



September 15, 2008

VIA CERTIFIED MAIL-Return Receipt Requested
AND FACSIMILE (505) 748-7374

Chase Oil Corporation
P. O. Box 1767
Artesia, NM 88211-1767
Attn: Ronald W. Lanning, Land Manager

RE: Turkey Track Prospect
Andromeda Federal #1 (API #30-005-27975)
N2N2 of Section 14-T15S-R31E
Chaves County, New Mexico

Ladies and Gentlemen:

COG Oil & Gas LP and its general partner COG Operating LLC (hereinafter referred to as Concho) hereby propose the drilling of a horizontal well to a depth sufficient to adequately test the Wolfcamp formation at an anticipated total vertical depth of 8900' and total measured depth being approximately 13,450'. The surface location for this well has been permitted at 660' FNL & 330' FEL with a bottomhole location at 660' FNL & 330' FWL with the dedicated project area being the N2N2 of Section 14, Township 15 South, Range 31 East, Chaves County, New Mexico. Included herein is our AFE dated August 19, 2008 as well as a copy the approved 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 Chase Oil Corporation's or its entity's of record contractual and leasehold interests situated in Section 14-T15S-R31E, Chaves County, New Mexico.

Proposal 2:

Chase Oil Corporation or its entity of record will farmout all of its contractual and leasehold interests in Section 14-T15S-R31E, Chaves County, New Mexico, retain an overriding royalty interest of 5% proportionately reduced and will retain the right to convert said overriding royalty interest to a twenty-five percent (25%) proportionately reduced interest in subsequent proration units drilled in said section.

Proposal 3:

Chase Oil Corporation agrees to enter into a mutually agreed to Operating Agreement in substantially the same form as attached hereto to develop the entirety of the North Half of Section 14, Township 15 South-Range 31 East, Chaves County, New Mexico as to all depths.

This proposal is a replacement of our proposal dated December 17, 2007. The AFE enclosed herewith has been updated to reflect current estimated costs.

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 Oil & Gas LP
by COG Operating LLC, general partner



Jan Preston Spradlin, CPL
Senior Landman

_____/We hereby elect to participate in the Andromeda Federal #1
_____/We hereby elect not to participate in the Andromeda Federal #1
_____/We hereby elect to pursue Proposal 1
_____/We hereby elect to pursue Proposal 2
_____/We hereby elect to pursue Proposal 3

CHASE OIL CORPORATION

By: _____
Name: _____
Title: _____
Date: _____

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

WELL NAME: Andromeda Federal #1
Surf. 660' FNL & 330' FEL
BHL 660' FNL & 330' FWL
Section 14, T15S, R31E

PROSPECT NAME: Turkey Track
COUNTY & STATE: CHAVES CO. NM
OBJECTIVE: 13,450' MD(8825' TVD) Wolfcamp Test

INTANGIBLE COSTS

		BCP	ACP	TOTAL
Title/Curative/Permit	201	1,000		1,000
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 44:3 @ \$18000/day	209	748,000	309	799,000
Directional Drilling Services w/ LWD	210	384,000	310	384,000
Fuel & Power	211	210,000	311	220,000
Water	212	30,000	312	80,000
Bills	213	60,000	313	61,000
Mud & Chemicals	214	80,000	314	80,000
Drill Stem Test	215		315	0
Coring & Analysis	216			0
Cement Surface	217	13,000		13,000
Cement Intermediate	218	30,000		30,000
Cement 2nd Intermediate 7"	218	40,000	319	40,000
Cement Squeeze & Other (Kickoff Plug)	220	25,000	320	25,000
Float Equipment & Centralizers	221	7,000	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	30,000
Company Supervision	226	2,000	326	4,000
Contract Supervision	227	58,400	327	70,400
Testing Casing/Tubing	228	4,000	328	5,500
Mud Logging Unit	229	35,000	329	35,000
Logging	230	55,000	330	55,000
Perforating/Wireline Services	231	5,000	331	17,500
Stimulation/Treating			332	750,000
Completion Unit			333	45,000
Swabbing Unit			334	0
Rentals-Surface	235	80,000	335	125,000
Rentals-Subsurface	236	45,000	336	55,000
Trucking/Forklift/Rig Mobilization	237	100,000	337	115,000
Welding Services	238	2,500	338	4,000
Water Disposal	239	15,000	339	30,000
Plug to Abandon	240		340	0
Seismic Analysis	241		341	
Closed Loop & Environmental	244	100,000	344	100,000
Miscellaneous	242	5,000	342	8,000
Contingency	243	225,790	343	331,040
TOTAL INTANGIBLES		2,483,690	1,167,650	3,651,340

