



BURNETT OIL CO., INC.

FACSIMILE TRANSMITTAL SHEET

TO: MR. TIMOTHY A. LEACH

FROM: WILLIAM D. POLLARD/de

FAX NUMBER: 432.683.7441

DATE: FEBRUARY 9, 2011

**COMPANY:
CONCHO RESOURCES INC.**

**# OF PAGES INCLUDING COVER:
5**

PHONE NUMBER:

**SENDER'S PHONE NUMBER:
817-332-5108**

**RE: OPERATOR DESIGNATION
MALJAMAR DEEP RIGHTS**

**SENDER'S FAX NUMBER:
817-332-7832**

☐ URGENT ☐ FOR REVIEW ☐ PLEASE COMMENT ☐ PLEASE REPLY ☐ PLEASE RECYCLE

NOTES/COMMENTS:

Original will follow in mail today.

Thank you.

**BURNETT PLAZA - SUITE 1500
801 CHERRY STREET- UNIT #9
FORT WORTH, TEXAS 76102**

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Consolidated Case No.'s 14649 & 14650 Exhibit No. 3
Submitted by
COG OPERATING, LLC
Hearing Date: May 26, 2011

P.1/S

To: 4326837441

FEB-09-2011 16:47 From: BURN

6666

FEBRUARY 9, 2011

WILLIAM D. PHILLARD

**VIA CERTIFIED MAIL AND
FAX 432.683.7441**

**MR. TIMOTHY A. LEACH
CHAIRMAN AND CEO
CONCHO RESOURCES INC.
FASKEN CENTER, TOWER II
550 WEST TEXAS AVENUE
SUITE 100
MIDLAND, TEXAS 79701**

**RE: OPERATOR DESIGNATION
MALJAMAR DEEP RIGHTS
FEDERAL LEASES
LC 029415(A)
LC 029415(B)
ALL OF SECTIONS 12, 13, 24,
& 25, T-17-S, R-31-E
EDDY COUNTY, NEW MEXICO**

DEAR MR. LEACH,

**I ENJOYED MEETING YOU AT NAPE WHEN WE HAD BREAKFAST
A COUPLE OF YEARS AGO AND I ADMIRE YOUR EXPANSION
EFFORTS IN THE YESO FAIRWAY OF SOUTHEAST NEW MEXICO.
AS YOU ARE WELL AWARE, BURNETT HAS ALSO ENJOYED
SUCCESS IN THE FAIRWAY, AND YOUR COMPANY HAS BEEN
INTERESTED IN TRYING TO ACQUIRE OUR PROPERTIES FOR
SOME TIME.**

**RECENTLY, BURNETT AND CONCHO WERE IN COMPETITION TO
ACQUIRE INTERESTS IN THE DEEP RIGHTS OF THE CAPTIONED
LEASES FROM VARIOUS MEMBERS OF THE HUDSON AND
MOORE FAMILIES. CONCHO OWNED A MINORITY INTEREST IN**

**BURNETT PLAZA - SUITE 1500
801 CHERRY STREET - UNIT #9**

BURNETT OIL CO., INC.

**FORT WORTH TX 76102-6881
(817) 332-5108**

THESE RIGHTS VIA YOUR ACQUISITION OF MARBOB AND A TERM ASSIGNMENT FROM THE IVERSON FAMILY ENTITIES. BURNETT HAS NOW ACQUIRED THE REMAINING INTERESTS WITH THE ASSISTANCE OF ED AND RANDALL HUDSON. RANDALL IS A FORMER EMPLOYEE OF BURNETT, AND HUDSON OIL HAS BEEN BURNETT'S OPERATING PARTNER IN THE SHALLOW RIGHTS OF THESE LEASES SINCE 1997. HUDSON OIL IS A PRIVATE COMPANY WITH AN OPERATING PHILOSOPHY AND ECONOMIC STRATEGY VERY SIMILAR TO BURNETT'S AND THE INTERESTS OF BURNETT AND HUDSON ARE NOW ALIGNED IN THE DEEP RIGHTS, TOO. WE WILL WORK TOGETHER TO CONTINUE DEVELOPMENT OF THE LEASES, WHICH HAVE BEEN HELD BY THE HUDSON FAMILY ET AL SINCE THE EARLY 1930's.

