

**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. 14,390

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/2S/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/4SW/4 of Section 34 to form a standard 40 acre oil spacing and proration unit, and (ii) the N/2S/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. 16, a horizontal well to be re-entered and drilled at a surface location 1980 feet from the south line and 660 feet from the west line, with a terminus 1980 feet from the south line and 330 feet from the east line, of Section 34. Also to be considered will be the cost of re-entering, 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 re-entering, drilling, and completing the well.

Oil Conservation Division
Case No. _____
Exhibit No. 1

(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.	<u>6.25</u> %
Merit Energy Partners III, L.P.	<u>6.25</u> %
Merit Energy Partners D-III, L.P.	<u>6.25</u> %
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) SE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 33.
Read & Stevens, Inc.
- (ii) SE $\frac{1}{4}$ NE $\frac{1}{4}$ and NE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 33.
Cimarex Energy Co. of Colorado
- (iii) S $\frac{1}{2}$ N $\frac{1}{2}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$, and S $\frac{1}{2}$ SE $\frac{1}{4}$ of Section 34.
Pear Resources
Fuel Products, Inc.
Merit Management Partners I, L.P.
Merit Energy Partners III, L.P.
Merit Energy Partners D-III, L.P.
- (iv) SE $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 34.
Providence Minerals LLC
- (v) SW $\frac{1}{4}$ NW $\frac{1}{4}$ and W $\frac{1}{2}$ SW $\frac{1}{4}$ of Section 35.
Pear Resources
Fuel Products, Inc.
Merit Management Partners I, L.P.
Merit Energy Partners III, L.P.
Merit Energy Partners D-III, L.P.

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

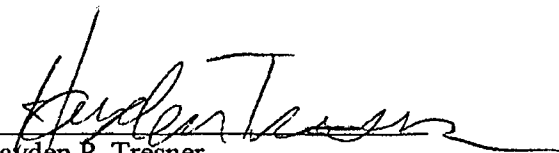
(i) Overhead charges of \$7000/month for a drilling well, and \$700/month for a producing well, are requested. These rates are fair and reasonable, and are in line with rates charged by other operators in this area for wells of this depth. Cimarex Energy Co. requests that the rates be adjusted under 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 20th day of October, 2009 by
Hayden P. Tresner.

My Commission Expires: 4.22.2013


Notary Public



District I
1625 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 & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102
Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number 30-025-32818	² Pool Code 50461	³ Pool Name Quail Ridge; Bone Spring, South
⁴ Property Code	⁵ Property Name Mallon 34 Federal	⁶ Well Number 016
⁷ GORID No. 162683	⁸ Operator Name CIMAREX ENERGY CO. OF COLORADO	⁹ Elevation 3678' GL

