

**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, EDDY COUNTY,
NEW MEXICO.**

Case No. 14481

VERIFIED STATEMENT OF MARK COMPTON

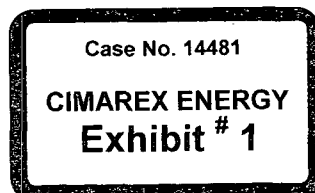
Mark Compton, being duly sworn upon his oath, deposes and states:

1. I am a landman for Cimarex Energy Co. ("Cimarex"), and have personal knowledge of the matters stated herein.

2. Pursuant to 19.15.4.12.A(1)(b) NMAC, I am submitting the following information in support of Cimarex's application in this case:

(a) Cimarex has not been informed of any opposition to its application, and no opposition 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. Cimarex seeks an order approving a 160 acre non-standard oil spacing and proration unit (project area) in the Bone Spring formation comprised of the W/2 E/2 of Section 21, Township 19 South, Range 31 East, NMPM, Eddy County. Cimarex further seeks the pooling of all mineral interests from 2,500 feet subsurface to the base of the Bone Spring formation underlying (i) the NW/4 NE/4 of Section 21, to form a standard 40 acre oil spacing and proration unit, and (ii) the W/2 E/2 of Section 21, to form a non-standard 160 acre oil spacing and proration unit



(project area). The units are to be dedicated to the Penny Pincher 21 Federal Com No. 3H well, a horizontal well to be drilled at a surface location 330 feet from the north line and 2,310 feet from the east line of Section 21, with a terminus 330 feet from the south line and 1,980 feet from the east line of Section 21.

(c) The following lists the parties being pooled and their correct addresses:

Lynx Petroleum Consultants, Inc.
P.O. Box 1708
Hobbs, New Mexico 88241

Harvey E. Yates Co
P.O. Box 1933
Roswell, New Mexico 88202

OXY USA Inc.
5 Greenway Plaza, St. 110
Houston, Texas 77046

Jalapeno Corp.
P.O. Box 1608
Albuquerque, New Mexico 87103

Ben Alexander
4002 16th St. #4315
Lubbock, Texas 79416

Yates Energy Corp.
P.O. Box 2323
Roswell, New Mexico 88202

Powder Horn Investments, LLC
P.O. Box 2503
Hobbs, New Mexico 88241

TNK, Inc.
P.O. Box 1500
Hobbs, New Mexico 88241

DASCO Energy Corp.
c/o American State Bank Trust Dept.
P.O. Box 1401
Lubbock, Texas 79408

Watson Truck & Supply, Inc.
P.O. Box 10
Hobbs, New Mexico 88241

Fonay Oil & Gas
5333 Baggett
Hobbs, New Mexico 88242

Kent Gabel
Sudan Feedyard
1 Hwy Mile of Sudan East
Sudan, Texas 79371

McVay Drilling Co.
P.O. Box 924
Hobbs, New Mexico 88241

Larry R. Scott
P.O. Box 1708
Hobbs, New Mexico 88241

(d) Attached hereto as Exhibit B is a copy of the proposal letter that I sent by certified mail to each of the uncommitted mineral interest owners more than thirty (30) days prior to the filing of Cimarex's application. In addition, I have had telephonic and e-mail communications with several of the interest owners.

(e) Cimarex has made a good faith effort to obtain the voluntary joinder of the uncommitted interest owners in the well.

(f) Pursuant to Division rules, Cimarex requests that a 200% risk charge be assessed against a non-consenting interest owner.

(g) The following lists the offset operators and interest owners of the acreage surrounding the project area and their current addresses:

SE¹/₄SW¹/₄ § 16

Marbob Energy Corporation (notified as pooled party)

SW¹/₄SE¹/₄ § 16

Marbob Energy Corporation (notified as pooled party)

SE¹/₄SE¹/₄ § 16

Marbob Energy Corporation (notified as pooled party)

NE¹/₄NE¹/₄ § 28

Devon Energy Production Company, LP

20 N. Broadway #1500

Oklahoma City, OK 73102

NW¹/₄NE¹/₄ § 28

Devon Energy Production Company, LP

NE¹/₄NW¹/₄ § 28

Devon Energy Production Company, LP

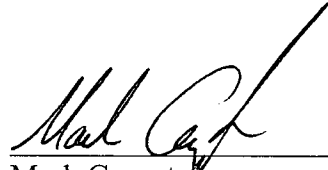
(h) A copy of Cimarex's Authority for Expenditure ("AFE") for the proposed horizontal well is attached hereto as Exhibit C. I sent a copy of the AFE to each mineral interest owner along with my proposal letter that is attached hereto as Exhibit B. The drilling and completion costs set forth in the AFE are fair and reasonable, and are comparable to those of other horizontal wells of this depth drilled in this area of Eddy County.

