

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:



APPLICATION OF CIMAREX ENERGY  
COMPANY FOR A NONSTANDARD OIL SPACING  
AND PRORATION UNIT AND COMPULSORY  
POOLING, EDDY COUNTY, NEW MEXICO

CASE NO. 14482

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Presiding Examiner  
TERRY G. WARNELL, Technical Examiner

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June 10, 2010

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Presiding Examiner, and TERRY G. WARNELL, Technical Examiner, on Thursday, June 10, 2010, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South St. Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91  
Paul Baca Professional Court Reporters  
500 Fourth Street, N.W., Suite 105  
Albuquerque, NM 87103 505-843-9241

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A P P E A R A N C E S

FOR THE APPLICANT:

GARY W. LARSON, ESQ.  
HINKLE, HENSLEY, SHANOR & MARTIN, LLP  
218 Montezuma  
Santa Fe, New Mexico 87504  
(505)982-4554

FOR HARVEY E. YATES COMPANY:

OCEAN MUNDS-DRY, ESQ.  
HOLLAND & HART  
110 North Guadalupe, Suite 1  
Santa Fe, New Mexico 87501  
(505)988-4421

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PAGE

EXHIBITS 1 THROUGH 4 WERE ADMITTED

7

REPORTER'S CERTIFICATE

10

1                   EXAMINER BROOKS: We will next call Case  
2                   Number 14482, application of Cimarex Energy Company for a  
3                   nonstandard oil spacing and proration unit and compulsory  
4                   pooling, Eddy County, New Mexico. Call for appearances.

5                   MR. LARSON: Gary Larson of Hinkle,  
6                   Hensley, Shanor & Martin, on behalf of applicant Cimarex  
7                   Energy Company.

8                   MS. MUNDS-DRY: Ocean Munds-Dry with the  
9                   law firm of Holland & Hart, entering an appearance for  
10                  Harvey E. Yates Company.

11                  EXAMINER BROOKS: Thank you. You may  
12                  proceed.

13                  MR. LARSON: Thank you, Mr. Examiner.  
14                  This case also is done by affidavit. I'm giving the  
15                  originals to the court reporter.

16                  EXAMINER BROOKS: You may proceed.

17                  MR. LARSON: Mr. Examiner, this case  
18                  concerns an application by Cimarex Energy Company for  
19                  approval of a nonstandard 160-acre spacing and proration  
20                  unit in the east half/east half of Section 21, Township  
21                  19 South, Range 34 East, in Eddy County.

22                  As the Examiner noted in Case 14481, Cimarex  
23                  is working its way from west to east across Section 21.  
24                  This is the last application for the fourth proposed  
25                  horizontal well in Section 21.

1                   Cimarex's application also requests the  
2 pooling of all uncommitted mineral interests in the  
3 project area from 2,500 feet subsurface to the base of  
4 the Bone Spring formation. None of the uncommitted  
5 interest owners in the project area have presented any  
6 opposition to Cimarex's application. And the proposed  
7 160-acre project area will be dedicated to a horizontal  
8 well that Cimarex calls the Penny Pincher 21 Federal Com.  
9 Number 4H.

10                   I direct your attention to the verified  
11 statement of Mark Compton, who's a Cimarex landman. I've  
12 marked Mr. Compton's verified statement as Exhibit Number  
13 1.

14                   Exhibit A to Mr. Compton's verified statement  
15 is a form C-102 and attachments, which include a plat of  
16 the proposed horizontal well. As indicated on Exhibit A,  
17 the surface location of the proposed well is 330 feet  
18 from the north line and 990 feet from the east line of  
19 Section 21. And the bottomhole location of the proposed  
20 well is 330 feet from the south line and 375 feet from  
21 the east line. The entire well will be in an orthodox  
22 location.

23                   More than 30 days prior to the filing of  
24 Cimarex's application, Mr. Compton sent certified letters  
25 to all of the interest owners within the proposed project

1 area requesting their voluntary participation in the  
2 well. And all of those interest owners are listed on  
3 pages 2 and 3 of Mr. Compton's verified statement. And  
4 enclosed with the proposal letter, Mr. Compton sent an  
5 AFE and a proposed operating agreement.

6 Exhibit B to the verified statement is an  
7 exemplar of the proposal letter that Mr. Compton sent to  
8 each of the interest owners. And Exhibit C is a copy of  
9 the AFE that Mr. Compton enclosed with his proposal  
10 letter.

11 As indicated in the AFE, which is Exhibit C to  
12 Mr. Compton's verified statement, the estimated dry-hole  
13 cost of the Penny Pincher 21 Federal Com. Number 4H well  
14 is \$1,860,000, and the completed well cost is estimated  
15 to be \$3,687,061.

16 In its application, Cimarex is requesting the  
17 establishment of overhead charges for the development of  
18 the well of \$7,000 a month for a drilling well, and \$700  
19 a month for a producing well.

20 As set out in his verified statement,  
21 Mr. Compton is of the opinion that the requested charges  
22 are reasonable and are in line with the rates the  
23 Division has established for similar horizontal wells  
24 completed by Cimarex and other operators in this area of  
25 Southeastern New Mexico.

1           After Cimarex filed its application in this  
2 case, personal notice of the application and of today's  
3 hearing was sent by certified mail to all of the interest  
4 owners within the project area at their correct  
5 addresses. The successful provision of the notice to the  
6 interest owners is addressed in my affidavit of notice to  
7 interest owners, which I've marked as Exhibit Number 2.

