

# CONCHO OIL & GAS CORP.

Suite 410

110 W. Louisiana

Midland, Texas 79701

(915) 683-7443

FAX 683-7441

CERTIFIED MAIL-RETURN RECEIPT REQUESTED #7002 0460 0002 0055 7347

December 13, 2002

Mr. Charles C. Harlan, Jr.  
P.O. Box 432976  
San Ysidro, CA 92143

RE: Ginger Quill "33" #1 Well  
W/2 Section 33, T-15-S, R-36-E,  
Lea County, New Mexico  
COG#300000

Dear Mr. Harlan:

Concho Oil & Gas Corp. ("Concho") hereby proposes the drilling of a well to a depth of 14,000 feet or sufficient to adequately test the Devonian formation. Furthermore, Concho shall evaluate to its satisfaction, all other formations encountered at lesser depths in the drilling of said well.

This well will be located approximately 420' FSL & 1207' FWL of said Section 33 (see enclosed land plat). Enclosed for your review is Concho's AFE (Authority For Expenditure) for the drilling and completion of the Ginger Quill "33" #1 well. Should you desire to participate to the full extent of your interest in the drilling of this well, please execute one copy of the enclosed AFE and return to our office at your earliest convenience and we will send you an operating agreement for your execution.

In the event you do not wish to participate as a working interest owner in the proposed well, Concho is prepared to offer you \$200 per net mineral acre for a three (3) year paid-up oil and gas lease providing for a 3/16<sup>th</sup> royalty in the event of production.

According to the records of Lea County, New Mexico you own a 5/320<sup>th</sup> mineral acre interest in the W/2 of Section 33, which comprises 320 acres; therefore, you own five (5) net mineral acres. The total bonus payable to you would be \$1,000.00. Enclosed for your reference is a copy of the deed in which you acquired this interest and an oil and gas lease which has been prepared for your execution. If you decide you want to lease your interest, execute the enclosed oil and gas lease in the presence of a Notary Public and return same to our office. Upon receipt of the executed lease we will forward you a check in the amount of \$1,000.00 for the bonus due.

Concho intends to begin drilling operations on the subject well within the next 60 days; therefore, please respond to our proposal as soon as possible.



Charles C. Harlan, Jr. Letter  
Ginger Quill "33" #1 Well

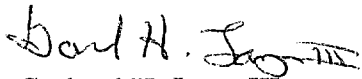
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December 13, 2002

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If you have any questions, please call me at 915-683-7443.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Garland H. Lang III". The signature is written in a cursive, flowing style with some loops and flourishes.

Garland H. Lang III  
Contract Landman

Enclosures

CONCHO OIL & GAS CORP.  
AUTHORITY FOR EXPENDITURE

WELL NAME: Ginger Quill "33" #1  
LOCATION: Sec.33-T15S-R36E  
1207' FWL & 420' FSL  
X:812883, Y:717295

PROSPECT NAME: N. Lovington Devonian  
COUNTY & STATE: Lea, NM  
OBJECTIVE: D&C 14,200' Devonian Well

INTANGIBLE COSTS	BCP	ACP	TOTAL
TITLE/CURATIVE/PERMIT	1,000		1,000
DAMAGES/ROW	10,000		10,000
SURVEY/STAKE LOCATION	1,000		1,000
LOCATION/PITS/ROAD EXPENSE	20,000	2,000	22,000
DRILLING/COMPLETION OVERHEAD RATE	5,000	1,000	6,000
TURNKEY CONTRACT			0
FOOTAGE CONTRACT			0
DAYWORK-CONTRACT \$9000/DAY	486,000	27,000	513,000
FUEL & POWER	53,000	3,000	56,000
WATER	30,000	5,000	35,000
BITS & REAMERS	80,000	3,000	83,000
MUD & CHEMICALS	40,000		40,000
DRILL STEM TEST	5,000		5,000
CORING & ANALYSIS			0
CEMENT SURFACE	5,000		5,000
CEMENT INTERMEDIATE	16,000		16,000
CEMENT PRODUCTION		30,000	30,000
CASING CREWS & EQUIPMENT	4,000	6,000	10,000
FISHING TOOLS & SERVICE			0
CONTRACT LABOR	5,000	10,000	15,000
COMPANY SUPERVISION	2,000	2,000	4,000
CONTRACT SUPERVISION	35,000	6,000	41,000
TESTING CASING/TUBING	2,000	3,000	5,000
MUD LOGGING UNIT	16,000		16,000
LOGGING/WIRELINE SERVICES	35,000	5,000	40,000
PERFORATING			0
STIMULATION/TREATING		10,000	10,000
COMPLETION UNIT		20,000	20,000
RENTALS	30,000	10,000	40,000
TRUCKING/FORKLIFT/RIG MOBILIZATION	35,000	3,000	38,000
WELDING SERVICES	2,000	1,000	3,000
FLOAT EQUIPMENT & CENTRALIZERS	1,500	5,000	6,500
MISCELLANEOUS	1,000	1,000	2,000
CONTINGENCY	92,100	15,300	107,400
TOTAL INTANGIBLES	1,012,600	168,300	1,180,900
TANGIBLE COSTS			
SURFACE CASING	5,800		5,800
400' 13 3/8"			
INTERMEDIATE CASING	49,000		49,000
4900' 8 5/8"			
PRODUCTION CASING / LINER		106,000	106,000
14,200' 5 1/2"			
TUBING 14,000' 2 7/8" N-80		46,000	46,000
WELLHEAD EQUIPMENT	6,000	12,000	18,000
PUMPING UNIT		55,000	55,000
RODS		16,000	16,000
PUMPS		3,000	3,000
TANKS		12,000	12,000
FLOWLINES		2,000	2,000
HEATER TREATER/SEPARATOR		6,000	6,000
ELECTRICAL SYSTEM		5,000	5,000
PACKERS/ANCHORS/HANGERS		8,000	8,000
COUPLINGS/FITTINGS/VALVES		10,000	10,000
GAS COMPRESSORS/METERS		2,000	2,000
MISCELLANEOUS		2,000	2,000
CONTINGENCY	6,100	28,500	34,600
TOTAL TANGIBLES	66,900	313,500	380,400
TOTAL WELL COSTS	1,079,500	481,800	1,561,300