RANDALL HUDSON POLITELY TOLD THREE REPRESENTATIVES OF CONCHO ABOUT THIS COLLABORATION AT A MEETING IN FORT WORTH ON NOVEMBER 12, 2010, AND ASKED THAT CONCHO COOPERATE AND SUPPORT BURNETT AS OPERATOR TO ALLOW DRILLING TO BEGIN IN THE SPRING OF 2011. RANDALL MADE IT CLEAR THAT HUDSON WAS SUPPORTING BURNETT AS OPERATOR AND THAT THE TOTAL OF THE BURNETT/HUDSON WORKING INTEREST WOULD BE OVER 66%.

ON MONDAY, JANUARY 24, 2011, BURNETT AND HUDSON RECEIVED 32 YESO WELL PROPOSALS ON THE LEASES FROM COG OPERATING LLC; THREE DAYS AFTER BURNETT HAD PROPOSED 2 YESO WELLS TO CONCHO. BURNETT IS CURRENTLY IN THE PROCESS OF STAKING AND PROPOSING ADDITIONAL WELLS, SUBJECT TO THE SPECIAL RULES OUTLINED BY THE BLM'S RANDY RUST, WHICH WERE APPARENTLY CREATED IN RESPONSE TO THE SUDDEN AND LARGE NUMBER OF APD'S THE BLM RECENTLY RECEIVED ON THESE LEASES.

ALTHOUGH CONCHO CONTINUES TO PROCEED AS IF IT WILL SOMEHOW BECOME THE OPERATOR OF ANY YESO WELLS DRILLED ON THESE LEASES, BURNETT OIL CO., INC. IS CONFIDENT IT WILL BE DESIGNATED THE OPERATOR BY THE OCD FOR THE FOLLOWING REASONS:

-BURNETT OIL Co., INC. HAS SUPPORT OF OVER 66% OF THE WORKING INTEREST OWNERS, LEAVING CONCHO WITH A MAXIMUM OF 33%.

-BURNETT HAS THE SUPPORT OF 100% OF THE RECORD TITLE HOLDERS OF THE LEASES.

-HUDSON OIL WILL CONTINUE TO OPERATE THE SHALLOW RIGHTS AND HUDSON AND BURNETT WILL WORK TOGETHER TO MINIMIZE THE SURFACE IMPACT OF ALL FUTURE DEVELOPMENT AND DRILLING ON THE LEASES.

-BURNETT & HUDSON OWN 67% OF THE WORKING INTEREST IN THE SHALLOW RIGHTS; CONCHO HAS 0%.

-CONCHO'S PROPOSED 32 WELLS APPEAR TO BE BASED ON 10-ACRE SPACING, MATCHING THE DEVELOPMENT PATTERN ON YOUR PROPERTIES IMMEDIATELY OFFSETTING THESE LEASES. BURNETT'S PROPOSED WELLS ARE BASED ON 20-ACRE SPACING, AS BURNETT CURRENTLY BELIEVES THAT WILL BE SUFFICIENT TO EFFECTIVELY DRAIN THE YESO UNDER THE LEASES. BURNETT'S PLAN WILL AVOID ECONOMIC WASTE CAUSED BY OVER-DRILLING AND WILL PROTECT THE CORRELATIVE RIGHTS OF THE MAJORITY OF THE OWNERS. BURNETT'S SPACING PLAN HAS A MUCH SMALLER SURFACE "FOOTPRINT", ULTIMATELY DISTURBING SOME 400 ACRES LESS THAN CONCHO'S PLAN, A SIGNIFICANT AMOUNT IN SAND DUNE LIZARD AND LESSER PRAIRIE CHICKEN HABITAT.

IN THE VAST MAJORITY OF POOLING HEARINGS, THE INFORMATION PRESENTED ABOVE WOULD BE MORE THAN ADEQUATE FOR THE OCD TO RULE IN FAVOR OF BURNETT.

