

**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. 14,467**

**VERIFIED STATEMENT OF MIKE WALLACE**

Mike Wallace, 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 35, Township 19 South, Range 34 East, NMPM. Applicant further seeks the pooling of all mineral interests (i) from the surface to the top of the Bone Spring formation underlying the NW/4SW/4 of Section 35 to form a standard 40 acre oil spacing and proration unit, and (ii) the Bone Spring formation underlying the N/2S/2 of Section 35 to form a non-standard 160 acre oil spacing and proration unit (project area). The units are to be dedicated to the Mallon 35 Fed. Well No. 5, a horizontal well to be drilled at a surface location 1980 feet from the south line and 330 feet from the west line, with a terminus 1980 feet from the south line and 510 feet from the east line, of Section 35.

(c) The parties being pooled, their interests in the well unit, and their last known addresses, are as follows:

\_\_\_\_\_  
Oil Conservation Division  
Case No. \_\_\_\_\_  
Exhibit No. 1

Pear Resources Attention: Alan Byars P.O. Box 11044 Midland, Texas 79702	1.5625%
Fuel Products, Inc. Attention: Thomas M. Beall P.O. Box 3098 Midland, Texas 79702	1.5625%
Hyde Oil and Gas Corporation Attention: Blair Hamburg Suite 1018 6300 Ridglea Place Fort Worth, Texas 76116	15.6250%
Linn Energy Holdings, LLC Suite 5100 600 Travis Street Houston, Texas 77002	18.583111%
Michael J. Moncrief 2008 Trust A Attention: Jerry Goodwin, CPA Suite 1030 777 Taylor Street Fort Worth, Texas 76102	1.302083%
Sundown Energy Suite 2000 13455 Noel Road Dallas, Texas 75240-6604	6.9756%
Robert W. Kent P.O. Box 131524 Houston, Texas 77219	0.3069371%
Nortex Corporation Suite 3100 1415 Louisiana Houston, Texas 77002	2.7624339%
Grace K. Bankhead and Bankhead Administrative Accounting Trust	0.111259%

4201 Potomac  
Dallas, Texas 75205

Canaan Resources, LLC  
Suite 1000  
211 North Robinson  
Oklahoma City, Oklahoma 73102

1.816324%

Linn Energy Holdings, LLC is the successor-in-interest to the Merit Energy companies, having acquired its interest by an assignment recorded in March 2010.

(d) Copies of the proposal letter sent to the uncommitted mineral interest owners are attached hereto as Exhibit B. In addition, we have had telephone calls and e-mail correspondence with the parties.

(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 $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 36  
Rubicon Oil & Gas II, LP
- (ii) W $\frac{1}{2}$ SW $\frac{1}{4}$  of Section 36  
Western Equipment Co.  
Tipton & Denton
- (iii) S $\frac{1}{2}$ S $\frac{1}{2}$  of Section 35  
Cimarex Energy Co.  
Parties being pooled
- (iv) SE $\frac{1}{4}$ NE $\frac{1}{4}$  & E $\frac{1}{2}$ SE $\frac{1}{4}$  of Section 34  
Cimarex Energy Co.
- (v) S $\frac{1}{2}$ N $\frac{1}{2}$  of Section 35  
Cimarex Energy Co.  
Parties being pooled

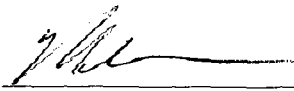
(h) A copy of the Authority for Expenditure for the proposed well is attached hereto as Exhibit C. The drilling and completion costs set forth therein are fair and reasonable, and are comparable to those of other horizontal wells of this depth drilled in this area of Lea County.

(i) Overhead charges of \$6500/month for a drilling well, and \$650/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.

VERIFICATION


STATE OF TEXAS            )  
                                      ) ss.  
COUNTY OF MIDLAND    )

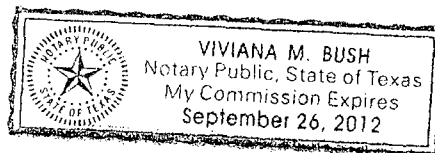
Mike Wallace, being duly sworn upon his oath, deposes and states that: He is a landman for Cimarex Energy Co.; he is authorized to make this verification on its behalf; he has read the foregoing statement, and knows the contents thereof; and the same is true and correct to the best of his knowledge,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

  
\_\_\_\_\_  
Mike Wallace

SUBSCRIBED AND SWORN TO before me this 10<sup>th</sup> day of May, 2010 by Mike Wallace.

