

Cimarex Energy Co.  
5215 N. O'Connor Blvd.  
Suite 1500  
Irving, Texas 75039  
PHONE 972.401.0752  
FAX 972.401.3110



VIA OVERNIGHT MAIL

August 11, 2006

Bruce W. Crockett  
1611 Jackson Street  
Roswell, New Mexico 88201

Re: Caudill South 21 Fee # 2H  
Section 21, Township 15 South, Range 36 East  
Lea County, New Mexico

Gentlemen:

Cimarex Energy Co. proposes to drill a horizontal Wolfcamp test at the following location in Section 21-15S-36E, Lea County, New Mexico:

- Surface Hole Location: 2000' FSL & 940' FWL
- Bottom Hole Location: 1650' FNL & 940' FWL

Enclosed is our detailed AFE reflecting estimated well costs.

If you intend to participate, please execute the AFE and return to me as soon as possible, and I will contact you regarding the joint operating agreement.

If you do not intend to participate, we respectfully request that you consider leasing your unleased mineral interest in Section 21 to Cimarex under the following terms:

- \$200/Acre, 3/16 Royalty, 3 years

Please do not hesitate to contact me with any questions. My direct line is 972-443-6452.

Very truly yours,

CIMAREX ENERGY CO.

Anthony J. Cervi  
Landman  
Permian Basin Region

Enclosures

Oil Conservation Division  
Case No. 4  
Exhibit No. 4

Cimarex Energy Co.  
5215 N. O'Connor Blvd.  
Suite 1500  
Irving, Texas 75039  
PHONE 972.401.0752  
FAX 972.401.3110



VIA OVERNIGHT MAIL

August 11, 2006

Dr. James Obed Baker (wife Vera)  
9337 Redondo Drive  
Dallas, Texas 75218-3645

Re: Caudill South 21 Fee # 2H  
Section 21, Township 15 South, Range 36 East  
Lea County, New Mexico

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Anthony J. Cervi  
Landman  
Permian Basin Region

Enclosures

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VIA OVERNIGHT MAIL

August 11, 2006

Fred T. Schooler  
P.O. Box 843  
Midland, TX 79702

Re: Caudill South 21 Fee # 2H  
Section 21, Township 15 South, Range 36 East  
Lea County, New Mexico

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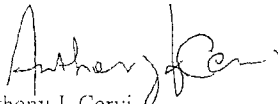
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VIA OVERNIGHT MAIL

August 11, 2006

Randall Pettigrew  
8986 Hialena Circle South  
North Richland Hills, Texas 76180

Re: Caudill South 21 Fee # 2H  
Section 21, Township 15 South, Range 36 East  
Lea County, New Mexico

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**CIMAREX ENERGY CO.**

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Anthony J. Cervi  
Landman  
Permian Basin Region

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VIA OVERNIGHT MAIL

August 11, 2006

Richard Pettigrew  
2812 Pinewood Drive  
League City, Texas 77573

Re: Caudill South 21 Fee # 2H  
Section 21, Township 15 South, Range 36 East  
Lea County, New Mexico

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Anthony J. Cervi  
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Permian Basin Region

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5215 N. O'Connor Blvd.  
Suite 1500  
Irving, Texas 75039  
PHONE 972.401.0752  
FAX 972.401.3110



**VIA FEDERAL EXPRESS**

July 11, 2006

Mr. Frank Hayford  
2770 19<sup>th</sup> Street  
Apt. # 35  
San Francisco, CA 94132

**Re: Caudill South 21 Fee # 2H  
Section 21, Township 15 South, Range 36 East  
Lea County, New Mexico**

Gentlemen:

Cimarex Energy Co. proposes to drill a horizontal Wolfcamp test at the following location in Section 21-15S-36E, Lea County, New Mexico:

- Surface Hole Location: 2000' FSL & 940' FWL
- Bottom Hole Location: 1650' FNL & 940' FWL

Enclosed is our detailed AFE reflecting estimated well costs.

If you intend to participate, please execute the AFE and return to me as soon as possible, and I will contact you regarding the joint operating agreement. Your working interest will be 1.5625%.

If you do not intend to participate, we are willing to lease your minerals in the S/2 of Section 21 for a bonus consideration of \$2,000.00 (10 acres @ \$200/acre), 3/16ths royalty, and a three (3) year primary term. Our proposed lease form is enclosed.

