

**STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION**

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

**CASE NO. 14368**

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

**CASE NO. 14369**

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

**CASE NO. 14370**

**MOTION TO DISMISS**

Hyde Oil and Gas Corporation ("Hyde Oil") moves the Division to dismiss these applications on the grounds that Cimarex has (a) failed to properly propose these wells, and (b) failed to engage in good faith efforts to reach a voluntary agreement with the interest owners in the proposed spacing units prior to filing these applications. In support of this motion, Hyde Oil states:

1. Hyde Oil is the owner of uncommitted working interests in Section 34, T-19-S, R-34-E, the area that is the subject of these applications.
2. The Division, by long-standing practice, has required an applicant for compulsory pooling to first furnish all interest owners a formal well proposal at least thirty days prior to filing an application for pooling, and to then engage in good faith efforts to reach an agreement on the development of the acreage before invoking the pooling authority of the Division.

3. To foster informed, good faith discussion, the Division has traditionally required that the formal well proposal include, at the very least, the footage location of the proposed well, the formations or pools targeted by the proposed well, a proposed form of joint operating agreement, and an authorization for expenditures (AFE) setting forth the estimated costs.

4. The Division recently confirmed these long-standing requirements in its Order No. R-13155 issued on August 11, 2009.

5. In these cases, Cimarex proposed to Hyde Oil three horizontal wells in Section 34 by letters dated July 17, 2009. However, these well proposals were deficient because:

- a. The letters did not identify a footage location for either the surface or bottom hole location of the proposed wells; and
- b. The letters did not contain a proposed form of joint operating agreement for consideration.

*See Attachments A1 (involving Case No. 14368), A2 (involving Case No. 14369) and A3 (involving Case No. 14370).*

6. In mid July, Cimarex represented to Hyde Oil that it intended to schedule a face to face meeting to discuss and explain its development proposals in Section 34. However, no such meeting took place prior to or after Cimarex sent these well proposals. *See Exhibit C (Affidavit of Blair Hamburg) at ¶¶ 1-4.*

7. On August 13, 2009, less than thirty days after sending its deficient well proposal letters, Cimarex filed and sent certified letters providing notice of its pooling applications in these cases. *See Attachments B1, B2 and B3.*<sup>1</sup>

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<sup>1</sup> The certified letter for Case No. 14369 (Mallon 34 Well No. 19) was submitted under a cover letter dated July 28, 2009. However, all indications are that this letter was sent on August 13, 2009, with the certified letters for the Mallon 34 Well Nos. 18 and 20.

8. On August 17, 2009, Hyde Oil received the certified mailings. On that same date, Hyde Oil sent an email to Cimarex stating Hyde Oil was “confused because the paperwork we have received thus far from Cimarex, or on their behalf, combined with previous phone conversations, has not been clear as to Cimarex's plans, therefore making it difficult for us to make a decision.” *See* Exhibit C at ¶¶ 6-7.

9. Cimarex has represented in its Applications to the Division that it “has in good faith sought to obtain the voluntary joinder of all other mineral interests” in each of the three proposed spacing units. However, no such good faith efforts have taken place prior to invoking the pooling authority of the Division. *See* Exhibit C at ¶ 8.

WHEREFORE, Hyde Oil respectfully requests that the Division dismiss these applications and require that Cimarex, (a) first furnish to the interest owners a proper well proposal for the development of the acreage comprising its proposed spacing units, and (b) thereafter attempt in good faith to reach a voluntary agreement with each of the interest owners prior to invoking the pooling authority of the Division.

Respectfully submitted,

Holland & Hart LLP



William F. Carr

Michael H. Feldewert

Post Office Box 2208

Santa Fe, New Mexico 8750-2208

(505) 988-4421

(505) 983-6043 Facsimile

**ATTORNEYS FOR  
HYDE OIL AND GAS CORPORATION**

**CERTIFICATE OF SERVICE**

I hereby certify that on the morning of September 1, 2009, I caused to be hand-delivered a copy of the foregoing **MOTION TO DISMISS** to the following counsel of record:

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

  
\_\_\_\_\_  
Michael H. Feldewert, Esq.

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



July 17, 2009

**Via: U.S. Certified Mail**  
**Return Receipt No. 7007 0710 0003 0317 4073**

Fuel Products, Inc.  
Attn: Thomas M. Beall  
P.O. Box 3098  
Midland, Texas 79702

**Via: E-mail U.S. Certified Mail**  
**Return Receipt No. 7007 0710 0003 0317 4080**

MGT Partners I, L.P., et al.  
Attn: John Stroud  
13727 Noel Road, Suite 500  
Dallas, Texas 75240

**Via: E-mail and U.S. Certified Mail**  
**Return Receipt No. 7007 0710 0003 0317 4059**

Pear Resources  
Attn: Alan Byars/Jerry M. Gahr  
P.O. Box 11044  
Midland, Texas 79702

**Via: U.S. Certified Mail**  
**Return Receipt No. 7007 0710 0003 0317 4103**

Michael J. Moncrief 2008 Trust A  
Attn: Jerry Goodwin, CPA  
777 Taylor Street, Suite 1030  
Fort Worth, Texas 76102

**Re: *Mallon 34 Federal No. 20***  
***N/2N/2 Section 34-T19S-34E***  
***Lea County, New Mexico***

Dear Working Interest Owners:

Cimarex Energy Co. ("Cimarex") proposes to drill the above-captioned well according to the project described in the enclosed AFE. If you choose to participate in the drilling of the well, please sign and return a copy of the AFE to the undersigned. I will send Cimarex's proposed form of operating agreement to you upon receipt of your approved AFE. Alternatively, if you choose not to participate,

**ATTACHMENT**  
**A1**

**Via: E-mail U.S. Certified Mail**  
**Return Receipt No. 7007 0710 0003 0317 4066**

Hyde Oil and Gas Corporation  
Attn: Blair Hamburg  
6300 Ridglea Place, Suite 1018  
Fort Worth, Texas 76116

**Via: E-mail U.S. Certified Mail**  
**Return Receipt No. 7007 0710 0003 0317 4035**

U.S. Trust, Bank of America  
Attn: Janet M. Cunningham, CPL  
P.O. Box 2546  
Fort Worth, Texas 76113-2546

**Via: U.S. Certified Mail**  
**Return Receipt No. 7007 0710 0003 0317 4042**

W.A. Moncrief, Jr. Trust  
Attn: Monita Cebell  
950 Commerce Street  
Fort Worth, Texas 76102-5418



Cimarex would be interested in acquiring a farmout of your leasehold interest in Section 34 of the above-captioned township and range.

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.**

A handwritten signature in black ink, appearing to read "Hayden P. Tresner", written over a horizontal line.

Hayden P. Tresner  
Landman



Authorization For Expenditure

Company Entity  
**Cimarex Energy Co.**

Date Prepared  
**July 16, 2009**

Region: Permian Well Name: Mallon 34 Federal Well No: 20 Prospect or Field Name: Property Number: Drilling AFE No:

Location: N/2N/2 Section 34-19S-34E County: Lea State: NM Type Well: Oil  Expl  Gas  Prod

Estimate Type: Original Estimate  Revised Estimate  Supplemental Estimate  Est. Start Date: Est. Comp. Date: Formation: Bone Spring Est. TD: 15,046'

Project Description  
 Drill and complete a third Bone Spring horizontal well. 11200 Pilot 10840 TVD/15046 MD (4500 VS).

Intangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Drilling Costs	\$1,659,200		\$1,659,200
Completion Costs		\$1,151,000	\$1,151,000
<b>Total Intangible Costs</b>	<b>\$1,659,200</b>	<b>\$1,151,000</b>	<b>\$2,810,200</b>
Tangibles			
Well Equipment	\$36,000	\$764,275	\$800,275
Lease Equipment		\$36,500	\$36,500
<b>Total Tangible Well Cost</b>	<b>\$36,000</b>	<b>\$800,775</b>	<b>\$836,775</b>
Plug and Abandon Cost	\$150,000	-\$150,000	\$0
<b>Total Well Cost</b>	<b>\$1,845,200</b>	<b>\$1,801,775</b>	<b>\$3,646,975</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 redrilling 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: Mark Audes Engineer - PB Drilling and Completion Manager: Doug Park, Mgr Operations PB Regional Manager: Roger Alexander, Regional Manager PB

Joint Interest Approval

Company: By: Date:



Project Cost Estimate

Lease Name: Mallon 34 Federal

Well No.: 20

Intangibles					Dry Hole Cost	After Casing Point	Completed Well Cost				
Roads & Location Preparation / Restoration					DIBC 100	\$50,000	DIBC 100	\$50,000			
Damages					DIBC 105	\$1,000	DIBC 105	\$1,000			
Mud / Fluids Disposal Charges					DIBC 125	\$65,000	DIBC 125	\$52,500			
Day Rate	39	DH Days	8	ACP Days @	12,000	Per Day	DIBC 130	\$96,000	\$564,000		
Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)					DIBC 120	\$9,000		\$9,000			
Bits					DIBC 125	\$23,000	DIBC 125	\$1,000	\$24,000		
Fuel	\$2.55	Per Gallon	700	Gallons Per Day	DIBC 135	\$90,000	DIBC 130	\$12,000	\$102,000		
Water / Completion Fluids					DIBC 140	\$70,200	DIBC 135	\$61,500	\$131,700		
Mud & Additives					DIBC 145	\$39,000		\$39,000			
Surface Rentals					DIBC 150	\$61,000	DIBC 140	\$84,000	\$145,000		
Downhole Rentals					DIBC 155	\$88,000	DIBC 145	\$74,000	\$162,000		
Formation Evaluation (DST, Coring including evaluation, G&G Services)					DIBC 160			\$0			
Mud Logging					\$850	Days @	32	Per Day	DIBC 165	\$31,000	\$31,000
Open Hole Logging					DIBC 170	\$15,000		\$15,000			
Cementing & Float Equipment					DIBC 185	\$15,000	DIBC 185	\$50,000	\$65,000		
Tubular Inspections					DIBC 190	\$5,000	DIBC 160	\$3,000	\$8,000		
Casing Crews					DIBC 195	\$10,000	DIBC 165	\$15,000	\$25,000		
Extra Labor, Welding, Etc.					DIBC 200	\$31,000	DIBC 170	\$5,000	\$36,000		
Land Transportation (Trucking)					DIBC 205	\$20,000	DIBC 175	\$9,000	\$29,000		
Supervision											
Trailer House / Camp / Catering											
Other Misc Expenses											
Overhead					300	Per Day	DIBC 215	\$12,000	DIBC 195	\$11,000	\$23,000
Remedial Cementing					DIBC 230			\$0			
MOB/DEMOB					DIBC 240	\$60,000		\$60,000			
Directional Drilling Services					12	Days @	8,200	Per Day	DIBC 245	\$140,000	\$140,000
Dock, Dispatcher, Crane					DIBC 250			\$0			
Marine & Air Transportation					DIBC 275			\$0			
Solids Control											
Well Control Equip (Snubbing Svcs.)					DIBC 265	\$90,000	DIBC 240	\$26,000	\$116,000		
Fishing & Sidetrack Operations					DIBC 270	\$0	DIBC 245	\$0	\$0		
Completion Rig					17	Days @	3,400	Per Day	DIBC 215	\$70,000	\$70,000
Coil Tubing					1	Days @	33,000	Per Day	DIBC 260	\$33,000	\$33,000
Completion Logging, Perforating, WL Units, WL Surveys											
Stimulation											
Legal / Regulatory / Curative					DIBC 300	\$1,000	DIBC 280	\$0	\$1,000		
Well Control Insurance					\$0.35	Per Foot	DIBC 285	\$5,000	\$5,000		
Contingency					5%	of Drilling Intangibles	DIBC 435	\$79,000	DIBC 220	\$54,000	\$133,000
Construction For Well Equipment											
Construction For Lease Equipment											
Construction For Sales P/L											
<b>Total Intangible Cost</b>						<b>\$1,659,200</b>		<b>\$1,151,000</b>	<b>\$2,810,200</b>		

Tangible - Well Equipment								
Casing	Size	Feet	\$ / Foot					
Drive Pipe	20"	40.00	\$0.00	DWER 180	\$0		\$0	
Conductor Pipe				DWER 180	\$0		\$0	
Water String				DWER 135	\$0		\$0	
Surface Casing	13-3/8"		\$0.00	DWER 140	\$0		\$0	
Intermediate Casing	8-5/8"	1485.00	\$24.31	DWER 145	\$36,000		\$36,000	
Drilling Liner				DWER 145	\$0		\$0	
Drilling Liner				DWER 145	\$0		\$0	
Production Casing or Liner	7"	11200.00	\$29.37			DWEA 100	\$329,000	\$329,000
Production Tie-Back	3 1/2"	5000.00				DWEA 100	\$66,275	\$66,275
Tubing	2 7/8"	10200.00	\$8.03			DWEA 105	\$82,000	\$82,000
N/C Well Equipment								
Wellhead, Tree, Chokes						DWEA 115	\$20,000	\$20,000
Liner Hanger, Isolation Packer						DWER 115	\$10,000	\$10,000
Packer, Nipples						DWER 100	\$1,000	\$1,000
Pumping Unit, Engine						DWEA 130	\$110,000	\$110,000
Lift Equipment (BHP, Rods, Anchors)						DWC 100	\$98,000	\$98,000
Tangible - Lease Equipment								
N/C Lease Equipment								
Tanks, Tanks Steps, Stairs						DWFQ 115	\$0	\$0
Battery (Heater Treater, Separator, Gas Treating Equipment)						DWFQ 120	\$20,000	\$20,000
Flow Lines (Line Pipe from wellhead to central facility)						DWFQ 125	\$15,000	\$15,000
Offshore Production Structure for Facilities						DWFQ 130	\$1,500	\$1,500
Pipeline to Sales						DWEA 135	\$0	\$0
<b>Total Tangibles</b>					<b>\$36,000</b>		<b>\$800,775</b>	<b>\$836,775</b>

P&A Costs					DIBC 295	\$150,000	DIBC 225	-\$150,000	\$0
<b>Total Cost</b>						<b>\$1,845,200</b>		<b>\$1,801,775</b>	<b>\$3,646,975</b>



**Authorization For Expenditure**

Company Entity  
**Cimarex Energy Co.**

Date Prepared  
**July 16, 2009**

Region	Well Name	Well No	Prospect or Field Name	Property Number	Drilling AFE No
Permian	Mallon 34 Federal	20			

Location	County	State	Oil	Gas	Expl	Prod
N/2N/2 Section 34-19S-34E	Lea	NM	x		x	

Estimate Type	Est. Start Date	Est. Comp. Date	Formation	Est. TD
Original Estimate	<input checked="" type="radio"/>		Bone Spring	15,046'
Revised Estimate	<input type="radio"/>			
Supplemental Estimate	<input type="radio"/>			

**Project Description:**  
Drill and complete a third Bone Spring horizontal well. 11200 Pilot 10840 TVD/15046 MD (4500 VS).

Intangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Drilling Costs	\$1,659,200		\$1,659,200
Completion Costs		\$1,151,000	\$1,151,000
<b>Total Intangible Costs</b>	<b>\$1,659,200</b>	<b>\$1,151,000</b>	<b>\$2,810,200</b>

Tangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Well Equipment	\$36,000	\$764,275	\$800,275
Lease Equipment		\$36,500	\$36,500
<b>Total Tangible Well Cost</b>	<b>\$36,000</b>	<b>\$800,775</b>	<b>\$836,775</b>

Plug and Abandon Cost	\$150,000	-\$150,000	\$0
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<b>Total Well Cost</b>	<b>\$1,845,200</b>	<b>\$1,801,775</b>	<b>\$3,646,975</b>
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**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
Mark Audas Engineer - PB	Doug Park, Mgr Operations PB	Roger Alexander, Regional Manager PB

**Joint Interest Approval**

Company	By	Date



Project Cost Estimate

Lease Name: Mallon 34 Federal

Well No.: 20

Intangibles					Dry Hole Cost	After Casing Point	Completed Well Cost				
Roads & Location Preparation / Restoration					DIDC.100	\$50,000	DICC.100	\$50,000			
Damages					DIDC.105	\$1,000	DICC.105	\$1,000			
Mud / Fluids Disposal Charges					DIDC.235	\$65,000	DICC.235	\$52,500	\$117,500		
Day Rate	39	DH Days	8	ACP Days @	12,000	Per Day	DIDC.115	\$468,000	DICC.120	\$96,000	\$564,000
Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)					DIDC.120	\$9,000			\$9,000		
Bits					DIDC.125	\$23,000	DICC.125	\$1,000	\$24,000		
Fuel	\$2.55	Per Gallon	700	Gallons Per Day	DIDC.135	\$90,000	DICC.130	\$12,000	\$102,000		
Water / Completion Fluids					DIDC.140	\$70,200	DICC.135	\$61,500	\$131,700		
Mud & Additives					DIDC.145	\$39,000			\$39,000		
Surface Rentals					DIDC.150	\$61,000	DICC.140	\$84,000	\$145,000		
Downhole Rentals					DIDC.155	\$88,000	DICC.145	\$74,000	\$162,000		
Formation Evaluation (DST, Coring including evaluation, G&G Services)					DIDC.160				\$0		
Mud Logging					\$850	Days @	32	Per Day	DIDC.170	\$31,000	\$31,000
Open Hole Logging					DIDC.180	\$15,000			\$15,000		
Cementing & Float Equipment					DIDC.185	\$15,000	DICC.155	\$50,000	\$65,000		
Tubular Inspections					DIDC.190	\$5,000	DICC.160	\$3,000	\$8,000		
Casing Crews					DIDC.195	\$10,000	DICC.165	\$15,000	\$25,000		
Extra Labor, Welding, Etc.					DIDC.200	\$31,000	DICC.170	\$5,000	\$36,000		
Land Transportation (Trucking)					DIDC.205	\$20,000	DICC.175	\$9,000	\$29,000		
Supervision											
Trailer House / Camp / Catering					DIDC.210	\$59,000	DICC.180	\$26,000	\$85,000		
Other Misc Expenses					DIDC.280	\$23,000	DICC.255	\$4,000	\$27,000		
Overhead					DIDC.220	\$11,000	DICC.190	\$7,000	\$18,000		
Remedial Cementing					DIDC.225	\$12,000	DICC.195	\$11,000	\$23,000		
MOB/DEMOB					DIDC.231		DICC.215		\$0		
Directional Drilling Services					DIDC.240	\$60,000			\$60,000		
Dock, Dispatcher, Crane					DIDC.245	\$140,000			\$140,000		
Marine & Air Transportation					DIDC.250		DICC.230		\$0		
Solids Control					DIDC.275		DICC.250		\$0		
Well Control Equip (Snubbing Svcs.)					DIDC.260	\$88,000			\$88,000		
Fishing & Sidetrack Operations					DIDC.265	\$90,000	DICC.240	\$26,000	\$116,000		
Completion Rig					DIDC.270	\$0	DICC.245		\$0		
Coil Tubing							DICC.115	\$70,000	\$70,000		
Completion Logging, Perforating, WL Units, WL Surveys							DICC.260	\$33,000	\$33,000		
Stimulation							DICC.200	\$10,000	\$10,000		
Legal / Regulatory / Curative							DICC.210	\$427,000	\$427,000		
Well Control Insurance					DIDC.300	\$1,000	DICC.280		\$1,000		
Contingency					DIDC.285	\$5,000			\$5,000		
Construction For Well Equipment					DIDC.435	\$79,000	DICC.220	\$54,000	\$133,000		
Construction For Lease Equipment							DWFA.110	\$20,000	\$20,000		
Construction For Sales P/L							DLEQ.110	\$0	\$0		
Total Intangible Cost						\$1,659,200		\$1,151,000	\$2,810,200		