(i) Cimarex requests overhead charges of \$7,000/month for a drilling well, and \$700/month for a producing well. 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 requests that the rates be adjusted under the COPAS accounting procedure.

VERIFICATION

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

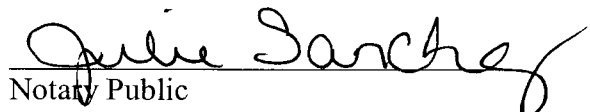
Mark Compton, being duly sworn upon his oath, deposes and states that: he is a landman for Cimarex Energy Co.; he is authorized to make this verification on its behalf; and he has read the foregoing statement and knows the contents thereof, which are true and correct to the best of his knowledge, information,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



Mark Compton

SUBSCRIBED AND SWORN TO before me this 9th day of June, 2010 by Mark Compton.

My Commission Expires: 12/5/11



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 and Natural Resources Department

Form C-102
Revised October 15, 2009

Submit one copy to appropriate
District Office

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

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code	Pool Name
Property Code	Property Name PENNY PINCHER FEDERAL COM	Well Number 3
OGRID No.	Operator Name CIMAREX ENERGY CO. OF COLORADO	Elevation 3489'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
B	21	19 S	31 E		330	NORTH	2310	EAST	EDDY

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
O	21	19 S	31 E		330	SOUTH	1980	EAST	EDDY

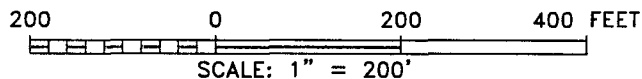
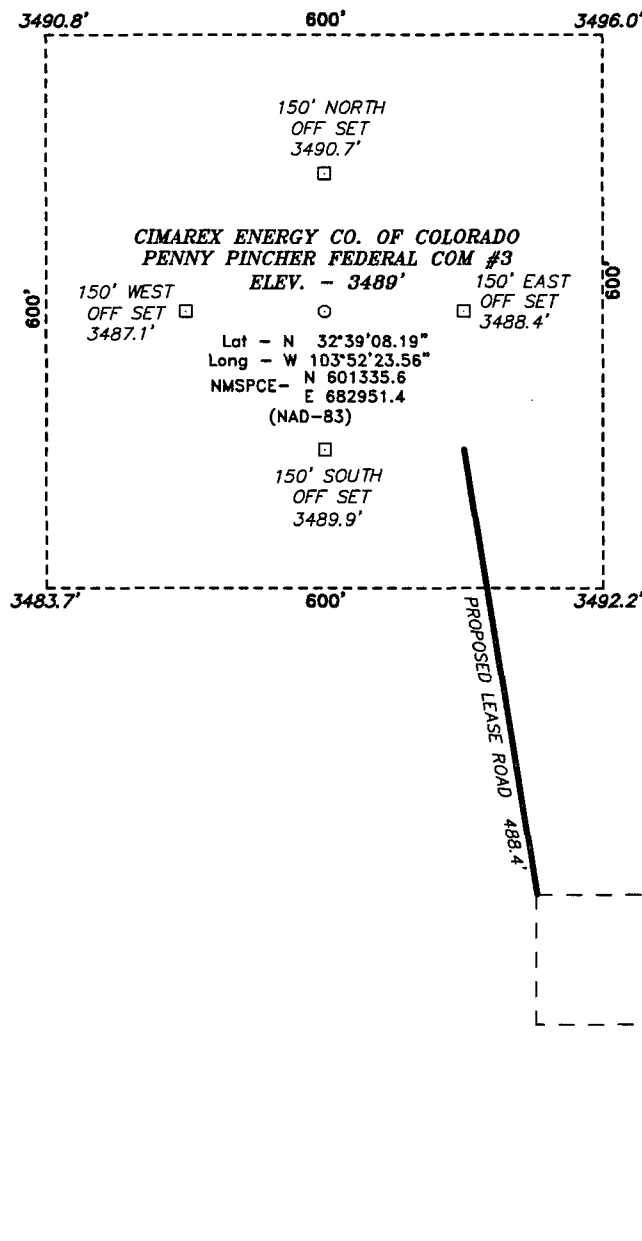
Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