In the meantime, please do not hesitate to contact me with any questions. My direct line is 972-443-6452.

Very truly yours,

**CIMAREX ENERGY CO.**

A handwritten signature in dark ink, appearing to read "Anthony J. Cervi", is written over the company name.

Anthony J. Cervi  
Landman  
Permian Basin Region

Enclosures

## OIL & GAS LEASE

THIS LEASE AGREEMENT (the "Lease") is made this 11th day of July, 2006 (the "Effective Date") between Frank Hayford, dealing in his sole and separate property the "Lessor" (whether one or more) whose address is 2770 19<sup>th</sup> Street, Apt. 35, San Francisco, California 94132 and Clay Johnson, 203 W. Wall, Suite 202, Midland, Texas 79707, the "Lessee":

1. Lessor, in consideration of TEN DOLLARS and other consideration, the receipt of which is acknowledged, and of the royalties and agreements of the Lessee provided for in this Lease, grants, leases and lets exclusively to Lessee for the purpose of investigating, by geological, geophysical, seismic and other means, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipelines, storing oil, building tanks, roadways, telephone lines, and other structures and things to produce, save, take care of, treat, process, store and transport said minerals, the following described land in Lea County, New Mexico:

**Township 15 South, Range 36 East, N.M.P.M.**  
**Section 21: S/2**

The land is estimated to comprise 320.00 acres, whether it actually comprises more or less, and are referred to as the "land" or the "lease premises."

2. Subject to the other provisions, this Lease shall remain in force for a term of Three (3) years from the Effective Date (the "primary term") and as long thereafter as oil or gas is produced from the land or from land with which the land is pooled.

3. The royalties to be paid by Lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, 3/16ths of that produced and saved from the land, the same to be delivered at the wells or to the credit of Lessor in the pipeline to which the wells may be connected; (b) on gas, including casing head gas or other gaseous substance produced from the land and used off the lease premises or used in the manufacture of gasoline or other products, the market value at the well of 3/16ths of the gas used, provided that on gas sold on or off the lease premises, the royalties shall be 3/16ths of the amount realized from the sale; (c) and at any time when this Lease is not validated by other provisions and there is a gas and/or condensate well on the land, or land pooled with the land, is not being sold or used and the well is shut in, either before or after production, then on or before 90 days after the well is shut in, and thereafter at annual intervals, Lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of Lessor's gas acreage then held under this Lease by the party making the payment or tender, and so long as the shut-in royalty is paid or tendered this Lease shall not terminate and it shall be considered under its terms that gas is being produced from the leased premises in paying quantities. Each payment shall be paid or tendered to the party or parties who at the time of the payment would be entitled to receive the royalties which would be paid under this Lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this Lease in the same manner as though a proper payment had been made if Lessee shall correct the error within 30 days after Lessee has received written notice by certified mail from the party or parties entitled to receive payment together with the written instruments (or certified copies) as are necessary to enable Lessee to make proper payment. The amount realized from the sale of gas on or off the lease premises shall be the price established by the gas sales contract entered into in good faith by Lessee and gas purchaser for the term and under the conditions as are customary in the industry. "Price" shall mean the net amount received by Lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in the contract or regulatory orders.

4. This is a Paid-Up Lease and Lessee shall not be obligated during the primary term to commence or continue any operations of any character or to make any payments in order to maintain this Lease in force during the primary term; however, this provision is not intended to relieve Lessee of the obligation to pay royalties on actual production pursuant to the provision or paragraph 3 above.

5. Lessee is granted the right and power, from time to time, to pool or combine this Lease, the land covered by it, or any part, subsurface depth, or horizon of the land with any other land, leases or mineral estates, for the production of oil or gas. Units pooled by the terms of this Lease shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which the land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the lease premises are located and the units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any unit shall be considered for all purposes, except the payment of royalty, as operations conducted on or production from the land subject to this Lease. There shall be allocated to the land covered by this Lease included in any unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in Lease or unit operations, which the net oil or gas acreage in the land covered by this Lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of the land covered by this Lease and included in a unit in the same manner as though produced from the land under the terms of this Lease. Any pooled unit designated by Lessee, may be dissolved by Lessee by recording an appropriate instrument in the county where the land is situated at any time.