Tangible - Well Equipment								
Casing	Size	Feet	\$ / Foot					
Drive Pipe	20 "	40.00	\$0.00	DWFB.150	\$0		\$0	
Conductor Pipe				DWFB.140	\$0		\$0	
Water String				DWFB.135	\$0		\$0	
Surface Casing	13-3/8"		\$0.00	DWFB.140	\$0		\$0	
Intermediate Casing	8-5/8"	1485.00	\$24.31	DWFB.145	\$36,000		\$36,000	
Drilling Liner				DWFB.145	\$0		\$0	
Drilling Liner				DWFB.145	\$0		\$0	
Production Casing or Liner	7"	11200.00	\$29.37			DWFA.100	\$329,000	\$329,000
Production Tie-Back	3 1/2"	5000.00				DWFA.100	\$66,275	\$66,275
Tubing	2 7/8"	10200.00	\$8.03			DWFA.105	\$82,000	\$82,000
N/C Well Equipment						DWFA.115	\$20,000	\$20,000
Wellhead, Tree, Chokes				DWFR.115		DWFA.120	\$10,000	\$10,000
Liner Hanger, Isolation Packer				DWFB.100		DWFA.125	\$1,000	\$1,000
Packer, Nipples						DWFA.130	\$110,000	\$110,000
Pumping Unit, Engine						DLEQ.100	\$98,000	\$98,000
Lift Equipment (BHP, Rods, Anchors)						DLEQ.105	\$48,000	\$48,000
Tangible - Lease Equipment								
N/C Lease Equipment						DLEQ.115	\$0	\$0
Tanks, Tanks Steps, Stairs						DLEQ.120	\$20,000	\$20,000
Battery (Heater Treater, Separator, Gas Treating Equipment)						DLEQ.125	\$15,000	\$15,000
Flow Lines (Line Pipe from wellhead to central facility)						DLEQ.130	\$1,500	\$1,500
Offshore Production Structure for Facilities						DWFA.135	\$0	\$0
Pipeline to Sales						DWFA.140	\$0	\$0
Total Tangibles					\$36,000		\$800,775	\$836,775

P&A Costs	DIDC.295	\$150,000	DICC.275	-\$150,000	\$0
<b>Total Cost</b>		<b>\$1,845,200</b>		<b>\$1,801,775</b>	<b>\$3,646,975</b>

**Cimarex Energy Co.**

600 N. Marienfeld St.

Suite 600

Midland, Texas 79701

PHONE 432.571.7800



July 17, 2009

**Via: U.S. Certified Mail**

**Return Receipt No. 7007 0710 0003 0317 4073**

Fuel Products, Inc.  
Attn: Thomas M. Beall  
P.O. Box 3098  
Midland, Texas 79702

**Via: E-mail U.S. Certified Mail**

**Return Receipt No. 7007 0710 0003 0317 4080**

MGT Partners I, L.P., et al.  
Attn: John Stroud  
13727 Noel Road, Suite 500  
Dallas, Texas 75240

**Via: E-mail and U.S. Certified Mail**

**Return Receipt No. 7007 0710 0003 0317 4059**

Pear Resources  
Attn: Alan Byars/Jerry M. Gahr  
P.O. Box 11044  
Midland, Texas 79702

**Via: U.S. Certified Mail**

**Return Receipt No. 7007 0710 0003 0317 4103**

Michael J. Moncrief 2008 Trust A  
Attn: Jerry Goodwin, CPA  
777 Taylor Street, Suite 1030  
Fort Worth, Texas 76102

**Re: Mallon 34 Federal No. 19  
S/2N/2 Section 34-T19S-34E  
Lea County, New Mexico**

Dear Working Interest Owners:

Cimarex Energy Co. ("Cimarex") proposes to drill the above-captioned well according to the project described in the enclosed AFE. If you choose to participate in the drilling of the well, please sign and return a copy of the AFE to the undersigned. I will send Cimarex's proposed form of operating agreement to you upon receipt of your approved AFE. Alternatively, if you choose not to participate,

**Via: E-mail U.S. Certified Mail**

**Return Receipt No. 7007 0710 0003 0317 4066**

Hyde Oil and Gas Corporation  
Attn: Blair Hamburg  
6300 Ridglea Place, Suite 1018  
Fort Worth, Texas 76116

**Via: E-mail U.S. Certified Mail**

**Return Receipt No. 7007 0710 0003 0317 4035**

U.S. Trust, Bank of America  
Attn: Janet M. Cunningham, CPL  
P.O. Box 2546  
Fort Worth, Texas 76113-2546

**Via: U.S. Certified Mail**

**Return Receipt No. 7007 0710 0003 0317 4042**

W.A. Moncrief, Jr. Trust  
Attn: Monita Cebell  
950 Commerce Street  
Fort Worth, Texas 76102-5418

**ATTACHMENT**

**A2**

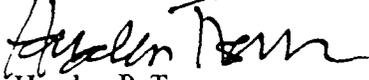


Cimarex would be interested in acquiring a farmout of your leasehold interest in Section 34 of the above-captioned township and range.

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.**

  
Hayden P. Tresner  
Landman



Authorization For Expenditure

Company Entity  
**Cimarex Energy Co.**

Date Prepared  
**July 16, 2009**

Region	Well Name	Well No.	Prospect or Field Name	Property Number	Drilling AFE No.
Permian	Mallon 34 Federal	19			

Location	County	State	Type	Well
S/2N/2 Section 34-19S-34E	Lea	NM	Oil	x
			Gas	Expl
				Prod

Estimate Type	EST Start Date	EST Comp Date	Formation	EST TD
Original Estimate	<input checked="" type="radio"/>		Bone Spring	15,046'
Revised Estimate	<input type="radio"/>			
Supplemental Estimate	<input type="radio"/>			

**Project Description**  
 Drill and complete a third Bone Spring horizontal well. 11200 Pilot 10840 TVD/15046 MD (4500 VS).

Intangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Drilling Costs	\$1,659,200		\$1,659,200
Completion Costs		\$1,151,000	\$1,151,000
<b>Total Intangible Costs</b>	<b>\$1,659,200</b>	<b>\$1,151,000</b>	<b>\$2,810,200</b>

Tangibles			
Well Equipment	\$36,000	\$764,275	\$800,275
Lease Equipment		\$36,500	\$36,500
<b>Total Tangible Well Cost</b>	<b>\$36,000</b>	<b>\$800,775</b>	<b>\$836,775</b>

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

Total Well Cost			
	<b>\$1,845,200</b>	<b>\$1,801,775</b>	<b>\$3,646,975</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
Mark Audas Engineer - PB	Doug Park, Mgr Operations PB	Roger Alexander, Regional Manager PB

**Joint Interest Approval**

Company	By	Date



Project Cost Estimate

Lease Name: Mallon 34 Federal

Well No.:

