

**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, LEA COUNTY,
NEW MEXICO.**

Case No. 14,390

VERIFIED STATEMENT OF HAYDEN P. TRESNER

Hayden P. Tresner, being duly sworn upon his oath, deposes and states:

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

2. Pursuant to Division Rule NMAC 19.15.4.12.A(1)(b), the following information is submitted in support of the application filed herein:

(a) No opposition to this application 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. Applicant seeks an order approving a 160-acre non-standard oil spacing and proration unit (project area) in the Bone Spring formation comprised of the N/2S/2 of Section 34, Township 19 South, Range 34 East, NMPM. Applicant further seeks the pooling of all mineral interests from the surface to the base of the Bone Spring formation underlying (i) the NW/4SW/4 of Section 34 to form a standard 40 acre oil spacing and proration unit, and (ii) the N/2S/2 of Section 34 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 units are to be dedicated to the Mallon 34 Fed. Well No. 16, a horizontal well to be re-entered and drilled at a surface location 1980 feet from the south line and 660 feet from the west line, with a terminus 1980 feet from the south line and 330 feet from the east line, of Section 34. Also to be considered will be the cost of re-entering, drilling, and completing the well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of Cimarex Energy Co. of Colorado as operator of the well, and a 200% charge for the risk involved in re-entering, drilling, and completing the well.

Oil Conservation Division

Case No. _____

Exhibit No. 1

(c) The parties being pooled, their interests in the well unit, and their last known addresses, are as follows:

Merit Management Partners I, L.P.	<u>6.25</u> %
Merit Energy Partners III, L.P.	<u>6.25</u> %
Merit Energy Partners D-III, L.P.	<u>6.25</u> %

c/o Merit Energy Partners GP, LLC, general partner
Suite 500
13727 Noel Road
Dallas, Texas 75240

(d) Copies of the proposal letter sent to the uncommitted mineral interest owners are attached hereto as Exhibit B.

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

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

(g) The offset operators or lessees of the acreage surrounding the well unit are as follows:

- (i) SE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 33.
Read & Stevens, Inc.
- (ii) SE $\frac{1}{4}$ NE $\frac{1}{4}$ and NE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 33.
Cimarex Energy Co. of Colorado
- (iii) S $\frac{1}{2}$ N $\frac{1}{2}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$, and S $\frac{1}{2}$ SE $\frac{1}{4}$ of Section 34.
Pear Resources
Fuel Products, Inc.
Merit Management Partners I, L.P.
Merit Energy Partners III, L.P.
Merit Energy Partners D-III, L.P.
- (iv) SE $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 34.
Providence Minerals LLC
- (v) SW $\frac{1}{4}$ NW $\frac{1}{4}$ and W $\frac{1}{2}$ SW $\frac{1}{4}$ of Section 35.
Pear Resources
Fuel Products, Inc.
Merit Management Partners I, L.P.
Merit Energy Partners III, L.P.
Merit Energy Partners D-III, L.P.

(h) A copy of the Authority for Expenditure for the proposed well is attached hereto as Exhibit C. The re-entry, drilling, and completion costs set forth therein are fair and reasonable, and are comparable to those of other horizontal wells of this depth drilled in this area of Lea County.

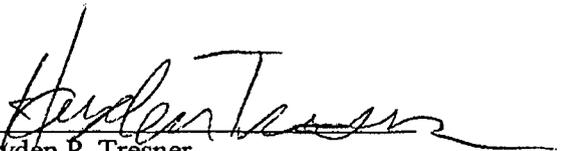
(i) Overhead charges of \$7000/month for a drilling well, and \$700/month for a producing well, are requested. These rates are fair and reasonable, and are in line with rates charged by other operators in this area for wells of this depth. Cimarex Energy Co. requests that the rates be adjusted under the COPAS accounting procedure.

(j) Applicant requests that Cimarex Energy Co. of Colorado be designated operator of the well.

VERIFICATION

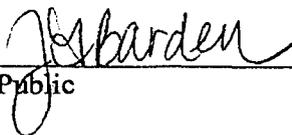
STATE OF TEXAS)
) ss.
COUNTY OF MIDLAND)

Hayden P. Tresner, being duly sworn upon his oath, deposes and states that: He is a landman for Cimarex Energy Co.; he is authorized to make this verification on its behalf; he has read the foregoing statement, and knows the contents thereof; and the same is true and correct to the best of his knowledge, information, and belief.


Hayden P. Tresner

SUBSCRIBED AND SWORN TO before me this 20th day of October, 2009 by Hayden P. Tresner.

