereunder and to pay your prorated share of the premiums therefore. If you elect to purchase your own well control insurance, you must provide a certificate of such insurance acceptable to Operator, as to form and limits, at the time this AFE is returned, if available, but in no event later than commencement of drilling operations. You agree that failure to provide the certificate of insurance, as provided herein, will result in your being covered by insurance procured by Operator.

☐ I elect to purchase my own well control insurance policy.

Well control insurance procured by Operator, provides, among other terms, for \$20,000,000 (100% W.I.) of Combined Single Limit coverage for well control and related redrilling and clean-up/pollution expense covering drilling (through completion) with a \$1,000,000 (100% W.I.) deductible.

Marketing Election
Cimarex sells its gas under arm's-length contracts with third party purchasers. Such contracts may include fees. In addition, penalties may be incurred for insufficient volumes delivered over time. Should you choose to market your share of gas with Cimarex, you will be subject to all of the terms of such contracts. Upon written request to Cimarex's Marketing Department, we will share with you the terms and conditions pursuant to which gas will be sold.

☐ I elect to take my gas in kind.☐ I elect to market my gas with Cimarex pursuant to the terms and conditions of its contracts.

Comments on AFE
The above costs are estimates only and anticipate trouble free operations without any foreseeable change in plans. The actual costs may exceed the estimated costs without affecting the authorization for expenditure herein granted. By approval of this AFE, the working interest owner agrees to pay its proportionate share of actual legal, curative, regulatory and well costs under term of the joint operating agreement, regulatory order or other applicable agreement covering this well.

Cimarex Energy Co. Approval

Prepared by	Drilling and Completion Manager	Regional Manager
Steve Heitzman	Doug Park	Roger Alexander

Joint Interest Approval

Company	By	Date
Nearburg Exploration Company, L.L.C.		

Terrence Cant
Midland ManagerLand
Geology
Engineering
Operations

2/17/2012 11:21 AM

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:

CASE NO. 14582
ORDER NO. R-13357

APPLICATION OF CIMAREX ENERGY CO.
FOR APPROVAL OF A NON-STANDARD OIL
SPACING AND PRORATION UNIT AND
COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

MOTION TO REOPEN CASE NO. 14582 FOR ADDITIONAL HEARING
ON THE EFFECT AND MEANING OF ORDER R-13357

RECEIVED OGD
2012 MAR 21 PM 3:24

Nearburg Exploration Company, L.L.C. ("Nearburg"), a party of record to this proceeding, hereby applies to re-open Case No. 14582 under the Division's retained jurisdiction in Order R-13357. Nearburg seeks a determination of the following: (a) whether the Order authorizes Cimarex Energy Company ("Cimarex") to propose and drill a well in the Second Bone Spring reservoir when all the testimony and exhibits supporting the non-standard spacing and proration unit were directed to a well drilled in the *Third* Bone Spring reservoir; (b) whether the Order properly created a single non-standard spacing and proration unit for all of the independently producing reservoirs in the Bone Spring formation, including the Avalon Shale, the First Bone Spring and the Second Bone Spring reservoirs; (c) if the Order authorizes Cimarex to propose and drill a well in the Second Bone Spring reservoir, then under what terms and conditions; and (d) if the Order authorizes wells in all of the separate and discrete producing reservoirs within the Bone Spring formation, then whether separate allowables should be assigned for each independently producing reservoir in the Bone Spring formation to prevent waste and protect correlative rights. In support of this application, Nearburg states:

1. Order R-13357 created a non-standard 160-acre spacing and proration unit in the South Lea-Bone Spring Pool (37580), consisting of the E/2 E/2 of Section 23, Township 20 South, Range 34 East, N.M.P.M., in Lea County, New Mexico. Order R-13357, Ordering ¶ 1.

2. The Order designated Cimarex operator of the unit and pooled “all uncommitted interests . . . in the oil and gas in the Bone Spring formation underlying” the non-standard unit. Order R-13357, Ordering ¶ 2.