<p>SURFACE LOCATION Lat - N 32°39'08.19" Long - W 103°52'23.56" NMSPCE- N 601335.6 E 682951.4 (NAD-83)</p> <p>PROPOSED BOTTOM HOLE LOCATION Lat - N 32°38'22.49" Long - W 103°52'19.56" NMSPCE- N 596718.21 E 683313.99 (NAD-83)</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 unleased 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>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>NOVEMBER 26, 2009 Date Surveyed Signature & Seal of Professional Surveyor GARY L. JONES W.C. 1981</p> <p>Certificate No. Gary L. Jones 7977</p> <p>BASIN SURVEYS</p>
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Exhibit
A

SECTION 21, TOWNSHIP 19 SOUTH, RANGE 31 EAST, N.M.P.M.,
EDDY COUNTY, NEW MEXICO.



Directions to Location:

FROM THE JUNCTION OF LUSK AND SHUGART, GO SOUTH ON SHUGART FOR 1.6 MILES TO LEASE ROAD, ON LEASE ROAD GO WEST 0.4 MILES TO LEASE ROAD, ON LEASE ROAD GO NORTH 0.2 MILES TO PROPOSED LEASE ROAD.

CIMAREX ENERGY CO. OF COLORADO

REF: PENNY PINCHER FEDERAL COM #3 / WELL PAD TOPO

THE PENNY PINCHER FEDERAL COM #3 LOCATED 330'

FROM THE NORTH LINE AND 2310' FROM THE EAST LINE OF

SECTION 21, TOWNSHIP 19 SOUTH, RANGE 31 EAST,

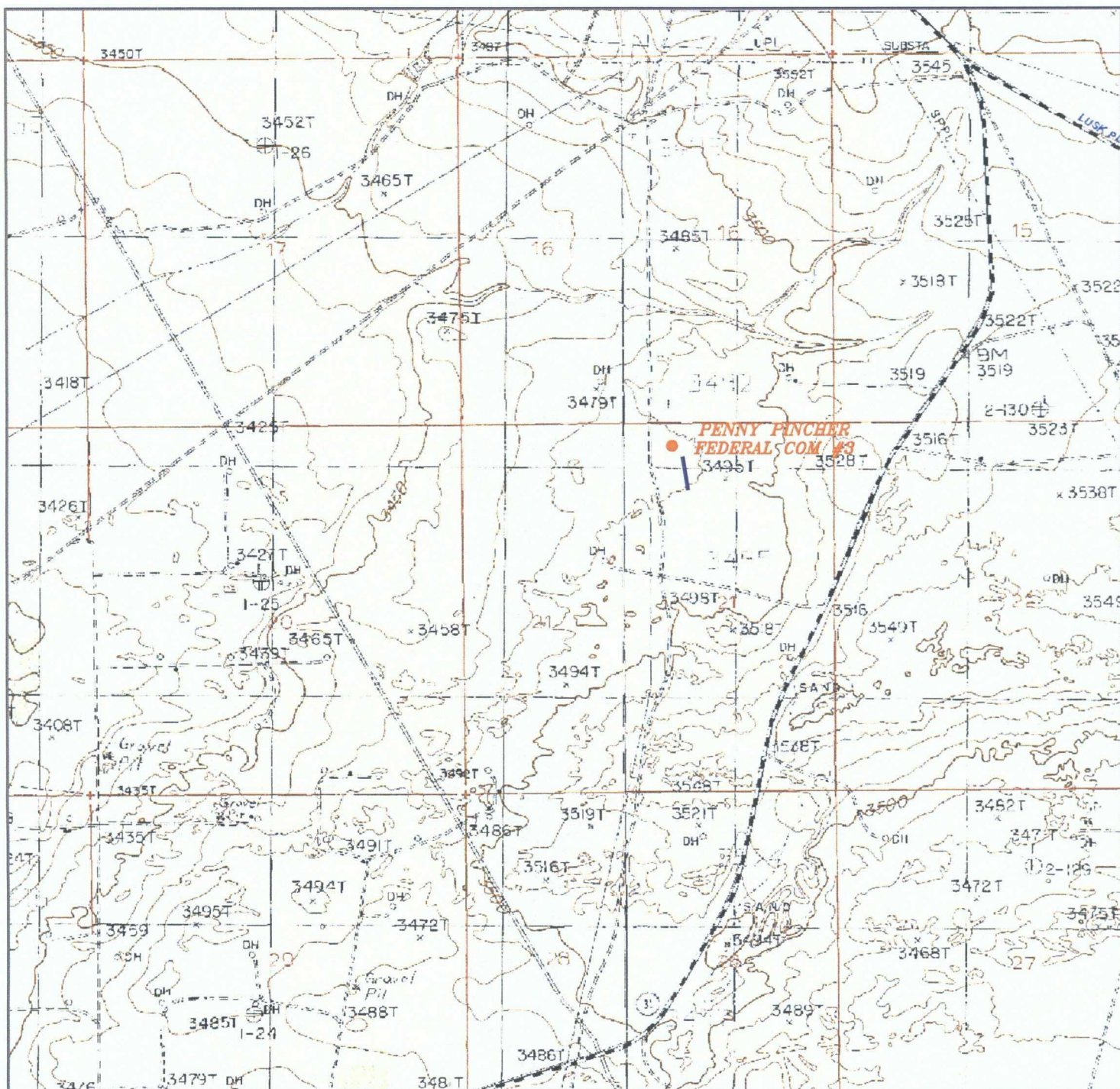
N.M.P.M., EDDY COUNTY, NEW MEXICO.

