

Cimarex Energy Co.

600 N. Marienfeld St.

Suite 600

Midland, Texas 79701

PHONE 432.571.7800

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December 13, 2011

To: Working Interest Owner Address List on Page 2

Re: Boxer 3 Federal Com No. 1- Compulsory Pooling Well Proposal
Township, 15 South, Range 31 East, N.M.P.M.
Section 3: S/2N/2
Chaves County, New Mexico

Dear Pooled Working Interest Owner:

You are receiving this proposal pursuant to Par (10) on Page 4 of Compulsory Pooling Order No. R-13488 (a copy of said Order is enclosed herewith). As a pooled working interest owner under the Order, you have the right to participate in the above-captioned well (the "Well") by paying your share of estimated well costs within 30 days of your receipt of this proposal. Accordingly, enclosed herewith is an itemized schedule of estimated costs to drill, complete and equip the Well. If you elect to participate in the Well as a pooled working interest owner, please remit your payment in the amount of \$32,532.49 (\$5,205,198 x 0.625%) to the attention of the undersigned at the above-letterhead address. Be advised that failure to pay your share of estimated well costs within 30 days will result in you being a non-consenting working interest owner in the Well.

Please contact the undersigned at (432) 571-7856 if you should have any questions in regard to this proposal.

Respectfully Submitted,

Cimarex Energy Co.

A handwritten signature in black ink, appearing to read "Hayden P. Tresner".

Hayden P. Tresner
Landman

CC: Oil Conservation Division (Ref. Case No. 14730; Order No. R-13488)
Attn: Florene Davidson
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Tom Kellahin
706 Gonzales Road
Santa Fe, New Mexico 87501

Boxer 3 Federal Com No. 1- Compulsory Pooling Well Proposal
Township, 15 South, Range 31 East, N.M.P.M.
Section 3: S/2N/2
Chaves County, New Mexico



WORKING INTEREST OWNER ADDRESS LIST

Via: Certified U.S. Mail-Return Receipt No. 91 7108 2133 3938 0388 6326

Sigyn Lund
c/o Hilmer H. Graham
110-55 72nd Road, Apt. 307
Forrest Hills, New York 11375

Via: Certified U.S. Mail-Return Receipt No. 91 7108 2133 3938 0388 6319

Clare L. Fraser
133 East 64th Street
New York, New York 10021

**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. 14730
ORDER NO. R-13488**

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

ORDER OF THE DIVISION

BY THE DIVISION:

This matter came on for hearing at 8:15 a.m. on October 27, 2011, at Santa Fe, New Mexico, before Examiner Richard I. Ezeanyim.

NOW, on this 7th day of December, 2011, 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. ("Cimarex" or "Applicant") seeks approval of a non-standard 160-acre oil spacing and proration unit and project area ("the Unit") for oil production in the Abo and Wolfcamp formations consisting of the S/2 N/2 of Section 3, Township 15 South, Range 31 East, NMPM; in Chaves County, New Mexico. Applicant further seeks an order pooling all uncommitted interests (i) from the surface to the top of the Abo/Wolfcamp formation underlying the SE/4 NE/4 of Section 3 to form a standard 40-acre oil spacing and proration unit, and (ii) in the Abo/Wolfcamp formation underlying the S/2 N/2 of Section 3 to form a non-standard 160-acre oil spacing and proration unit or project area, for any formations and/or pools developed on 40-acre spacing within that vertical extent.

(3) Subsequent to the hearing, the Applicant dismissed its request to pool all interests from the surface to the top of the Abo/Wolfcamp formation underlying the SE/4 NE/4 of Section 3 to form a standard 40-acre, more or less, oil spacing and proration unit.

(4) The Project area or Unit is to be dedicated to Applicant's Boxer 3 Federal Com Well No. 1 (API No. 30-005-29195) ("the proposed well"), a horizontal well to be drilled from a non-standard surface location 2135 feet from the North line and 170 feet from the East line (Unit H) of Section 3. The well will penetrate the Abo/Wolfcamp formation at a standard oil well location approximately 2145 feet from the North line and 458 feet from the East line (Unit H), and continue West horizontally in the Abo/Wolfcamp formation to a standard terminus, or bottomhole location 2265 feet from the North line and 330 feet from the West line (Unit E) of Section 3.