3. The Order dedicated the unit to Cimarex’s Lynch 23 Federal Well No. 2H, a horizontal well to be drilled from the NE/4 NE/4 to the SE/4 SE/4 of said Section 23. Order R-13357, Ordering ¶ 3.

4. Cimarex testified that the only target for the Lynch 23 Federal Well No. 2H was the Third Bone Spring reservoir and all testimony and evidence in support of Cimarex’s application was limited to this reservoir. *See, e.g.*, Case No. 14582 Tr. 1/6/2011 at 10-12. No other producing reservoirs in the Bone Spring formation were noticed, identified, or evaluated at the hearing in support of the application.

5. During the hearing in this matter, Cimarex’s geologist confirmed that the Third Bone Spring reservoir is a deeper, geologically distinct reservoir that does not communicate with shallower Bone Spring reservoirs. Tr. at 10:14-19 and 12:12-16.

6. Cimarex’s geologist further testified that each of the quarter-quarter sections comprising the non-standard unit would contribute more or less equally to production from the Third Bone Spring reservoir through the proposed Lynch 23 Federal Well No. 2H. Tr. at 11:15-21. Cimarex proffered no evidence, however, to support a finding that a well drilled in any other producing reservoir within the Bone Spring formation would contribute equally to the non-standard unit.

7. There was no notice, evidence, or testimony informing Nearburg or any other interest owner that any reservoir other than the Third Bone Spring would be the target of development under the proposed non-standard spacing and proration unit.

8. Having drilled the Lynch 23 Federal Well No. 2H into the Third Bone Spring reservoir, Cimarex now proposes to drill the Lynch 23 Federal Well No. 3H “to test” the shallower and discrete Second Bone Spring reservoir. *See Attachment A.*

9. Cimarex’s well proposal letter contends that this test well in the Second Bone Spring reservoir is authorized by Order R-13357, that an election on this well must be made within 30 days, and that Order R-13357 is the Operating Agreement governing operations of this new test well. *Id.*

10. However, Order No. 13357 does not authorize the drilling of a well other than the Lynch 23 Federal State Well No. 2H; the Order does not authorize the pooling and drilling of a “test well” in the Second Bone Spring reservoir; neither the Order nor the supporting case file supports the creation of a non-standard spacing and proration unit in the Second Bone Spring reservoir; and nothing in Order No. 13357 requires Nearburg or any other interest owners in the E/2 E/2 of Section 23 to make an election within thirty (30) days of receipt of a proposal to drill a test well in the Second Bone Spring reservoir.

11. Because there will be different elections and participation rates in the wells that target the disparate reservoirs within the non-standard unit, the Order creates an incentive for the operator to allocate the allowable assigned to the proration and spacing unit to wells in a way that favors itself, but that impairs the correlative rights of other working interests in the unit.

12. In light of these circumstances, it is clear that Order R-13357 requires the immediate attention of the Division to clarify the Order’s meaning and intent, ensure that correlative rights are protected.

WHEREFORE, Nearburg requests that the Division re-open Case No. 14852 and set the matter for additional hearing at the next available Examiner docket to consider and address:

(a) whether Order R-13357 authorizes Cimarex to propose and drill a well in the *Second* Bone Spring reservoir;

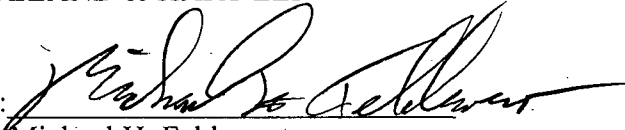
(b) whether the Order properly created a single non-standard spacing and proration unit for all of the independently producing reservoirs in the Bone Spring formation, including the Avalon Shale, the First Bone Spring and the Second Bone Spring reservoirs;

(c) if the Order authorizes Cimarex to propose and drill a well in the Second Bone Spring reservoir, then under what terms and conditions; and

(d) if the Order authorizes wells in all of the separate and discrete producing reservoirs within the Bone Spring formation, then whether separate allowables should be assigned for each independently producing reservoir in the Bone Spring formation to prevent waste and protect correlative rights.