19

Intangibles				Dry Hole Cost	After Casing Point	Completed Well Cost
Roads & Location Preparation / Restoration				D1DC 100 \$50,000	D1CC 100	\$50,000
Damages				D1DC 105 \$1,000	D1CC 105	\$1,000
Mud / Fluids Disposal Charges				D1DC 135 \$65,000	D1CC 135 \$52,500	\$117,500
Day Rate	39 DH Days	8 ACP Days @	12,000 Per Day	D1DC 135 \$468,000	D1CC 130 \$96,000	\$564,000
Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)				D1DC 136 \$9,000		\$9,000
Bits				D1DC 135 \$23,000	D1CC 135 \$1,000	\$24,000
Fuel	\$2.55 Per Gallon	700 Gallons Per Day		D1DC 135 \$90,000	D1CC 130 \$12,000	\$102,000
Water / Completion Fluids				D1DC 140 \$70,200	D1CC 135 \$61,500	\$131,700
Mud & Additives				D1DC 145 \$39,000		\$39,000
Surface Rentals			Per Day	D1DC 150 \$61,000	D1CC 140 \$84,000	\$145,000
Downhole Rentals				D1DC 155 \$88,000	D1CC 145 \$74,000	\$162,000
Formation Evaluation (DST, Coring including evaluation, G&G Services)				D1DC 160		\$0
Mud Logging	\$850 Days @	32 Per Day		D1DC 170 \$31,000		\$31,000
Open Hole Logging				D1DC 180 \$15,000		\$15,000
Cementing & Float Equipment				D1DC 185 \$15,000	D1CC 155 \$50,000	\$65,000
Tubular Inspections				D1DC 190 \$5,000	D1CC 160 \$3,000	\$8,000
Casing Crews				D1DC 195 \$10,000	D1CC 165 \$15,000	\$25,000
Extra Labor, Welding, Etc.				D1DC 200 \$31,000	D1CC 170 \$5,000	\$36,000
Land Transportation (Trucking)				D1DC 205 \$20,000	D1CC 175 \$9,000	\$29,000
Supervision			Per Day	D1DC 210 \$59,000	D1CC 180 \$26,000	\$85,000
Trailer House / Camp / Catering			Per Day	D1DC 280 \$23,000	D1CC 195 \$4,000	\$27,000
Other Misc Expenses				D1DC 220 \$11,000	D1CC 190 \$7,000	\$18,000
Overhead		300 Per Day		D1DC 225 \$12,000	D1CC 195 \$11,000	\$23,000
Remedial Cementing				D1DC 231	D1CC 215	\$0
MOB/DEMOB				D1DC 240 \$60,000		\$60,000
Directional Drilling Services	12 Days @	8,200 Per Day		D1DC 245 \$140,000		\$140,000
Dock, Dispatcher, Crane				D1DC 250	D1CC 230	\$0
Marine & Air Transportation				D1DC 275	D1CC 250	\$0
Solids Control			Per Day	D1DC 260 \$88,000		\$88,000
Well Control Equip (Snubbing Svcs.)				D1DC 265 \$90,000	D1CC 240 \$26,000	\$116,000
Fishing & Sidetrack Operations				D1DC 270 \$0	D1CC 245	\$0
Completion Rig	17 Days @	3,400 Per Day			D1CC 115 \$70,000	\$70,000
Coil Tubing	1 Days @	33,000 Per Day			D1CC 260 \$33,000	\$33,000
Completion Logging, Perforating, WL Units, WL Surveys					D1CC 300 \$10,000	\$10,000
Stimulation					D1CC 310 \$427,000	\$427,000
Legal / Regulatory / Curative				D1DC 300 \$1,000	D1CC 280	\$1,000
Well Control Insurance	\$0.35 Per Foot			D1DC 285 \$5,000		\$5,000
Contingency	5% of Drilling Intangibles			D1DC 335 \$79,000	D1CC 320 \$54,000	\$133,000
Construction For Well Equipment					D1CFA 110 \$20,000	\$20,000
Construction For Lease Equipment					D1LEQ 110 \$0	\$0
Construction For Sales P/L					D1CC 365	\$0
<b>Total Intangible Cost</b>						<b>\$1,659,200</b>
						<b>\$1,151,000</b>
						<b>\$2,810,200</b>

Tangible - Well Equipment						
	Size	Feet	\$/Foot			
Casing						
Drive Pipe	20 "	40.00	\$0.00	DWFB 150	\$0	\$0
Conductor Pipe				DWFB 130	\$0	\$0
Water String				DWFB 135	\$0	\$0
Surface Casing	13-3/8"		\$0.00	DWFB 140	\$0	\$0
Intermediate Casing	8-5/8"	1485.00	\$24.31	DWFB 145	\$36,000	\$36,000
Drilling Liner				DWFB 145	\$0	\$0
Drilling Liner				DWFB 145	\$0	\$0
Production Casing or Liner	7"	11200.00	\$29.37		DWFA 100 \$329,000	\$329,000
Production Tie-Back	3 1/2"	5000.00			DWFA 100 \$66,275	\$66,275
Tubing	2 7/8"	10200.00	\$8.03		DWFA 105 \$82,000	\$82,000
N/C Well Equipment					DWFA 115 \$20,000	\$20,000
Wellhead, Tree, Chokes				DWFB 115	DWFA 120 \$10,000	\$10,000
Liner Hanger, Isolation Packer				DWFB 100	DWFA 125 \$1,000	\$1,000
Packer, Nipples					DWFA 130 \$110,000	\$110,000
Pumping Unit, Engine					D1EQ 100 \$98,000	\$98,000
Lift Equipment (BHP, Rods, Anchors)					D1EQ 105 \$48,000	\$48,000
Tangible - Lease Equipment						
N/C Lease Equipment					D1EQ 115 \$0	\$0
Tanks, Tanks Steps, Stairs					D1EQ 120 \$20,000	\$20,000
Battery (Heater Treater, Separator, Gas Treating Equipment)					D1EQ 125 \$15,000	\$15,000
Flow Lines (Line Pipe from wellhead to central facility)					D1EQ 130 \$1,500	\$1,500
Offshore Production Structure for Facilities					DWFA 135 \$0	\$0
Pipeline to Sales					DWFA 140 \$0	\$0
<b>Total Tangibles</b>					<b>\$36,000</b>	<b>\$800,775</b>
						<b>\$836,775</b>

P&A Costs				D1CC 395 \$150,000	D1CC 375 -\$150,000	\$0
<b>Total Cost</b>						<b>\$1,845,200</b>
						<b>\$1,801,775</b>
						<b>\$3,646,975</b>



**Authorization For Expenditure**

Company Entity  
**Cimarex Energy Co.**

Date Prepared  
**July 16, 2009**

Region	Well Name	Well No.	Prospect or Field Name	Property Number	Drilling AFE No.
Permian	Mallon 34 Federal	19			

Location	County	State	Type Well			
S/2N/2 Section 34-19S-34E	Lea	NM	Oil	<input checked="" type="checkbox"/>	Expl	<input checked="" type="checkbox"/>
			Gas		Prod	

Estimate Type	Est. Start Date	Est. Comp. Date	Formation	Est. TD
Original Estimate <input checked="" type="radio"/>			Bone Spring	15,046'
Revised Estimate <input type="radio"/>				
Supplemental Estimate <input type="radio"/>				

**Project Description:**  
Drill and complete a third Bone Spring horizontal well. 11200 Pilot 10840 TVD/15046 MD (4500 VS).

Intangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Drilling Costs	\$1,659,200		\$1,659,200
Completion Costs		\$1,151,000	\$1,151,000
<b>Total Intangible Costs</b>	<b>\$1,659,200</b>	<b>\$1,151,000</b>	<b>\$2,810,200</b>

Tangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Well Equipment	\$36,000	\$764,275	\$800,275
Lease Equipment		\$36,500	\$36,500
<b>Total Tangible Well Cost</b>	<b>\$36,000</b>	<b>\$800,775</b>	<b>\$836,775</b>

<b>Plug and Abandon Cost</b>	\$150,000	-\$150,000	\$0
<b>Total Well Cost</b>	<b>\$1,845,200</b>	<b>\$1,801,775</b>	<b>\$3,646,975</b>

**Comments on Well Cost:**  
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.

**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
Mark Audas Engineer - PB	Doug Park, Mgr Operations PB	Roger Alexander, Regional Manager PB

**Joint Interest Approval**

Company	By	Date



Project Cost Estimate

Lease Name: Mallon 34 Federal

Well No.:

19

Intangibles				Dry Hole Cost	After Casing Point	Completed Well Cost
Roads & Location Preparation / Restoration				D1DC.100 \$50,000	D1CC.100	\$50,000
Damages				D1DC.105 \$1,000	D1CC.105	\$1,000
Mud / Fluids Disposal Charges				D1DC.115 \$65,000	D1CC.115 \$52,500	\$117,500
Day Rate	39 DH Days	8 ACP Days @	12,000 Per Day	D1DC.115 \$468,000	D1CC.110 \$96,000	\$564,000
Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)				D1DC.120 \$9,000		\$9,000
Bits				D1DC.125 \$23,000	D1CC.125 \$1,000	\$24,000
Fuel	\$2.55 Per Gallon	700 Gallons Per Day		D1DC.135 \$90,000	D1CC.130 \$12,000	\$102,000
Water / Completion Fluids			Per Day	D1DC.140 \$70,200	D1CC.135 \$61,500	\$131,700
Mud & Additives				D1DC.145 \$39,000		\$39,000
Surface Rentals			Per Day	D1DC.150 \$61,000	D1CC.140 \$84,000	\$145,000
Downhole Rentals				D1DC.155 \$88,000	D1CC.145 \$74,000	\$162,000
Formation Evaluation (DST, Coring including evaluation, G&G Services)				D1DC.160		\$0
Mud Logging	\$850 Days @	32 Per Day		D1DC.170 \$31,000		\$31,000
Open Hole Logging				D1DC.180 \$15,000		\$15,000
Cementing & Float Equipment				D1DC.185 \$15,000	D1CC.155 \$50,000	\$65,000
Tubular Inspections				D1DC.190 \$5,000	D1CC.160 \$3,000	\$8,000
Casing Crews				D1DC.195 \$10,000	D1CC.165 \$15,000	\$25,000
Extra Labor, Welding, Etc.				D1DC.200 \$31,000	D1CC.170 \$5,000	\$36,000
Land Transportation (Trucking)				D1DC.205 \$20,000	D1CC.175 \$9,000	\$29,000
Supervision			Per Day	D1DC.210 \$59,000	D1CC.180 \$26,000	\$85,000
Trailer House / Camp / Catering			Per Day	D1DC.280 \$23,000	D1CC.285 \$4,000	\$27,000
Other Misc Expenses				D1DC.220 \$11,000	D1CC.190 \$7,000	\$18,000
Overhead		300 Per Day		D1DC.225 \$12,000	D1CC.195 \$11,000	\$23,000
Remedial Cementing				D1DC.231	D1CC.215	\$0
MOB/DEMOB				D1DC.240 \$60,000		\$60,000
Directional Drilling Services	12 Days @	8,200 Per Day		D1DC.245 \$140,000		\$140,000
Dock, Dispatcher, Crane				D1DC.250	D1CC.230	\$0
Marine & Air Transportation				D1DC.275	D1CC.250	\$0
Solids Control			Per Day	D1DC.260 \$88,000		\$88,000
Well Control Equip (Snubbing Svcs.)				D1DC.265 \$90,000	D1CC.240 \$26,000	\$116,000
Fishing & Sidetrack Operations				D1DC.270 \$0	D1CC.245	\$0
Completion Rig	17 Days @	3,400 Per Day			D1CC.115 \$70,000	\$70,000
Coil Tubing	1 Days @	33,000 Per Day			D1CC.180 \$33,000	\$33,000
Completion Logging, Perforating, WL Units, WL Surveys					D1CC.200 \$10,000	\$10,000
Stimulation					D1CC.210 \$427,000	\$427,000
Legal / Regulatory / Curative				D1DC.300 \$1,000	D1CC.280	\$1,000
Well Control Insurance	\$0.35 Per Foot			D1DC.285 \$5,000		\$5,000
Contingency	5% of Drilling Intangibles			D1DC.435 \$79,000	D1CC.220 \$54,000	\$133,000
Construction For Well Equipment					D1CFA.110 \$20,000	\$20,000
Construction For Lease Equipment					D1CFL.110 \$0	\$0
Construction For Sales P/L					D1CC.265	\$0
<b>Total Intangible Cost</b>				<b>\$1,659,200</b>	<b>\$1,151,000</b>	<b>\$2,810,200</b>

