

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

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

CASE NO. 14373

**APPLICATION OF CIMAREX ENERGY COMPANY
FOR CANCELLATION OF THE DIVISION'S APPROVAL
OF AN APPLICATION FOR PERMIT TO DRILL ISSUED
TO COG OPERATING LLC,
CHAVES COUNTY, NEW MEXICO**

CASE NO. 14374

MOTION TO DISMISS

Yates Petroleum Corporation moves the Division to dismiss these applications on the grounds that Cimarex failed to properly propose a well and has failed to engage in good faith efforts to reach an agreement with the interest owners prior to filing these applications. In support of this motion, Yates states:

1. The Division, by long-standing practice, has required an applicant for compulsory pooling to furnish all interest owners a formal well proposal at least thirty days prior to filing an application for pooling to afford the owners a reasonable opportunity to reach a voluntary agreement.
2. The formal well proposal must include, at the very least, the 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.

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

4. In this case, Cimarex submitted a horizontal well proposal for the S/2 S/2 of Section 12, T-15-S, R-31-E to the interest owners by letter dated June 12, 2009. However, this well proposal letter was deficient in that it:

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

See Attachment A.

5. In response to this deficient well proposal letter, Yates sent a letter to Cimarex (with a copy to COG) on June 17, 2009, noting COG already has a drilling permit for a horizontal well in the S/2 S/2 of Section 12 and requesting a meeting of the interest owners "to discuss this well proposal, timing issues, title to the leasehold and who should drill and operate the well." *See Attachment B.*

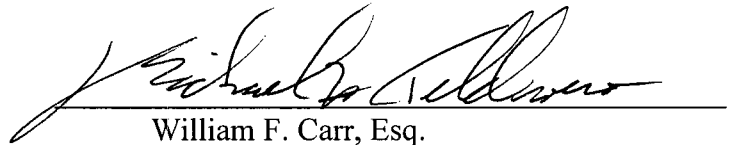
6. Cimarex did not contact Yates in response to its request for a meeting. Moreover, Cimarex failed to return telephone calls from Yates expressing a desire to meet and discuss a horizontal well in the S/2 S/2 of Section 12. Instead, Cimarex prematurely filed its pooling application and a companion application to rescind COG's permit to drill.

7. COG has recently transferred its drilling permit to Yates and has requested that Yates drill a horizontal well in the S/2 S/2 of Section 12. In addition, Yates believes there are title issues involving the acreage comprising the S/2 S/2 of Section 12 and has undertaken efforts to obtain a title opinion.

8. The circumstances are such that it is prudent and imperative that the parties meet to discuss a well in the S/2 S/2 of Section 12 and attempt to reach a voluntary agreement. Application of the Division's long-standing practice to dismiss these premature applications will further good faith efforts by the parties to reach a voluntary agreement.

Respectfully submitted,

Holland & Hart LLP,

A handwritten signature in cursive script, appearing to read "William F. Carr", is written over a horizontal line.

William F. Carr, Esq.

Michael H. Feldewert, Esq.

Post Office Box 2208

Santa Fe, New Mexico 87504-2208

(505) 988-4421

(505) 983-6043 Facsimile

ATTORNEYS FOR

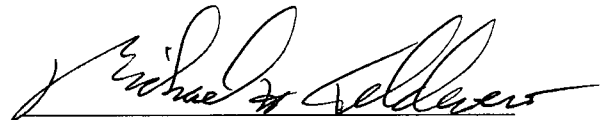
YATES PETROLEUM CORPORATION

CERTIFICATE OF SERVICE

I certify that on August 27, 2009 I served a copy of the foregoing document to the following by e-mail and U.S. Mail:

James Bruce
P.O. Box 1056
Santa Fe, NM 87504
(505) 982-2043
jamesbruc@aol.com

J. Scott Hall
Montgomery & Andrews, P.A.
P. O. Box 2307
Santa Fe, NM 87504-2307
shall@montand.com
(505) 986-2646

A handwritten signature in black ink, appearing to read "Michael H. Feldewert", written over a horizontal line.

