

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

Warnell

TW

RECEIVED OCD

2012 JAN 10 P 1:15



Case 14679

January 5, 2012

Oil Conservation Division  
Attn: Florene Davidson  
1220 South St. Frances Drive  
Santa Fe, New Mexico 87505

RE: Well Proposal under Force Pooling Orders  
Alaska 29 Fee Well No. 4 & Alaska 29 Fee Well No. 7

Dear Ms. Davidson,

Pursuant to the orders of the Division, R-13453 and R-13454, enclosed are the well proposals sent to COG Operating LLC and Concho Oil and Gas LLC. These orders pertain to the NW/4SE/4 and SE/4SW/4 of Section 32, Township 18 South, Range 26 East, Eddy County, New Mexico, N.M.P.M.

Sincerely,

Hilary R. Coder  
Contract Petroleum Landman

Direct line: 432-571-7887

Cimarex Energy Co.

600 N. Marienfeld St.

Suite 600

Midland, Texas 79701

PHONE 432.571.7800



December 5, 2011

**Via: U.S. Certified Mail-Return Receipt No. 91 7108 2133 3938 9332 2384**  
**And Facsimile: (432) 683-7441**

COG Operating, LLC  
Concho Oil and Gas, LLC  
Attn: Stuart Dirks  
550 West Texas Ave., Suite 100  
Midland, Texas 79701

Re: Alaska 29 Fee No. 4  
Township 18 South, Range 26 East, N.M.P.M.  
Section 29: NW/4SE/4  
Eddy County, New Mexico

Dear Stuart:

Enclosed herewith is an itemized schedule of estimated costs to drill, complete and equip the above captioned well (the "Well"). If COG Operating LLC and Concho Oil and Gas LLC ("COG") would like to participate in the Well as a pooled working interest owner, send a check for COG's share of well costs to the undersigned within 30 days of your receipt of this letter. Failure to pay your share of estimated well costs will result in COG being a non-consenting working interest owner in the Well.

A copy of the Compulsory Pooling Order No. R-13453 is enclosed for your reference.

Regards,

**Cimarex Energy Co.**

  
Hilary R. Coder  
Contract Landman

Cc: Oil Conservation Division  
Attn: Florene Davidson  
1220 South St. Frances Drive  
Sante Fe, New Mexico 87505

James Bruce

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. 14679  
ORDER NO. R-13453

APPLICATION OF CIMAREX ENERGY COMPANY FOR COMPULSORY  
POOLING, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on July 21, 2011, at Santa Fe, New Mexico, before Examiner Terry Warnell.

NOW, on this 2<sup>nd</sup> day of September, 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. ("Applicant") seeks an order pooling all uncommitted interests from the surface to the base of the Glorieta-Yeso formation in the NW/4 SE/4 of Section 29, Township 18 South, Range 26 East, NMPM, in Eddy County, New Mexico, to form a standard 40-acre, more or less, oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent, which presently include, but are not necessarily limited to, the Penasco Draw-San Andres-Yeso Pool (50207).

(3) The Unit is to be dedicated to Applicant's proposed Alaska 29 Fee Well No. 2 (API No. 30-015-39088) ("the proposed well"), a vertical well to be drilled at a standard surface location 2310 feet from the South line and 1650 feet from the East line (Unit J) of Section 29.

(4) 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.

(5) 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 locations.

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

(7) 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.

(8) Cimarex Energy Company of Colorado (OGRID 162683) should be designated the operator of the proposed well and of the Unit.

(9) 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.

(10) Reasonable charges for supervision (combined fixed rates) should be fixed at \$4,500 per month, per well, while drilling and \$450 per month, per well, 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) Pursuant to the application of Cimarex Energy Company all uncommitted interests, whatever they may be, in the oil and gas from the surface to the base of the Glorieta-Yeso formation in the NW/4 SE/4 of Section 29, Township 18 South, Range 26 East, NMPM, in Eddy County, New Mexico, are pooled to form a standard 40-acre, more or less, oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent, which presently include, but are not necessarily limited to, the Penasco Draw-San Andres-Yeso Pool (50207).

(2) The Unit is to be dedicated to Applicant's Alaska 29 Fee Well No. 2 (API No. 30-015-39088) ("the proposed well"), a vertical well to be drilled from a standard surface location 2310 feet from the South line and 1650 feet from the East line (Unit J) of Section 29.

(3) The operator of the Unit shall commence drilling the proposed well on or before September 15, 2012, and shall thereafter continue drilling said well with due diligence to at least a depth sufficient to test the Glorieta Yeso formation.

(4) In the event the operator does not commence drilling the proposed well on or before September 15, 2012, 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.