HOWEVER, IF NECESSARY, BURNETT IS PREPARED TO MAKE MORE ELABORATE ARGUMENTS THAT INVOLVE A DETAILED COMPARISON OF THE DRILLING, COMPLETION, AND PRODUCTION PRACTICES BETWEEN BURNETT AND CONCHO IN THE YESO TREND, ALONG WITH A COMPLETE ECONOMIC EVALUATION OF CONCHO'S YESO WELLS IN THE IMMEDIATE VICINITY OF THESE LEASES.

AS RANDALL HUDSON REQUESTED AT THE MEETING IN NOVEMBER, BURNETT WOULD GREATLY PREFER THAT CONCHO AGREE TO WORK WITH BURNETT AS THE OPERATOR IN LIEU OF HAVING A FORCED POOLING HEARING FOR EVERY WELL PROPOSED. IF CONCHO WILL CEDE OPERATIONS TO BURNETT NOW, WE WILL AGREE TO COLLABORATE WITH CONCHO AS TO THE SHARING OF DATA AND TECHNICAL APPROACHES.

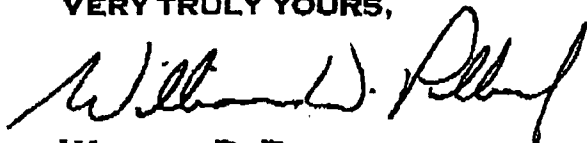
WHILE BURNETT WILL INITIALLY WANT TO DRILL AT A SLOWER PACE THAN THAT EXPRESSED BY CONCHO, IF THE RESULTS OF THE EARLY WELLS ARE GOOD, AS WE THINK THEY WILL BE, BURNETT WILL AGREE TO INCREASE THE DRILLING PACE IN THE NEAR FUTURE.

IN SUMMARY, I HOPE WE CAN WORK OUT AN AMICABLE DESIGNATION OF BURNETT AS OPERATOR. BUT, IF WE CAN'T, PLEASE KNOW THAT BURNETT IS PREPARED TO DO WHATEVER IS LEGALLY NECESSARY TO BE THE DESIGNATED OPERATOR OF EVERY YESO WELL TO BE DRILLED ON THESE LEASES.

I HOPE WE CAN DISCUSS THIS PERSONALLY AND AVOID NUMEROUS TIME CONSUMING HEARINGS AT THE OCD.

THANK YOU FOR YOUR CONSIDERATION.

VERY TRULY YOURS,



WILLIAM D. POLLARD
PRESIDENT
BURNETT OIL CO., INC.

CC: MR. JIM BRUCE, ATTORNEY
MR. RANDALL HUDSON, HUDSON OIL COMPANY
MR. DAVID RHODES, BURNETT OIL CO., INC.



March 10, 2011

Mr. William D. Pollard
Burnett Oil Co., Inc.
Burnett Plaza Suite 1500
801 Cherry Street Unit 9
Fort Worth, Texas 76102

Re: Operation of Federal Leases in Sections 12, 13, 24 and 25, Township 17 South, Range 31 East, NMPM, Eddy County, New Mexico.

Dear Mr. Pollard:

Thank you for your letter dated February 9, 2011 outlining your position as to why you believe Burnett Oil should be the operator of the deep rights in Leases LC 029415(A) and (B) which cover the above-referenced acreage. As you are aware, these leases have been held by the Hudson interests since the 1930's and they have not been fully developed.

COG Operating LLC ("Concho") holds operating rights in all depths below the base of the San Andres formation under these leases and, accordingly, has the right to drill wells on the subject acreage. Concho's operating rights were acquired through certain term assignments that are due to expire in August of this year. Therefore, Concho must move forward quickly to meet its obligations under, and protect its interests in, the term assignments. Concho intends to do whatever is necessary to pursue its development plans for these leases before the Oil Conservation Division ("OCD") or elsewhere, including being designated as the operator of the wells to be drilled under those plans.

Burnett has stated that these leases should be developed on 20-acre spacing, half of what is allowed under OCD spacing rules. Concho disagrees with this position as its experience in drilling and producing Yeso wells in this area indicates that 10-acre spacing avoids leaving resources in the ground, i.e. prevents waste, and protects the correlative rights of the parties.