Michael H. Feldewert

Cimarex Energy Co.
800 N. Marienfeld St.
Suite 800
Midland, Texas 79701
PHONE 432.571.7800
FAX 432.571.7832

RECEIVED
JUN 17 2009
MAIL ROOM



June 12, 2009

Via Facsimile: (575) 748-1471; and U.S. Certified Mail-Return Receipt No. 7007 0710 0003 0317 3694

Abo Petroleum Corporation
Myco Industries, Inc.
Yates Drilling Company
Yates Petroleum Corporation
105 S. 4th Street
Artesia, New Mexico 88210

Via Facsimile: (432) 683-7441; and U.S. Certified Mail-Return Receipt No. 7007 0710 0003 0317 3687

COG Oil & Gas LP
550 West Texas, Suite 1300
Midland, Texas 79701

Via Facsimile: (575) 492-1237; and U.S. Certified Mail-Return Receipt No. 7007 0710 0003 0317 3670

Penroc Oil Corporation
1515 Calle Sur
Hobbs, New Mexico 88240

Via Facsimile: (432) 617-7718; and U.S. Certified Mail-Return Receipt No. 7007 0710 0003 0317 3663

Beakon Oil & Gas, Inc.
68 Shiloh
Odessa, Texas 79762

**Re: Yorktown 12 Federal Com No. 3H
S/2S/2 of Section 12-T15S-R31E
Chaves County, New Mexico**

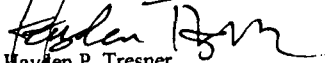
Dear Working Interest Owners:

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, 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 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





Authorization For Expenditure

Company Entity
Cimarex Energy Co.

Date Prepared
May 17, 2009

| Region | Well Name | Well No. | Prospect or Field Name | Property Number | Drilling AFE No. |
|---------|-------------------------|----------|----------------------------|-----------------|------------------|
| Permian | Yorktown 12 Federal Com | 3H | Lower Abo Horizontal Trend | | |

| Location | County | State | Type Well |
|------------------------------|--------|-------|--|
| S/25/2 of Section 12-155-31E | 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 | Est. TD |
|--|-----------------|----------------|-----------|---------|
| Original Estimate <input checked="" type="radio"/> | | | Abo | 13,000' |
| Revised Estimate <input type="radio"/> | | | | |
| Supplemental Estimate <input type="radio"/> | | | | |

Project Description
Drill and complete a lower Abo horizontal well. Pilot hole 9250' horiz TVD 8800'/MD 13000' (4500' VS)

| Intangibles | Dry Hole Cost | After Casing Point | Completed Well Cost |
|------------------------|---------------|--------------------|---------------------|
| Drilling Costs | \$1,562,625 | | \$1,562,625 |
| Completion Costs | | \$955,250 | \$955,250 |
| Total Intangible Costs | \$1,562,625 | \$955,250 | \$2,517,875 |

| Tangibles | | | |
|--------------------------|-----------|-----------|-------------|
| Well Equipment | \$211,000 | \$731,576 | \$942,576 |
| Lease Equipment | | \$139,000 | \$139,000 |
| Total Tangible Well Cost | \$211,000 | \$870,576 | \$1,081,576 |

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

| | | | |
|-----------------|-------------|-------------|-------------|
| Total Well Cost | \$1,923,625 | \$1,675,826 | \$3,599,451 |
|-----------------|-------------|-------------|-------------|

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 | 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: Yorktown 12 Federal Com

