



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: 1/18/10

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

WELL NAME: Blackhawk "11" Fed Com #1
Surf. Loc: 430' FS&WL, Sec 11
B.H. Loc: 330' FS&EL, Sec 11
T16S - R28E w/pilot, wo/LWD

PROSPECT NAME: Crow Flats
COUNTY & STATE: Eddy, NM
OBJECTIVE: 10,900' MD (6680' TVD) Lwr Abo/Wolfcamp

		<u>BCP</u>	<u>ACP</u>	<u>TOTAL</u>
INTANGIBLE COSTS				
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	50,000
Drilling / Completion Overhead	206	5,000	306	6,000
Turnkey Contract	207		307	0
Footage Contract	208		308	0
Daywork Contract 32:4 @ \$10,000/day	209	320,000	309	360,000
Directional Drilling Services, With out LWD	210	180,000	310	180,000
Fuel & Power	211	54,000	311	60,000
Water	212	30,000	312	80,000
Bits	213	50,000	313	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
Cement Squeeze & Other (Kickoff Plug)	220	18,700	320	18,700
Float Equipment & Centralizers	221	5,000	321	7,000
Casing Crews & Equipment	222	15,000	322	25,000
Fishing Tools & Service	223		323	0
Geologic/Engineering	224	10,000	324	11,000
Contract Labor	225	10,000	325	40,000
Company Supervision	226	2,000	326	4,000
Contract Supervision	227	36,000	327	40,000
Testing Casing/Tubing	228	4,000	328	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	14,000
Stimulation/Treating			332	750,000
Completion Unit			333	18,000
Swabbing Unit			334	0
Rentals-Surface	235	100,000	335	145,000
Rentals-Subsurface	236	45,000	336	55,000
Trucking/Forklift/Rig Mobilization	237	80,000	337	95,000
Welding Services	238	3,000	338	4,500
Water Disposal	239		339	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	6,000
Contingency	243	146,600	343	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	204,000
Production Casing/Liner 4900' - 4.5"			503	59,000
Tubing 6000' 2 7/8"			504	34,000
Wellhead Equipment	405	10,000	505	18,000
Pumping Unit			506	0
Prime Mover			507	0
Rods			508	0
Pumps			509	0
Tanks			510	60,000
Flowlines			511	15,000
Heater Treater/Separator			512	25,000
Electrical System			513	0
Packers/Anchors/Hangers	414		514	200,000
Couplings/Fittings/Valves	415	2,000	515	52,000
Gas Compressors/Meters			516	4,000
Dehydrator			517	0
Injection Plant/CO2 Equipment			518	0
Miscellaneous	419	1,000	519	2,000
Contingency	420	9,000	520	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: Timothy R MacDONALD

Title: _____

Date: 11/18/10

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

11/18/10

IN WITNESS WHEREOF, this agreement shall be effective as of the 15th day of September

2009

_____, 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 610-1989 Model Form Operating Agreement, 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, XIII and XVI, have been made to the form.

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 _____

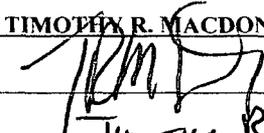
Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

TIMOTHY R. MACDONALD

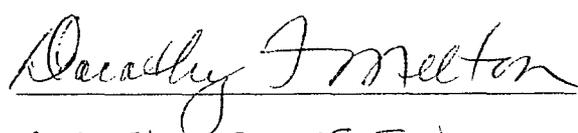
By 

Timothy R MacDonald

Type or print name

Title _____

Date _____


DOROTHY F. MELTON

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.

2010 JRM
Lonnie J. Kysiak

Notary Public in and for the State of Texas