(5) This is a wildcat area in the Abo/Wolfcamp formation. Accordingly, spacing is governed by statewide Rule 19.15.15.9.A NMAC, which provides for standard 40-acre units, each comprising a governmental quarter-quarter section. The Unit consists of four adjacent quarter-quarter sections.

(6) Applicant appeared at the hearing through counsel and presented the following evidence:

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

(b) there is no clear distinction in this area between the lower Abo and the Wolfcamp formations; and

(c) all quarter-quarter sections to be included in the Unit or project area are expected to be productive in the Abo/Wolfcamp, so that formation of the Unit as requested will not impair correlative rights.

(7) No other party appeared at the hearing, or otherwise opposed the granting of this application.

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

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

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

(11) There are interest owners in the Unit that have not agreed to pool their interests. There are no unlocated owners in the Unit, 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 Unit 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 Unit.

(13) Cimarex Energy Company of Colorado should be designated the operator of the proposed well and of the Unit.

(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 \$7,000 per month while drilling and \$700 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 wildcat oil spacing and proration unit (the Unit or project area) is hereby established in the Abo and Wolfcamp formations, consisting of the S/2 N/2 of Section 3, Township 15 South, Range 31 East, NMPM, in Chaves County, New Mexico.

(2) Pursuant to the application of Cimarex Energy Co., all uncommitted interests, whatever they may be, in the oil and gas in the Abo and Wolfcamp formations underlying the Unit or project area, are hereby pooled.

(3) The portion of the application which requests to pool all interests from the surface to the top of the Abo/Wolfcamp formation underlying the SE/4 NE/4 of Section 3 to form a standard 40-acre, more or less, oil spacing and proration unit is hereby dismissed.

(4) The Unit or project area shall be dedicated to Applicant's Boxer 3 Federal Com Well No. 1 (API No. 30-005-29195) ("the proposed well"), a horizontal well to be drilled from a non-standard surface location 2135 feet from the North line and 170 feet from the East line (Unit H) of Section 3. The well will penetrate the Abo/Wolfcamp formation at a standard oil well location approximately 2145 feet from the North line and 458 feet from the East line (Unit H), and continue West horizontally in the Abo/Wolfcamp formation to a standard terminus, or bottomhole location 2265 feet from the North line and 330 feet from the West line (Unit E) of Section 3.

(5) Cimarex Energy Company of Colorado (OGRID 162683) is hereby designated the operator of the well and of the Unit.

(6) The operator of the Unit shall commence drilling the proposed well on or before December 15, 2012, and shall thereafter continue drilling the well with due diligence to test the Abo/Wolfcamp formations.

(7) In the event the operator does not commence drilling the proposed well on or before December 15, 2012, Ordering Paragraphs (1) and (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(8) 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 unit 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.

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

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

(11) 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."

(12) 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.

(13) 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.

(14) 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.

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

(16) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7,000 per month while drilling and \$700 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.

(17) 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.

(18) 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.

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

(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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script, appearing to read "Jami Bailey".

JAMI BAILEY
Director



Authorization For Expenditure

Company/Entity
Cimarex Energy Co.Date Prepared
June 16, 2011

Region	Well Name	Well No.	Prospect or Field Name	Property Number	Drilling/AFE No.
Permian	Boxer 3 Federal Com	1	Abo/Caprock		

Location	County	State	Type Well
SHL: 2135 FNL & 170 FEL Section 3-T15S-R31E 2265 FNL & 330 FWL Section 3-T15S-R31E	Chaves	NM	Oil <input checked="" type="checkbox"/> Expl <input checked="" type="checkbox"/> Gas <input type="checkbox"/> Prod <input type="checkbox"/>