TANGIBLE COSTS

Surface Casing 500' 13 3/8"	401	32,000		32,000
Intermediate Casing 4000' 9 5/8", 8500'-7"	402	619,500		619,500
Production Casing/Liner, 5500'-4 1/2"			503	115,500
Tubing 8200' 2 7/8"			504	93,500
Wellhead Equipment	405	10,000	505	8,000
Pumping Unit			506	85,000
Prime Mover			507	30,000
Rods			508	20,000
Pumps			509	3,500
Tanks			510	25,000
Flowlines			511	1,000
Heater Treater/Separator			512	10,000
Electrical System			513	0
Packers/Anchors/Hangers	414		514	200,000
Couplings/Fittings/Valves	415	2,000	515	13,000
Gas Compressors/Meters			516	4,000
Dehydrator			517	0
Injection Plant/CO2 Equipment			518	0
Miscellaneous	419	1,000	519	2,000
Contingency	420	66,450	520	127,400
TOTAL TANGIBLES		730,950	670,450	1,401,400
TOTAL WELL COSTS		3,214,640	1,838,100	5,052,740

COG Operating LLC

By: J. Coffman / M. Corser

Date Prepared: 8/19/08

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.

New Mexico
1625 N. French Drive
Hobbs, NM 88240

Form 3160-3
August 2007

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
APPLICATION FOR PERMIT TO DRILL OR REENTER

FORM APPROVED
OMB No. 1004-0137
Expires July 31, 2010

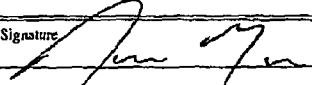
1a. Type of work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. SL NML 105887 BHL State of NM
1b. Type of Well: <input checked="" type="checkbox"/> Oil Well <input type="checkbox"/> Gas Well <input type="checkbox"/> Other <input checked="" type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6. If Indian, Allottee or Tribe Name N/A
2. Name of Operator COG Operating, LLC		7. If Unit or CA Agreement, Name and No. N/A
3a. Address 550 West Texas, Suite 1300 Midland, TX 79701	3b. Phone No. (include area code) (432) 685-9158	8. Lease Name and Well No. Andromeda Federal #136797
4. Location of Well (Report location clearly and in accordance with any State requirements) At surface 660' FNL & 330' FEL, Unit A At proposed prod. zone 660' FNL & 330' FWL, Unit D		9. API Well No. 3D-005-27975
14. Distance in miles and direction from nearest town or post office Approx 15 miles North of Maljamar, New Mexico		10. Field and Pool or Exploratory Undesignated Wolfcamp
15. Distance from proposed* location to nearest property or lease line, ft (Also to nearest drg. unit line, if any) 330		11. Sec., T. R. M. or Bk. and Survey or Area Section 14, T15S, R31E
16. No. of acres in lease 640		12. County or Parish Chaves Co.
17. Spacing Unit dedicated to this well 180		13. State NM
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft N/A		19. Proposed Depth 13450' MD 8825' TVD
20. BLM/BIA Bond No. on file NMB 000215		21. Elevations (Show whether DF, KDB, RT, GL, etc.) 4375' GL
22. Approximate date work will start* 11/15/2007		23. Estimated duration 45 Days

24. Attachments

ROSWELL CONTROLLED WATER BASIN

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No. 1, must be attached to this form:

- Well plat certified by a registered surveyor.
- A Drilling Plan.
- A Surface Use Plan (if the location is on National Forest System Lands, the SUPO must be filed with the appropriate Forest Service Office).
- Bond to cover the operations unless covered by an existing bond on file (see item 20 above).
- Operator certification.
- Such other site specific information and/or plans as may be required by the BLM.

25. Signature 	Name (Printed/Typed) Dwaine Moore	Date 09/12/2007
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Title
Agent for COG Operating LLC

Approved by (Signature) /s/ Angel Mayes	Name (Printed/Typed) /s/ Angel Mayes	Date OCT 16 2007
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Title
Assistant Field Manager,
Lands and Minerals

Office
ROSWELL FIELD OFFICE APPROVED FOR 2 YEARS

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.
Conditions of approval, if any, are attached.