My Commission Expires: September 26, 2012

  
\_\_\_\_\_  
Notary Public





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

MJM 2008 PM A  
mm 6 Sign  
14

*John*  
PLEASE APPROVE  
DEC 11 2009



December 10, 2009

Working Interest Owner Address List on Page 2

**Re: New Well Proposal-Mallon 35 Federal No. 5**  
**160-acre spacing unit (N/2S/2)**  
**Section 35-T19S-R34E**  
**Lea County, New Mexico**

Dear Working Interest Owner:

Cimarex Energy Co. ("Cimarex"), on behalf of its wholly-owned subsidiary Magnum Hunter Production, Inc., proposes to drill the above-captioned well according to the project described in the enclosed Authorization for Expenditure ("AFE"). If you would like to participate in the drilling of the well, please sign, date and return one (1) copy of the AFE to the undersigned at the above-letterhead address. Also enclosed, for your review, is Cimarex' proposed form of Operating Agreement. A separate Operating Agreement of identical form will cover the spacing or proration unit dedicated to each individual well proposed herein.

Alternatively, if you do not want to participate, Cimarex would be interested in acquiring a farm-out of your working interest in the spacing or proration unit dedicated to the well. Cimarex would request delivery of a 75% net revenue interest lease, one (1) year primary term in which to spud an initial well and 180-day continuous development thereafter. Please contact me at your earliest convenience at (432) 571-7856 so that Cimarex can prepare accordingly. Thank you.

Sincerely,

Cimarex Energy Co.

Hayden P. Tresner  
Landman

EXHIBIT

B

Working Interest Owner Address List

New Well Proposal-Mallon 35 Federal No. 5

Via: U.S. Certified Mail

Return Receipt No. 7007 0710 0003 0317 6817

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

Via: U.S. Certified Mail

Return Receipt No. 7007 0710 0003 0317 6824

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

Via: U.S. Certified Mail

Return Receipt No. 7007 0710 0003 0317 6831

Pear Resources  
Attn: Alan Byars  
P.O. Box 11044  
Midland, Texas 79702

Via: U.S. Certified Mail

Return Receipt No. 7007 0710 0003 0317 6848

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

Via: U.S. Certified Mail

Return Receipt No. 7007 0710 0003 0317 6855

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

Via: U.S. Certified Mail

Return Receipt No. 7009 0820 0001 1968 4067

Canaan Resources, LLC  
Attn: Land Dept.  
One Leadership Square  
211 North Robinson, Suite 1000  
Oklahoma City, Oklahoma 73102

Via: U.S. Certified Mail

Return Receipt No. 7007 0710 0003 0317 4012

Sundown Energy  
Attn: Production Dept.  
13455 Noel Road, Suite 2000  
Dallas, Texas 75240-6604

Via: U.S. Certified Mail

Return Receipt No. 7007 0710 0003 0317 4029

Robert W. Kent  
P.O. Box 131524  
Houston, Texas 77219

Via: U.S. Certified Mail

Return Receipt No. 7007 0710 0003 0317 4036

Nortex Corporation  
Attn: Land Dept.  
1415 Louisiana Street, Suite 3100  
Houston, Texas 77022-7353

Via: U.S. Certified Mail

Return Receipt No. 7007 0710 0003 0317 4043

Bankhead Administrative Accounting Trust and  
Grace K. Bankhead  
4201 Potomac  
Dallas, Texas 75205

Via: U.S. Certified Mail

Return Receipt No. 7007 0710 0003 0317 4050

Janice Shelton Crebbs, Trustee of the First  
Restatement of the Janice Shelton Crebbs Trust  
Agreement, dated 2/17/2006  
3769 N. Camino Leamaria  
Tucson, Arizona 85716



