



January 7, 2010

VIA FEDERAL EXPRESS
AND FACSIMILE (972) 450-4519

Timothy R. MacDonald
23 Graham Ln.
Lucas, TX 75002

RE: Big Game Prospect
Blackhawk "11" Federal Com #1
S2S2 of Section 11-T16S-R28E
Eddy County, New Mexico

Dear Mr. MacDonald:

COG Operating LLC (hereinafter referred to as Concho) hereby propose the drilling of a horizontal well to a depth sufficient to adequately test the Crow Flats Abo formation at an anticipated total vertical depth of 6680' and total measured depth being approximately 11,130'. The surface location for this well has been permitted at 430' FSL & 430' FWL with a bottomhole location at 330' FSL & 330' FEL with the dedicated project area being the S2S2 of Section 11, Township 16 South, Range 28 East, Eddy County, New Mexico. Included herein is our AFE as well as a copy of the Permit to Drill.

We ask that you join Concho to the full extent of your interest in the drilling, testing and completing of this proposed well by indicating your acceptance in the space provided below and return one original each of this letter, a signed original of the enclosed AFE and executed signature pages to our proposed Operating Agreement.

However, in the event you do not wish to participate, Concho respectfully requests that you consider as an alternative either of the below proposals:

Proposal 1:

Concho would be interested in purchasing, subject to reaching mutually agreeable price and terms, all of your contractual and leasehold interests situated in the S2S2 of Section 11-T16S-R28E, Eddy County, New Mexico.

Proposal 2:

Timothy R. MacDonald will farmout all of his contractual and leasehold interests in the S2S2 of Section 11-T16S-R28E, Eddy County, New Mexico, subject to reaching mutually agreeable terms.

This letter replaces our previous proposal dated August 11, 2009.

Please indicate below the option of your choice below, sign and return this letter at your earliest convenience to my attention by any of the following methods:

- US Mail – 550 West Texas Avenue, Suite 1300, Midland, Texas 79701
- Fax – 432.685.4398
- Email – Jspradlin@conchoresources.com

Should you have any questions, please do not hesitate to contact me at 432.685.4352.

Very truly yours,


COG Operating LLC



Jan Preston Spradlin, CPL
Senior Landman

 ✓ I/We hereby elect to participate in the Blackhawk "11" Federal Com #1
 I/We hereby elect **not** to participate in the Blackhawk "11" Federal Com #1
 I/We hereby elect to pursue Proposal 1
 I/We hereby elect to pursue Proposal 2

TIMOTHY R. MACDONALD



Date: 11/18/10

COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING

WELL NAME: Blackhawk "11" Fed Com #1 PROSPECT NAME: Crow Flats
Surf. Loc: 430' FS&WL, Sec 11 COUNTY & STATE: Eddy, NM
B.H. Loc: 330' FS&EL, Sec 11 OBJECTIVE: 10,900' MD (6680' TVD) Lwr Abo/Wolfcamp
T16S - R28E w/pilot, wo/LWD