8           And included within my affidavit are Exhibit  
9 A, which is a list of all the mineral interest owners and  
10 exemplar of my notice letter regarding the application  
11 and today's hearing and copies of the certified mail  
12 return receipts.

13           Personal notice of the application and today's  
14 hearing also was sent via certified mail to all offset  
15 operators and interest owners within a quarter section of  
16 the proposed project area. The successful provision of  
17 the notice to the offset owners and interest is addressed  
18 in my second affidavit, which is marked as Cimarex  
19 Exhibit Number 3.

20           The final exhibit that I've introduced, which  
21 is marked as Exhibit 4, is the affidavit of Lee Catalano,  
22 who is a senior geologist for Cimarex. And attached to  
23 Mr. Catalano's affidavit are three documentary exhibits.  
24 The first exhibit, which is marked as Exhibit A to the  
25 Catalano affidavit, is a structure map on top of the

1 second Bone Spring sandstone formation, which is the  
2 target of Cimarex's proposed horizontal well.

3 The second exhibit to the Catalano affidavit  
4 is a cross-section also prepared by Mr. Catalano, which  
5 demonstrates the producing interval and stratigraphic  
6 target for the proposed horizontal well.

7 And the third attachment is the horizontal  
8 drilling plan for the proposed Penny Pincher 21 Federal  
9 Com. Number 3H well. As Mr. Catalano avers in his  
10 affidavit, he is of the opinion that all four  
11 quarter/quarter sections in the proposed project area are  
12 prospective in the Bone Spring formation, and he  
13 anticipates that Cimarex will produce reserves from each  
14 quarter/quarter section within the 160-acre project area.

15 At this point, Mr. Examiner, I move the  
16 admission of Cimarex Exhibits 1 through 4.

17 EXAMINER BROOKS: Okay. Do you have a  
18 notice affidavit here?

19 MR. LARSON: Yes, sir. Exhibits 2 and 3.

20 EXAMINER BROOKS: Very good. Exhibits 1  
21 through 4 will be admitted.

22 (Exhibits 1 through 4 were admitted.)

23 MR. LARSON: Thank you, Mr. Examiner.

24 Based on Cimarex's application and the  
25 evidence produced today, Cimarex requests an order

1 granting all of the relief requested in the application,  
2 including the establishment of a 160-acre nonstandard oil  
3 spacing and proration unit in the east half/east half of  
4 Section 21, the pooling of all uncommitted interests in  
5 the project area from 2,500 feet subsurface to the base  
6 of the bone Spring formation, the dedication of the  
7 project area to the Penny Pincher 21 Federal Com. Number  
8 4H well, designating Cimarex Energy Company of Colorado  
9 as the operator of the proposed horizontal well,  
10 authorizing Cimarex to withhold the proportionate share  
11 of the reasonable well costs attributable to each  
12 nonconsenting working interest owner. And in addition,  
13 as a charge for the risk involved in drilling the well,  
14 200 percent of those costs.

15 Finally setting charges for supervision of  
16 \$7,000 a month while Cimarex is drilling the well, and  
17 \$700 a month while the well is producing, with periodic  
18 adjustments made pursuant to the COPAS accounting  
19 procedure.

20 EXAMINER BROOKS: Okay. Again,  
21 Mr. Larson, did you get green cards from everyone you  
22 sent notice to?

23 MR. LARSON: Yes.

24 EXAMINER BROOKS: You had addresses for  
25 everyone?

1 MR. LARSON: We had good addresses. The  
2 certified mail receipts are attached to my two notice  
3 exhibits -- notice affidavits, I should say.

4 EXAMINER BROOKS: Very good. If there's  
5 nothing further, Case Number 14482 will be taken under  
6 advisement.

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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. \_\_\_\_\_  
heard by me on \_\_\_\_\_

\_\_\_\_\_, Examiner  
Oil Conservation Division

REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO  
HEREBY CERTIFY that on June 10, 2010, proceedings in the  
above captioned case were taken before me and that I did  
report in stenographic shorthand the proceedings set  
forth herein, and the foregoing pages are a true and  
correct transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by  
nor related to nor contracted with any of the parties or  
attorneys in this case and that I have no interest  
whatsoever in the final disposition of this case in any  
court.

WITNESS MY HAND this 23rd day of June, 2010.

  
\_\_\_\_\_  
Jacqueline R. Lujan, CCR #91  
Expires: 12/31/2010

MR. LARSON: Thank you Mr. Examiner. (

**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:**

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

**Case No. 14482**

**VERIFIED STATEMENT OF MARK COMPTON**

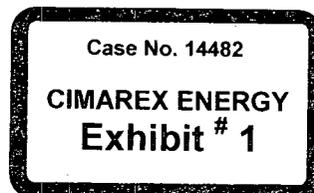
Mark Compton, being duly sworn upon his oath, deposes and states:

1. I am a landman for Cimarex Energy Co. ("Cimarex"), and have personal knowledge of the matters stated herein.

2. Pursuant to 19.15.4.12.A(1)(b) NMAC, I am submitting the following information in support of Cimarex's application in this case:

(a) Cimarex has not been informed of any opposition to its application, and no opposition is expected because the mineral interest owners being pooled have simply not responded to well proposals or have not yet executed an operating agreement.