¹⁰ Surface Location

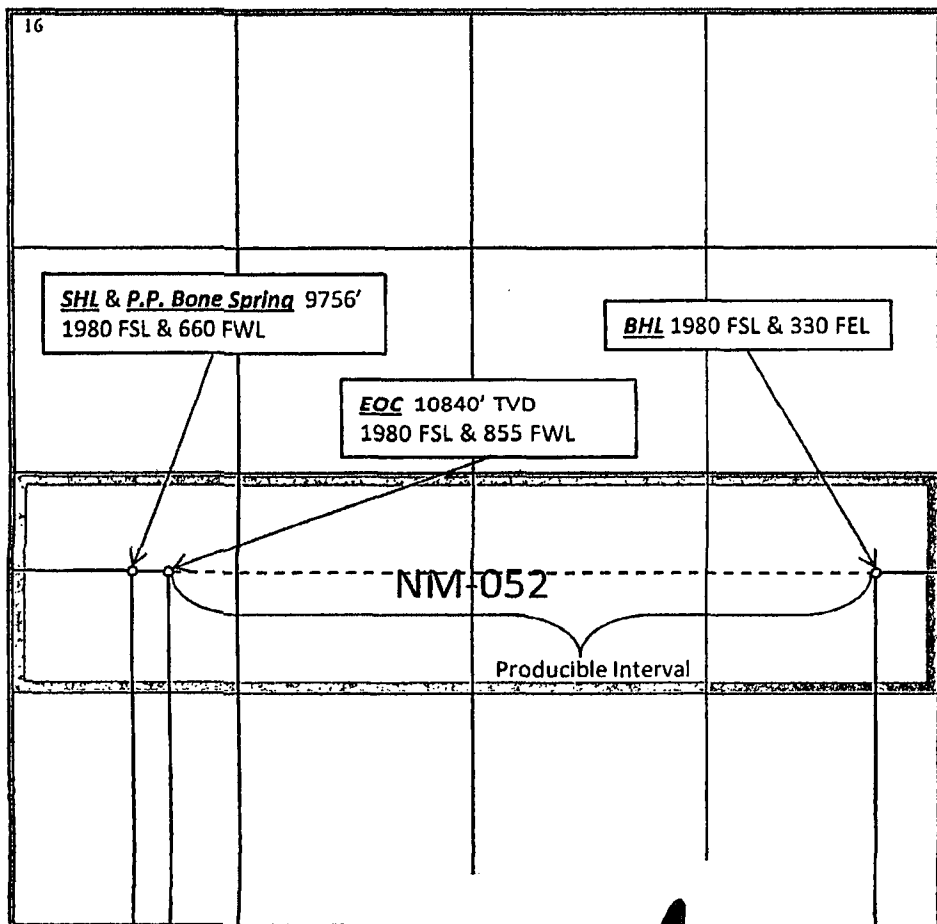
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
L	34	19S	34E		1980	South	660	West	Lea

¹¹ Bottom Hole Location If Different From Surface

UL of lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
D	36	19S	32E		1980	South	330	East	Lea

¹² Dedicated Acres	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ Order No.
160			

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>¹⁶</p> 	<p>¹⁷ OPERATOR CERTIFICATION 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 indicated mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this 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><i>Zeno Farris</i> 2/3/2009 Signature Date Zeno Farris Printed Name</p>
	<p>¹⁸ SURVEYOR CERTIFICATION 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>Date of Survey Signature and Seal of Professional Surveyor</p>
	<p>Certificate Number</p>

EXHIBIT

A

Cimarex Energy Co.
600 N. Marlenfeld St.
Suite 600
Midland, Texas 79701
PHONE 432.571.7800
FAX 432.571.7832



June 10, 2009

Via Certified U.S. Mail-Return Receipt Requested No. 7007 0710 0003 0317 3625

Pear Resources
P.O. Box 11044
Midland, Texas 79702

Via Certified U.S. Mail-Return Receipt Requested No. 7007 0710 0003 0317 3656

Fuel Products, Inc.
P.O. Box 3098
Midland, Texas 79702

Via Certified U.S. Mail-Return Receipt Requested No. 7007 0710 0003 0317 3649

MGT Partners I, L.P., et al
12737 Noel Road, Suite 500
Dallas, Texas 75240

Re: *Mallon 34 Federal #16 (reentry)
N/2S/2 of Section 16-T19S-34E
Lea County, New Mexico*

Dear Working Interest Owners:

Cimarex Energy Co. ("Cimarex"), on behalf of its wholly owned subsidiary Magnum Hunter Production, Inc., proposes to drill the above-captioned well in accordance with 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 our 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.

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

EXHIBIT A large, bold, handwritten letter "B" in black ink, positioned next to the word "EXHIBIT".