Respectfully submitted,

HOLLAND & HART LLP

By: 

Michael H. Feldewert

Adam G. Rankin

Post Office Box 2208

Santa Fe, New Mexico 87504-2208

Phone: (505) 988-4421

Facsimile: (505) 983-6043

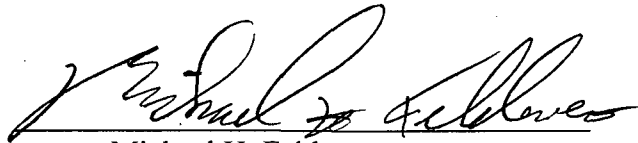
**ATTORNEYS FOR
NEARBURG EXPLORATION COMPANY, L.L.C.**

CERTIFICATE OF SERVICE

I hereby certify that on March 21, 2012, I served a copy of the foregoing upon the following

via Electronic Mail:

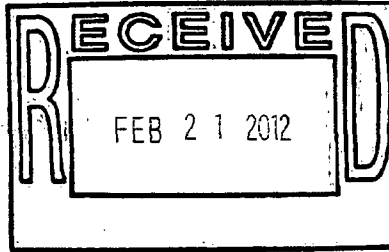
James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504-1056
(505) 982-2043
(505) 982-2151 Facsimile
jamesbruca@aol.com

A handwritten signature in black ink, appearing to read "Michael H. Feldewert", written over a horizontal line.

Michael H. Feldewert

5464332_3.DOCX

Cimarex Energy Co.
600 N. Marienfeld St.
Suite 600
Midland, Texas 79701
PHONE 432.571.7800



February 17, 2012

Nearburg Exploration Company, L.L.C.
Attn: Russell Wickman
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705-5421

Certified Mail-Return Receipt Requested No. 91 7108 2133 3938 9332 6597

Re: Proposal to Drill
Lynch 23 Federal #3H Well
E/2 E/2, Sec.23-T20S-R34E
Lea County, New Mexico

Dear Sir/Madam:

Cimarex Energy Co. hereby proposes the Lynch 23 Federal #3H Well under the NMOCD Order No. 13357 at a legal location in E/2 E/2, Sec. 23-T20S-R34E, Lea County, New Mexico.

The intended surface hole location for the well is approximately 305 feet FNL and 560 feet FEL and the intended bottom hole location is approximately 330 feet FSL, 660 feet FEL. The well is proposed to be drilled vertically to a depth of approximately 10,500 feet to test the Bone Spring formation and laterally in a southerly direction within the formation to the referenced bottom hole location. Total measured depth of the well is proposed to be approximately 14,975 feet from surface to terminus.

It should be understood that compliance with topography or cultural or environmental concerns, among others, might require modification of Cimarex's intended procedure. Cimarex will advise you of any such modifications.

Enclosed, in duplicate, is (i) our detailed AFE reflecting estimated costs associated with this proposal, and; (ii) one (1) copy of the NMOCD Order No. 13357, which will serve as our Operating Agreement to govern the operations of the Lynch 23 Federal No. 3H Well. If you intend to participate, please approve and return one (1) original of the enclosed AFE, along with the contact information to receive your well data, to the undersigned within thirty (30) days of receipt of this proposal. If you elect to purchase your own well control insurance, you must provide a certificate of such insurance to Cimarex prior to commencement of drilling operations; otherwise, you will be covered by insurance procured by Cimarex and will be responsible for your share of the cost.

ATTACHMENT
A

Please call the undersigned with any questions or comments.

Respectfully,

A handwritten signature in black ink, appearing to be 'Mike Wallace', with a long horizontal flourish extending to the right.

