



August 11, 2009

VIA FEDERAL EXPRESS

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 dated August 10, 2009 as well as a copy the submitted 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.

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 Timothy R. McDonald's contractual and leasehold interests situated in Section 11-T16S-R28E, Eddy County, New Mexico.

Proposal 2:

Timothy R. McDonald will farmout all of his contractual and leasehold interests in Section 11-T16S-R28E, Eddy County, New Mexico, retaining an overriding royalty interest equal to the difference between existing lease burdens of record and twenty percent (20%), proportionately reduced.

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 432.683.7443.

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. McDONALD

Date: _____

Traci Conner

From: Jan Spradlin
Sent: Thursday, August 13, 2009 9:29 AM
To: Traci Conner
Subject: FW: Blackhawk election letters
Attachments: img-813070433-0001.pdf

Jan Spradlin

 **CONCHO**
COG Operating LLC
Direct: 432.685.4352
Cell: 432.770.1326
email: jspradlin@conchoresources.com

From: MacDonald, Tim (Dallas) [mailto:Tim_MacDonald@nexeninc.com]
Sent: Thursday, August 13, 2009 9:20 AM
To: Jan Spradlin
Cc: timmacdonald@purelyonline.com
Subject: Blackhawk election letters

Jan - Please see attached election letters
<<img-813070433-0001.pdf>>

Tim MacDonald

Production Manager

Nexen Petroleum U.S.A. Inc.
5601 Granite Parkway Suite 1400
Plano, Texas 75024-6654
D 972-450-4552 **F** 972-450-4519 **M** 972-839-9531
tim_macdonald@nexeninc.com

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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. McDONALD

Date: _____

**Shipment Receipt****Address Information****Ship to:**

Timothy R. MacDonald

23 GRAHAM LN

LUCAS, TX
75002-8431
US
9723908106**Ship from:**

COG Operating LLC

550 W. Texas Ave., Ste. 100

Midland, TX
79701
US
4326837443**Shipping Information**

Tracking number: 796850123820

Ship date: 08/11/2009

Estimated shipping charges: 17.51

Package Information

Service type: Priority Overnight

Package type: FedEx Envelope

Number of packages: 1

Total weight: 0.2LBS

Declared value: 0.00USD

Special Services: Residential Delivery

Pickup/Drop-off: Drop off package at FedEx location

Billing Information

Bill transportation to: Sender

Your reference: Blackhawk 11 FC #1

P.O. no.:

Invoice no.:

Department no.:

Thank you for shipping online with FedEx ShipManager at fedex.com.**Please Note**

FedEx will not be responsible for any claim in excess of \$100 per package, whether the result of loss, damage, delay, non-delivery, misdelivery, or misinformation, unless you declare a higher value, pay an additional charge, document your actual loss and file a timely claim. Limitations found in the current FedEx Service Guide apply. Your right to recover from FedEx for any loss, including intrinsic value of the package, loss of sales, income interest, profit, attorney's fees, costs, and other forms of damage whether direct, incidental, consequential, or special is limited to the greater of \$100 or the authorized declared value. Recovery cannot exceed actual documented loss. Maximum for items of extraordinary value is \$500, e.g., jewelry, precious metals, negotiable instruments and other items listed in our Service Guide. Written claims must be filed within strict time limits. Consult the applicable FedEx Service Guide for details.

The estimated shipping charge may be different than the actual charges for your shipment. Differences may occur based on actual weight, dimensions, and other factors. Consult the applicable [FedEx Service Guide](#) or the FedEx Rate Sheets for details on how shipping charges are calculated.

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	302	22,000
Damages/Right of Way	203	15,000	303	15,000
Survey/Stake Location	204	3,000	304	3,000
Location/Pits/Road Expense	205	45,000	305 5,000	50,000
Drilling / Completion Overhead	206	5,000	306 1,000	6,000
Turnkey Contract	207		307	0
Footage Contract	208		308	0
Daywork Contract 32:4 @ \$10,000/day	209	320,000	309 40,000	360,000
Directional Drilling Services, With out LWD	210	180,000	310	180,000
Fuel & Power	211	54,000	311 6,000	60,000
Water	212	30,000	312 50,000	80,000
Bits	213	50,000	313 1,000	51,000
Mud & Chemicals	214	60,000	314	60,000
Drill Stem Test	215		315	0
Coring & Analysis	216			0
Cement Surface	217	12,200		12,200
Cement Intermediate	218	15,000		15,000
Cement 2nd Intermediate 7"	218		319 23,400	23,400
Cement Squeeze & Other (Kickoff Plug)	220	18,700	320	18,700
Float Equipment & Centralizers	221	5,000	321 2,000	7,000
Casing Crews & Equipment	222	15,000	322 10,000	25,000
Fishing Tools & Service	223		323	0
Geologic/Engineering	224	10,000	324 1,000	11,000
Contract Labor	225	10,000	325 30,000	40,000
Company Supervision	226	2,000	326 2,000	4,000
Contract Supervision	227	36,000	327 4,000	40,000
Testing Casing/Tubing	228	4,000	328 1,500	5,500
Mud Logging Unit	229	22,500	329	22,500
Logging	230	60,000	330	60,000
Perforating/Wireline Services	231	1,500	331 12,500	14,000
Stimulation/Treating			332 750,000	750,000
Completion Unit			333 18,000	18,000
Swabbing Unit			334	0
Rentals-Surface	235	100,000	335 45,000	145,000
Rentals-Subsurface	236	45,000	336 10,000	55,000
Trucking/Forklift/Rig Mobilization	237	80,000	337 15,000	95,000
Welding Services	238	3,000	338 1,500	4,500
Water Disposal	239		339 15,000	15,000
Plug to Abandon	240		340	0
Seismic Analysis	241		341	0
Closed Loop & Environmental	244	225,000	344	225,000
Miscellaneous	242	5,000	342 1,000	6,000
Contingency	243	146,600	343 105,100	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	503 145,000	204,000
Production Casing/Liner 4900' - 4.5"			503 59,000	59,000
Tubing 6000' 2 7/8"			504 34,000	34,000
Wellhead Equipment	405	10,000	505 8,000	18,000
Pumping Unit			506	0
Prime Mover			507	0
Rods			508	0
Pumps			509	0
Tanks			510 60,000	60,000
Flowlines			511 15,000	15,000
Heater Treater/Separator			512 25,000	25,000
Electrical System			513	0
Packers/Anchors/Hangers	414		514 200,000	200,000
Couplings/Fittings/Valves	415	2,000	515 50,000	52,000
Gas Compressors/Meters			516 4,000	4,000
Dehydrator			517	0
Injection Plant/CO2 Equipment			518	0
Miscellaneous	419	1,000	519 1,000	2,000
Contingency	420	9,000	520 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.