(5) Should the proposed well not be drilled and completed within 120 days after commencement of the proposed well, then Ordering Paragraph (1) shall be of no further effect, and the Unit created by this Order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for good cause shown by satisfactory evidence.

(6) Upon final plugging and abandonment of the proposed well and any other well drilled on any of the Units pursuant to Division Rule Part 13, Sections 9 through 11, [19.15.13.9 through 19.15.13.11 NMAC], the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(7) Cimarex Energy Co. of Colorado, LP (OGRID 162683) is hereby designated the operator of the proposed well and of the Unit.

(8) 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").

(9) 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."

(10) 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.

(11) 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.

(12) 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.

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

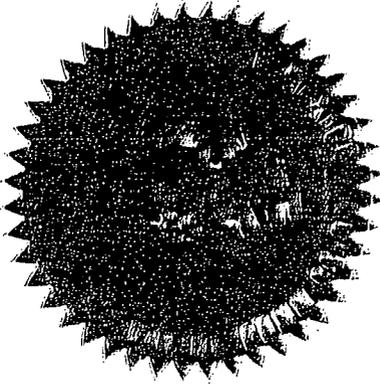
(14) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$4,500 per month, per well, while drilling and \$450 per month, per well, while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3 of the COPAS form titled "*Accounting Procedure-Joint 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.

(15) 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.

(16) 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.

(17) 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', written in black ink.

JAMI BAILEY  
Director



Authorization For Expenditure

Company Entity  
Cimarex Energy Co.

Date Prepared  
September 26, 2011

| Region  | Well Name     | Well No. | Prospect or Field Name        | Property Number | Drilling AFE No. |
|---------|---------------|----------|-------------------------------|-----------------|------------------|
| Permian | Alaska 29 Fee | 4        | Paddock Extension West (EDDY) |                 |                  |

| Location | County | State | Type Well                               |  |
|----------|--------|-------|---|--|
|          | Eddy   | NM    | Oil <input checked="" type="checkbox"/> | Expl <input checked="" type="checkbox"/> |
|          |        |       | Gas                                     | Prod                                     |

| Estimate Type                                      | Est. Start Date | Est. Comp. Date | Formation | Ttl Measured Depth |
|--|-----------------|-----------------|-----------|--------------------|
| Original Estimate <input checked="" type="radio"/> |                 |                 | Yeso      | 3,000'             |
| Revised Estimate <input type="radio"/>             |                 |                 |           | Ttl Vertical Depth |
| Supplemental Estimate <input type="radio"/>        |                 |                 |           | 3,000'             |

**Project Description**  
Drill and complete a Blinebry/Paddock vertical well

| Intangibles                   | Dry Hole Cost    | After Casing Point | Completed Well Cost |
|-------------------------------|------------------|--------------------|---------------------|
| Drilling Costs                | \$509,900        |                    | \$509,900           |
| Completion Costs              |                  | \$1,437,500        | \$1,437,500         |
| <b>Total Intangible Costs</b> | <b>\$509,900</b> | <b>\$1,437,500</b> | <b>\$1,947,400</b>  |

| Tangibles                       |                 |                  |                  |
|---------------------------------|-----------------|------------------|------------------|
| Well Equipment                  | \$43,000        | \$166,000        | \$209,000        |
| Lease Equipment                 |                 | \$16,000         | \$16,000         |
| <b>Total Tangible Well Cost</b> | <b>\$43,000</b> | <b>\$182,000</b> | <b>\$225,000</b> |

|                       |          |           |     |
|-----------------------|----------|-----------|-----|
| Plug and Abandon Cost | \$30,000 | -\$30,000 | \$0 |
|-----------------------|----------|-----------|-----|

|                        |                  |                    |                    |
|------------------------|------------------|--------------------|--------------------|
| <b>Total Well Cost</b> | <b>\$582,900</b> | <b>\$1,589,500</b> | <b>\$2,172,400</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.

**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 your 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.

I elect to take my gas in kind.