(b) A plat outlining the spacing unit being pooled is attached hereto as Exhibit A. Cimarex seeks an order approving a 160 acre non-standard oil spacing and proration unit (project area) in the Bone Spring formation comprised of the E/2 E/2 of Section 21, Township 19 South, Range 31 East, NMPM, Eddy County. Cimarex further seeks the pooling of all mineral interests from 2,500 feet subsurface to the base of the Bone Spring formation underlying (i) the NE/4 NE/4 of Section 21, to form a standard 40 acre oil spacing and proration unit, and (ii) the E/2 E/2 of Section 21, to form a non-standard 160 acre oil spacing and proration unit (project



area). The units are to be dedicated to the Penny Pincher 21 Federal Com #4H well, a horizontal well to be drilled at a surface location 330 feet from the north line and 990 feet from the east line of Section 21, with a terminus 330 feet from the south line and 375 feet from the east line of Section 21.

(c) The following lists the parties being pooled and their correct addresses:

Lynx Petroleum Consultants, Inc.  
P.O. Box 1708  
Hobbs, New Mexico 88241

Harvey E. Yates Co  
P.O. Box 1933  
Roswell, New Mexico 88202

Jalapeno Corp.  
P.O. Box 1608  
Albuquerque, New Mexico 87103

Ben Alexander  
4002 16<sup>th</sup> St. #4315  
Lubbock, Texas 79416

Yates Energy Corp.  
P.O. Box 2323  
Roswell, New Mexico 88202

Powder Horn Investments, LLC  
P.O. Box 2503  
Hobbs, New Mexico 88241

TNK, Inc.  
P.O. Box 1500  
Hobbs, New Mexico 88241

DASCO Energy Corp.  
c/o American State Bank Trust Dept.  
P.O. Box 1401  
Lubbock, Texas 79408

Watson Truck & Supply, Inc.  
P.O. Box 10  
Hobbs, New Mexico 88241

Fonay Oil & Gas  
5333 Baggett  
Hobbs, New Mexico 88242

Kent Gabel  
Sudan Feedyard  
1 Hwy Mile of Sudan East  
Sudan, Texas 79371

McVay Drilling Co.  
P.O. Box 924  
Hobbs, New Mexico 88241

Larry R. Scott  
P.O. Box 1708  
Hobbs, New Mexico 88241

(d) Attached hereto as Exhibit B is a copy of the proposal letter that I sent by certified mail to each of the interest owners more than thirty (30) days prior to the filing of Cimarex's application. In addition, I have had telephonic and e-mail communications with several of the interest owners.

(e) Cimarex has made a good faith effort to obtain the voluntary joinder of the uncommitted interest owners in the well.

(f) Pursuant to Division rules, Cimarex requests that a 200% risk charge be assessed against a non-consenting interest owner.

(g) The following lists the offset operators and interest owners of the acreage surrounding the project area and their current addresses:

**SW<sup>1</sup>/<sub>4</sub>SE<sup>1</sup>/<sub>4</sub> § 16**

- Marbob Energy Corporation (notified as pooled party)

**SE<sup>1</sup>/<sub>4</sub>SE<sup>1</sup>/<sub>4</sub> § 16**

- Marbob Energy Corporation (notified as pooled party)

**SW<sup>1</sup>/<sub>4</sub>SW<sup>1</sup>/<sub>4</sub> § 15**

- ABO Petroleum Corporation  
P.O. Box 900  
Artesia, NM 88211
- Myco Industries, Inc.  
P.O. Box 840  
Artesia, NM 88211
- Yates Drilling Company  
105 S. 4<sup>th</sup> St.  
Artesia, NM 88210
- Yates Petroleum Corporation  
105 S. 4<sup>th</sup> St.  
Artesia, NM 88210

**NW<sup>1</sup>/<sub>4</sub>NW<sup>1</sup>/<sub>4</sub> § 22**

- Tandem Energy Corporation  
11490 Westheimer Rd., Ste. 1000  
Houston, TX 77077
- Chase Oil Corporation  
P.O. Box 1787  
Artesia, NM 88211
- Devon Energy Production Company, LP  
20 N. Broadway #1500  
Oklahoma City, OK 73102
- Khody Land & Mineral Company  
3817 NW Expressway, Ste. 950  
Oklahoma City, OK 73112
- Marbob Energy Corporation (notified as pooled party)
- Shackelford Oil Company  
P.O. Box 10665  
Midland, TX 79702

**SW<sup>1</sup>/<sub>4</sub>NW<sup>1</sup>/<sub>4</sub> § 22**

- Tandem Energy Corporation
- Chase Oil Corporation
- Devon Energy Production Company, LP
- Khody Land & Mineral Company
- Marbob Energy Corporation (notified as pooled party)
- Shackelford Oil Company

**NW<sup>1</sup>/<sub>4</sub>SW<sup>1</sup>/<sub>4</sub> § 22**

- Lynx Petroleum Consultants, Inc. (notified as pooled party)

**SW<sup>1</sup>/<sub>4</sub>SW<sup>1</sup>/<sub>4</sub> § 22**

- Lynx Petroleum Consultants, Inc. (notified as pooled party)

**NW<sup>1</sup>/<sub>4</sub>NW<sup>1</sup>/<sub>4</sub> § 27**

- Lynx Petroleum Consultants, Inc. (notified as pooled party)
- Marbob Energy Corporation (notified as pooled party)
- Southwest Royalties, Inc.  
6 Desta Drive #2100  
Midland, TX 79705