| INTANGIBLE COSTS | | BCP | ACP | TOTAL |
|--|-----|-----------|-----------|-----------|
| Title/Curative/Permit | 201 | 5,500 | | 5,500 |
| Insurance | 202 | 22,000 | | 22,000 |
| Damages/Right of Way | 203 | 15,000 | | 15,000 |
| Survey/Stake Location | 204 | 3,000 | | 3,000 |
| Location/Pits/Road Expense | 205 | 45,000 | 5,000 | 50,000 |
| Drilling / Completion Overhead | 206 | 5,000 | 1,000 | 6,000 |
| Turnkey Contract | 207 | | | 0 |
| Footage Contract | 208 | | | 0 |
| Daywork Contract 32:4 @ \$10,000/day | 209 | 320,000 | 40,000 | 360,000 |
| Directional Drilling Services, With out LWD | 210 | 180,000 | | 180,000 |
| Fuel & Power | 211 | 54,000 | 6,000 | 60,000 |
| Water | 212 | 30,000 | 50,000 | 80,000 |
| Bits | 213 | 50,000 | 1,000 | 51,000 |
| Mud & Chemicals | 214 | 60,000 | | 60,000 |
| Drill Stem Test | 215 | | | 0 |
| Coring & Analysis | 216 | | | 0 |
| Cement Surface | 217 | 12,200 | | 12,200 |
| Cement Intermediate | 218 | 15,000 | | 15,000 |
| Cement 2nd Intermediate 7" | 218 | | 23,400 | 23,400 |
| Cement Squeeze & Other (Kickoff Plug) | 220 | 18,700 | | 18,700 |
| Float Equipment & Centralizers | 221 | 5,000 | 2,000 | 7,000 |
| Casing Crews & Equipment | 222 | 15,000 | 10,000 | 25,000 |
| Fishing Tools & Service | 223 | | | 0 |
| Geologic/Engineering | 224 | 10,000 | 1,000 | 11,000 |
| Contract Labor | 225 | 10,000 | 30,000 | 40,000 |
| Company Supervision | 226 | 2,000 | 2,000 | 4,000 |
| Contract Supervision | 227 | 36,000 | 4,000 | 40,000 |
| Testing Casing/Tubing | 228 | 4,000 | 1,500 | 5,500 |
| Mud Logging Unit | 229 | 22,500 | | 22,500 |
| Logging | 230 | 60,000 | | 60,000 |
| Perforating/Wireline Services | 231 | 1,500 | 12,500 | 14,000 |
| Stimulation/Treating | | | 750,000 | 750,000 |
| Completion Unit | | | 18,000 | 18,000 |
| Swabbing Unit | | | | 0 |
| Rentals-Surface | 235 | 100,000 | 45,000 | 145,000 |
| Rentals-Subsurface | 236 | 45,000 | 10,000 | 55,000 |
| Trucking/Forklift/Rig Mobilization | 237 | 80,000 | 15,000 | 95,000 |
| Welding Services | 238 | 3,000 | 1,500 | 4,500 |
| Water Disposal | 239 | | 15,000 | 15,000 |
| Plug to Abandon | 240 | | | 0 |
| Seismic Analysis | 241 | | | 0 |
| Closed Loop & Environmental | 244 | 225,000 | | 225,000 |
| Miscellaneous | 242 | 5,000 | 1,000 | 6,000 |
| Contingency | 243 | 146,600 | 105,100 | 251,700 |
| TOTAL INTANGIBLES | | 1,606,000 | 1,150,000 | 2,756,000 |
| TANGIBLE COSTS | | | | |
| Surface Casing 500' 13 3/8" | 401 | 18,000 | | 18,000 |
| Intermediate Casing 2300' 9 5/8", 6000' - 7" | 402 | 59,000 | 145,000 | 204,000 |
| Production Casing/Liner 4900' - 4.5" | | | 59,000 | 59,000 |
| Tubing 6000' 2 7/8" | | | 34,000 | 34,000 |
| Wellhead Equipment | 405 | 10,000 | 8,000 | 18,000 |
| Pumping Unit | | | | 0 |
| Prime Mover | | | | 0 |
| Rods | | | | 0 |
| Pumps | | | | 0 |
| Tanks | | | 60,000 | 60,000 |
| Flowlines | | | 15,000 | 15,000 |
| Heater Treater/Separator | | | 25,000 | 25,000 |
| Electrical System | | | | 0 |
| Packers/Anchors/Hangers | 414 | | 200,000 | 200,000 |
| Couplings/Fittings/Valves | 415 | 2,000 | 50,000 | 52,000 |
| Gas Compressors/Meters | | | 4,000 | 4,000 |
| Dehydrator | | | | 0 |
| Injection Plant/CO2 Equipment | | | | 0 |
| Miscellaneous | 419 | 1,000 | 1,000 | 2,000 |
| Contingency | 420 | 9,000 | 61,000 | 70,000 |
| TOTAL TANGIBLES | | 99,000 | 662,000 | 761,000 |
| TOTAL WELL COSTS | | 1,705,000 | 1,812,000 | 3,517,000 |

COG Operating LLC

By: J. Coffman / C. Bird

Date Prepared: 8/10/09

We approve:

_____% Working Interest

Company:

By:

Printed Name:

Title:

Date:

This AFE is only an estimate. By signing you agree to pay your share of the actual costs incurred.