Concho also disagrees with Burnett's assertion that Concho's development plans will cause greater surface disturbance, particularly in the Dunes Sagebrush Lizard and Prairie Chicken habitats. Concho has worked with, and is continuing to work with, the Bureau of Land Management ("BLM"), the Fish & Wildlife Service and the New Mexico Game & Fish Department to minimize surface disturbance and environmental impact in these habitats. Concho is one of only three companies participating in a written conservation agreement with the BLM for both the Dunes Sagebrush Lizard and the Prairie Chicken. In so participating, Concho has agreed to certain conservation measures designed to protect and/or minimize the impact on these

Mr. William D. Pollard

March 10, 2011

Page Two

species. While these types of arrangements increase both setbacks in certain areas and maintenance and inspection requirements, Concho supports them as a responsible corporate citizen and environmental steward.

Concho has extensive experience in the Yeso trend where these leases are located and is well-positioned to develop the Yeso formation under these leases, to the benefit of both working and royalty interest owners. That said, Concho is willing to meet with Burnett to attempt to reach a mutually agreeable development plan for these leases. Please feel free to call me at your earliest convenience to arrange a meeting.

Sincerely,

COG OPERATING LLC

A handwritten signature in black ink, appearing to read "M. G. Hyde", written over the printed name.

Matthew G. Hyde
Senior Vice President –
Exploration and Land

cc: Mr. Timothy A. Leach-Concho



March 10, 2011

Mr. William D. Pollard
Burnett Oil Co., Inc.
Burnett Plaza Suite 1500
801 Cherry Street Unit 9
Fort Worth, Texas 76102

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Mr. William D. Pollard

March 10, 2011

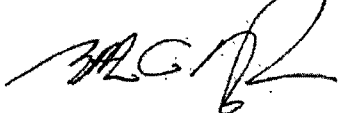
Page Two

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Sincerely,

COG OPERATING LLC

A handwritten signature in black ink, appearing to read 'M. G. Hyde', with a stylized flourish at the end.

Matthew G. Hyde
Senior Vice President –
Exploration and Land

cc: Mr. Timothy A. Leach-Concho

Ocean Munds-Dry

From: David Evans [devans@conchoresources.com]
Sent: Tuesday, May 24, 2011 5:05 PM
To: Ocean Munds-Dry
Cc: Stuart Dirks
Subject: FW: Puckett

-----Original Message-----

From: David Evans
Sent: Friday, March 25, 2011 2:50 PM
To: dsrhodes@burnettoil.com
Subject: Puckett

David, Keith and I would like to come meet with you on tuesday to see if there is any middle ground? Let me know. David

Sent from my iPhone

Ocean Munds-Dry

From: David Evans [devans@conchoresources.com]
Sent: Tuesday, May 24, 2011 5:06 PM
To: Ocean Munds-Dry
Cc: Stuart Dirks
Subject: FW: Puckett

-----Original Message-----

From: David Evans
Sent: Monday, March 28, 2011 10:02 PM
To: David Rhodes
Subject: Puckett

David, I am sorry for the late notice but as we have discussed on several occasions it is important to me that we at least try to see if we can come to an agreement to develop this area jointly. I recently completed cog's last trade with Ard. COG would now like to discuss development. The Ard agreement requires aggressive development as you would expect. with this in mind COG must separate the Puckett and over production matter due to the different problems and contractual obligations. COG believes Burnett benefits from the application on the production matter. COG believes a deal can still be derived, however, it's a two way street. As Mr. Hudson said it's business not personal. We will see you at 930 or so. David

Sent from my iPhone

Ocean Munds-Dry

From: David Evans [devans@conchoresources.com]
Sent: Tuesday, May 24, 2011 5:05 PM
To: Ocean Munds-Dry
Cc: Stuart Dirks
Subject: FW: Tuesday

-----Original Message-----

From: David Evans
Sent: Monday, March 28, 2011 5:15 PM
To: dsrhodes@burnettoil.com
Subject: Tuesday