BASIN SURVEYS P.O. BOX 1786-HOBBS, NEW MEXICO

W.O. Number: 21981 Drawn By: J. SMALL

Date: 11-23-2009 Disk: JMS 21981

Survey Date: 11-20-2009 Sheet 1 of 1 Sheets



PENNY PINCHER FEDERAL COM #3

Located 330' FNL and 2310' FEL
 Section 21, Township 19 South, Range 31 East,
 N.M.P.M., Eddy County, New Mexico.



P.O. Box 1786
 1120 N. West County Rd.
 Hobbs, New Mexico 88241
 (575) 393-7316 - Office
 (575) 392-2206 - Fax
basinsurveys.com

W.O. Number: JMS 21981

Survey Date: 11-20-2009

Scale: 1" = 2000'

Date: 11-23-2009

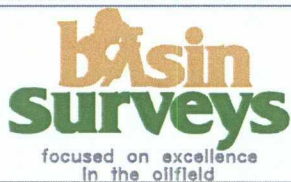


**CIMAREX
 ENERGY CO.
 OF COLORADO**



PENNY PINCHER FEDERAL COM #3

Located 330' FNL and 2310' FEL
 Section 21, Township 19 South, Range 31 East,
 N.M.P.M., Eddy County, New Mexico.



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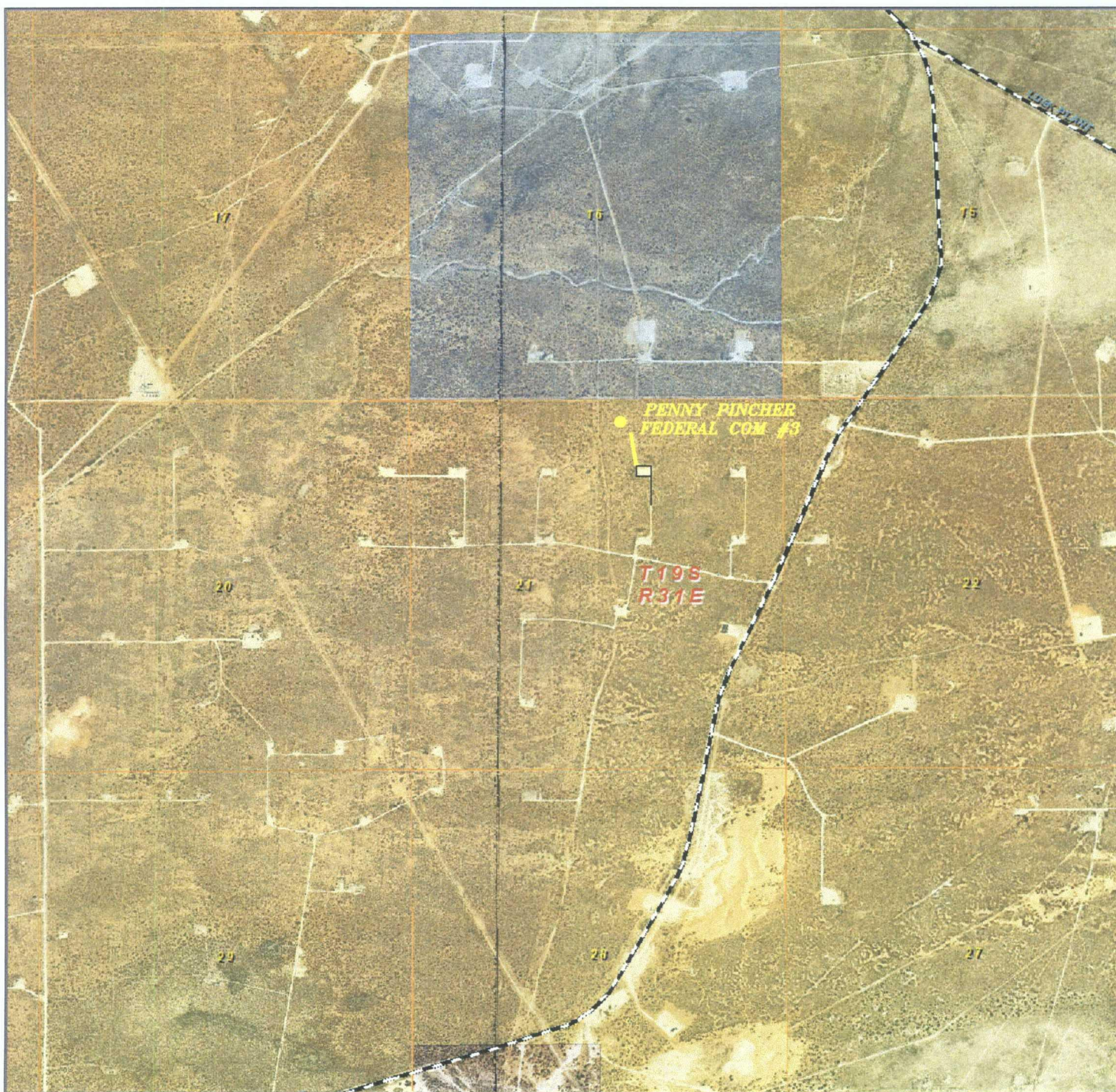
Survey Date: 11-20-2009

Scale: 1" = 2 Miles

Date: 11-23-2009



CIMAREX
 ENERGY CO.
 OF COLORADO



PENNY PINCHER FEDERAL COM #3

Located 330' FNL and 2310' FEL
 Section 21, Township 19 South, Range 31 East,
 N.M.P.M., Eddy County, New Mexico.



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W.O. Number: JMS 21981

Scale: 1" = 2000'

YELLOW TINT - USA LAND
 BLUE TINT - STATE LAND
 NATURAL COLOR - FEE LAND



**CIMAREX
 ENERGY CO.
 OF COLORADO**

February 8, 2010

Via: Certified U. S. Mail Return Receipt 91 7108 2133 3937 9630 0779

Larry R. Scott
P. O. Box 1979
Hobbs, NM 88241

**Re: Penny Pincher 21 Federal #3H
W/2E/2 Section 21-T19S-R31E
Eddy County, New Mexico**

Dear Mr. Scott:

Cimarex Energy Co. (Cimarex) as owner of an interest in the above described spacing unit, hereby proposes to drill the above-captioned well at an approximate surface location of 2310' FEL and 330' FNL and an approximate bottom hole location of 1980' FEL and 330' FSL. If you choose to participate in the drilling of the well, please sign and return a copy of the AFE to the undersigned. I am also submitting Cimarex's proposed form of operating agreement.