Well No.: 3H

| Intangibles | Codes | Dry Hole Cost | Codes | After Casing Point | Completed Well Cost |
|--|----------|--------------------|----------|--------------------|---------------------|
| Roads & Location Preparation / Restoration | DIDC.100 | \$50,000 | DICC.100 | \$3,000 | \$53,000 |
| Damages | DIDC.105 | \$6,000 | DICC.105 | | \$6,000 |
| Mud / Fluids Disposal Charges | DIDC.255 | \$65,000 | DICC.235 | \$50,000 | \$115,000 |
| Day Rate 35 DH Days 8 ACP Days @ Per Day | DIDC.115 | \$570,000 | DICC.120 | \$96,000 | \$666,000 |
| Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.) | DIDC.120 | \$14,000 | | | \$14,000 |
| Bits | DIDC.125 | \$18,750 | DICC.125 | \$1,000 | \$19,750 |
| Fuel \$2.10 Per Gallon Gallons Per Day | DIDC.135 | \$39,000 | DICC.130 | \$13,000 | \$52,000 |
| Water / Completion Fluids | DIDC.140 | \$45,000 | DICC.135 | \$61,250 | \$106,250 |
| Mud & Additives | DIDC.145 | \$69,875 | | | \$69,875 |
| Surface Rentals | DIDC.150 | \$53,000 | DICC.140 | \$124,000 | \$177,000 |
| Downhole Rentals | DIDC.155 | \$50,000 | DICC.145 | \$14,000 | \$64,000 |
| Formation Evaluation (DST, Coring including evaluation, G&G Services) | DIDC.160 | | | | \$0 |
| Mud Logging \$850 Days @ 30 Per Day | DIDC.170 | \$30,000 | | | \$30,000 |
| Open Hole Logging | DIDC.180 | \$20,000 | | | \$20,000 |
| Cementing & Float Equipment | DIDC.185 | \$17,000 | DICC.155 | \$20,000 | \$37,000 |
| Tubular Inspections | DIDC.190 | \$5,000 | DICC.160 | \$3,000 | \$8,000 |
| Casing Crews | DIDC.195 | \$16,000 | DICC.165 | \$16,000 | \$32,000 |
| Extra Labor, Welding, Etc. | DIDC.200 | \$28,000 | DICC.170 | \$5,000 | \$33,000 |
| Land Transportation (Trucking) | DIDC.205 | \$21,000 | DICC.175 | \$4,000 | \$25,000 |
| Supervision Per Day | DIDC.210 | \$49,000 | DICC.180 | \$19,000 | \$68,000 |
| Trailer House / Camp / Catering 400 Per Day | DIDC.280 | \$21,000 | DICC.255 | \$4,000 | \$25,000 |
| Other Misc Expenses | DIDC.220 | \$2,000 | DICC.190 | \$7,000 | \$9,000 |
| Overhead 300 Per Day | DIDC.225 | \$13,000 | DICC.195 | \$3,000 | \$16,000 |
| Remedial Cementing | DIDC.231 | | DICC.235 | | \$0 |
| MOB/DEMOB | DIDC.240 | | | | \$0 |
| Directional Drilling Services 15 Days @ 8,200 Per Day | DIDC.245 | \$152,000 | | | \$152,000 |
| Dock, Dispatcher, Crane | DIDC.250 | | DICC.230 | | \$0 |
| Marine & Air Transportation | DIDC.275 | | DICC.250 | | \$0 |
| Solids Control | DIDC.260 | \$80,000 | | | \$80,000 |
| Well Control Equip (Snubbing Svcs.) | DIDC.265 | \$42,000 | DICC.240 | \$11,000 | \$53,000 |
| Fishing & Sidetrack Operations | DIDC.270 | \$0 | DICC.245 | | \$0 |
| Completion Rig 7 Days @ 3,400 Per Day | | | DICC.115 | \$36,000 | \$36,000 |
| Coil Tubing 1 Days @ 25,000 Per Day | | | DICC.260 | \$25,000 | \$25,000 |
| Completion Logging, Perforating, WL Units, WL Surveys | | | DICC.200 | \$8,000 | \$8,000 |
| Stimulation | | | DICC.210 | \$300,000 | \$300,000 |
| Legal / Regulatory / Curative | DIDC.300 | \$7,000 | DICC.280 | | \$7,000 |
| Well Control Insurance \$0.35 Per Foot | DIDC.285 | \$5,000 | | | \$5,000 |
| Contingency 5% of Drilling Intangibles | DIDC.435 | \$74,000 | DICC.220 | \$41,000 | \$115,000 |
| Construction For Well Equipment | | | DWEA.110 | \$1,000 | \$1,000 |
| Construction For Lease Equipment | | | DLEQ.110 | \$90,000 | \$90,000 |
| Construction For Sales P/L | | | DICC.265 | | \$0 |
| Total Intangible Cost | | \$1,562,625 | | \$955,250 | \$2,517,875 |