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 |
|----------------|---------------------------------|------------------|
| Steve Heitzman | Doug Park                       | Roger Alexander  |

Joint Interest Approval

| Company | By | Date |
|---------|----|------|
|         |    |      |



Project Cost Estimate

Lease Name: Alaska 29 Fee

Well No.:

4

| Intangibles  | Codes                       | Dry Hole Cost               | Codes    | After Casing Point | Completed Well Cost |           |           |
|--|-----------------------------|-----------------------------|----------|--------------------|---------------------|-----------|-----------|
| Roads & Location Preparation / Restoration                               | DIDC.100                    | \$78,000                    | DICC.100 | \$30,000           | \$108,000           |           |           |
| Damages  | DIDC.105                    | \$2,500                     | DICC.105 | \$0                | \$2,500             |           |           |
| Mud / Fluids Disposal Charges  | DIDC.255                    | \$30,000                    | DICC.235 | \$130,000          | \$160,000           |           |           |
| Day Rate   | 5 DH Days                   | 2 ACP Days @ 15,000 Per Day | DIDC.115 | \$75,000           | DICC.120            | \$30,000  | \$105,000 |
| Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.) | DIDC.120                    | \$16,000                    |          |                    | \$16,000            |           |           |
| Bits   | DIDC.125                    | \$13,000                    | DICC.125 | \$0                | \$13,000            |           |           |
| Fuel   | \$3.50 Per Gallon           | 800 Gallons Per Day         | DIDC.135 | \$19,000           | DICC.130            | \$6,000   | \$25,000  |
| Water / Completion Fluids  |                             | 800 Per Day                 | DIDC.140 | \$4,000            | DICC.135            | \$150,000 | \$154,000 |
| Mud & Additives  | DIDC.145                    | \$35,000                    |          |                    | \$35,000            |           |           |
| Surface Rentals  |                             | 1,000 Per Day               | DIDC.150 | \$5,000            | DICC.140            | \$140,000 | \$145,000 |
| Downhole Rentals   | DIDC.155                    | \$22,400                    | DICC.145 | \$0                | \$22,400            |           |           |
| Formation Evaluation (DST, Coring including evaluation, G&G Services)    | DIDC.160                    | \$0                         |          |                    | \$0                 |           |           |
| Mud Logging  | 3 Days @ 1,200 Per Day      | DIDC.170                    |          |                    | \$6,500             |           |           |
| Open Hole Logging  | DIDC.180                    | \$18,000                    |          |                    | \$18,000            |           |           |
| Cementing & Float Equipment  | DIDC.185                    | \$45,000                    | DICC.155 | \$20,000           | \$65,000            |           |           |
| Tubular Inspections  | DIDC.190                    | \$3,000                     | DICC.160 | \$2,000            | \$5,000             |           |           |
| Casing Crews   | DIDC.195                    | \$6,000                     | DICC.165 | \$6,000            | \$12,000            |           |           |
| Extra Labor, Welding, Etc.   | DIDC.200                    | \$3,000                     | DICC.170 | \$3,000            | \$6,000             |           |           |
| Land Transportation (Trucking)   | DIDC.205                    | \$3,000                     | DICC.175 | \$5,000            | \$8,000             |           |           |
| Supervision  |                             | 1,500 Per Day               | DIDC.210 | \$10,500           | DICC.180            | \$15,000  | \$25,500  |
| Trailer House / Camp / Catering  |                             | 700 Per Day                 | DIDC.280 | \$4,000            | DICC.255            | \$0       | \$4,000   |
| Other Misc Expenses  | DIDC.220                    | \$1,000                     | DICC.190 | \$1,000            | \$2,000             |           |           |
| Overhead   |                             | 300 Per Day                 | DIDC.225 | \$2,000            | DICC.195            | \$2,000   | \$4,000   |
| Remedial Cementing   | DIDC.231                    | \$0                         | DICC.215 | \$0                | \$0                 |           |           |
| MOB/DEMOB  | DIDC.240                    | \$40,000                    |          |                    | \$40,000            |           |           |
| Directional Drilling Services  |                             | 0 Days @ 8,000 Per Day      | DIDC.245 | \$0                | \$0                 |           |           |
| Dock, Dispatcher, Crane  | DIDC.250                    | \$0                         | DICC.230 | \$0                | \$0                 |           |           |
| Marine & Air Transportation  | DIDC.275                    | \$0                         | DICC.250 | \$0                | \$0                 |           |           |
| Solids Control   |                             | 3,500 Per Day               | DIDC.260 | \$18,000           |                     | \$18,000  |           |
| Well Control Equip (Snubbing Svcs.)                                      | DIDC.265                    | \$15,000                    | DICC.240 | \$14,000           | \$29,000            |           |           |
| Fishing & Sidetrack Operations   | DIDC.270                    | \$0                         | DICC.245 | \$0                | \$0                 |           |           |
| Completion Rig   | 3 Days @ 3,500 Per Day      |                             |          |                    | DICC.115            | \$10,500  | \$10,500  |
| Coil Tubing  | Days @ Per Day              |                             |          |                    | DICC.260            | \$0       | \$0       |
| Completion Logging, Perforating, WL Units, WL Surveys                    |                             |                             |          |                    | DICC.200            | \$24,000  | \$24,000  |
| Stimulation  |                             |                             |          |                    | DICC.210            | \$670,000 | \$670,000 |
| Legal / Regulatory / Curative  | DIDC.300                    | \$10,000                    | DICC.280 | \$0                | \$10,000            |           |           |
| Well Control Insurance   | \$0.35 Per Foot             | DIDC.285                    |          |                    | \$1,000             |           |           |
| Contingency  | 15% of Drilling Intangibles | DIDC.435                    | \$24,000 | DICC.220           | \$48,000            | \$72,000  |           |
| Construction For Well Equipment  |                             |                             |          |                    | DWEA.110            | \$15,000  | \$15,000  |
| Construction For Lease Equipment   |                             |                             |          |                    | DLEQ.110            | \$58,000  | \$58,000  |
| Construction For Sales P/L   |                             |                             |          |                    | DICC.265            | \$58,000  | \$58,000  |
| <b>Total Intangible Cost</b>   |                             | <b>\$509,900</b>            |          | <b>\$1,437,500</b> | <b>\$1,947,400</b>  |           |           |

