

February 8, 2010

Via: Certified U. S. Mail Return Receipt 91 7108 2133 3937 9630 0687

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

*Re: Penny Pincher 21 Federal #2H
E/2W/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 1980' FWL and 330' FNL and an approximate bottom hole location of 1980' FWL 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