Estimate Type	Est. Start Date	Est. Comp. Date	Formation	Ttl. Measured Depth
Original Estimate <input checked="" type="radio"/>			Abo	13,200'
Revised Estimate <input type="radio"/>				Ttl. Vertical Depth
Supplemental Estimate <input type="radio"/>				8,800'

Project Description
Drill and complete a Lower ABO horizontal well. With pilot hole. 4579' VS

Intangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Drilling Costs	\$2,008,248		\$2,008,248
Completion Costs		\$2,115,450	\$2,115,450
Total Intangible Costs	\$2,008,248	\$2,115,450	\$4,123,698

Tangibles			
Well Equipment	\$291,000	\$663,500	\$954,500
Lease Equipment		\$127,000	\$127,000
Total Tangible Well Cost	\$291,000	\$790,500	\$1,081,500

Plug and Abandon Cost	\$150,000	-\$150,000	\$0
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Total Well Cost	\$2,449,248	\$2,755,950	\$5,205,198
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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.
<input type="checkbox"/> 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.

Marketing Election
Cimarex sells its gas under arm's-length contracts with third party purchasers. Such contracts may include fees. In addition, penalties may be incurred for insufficient volumes delivered over time. Should you choose to market you share of gas with Cimarex, you will be subject to all of the terms of such contracts. Upon written request to Cimarex's Marketing Department, we will share with you the terms and conditions pursuant to which gas will be sold.
<input type="checkbox"/> I elect to take my gas in kind.
<input type="checkbox"/> I elect to market my gas with Cimarex pursuant to the terms and conditions of its contracts.

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
Art Metcalfe	Doug Park	Roger Alexander

Joint Interest Approval

Company	By	Date



Project Cost Estimate

Lease Name: Boxer 3 Federal Com

Well No.:

1

Intangibles					Codes	Dry Hole Cost	Codes	After Casing Point	Completed Well Cost
Roads & Location Preparation / Restoration					DIDC.100	\$54,000	DICC.100	\$7,000	\$61,000
Damages					DIDC.105	\$0	DICC.105	\$0	\$0
Mud / Fluids Disposal Charges					DIDC.255	\$72,000	DICC.235	\$52,000	\$124,000
Day Rate	33	DH Days	5	ACP Days @	DIDC.115	\$544,748	DICC.120	\$83,000	\$627,748
Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)					DIDC.120	\$20,000			\$20,000
Bits					DIDC.125	\$72,000	DICC.125	\$5,000	\$77,000
Fuel	\$3.85	Per Gallon	1200	Gallons Per Day	DIDC.135	\$175,000	DICC.130	\$26,950	\$201,950
Water / Completion Fluids					DIDC.140	\$6,000	DICC.135	\$60,000	\$66,000
Mud & Additives					DIDC.145	\$92,000			\$92,000
Surface Rentals					DIDC.150	\$169,000	DICC.140	\$175,000	\$344,000
Downhole Rentals					DIDC.155	\$65,000	DICC.145	\$35,000	\$100,000
Formation Evaluation (DST, Coring including evaluation, G&G Services)					DIDC.160				\$0
Mud Logging					DIDC.170	\$25,000			\$25,000
Open Hole Logging					DIDC.180	\$0			\$0
Cementing & Float Equipment					DIDC.185	\$42,000	DICC.155	\$60,000	\$102,000
Tubular Inspections					DIDC.190	\$20,000	DICC.160	\$2,500	\$22,500
Casing Crews					DIDC.195	\$21,000	DICC.165	\$16,000	\$37,000
Extra Labor, Welding, Etc.					DIDC.200	\$5,000	DICC.170	\$6,000	\$11,000
Land Transportation (Trucking)					DIDC.205	\$17,500	DICC.175	\$23,000	\$40,500
Supervision					DIDC.210	\$56,000	DICC.180	\$27,000	\$83,000
Trailer House / Camp / Catering					DIDC.280	\$15,000	DICC.255	\$4,000	\$19,000
Other Misc Expenses					DIDC.220	\$2,000	DICC.190	\$15,000	\$17,000
Overhead					DIDC.225	\$7,000	DICC.195	\$4,000	\$11,000
Remedial Cementing					DIDC.231		DICC.215		\$0
MOB/DEMOB					DIDC.240	\$110,000			\$110,000
Directional Drilling Services					DIDC.245	\$239,000			\$239,000
Dock, Dispatcher, Crane					DIDC.250		DICC.230		\$0
Marine & Air Transportation					DIDC.275		DICC.250		\$0
Solids Control					DIDC.260	\$55,000			\$55,000
Well Control Equip (Snubbing Svcs.)					DIDC.265	\$18,000	DICC.240	\$23,000	\$41,000
Fishing & Sidetrack Operations					DIDC.270	\$0	DICC.245		\$0
Completion Rig							DICC.115	\$25,000	\$25,000
Coil Tubing							DICC.260	\$52,000	\$52,000
Completion Logging, Perforating, WL Units, WL Surveys							DICC.200	\$8,000	\$8,000
Stimulation							DICC.210	\$1,220,000	\$1,220,000
Legal / Regulatory / Curative					DIDC.300	\$5,000	DICC.280	\$1,000	\$6,000
Well Control Insurance					DIDC.285	\$5,000			\$5,000
Contingency					DIDC.435	\$96,000	DICC.220	\$97,000	\$193,000
Construction For Well Equipment							DWEA.110	\$8,000	\$8,000
Construction For Lease Equipment							DLEQ.110	\$60,000	\$60,000
Construction For Sales P/L							DICC.265	\$20,000	\$20,000
Total Intangible Cost						\$2,008,248		\$2,115,450	\$4,123,698