| Tangible - Well Equipment | | | | | | | |
|---|---------|---------|-----------|----------|------------------|------------------|--------------------|
| Casing | Size | Feet | \$ / Foot | | | | |
| Drive Pipe | 20 " | 40.00 | \$0.00 | DWEB.150 | \$0 | | \$0 |
| Conductor Pipe | | | | DWEB.130 | \$0 | | \$0 |
| Water String | | | | DWEB.135 | \$0 | | \$0 |
| Surface Casing | 13-3/8" | 340.00 | \$62.37 | DWEB.140 | \$21,000 | | \$21,000 |
| Intermediate Casing | 9 5/8" | 3950.00 | \$48.20 | DWEB.145 | \$190,000 | | \$190,000 |
| Drilling Liner | | | | DWEB.145 | \$0 | | \$0 |
| Drilling Liner | | | | DWEB.145 | \$0 | | \$0 |
| Production Casing or Liner | 7" | 8500.00 | \$29.37 | | | DWEA.100 | \$252,000 |
| Production Tie-Back | 4 1/2" | 4600.00 | \$12.11 | | | DWEA.100 | \$48,576 |
| Tubing | 2 7/8" | 8400.00 | \$9.53 | | | DWEA.105 | \$80,000 |
| N/C Well Equipment | | | | | | DWEA.115 | \$50,000 |
| Wellhead, Tree, Chokes | | | | DWEB.115 | | DWEA.120 | \$10,000 |
| Liner Hanger, Isolation Packer | | | | DWEB.100 | | DWEA.125 | \$145,000 |
| Packer, Nipples | | | | | | DWEA.130 | \$1,000 |
| Pumping Unit, Engine | | | | | | DLEQ.100 | \$98,000 |
| Lift Equipment (BHP, Rods, Anchors) | | | | | | DLEQ.105 | \$47,000 |
| Tangible - Lease Equipment | | | | | | | |
| N/C Lease Equipment | | | | | | DLEQ.115 | \$44,000 |
| Tanks, Tanks Steps, Stairs | | | | | | DLEQ.120 | \$40,000 |
| Battery (Heater Treater, Separator, Gas Treating Equipment) | | | | | | DLEQ.125 | \$25,000 |
| Flow Lines (Line Pipe from wellhead to central facility) | | | | | | DLEQ.130 | \$30,000 |
| Offshore Production Structure for Facilities | | | | | | DWEA.135 | \$0 |
| Pipeline to Sales | | | | | | DWEA.140 | \$0 |
| Total Tangibles | | | | | \$211,000 | \$870,576 | \$1,081,576 |

| | | | | | |
|-----------|----------|-----------|----------|------------|-----|
| P&A Costs | DIDC.295 | \$150,000 | DICC.275 | -\$150,000 | \$0 |
|-----------|----------|-----------|----------|------------|-----|

| | | | | | |
|-------------------|--|--------------------|--|--------------------|--------------------|
| Total Cost | | \$1,923,625 | | \$1,675,826 | \$3,599,451 |
|-------------------|--|--------------------|--|--------------------|--------------------|

MARTIN YATES, III
1912-1985

FRANK W. YATES
1936-1986

S. P. YATES
1914-2008



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210-2118
TELEPHONE (505) 748-1471

JOHN A. YATES
CHAIRMAN OF THE BOARD
PRESIDENT

JOHN A. YATES JR.
ASSISTANT TO THE PRESIDENT

JAMES S. BROWN
CHIEF OPERATING OFFICER

JOHN D. PERINI
CHIEF FINANCIAL OFFICER

June 17, 2009

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

Re: S/2S/2 of Sec. 12-T15S-R31E
Chaves County, New Mexico

Dear Mr. Tresner:

Yates Petroleum Corporation has received your well proposal to drill a horizontal Abo well on the captioned lands. My analysis of the land situation shows that the respective companies would own the well in the approximate percentages:

Yates Petroleum Corporation – 26%
Yates Drilling Company – 8%
Myco Industries, Inc. – 8%
Abo Petroleum Corporation – 8%
Cimarex Energy, Co. – 26.5%
COG Oil & Gas – 18.89%

Based on the fact that the Yates group owns 50% of this well and the fact that COG Operating, LLC has a valid permit on this location, we believe it is prudent to discuss this well proposal, timing issues, title to leasehold and who should drill and operate the well. I look forward to discussing these matters with you.

Very truly yours,

YATES PETROLEUM CORPORATION

Chuck Moran
Chief Landman

CC: Jan Preston Spradlin – Concho Resources, Inc.
Fasken Center, Tower II
550 West Texas Avenue, Suite 1300
Midland, Texas 79701

KATHY H. PORTER
SECRETARY

DENNIS G. KINSEY
TREASURER