



PATRICK H. LYONS
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

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September 3, 2003

Concho Resources, Inc.
550 W. Texas Ave., Ste. 1300
Midland, TX 79701

Attn: Mr. Michael M. Gray, Senior Landman

Re: State of New Mexico Lease V06879
W/2 Section 3, Township 19 South, Range 34 East, Lea County

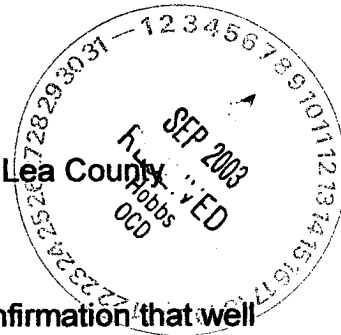
Dear Mr. Gray:

By telephone conversation and fax, you have asked for confirmation that well bores on the above lease have been abandoned by the previous lessee. Specifically, the well bores in question are the Union State #1 Well located in unit letter K and the New Mexico State B #1 Well located in unit H of Section 3, T19S, R34E. Based on your letter, it is my understanding that neither well has produced hydrocarbons in over 10 years.

State Land Office Rule 19.2.100.67.C(8) states "*Lessee's Improvements: The lessee or operator shall remove all improvements placed or erected on the premises within sixty days after the expiration or termination of an oil and gas lease. Any improvements remaining at the end of such sixty-day period shall be deemed abandoned for the purposes of Sections 19-7-14 and 19-10-28 NMSA 1978 and no payments shall be due for such remaining improvements pursuant to those Sections.*"

By that Rule, ownership of the well bores passes to the current lessee of record. As of today's date, we have not received an application from you for the Commissioner's approval of an assignment of this lease from Doug Schutz to Concho Resources, Inc.

As you know, you are required to follow all laws and regulations relating to this project. In particular, OCD rules concerning temporary or permanent plugging

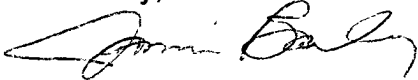


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and abandonment should be consulted. If Concho plans to use both well bores for re-entry, then APDs should be submitted for that purpose. If only one well is a candidate for re-entry, then the remaining well bore should be plugged in accordance with OCD regulations.

If you have any other questions, please do not hesitate to contact me at (505) 827-5745.

Sincerely,



Jami Bailey, Director
Oil, Gas, and Minerals Division

JB/jb

Cc: Chris Williams, OCD Hobbs District Supervisor ✓
1625 N. French Dr.
Hobbs, NM 88240