

**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. 14,368

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/2N/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/4NW/4 of Section 34 to form a standard 40 acre oil spacing and proration unit, and (ii) the N/2N/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. 20, a horizontal well to be drilled at a surface location 730 feet from the north line and 330 feet from the west line, with a terminus 330 feet from the north and east lines, of Section 34. Also to be considered will be the cost of 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 drilling and completing the well.

Oil Conservation Division
Case No. _____
Exhibit No. /

(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.	6.25%
Merit Energy Partners III, L.P.	6.25%
Merit Energy Partners D-III, L.P.	6.25%
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) SW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 26.
Merit Energy Company, LLC
- (ii) S $\frac{1}{2}$ S $\frac{1}{2}$ of Section 27.
Cimarex Energy Co. of Colorado
- (iii) SE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 28.
Cimarex Energy Co. of Colorado
- (iv) E $\frac{1}{2}$ NE $\frac{1}{4}$ of Section 33.
Cimarex Energy Co. of Colorado
- (v) S $\frac{1}{2}$ N $\frac{1}{2}$ of Section 34 and W $\frac{1}{2}$ NW $\frac{1}{4}$ of Section 35.
Cimarex Energy Co. of Colorado
Parties being pooled

(h) A copy of the Authority for Expenditure for the proposed well is attached hereto as Exhibit C. The 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

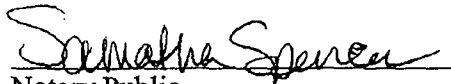
STATE OF TEXAS)
) ss.
COUNTY OF MIDLAND)

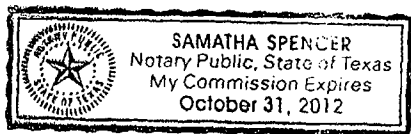
Hayden P. Tresner, being duly sworn upon his oath, deposes and states that: He is a landman for Cimarex Energy Co.; he is authorized to make this verification on its behalf; he has read the foregoing statement, and knows the contents thereof; and the same is true and correct to the best of his knowledge,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


Hayden P. Tresner

SUBSCRIBED AND SWORN TO before me this 11th day of November, 2009 by
Hayden P. Tresner.

My Commission Expires: October 31, 2012


Notary Public



DISTRICT I

1825 N. French Dr., Hobbs, NM 88240

DISTRICT II

1301 W. Grand Avenue, Artesia, NM 88210

DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV

1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

OIL CONSERVATION DIVISION

1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

Form C-102

Revised October 12, 2005

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code	Pool Name
Property Code	Property Name MALLON "34" FEDERAL	Well Number 20
GRID No.	Operator Name CIMAREX ENERGY CO. OF COLORADO	Elevation 3697'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
D	34	19 S	34 E		730	NORTH	330	WEST	LEA

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
A	34	19 S	34 E		330	NORTH	330	EAST	LEA
Dedicated Acres	Joint or Infill	Consolidation Code	Order No.						

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

<p>SURFACE LOCATION Lat - N 32°37'19.27" Long - W 103°33'20.01" NMSPCE- N 590897.5 E 780799.6 (NAD-83)</p> <p>PROPOSED BOTTOM HOLE LOCATION Lat - N 32°37'23.20" Long - W 103°32'25.98" NMSPCE- N 591329.16 E 785417.99 (NAD-83)</p> <p>EXHIBIT <u>A</u></p>	<p>OPERATOR CERTIFICATION</p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or undivided mineral interest in the land including the proposed bottom hole location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</p> <p>Signature _____ Date _____</p> <p>Printed Name _____</p> <p>SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>GARY L. JONES OCTOBER 12, 2005 Date Surveyed Signature & Seal of Professional Surveyor W.D. 21611</p> <p>Certificate No. Gary L. Jones 7977</p> <p>BASIN SURVEYS</p>
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Cimarex Energy Co.
600 N. Marienfeld St.
Suite 600
Midland, Texas 79701
PHONE 432.571.7800



July 17, 2009

Via: U.S. Certified Mail
Return Receipt No. 7007 0710 0003 0317 4073

Fuel Products, Inc.
Attn: Thomas M. Beall
P.O. Box 3098
Midland, Texas 79702

Via: E-mail U.S. Certified Mail
Return Receipt No. 7007 0710 0003 0317 4080

MGT Partners I, L.P., et al.
Attn: John Stroud
13727 Noel Road, Suite 500
Dallas, Texas 75240