**NE<sup>1</sup>/<sub>4</sub>NE<sup>1</sup>/<sub>4</sub> § 28**

- Devon Energy Production Company, LP

**NW<sup>1</sup>/<sub>4</sub>NE<sup>1</sup>/<sub>4</sub> § 28**

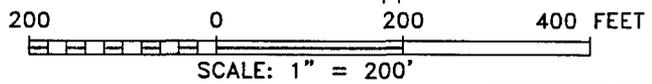
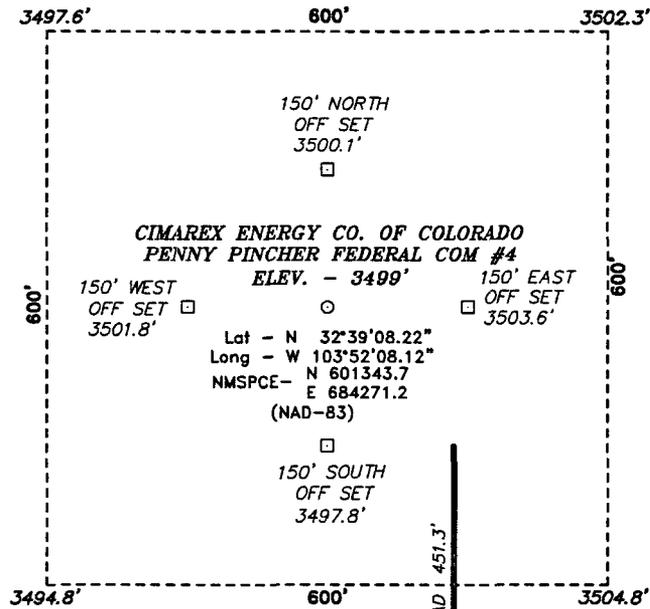
- Devon Energy Production Company, LP

(h) A copy of Cimarex's Authority for Expenditure ("AFE") for the proposed horizontal well is attached hereto as Exhibit C. I sent a copy of the AFE to each mineral interest owner in the project area along with my proposal letter that is attached hereto as Exhibit B. The drilling and completion costs set forth in the AFE are fair and reasonable, and are comparable to those of other horizontal wells of this depth drilled in this area of Eddy County.





SECTION 21, TOWNSHIP 19 SOUTH, RANGE 31 EAST, N.M.P.M.,  
 EDDY COUNTY, NEW MEXICO.

