



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**

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**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*

  
**COG Operating LLC**  
**Direct: 432.685.4352**  
**Cell: 432.770.1326**  
**email: [jspradlin@conchoresources.com](mailto:jspradlin@conchoresources.com)**

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**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](mailto:tim_macdonald@nexeninc.com)

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

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.