

**Blackhawk "11" Fed Com #2**

Sec. 11-T116-R28E

SHL: 1800' FSL & 1590' FWL

BHL: 1650' FSL & 330' FEL

Drilling - AFE dated 8/10/09  
Big Game Prospect 720002  
Eddy County, NM

cc: Sandy, Renee, Noemi

AFE Mailed 1/07/2010

OWNER	Interest	WI Approved Drilling	WI Approved Completion	RETURN RECEIPT Drig Proposal	Due	PARTICIPATE Drilling	PARTICIPATE Completion	NOTES
Chesapeake Exploration LP 6100 N. Western Ave. Oklahoma City, OK 73118 Attn: Kevin Pfister Phone: 405-935-1450 Fax: 405-935-1450	14.04500000%			FedEx Trkg 793160647525				Well proposal faxed & sent via FedEx 1/07/2010
Devon Energy Production Co., LP 20 N. Broadway, Suite 1500 Oklahoma City, OK 73102 Attn: Ken Gray Phone: 405-552-8040 Fax: 405-552-8113	10.93750000%			FedEx Trkg 793160688650				Well proposal faxed & sent via FedEx 1/07/2010
Timothy R. MacDonald 23 Graham Ln. Lucas, TX 75002 Phone: 972-450-4552 Fax: 972-450-4519 Cell: 972-839-9531 tim_macdonald@nexeninc.com	0.01750000%	0.01750000%		FedEx Trkg 798281703841		yes		Well proposal faxed & sent via FedEx 1/07/2010 Signed AFE returned 1/25/2010. OA executed.
COG Operating LLC	75.00000000%	75.00000000%						
	Total	100.000000%	75.017500%	0.000000%				

LAND APPROVAL:



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 #2  
NESW & N2SE 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 6,686' and total measured depth being approximately 9,707'. The surface location for this well has been permitted at 1800' FSL & 1590' FWL with a bottomhole location at 1650' FSL & 330' FEL with the dedicated project area being the NESW & N2SE 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 NESW & N2SE 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 NESW & N2SE 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 #2  
           I/We hereby elect **not** to participate in the Blackhawk "11" Federal Com #2  
           I/We hereby elect to pursue Proposal 1  
           I/We hereby elect to pursue Proposal 2

TIMOTHY R. MACDONALD

  
\_\_\_\_\_

Date:           1/18/10



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 #2  
NESW & N2SE 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 6,686' and total measured depth being approximately 9,707'. The surface location for this well has been permitted at 1800' FSL & 1590' FWL with a bottomhole location at 1650' FSL & 330' FEL with the dedicated project area being the NESW & N2SE 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 NESW & N2SE 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 NESW & N2SE 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 #2  
\_\_\_\_\_ I/We hereby elect **not** to participate in the Blackhawk "11" Federal Com #2  
\_\_\_\_\_ I/We hereby elect to pursue Proposal 1  
\_\_\_\_\_ I/We hereby elect to pursue Proposal 2

TIMOTHY R. MACDONALD

\_\_\_\_\_  
Date: \_\_\_\_\_

**COG OPERATING LLC  
AUTHORITY FOR EXPENDITURE  
DRILLING**

WELL NAME: Blackhawk "11" Fed Com #2  
Surf. Loc: 1650' FS&WL, Sec 11  
B.H. Loc: 1650' FSL & 330' FEL, Sec 11  
T16S - R28E w/pilot, wo/LWD

PROSPECT NAME: Crow Flats  
COUNTY & STATE: Eddy, NM  
OBJECTIVE: 9,778' MD (6690' 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	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 29:4 @ \$10,000/day	209 290,000	309 40,000	330,000
Directional Drilling Services, With out LWD	210 160,000	310	160,000
Fuel & Power	211 48,000	311 6,000	54,000
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 19,500	329	19,500
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 90,000	335 45,000	135,000
Rentals-Subsurface	236 40,000	336 10,000	50,000
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	244 210,000	344	210,000
Miscellaneous	242 5,000	342 1,000	6,000
Contingency	243 138,600	343 105,100	243,700
<b>TOTAL INTANGIBLES</b>	<b>1,509,000</b>	<b>1,150,000</b>	<b>2,659,000</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	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
<b>TOTAL TANGIBLES</b>	<b>99,000</b>	<b>662,000</b>	<b>761,000</b>
<b>TOTAL WELL COSTS</b>	<b>1,608,000</b>	<b>1,812,000</b>	<b>3,420,000</b>

COG Operating LLC

By: J. Coffman / C. Bird

Date Prepared: 8/10/09

We approve:  
\_\_\_\_\_% Working Interest

Company: \_\_\_\_\_  
By: 