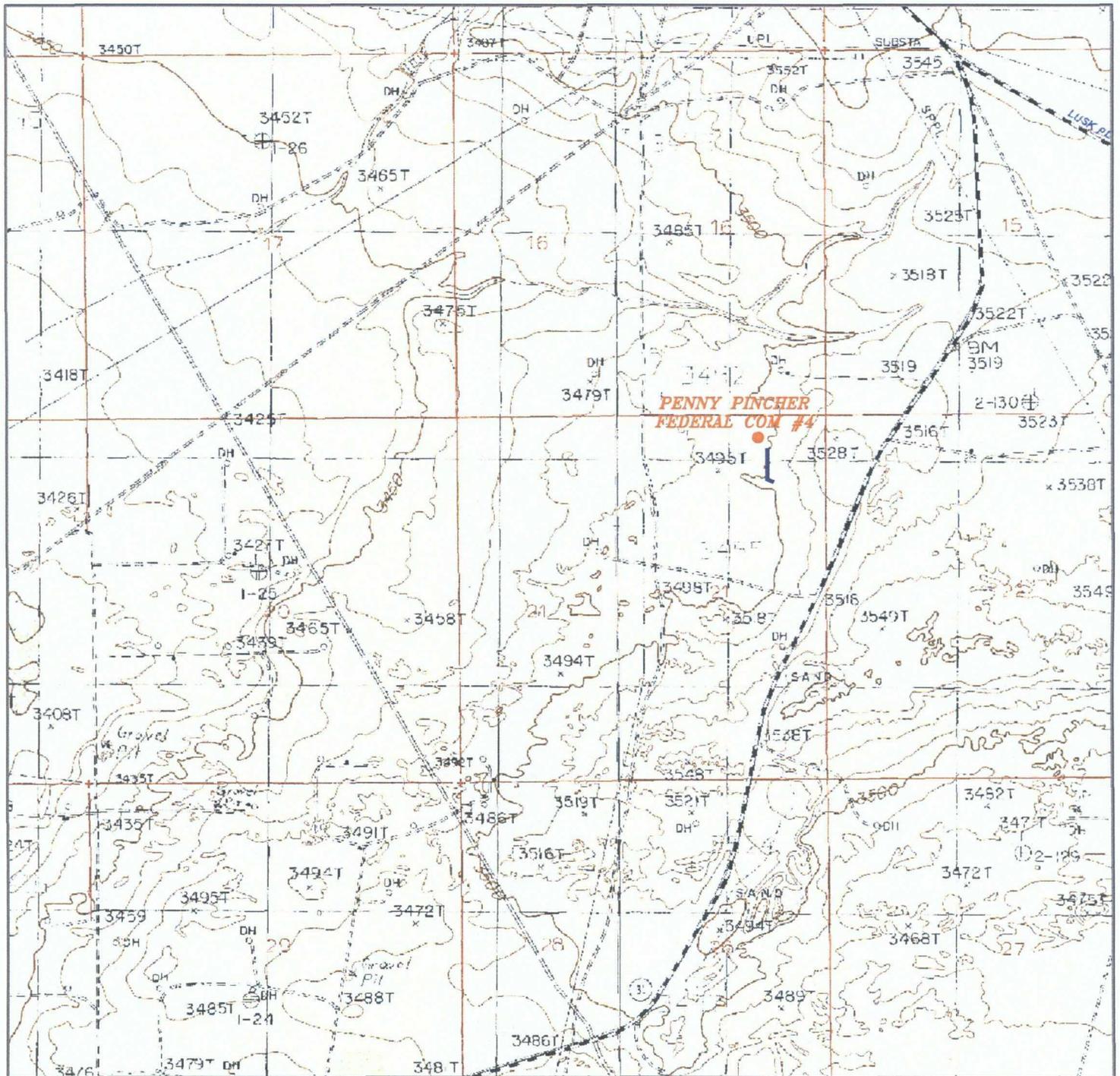


Directions to Location:

FROM THE JUNCTION OF LUSK AND SHUGART, GO SOUTH ON SHUGART FOR 1.6 MILES TO LEASE ROAD, ON LEASE ROAD GO WEST 0.1 MILES TO LEASE ROAD, ON LEASE ROAD GO NORTH 0.3 MILES TO PROPOSED LEASE ROAD.

<b>CIMAREX ENERGY CO. OF COLORADO</b>	
REF: PENNY PINCHER FEDERAL COM #4 / WELL PAD TOPO	
THE PENNY PINCHER FEDERAL COM #4 LOCATED 330'	
FROM THE NORTH LINE AND 990' FROM THE EAST LINE OF	
SECTION 21, TOWNSHIP 19 SOUTH, RANGE 31 EAST,	
N.M.P.M., EDDY COUNTY, NEW MEXICO.	
W.O. Number: 21982	Drawn By: J. SMALL
Date: 11-23-2009	Disk: JMS 21982
Survey Date: 11-20-2009	Sheet 1 of 1 Sheets

**BASIN SURVEYS** P.O. BOX 1786 - HOBBS, NEW MEXICO



**PENNY PINCHER FEDERAL COM #4**

Located 330' FNL and 990' FEL  
 Section 21, Township 19 South, Range 31 East,  
 N.M.P.M., Eddy County, New Mexico.



P.O. Box 1786  
 1120 N. West County Rd.  
 Hobbs, New Mexico 88241  
 (575) 393-7316 - Office  
 (575) 392-2206 - Fax  
 basinsurveys.com