Via: E-mail and U.S. Certified Mail
Return Receipt No. 7007 0710 0003 0317 4059

Pear Resources
Attn: Alan Byars/Jerry M. Gahr
P.O. Box 11044
Midland, Texas 79702

Via: U.S. Certified Mail
Return Receipt No. 7007 0710 0003 0317 4103

Michael J. Moncrief 2008 Trust A
Attn: Jerry Goodwin, CPA
777 Taylor Street, Suite 1030
Fort Worth, Texas 76102

Re: **Mallon 34 Federal No. 20**
N/2N/2 Section 34-T19S-34E
Lea County, New Mexico

Via: E-mail U.S. Certified Mail
Return Receipt No. 7007 0710 0003 0317 4066

Hyde Oil and Gas Corporation
Attn: Blair Hamburg
6300 Ridglea Place, Suite 1018
Fort Worth, Texas 76116

Via: E-mail U.S. Certified Mail
Return Receipt No. 7007 0710 0003 0317 4035

U.S. Trust, Bank of America
Attn: Janet M. Cunningham, CPL
P.O. Box 2546
Fort Worth, Texas 76113-2546

Via: U.S. Certified Mail
Return Receipt No. 7007 0710 0003 0317 4042

W.A. Moncrief, Jr. Trust
Attn: Monita Cebell
950 Commerce Street
Fort Worth, Texas 76102-5418

EXHIBIT

B

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 in the drilling of the well, please sign and return a copy of the AFE to the undersigned. 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,

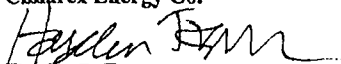


Cimarex would be interested in acquiring a farmout of your leasehold interest in Section 34 of the above-captioned township and range.

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 July 16, 2009
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Region	Well Name	Well No.	Prospect or Field Name	Property Number	Drilling AFE No.
Permian	Mallon 34 Federal	20			

Location	County	State	Type Well
N/2N/2 Section 34-19S-34E	Lea	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"/>			Bone Spring	15,046'
Revised Estimate <input type="radio"/>				
Supplemental Estimate <input type="radio"/>				

Project Description
Drill and complete a third Bone Spring horizontal well. 11200 Pilot 10840 TVD/15046 MD (4500 VS).

Intangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Drilling Costs	\$1,659,200		\$1,659,200
Completion Costs		\$1,151,000	\$1,151,000
Total Intangible Costs	\$1,659,200	\$1,151,000	\$2,810,200

Tangibles			
Well Equipment	\$36,000	\$764,275	\$800,275
Lease Equipment		\$36,500	\$36,500
Total Tangible Well Cost	\$36,000	\$800,775	\$836,775

Plug and Abandon Cost	\$150,000	-\$150,000	\$0
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Total Well Cost	\$1,845,200	\$1,801,775	\$3,646,975
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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 therefor. 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: Mallon 34 Federal

Well No.:

20

Intangibles	Codes	Dry Hole Cost	Codes	After Casing Point	Completed Well Cost
Roads & Location Preparation / Restoration	DICC.100	\$50,000	DICC.200		\$50,000
Damages	DICC.105	\$1,000	DICC.105		\$1,000
Mud / Fluids Disposal Charges	DICC.255	\$65,000	DICC.225	\$52,500	\$117,500
Day Rate 39: DH Days 8: ACP Days @ 12,000 Per Day	DICC.113	\$468,000	DICC.120	\$96,000	\$564,000
Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)	DICC.120	\$9,000			\$9,000
Bits	DICC.125	\$23,000	DICC.125	\$1,000	\$24,000
Fuel \$2.55 Per Gallon 700 Gallons Per Day	DICC.135	\$90,000	DICC.130	\$12,000	\$102,000
Water / Completion Fluids Per Day	DICC.140	\$70,200	DICC.135	\$61,500	\$131,700
Mud & Additives	DICC.145	\$39,000			\$39,000
Surface Rentals Per Day	DICC.150	\$61,000	DICC.140	\$84,000	\$145,000
Downhole Rentals	DICC.155	\$88,000	DICC.145	\$74,000	\$162,000
Formation Evaluation (DST, Coring including evaluation, G&G Services)	DICC.160				\$0
Mud Logging \$850 Days @ 32 Per Day	DICC.170	\$31,000			\$31,000
Open Hole Logging	DICC.180	\$15,000			\$15,000
Cementing & Float Equipment	DICC.185	\$15,000	DICC.185	\$50,000	\$65,000
Tubular Inspections	DICC.190	\$5,000	DICC.180	\$8,000	\$8,000
Casing Crews	DICC.195	\$10,000	DICC.185	\$15,000	\$25,000
Extra Labor, Welding, Etc.	DICC.200	\$31,000	DICC.175	\$5,000	\$36,000
Land Transportation (Trucking)	DICC.205	\$20,000	DICC.175	\$9,000	\$29,000
Supervision Per Day	DICC.210	\$59,000	DICC.180	\$26,000	\$85,000
Trailer House / Camp / Catering Per Day	DICC.215	\$23,000	DICC.185	\$4,000	\$27,000
Other Misc Expenses	DICC.220	\$11,000	DICC.190	\$7,000	\$18,000
Overhead 300 Per Day	DICC.225	\$12,000	DICC.185	\$11,000	\$23,000
Remedial Cementing	DICC.230		DICC.215		\$0
MOB/DEMOB	DICC.240	\$60,000			\$60,000
Directional Drilling Services 12 Days @ 8,200 Per Day	DICC.245	\$140,000			\$140,000
Dock, Dispatcher, Crane	DICC.250		DICC.230		\$0
Marine & Air Transportation	DICC.255		DICC.230		\$0
Solids Control Per Day	DICC.260	\$88,000			\$88,000
Well Control Equip (Snubbing Svcs.)	DICC.265	\$90,000	DICC.240	\$26,000	\$116,000
Fishing & Sidetrack Operations	DICC.270	\$0	DICC.245		\$0
Completion Rig 17 Days @ 3,400 Per Day			DICC.215	\$70,000	\$70,000
Coil Tubing 1 Days @ 33,000 Per Day			DICC.260	\$33,000	\$33,000
Completion Logging, Perforating, WL Units, WL Surveys			DICC.290	\$10,000	\$10,000
Stimulation			DICC.210	\$427,000	\$427,000
Legal / Regulatory / Curative	DICC.290	\$1,000	DICC.280		\$1,000
Well Control Insurance \$0.35 Per Foot	DICC.285	\$5,000			\$5,000
Contingency 5% of Drilling Intangibles	DICC.435	\$79,000	DICC.230	\$54,000	\$133,000
Construction For Well Equipment			DWEA.110	\$20,000	\$20,000
Construction For Lease Equipment			DLEQ.110	\$0	\$0
Construction For Sales P/L			DICC.265		\$0
Total Intangible Cost		\$1,659,200		\$1,151,000	\$2,810,200

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.125	\$0		\$0
Surface Casing	13-3/8"		\$0.00	DWEB.140	\$0		\$0
Intermediate Casing	8-5/8"	1485.00	\$24.31	DWEB.145	\$36,000		\$36,000
Drilling Liner				DWEB.145	\$0		\$0
Drilling Liner				DWEB.145	\$0		\$0
Production Casing or Liner	7"	11200.00	\$29.37	DWEA.100	\$329,000		\$329,000
Production Tie-Back	3 1/2"	5000.00		DWEA.100	\$66,275		\$66,275
Tubing	2 7/8"	10200.00	\$8.03	DWEA.105	\$82,000		\$82,000
N/C Well Equipment				DWEA.115	\$20,000		\$20,000
Wellhead, Tree, Chokes				DWEA.120	\$10,000		\$10,000
Liner Hanger, Isolation Packer				DWEA.125	\$1,000		\$1,000
Packer, Nipples				DWEA.130	\$110,000		\$110,000
Pumping Unit, Engine				DLEQ.100	\$98,000		\$98,000
Lift Equipment (BHP, Rods, Anchors)				DLEQ.105	\$48,000		\$48,000
Tangible - Lease Equipment							
N/C Lease Equipment				DLEQ.115	\$0		\$0
Tanks, Tanks Steps, Stairs				DLEQ.120	\$20,000		\$20,000
Battery (Heater Treater, Separator, Gas Treating Equipment)				DLEQ.125	\$15,000		\$15,000
Flow Lines (Line Pipe from wellhead to central facility)				DLEQ.130	\$1,500		\$1,500
Offshore Production Structure for Facilities				DWEA.175	\$0		\$0
Pipeline to Sales				DWEA.140	\$0		\$0
Total Tangibles					\$36,000	\$800,775	\$836,775
P&A Costs				DICC.295	\$150,000	DICC.275	-\$150,000
Total Cost					\$1,845,200	\$1,801,775	\$3,646,975