

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 14469
ORDER NO. R-13272

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

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 13, 2010, at Santa Fe, New Mexico, before Examiner Terry Warnell.

NOW, on this 23rd day of June, 2010, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

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

(2) Cimarex Energy Co. ("Applicant"), seeks approval of a non-standard 160-acre oil spacing and proration unit and project area in the Bone Spring formation consisting of the N/2 of the N/2 (Units A, B, C and D) of Section 35, Township 19 South, Range 34 East, NMPM, in Lea County, New Mexico.

(3) Applicant further seeks an order pooling all uncommitted interests in the above described area, as follows:

(a) the NE/4 NE/4 of Section 35, to form a standard 40-acre, more or less, oil spacing and proration unit for all formations or pools spaced on 40 acres from the surface to the top of the Bone Spring; and

(b) the N/2 N/2 to form a non-standard 160-acre, more or less, spacing unit and project area ("the project area") in the Bone Spring formation [Lea-Bone Spring Pool (37570)].

(4) The above-described units ("the Units") are to be dedicated to Applicant's Mallon 35 Federal Well No. 7H ("the proposed well"), a horizontal well to be drilled from a surface location 660 feet from the North line and 330 feet from the East line (Unit A) of Section 35. The well will penetrate the Bone Spring formation at approximately the surface location, and continue horizontally in the Bone Spring to a terminus, or bottomhole location, 660 feet from the North line and 330 feet from the West line (Unit D) of Section 35.

(5) Spacing in the Lea-Bone Spring Pool is governed by Rules 2 and 3 of the Special Rules and Regulations for the Lea-Bone Springs Pool, as adopted by Order No. R-1827 issued on December 8, 1960, which provide for 80-acre units with wells to be located within 150 feet of the center of a quarter/quarter section. The project area comprises two adjacent standard 80-acre units. The location of the proposed well, however, is unorthodox for the Lea-Bone Spring Pool.

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

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

(b) all quarter-quarter sections to be included in the proposed non-standard unit and project area are expected to be productive in the Bone Spring, so that formation of the unit as requested will not impair correlative rights.

(7) Linn Energy Holdings, LLC, Fuel Products, Inc., Pear Resources and Fasken Oil and Ranch Limited entered an appearance through counsel, but did not oppose the application.

The Division concludes that:

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

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

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

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

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

(13) Cimrex Energy Co. should be designated the operator of the proposed well and of the Units.

(14) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(15) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,500 per month while drilling and \$650 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*."

IT IS THEREFORE ORDERED THAT:

(1) A non-standard 160-acre oil spacing and proration unit is hereby established in the Lea-Bone Spring Pool, consisting of the N/2 N/2 of Section 35, Township 19 South, Range 34 East, NMPM, in Lea County, New Mexico.

(2) Pursuant to the application of Cimrex Energy Co., all uncommitted interests, whatever they may be, in the oil and gas in the above-described area are hereby pooled to form the following units ("the Units):

(a) the NE/4 NE/4 of Section 35, to form a standard 40-acre, more or less, oil spacing and proration unit for all formations or pools spaced on 40 acres from the surface to the top of the Bone Spring; and

(b) the N/2 N/2 to form a non-standard 160-acre, more or less, oil spacing unit and project area ("the project area") in the Lea-Bone Spring Pool (37570).

(3) The Units shall be dedicated to Applicant's Mallon 35 Federal Well No. 7H ("the proposed well"), a horizontal well to be drilled from a surface location 660 feet from the North line and 330 feet from the East line (Unit A) of Section 35. The well will penetrate the Bone Spring formation at approximately the surface location, and continue

horizontally in the Bone Spring to a terminus, or bottomhole location, 660 feet from the North line and 330 feet from the West line (Unit D) of Section 35.

(4) The operator of the Units shall commence drilling the proposed well on or before June 15, 2011, and shall thereafter continue drilling the well with due diligence to test the Bone Spring formation.

(5) In the event the operator does not commence drilling the proposed well on or before June 15, 2011, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraphs (1) and (2) shall be of no further effect, and the units and project area created by this order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence.

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

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

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

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

(11) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not

objected, within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

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

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

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

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

(15) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,500 per month while drilling and \$650 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

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

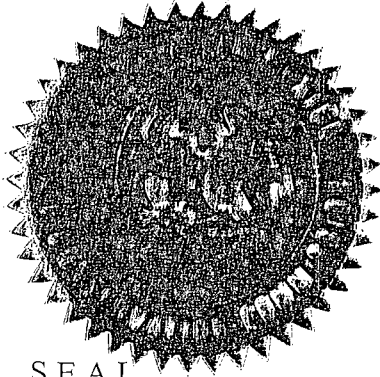
(17) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

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

(19) The location of the proposed well is unorthodox under the provisions of the Special Rules and Regulations for the Lea-Bone Spring Pool. Applicant shall file a separate administrative application with the Division for approval of the proposed unorthodox location.

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

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



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire". The signature is fluid and cursive, written over a light background.

MARK E. FESMIRE, P.E.
Acting Director