Tangible - Well Equipment							
Casing	Size	Feet	\$/Foot				
Drive Pipe	20 "	40.00	\$0.00	D1WEB.150	\$0		\$0
Conductor Pipe				D1WEB.130	\$0		\$0
Water String				D1WEB.135	\$0		\$0
Surface Casing	13-3/8"		\$0.00	D1WEB.140	\$0		\$0
Intermediate Casing	8-5/8"	1485.00	\$24.31	D1WEB.145	\$36,000		\$36,000
Drilling Liner				D1WEB.145	\$0		\$0
Drilling Liner				D1WEB.145	\$0		\$0
Production Casing or Liner	7"	11200.00	\$29.37			D1WFA.100 \$329,000	\$329,000
Production Tie-Back	3 1/2"	5000.00				D1WFA.100 \$66,275	\$66,275
Tubing	2 7/8"	10200.00	\$8.03			D1WFA.105 \$82,000	\$82,000
N/C Well Equipment						D1WFA.115 \$20,000	\$20,000
Wellhead, Tree, Chokes				D1WEB.115		D1WFA.120 \$10,000	\$10,000
Liner Hanger, Isolation Packer				D1WEB.130		D1WFA.125 \$1,000	\$1,000
Packer, Nipples						D1WFA.130 \$110,000	\$110,000
Pumping Unit, Engine						D1LEQ.100 \$98,000	\$98,000
Lift Equipment (BHP, Rods, Anchors)						D1LEQ.105 \$48,000	\$48,000
Tangible - Lease Equipment							
N/C Lease Equipment						D1LEQ.115 \$0	\$0
Tanks, Tanks Steps, Stairs						D1LEQ.120 \$20,000	\$20,000
Battery (Heater Treater, Separator, Gas Treating Equipment)						D1LEQ.125 \$15,000	\$15,000
Flow Lines (Line Pipe from wellhead to central facility)						D1LEQ.130 \$1,500	\$1,500
Offshore Production Structure for Facilities						D1WFA.135	\$0
Pipeline to Sales						D1WFA.140	\$0
<b>Total Tangibles</b>				<b>\$36,000</b>	<b>\$800,775</b>	<b>\$836,775</b>	

P&A Costs				D1DC.295 \$150,000	D1CC.275	-\$150,000	\$0
<b>Total Cost</b>				<b>\$1,845,200</b>	<b>\$1,801,775</b>	<b>\$3,646,975</b>	

07/20/09

**Cimarex Energy Co.**

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

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

7007 0710 0003 0317 4066



July 17, 2009

**Via: U.S. Certified Mail**  
**Return Receipt No. 7007 0710 0003 0317 4073**

Fuel Products, Inc.  
Attn: Thomas M. Beall  
P.O. Box 3098  
Midland, Texas 79702

**Via: E-mail U.S. Certified Mail**  
**Return Receipt No. 7007 0710 0003 0317 4080**

MGT Partners I, L.P., et al.  
Attn: John Stroud  
13727 Noel Road, Suite 500  
Dallas, Texas 75240

**Via: E-mail and U.S. Certified Mail**  
**Return Receipt No. 7007 0710 0003 0317 4059**

Pear Resources  
Attn: Alan Byars/Jerry M. Gahr  
P.O. Box 11044  
Midland, Texas 79702

**Via: U.S. Certified Mail**  
**Return Receipt No. 7007 0710 0003 0317 4097**

Providence Minerals, LLC  
14860 Montfort Drive, Suite 209  
Dallas, Texas 75254

**Re: *Mallon 34 Federal Com No. 18***  
***S/2S/2 Section 34-T19S-34E***  
***Lea County, New Mexico***

Dear Working Interest Owners:

Cimarex Energy Co. ("Cimarex") proposes to drill the above-captioned well according to the project described in the enclosed AFE. If you choose to participate in the drilling of the well, please sign and return a copy of the AFE to the undersigned. I will send Cimarex's proposed form of operating agreement to you upon receipt of your approved AFE. Alternatively, if you choose not to participate,

**Via: E-mail U.S. Certified Mail**  
**Return Receipt No. 7007 0710 0003 0317 4066**

Hyde Oil and Gas Corporation  
Attn: Blair Hamburg  
6300 Ridglea Place, Suite 1018  
Fort Worth, Texas 76116

**Via: E-mail U.S. Certified Mail**  
**Return Receipt No. 7007 0710 0003 0317 4035**

U.S. Trust, Bank of America  
Attn: Janet M. Cunningham, CPL  
P.O. Box 2546  
Fort Worth, Texas 76113-2546

**Via: U.S. Certified Mail**  
**Return Receipt No. 7007 0710 0003 0317 4042**

W.A. Moncrief, Jr. Trust  
Attn: Monita Cebell  
950 Commerce Street  
Fort Worth, Texas 76102-5418

**Via: U.S. Certified Mail**  
**Return Receipt No. 7007 0710 0003 0317 4103**

Michael J. Moncrief 2008 Trust A  
Attn: Jerry Goodwin, CPA  
777 Taylor Street, Suite 1030  
Fort Worth, Texas 76102



Cimarex would be interested in acquiring a farmout of your leasehold interest in Section 34 of the above-captioned township and range.

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.**

A handwritten signature in black ink that reads "Hayden Tresner". The signature is written in a cursive style with a horizontal line underlining the name.

Hayden P. Tresner  
Landman



**Authorization For Expenditure**

Company Entity  
**Cimarex Energy Co.**

Date Prepared  
**July 16, 2009**

Region	Well Name	Well No.	Prospect or Field Name	Property Number	Drilling AFE No.
Permian	Mallon 34 Federal Com	18			

Location	County	State	Type Well
S/2S/2 Section 34-19S-34E	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	Est. TD
Original Estimate <input checked="" type="radio"/>			Bone Spring	15,046'
Revised Estimate <input type="radio"/>				
Supplemental Estimate <input type="radio"/>				

**Project Description**  
Drill and complete a third Bone Spring horizontal well. 11200 Pilot 10840 TVD/15046 MD (4500 VS).

Intangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Drilling Costs	\$1,659,200		\$1,659,200
Completion Costs		\$1,151,000	\$1,151,000
<b>Total Intangible Costs</b>	<b>\$1,659,200</b>	<b>\$1,151,000</b>	<b>\$2,810,200</b>

Tangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Well Equipment	\$36,000	\$764,275	\$800,275
Lease Equipment		\$36,500	\$36,500
<b>Total Tangible Well Cost</b>	<b>\$36,000</b>	<b>\$800,775</b>	<b>\$836,775</b>

Plug and Abandon Cost	Dry Hole Cost	After Casing Point	Completed Well Cost
	\$150,000	-\$150,000	\$0
<b>Total Well Cost</b>	<b>\$1,845,200</b>	<b>\$1,801,775</b>	<b>\$3,646,975</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
Mark Audas Engineer - PB	Doug Park, Mgr Operations PB	Roger Alexander, Regional Manager PB

**Joint Interest Approval**

Company	By	Date



## Project Cost Estimate

Lease Name: **Mallon 34 Federal Com**

Well No.: **18**

**18**

Intangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Roads & Location Preparation / Restoration	\$50,000		\$50,000
Damages	\$1,000		\$1,000
Mud / Fluids Disposal Charges	\$65,000	\$52,500	\$117,500
Day Rate	39: DH Days      8: ACP Days @ 12,000 Per Day	\$468,000	\$564,000
Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)	\$9,000		\$9,000
Bits	\$23,000	\$1,000	\$24,000
Fuel	\$2.55 Per Gallon      700 Gallons Per Day	\$90,000	\$102,000
Water / Completion Fluids	\$70,200	\$61,500	\$131,700
Mud & Additives	\$39,000		\$39,000
Surface Rentals	\$61,000	\$84,000	\$145,000
Downhole Rentals	\$88,000	\$74,000	\$162,000
Formation Evaluation (DST, Coring including evaluation, G&G Services)			\$0
Mud Logging	\$850 Days @ 32 Per Day	\$31,000	\$31,000
Open Hole Logging	\$15,000		\$15,000
Cementing & Float Equipment	\$15,000	\$50,000	\$65,000
Tubular Inspections	\$5,000	\$3,000	\$8,000
Casing Crews	\$10,000	\$15,000	\$25,000
Extra Labor, Welding, Etc.	\$31,000	\$5,000	\$36,000
Land Transportation (Trucking)	\$20,000	\$9,000	\$29,000
Supervision	\$59,000	\$26,000	\$85,000
Trailer House / Camp / Catering	\$23,000	\$4,000	\$27,000
Other Misc Expenses	\$11,000	\$7,000	\$18,000
Overhead	300 Per Day	\$12,000	\$23,000
Remedial Cementing			\$0
MOB/DEMOB	\$60,000		\$60,000
Directional Drilling Services	12 Days @ 8,200 Per Day	\$140,000	\$140,000
Dock, Dispatcher, Crane			\$0
Marine & Air Transportation			\$0
Solids Control	\$88,000		\$88,000
Well Control Equip (Snubbing Svcs.)	\$90,000	\$26,000	\$116,000
Fishing & Sidetrack Operations	\$0		\$0
Completion Rig	17 Days @ 3,400 Per Day	\$70,000	\$70,000
Coil Tubing	1 Days @ 33,000 Per Day	\$33,000	\$33,000
Completion Logging, Perforating, WL Units, WL Surveys		\$10,000	\$10,000
Stimulation		\$427,000	\$427,000
Legal / Regulatory / Curative	\$1,000		\$1,000
Well Control Insurance	\$0.35 Per Foot	\$5,000	\$5,000
Contingency	5% of Drilling Intangibles	\$79,000	\$133,000
Construction For Well Equipment		\$20,000	\$20,000
Construction For Lease Equipment		\$0	\$0
Construction For Sales P/L			\$0
<b>Total Intangible Cost</b>	<b>\$1,659,200</b>	<b>\$1,151,000</b>	<b>\$2,810,200</b>