6. If at the expiration of the primary term there is no well on the land capable of producing oil or gas, but Lessee has commenced operations for drilling or reworking, this Lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether the operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from the land. If, after the expiration of the primary term, all wells on the land should become incapable of producing for any cause, this Lease shall not terminate if Lessee commences operations for additional drilling or reworking within 60 days. If any drilling, additional drilling, or reworking operations result in production, then this Lease shall remain in full force so long thereafter as oil or gas is produced.

7. Lessee shall have free use of oil, gas and water from the land, except water from Lessor's wells and tanks, for all operations under this Lease, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this Lease to remove all property and fixtures placed by Lessee on the land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipelines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on the land without Lessor's consent.

8. The rights of Lessor or Lessee to this Lease may be assigned in whole or in part and the provisions of this Lease shall extend to their respective heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut in royalties, however accomplished shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division shall be binding on Lessee for any purpose until 30 days after Lessee has been furnished by certified mail at Lessee's principal place of business with acceptable instruments or certified copies of them constituting the chain of title from the original Lessor. If any such change in ownership occurs through death of an owner, Lessee may, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to the deceased's estate or heirs, executor, or administrator until the time Lessee has been furnished with evidence satisfactory to Lessee as to the persons entitled to the sums. An assignment of this Lease in whole or in part shall, to the extent of the assignment, relieve and discharge Lessee of any obligations under this Lease and, if Lessee or an assignee of a part or parts of this Lease shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from the Lessee or an assignee or fail to comply with any of the provisions of this Lease, the default shall not affect this Lease insofar as it covers a part of the lands on which Lessee or any assignee shall properly comply or make the payments.



9. Should Lessee be prevented from complying with any express or implied covenant of this Lease, or from conducting drilling or reworking operations on this Lease, or from producing oil or gas by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's duties under this Lease shall be suspended, and Lessee shall not be liable for failure to comply with the terms of this Lease; and, this Lease shall be extended while and so long as Lessee is prevented by any cause from conducting drilling or reworking operations or from producing oil or gas; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this Lease to the contrary notwithstanding.

10. Lessor warrants and agrees to defend the title to the land and agrees that Lessee at its option may discharge any tax, mortgage or other lien on the land. In the event Lessee does so, it shall be subrogated to the lien with the right to enforce same and to apply royalties and shut-in royalties payable under the terms of this Lease toward satisfying same. Without impairment of Lessee's rights under the warranty, if this Lease covers a lesser interest in the oil or gas in all or any part of the land than the entire and undivided fee simple estate (whether Lessor's interest is specified or not) then the royalties, shut-in royalty, and other payments, if any, accruing from any part as to which this Lease covers less than the full interest, shall be paid only in the proportion which the interest, if any, covered by this Lease, bears to the whole and undivided fee simple estate in the land. Should any one or more of the parties named above as Lessors fail to execute this Lease, it shall nevertheless be binding on the party or parties executing the Lease.

11. Lessee and Lessee's successors, heirs and assigns, shall have the right at any time to surrender this Lease, in whole or in part, to Lessor or Lessor's heirs, successors, and assigns by delivering or mailing a release to the Lessor, or by placing a release of record in the county in which the land is situated. Then, Lessee shall be relieved from all obligations, expressed or implied of this Lease as to acreage surrendered, and then the shut-in royalty payable under the terms of this Lease shall be reduced in the proportion that the acreage covered by this Lease is reduced by the release or releases.

This Lease is executed by the Lessor as of the date of the acknowledgment below, but shall be deemed effective as of the Effective Date stated above.

**Lessor**

\_\_\_\_\_  
Frank Hayford, dealing in his sole and separate property

SS#: \_\_\_\_\_

STATE OF CALIFORNIA       §

COUNTY OF                   §

This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2006, by Frank Hayford, dealing in his sole and separate property.

\_\_\_\_\_  
Notary Public in and for the State of California  
Commission Expires: \_\_\_\_\_

Cimarex Energy Co.  
5215 N. O'Connor Blvd  
Suite 1500  
Irving, Texas 75039  
PHONE 972.401.0752  
FAX 972.401.3110



VIA OVERNIGHT MAIL

August 11, 2006

The Blanco Company  
P.O. Box 1698  
Roswell, New Mexico 88202

Re: Caudill South 21 Fee # 2H  
Section 21, Township 15 South, Range 36 East  
Lea County, New Mexico

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