January 20, 2010

**FIRST CLASS MAIL AND FACSIMILE (432)571-7840**

CIMAREX ENERGY CO  
ATTN: Hayden Tresner  
600 N. Marienfeld St, Suite 600  
Midland, Texas 79701

Re: Mallon 35 Federal No 5  
Mallon 35 Federal No 6  
Section 35, T19S-R34E  
Lea County, NM

Mr. Wallace,

Please refer to your proposal dated December 10, 2009, to drill the Mallon 35 Federal No. 5 and the Mallon 35 Federal No 6 to a total measured depth of 15,100'; Sundown hereby elects to participate in said proposal. Per your request, please find your original AFE which has been properly executed. I have also enclosed Sundown's Well Data Requirement Sheet for your use.

Please note that Sundown elects NOT to be covered by your well control insurance. A certificate evidencing Sundown's coverage will be forwarded to you as soon as possible.

At the earliest possible date, please furnish the undersigned copies of all title opinions, curative and/or title reports which may, in any way, pertain to Sundown's interest in this property. All payout statements, if any, for this well should be directed to the attention of Wayne Oliver.

Should you have any questions concerning this election, please contact me at 214-368-6100 (ext. 2159) or e-mail me at [amccauley@eland-energy.com](mailto:amccauley@eland-energy.com).

Regards,

A handwritten signature in black ink, appearing to read "Adam McCauley".

Adam McCauley  
Landman

ARM/dok  
Enclosures

cc: Mary Frances Hermes (w/o Encl.)  
Darla Methvin (w/Encl.)  
Our LEG # 2573 & 2574  
File: 2237W\_\_ (w/Encl.)





## WELL DATA REQUIREMENT SHEET

WELL NAME: Mallon 35 Federal No. 5  
LOCATION: Section 35, T19S-R34E  
COUNTY/STATE: Lea County, NM

MAILING ADDRESS:

Sundown Energy LP  
Two Galleria Tower  
13455 Noel Road Suite 2000  
Dallas, TX 75240

Daily Reports First Choice: Via e-mail: [operations@sundownenergy.com](mailto:operations@sundownenergy.com)  
[mevans@sundownenergy.com](mailto:mevans@sundownenergy.com)  
[aclemments@sundownenergy.com](mailto:aclemments@sundownenergy.com)  
Second Choice: Via fax: 214/265-0799

Logs, Cores, DST's, SWC's: 1<sup>st</sup> Choice: Via e-mail: [wellogs@sundownenergy.com](mailto:wellogs@sundownenergy.com)  
2<sup>nd</sup> Choice: Via fax: 214/265-0799

<u>DRILLING WELLS</u>	<u>Faxed or emailed:</u>	<u>MAIL</u>
Location Plat	1	1
Drilling Permit	1	1
Electric Logs, Field Prints	1	1
Electric Logs, Final Prints and LAS digits	1	1
Mud Log, Field	1	1
Preliminary Core Analysis	1	1
Final Core Analysis	1	1
DST Reports	1	1
Geological Reports	1	1
Regulatory Completion Reports	1	1
Regulatory P & A Reports	1	1
Commission Reports	1	1
Other Data--not including daily reports	1	1

RECOMPLETION:

Cased Hole Logs	1	1
Completion Report	1	1

Notice: Prior to Logging, Coring, DST, etc. - Contact Geology  
Notice: Prior to setting production casing or P & A - Contact Land

Contacts:

Production: Tom Hilton (O) 214/368-6100 x 2149 [thilton@sundownenergy.com](mailto:thilton@sundownenergy.com)  
Geology: Mark Evans (O) 214/368-6100 x 2147 [mevans@sundownenergy.com](mailto:mevans@sundownenergy.com)  
Land: Adam McCauley (O) 214/368-6100 x 2159 [amccauley@sundownenergy.com](mailto:amccauley@sundownenergy.com)

January 15, 2010

Via Facsimile to: 432-571-7832

Via U. S. Mail to:

Cimarex Energy Co.  
Attn: Mr. Hayden P. Tresner  
600 N. Marlenfeld St. - Ste. 600  
Midland, TX 79701

RE: New Well Proposals :

Mallon 35 Federal No. 4 (S/2S/2); AFE dated 12/15/2009 attached  
Mallon 35 Federal No. 5 (N/2S/2); AFE dated 12/15/2009 attached  
Mallon 35 Federal No. 6 (S/2N/2); AFE dated 12/15/2009 attached  
Mallon 35 Federal No. 7 (N/2N/2); AFE dated 12/15/2009 attached  
Section 35-T19S-R34E  
Lea County, NM

Gentlemen:

Reference is made to your letters dated December 10, 2009 and received December 18<sup>th</sup>, 2009 by certified mail. Your proposal is problematic for several reasons.