| Tangible - Well Equipment                                   | Size   | Feet    | \$ / Foot |          |                 |                  |                  |          |
|---|--------|---------|-----------|----------|-----------------|------------------|------------------|----------|
| Casing  |        |         |           |          |                 |                  |                  |          |
| Drive Pipe  |        |         |           | DWEB.150 | \$0             | \$0              |                  |          |
| Conductor Pipe  |        |         |           | DWEB.130 | \$0             | \$0              |                  |          |
| Water String  |        |         |           | DWEB.135 | \$0             | \$0              |                  |          |
| Surface Casing  | 9 5/8" | 950'00  | \$39.77   | DWEB.140 | \$38,000        | \$38,000         |                  |          |
| Intermediate Casing   |        |         |           | DWEB.145 | \$0             | \$0              |                  |          |
| Drilling Liner  |        |         |           | DWEB.145 | \$0             | \$0              |                  |          |
| Drilling Liner  |        |         |           | DWEB.145 | \$0             | \$0              |                  |          |
| Production Casing or Liner                                  | 5 1/2" | 3000'00 | \$19.93   |          |                 | DWEA.100         | \$60,000         | \$60,000 |
| Production Tie-Back   |        |         |           |          |                 | DWEA.100         | \$0              | \$0      |
| Tubing  | 2 7/8" | 2900'00 | \$8.10    |          |                 | DWEA.105         | \$23,000         | \$23,000 |
| N/C Well Equipment  |        |         |           |          |                 | DWEA.115         | \$35,000         | \$35,000 |
| Wellhead, Tree, Chokes                                      |        |         |           | DWEB.115 | \$5,000         | DWEA.120         | \$8,000          | \$13,000 |
| Liner Hanger, Isolation Packer                              |        |         |           | DWEB.100 | \$0             | DWEA.125         | \$0              | \$0      |
| Packer, Nipples   |        |         |           |          |                 | DWEA.130         | \$0              | \$0      |
| Pumping Unit, Engine  |        |         |           |          |                 | DLEQ.100         | \$20,000         | \$20,000 |
| Lift Equipment (BHP, Rods, Anchors)                         |        |         |           |          |                 | DLEQ.105         | \$20,000         | \$20,000 |
| <b>Tangible - Lease Equipment</b>                           |        |         |           |          |                 |                  |                  |          |
| N/C Lease Equipment   |        |         |           |          |                 | DLEQ.115         | \$0              | \$0      |
| Tanks, Tanks Steps, Stairs                                  |        |         |           |          |                 | DLEQ.120         | \$0              | \$0      |
| Battery (Heater Treater, Separator, Gas Treating Equipment) |        |         |           |          |                 | DLEQ.125         | \$0              | \$0      |
| Flow Lines (Line Pipe from wellhead to central facility)    |        |         |           |          |                 | DLEQ.130         | \$10,000         | \$10,000 |
| Offshore Production Structure for Facilities                |        |         |           |          |                 | DWEA.135         | \$0              | \$0      |
| Pipeline to Sales   |        |         |           |          |                 | DWEA.140         | \$6,000          | \$6,000  |
| <b>Total Tangibles</b>                                      |        |         |           |          | <b>\$43,000</b> | <b>\$182,000</b> | <b>\$225,000</b> |          |

|                   |          |                  |          |                    |                    |
|-------------------|----------|------------------|----------|--------------------|--------------------|
| P&A Costs         | DIDC.295 | \$30,000         | DICC.275 | -\$30,000          | \$0                |
| <b>Total Cost</b> |          | <b>\$582,900</b> |          | <b>\$1,589,500</b> | <b>\$2,172,400</b> |