Tangible - Well Equipment									
Casing	Size	Feet	\$ / Foot						
Drive Pipe	20 "	90.00	\$72.00	DWEB.150	\$6,000				\$6,000
Conductor Pipe				DWEB.130	\$0				\$0
Water String				DWEB.135	\$0				\$0
Surface Casing	13-3/8"	350.00	\$42.96	DWEB.140	\$15,000				\$15,000
Intermediate Casing	7 "	8530.00	\$29.93	DWEB.145	\$255,000				\$255,000
Drilling Liner				DWEB.145	\$0				\$0
Drilling Liner				DWEB.145	\$0				\$0
Production Casing or Liner	4 1/2"	14352.00	\$15.23			DWEA.100	\$222,000		\$222,000
Production Tie-Back						DWEA.100	\$0		\$0
Tubing	2 7/8"	8700.00	\$9.94			DWEA.105	\$86,000		\$86,000
N/C Well Equipment						DWEA.115	\$65,000		\$65,000
Wellhead, Tree, Chokes				DWEB.115	\$15,000	DWEA.120	\$20,000		\$35,000
Liner Hanger, Isolation Packer				DWEB.100	\$0	DWEA.125	\$0		\$0
Packer, Nipples						DWEA.130	\$164,000		\$164,000
Pumping Unit, Engine						DLEQ.100	\$100,000		\$100,000
Lift Equipment (BHP, Rods, Anchors)						DLEQ.105	\$6,500		\$6,500
Tangible - Lease Equipment									
N/C Lease Equipment						DLEQ.115	\$23,000		\$23,000
Tanks, Tanks Steps, Stairs						DLEQ.120	\$58,000		\$58,000
Battery (Heater Treater, Separator, Gas Treating Equipment)						DLEQ.125	\$28,000		\$28,000
Flow Lines (Line Pipe from wellhead to central facility)						DLEQ.130	\$18,000		\$18,000
Offshore Production Structure for Facilities						DWEA.135	\$0		\$0
Pipeline to Sales						DWEA.140			\$0
Total Tangibles						\$291,000		\$790,500	\$1,081,500

P&A Costs	DIDC.295	\$150,000	DICC.275	-\$150,000	\$0
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Total Cost					\$2,449,248		\$2,755,950		\$5,205,198
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