Mike Wallace

Landman

Phone: (432) 571-7873

Cell: (432) 301-0467

mwallace@cimarex.com

Well Proposal
February 17, 2012

**ELECTION TO PARTICIPATE
Lynch 23 Federal No. 3H Well
E/2 E/2, Sec. 23-T20S-R34E, Lea Co., NM**

_____ Elects **TO** participate in the proposed Lynch 23 Federal No. 3H Well.

_____ Elects **NOT** to participate in the proposed Lynch 23 Federal No. 3H Well.

Dated this _____ day of _____, 2012.

Signature: _____

Title: _____

If your election above is TO participate in the proposed Lynch 23 Federal No. 3H Well, then:

_____ Elects **TO** be covered by well control insurance procured by Cimarex Energy Co.

_____ Elects **NOT** to be covered by well control insurance procured by Cimarex Energy Co. and agrees to provide Cimarex Energy Co. with a certificate of insurance prior to commencement of drilling operations or be deemed to have elected to be covered by well control insurance procured by Cimarex Energy Co.

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:

CASE NO. 14582
ORDER NO. R-13357

APPLICATION OF CIMAREX ENERGY CO. FOR APPROVAL OF A NON-
STANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on January 6, 2011 at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 7th day of February, 2011, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) Cimarex Energy Co. ("Applicant"), seeks approval of a non-standard 160-acre oil spacing and proration unit and project area ("the Unit") in the Bone Spring formation consisting of the E/2 of the E/2 (Units A, H, I and P) of Section 23, Township 20 South, Range 34 East, NMPPM, in Lea County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit in the Bone Spring formation [South Lea-Bone Spring Pool (37580)].

(3) The Unit is to be dedicated to Applicant's Lynch 23 Federal Well No. 2H ("the proposed well"), a horizontal well to be drilled from a standard surface location in the northeast quarter of the northeast quarter (Unit A) of Section 23. The well will penetrate the Bone Spring formation at a standard oil well location in the northeast quarter of the northeast quarter (Unit A) of Section 23 and continue horizontally in the Bone Spring to a standard terminus, or bottomhole location, in the southeast quarter of the southeast quarter (Unit P) of Section 23.

(4) Spacing in the South Lea-Bone Spring Pool is governed by statewide Rule 15.9.A, which provides for standard, 40-acre units, each comprising a governmental quarter-quarter section. The Unit consists of four adjacent quarter-quarter sections.

(5) Applicant appeared at the hearing through counsel and presented geologic evidence by affidavit to the effect that:

(a) this area is suitable for development by horizontal drilling; and

(b) all quarter-quarter sections to be included in the Unit are expected to be productive in the Bone Spring, so that formation of the Unit as requested will not impair correlative rights.

(6) No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes that:

(7) Approval of the proposed non-standard unit will enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste, and will not impair correlative rights.

(8) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(9) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the Unit at the proposed location.

(10) There are interest owners in the Unit that have not agreed to pool their interests. There are no unlocated owners in the Unit, and there is no evidence of a title dispute.

(11) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(12) Cimerex Energy Co. [OGRID 215099] should be designated the operator of the proposed well and of the Unit.

(13) Any pooled 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.

(14) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,000 per month while drilling and \$700 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations."

IT IS THEREFORE ORDERED THAT:

(1) A non-standard 160-acre oil spacing and proration unit (the Unit) is hereby established in the South Lea-Bone Spring Pool (37580), consisting of the E/2 E/2 of Section 23, Township 20 South, Range 34 East, NMPM, in Lea County, New Mexico.

(2) Pursuant to the application of Cimarex Energy Co., all uncommitted interests, whatever they may be, in the oil and gas in the Bone Spring formation underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to Applicant's Lynch 23 Federal Well No. 2H ("the proposed well"), a horizontal well to be drilled from a standard surface in the northeast quarter of the northeast quarter (Unit A) of Section 23. The well will penetrate the Bone Spring formation at a standard oil well location in the northeast quarter of the northeast quarter (Unit A) of Section 23 and continue horizontally in the Bone Spring to a standard terminus, or bottomhole location, in the southeast quarter of the southeast quarter (Unit P) of Section 23.