W.O. Number: JMS 21982

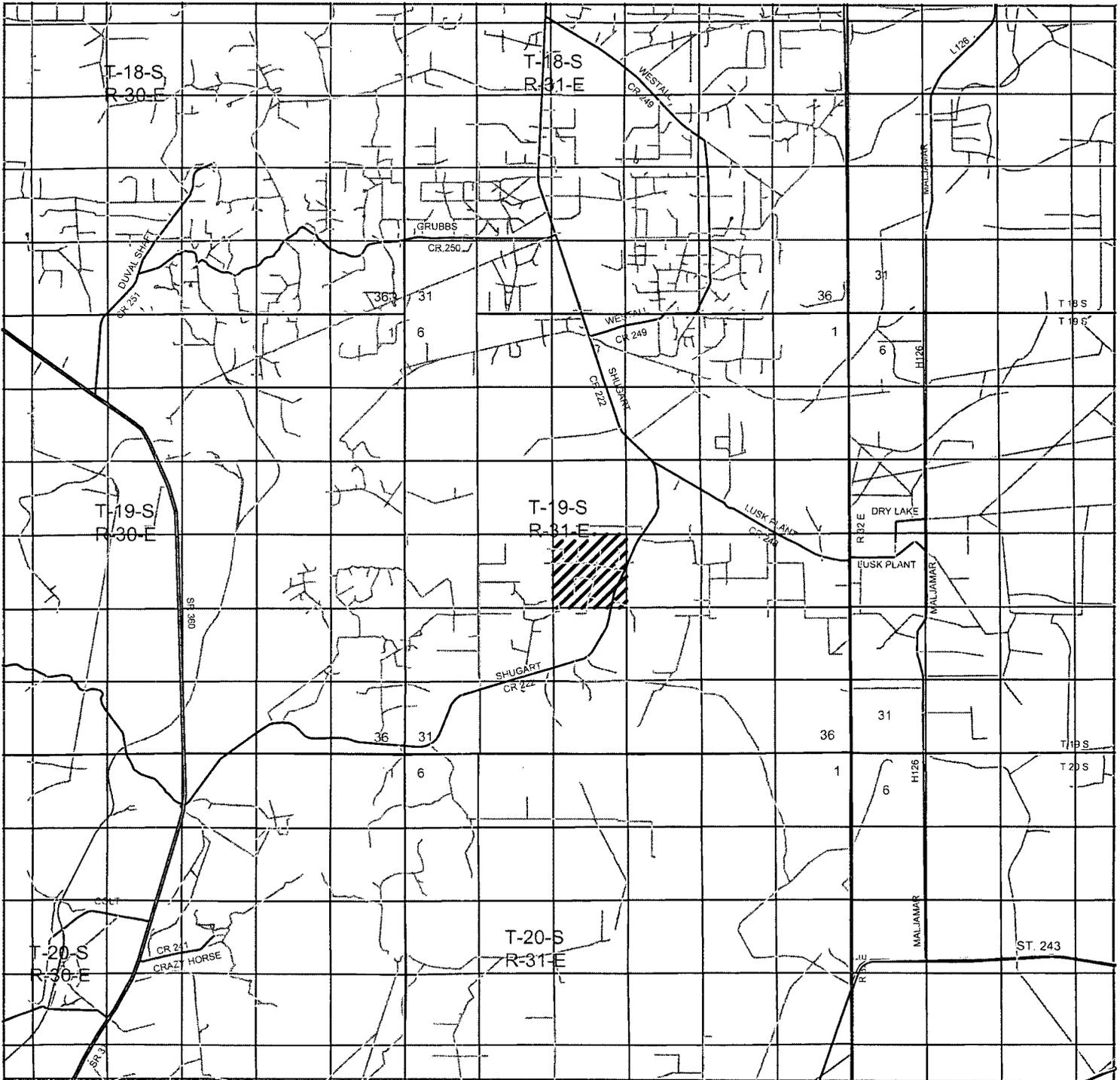
Survey Date: 11-20-2009

Scale: 1" = 2000'

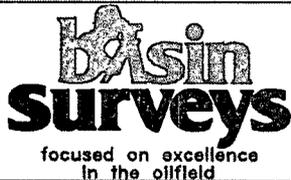
Date: 11-23-2009



**CIMAREX  
 ENERGY CO.  
 OF COLORADO**



**PENNY PINCHER FEDERAL COM #4**  
 Located 330' FNL and 990' FEL  
 Section 21, Township 19 South, Range 31 East,  
 N.M.P.M., Eddy County, New Mexico.



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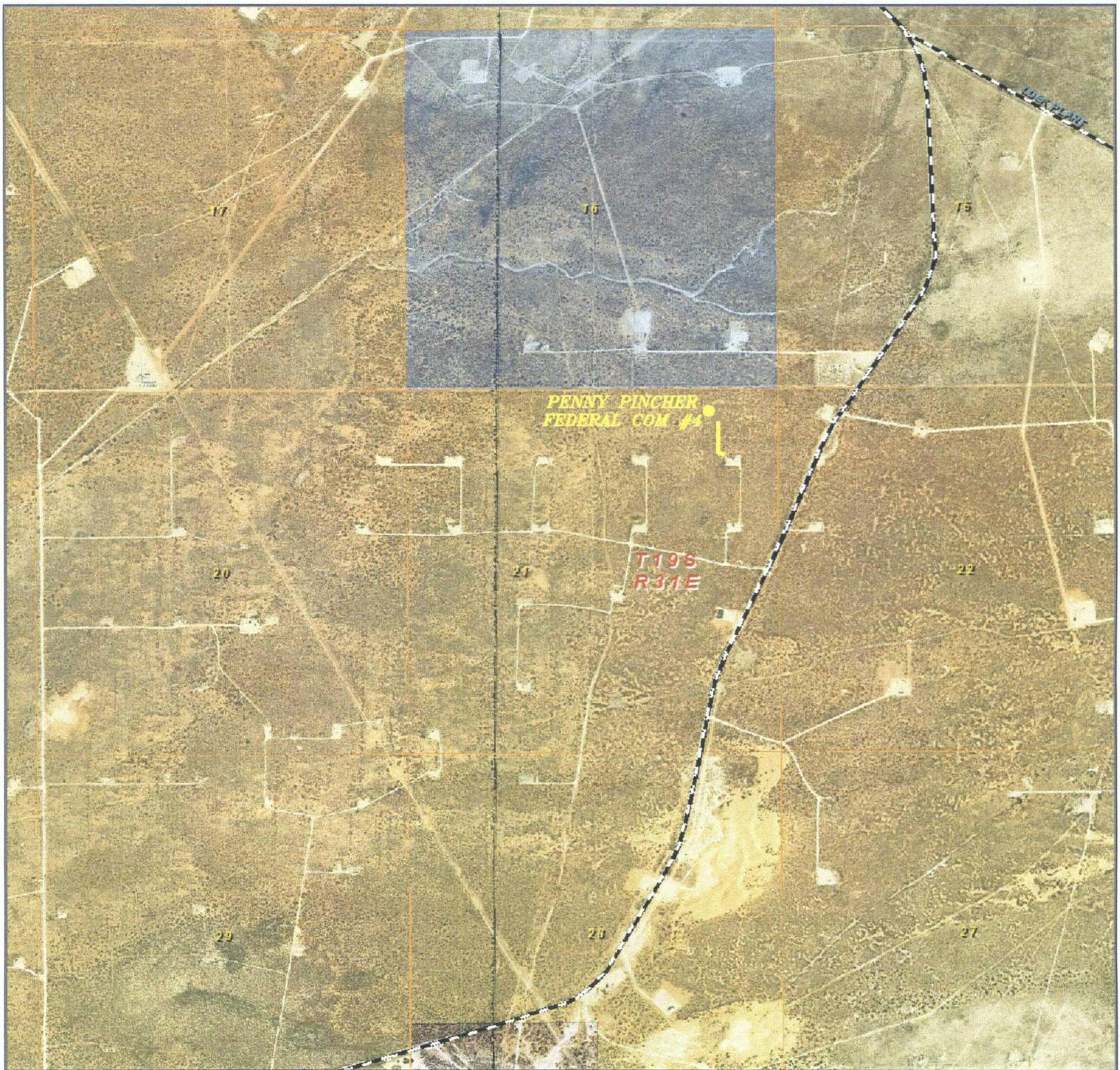
Survey Date: 11-20-2009

Scale: 1" = 2 Miles

Date: 11-23-2009



**CIMAREX  
 ENERGY CO.  
 OF COLORADO**



**PENNY PINCHER FEDERAL COM #4**

Located 330' FNL and 990' FEL  
 Section 21, Township 19 South, Range 31 East,  
 N.M.P.M., Eddy County, New Mexico.