David sorry for the late request but will you have time to meet with Keith, Ramon and myself tomorrow? I advent checked the flights but maybe mid morning? Or after lunch? David

Sent from my iPhone

Ocean Munds-Dry

From: David Evans [devans@conchoresources.com]
Sent: Tuesday, May 24, 2011 5:06 PM
To: Ocean Munds-Dry
Cc: Stuart Dirks
Subject: FW: Puckett

-----Original Message-----

From: David Evans
Sent: Friday, April 01, 2011 12:19 PM
To: dsrhodes@burnettoil.com
Subject: Puckett

David, I am drafting an agreement that I hope solves this matter. It will require enough wells for this year, I think 4, and 8 next year. Hopefully, I can have something next week. If you have any needs, absolutes now would be the time to advise. David

Sent from my iPhone

Ocean Munds-Dry

From: David Evans [devans@conchoresources.com]
Sent: Tuesday, May 24, 2011 3:59 PM
To: Ocean Munds-Dry
Cc: Stuart Dirks
Subject: FW: Puckett

-----Original Message-----

From: David Rhodes [mailto:dsrhodes@burnettoil.com]
Sent: Friday, April 08, 2011 10:32 AM
To: David Evans
Cc: Bill Pollard; Randall Hudson; Mark Jacoby
Subject: RE: Puckett

David,

Our position is, and will continue to be, that we want to operate the "deep rights" in all four sections as set out in our March 16th letter to you, Keith Corbett and Matthew Hyde. In a telephone conversation between Joe Wright and our Mark Jacoby, Mr. Wright said he would have no objection to Burnett operating. As stated in the March 16th letter, we would like to get a JOA in place between COG and Burnett (naming Burnett as operator) that would cover the entire area so that we don't have to go the compulsory pooling route on each one. We have approved APD's and are ready to get started ASAP. Is there any way we can get past all of this and move toward a cooperative effort to develop these leases?

Thanks,

David

-----Original Message-----

From: David Evans [mailto:devans@conchoresources.com]
Sent: Thursday, April 07, 2011 8:01 PM
To: David Rhodes
Subject: Puckett

Dave, I am working on a drilling proposal. Cog's proposal has changed somewhat but would you want to operate the 4 wells Burnett proposed?

Concho would operate

The rest that

Are before the nmocd? David

Sent from my iPhone

Ocean Munds-Dry

From: David Evans [devans@conchoresources.com]
Sent: Tuesday, May 24, 2011 3:59 PM
To: Ocean Munds-Dry
Cc: Stuart Dirks
Subject: FW: Puckett

-----Original Message-----

From: David Rhodes [mailto:dsrhodes@burnettoil.com]
Sent: Friday, April 08, 2011 11:13 AM
To: David Evans
Subject: RE: Puckett

Thanks.

-----Original Message-----

From: David Evans [mailto:devans@conchoresources.com]
Sent: Friday, April 08, 2011 11:10 AM
To: David Rhodes
Subject: Re: Puckett

David, the rig fulfills one of the requirements. Thanks, david

Sent from my iPhone

On Apr 8, 2011, at 11:08 AM, "David Rhodes" <dsrhodes@burnettoil.com> wrote:

> David,
> One more thing. Mark Jacoby just told me we have a rig that will be
> coming to this area in 45 days or so that will be capable of drilling
> the Yeso wells. Why don't you guys concede on the operations, sign a
> JOA and let's get on with our drilling program?

> David

>

> -----Original Message-----

> **From:** David Rhodes
> **Sent:** Friday, April 08, 2011 10:38 AM
> **To:** 'David Evans'
> **Cc:** Bill Pollard; 'Randall Hudson'; Mark Jacoby
> **Subject:** RE: Puckett

>

> Thanks. Our position is very firm on this. Let's really try to get it
> resolved.