Alternatively, if you choose not to participate, Cimarex would consider acquiring a farmout of your leasehold interest in Section 21, T19S-R31E, at the following general terms: yourself to deliver all of your interest in Section 21, retaining as an overriding royalty interest equal to the positive difference, if any, between existing lease burdens and 25%, proportionately reduced, subject to an option to convert said overriding royalty interest to a working interest equal to 25% of the working interest originally assigned to Cimarex by yourself. Such option to convert the overriding royalty interest to a working interest shall be on a well by well basis.

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.

Mark Compton
Landman

**Exhibit
B**



Authorization For Expenditure

Exhibit
C

Company Entity
Cimarex Energy Co.

Date Prepared
February 8, 2010

Region	Well Name	Well No.	Prospect or Field Name	Property Number	Drilling AFE No.
Permian	Penny Pincher 21 Fed	3H	West Luck	309775	

Location	County	State	Type Well		
Apprx Surface 2310' FEL, 330' FNL Apprx Bottom 1980' FEL, 330' FSL of Sec 21, 19S-31E	Eddy	NM	Oil	x	Expl
			Gas		Prod

Estimate Type		Est. Start Date	Est. Comp Date	Formation	Ttl Measured Depth
Original Estimate	⊙				13,208'
Revised Estimate	○				Ttl Vertical Depth
Supplemental Estimate	○				9,000'

Project Description

Drill and complete a NM Bone Spring horizontal well. 10 open-hole packer stages, 4340' VS.

Intangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Drilling Costs	\$1,334,990		\$1,334,990
Completion Costs		\$959,375	\$959,375
Total Intangible Costs	\$1,334,990	\$959,375	\$2,294,365

Tangibles			
Well Equipment	\$379,000	\$917,196	\$1,296,196
Lease Equipment		\$96,500	\$96,500
Total Tangible Well Cost	\$379,000	\$1,013,696	\$1,392,696

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

Total Well Cost	\$1,863,990	\$1,823,071	\$3,687,061
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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
Ryan Braxton	Doug Park	Roger Alexander