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

(Continued on page 2)

*(Instructions on page 2)

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS ATTACHED



DECLARED WATER BASIN

CEMENT BEHIND THE 132"
CASING MUST BE CIRCULATED

WITNESS

Exhibit "A"

DISTRICT I
1825 N. French Dr., Hobbs, NM 58240

DISTRICT II
1201 N. Grand Avenue, Artesia, NM 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

OIL CONSERVATION DIVISION

1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

Form C-102
Revised October 12, 2005

Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30.005-27975	Pool Code ✓	Pool Name Wildcat Undesignated Wolfcamp
Property Code 36797	Property Name ANDROMEDA FEDERAL	Well Number 1W
GRID No. 229137	Operator Name C.O.G. OPERATING L.L.C.	Elevation 4375'

Surface Location

UL or lot No.	Section	Township	Range	Lot 1/4	Feet from the	North/South line	Feet from the	East/West line	County
A	14	15 S	31 E		660	NORTH	330	EAST	CHAVES

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot 1/4	Feet from the	North/South line	Feet from the	East/West line	County
D	14	15 S	31 E		660	NORTH	330	WEST	CHAVES

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
160			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

<p>Project Area = 160 acres</p> <p>Producing Area</p> <p>4377.3' 4375.8'</p> <p>4370.3' 4387.0'</p> <p>330' 330'</p> <p>4826'</p> <p>SL</p>		<p>OPERATOR CERTIFICATION</p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or undivided mineral interest in the land including the proposed bottom hole location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</p> <p><i>[Signature]</i> 7/16/07 Signature Date</p> <p>Quinn Moore Agent for Printed Name C.O.G.</p>
<p>BOTTOM HOLE LOCATION</p> <p>LAT.: N 33°01'07.56"</p> <p>LONG.: W103°48'37.48"</p> <p>SPC- N.: 734782.117</p> <p>E.: 710144.863</p> <p>(NAD-83)</p>	<p>SURFACE LOCATION</p> <p>LAT.: N 33°01'17.15"</p> <p>LONG.: W103°47'05.25"</p> <p>SPC- N.: 738789.1</p> <p>E.: 709489.5</p> <p>(NAD-83)</p>	<p>SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.</p> <p>JULY 26, 2007</p> <p>Date Surveyed Gary L. Jones Signature Gary L. Jones Professional Surveyor No. 7977</p> <p>W. J. Jones Certificate No. Gary L. Jones 7977</p> <p>BASIN SURVEYS</p>

Confirmation Report - Memory Send

Page : 001
Date & Time: 09-15-08 09:33am
Line 1 : +4326854398
Line 2 : +
Machine ID : Concho Land

Job number : 081
Date : 09-15 09:31am
To : 15057487374
Number of pages : 006
Start time : 09-15 09:31am
End time : 09-15 09:33am
Pages sent : 006
Status : OK
Job number : 081

*** SEND SUCCESSFUL ***

 **CONCHO**

FAX

Fasken Center, Tower II
550 West Texas Avenue, Suite 1300
Midland, TX 79701

Phone: (432) 683-7443
Land Dept. Fax: (432) 685-4398

Total Pages (including cover): 1

Privileged and Confidential

Date: Sept 15, 2008

To: Ron Lanning
Chase Oil Corp
Fax: 505-748-7374

From: Jan Spradlin

Subject: Andromeda - Fed #1

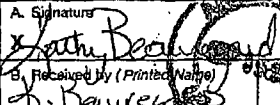
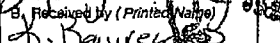
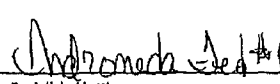
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Thank you.

If you have any difficulty in receiving this fax, please call

Andromeda Sed #1

Confirmation Services	Package ID: 9171002143393353120555	REGISTERED
	Destination ZIP Code: 88211	1ST CLASS FLAT
	Customer Reference:	
	Recipient:	PBF Account #: 41502269
	Address:	Serial #: 0005820
		SEP 10 2006 11 10A

Chase Oil Corporation
P. O. Box 1767
Artesia, NM 88211-1767
Attn: Ronald W. Lanning, Land Manager

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
<ul style="list-style-type: none">Complete Items 1, 2, and 3. Also complete Item 4 if Restricted Delivery is desired.Print your name and address on the reverse so that we can return the card to you.Attach this card to the back of the mailpiece, or on the front if space permits.	<p>A. Signature  <input checked="" type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>B. Received by (Printed Name)  <input checked="" type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>C. Is delivery address different from the one on the label? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If YES, enter delivery address below:</p>
1. Article Addressed to: Chase Oil Corporation P. O. Box 1767 Artesia, NM 88211-1767 Attn: Ronald W. Lanning, Land Manager 	3. Service Type <input type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.
2. Article Number (Transfer from su) 91 7108 2133 3733 5312 8556	4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540