P.O. Box 1786  
 1120 N. West County Rd.  
 Hobbs, New Mexico 88241  
 (575) 393-7316 - Office  
 (575) 392-2206 - Fax  
 basinsurveys.com

W.O. Number: JMS 21982

Scale: 1" = 2000'

YELLOW TINT - USA LAND  
 BLUE TINT - STATE LAND  
 NATURAL COLOR - FEE LAND



**CIMAREX  
 ENERGY CO.  
 OF COLORADO**

February 8, 2010

**Via: Certified U. S. Mail Return Receipt 91 7108 2133 3937 9625 8582**

Larry R. Scott  
P. O. Box 1979  
Hobbs, NM 88241

**Re: Penny Pincher 21 Federal #4H  
E/2E/2 Section 21-T19S-R31E  
Eddy County, New Mexico**

Dear Mr. Scott:

Cimarex Energy Co. (Cimarex) as owner of an interest in the above described spacing unit, hereby proposes to drill the above-captioned well at an approximate surface location of 990' FEL and 330' FNL and an approximate bottom hole location of 375' FEL and 330' FSL. If you choose to participate in the drilling of the well, please sign and return a copy of the AFE to the undersigned. I am also submitting Cimarex's proposed form of operating agreement.

Alternatively, if you choose not to participate, Cimarex would consider acquiring a farmout of your leasehold interest in Section 21, T19S-R31E, at the following general terms: yourself to deliver all of your interest in Section 21, retaining as an overriding royalty interest equal to the positive difference, if any, between existing lease burdens and 25%, proportionately reduced, subject to an option to convert said overriding royalty interest to a working interest equal to 25% of the working interest originally assigned to Cimarex by yourself. Such option to convert the overriding royalty interest to a working interest shall be on a well by well basis.

Please do not hesitate to contact me if there is anything further that you should require in regard to this matter. Thank you.

Sincerely,

**Cimarex Energy Co.**

Mark Compton  
Landman





Authorization For Expenditure

**Exhibit  
C**

Company Entity  
Cimarex Energy Co.

Date Prepared  
February 8, 2010

Region	Well Name	Well No.	Prospect or Field Name	Property Number	Drilling AFE No.
Permian	Penny Pincher 21 Fed	4H	West Luck	309775	

Location	County	State	Type Well	
Apprx Surface 990' FEL, 330' FNL Apprx Bottom 375' FWL, 330' FSL of Sec 21, 19S-31E	Eddy	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"/>			13,208'
Revised Estimate	<input type="radio"/>			Ttl Vertical Depth
Supplemental Estimate	<input type="radio"/>			9,000'

**Project Description**  
 Drill and complete a NM Bone Spring horizontal well. 10 open-hole packer stages, 4340' VS.

Intangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Drilling Costs	\$1,334,990		\$1,334,990
Completion Costs		\$959,375	\$959,375
<b>Total Intangible Costs</b>	<b>\$1,334,990</b>	<b>\$959,375</b>	<b>\$2,294,365</b>

Tangibles			
Well Equipment	\$379,000	\$917,196	\$1,296,196
Lease Equipment		\$96,500	\$96,500
<b>Total Tangible Well Cost</b>	<b>\$379,000</b>	<b>\$1,013,696</b>	<b>\$1,392,696</b>

Plug and Abandon Cost			
	\$150,000	-\$150,000	\$0

Total Well Cost			
	<b>\$1,863,990</b>	<b>\$1,823,071</b>	<b>\$3,687,061</b>

**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 re-drilling and clean-up/pollution expense covering drilling (through completion) with a \$1,000,000 (100% W.I.) deductible.