> David

>

> -----Original Message-----

> **From:** David Evans [mailto:devans@conchoresources.com]
> **Sent:** Friday, April 08, 2011 10:32 AM
> **To:** David Rhodes
> **Subject:** Re: Puckett

>

> Dave, hope to send

> U a proposal either next week or the week after that should Address
> and Cover all issues. David
>
> Sent from my iPhone
>
> On Apr 8, 2011, at 10:31 AM, "David Rhodes" <dsrhodes@burnettoil.com>
> wrote:
>
>> David,
>> Our position is, and will continue to be, that we want to operate the
>> "deep rights" in all four sections as set out in our March 16th
letter
>> to you, Keith Corbett and Matthew Hyde. In a telephone conversation
>> between Joe Wright and our Mark Jacoby, Mr. Wright said he would have
> no
>> objection to Burnett operating. As stated in the March 16th letter,
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>> would like to get a JOA in place between COG and Burnett (naming
> Burnett
>> as operator) that would cover the entire area so that we don't have
to
>> go the compulsory pooling route on each one. We have approved APD's
> and
>> are ready to get started ASAP. Is there any way we can get past all
> of
>> this and move toward a cooperative effort to develop these leases?
>> Thanks,
>> David
>>
>> -----Original Message-----
>> From: David Evans [<mailto:devans@conchoresources.com>]
>> Sent: Thursday, April 07, 2011 8:01 PM
>> To: David Rhodes
>> Subject: Puckett
>>
>> Dave, I am working on a drilling proposal. Cog's proposal has changed
>> somewhat but would you want to operate the 4 wells Burnett proposed?
>> Concho would operate
>> The rest that
>> Are before the nmocd? David
>>
>> Sent from my iPhone

Ocean Munds-Dry

From: David Evans [devans@conchoresources.com]
Sent: Tuesday, May 24, 2011 5:07 PM
To: Ocean Munds-Dry
Cc: Stuart Dirks
Subject: FW: Meeting

-----Original Message-----

From: David Evans
Sent: Tuesday, April 19, 2011 1:44 PM
To: dsrhodes@burnettoil.com
Subject: Meeting

David we would like to bring a proposal to you tomorrow. Would Burnett be available to meet?
David

Sent from my iPhone

Ocean Munds-Dry

From: David Evans [devans@conchoresources.com]
Sent: Tuesday, May 24, 2011 3:58 PM
To: Ocean Munds-Dry
Cc: Stuart Dirks
Subject: FW: Meeting

-----Original Message-----

From: David Rhodes [mailto:dsrhodes@burnettoil.com]
Sent: Wednesday, April 20, 2011 9:13 AM
To: David Evans
Subject: RE: Meeting

I'll make sure he gets it. It will be just Mark Jacoby and me at the meeting.

-----Original Message-----

From: David Evans [mailto:devans@conchoresources.com]
Sent: Wednesday, April 20, 2011 9:11 AM
To: David Rhodes
Subject: Re: Meeting

Ok thanks. I have a copy for him. David

Sent from my iPhone

On Apr 20, 2011, at 9:10 AM, David Rhodes <dsrhodes@burnettoil.com> wrote:

> No, he's not.

>

> -----Original Message-----

> **From:** David Evans [mailto:devans@conchoresources.com]
> **Sent:** Wednesday, April 20, 2011 9:06 AM
> **To:** David Rhodes
> **Subject:** Meeting

>

> David, I am assuming Randall is coming to the meeting? David

>

> Sent from my iPhone

Ocean Munds-Dry

From: David Evans [devans@conchoresources.com]
Sent: Tuesday, May 24, 2011 3:57 PM
To: Ocean Munds-Dry
Cc: Stuart Dirks
Subject: FW: Ard TA

-----Original Message-----

From: David Rhodes [mailto:dsrhodes@burnettoil.com]
Sent: Thursday, April 21, 2011 8:57 AM
To: David Evans
Subject: RE: Ard TA

David,
Just so I'm clear, do you mean the proposal you left with us yesterday is non-negotiable?
David

-----Original Message-----

From: David Evans [mailto:devans@conchoresources.com]
Sent: Wednesday, April 20, 2011 10:04 PM
To: David Rhodes
Subject: Re: Ard TA

David the agreement restricts providing it. COg's proposal is non negotiable. David

Sent from my iPhone

On Apr 20, 2011, at 7:15 PM, David Rhodes <dsrhodes@burnettoil.com>
wrote:

> David. Thanks for coming in today. Please send me a copy of the Ard
> TA. We are considering your proposal.
> David
>
> Sent from my iPhone.