Tangible - Well Equipment						
	Size	Feet	\$/ Foot			
Casing						
Drive Pipe	20 "	40.00	\$0.00	\$0		\$0
Conductor Pipe				\$0		\$0
Water String				\$0		\$0
Surface Casing	13-3/8"		\$0.00	\$0		\$0
Intermediate Casing	8-5/8"	1485.00	\$24.31	\$36,000		\$36,000
Drilling Liner				\$0		\$0
Drilling Liner				\$0		\$0
Production Casing or Liner	7"	11200.00	\$29.37	\$329,000	\$329,000	\$329,000
Production Tie-Back	3 1/2"	5000.00		\$66,275		\$66,275
Tubing	2 7/8"	10200.00	\$8.03	\$82,000		\$82,000
N/C Well Equipment				\$20,000		\$20,000
Wellhead, Tree, Chokes				\$10,000		\$10,000
Liner Hanger, Isolation Packer				\$1,000		\$1,000
Packer, Nipples				\$110,000		\$110,000
Pumping Unit, Engine				\$98,000		\$98,000
Lift Equipment (BHP, Rods, Anchors)				\$48,000		\$48,000

Tangible - Lease Equipment						
N/C Lease Equipment				\$0		\$0
Tanks, Tanks Steps, Stairs				\$20,000		\$20,000
Battery (Heater Treater, Separator, Gas Treating Equipment)				\$15,000		\$15,000
Flow Lines (Line Pipe from wellhead to central facility)				\$1,500		\$1,500
Offshore Production Structure for Facilities						\$0
Pipeline to Sales						\$0
<b>Total Tangibles</b>				<b>\$36,000</b>	<b>\$800,775</b>	<b>\$836,775</b>

P&A Costs	\$150,000	\$150,000	\$0
<b>Total Cost</b>	<b>\$1,845,200</b>	<b>\$1,801,775</b>	<b>\$3,646,975</b>



Authorization For Expenditure

Company Entity  
**Cimarex Energy Co.**

Date Prepared  
**July 16, 2009**

Region	Well Name	Well No	Prospect or Field Name	Property Number	Drilling AFE No
Permian	Mallon 34 Federal Com	18			

Location	County	State	Type Well
S/2S/2 Section 34-19S-34E	Lea	NM	Oil <input checked="" type="checkbox"/> Gas <input type="checkbox"/> Expl <input checked="" type="checkbox"/> Prod <input type="checkbox"/>

Estimate Type	Est. Start Date	Est. Comp Date	Formation	Est. TD
Original Estimate <input checked="" type="radio"/>			Bone Spring	15,046'
Revised Estimate <input type="radio"/>				
Supplemental Estimate <input type="radio"/>				

Project Description  
 Drill and complete a third Bone Spring horizontal well. 11200 Pilot 10840 TVD/15046 MD (4500 VS).

Intangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Drilling Costs	\$1,659,200		\$1,659,200
Completion Costs		\$1,151,000	\$1,151,000
<b>Total Intangible Costs</b>	<b>\$1,659,200</b>	<b>\$1,151,000</b>	<b>\$2,810,200</b>

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Total Well Cost	Dry Hole Cost	After Casing Point	Completed Well Cost
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Cimarex Energy Co. Approval

Prepared by	Drilling and Completion Manager	Regional Manager
Mark Audas Engineer - PB	Doug Park, Mgr Operations PB	Roger Alexander, Regional Manager PB

Joint Interest Approval

Company	By	Date



Project Cost Estimate

Lease Name: Mallon 34 Federal Com

Well No.:

18

Intangibles			Dry Hole Cost	After Casing Point	Completed Well Cost
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P&A Costs			\$150,000	\$150,000	\$0
<b>Total Cost</b>			<b>\$1,845,200</b>	<b>\$1,801,775</b>	<b>\$3,646,975</b>

**JAMES BRUCE**  
ATTORNEY AT LAW

POST OFFICE BOX 1056  
SANTA FE, NEW MEXICO 87504

369 MONTEZUMA, NO. 213  
SANTA FE, NEW MEXICO 87501

(505) 982-2043 (Phone)  
(505) 660-6612 (Cell)  
(505) 982-2151 (Fax)

[jamesbruc@aol.com](mailto:jamesbruc@aol.com)

August 13, 2009

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

To: Persons on Exhibit A

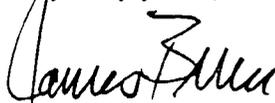
Ladies and gentlemen:

Enclosed is a copy of an application for a non-standard unit and compulsory pooling, filed with the New Mexico Oil Conservation Division by Cimarex Energy Co., regarding the N $\frac{1}{2}$ N $\frac{1}{2}$  of Section 34, Township 19 South, Range 34 East, N.M.P.M., Lea County, New Mexico.

This matter is scheduled for hearing at 8:15 a.m. on Thursday, September 3, 2009, in Porter Hall at the Division's offices at 1220 South St. Francis Drive, Santa Fe, New Mexico 87505. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from contesting the matter at a later date.

A party appearing in a Division case is required by Division Rules to file a Pre-Hearing Statement no later than Thursday, August 27, 2009. This statement must be filed with the Division's Santa Fe office at the above address, and should include: The names of the party and its attorney; a concise statement of the case; the names of the witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that need to be resolved prior to the hearing. The Pre-Hearing Statement must also be provided to the undersigned.

Very truly yours,



James Bruce

Attorney for Cimarex Energy Co.

ATTACHMENT  
B1

EXHIBIT A

Pear Resources  
P.O. Box 11044  
Midland, Texas 79702

Fuel Products, Inc.  
P.O. Box 3098  
Midland, Texas 79702

Michael J. Moncrief 2008 Trust A  
Attention: Jerry Goodwin, CPA  
Suite 1030  
777 Taylor Street  
Fort Worth, Texas 76102

Lee Wiley Moncrief Trust  
c/o U.S. Trust, Bank of America  
Attention: Janet Cunningham, CPL  
P.O. Box 2546  
Fort Worth, Texas 76113

Hyde Oil and Gas Corporation  
Attention: Blair Hamburg  
Suite 1018  
6300 Ridglea Place  
Fort Worth, Texas 76116

W.A. Moncrief, Jr. Trust  
Attention: Monica Cebell  
950 Commerce Street  
Fort Worth, Texas 76102

MGT Partners I, L.P., *et al.*  
Suite 500  
13727 Noel Road  
Dallas, Texas 75240

**BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION**

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

Case No. \_\_\_\_\_

**APPLICATION**

Cimarex Energy Co. applies for an order (i) approving a non-standard oil spacing and proration unit in the Bone Spring formation comprised of the N $\frac{1}{2}$ N $\frac{1}{2}$  of Section 34, Township 19 South, Range 34 East, N.M.P.M., Lea County, New Mexico, and (ii) pooling all mineral interests in the Bone Spring formation underlying the non-standard unit, and in support thereof, states:

1. Applicant is an interest owner in the N $\frac{1}{2}$ N $\frac{1}{2}$  of Section 34, and has the right to re-enter or drill a well thereon.
2. Applicant proposes to drill the Mallon 34 Fed. Well No. 20 to a depth sufficient to test the Bone Spring formation, and seeks to dedicate N $\frac{1}{2}$ N $\frac{1}{2}$  of Section 34 to the well to form a non-standard 160 acre oil spacing and proration unit (project area) for any formations and/or pools developed on 40 acre spacing within that vertical extent, including the South Quail Ridge-Bone Spring Pool. The well is a horizontal well, with a surface location at an orthodox location in the NW $\frac{1}{4}$ NW $\frac{1}{4}$ , and a terminus at an orthodox location in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ , of Section 34.
3. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the N $\frac{1}{2}$ N $\frac{1}{2}$  of Section 34 for the purposes set forth herein.
4. Although applicant attempted to obtain voluntary agreements from all mineral interest owners to participate in the drilling of the well or to otherwise commit their interests to the well, certain interest owners have failed or refused to join in dedicating their interests.

Therefore, applicant seeks an order pooling all mineral interest owners in the N½N½ of Section 34, pursuant to NMSA 1978 §§70-2-17, 18.