It is not clear whether you are proposing under the existing Joint Operating Agreement (JOA) or under the unexecuted JOA that was included and referenced in your correspondence by even date. As the operator of the existing production in the lands and leases, it would seem that if Cimarex Energy Company (Cimarex) were interested in executing a new operating agreement or amending an existing JOA with the original partners in the existing wells within the leasehold estate, that business should precede proposal of the referenced wells. Since Cimarex has, by the referenced letters proposed these wells, the drilling of those wells will be governed by the existing JOA to the extent authorized. Execution of the attached JOA without clarification/ratification or abandonment of the existing JOA will certainly create a conflict between JOAs.

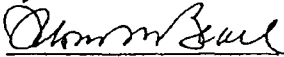
We object if Cimarex intends to drill the proposed four wells under an existing JOA as proposed. We do not believe that it is prudent to prosecute the drilling of four horizontal wells in a single section within the time constraints required under a single JOA with four proposals of even dates. None of these lands are in jeopardy of expiration nor are they being drained.

If there is no clear operating agreement embracing these lands, or any portion thereof, covering these proposals, or if a conflict exists between existing operating agreements, then these proposals being made are anticipating a forced pooling of the interests herein referenced. Those interests subject to the original JOA must have proper proposal/notification and the interests pooled must be so identified separately. We object to having our interest included in a forced pooling if it is subject to an existing JOA.

By this letter Fuel Products, Inc. and Pear Resources (FPI & PR) hereby request that Cimarex withdraw all of its proposals to FPI & PR until such clarification can be provided to FPI & PR in said lands. This will insure the validity of the proposals as to the interests in said wells. Failing in that action, Fuel Products, Inc. and Pear Resources, Inc. conditionally accept your proposal for drilling the captioned wells but subject to such clarification and the execution of all required documents necessary to satisfy the aforementioned exceptions.

**FUEL PRODUCTS, INC.**


By



Thomas M. Beall - President

**PEAR RESOURCES**

By



J.M. Gahr - Partner

**Jerry D. Goodwin, CPA**

777 Taylor Street, Suite 1030  
Fort Worth, TX 76102

(817) 335-5656 (817) 338-9121

---

January 22, 2010

Cimarex Energy  
Hayden P. Tresner, Landman  
600 N. Marienfeld Street, Suite 600  
Midland, TX 79701

Re: New Well Proposal-Mallon 35 Federal No. 4  
New Well Proposal-Mallon 35 Federal No. 5  
New Well Proposal-Mallon 35 Federal No. 6  
New Well Proposal-Mallon 35 Federal No. 7

Michael J. Moncrief 2008 Trust A  
Michael J. Moncrief, Trustee

The enclosed document has been executed per your instructions. If you have any questions regarding the enclosed, please contact me at (817) 335-5656.

Sincerely,



Connie D. McCulloch  
Personal Assistant to Jerry Goodwin and  
Michael J. Moncrief

---

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



April 23, 2010

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

Re: Operating Agreements  
Mallon 35 Federal No. 4, 5, 6 & 7 Wells  
Sec. 35-T19S-R34E  
Lea County, New Mexico

Dear Mr. Beall:

As per our recent phone conversation, enclosed for your review and execution are the Operating Agreements for the Mallon 35 Federal No. 4, 5, 6 & 7 wells in Sec. 35-19S-34E, Lea Co., NM.

Please call if you have any questions or concerns regarding the enclosed agreements.