(4) The operator of the Unit shall commence drilling the proposed well on or before February 1, 2012, and shall thereafter continue drilling the well with due diligence to test the Bone Spring formation.

(5) In the event the operator does not commence drilling the proposed well on or before February 1, 2012, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraphs (1) and (2) shall be of no further effect, and the unit and project area created by this order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence. If the proposed well is not completed in all of the quarter-quarter sections included in the proposed unit within 120 days after commencement of drilling, then the operator shall apply to the Division for an amendment to this Order to contract the Unit so that it includes only those quarter-quarter sections in which the well is completed.

(7) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule 13.9, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(8) Cimarex Energy Co. [OGRID 215099] is hereby designated the operator of the proposed well and of the Unit.

(9) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(10) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(11) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(12) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(13) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and

- (b) as a charge for the risk involved in drilling the well,
200% of the above costs.

(14) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(15) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7,000 per month while drilling and \$700 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

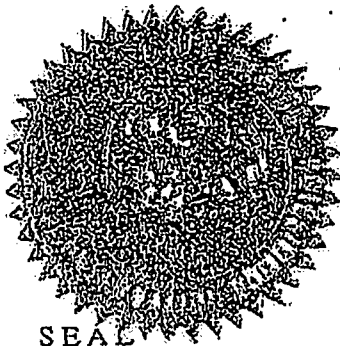
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(17) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(18) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(19) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