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



July 1, 2009

Via: Federal Express (overnight delivery)

MGT Partners I, L.P.
Merit Energy Partners III, L.P.
Merit Energy Partners D-III, L.P.
13727 Noel Road, Suite 500
Dallas, Texas 75240


Re: *Mallon 34 Federal #16 (reentry)
N2S2 of Section 34-19S-34E
Lea County, New Mexico*

Dear Working Interest Owner:

In the event that you did not receive my previous proposal dated June 10, 2009, 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 interest 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 January 25, 2009
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Region Permian	Well Name Mallon 34 Federal	Well No. 16	Prospector Field Name	Property Number S09617-200.01	Drilling Aff No. 259016
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Location N/25/2 Section 34-19S-34E	County Lea	State NM	Type Well Oil <input checked="" type="checkbox"/> Gas <input type="checkbox"/> Exp/Prod <input checked="" type="checkbox"/> <input type="checkbox"/>
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Estimate/Revision Original Estimate <input checked="" type="radio"/> Revised Estimate <input type="radio"/> Supplemental Estimate <input type="radio"/>	Est. Start Date	Est. Comp Date	Formation	Depth 15,150'
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Project Description
Re-enter wellbore, deepen, drill lateral section, and complete with open hole packers 7 stages (4290 VS).

Intangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Drilling Costs	\$1,122,000		\$1,122,000
Completion Costs		\$1,005,000	\$1,005,000
Total Intangible Costs	\$1,122,000	\$1,005,000	\$2,127,000

Tangibles			
Well Equipment	\$0	\$441,621	\$441,621
Lease Equipment		\$36,500	\$36,500
Total Tangible Well Cost	\$0	\$478,121	\$478,121

Plug and Abandon Cost	\$150,000	-\$150,000	\$0
Total Well Cost	\$1,272,000	\$1,333,121	\$2,605,121

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 Mark Andes Engineer - PB	Drilling and Completion Manager Doug Park, Mgr Operations PB	Res. and Manager Roger Alexander, Regional Manager PB
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Joint Interest Approval

Company	By	Date

EXHIBIT

7/1/2009 3:52 PM



Project Cost Estimate

Lease Name: Matton B4 Federal

Well No.:

16

Intangible	Drill Hole Cost	Alloy Casing Point	Completed Well Cost
Roads & Location Preparation / Restoration	DHDC100 \$50,000	DHCC100	\$50,000
Damages	DHDC105 \$1,000	DHCC105	\$1,000
Mud / Fluids Disposal Charges	DHDC135 \$20,000	DHCC135 \$52,500	\$72,500
Day Rate 20 DH Days 6 ACP Days @ 11,500 Per Day	DHDC118 \$242,000	DHCC120 \$69,000	\$311,000
Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)	DHDC120 \$9,000		\$9,000
Rigs	DHDC125 \$28,000	DHCC125 \$1,000	\$24,000
Fuel \$1.80 Per Gallon 700 Gallons Per Day	DHDC135 \$26,000	DHCC130 \$6,000	\$32,000
Water / Completion Fluids	DHDC140 \$36,000	DHCC135 \$61,500	\$97,500
Mud & Additives	DHDC145 \$27,000		\$27,000
Surface Rentals	DHDC150 \$49,000	DHCC140 \$84,000	\$133,000
Downhole Rentals	DHDC155 \$75,000	DHCC145 \$24,000	\$99,000
Formation Evaluation (DST, Coring including evaluation, G&G Services)	DHDC160		\$0
Mud Logging \$850 Days @ 18 Per Day	DHDC170 \$19,000		\$19,000
Open Hole Logging	DHDC150		\$0
Cementing & Float Equipment	DHDC165	DHCC155	\$0
Tubular Inspections	DHDC190	DHCC160 \$3,000	\$3,000
Casing Crews	DHDC195	DHCC165 \$12,000	\$12,000
Extra Labor, Welding, Etc.	DHDC200 \$16,000	DHCC170 \$5,000	\$21,000
Land Transportation (Trucking)	DHDC205 \$10,000	DHCC175 \$9,000	\$19,000
Supervision 1,600 Per Day	DHDC210 \$32,000	DHCC180 \$23,000	\$55,000
Trailer House / Camp / Catering 400 Per Day	DHDC280 \$8,000	DHCC185 \$4,000	\$12,000
Other Misc Expenses	DHDC220 \$13,000	DHCC190 \$7,000	\$18,000
Overhead 300 Per Day	DHDC225 \$6,000	DHCC195 \$11,000	\$17,000
Remedial Cementing	DHDC235 \$18,000	DHCC215	\$18,000
MOB/DEMOS	DHDC240 \$45,000		\$45,000
Directional Drilling Services 18 Days @ 11,350 Per Day	DHDC145 \$226,000		\$226,000
Dock, Dispatcher, Crane	DHDC250	DHCC230	\$0
Marine & Air Transportation	DHDC275	DHCC250	\$0
Solids Control	DHDC260 \$70,000		\$70,000
Well Control Equip (Snubbing Svcs.)	DHDC165 \$44,000	DHCC240 \$26,000	\$70,000
Fishing & Sidetrack Operations	DHDC270 \$0	DHCC245	\$0
Completion Rig 17 Days @ 3,400 Per Day		DHCC115 \$70,000	\$70,000
Coil Tubing 1 Days @ 33,000 Per Day		DHCC260 \$33,000	\$33,000
Completion Logging, Perforating, WL Units, WL Surveys		DHCC200 \$10,000	\$10,000
Stimulation		DHCC210 \$427,000	\$427,000
Legal / Regulatory / Curative	DHDC300 \$1,000	DHCC280	\$1,000
Well Control Insurance \$0.35 Per Foot	DHDC285 \$5,000		\$5,000
Contingency 5% of Drilling Intangibles	DHDC435 \$53,000	DHCC290 \$47,000	\$100,000
Construction For Well Equipment		DHWEA110 \$28,000	\$28,000
Construction For Lease Equipment		DHLEQ110 \$0	\$0
Construction For Sales P/L		DHCC245	\$0
Total Intangible Cost	\$1,122,000	\$1,005,000	\$2,127,000