April 20, 2011

Burnett Oil Co., Inc.
Burnett Plaza-Suite 1500
801 Cherry Street-Unit #9
Ft. Worth, Texas 76102-6881

Attn: David Rhodes, Land Manager

Re: Federal Leases LC 029415(A), LC 029415(B); Eddy County, New Mexico

Gentlemen:

In the continuing effort to resolve the differences between COG Operating LLC ("COG"), Burnett Oil Co., Inc. ("Burnett") and Hudson Oil Company of Texas ("Hudson"), regarding the operation and development of the captioned leases, COG submits the following terms for your consideration:

- ***Burnett will be named operator of all wells***
- ***Burnett will take immediate steps to acquire a CCA or CCAA for the Sand Dune Lizard***
- ***All drilling locations shall be approved by the parties***
- ***Development will include both vertical and horizontal wells***
- ***4 wells must be drilled in 2011, starting not later than Sept. 27th***
- ***Beginning in calendar year 2012, a new well must be commenced not later than 45 days after completion of the preceding well. Completion means the date on which the rig is released for the preceding well***
- ***In 2012 and calendar years thereafter, no fewer than 8 wells will be drilled and the 45 day time period will be in effect***
- ***The parties will execute individual Operating Agreements on each proration unit not less than 30 days prior to the commencement of drilling operations for the well***
- ***Burnett/Hudson agree to execute three Operating Agreements naming COG as Operator, each covering a separate 160 acre proration unit. COG may drill these proration units in the event Burnett fails or is unable to meet drilling deadlines described above. At such time as COG's continuous drilling obligations under its Term Assignments have been satisfied, COG will transfer any undrilled proration units to Burnett, one unit at a time, for drilling until all wells have been drilled. These three Operating Agreements will be signed on the day the Operating Agreement for the first well is signed***
- ***COG will not be responsible for any environmental liabilities caused by existing wells***
- ***Operating Agreements will be on a mutually agreeable form with mutually agreeable changes***
- ***COG will be named "alternate operator" under each Operating Agreement and in the event (i) Burnett and/or Hudson sells all or part of its interest or (ii) Burnett is unable to secure drilling permits (APDs) from the BLM for any reason, COG shall automatically become Operator under the Operating Agreement***

Please advise the undersigned whether the above terms are acceptable and, if so, COG will commence drafting a formal agreement to memorialize those terms.

Very truly yours,

David R. Evans
New Mexico Land Lead-Shelf Team

cc: Mr. Randall Hudson, Owner
Hudson Oil Company of Texas

6666

Sent via e-mail and Federal Express

DAVID S. RHODES

April 25, 2011

COG Operating, LLC
Fasken Center, Tower II
550 West Texas Avenue, Suite 100
Midland, Texas 79701

Attn: Mr. David Evans
New Mexico Land Lead-NM Shelf

Re: Federal Leases LC-029415(A) and LC-029415(B)
Eddy County, New Mexico

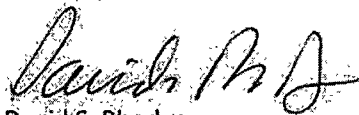
Dear Mr. Evans:

Thank you for your most recent offer dated April 20, 2011, regarding operations of the Maljamar properties.

Unfortunately, there are several parts of your proposal that are unacceptable to Burnett/Hudson. Since we have been going back and forth on the operational issues since mid-November of last year, we feel it is prudent to go forward with our compulsory pooling hearings set for this Thursday so we can get started on our drilling program.

As has been stated previously, if COG will sign a JOA's (one new; one existing) covering the 4 section area (less the S/2 of Section 12), naming Burnett operator, with the added provisions set out in Bill Pollard's letter to you of 3-16-11, we can avoid numerous compulsory pooling hearings in the future.

Sincerely,



David S. Rhodes
Land Manager