DANIEL SANCHEZ
Acting Director



Project Cost Estimate

Lease Name: Lynch 23 Fed

Well No.: #3

Intangibles	Code	Dry Hole Cost	Code	After Casing Point	Completed Well Cost
Roads & Location Preparation / Restoration	DICC 100	\$70,000	DICC 100	\$10,000	\$80,000
Damages	DICC 105	\$5,000	DICC 105	\$0	\$5,000
Mud / Fluids Disposal Charges	DICC 255	\$90,000	DICC 235	\$105,000	\$195,000
Day Rate 35.5 DH Days 4.5 ACP Days @ 20,000 Per Day	DICC 115	\$710,000	DICC 120	\$90,000	\$800,000
Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)	DICC 120	\$45,000			\$45,000
Bits	DICC 125	\$110,000	DICC 125	\$0	\$110,000
Fuel \$3.50 Per Gallon 1000 Gallons Per Day	DICC 135	\$130,000	DICC 130	\$16,000	\$146,000
Water / Completion Fluids Per Day	DICC 140	\$60,000	DICC 135	\$149,000	\$209,000
Mud & Additives	DICC 145	\$75,000			\$75,000
Surface Rentals 1,000 Per Day	DICC 150	\$36,000	DICC 140	\$150,000	\$186,000
Downhole Rentals	DICC 155	\$124,000	DICC 145	\$10,000	\$134,000
Formation Evaluation (DST, Coring including evaluation, G&G Services)	DICC 160	\$0			\$0
Mud Logging 15 Days @ 1,200 Per Day	DICC 170	\$21,000			\$21,000
Open Hole Logging	DICC 180	\$0			\$0
Cementing & Float Equipment	DICC 185	\$130,000	DICC 155	\$110,000	\$240,000
Tubular Inspections	DICC 190	\$10,000	DICC 160	\$2,000	\$12,000
Casing Crews	DICC 195	\$23,000	DICC 165	\$18,000	\$41,000
Extra Labor, Welding, Etc.	DICC 200	\$15,000	DICC 170	\$8,000	\$23,000
Land Transportation (Trucking)	DICC 205	\$15,000	DICC 175	\$20,000	\$35,000
Supervision 1,700 Per Day	DICC 210	\$74,000	DICC 180	\$30,000	\$104,000
Trailer House / Camp / Catering 700 Per Day	DICC 280	\$34,000	DICC 255	\$5,000	\$39,000
Other Misc Expenses	DICC 220	\$1,000	DICC 190	\$35,000	\$36,000
Overhead 300 Per Day	DICC 225	\$11,000	DICC 195	\$2,000	\$13,000
Remedial Cementing	DICC 231	\$0	DICC 215	\$0	\$0
MOB/DEMOB	DICC 240	\$150,000			\$150,000
Directional Drilling Services 14 Days @ 14,000 Per Day	DICC 245	\$196,000			\$196,000
Dock, Dispatcher, Crane	DICC 250	\$0	DICC 230	\$0	\$0
Marine & Air Transportation	DICC 275	\$0	DICC 250	\$0	\$0
Solids Control 1,100 Per Day	DICC 260	\$39,000			\$39,000
Well Control Equip (Snubbing Svcs.)	DICC 265	\$36,000	DICC 240	\$14,000	\$50,000
Fishing & Sidetrack Operations	DICC 270	\$0	DICC 245	\$0	\$0
Completion Rig 4 Days @ 4,000 Per Day			DICC 115	\$16,000	\$16,000
Coil Tubing 3 Days @ 50,000 Per Day			DICC 260	\$150,000	\$150,000
Completion Logging, Perforating, WL Units, WL Surveys			DICC 200	\$70,000	\$70,000
Stimulation			DICC 210	\$2,050,000	\$2,050,000
Legal / Regulatory / Curative	DICC 300	\$10,000	DICC 280	\$0	\$10,000
Well Control Insurance \$0.35 Per Foot	DICC 285	\$5,000			\$5,000
Contingency 5% of Drilling Intangibles	DICC 435	\$11,000	DICC 220	\$153,000	\$264,000
Construction For Well Equipment			DWEA 110	\$15,000	\$15,000
Construction For Lease Equipment			DLEQ 110	\$10,000	\$10,000
Construction For Sales P/L			DICC 365	\$0	\$0
Total Intangible Cost		\$2,336,000		\$3,238,000	\$5,574,000

Tangible - Well Equipment					
Casing	Size	Feet	\$ / Foot		
Drive Pipe				DWEB 150	\$0
Conductor Pipe				DWEB 130	\$0
Water String				DWEB 135	\$0
Surface Casing	13 3/8"	1665.00	\$53.00	DWEB 140	\$88,000
Intermediate Casing	9 5/8"	5500.00	\$44.00	DWEB 145	\$242,000
Drilling Liner				DWEB 145	\$0
Drilling Liner				DWEB 145	\$0
Production Casing or Liner	5 1/2"	15000.00	\$21.00	DWEA 100	\$315,000
Production Tie-Back				DWEA 100	\$0
Tubing	2 7/8"	10000.00	\$8.00	DWEA 105	\$80,000
N/C Well Equipment				DWEA 115	\$35,000
Wellhead, Tree, Chokes				DWEB 115	\$26,000
Liner Hanger, Isolation Packer				DWEB 100	\$0
Packer, Nipples				DWEA 130	\$15,000
Pumping Unit, Engine				DLEQ 100	\$125,000
Lift Equipment (BHP, Rods, Anchors)				DLEQ 105	\$50,000
Tangible - Lease Equipment					
N/C Lease Equipment				DLEQ 115	\$10,000
Tanks, Tanks Steps, Stairs				DLEQ 120	\$0
Battery (Heater Treater, Separator, Gas Treating Equipment)				DLEQ 125	\$25,000
Flow Lines (Line Pipe from wellhead to central facility)				DLEQ 130	\$15,000
Offshore Production Structure for Facilities				DWEA 135	\$0
Pipeline to Sales				DWEA 140	\$0
Total Tangibles				\$356,000	\$689,000
P&A Costs				DICC 295	\$150,000
				DICC 275	-\$150,000
Total Cost				\$2,842,000	\$6,619,000