Joint Interest Approval

Company	By	Date



Project Cost Estimate

Lease Name: Penny Pincher 21 Fed

Well No.: 3H

Intangibles	Codes	Dry Hole Cost	Codes	After Casing Point	Completed Well Cost
Roads & Location Preparation / Restoration	DIDC.100	\$30,000	DICC.100	\$3,000	\$33,000
Damages	DIDC.105	\$10,000	DICC.105		\$10,000
Mud / Fluids Disposal Charges	DIDC.255	\$56,000	DICC.235	\$45,000	\$101,000
Day Rate 34 DH Days 5 ACP Days @ Per Day	DIDC.115	\$388,000	DICC.120	\$57,000	\$445,000
Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)	DIDC.120	\$5,000			\$5,000
Bits	DIDC.125	\$80,000	DICC.125	\$11,000	\$91,000
Fuel \$2.60 Per Gallon Gallons Per Day	DIDC.135	\$80,000	DICC.130	\$11,000	\$91,000
Water / Completion Fluids Per Day	DIDC.140	\$36,270	DICC.135	\$64,375	\$100,645
Mud & Additives	DIDC.145	\$29,250			\$29,250
Surface Rentals Per Day	DIDC.150	\$20,000	DICC.140	\$95,000	\$115,000
Downhole Rentals	DIDC.155	\$77,970	DICC.145	\$14,000	\$91,970
Formation Evaluation (DST, Coring including evaluation, G&G Services)	DIDC.160				\$0
Mud Logging \$850 Days @ 25 Per Day	DIDC.170	\$25,000			\$25,000
Open Hole Logging	DIDC.180	\$25,000			\$25,000
Cementing & Float Equipment	DIDC.185	\$65,000	DICC.155	\$20,000	\$85,000
Tubular Inspections	DIDC.190	\$5,000	DICC.160	\$3,000	\$8,000
Casing Crews	DIDC.195	\$9,000	DICC.165	\$14,000	\$23,000
Extra Labor, Welding, Etc.	DIDC.200	\$10,000	DICC.170	\$5,000	\$15,000
Land Transportation (Trucking)	DIDC.205	\$20,000	DICC.175	\$4,000	\$24,000
Supervision Per Day	DIDC.210	\$44,000	DICC.180	\$14,000	\$58,000
Trailer House / Camp / Catering 400 Per Day	DIDC.280	\$20,000	DICC.255	\$4,000	\$24,000
Other Misc Expenses	DIDC.220	\$2,000	DICC.190	\$7,000	\$9,000
Overhead 300 Per Day	DIDC.225	\$12,000	DICC.195	\$3,000	\$15,000
Remedial Cementing	DIDC.231		DICC.215		\$0
MOB/DEMOB	DIDC.240	\$30,000			\$30,000
Directional Drilling Services 13 Days @ 7,200 Per Day	DIDC.245	\$114,000			\$114,000
Dock, Dispatcher, Crane	DIDC.250		DICC.230		\$0
Marine & Air Transportation	DIDC.275		DICC.250		\$0
Solids Control Per Day	DIDC.260	\$24,400			\$24,400
Well Control Equip (Snubbing Svcs.)	DIDC.265	\$35,100	DICC.240	\$11,000	\$46,100
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 Days @ Per Day			DICC.260	\$30,000	\$30,000
Completion Logging, Perforating, WL Units, WL Surveys			DICC.200	\$8,000	\$8,000
Stimulation			DICC.210	\$425,000	\$425,000
Legal / Regulatory / Curative	DIDC.300	\$13,000	DICC.280		\$13,000
Well Control Insurance \$0.35 Per Foot	DIDC.285	\$5,000			\$5,000
Contingency 5% of Drilling Intangibles	DIDC.435	\$64,000	DICC.220	\$25,000	\$89,000
Construction For Well Equipment			DWEA.110	\$50,000	\$50,000
Construction For Lease Equipment			DLEQ.110		\$0
Construction For Sales P/L			DICC.265		\$0
Total Intangible Cost		\$1,334,990		\$959,375	\$2,294,365

Tangible - Well Equipment	Size	Feet	\$ / Foot				
Casing							
Drive Pipe 30"		40.00	\$0.00	DWEB.150	\$0		\$0
Conductor Pipe				DWEB.130	\$0		\$0
Water String 20"		620.00	\$110.00	DWEB.135	\$68,000		\$68,000
Surface Casing 13-3/8"		2500.00	\$63.90	DWEB.140	\$160,000		\$160,000
Intermediate Casing 9-5/8"		4100.00	\$33.26	DWEB.145	\$136,000		\$136,000
Drilling Liner				DWEB.145	\$0		\$0
Drilling Liner				DWEB.145	\$0		\$0
Production Casing or Liner 7"		18500.00	\$35.80			DWEA.100	\$307,000
Production Tie-Back 4-1/2"		4600.00	\$15.26			DWEA.100	\$70,196
Tubing 2-7/8"		8400.00	\$7.30			DWEA.105	\$61,000
N/C Well Equipment						DWEA.115	\$65,000
Wellhead, Tree, Chokes				DWEB.115	\$15,000	DWEA.120	\$18,000
Liner Hanger, Isolation Packer				DWEB.100	\$0	DWEA.125	\$145,000
Packer, Nipples						DWEA.130	\$1,000
Pumping Unit, Engine						DLEQ.100	\$190,000
Lift Equipment (BHP, Rods, Anchors)						DLEQ.105	\$60,000
Tangible - Lease Equipment							
N/C Lease Equipment						DLEQ.115	\$7,500
Tanks, Tanks Steps, Stairs						DLEQ.120	\$62,000
Battery (Heater Treater, Separator, Gas Treating Equipment)						DLEQ.125	\$24,500
Flow Lines (Line Pipe from wellhead to central facility)						DLEQ.130	\$2,500
Offshore Production Structure for Facilities						DWEA.135	\$0
Pipeline to Sales						DWEA.140	\$0
Total Tangibles					\$379,000	\$1,013,696	\$1,392,696

P&A Costs	DIDC.295	\$150,000	DICC.275	-\$150,000	\$0
Total Cost		\$1,863,990		\$1,823,071	\$3,687,061