Tangible Well Equipment	Size	Feet	\$ / Foot			
Casing	20"	40.00	\$0.00	DHWE1150	\$0	\$0
Drive Pipe				DHWE1130	\$0	\$0
Conductor Pipe				DHWE1115	\$0	\$0
Water String				DHWE1140	\$0	\$0
Surface Casing	15-3/8"		\$0.00	DHWE1145	\$0	\$0
Intermediate Casing	8-5/8"		\$0.00	DHWE1145	\$0	\$0
Drilling Liner				DHWE1145	\$0	\$0
Drilling Liner				DHWE1145	\$0	\$0
Production Casing or Liner	5-1/2"		\$0.00	DHWE1100	\$0	\$0
Production Tie-Back	3 1/2"	5000.00		DHWE1100	\$71,621	\$71,621
Tubing	2 7/8"	8000.00	\$10.57	DHWE1105	\$83,000	\$83,000
N/C Well Equipment				DHWE1115	\$20,000	\$20,000
Wellhead, Tree, Chokes				DHWE1110	\$10,000	\$10,000
Liner Hanger, Isolation Packer				DHWE1125	\$1,000	\$1,000
Packer, Nipples				DHWE1120	\$145,000	\$145,000
Pumping Unit, Engine				DHLEQ100	\$85,000	\$85,000
Lift Equipment (BHP, Rods, Anchors)				DHLEQ105	\$26,000	\$26,000
Intangible Lease Equipment						
N/C Lease Equipment				DHLEQ115	\$0	\$0
Tanks, Tanks Steps, Stairs				DHLEQ120	\$20,000	\$20,000
Battery (Heater Treater, Separator, Gas Treating Equipment)				DHLEQ125	\$15,000	\$15,000
Flow Lines (Line Pipe from wellhead to central facility)				DHLEQ130	\$1,500	\$1,500
Offshore Production Structure for Facilities				DHWE1135	\$0	\$0
Pipeline to Sales				DHWE1140	\$0	\$0
Total Tangibles				\$0	\$478,121	\$478,121

P&A Costs	DHDC295 \$150,000	DHCC375 -\$150,000	\$0
Total Cost	\$1,122,000	\$1,833,121	\$2,605,121