Respectfully,

A handwritten signature in black ink, appearing to be "Mike Wallace". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Mike Wallace  
Landman  
Phone: (432) 571-7873  
Cell: (432) 301-4067  
[mwallace@cimarex.com](mailto:mwallace@cimarex.com)

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



April 23, 2010

Pear Resources  
P.O. Box 11044  
Midland, TX 79702  
Attn: Alan Byars

Re: Operating Agreements  
Mallon 35 Federal No. 4, 5, 6 & 7 Wells  
Sec. 35-T19S-R34E  
Lea County, New Mexico

Dear Mr. Byars:

As per our recent phone conversation, enclosed for your review and execution are the Operating Agreements for the Mallon 35 Federal No. 4, 5, 6 & 7 wells in Sec. 35-19S-34E, Lea Co., NM.

Please call if you have any questions or concerns regarding the enclosed agreements.

Respectfully,

A handwritten signature in black ink, appearing to read "Mike Wallace". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Mike Wallace  
Landman  
Phone: (432) 571-7873  
Cell: (432) 301-4067  
[mwallace@cimarex.com](mailto:mwallace@cimarex.com)

**Cimarex Energy Co.**

600 N. Marienfeld St.

Suite 600

Midland, Texas 79701

PHONE 432.571.7800



April 26, 2010

Bankhead Administrative Accounting Trust  
and Grace K. Bankhead  
4201 Potomac  
Dallas, Texas 75205

Re: Operating Agreements  
Mallon 35 Federal No. 4 & 5 Wells  
Sec. 35-T19S-R34E  
Lea County, New Mexico

Dear Sir/Madam:

Enclosed for your review and execution are the Operating Agreements for the Mallon 35 Federal No. 4, 5, 6 & 7 wells in Sec. 35-19S-34E, Lea Co., NM.

Please call if you have any questions or concerns regarding the enclosed agreements.

Respectfully,

A handwritten signature in black ink, appearing to read "Mike Wallace".

Mike Wallace

Landman

Phone: (432) 571-7873

Cell: (432) 301-4067

[mwallace@cimarex.com](mailto:mwallace@cimarex.com)

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



April 26, 2010

Janice Shelton Crebbs, Trustee of the First  
Restatement of the Janice Shelton Crebbs  
Trust Agreement, dated 2/17/2006  
3769 N. Camino Leamaria  
Tucson, Arizona 85716

Attn: Janice Shelton Crebbs

Re: Operating Agreements  
Mallon 35 Federal No. 4 & 5 Wells  
Sec. 35-T19S-R34E  
Lea County, New Mexico

Dear Ms. Crebbs:

Enclosed for your review and execution are the Operating Agreements for the Mallon 35 Federal No. 4, 5, 6 & 7 wells in Sec. 35-19S-34E, Lea Co., NM.

Please call if you have any questions or concerns regarding the enclosed agreements.

Respectfully,

A handwritten signature in black ink, appearing to be "Mike Wallace", with a long horizontal line extending to the right.

Mike Wallace  
Landman  
Phone: (432) 571-7873  
Cell: (432) 301-4067  
[mwallace@cimarex.com](mailto:mwallace@cimarex.com)

**Cimarex Energy Co.**

600 N. Marienfeld St.

Suite 600

Midland, Texas 79701

PHONE 432.571.7800



April 26, 2010

Robert W. Kent  
1415 Louisiana Street, Suite 3100  
Houston, Texas 77022-7353

Attn: Robert Kent

Re: Operating Agreements  
Mallon 35 Federal No. 4 & 5 Wells  
Sec. 35-T19S-R34E  
Lea County, New Mexico

Dear Mr. Kent:

As per our recent phone conversation, enclosed for your review and execution are the Operating Agreements for the Mallon 35 Federal No. 4, 5, 6 & 7 wells in Sec. 35-19S-34E, Lea Co., NM.

Please call if you have any questions or concerns regarding the enclosed agreements.

Respectfully,

A handwritten signature in black ink, appearing to read "Mike Wallace".