Printed Name: TIMOTHY R MacDowd  
Title: \_\_\_\_\_  
Date: 11/8/10

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

1/7/2010



January 7, 2010

**VIA FEDERAL EXPRESS**  
**AND FACSIMILE (405) 552-8113**

Devon Energy Production Co., LP  
20 N. Broadway, Suite 1500  
Oklahoma City, OK 73102  
Attn: Mr. Ken Gray

RE: Big Game Prospect  
Blackhawk "11" Federal Com #2  
NESW & N2SE of Section 11-T16S-R28E  
Eddy County, New Mexico

Dear Mr. Gray:

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 6,686' and total measured depth being approximately 9,707'. The surface location for this well has been permitted at 1800' FSL & 1590' FWL with a bottomhole location at 1650' FSL & 330' FEL with the dedicated project area being the NESW & N2SE 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 Devon Energy Production Co., LP's or its entity's of record contractual and leasehold interests situated in the NESW & N2SE of Section 11-T16S-R28E, Eddy County, New Mexico.

**Proposal 2:**

Devon Energy Production Co., LP or its entity of record will farmout all of its contractual and leasehold interests in the NESW & N2SE of Section 11-T16S-R28E, Eddy County, New Mexico, subject to reaching mutually agreeable terms.

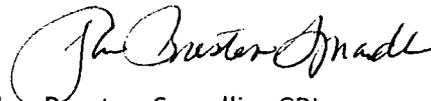
Please indicate below the option of your choice below, sign and return this letter at your earliest convenience to my attention by any of the following methods:

- 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 #2
- \_\_\_\_\_ I/We hereby elect **not** to participate in the Blackhawk "11" Federal Com #2
- \_\_\_\_\_ I/We hereby elect to pursue Proposal 1
- \_\_\_\_\_ I/We hereby elect to pursue Proposal 2

DEVON ENERGY PRODUCTION CO., LP

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_



January 7, 2010

**VIA FEDERAL EXPRESS**  
**AND FACSIMILE (405) 935-4251**

Chesapeake Exploration, L.L.C.  
6100 N. Western Avenue  
Oklahoma City, OK 73118  
Attn: Craig B. Barnard

RE: Big Game Prospect  
Blackhawk "11" Federal Com #2  
NESW & N2SE of Section 11-T16S-R28E  
Eddy County, New Mexico

Dear Mr. Barnard:

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 6,686' and total measured depth being approximately 9,707'. The surface location for this well has been permitted at 1800' FSL & 1590' FWL with a bottomhole location at 1650' FSL & 330' FEL with the dedicated project area being the NESW & N2SE 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 Chesapeake Exploration, L.L.C.'s or its entity's of record contractual and leasehold interests situated in the NESW & N2SE of Section 11-T16S-R28E, Eddy County, New Mexico.

**Proposal 2:**

Chesapeake Exploration, L.L.C. or its entity of record will farmout all of its contractual and leasehold interests in the NESW & N2SE 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 #2
- \_\_\_\_\_ I/We hereby elect **not** to participate in the Blackhawk "11" Federal Com #2
- \_\_\_\_\_ I/We hereby elect to pursue Proposal 1
- \_\_\_\_\_ I/We hereby elect to pursue Proposal 2

CHESAPEAKE EXPLORATION, L.L.C.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**COG OPERATING LLC  
AUTHORITY FOR EXPENDITURE  
DRILLING**

WELL NAME: Blackhawk "11" Fed Com #2	PROSPECT NAME: Crow Flats
Surf. Loc: 1650' FS&WL, Sec 11	COUNTY & STATE: Eddy, NM
B.H. Loc: 1650' FSL & 330' FEL, Sec 11	OBJECTIVE: 9,778' MD (6690' TVD) Lwr Abo/Wolfcamp
T16S - R28E w/pilot, wo/LWD	

<b>INTANGIBLE COSTS</b>		<b>BCP</b>	<b>ACP</b>	<b>TOTAL</b>
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 29:4 @ \$10,000/day	209	290,000	309	330,000
Directional Drilling Services, With out LWD	210	160,000	310	160,000
Fuel & Power	211	48,000	311	54,000
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	19,500	329	19,500
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	90,000	335	135,000
Rentals-Subsurface	236	40,000	336	50,000
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	210,000	344	210,000
Miscellaneous	242	5,000	342	6,000
Contingency	243	138,600	343	243,700
<b>TOTAL INTANGIBLES</b>		<b>1,509,000</b>	<b>1,150,000</b>	<b>2,659,000</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	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
<b>TOTAL TANGIBLES</b>		<b>99,000</b>	<b>662,000</b>	<b>761,000</b>
<b>TOTAL WELL COSTS</b>		<b>1,608,000</b>	<b>1,812,000</b>	<b>3,420,000</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.

11/7/2010