Authorization For Expenditure

Company Entry
Cimarex Energy Co.Date Prepared
February 6, 2012

Region	Well Name	Well No.	Prospect or Field Name	Property Number	Drilling AFE No.
Permian	Lynch 23 Fed	#3	Quail Ridge		

Location	County	State	Type Well
Sec 23 / T205 / R34E SHL: 305' FNL & 560' FEL, BHL: 330' FSL & 660' FEL	Lea	NM	Oil <input checked="" type="checkbox"/> Expl <input checked="" type="checkbox"/> Gas <input type="checkbox"/> Prod <input type="checkbox"/>

Estimate Type	Est. Start Date	Est. Comp Date	Formation	T/I Measured Depth
Original Estimate <input checked="" type="radio"/>			2nd Bone Spring	14,975'
Revised Estimate <input type="radio"/>				T/I Vertical Depth
Supplemental Estimate <input type="radio"/>				10,500'

Project Description

Drill and complete a Bone Spring Horizontal Producer

Intangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Drilling Costs	\$2,420,000		\$2,555,000
Completion Costs		\$3,238,000	\$3,238,000
Total Intangible Costs	\$2,336,000	\$3,238,000	\$5,574,000
Tangibles			
Well Equipment	\$356,000	\$695,000	\$695,000
Lease Equipment	\$50,000	\$50,000	\$50,000
Total Tangible Well Cost	\$356,000	\$689,000	\$1,045,000
Plug and Abandon Cost	\$150,000	-\$150,000	\$0
Total Well Cost	\$2,842,000	\$3,777,000	\$6,619,000

Comments on Well Costs

1. All tubulars, well or lease equipment is priced by COPAS and CEPS guidelines using the Historic Price Multiplier.

Well Control Insurance

Unless otherwise indicated below, you, as a non-operating working interest owner, agree to be covered by Operator's well control insurance procured by Operator so long as Operator conducts operations hereunder and to pay your prorated share of the premiums therefore. If you elect to purchase your own well control insurance, you must provide a certificate of such insurance acceptable to Operator, as to form and limits, at the time this AFE is returned, if available, but in no event later than commencement of drilling operations. You agree that failure to provide the certificate of insurance, as provided herein, will result in your being covered by insurance procured by Operator.

☐ I elect to purchase my own well control insurance policy.

Well control insurance procured by Operator, provides, among other terms, for \$20,000,000 (100% W.I.) of Combined Single Limit coverage for well control and related redrilling and clean-up/pollution expense covering drilling (through completion) with a \$1,000,000 (100% W.I.) deductible.

Marketing Election

Cimarex sells its gas under arm's-length contracts with third party purchasers. Such contracts may include fees. In addition, penalties may be incurred for insufficient volumes delivered over time. Should you choose to market your share of gas with Cimarex, you will be subject to all of the terms of such contracts. Upon written request to Cimarex's Marketing Department, we will share with you the terms and conditions pursuant to which gas will be sold.

☐ I elect to take my gas in kind.☐ I elect to market my gas with Cimarex pursuant to the terms and conditions of its contracts.

Comments on AFE

The above costs are estimates only and anticipate trouble free operations without any foreseeable change in plans. The actual costs may exceed the estimated costs without affecting the authorization for expenditure herein granted. By approval of this AFE, the working interest owner agrees to pay its proportionate share of actual legal, curative, regulatory and well costs under term of the joint operating agreement, regulatory order or other applicable agreement covering this well.

Cimarex Energy Co. Approval

Prepared by	Drilling and Completion Manager	Regional Manager
Steve Heitzman	Doug Park	Roger Alexander

Joint Interest Approval

Company	By	Date
Nearburg Exploration Company, L.L.C.		

Terrence Cant
Midland ManagerLand
Geology
Engineering
Operations

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