Mike Wallace

Landman

Phone: (432) 571-7873

Cell: (432) 301-4067

[mwallace@cimarex.com](mailto:mwallace@cimarex.com)



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



April 26, 2010

Hyde Oil and Gas Corporation  
6300 Ridglea Place, Suite 1018  
Fort Worth, Texas 76116

Attn: Blair Hamburg

Re: Operating Agreements  
Mallon 35 Federal No. 4, 5, 6 & 7 Wells  
Sec. 35-T19S-R34E  
Lea County, New Mexico

Dear Ms. Hamburg:

Enclosed for your review and execution are the Operating Agreements for the Mallon 35 Federal No. 4, 5, 6 & 7 wells in Sec. 35-19S-34E, Lea Co., NM.

Please call if you have any questions or concerns regarding the enclosed agreements.

Respectfully,

A handwritten signature in black ink, appearing to be "Mike Wallace", with a long horizontal line extending to the right.

Mike Wallace  
Landman  
Phone: (432) 571-7873  
Cell: (432) 301-4067  
[mwallace@cimarex.com](mailto:mwallace@cimarex.com)

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



April 26, 2010

Michael J. Moncrief Grantor's Trust  
777 Taylor Street, Suite 1030  
Fort Worth, Texas 76102

Attn: Jerry Goodwin, CPA

Re: Operating Agreements  
Mallon 35 Federal No. 4, 5, 6 & 7 Wells  
Sec. 35-T19S-R34E  
Lea County, New Mexico

Dear Mr. Goodwin:

Enclosed for your review and execution are the Operating Agreements for the Mallon 35 Federal No. 4, 5, 6 & 7 wells in Sec. 35-19S-34E, Lea Co., NM.

Please call if you have any questions or concerns regarding the enclosed agreements.

Respectfully,

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Mike Wallace  
Landman  
Phone: (432) 571-7873  
Cell: (432) 301-4067  
[mwallace@cimarex.com](mailto:mwallace@cimarex.com)

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



April 23, 2010

Sundown Energy, LP  
Two Galleria Tower  
13455 Noel Road, Suite 2000  
Dallas, Texas 75240  
Attn: Adam McCauley

Re: Operating Agreements  
Mallon 35 Federal No. 4, 5, 6 & 7 Wells  
Sec. 35-T19S-R34E  
Lea County, New Mexico

Dear Mr. McCauley:

As per our recent phone conversation, enclosed for your review and execution are the Operating Agreements for the Mallon 35 Federal No. 4, 5, 6 & 7 wells in Sec. 35-19S-34E, Lea Co., NM.

Please call if you have any questions or concerns regarding the enclosed agreements.

Respectfully,

A handwritten signature in black ink, appearing to be "Mike Wallace".

Mike Wallace  
Landman  
Phone: (432) 571-7873  
Cell: (432) 301-4067  
[mwallace@cimarex.com](mailto:mwallace@cimarex.com)

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



April 26, 2010

Linn Energy Holdings, LLC  
600 Travis Street, Suite 5100  
Houston, Texas 77002

Attn: Glen Moulden

Re: Operating Agreements  
Mallon 35 Federal No. 4, 5, 6 & 7 Wells  
Sec. 35-T19S-R34E  
Lea County, New Mexico

Dear Mr. Moulden:

Enclosed for your review and execution are the Operating Agreements for the Mallon 35 Federal No. 4, 5, 6 & 7 wells in Sec. 35-19S-34E, Lea Co., NM.

Please call if you have any questions or concerns regarding the enclosed agreements.

Respectfully,

A handwritten signature in black ink, appearing to be "MW", followed by a horizontal line extending to the right.

Mike Wallace  
Landman  
Phone: (432) 571-7873  
Cell: (432) 301-4067  
[mwallace@cimarex.com](mailto:mwallace@cimarex.com)

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



April 26, 2010

**Canaan Resources, LLC**  
One Leadership Square  
211 N. Robinson, Suite N 1000  
Oklahoma City, Oklahoma 73102

Re: Operating Agreements  
Mallon 35 Federal No. 5 & 6 Well  
Sec. 35-T19S-R34E  
Lea County, New Mexico

Dear Sir/Madam:

Enclosed for your review is the Operating Agreement for the Mallon 35 Federal No. 5, well in Sec. 35-19S-34E, Lea Co., NM.

Please call if you have any questions or concerns regarding the enclosed agreement.

Respectfully,

A handwritten signature in black ink, appearing to be "Mike Wallace", written over a horizontal line.