5. The approval of the non-standard unit and the pooling of all mineral interests underlying the N½N½ of Section 34 will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

**WHEREFORE**, applicant requests that, after notice and hearing, the Division enter its order:

- A. Approving a non-standard oil spacing and proration unit (project area) in the Bone Spring formation comprised of the N½N½ of Section 34;
- B. Pooling all mineral interests in the N½N½ of Section 34 in the Bone Spring formation;
- C. Designating Cimarex Energy Co. of Colorado as operator of the well;
- D. Considering the cost of re-drilling and completing the well, and allocating the cost among the well's working interest owners;
- E. Approving actual operating charges and costs charged for supervision, together with a provision adjusting the rates pursuant to the COPAS accounting procedure; and
- F. Setting a 200% charge for the risk involved in drilling and completing the well in the event a working interest owner elects not to participate in the well.

Respectfully submitted,



---

James Bruce  
Post Office Box 1056  
Santa Fe, New Mexico 87504  
(505) 982-2043

Attorney for Cimarex Energy Co.

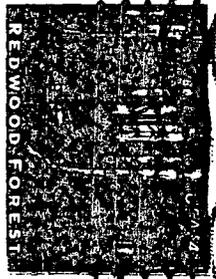
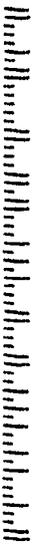
James Bruce  
P. O. Box 1056  
Santa Fe, New Mexico 87504

**CERTIFIED MAIL™**

7008 3230 0000 2324 8985

Hyde Oil and Gas Corporation  
Attention: Blair Hamburg  
Suite 1018  
6300 Ridglea Place  
Fort Worth, Texas 76116

761164577A



*James Bruce*

08/17/09

**JAMES BRUCE**  
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July 28, 2009

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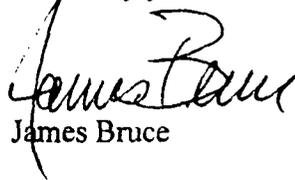
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James Bruce

Attorney for Cimarex Energy Co.

ATTACHMENT  
B2

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Cimarex Energy Co. applies for an order (i) approving a non-standard oil spacing and proration unit in the Bone Spring formation comprised of the S $\frac{1}{2}$ N $\frac{1}{2}$  of Section 34, Township 19 South, Range 34 East, N.M.P.M., Lea County, New Mexico, and (ii) pooling all mineral interests in the Bone Spring formation underlying the non-standard unit, and in support thereof, states:

1. Applicant is an interest owner in the S $\frac{1}{2}$ N $\frac{1}{2}$  of Section 34, and has the right to re-enter or drill a well thereon.
2. Applicant proposes to drill the Mallon 34 Fed. Well No. 19 to a depth sufficient to test the Bone Spring formation, and seeks to dedicate S $\frac{1}{2}$ N $\frac{1}{2}$  of Section 34 to the well to form a non-standard 160 acre oil spacing and proration unit (project area) for any formations and/or pools developed on 40 acre spacing within that vertical extent, including the South Quail Ridge-Bone Spring Pool. The well is a horizontal well, with a surface location at an orthodox location in the SE $\frac{1}{4}$ NE $\frac{1}{4}$ , and a terminus at an orthodox location in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ , of Section 34.
3. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the S $\frac{1}{2}$ N $\frac{1}{2}$  of Section 34 for the purposes set forth herein.
4. Although applicant attempted to obtain voluntary agreements from all mineral interest owners to participate in the drilling of the well or to otherwise commit their interests to the well, certain interest owners have failed or refused to join in dedicating their interests.

Therefore, applicant seeks an order pooling all mineral interest owners in the S½N½ of Section 34, pursuant to NMSA 1978 §§70-2-17, 18.

5. The approval of the non-standard unit and the pooling of all mineral interests underlying the S½N½ of Section 34 will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

**WHEREFORE**, applicant requests that, after notice and hearing, the Division enter its order:

- A. Approving a non-standard oil spacing and proration unit (project area) in the Bone Spring formation comprised of the S½N½ of Section 34;
- B. Pooling all mineral interests in the S½N½ of Section 34 in the Bone Spring formation;
- C. Designating Cimarex Energy Co. of Colorado as operator of the well;
- D. Considering the cost of re-drilling and completing the well, and allocating the cost among the well's working interest owners;
- E. Approving actual operating charges and costs charged for supervision, together with a provision adjusting the rates pursuant to the COPAS accounting procedure; and
- F. Setting a 200% charge for the risk involved in drilling and completing the well in the event a working interest owner elects not to participate in the well.

Respectfully submitted,



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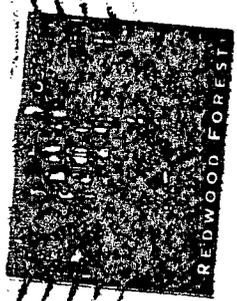
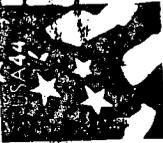
James Bruce  
Post Office Box 1056  
Santa Fe, New Mexico 87504  
(505) 982-2043

Attorney for Cimarex Energy Co.

**CERTIFIED MAIL™**

James Bruce  
P.O. Box 1056  
Santa Fe, New Mexico 87504

LAURENCE NM 871



7008 3230 0000 2324 8886

Hyde Oil and Gas Corporation  
Attention: Blair Hamburg  
Suite 1018  
6300 Ridglea Place  
Fort Worth, Texas 76116

*Handwritten signature and initials.*

76116+5776



10-7-09  
P. 0105. 11-11-09  
S/2 S/2  
3/2

**JAMES BRUCE**  
**ATTORNEY AT LAW**

**POST OFFICE BOX 1056**  
**SANTA FE, NEW MEXICO 87504**

**369 MONTEZUMA, NO. 213**  
**SANTA FE, NEW MEXICO 87501**

**(505) 982-2043 (Phone)**

**(505) 660-6612 (Cell)**

**(505) 982-2151 (Fax)**

**[jamesbruc@aol.com](mailto:jamesbruc@aol.com)**

August 13, 2009

**CERTIFIED MAIL – RETURN RECEIPT REQUESTED**

To: Persons on Exhibit A

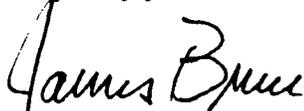
Ladies and gentlemen:

Enclosed is a copy of an application for a non-standard unit and compulsory pooling, filed with the New Mexico Oil Conservation Division by Cimarex Energy Co., regarding the S½S½ of Section 34, Township 19 South, Range 34 East, N.M.P.M., Lea County, New Mexico.

This matter is scheduled for hearing at 8:15 a.m. on Thursday, September 3, 2009, in Porter Hall at the Division's offices at 1220 South St. Francis Drive, Santa Fe, New Mexico 87505. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from contesting the matter at a later date.

A party appearing in a Division case is required by Division Rules to file a Pre-Hearing Statement no later than Thursday, August 27, 2009. This statement must be filed with the Division's Santa Fe office at the above address, and should include: The names of the party and its attorney; a concise statement of the case; the names of the witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that need to be resolved prior to the hearing. The Pre-Hearing Statement must also be provided to the undersigned.

Very truly yours,



James Bruce

Attorney for Cimarex Energy Co.

**ATTACHMENT**  
**B3**

EXHIBIT A

Pear Resources  
P.O. Box 11044  
Midland, Texas 79702

Fuel Products, Inc.  
P.O. Box 3098  
Midland, Texas 79702

Michael J. Moncrief 2008 Trust A  
Attention: Jerry Goodwin, CPA  
Suite 1030  
777 Taylor Street  
Fort Worth, Texas 76102

Lee Wiley Moncrief Trust  
c/o U.S. Trust, Bank of America  
Attention: Janet Cunningham, CPL  
P.O. Box 2546  
Fort Worth, Texas 76113

Hyde Oil and Gas Corporation  
Attention: Blair Hamburg  
Suite 1018  
6300 Ridglea Place  
Fort Worth, Texas 76116

W.A. Moncrief, Jr. Trust  
Attention: Monica Cebell  
950 Commerce Street  
Fort Worth, Texas 76102

MGT Partners I, L.P., *et al.*  
Suite 500  
13727 Noel Road  
Dallas, Texas 75240

Providence Minerals, LLC  
Suite 209  
14860 Montfort Drive  
Dallas, Texas 75254

**BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION**

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

Case No. \_\_\_\_\_

**APPLICATION**

Cimarex Energy Co. applies for an order (i) approving a non-standard oil spacing and proration unit in the Bone Spring formation comprised of the S $\frac{1}{2}$ S $\frac{1}{2}$  of Section 34, Township 19 South, Range 34 East, N.M.P.M., Lea County, New Mexico, and (ii) pooling all mineral interests in the Bone Spring formation underlying the non-standard unit, and in support thereof, states:

1. Applicant is an interest owner in the S $\frac{1}{2}$ S $\frac{1}{2}$  of Section 34, and has the right to re-enter or drill a well thereon.
2. Applicant proposes to drill the Mallon 34 Fed. Well No. 18 to a depth sufficient to test the Bone Spring formation, and seeks to dedicate S $\frac{1}{2}$ S $\frac{1}{2}$  of Section 34 to the well to form a non-standard 160 acre oil spacing and proration unit (project area) for any formations and/or pools developed on 40 acre spacing within that vertical extent, including the South Quail Ridge-Bone Spring Pool. The well is a horizontal well, with a surface location at an orthodox location in the SW $\frac{1}{4}$ SW $\frac{1}{4}$ , and a terminus at an orthodox location in the SE $\frac{1}{4}$ SE $\frac{1}{4}$ , of Section 34.
3. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the S $\frac{1}{2}$ S $\frac{1}{2}$  of Section 34 for the purposes set forth herein.
4. Although applicant attempted to obtain voluntary agreements from all mineral interest owners to participate in the drilling of the well or to otherwise commit their interests to the well, certain interest owners have failed or refused to join in dedicating their interests.