**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
Ryan Braxton	Doug Park	Roger Alexander

**Joint Interest Approval**

Company	By	Date



Project Cost Estimate

Lease Name: Penny Pincher 21 Fed

Well No.: 4H

Intangibles	Codes	Dry Hole Cost	Codes	After Casing Point	Completed Well Cost
Roads & Location Preparation / Restoration	DIDC.100	\$30,000	DICC.100	\$3,000	\$33,000
Damages	DIDC.105	\$10,000	DICC.105		\$10,000
Mud / Fluids Disposal Charges	DIDC.255	\$56,000	DICC.235	\$45,000	\$101,000
Day Rate 34 DH Days 5 ACP Days @ Per Day	DIDC.115	\$388,000	DICC.120	\$57,000	\$445,000
Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)	DIDC.120	\$5,000			\$5,000
Bits	DIDC.125	\$80,000	DICC.125	\$11,000	\$91,000
Fuel \$2.60 Per Gallon Gallons Per Day	DIDC.135	\$80,000	DICC.130	\$11,000	\$91,000
Water / Completion Fluids Per Day	DIDC.140	\$36,270	DICC.135	\$64,375	\$100,645
Mud & Additives	DIDC.145	\$29,250			\$29,250
Surface Rentals Per Day	DIDC.150	\$20,000	DICC.140	\$95,000	\$115,000
Downhole Rentals	DIDC.155	\$77,970	DICC.145	\$14,000	\$91,970
Formation Evaluation (DST, Coring including evaluation, G&G Services)	DIDC.160				\$0
Mud Logging \$850 Days @ 25 Per Day	DIDC.170	\$25,000			\$25,000
Open Hole Logging	DIDC.180	\$25,000			\$25,000
Cementing & Float Equipment	DIDC.185	\$65,000	DICC.155	\$20,000	\$85,000
Tubular Inspections	DIDC.190	\$5,000	DICC.160	\$3,000	\$8,000
Casing Crews	DIDC.195	\$9,000	DICC.165	\$14,000	\$23,000
Extra Labor, Welding, Etc.	DIDC.200	\$10,000	DICC.170	\$5,000	\$15,000
Land Transportation (Trucking)	DIDC.205	\$20,000	DICC.175	\$4,000	\$24,000
Supervision Per Day	DIDC.210	\$44,000	DICC.180	\$14,000	\$58,000
Trailer House / Camp / Catering 400 Per Day	DIDC.280	\$20,000	DICC.255	\$4,000	\$24,000
Other Misc Expenses	DIDC.220	\$2,000	DICC.190	\$7,000	\$9,000
Overhead 300 Per Day	DIDC.225	\$12,000	DICC.195	\$3,000	\$15,000
Remedial Cementing	DIDC.231		DICC.215		\$0
MOB/DEMOB	DIDC.240	\$30,000			\$30,000
Directional Drilling Services 13 Days @ 7,200 Per Day	DIDC.245	\$114,000			\$114,000
Dock, Dispatcher, Crane	DIDC.250		DICC.230		\$0
Marine & Air Transportation	DIDC.275		DICC.250		\$0
Solids Control Per Day	DIDC.260	\$24,400			\$24,400
Well Control Equip (Snubbing Svcs.)	DIDC.265	\$35,100	DICC.240	\$11,000	\$46,100
Fishing & Sidetrack Operations	DIDC.270	\$0	DICC.245		\$0
Completion Rig 7 Days @ 3,400 Per Day			DICC.115	\$36,000	\$36,000
Coil Tubing Days @ Per Day			DICC.260	\$30,000	\$30,000
Completion Logging, Perforating, WL Units, WL Surveys			DICC.200	\$8,000	\$8,000
Stimulation			DICC.210	\$425,000	\$425,000
Legal / Regulatory / Curative	DIDC.300	\$13,000	DICC.280		\$13,000
Well Control Insurance \$0.35 Per Foot	DIDC.285	\$5,000			\$5,000
Contingency 5% of Drilling Intangibles	DIDC.435	\$64,000	DICC.220	\$25,000	\$89,000
Construction For Well Equipment			DWEA.110	\$50,000	\$50,000
Construction For Lease Equipment			DLEQ.110		\$0
Construction For Sales P/L			DICC.265		\$0
<b>Total Intangible Cost</b>		<b>\$1,334,990</b>		<b>\$959,375</b>	<b>\$2,294,365</b>

Tangible - Well Equipment	Size	Feet	\$ / Foot				
Casing							
Drive Pipe	30"	40.00	\$0.00	DWEB.150	\$0		\$0
Conductor Pipe				DWEB.130	\$0		\$0
Water String	20"	620.00	\$110.00	DWEB.135	\$68,000		\$68,000
Surface Casing	13-3/8"	2500.00	\$63.90	DWEB.140	\$160,000		\$160,000
Intermediate Casing	9-5/8"	4100.00	\$33.26	DWEB.145	\$136,000		\$136,000
Drilling Liner				DWEB.145	\$0		\$0
Drilling Liner				DWEB.145	\$0		\$0
Production Casing or Liner	7"	8500.00	\$35.80			DWEA.100	\$307,000
Production Tie-Back	4-1/2"	4600.00	\$15.26			DWEA.100	\$70,196
Tubing	2-7/8"	8400.00	\$7.30			DWEA.105	\$61,000
N/C Well Equipment						DWEA.115	\$65,000
Wellhead, Tree, Chokes				DWEB.115	\$15,000	DWEA.120	\$18,000
Liner Hanger, Isolation Packer				DWEB.100	\$0	DWEA.125	\$145,000
Packer, Nipples						DWEA.130	\$1,000
Pumping Unit, Engine						DLEQ.100	\$190,000
Lift Equipment (BHP, Rods, Anchors)						DLEQ.105	\$60,000
<b>Tangible - Lease Equipment</b>							
N/C Lease Equipment						DLEQ.115	\$7,500
Tanks, Tanks Steps, Stairs						DLEQ.120	\$62,000
Battery (Heater Treater, Separator, Gas Treating Equipment)						DLEQ.125	\$24,500
Flow Lines (Line Pipe from wellhead to central facility)						DLEQ.130	\$2,500
Offshore Production Structure for Facilities						DWEA.135	\$0
Pipeline to Sales						DWEA.140	\$0
<b>Total Tangibles</b>					<b>\$379,000</b>		<b>\$1,013,696</b>

P&A Costs	DIDC.295	\$150,000	DICC.275	-\$150,000	\$0
<b>Total Cost</b>		<b>\$1,863,990</b>		<b>\$1,823,071</b>	<b>\$3,687,061</b>