Mike Wallace  
Landman  
Phone: (432) 571-7873  
Cell: (432) 301-4067  
[mwallace@cimarex.com](mailto:mwallace@cimarex.com)



## Authorization For Expenditure

Company Entity:  
Cimarex Energy Co.Date Prepared:  
December 10, 2009

Region	Well Name	Well No.	Prospect or Field Name	Property Number	Drilling AFE No.
Permian	Mallon 35 Federal	5	Quall Ridge		

Location	County	State	Type Well
SHL: 1980 FSL & 330 FWL Section 35-T195-R34E BHL: 1980 FSL & 510 FEL Section 35-T195-R34E	Lea	NM	Oil <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> Gas <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

Estimate Type	Est. Start Date	Est. Comp. Date	Formation	Ttl Measured Depth
Original Estimate <input checked="" type="radio"/>				15,100'
Revised Estimate <input type="radio"/>			Bone Spring	Ttl Vertical Depth
Supplemental Estimate <input type="radio"/>				10,850'

**Project Description**  
Drill and complete a Bone spring horizontal well (4500' vs 12 stages). Open hole packer system. 11200' Pilot hole.

Intangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Drilling Costs	\$1,516,850		\$1,516,850
Completion Costs		\$1,252,250	\$1,252,250
<b>Total Intangible Costs</b>	<b>\$1,516,850</b>	<b>\$1,252,250</b>	<b>\$2,769,100</b>

Tangibles			
Well Equipment	\$94,000	\$1,049,462	\$1,143,462
Lease Equipment		\$147,500	\$147,500
<b>Total Tangible Well Cost</b>	<b>\$94,000</b>	<b>\$1,196,962</b>	<b>\$1,290,962</b>

Plug and Abandon Cost	\$150,000	-\$150,000	\$0
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<b>Total Well Cost</b>	<b>\$1,760,850</b>	<b>\$2,299,212</b>	<b>\$4,060,062</b>
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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.

☐ 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

## Joint Interest Approval

Company	By	Date
Michael J. Manciet 2008 Trust A	 Michael J. Manciet	

EXHIBIT

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12/15/2009 9:40 AM



# Project Cost Estimate

Lease Name: Mallon 35 Federal

Well No.:

5

Intangibles	Codes	Dry Hole Cost	Codes	After Casing Point	Completed Well Cost
Roads & Location Preparation / Restoration	DICC.100	\$35,000	DICC.100	\$3,000	\$38,000
Damages	DICC.105	\$10,000	DICC.105		\$10,000
Mud / Fluids Disposal Charges	DICC.105	\$67,000	DICC.105	\$65,625	\$132,625
Day Rate 37 DH Days 5 ACP Days @ Per Day	DICC.110	\$443,000	DICC.110	\$60,000	\$503,000
Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)	DICC.120	\$5,000			\$5,000
Bits	DICC.125	\$50,700	DICC.125	\$1,000	\$51,700
Fuel \$2.80 Per Gallon Gallons Per Day	DICC.135	\$73,000	DICC.135	\$1,000	\$74,000
Water / Completion Fluids Per Day	DICC.140	\$36,750	DICC.135	\$85,625	\$122,375
Mud & Additives	DICC.145	\$63,000			\$63,000
Surface Rentals Per Day	DICC.150	\$39,000	DICC.140	\$87,000	\$126,000
Downhole Rentals	DICC.155	\$102,000	DICC.145	\$11,000	\$113,000
Formation Evaluation (DST, Coring including evaluation, G&G Services)	DICC.160				\$0
Mud Logging \$850 Days @ 30 Per Day	DICC.170	\$30,000			\$30,000
Open Hole Logging	DICC.180	\$40,000			\$40,000
Cementing & Float Equipment	DICC.175	\$35,000	DICC.155	\$35,000	\$70,000
Tubular Inspections	DICC.190	\$5,000	DICC.160	\$3,000	\$8,000
Casing Crews	DICC.195	\$13,000	DICC.165	\$16,000	\$29,000
Extra Labor, Welding, Etc.	DICC.200	\$11,000	DICC.170	\$5,000	\$16,000
Land Transportation (Trucking)	DICC.205	\$22,000	DICC.175	\$4,000	\$26,000
Supervision Per Day	DICC.210	\$47,000	DICC.180	\$19,000	\$66,000
Trailer House / Camp / Catering 400 Per Day	DICC.215	\$21,000	DICC.185	\$4,000	\$25,000
Other Misc Expenses	DICC.220	\$2,000	DICC.190	\$7,000	\$9,000
Overhead 300 Per Day	DICC.225	\$13,000	DICC.195	\$3,000	\$16,000
Remedial Cementing	DICC.230		DICC.200		\$0
MOB/DEMOB	DICC.235	\$40,000			\$40,000
Directional Drilling Services 16 Days @ 7,800 Per Day	DICC.240	\$124,800			\$124,800
Back, Dispatcher, Crane	DICC.250		DICC.205		\$0
Marine & Air Transportation	DICC.255		DICC.210		\$0
Solids Control Per Day	DICC.260	\$48,400			\$48,400
Well Control Equip (Snubbing Svcs.)	DICC.265	\$28,000	DICC.215	\$11,000	\$39,000
Fishing & Sidetrack Operations	DICC.270	\$0	DICC.220		\$0
Completion Rig 7 Days @ 3,400 Per Day			DICC.225	\$36,000	\$36,000
Coil Tubing 1 Days @ Per Day			DICC.230	\$25,000	\$25,000
Completion Logging, Perforating, WL Units, WL Surveys			DICC.235	\$8,000	\$8,000
Stimulation			DICC.240	\$650,000	\$650,000
Legal / Regulatory / Curative	DICC.245	\$13,000	DICC.245		\$13,000
Well Control Insurance \$0.35 Per Foot	DICC.250	\$5,000			\$5,000
Contingency 5% of Drilling Intangibles	DICC.255	\$72,000	DICC.250	\$57,000	\$129,000
Construction For Well Equipment			DWEA.110	\$25,000	\$25,000
Construction For Lease Equipment			DWEL.110	\$30,000	\$30,000
Construction For Sales P/L			DWEL.115		\$0
<b>Total Intangible Cost</b>		<b>\$1,516,850</b>		<b>\$1,252,250</b>	<b>\$2,769,100</b>

Tangible - Well Equipment					
	Size	Feet	\$ / Foot		
Casing					
Drive Pipe	20"	40.00	\$0.00	DWEE.150	\$0
Conductor Pipe				DWEE.120	\$0
Water String				DWEE.135	\$0
Surface Casing	13-3/8"	340.00	\$48.26	DWEE.140	\$16,000
Intermediate Casing	9 5/8"	1485.00	\$42.21	DWEE.145	\$63,000
Drilling Liner				DWEE.145	\$0
Drilling Liner				DWEE.145	\$0
Production Casing or Liner	7"	11200.00	\$35.38	DWEE.150	\$405,000
Production Tie-Back	4 1/2"	4600.00	\$15.97	DWEE.150	\$73,462
Tubing	2 7/8"	10500.00	\$9.53	DWEE.155	\$100,000
N/C Well Equipment				DWEE.115	\$65,000
Wellhead, Tree, Chokes				DWEE.120	\$15,000
Liner Hanger, Isolation Packer				DWEE.120	\$165,000
Packer, Nipples				DWEE.120	\$1,000
Pumping Unit, Engine				DWEE.120	\$140,000
Lift Equipment (BHP, Rods, Anchors)				DWEE.125	\$85,000
<b>Tangible - Lease Equipment</b>					
N/C Lease Equipment				DWEL.115	\$7,500
Tanks, Tanks Steps, Stairs				DWEL.120	\$62,000
Battery (Heater Treater, Separator, Gas Treating Equipment)				DWEL.125	\$22,500
Flow Lines (Line Pipe from wellhead to central facility)				DWEL.130	\$5,500
Offshore Production Structure for Facilities				DWEL.135	\$0
Pipeline to Sales				DWEL.140	\$50,000
<b>Total Tangibles</b>				<b>\$94,000</b>	<b>\$1,196,962</b>
P&A Costs				DWEL.205	\$150,000
<b>Total Cost</b>					<b>\$4,060,062</b>