My Commission Expires: 4.22.2013


Notary Public



Cimarex Energy Co.
600 N. Marienfeld St.
Suite 600
Midland, Texas 79701
PHONE 432.571.7800
FAX 432.571.7832



June 10, 2009

Via Certified U.S. Mail-Return Receipt Requested No. 7007 0710 0003 0317 3625

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

Via Certified U.S. Mail-Return Receipt Requested No. 7007 0710 0003 0317 3656

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

Via Certified U.S. Mail-Return Receipt Requested No. 7007 0710 0003 0317 3649

MGT Partners I, L.P., et al
12737 Noel Road, Suite 500
Dallas, Texas 75240

**Re: Mallon 34 Federal #16 (reentry)
N/2S/2 of Section 16-T19S-34E
Lea County, New Mexico**

Dear Working Interest Owners:

Cimarex Energy Co. ("Cimarex"), on behalf of its wholly owned subsidiary Magnum Hunter Production, Inc., proposes to drill the above-captioned well in accordance with the project described in the enclosed AFE. If you choose to participate, please sign and return a copy of the AFE to the undersigned at the above-letterhead address. I will send our proposed form of operating agreement to you upon receipt of your approved AFE. Alternatively, if you choose not to participate, Cimarex would be interested in acquiring a farmout of your leasehold interests in the spacing unit dedicated to the well.

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.

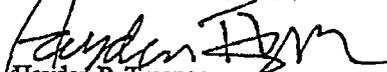

Hayden P. Tresner
Landman

EXHIBIT **B**

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



July 1, 2009

Via: Federal Express (overnight delivery)

MGT Partners I, L.P.
Merit Energy Partners III, L.P.
Merit Energy Partners D-III, L.P.
13727 Noel Road, Suite 500
Dallas, Texas 75240

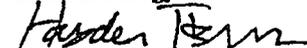
Re: *Mallon 34 Federal #16 (reentry)
N/2S/2 of Section 34-19S-34E
Lea County, New Mexico*

Dear Working Interest Owner:

In the event that you did not receive my previous proposal dated June 10, 2009, 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, please sign and return a copy of the AFE to the undersigned at the above-letterhead address. 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, Cimarex would be interested in acquiring a farmout of your leasehold interest in the spacing unit dedicated to the well. 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 Name Cimarex Energy Co.	DATE PROCESSED January 25, 2009
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Well Name Mallon 24 Federal	Well No. 16	Prospector Field Name	Property Number S09617-200.01	Drilling AFE No. 259016
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Location N/2S/2 Section 34-19S-34E	County Lea	State NM	Type Well Oil <input checked="" type="checkbox"/> <input type="checkbox"/> Gas <input type="checkbox"/> <input type="checkbox"/>
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Estimate Type Original Estimate <input checked="" type="radio"/>	Est. Start Date	Est. Comp. Date	Formation	Est. TD 15,150'
Revised Estimate <input type="radio"/>				
Supplemental Estimate <input type="radio"/>				

Project Description
Re-enter wellbore, deepen, drill lateral section, and complete with open hole packers 7 stages (4290 VS).

Intangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Drilling Costs	\$1,122,000		\$1,122,000
Completion Costs		\$1,005,000	\$1,005,000
Total Intangible Costs	\$1,122,000	\$1,005,000	\$2,127,000

Tangibles			
Well Equipment	\$0	\$441,621	\$441,621
Lease Equipment		\$36,500	\$36,500
Total Tangible Well Cost	\$0	\$478,121	\$478,121

Plug and Abandon Cost	\$150,000	-\$150,000	\$0
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Total Well Cost	\$1,272,000	\$1,333,121	\$2,605,121
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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.L.) 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.L.) 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 Andes Engineer - PB	Drilling and Completion Manager Doug Park, Mgr. Operations PB	Reviewed by Roger Alexander, Regional Manager PB
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Joint Interest Approval

Company Name	By	Date

EXHIBIT



Project Cost Estimate

Lease Name: McElton B4 Federal

Well No.:

16

Item	Unit	Drill Hole Cost	Allow. Casing Point	Completion Well Cost
Roads & Location Preparation / Restoration		D10C100 \$50,000	D10C100	\$50,000
Damages		D10C105 \$1,000	D10C105	\$1,000
Mud / Fluids Disposal Charges		D10C105 \$20,000	D10C105	\$72,500
Day Rate	20 DH Days 6 ACP Days @ 11,500 Per Day	D10C118 \$242,000	D10C120 \$69,000	\$311,000
Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)		D10C120 \$9,000		\$9,000
Big		D10C125 \$29,000	D10C125 \$1,000	\$24,000
Fuel	\$1.80 Per Gallon 700 Gallons Per Day	D10C125 \$26,000	D10C120 \$6,000	\$32,000
Water / Completion Fluids		D10C140 \$36,000	D10C115 \$61,500	\$97,500
Mud & Additives		D10C145 \$27,000		\$27,000
Surface Rentals		D10C150 \$49,000	D10C140 \$84,000	\$133,000
Downhole Rentals		D10C155 \$75,000	D10C145 \$14,000	\$89,000
Formation Evaluation (DST, Coring including evaluation, G&G Services)		D10C160		\$0
Mud Logging	\$850 Days @ 18 Per Day	D10C170 \$19,000		\$19,000
Open Hole Logging		D10C170		\$0
Cementing & Floor Equipment		D10C185	D10C155	\$0
Tubular Inspections		D10C190	D10C160 \$3,000	\$3,000
Casing Crews		D10C195	D10C165 \$12,000	\$12,000
Extra Labor, Waiting, Etc.		D10C200 \$16,000	D10C170 \$5,000	\$21,000
Land Transportation (Trucking)		D10C205 \$10,000	D10C175 \$9,000	\$19,000
Supervision	1,600 Per Day	D10C210 \$32,000	D10C180 \$23,000	\$55,000
Trailer House / Camp / Catering	400 Per Day	D10C215 \$8,000	D10C185 \$4,000	\$12,000
Other Misc Expenses		D10C220 \$13,000	D10C190 \$7,000	\$18,000
Overhead	300 Per Day	D10C225 \$6,000	D10C195 \$11,000	\$17,000
Remedial Cementing		D10C230 \$18,000	D10C215	\$18,000
MOB/DEMOB		D10C235 \$45,000		\$45,000
Directional Drilling Services	18 Days @ 11,950 Per Day	D10C245 \$226,000		\$226,000
Dock, Dispatcher, Crane		D10C250	D10C220	\$0
Marine & Air Transportation		D10C255	D10C225	\$0
Solids Control		D10C260 \$70,000		\$70,000
Well Control Equip (Snubbing Svcs.)		D10C265 \$44,000	D10C240 \$26,000	\$70,000
Fishing & Sidetrack Operations		D10C270	D10C245	\$0
Completion Rig	17 Days @ 3,400 Per Day		D10C255 \$70,000	\$70,000
Coil Tubing	1 Days @ 33,000 Per Day		D10C260 \$33,000	\$33,000
Completion Logging, Perforating, WL Units, WL Surveys			D10C265 \$10,000	\$10,000
Stimulation			D10C270 \$427,000	\$427,000
Legal / Regulatory / Curative		D10C280 \$1,000	D10C280	\$1,000
Well Control Insurance	\$0.35 Per Foot	D10C285 \$5,000		\$5,000
Contingency	5% of Drilling Intangibles	D10C295 \$53,000	D10C290 \$47,000	\$100,000
Construction For Well Equipment			D10E110 \$20,000	\$20,000
Construction For Lease Equipment			D10E115 \$0	\$0
Construction For Sales P/L			D10C245	\$0
Total Intangible Cost		\$1,172,000	\$1,005,000	\$2,177,000

Intangible Well Equipment	Size	Feet	\$ / Foot	Code	Cost	Cost
Casing						
Drive Pipe	20"	40.00	\$0.00	D10E110	\$0	\$0
Conductor Pipe				D10E110	\$0	\$0
Water String				D10E115	\$0	\$0
Surface Casing	15-3/8"		\$0.00	D10E120	\$0	\$0
Intermediate Casing	8-5/8"		\$0.00	D10E125	\$0	\$0
Drilling Liner				D10E130	\$0	\$0
Drilling Liner				D10E135	\$0	\$0
Production Casing or Liner	5-1/2"		\$0.00	D10E140	\$0	\$0
Production Tie-Back	3 1/2"	5000.00		D10E145	\$71,621	\$71,621
Tubing	2 7/8"	8000.00	\$10.57	D10E150	\$83,000	\$83,000
N/C Well Equipment				D10E155	\$20,000	\$20,000
Wellhead, Tree, Chokes				D10E160	\$10,000	\$10,000
Liner Hanger, Isolation Packer				D10E165	\$1,000	\$1,000
Packer, Nipples				D10E170	\$145,000	\$145,000
Pumping Unit, Engine				D10E175	\$85,000	\$85,000
Lift Equipment (BHP, Rods, Anchors)				D10E180	\$26,000	\$26,000
Intangible Lease Equipment						
N/C Lease Equipment				D10E185	\$0	\$0
Tanks, Tanks Steps, Stairs				D10E190	\$20,000	\$20,000
Battery (Heater Treater, Separator, Gas Treating Equipment)				D10E195	\$15,000	\$15,000
Flow Lines (Line Pipe from wellhead to central facility)				D10E200	\$1,500	\$1,500
Offshore Production Structure for Facilities				D10E205	\$0	\$0
Pipeline to Sales				D10E210	\$0	\$0
Total Tangibles					\$0	\$478,121

P&A Costs	D10C295	\$150,000	D10C375	-\$150,000	\$0
Total Cost		\$1,172,000		\$1,833,121	\$2,605,121