Therefore, applicant seeks an order pooling all mineral interest owners in the S½S½ of Section 34, pursuant to NMSA 1978 §§70-2-17, 18.

5. The approval of the non-standard unit and the pooling of all mineral interests underlying the S½S½ of Section 34 will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

**WHEREFORE**, applicant requests that, after notice and hearing, the Division enter its order:

- A. Approving a non-standard oil spacing and proration unit (project area) in the Bone Spring formation comprised of the S½S½ of Section 34;
- B. Pooling all mineral interests in the S½S½ of Section 34 in the Bone Spring formation;
- C. Designating Cimarex Energy Co. of Colorado as operator of the well;
- D. Considering the cost of re-drilling and completing the well, and allocating the cost among the well's working interest owners;
- E. Approving actual operating charges and costs charged for supervision, together with a provision adjusting the rates pursuant to the COPAS accounting procedure; and
- F. Setting a 200% charge for the risk involved in drilling and completing the well in the event a working interest owner elects not to participate in the well.

Respectfully submitted,



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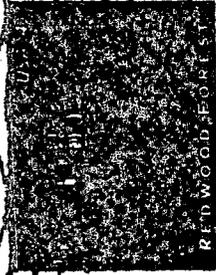
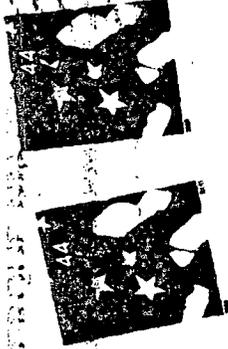
James Bruce  
Post Office Box 1056  
Santa Fe, New Mexico 87504  
(505) 982-2043

Attorney for Cimarex Energy Co.



James Bruce  
P.O. Box 1056  
Santa Fe, New Mexico 87504

7008 3230 0000 2324 9043

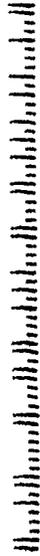


08/17

Hyde Oil and Gas Corporation  
Attention: Blair Hamburg  
Suite 1018  
6300 Ridgela Place  
Fort Worth, Texas 76116

*Handwritten:* 08/16  
08/16

76116+5778



**STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION**

**APPLICATION OF CIMAREX ENERGY COMPANY  
FOR APPROVAL OF A NON-STANDARD OIL SPACING AND PRORATION  
UNIT AND COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO** **CASE NO. 14361**

**APPLICATION OF CIMAREX ENERGY COMPANY  
FOR APPROVAL OF A NON-STANDARD OIL SPACING AND PRORATION  
UNIT AND COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO** **CASE NO. 14368**

**APPLICATION OF CIMAREX ENERGY COMPANY  
FOR APPROVAL OF A NON-STANDARD OIL SPACING AND PRORATION  
UNIT AND COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO** **CASE NO. 14369**

**APPLICATION OF CIMAREX ENERGY COMPANY  
FOR APPROVAL OF A NON-STANDARD OIL SPACING AND PRORATION  
UNIT AND COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO** **CASE NO. 14370**

**AFFIDAVIT OF BLAIR HAMBURG**

**Blair Hamburg** being of lawful age and first duly sworn, declares and states as follows:

1. I am the President of Hyde Oil and Gas Corporation and submit this affidavit based on my personal knowledge.

2. In early July of 2009, Hayden Tresner of Cimarex called me to discuss whether Hyde Oil and Gas Corporation was willing to farmout all of our acreage in Sections 33 and 34 of Township 19 South, Range 34 East in Lea County, New Mexico. I informed him that Hyde Oil did not want to farmout such a large block of acreage but

would consider a farmout or other agreement on a well by well basis. Mr. Tresner expressed a desire to meet at our offices the following Monday to discuss an initial well, which he noted would be the Mallon 34 No. 16 well in the N/2 S/2 of Section 34.

3. During a second conversation, Mr. Tresner informed me that his trip had been cancelled, that he would be meeting with management the following afternoon, and that he would send me an email after his meeting.

4. No email was received from Mr. Tresner following this meeting nor did Cimarex arrange any meeting with Hyde Oil to discuss its development plans.

5. Subsequent to these conversations with Mr. Tresner, Hyde Oil received letters dated July 17, 2009 containing AFEs for the Mallon 34 Well Nos. 18, 19 and 20. On August 3, 2009, Hyde Oil received a certified mailing from Cimarex's attorney concerning an application to pool for the Mallon 34 Well No. 16 and noting that a hearing was scheduled before the Oil Conservation Division for August 20, 2009.

6. On August 17, 2009, Hyde Oil and Gas received a second certified mailing from Cimarex's attorney that included applications for pooling for the Mallon 34 Well Nos. 18, 19 and 20 and noting that a hearing was schedule before the Division for September 3, 2009.

7. On August 17th, I sent an email to Mr. Tresner stating the Hyde Oil was "confused because the paperwork we have received thus far from Cimarex, or on their behalf, combined with previous phone conversations, has not been clear as to Cimarex's plans, therefore making it difficult for us to make a decision." Mr. Tresner called by telephone and apologized for not providing a well proposal for the Mallon Well No. 16.

He stated that he would extend the pooling hearing if need be and get a well proposal to Hyde Oil. Mr. Tresner followed up our conversation with the attached August 17th email, sent after business hours, providing for the first time an AFE for the Mallon Well No. 16 and indicating the pooling hearing for this well would be continued.

8. On August 26th, Mr. Tresner called to inform me that Cimarex was proceeding with multiple pooling applications to avoid any down time after the drilling of the initial well, that Cimarex desired a farmout covering both Sections 34 and 35, and that if an agreement could not be worked out, Hyde Oil will be locked into a non-consent position for the proposed wells.

9. On August 27th I telephoned Mr. Will Jones at the Division and informed him about my lack of familiarity with pooling proceedings in New Mexico and my concerns about the actions taken by Cimarex. Mr. Jones suggested I contact and obtain counsel, which I did on Friday, August 28th.

FURTHER AFFIANT SAYETH NAUGHT

---

Blair Hamburg

The foregoing instrument was subscribed and sworn to before me this \_\_\_ day of August, 2009 by Blair Hamburg.

Witness my hand and official seal.

---

Notary Public

My commission expires:

---

He stated that he would extend the pooling hearing if need be and get a well proposal to Hyde Oil. Mr. Tresner followed up our conversation with the attached August 17th email, sent after business hours, providing for the first time an AFE for the Mallon Well No. 16 and indicating the pooling hearing for this well would be continued.

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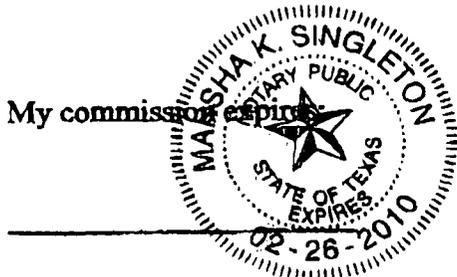
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**FURTHER AFFIANT SAYETH NAUGHT**

  
Blair Hamburg

The foregoing instrument was subscribed and sworn to before me this 31 day of August, 2009 by Blair Hamburg.

Witness my hand and official seal.



  
Notary Public

----- Forwarded Message -----

**From:** Hayden Tresner <htresner@cimarex.com>  
**To:** blair hamburg <hogbhh@sbcglobal.net>  
**Sent:** Monday, August 17, 2009 5:28:49 PM  
**Subject:** FW:                     

Blair:

In regard to our telephone conversation today, and also in response to your email of this date, attached is our proposal for the reentry of the Mallon 34 Federal #16 Well, which will be the first of three additional wells that we will possibly drill in Section 34. Therefore, we propose to form a working interest unit that consists of all of Section 34. We welcome Hyde to participate, and enter into an operating agreement naming Cimarex as operator. However, in the event that you wish to farm-out a portion of your interest, we request that the any farmout covers that portion of your interest in both Sections 34 and 35, as we have plans to propose four more wells in Section 35 later this week. Because ownership is not common throughout both sections, we will need to have two separate operating agreements—one covering all of Section 34 and the other covering all of Section 35.

Thus far we have everyone but Hyde committed to either farm-out their interest in both sections, or participate in the reentry by entering into an operating agreement covering all of Section 34. Obviously, once your interest is under contract, we will retract our proposals for the grassroot wells in Section 34, which will be proposed at a later date (after the results of the reentry have been evaluated) under the operating agreement.

The proposed Farmout Agreement that you received from us is identical to the one the Moncriefs executed. Hyde and Moncrief both farmed-out their interests to our predecessors in title (Mallon Oil Co., et al.) when they drilled the Delaware wells in Sections 34 and 35, and consequently, we earned down to 100' below the TD of each well. So now we are basically going back and farming-out the deeper rights i.e. below the depths earned under the previous farmout agreements, and the Exhibit "A" has been prepared accordingly.

I apologize for any confusion that we have caused, but hopefully this email will help to clarify the situation. And please let me know if there's any additional information that you need.

P.S. I am going to inform our regulatory attorney that I did not propose the reentry to you and ask him to continue the hearing. I understand that the hearing is set for this Thursday, but hopefully we will have your interest committed before then.

Regards,

Hayden P. Tresner  
Landman-Permian Basin Exploration  
Cimarex Energy Co.  
600 N. Marienfeld, Ste. 600  
Midland, Texas 79701  
(432) 571-7800 Phone  
(432) 571-7856 Direct  
(432) 571-7840 Fax  
[htresner@cimarex.com](mailto:htresner@cimarex.com)

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