PLUGGING COST  
TOTAL DRY HOLE

Concho Oil & Gas Corp.

By: Erick W. Nelson

EJW  
10/31/02

Date Prepared:

10/30/02

We approve:  
1.5625% Before Tanks / 1.5625% After Tanks

Company: Charles C. Harlan, Jr.  
By:

Printed Name:  
Title:  
Date:

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

## OIL & GAS LEASE

THIS LEASE AGREEMENT (the "Lease") is made this 15<sup>th</sup> day of December, 2002 (the "Effective Date") between Charles C. Harlan, Jr., dealing in his sole and separate property, P.O. Box 432976, San Ysidro, CA 92143 the "Lessor" (whether one or more) and, Concho Oil & Gas Corp., 110 W. Louisiana, Ste. 410, Midland, Texas 79701, the "Lessee":

1. Lessor, in consideration of TEN DOLLARS and other consideration, the receipt of which is acknowledged, and of the royalties and agreements of the Lessee provided for in this Lease, grants, leases and lets exclusively to Lessee for the purpose of investigating, by geological, geophysical, seismic and other means, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipelines, storing oil, building tanks, roadways, telephone lines, and other structures and things to produce, save, take care of, treat, process, store and transport said minerals, the following described land in Lea County, New Mexico:

Township 15 South, Range 36 East, N.M.P.M.

Section 33: W/2

The land is estimated to comprise 320 acres, whether it actually comprises more or less, and are referred to as the "land" or the "lease premises."

2. Subject to the other provisions, this Lease shall remain in force for a term of three (3) years from the Effective Date (the "primary term") and as long thereafter as oil or gas is produced from the land or from land with which the land is pooled.

3. The royalties to be paid by Lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, three-sixteenths (3/16<sup>th</sup>) of that produced and saved from the land, the same to be delivered at the wells or to the credit of Lessor in the pipeline to which the wells may be connected; (b) on gas, including casing head gas or other gaseous substance produced from the land and used off the lease premises or used in the manufacture of gasoline or other products, the market value at the well of three-sixteenths (3/16<sup>th</sup>) of the gas used, provided that on gas sold on or off the lease premises, the royalties shall be three-sixteenths (3/16<sup>th</sup>) of the amount realized from the sale; (c) and at any time when this Lease is not validated by other provisions and there is a gas and/or condensate well on the land, or land pooled with the land, is not being sold or used and the well is shut in, either before or after production, then on or before 90 days after the well is shut in, and thereafter at annual intervals, Lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of Lessor's gas acreage then held under this Lease by the party making the payment or tender, and so long as the shut-in royalty is paid or tendered this Lease shall not terminate and it shall be considered under its terms that gas is being produced from the leased premises in paying quantities. Each payment shall be paid or tendered to the party or parties who at the time of the payment would be entitled to receive the royalties which would be paid under this Lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this Lease in the same manner as though a proper payment had been made if Lessee shall correct the error within 30 days after Lessee has received written notice by certified mail from the party or parties entitled to receive payment together with the written instruments (or certified copies) as are necessary to enable Lessee to make proper payment. The amount realized from the sale of gas on or off the lease premises shall be the price established by the gas sales contract entered into in good faith by Lessee and gas purchaser for the term and under the conditions as are customary in the industry. "Price" shall mean the net amount received by Lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in the contract or regulatory orders.

4. This is a Paid-Up Lease and Lessee shall not be obligated during the primary term to commence or continue any operations of any character or to make any payments in order to maintain this Lease in force during the primary term; however, this provision is not intended to relieve Lessee of the obligation to pay royalties on actual production pursuant to the provision or paragraph 3 above.

5. Lessee is granted the right and power, from time to time, to pool or combine this Lease, the land covered by it, or any part, subsurface depth, or horizon of the land with any other land, leases or mineral estates, for the production of oil or gas. Units pooled by the terms of this Lease shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which the land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the lease premises are located and the units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any unit shall be considered for all purposes, except the payment of royalty, as operations conducted on or production from the land subject to this Lease. There shall be allocated to the land covered by this Lease included in any unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in Lease or unit operations, which the net oil or gas acreage in the land covered by this Lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of the land covered by this Lease and included in a unit in the same manner as though produced from the land under the terms of this Lease. Any pooled unit designated by Lessee, may be dissolved by Lessee by recording an appropriate instrument in the county where the land is situated at any time.

6. If at the expiration of the primary term there is no well on the land capable of producing oil or gas, but Lessee has commenced operations for drilling or reworking, this Lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether the operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from the land. If, after the expiration of the primary term, all wells on the land should become incapable of producing for any cause, this Lease shall not

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