11/12/09

1 | IN WITNESS WHEREOF, this agreement shall be effective as of the 15th day of September,
 2 | 2009.

3 | _____, who has prepared and circulated this form for execution, represents and warrants
 4 | that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610-1989 Model Form
 5 | Operating Agreement, as published in computerized form by Forms On-A-Disk, Inc. No changes, alterations, or
 6 | modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in
 7 | Articles II, III, IV, V, VI, VIII, X, XIII and XVI, have been made to the form.

8 | **ATTEST OR WITNESS:**

OPERATOR

COG OPERATING LLC

By _____

Matthew G. Hyde

Type or print name

Title Vice President, Exploration & Land

Date _____

Tax ID or S.S. No. _____

NON-OPERATORS

CHESAPEAKE EXPLORATION LP

By and through its agent Chesapeake Operating Inc.

By _____

Henry J. Hood

Type or print name

Title Senior Vice President / Land and Legal &
General Counsel

Date _____

Tax ID or S.S. No. _____

DEVON ENERGY PRODUCTION CO., LP

By _____

Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

TIMOTHY R. MACDONALD

By Timothy R. MacDonald

Type or print name

Title _____

Date _____

Dorothy F. Melton
DOROTHY F. MELTON

Chesapeake Exploration LLC by and through its Agent Chesapeake Operating Inc. and COG Operating LLC, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610RS-1989 Model Form Recording Supplement to Operating Agreement and Financing Statement, as published in computerized form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles II, III, IV, V, VI, VIII, X and XVI, have been made to the form.

IN WITNESS WHEREOF, this agreement shall be effective as of the _____ day of _____.

OPERATOR

ATTEST OR WITNESS

COG Operating LLC

By: _____

Type or Print Name

Title: Matthew G. Hyde, Vice President, Exploration & Land

Date: _____

Address: _____

NON-OPERATORS

ATTEST OR WITNESS

Chesapeake Exploration LLC

By and through its agent Chesapeake Operating Inc.

By: _____

Type or Print Name

Title: Henry J. Hood, Senior Vice President / Land and Legal & General Counsel

Date: _____

Address: _____

ATTEST OR WITNESS

Devon Energy Production Co., LP

By: _____

Type or Print Name

Title: _____

Date: _____

Address: _____

ATTEST OR WITNESS

Timothy R. MacDonald

By:

Type or Print Name

Title:

Date:

Address:

ACKNOWLEDGMENTS

STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

This instrument was acknowledged before me on _____, 2009, by Matthew G. Hyde, Vice President, Exploration & Land of COG Operating, LLC, a Delaware limited liability company, on behalf of said company.

Notary Public in and for the State of Texas

STATE OF _____ §
 §
COUNTY OF _____ §

This instrument was acknowledged before me on _____, 2009, by Henry J. Hood, Senior Vice President / Land and Legal & General Counsel of Chesapeake Operating Inc. as agent for Chesapeake Exploration LLC, a _____ limited liability company.

Notary Public in and for the State of Texas

STATE OF _____ §
 §
COUNTY OF _____ §

This instrument was acknowledged before me on _____, 2009, by _____ of Devon Energy Production Co., LP, a _____ limited partnership.

Notary Public in and for the State of Texas

STATE OF Texas §
 §
COUNTY OF Dallas §

This instrument was acknowledged before me on 1-20 2010, by Timothy R. MacDonald.

Lonnie J. Kysiak
Notary Public in and for the State of Texas

