



Flat Head Federal Com #8H COG-Devon Letter Agreement



April 25, 2013

RE: Letter Agreement, Lea County, NM T17S-R32E Section 14 Lands

COG Operating LLC S/2NW Section 14 T17S-R32E
Devon Energy Production Company, L.P. N/2NE Section 14 T-17S-R32E

Gentlemen:

This letter is to serve the purpose of a formal proposal of an acreage trade between COG Operating LLC ("COG") and Devon Energy Production Company, L.P. ("Devon") subject to the following terms:

- COG will trade its 43.1713 net leasehold acres in the S/2NW of Section 14, T17S-R32E Lea County, NM (the "S/2 NW/4 Lands") at its existing net revenue interest for 53.9641405% of Devon's leasehold interest (43.1713 net leasehold acres) in the N/2NE of Section 14, T17S-R32E, Lea County, NM (the "N/2 NE/4 Lands") with Devon reserving an overriding royalty interest equal to the positive difference between existing burdens and twenty-five percent (25%). The assignment of the N/2 NE/4 Lands from Devon to COG will be in the form of an 18-month term assignment without pugh language. Both COG and Devon shall assign their right, title, and interest as to all depths below 5,000' subsurface to the base of the Blinney Formation.
- Should Devon elect to participate in COG's initial well that is proposed for drilling within a spacing or proration unit or project area that encompasses the N/2 NE/4 Lands, Devon will enter into a mutually acceptable JOA with COG covering all of the N/2 NE/4 Lands and other lands within the applicable spacing and proration unit or project area, and will not oppose the drilling and development of those lands.
- Should Devon elect not to participate in the initial well that is proposed for drilling within a spacing or proration unit or project area that encompasses the N/2 NE/4 Lands, Devon agrees to grant COG an 18-month term assignment of its remaining interest in the spacing and proration unit or project area reserving an overriding royalty interest equal to the positive difference between existing burdens and twenty-five percent (25%). Devon will also have the option to participate or grant a term assignment on subsequent well proposals in the remaining undeveloped spacing or proration unit or project area that encompasses the N/2NE lands in the manner of the initial well assignment.
- COG will agree to drill two wells on the acreage subject to that certain term assignment dated October 6, 2008 by and between Marathon Oil Company and Hawkins Exploration, Inc., the second well, being in section 11. The timing of the wells will allow for a must spud date on or after April 1, 2014 for the acreage in the S/2 NW Lands.
- COG will agree to shorten its laterals in the Section 11 and the N/2 Section 14, T17S-R32E to include only Section 11 and the N/2 N/2 of Section 14 in its project areas. COG will also agree to dismiss its Application for Designation of a Non-Standard Oil Spacing

NMOCD CASE NO. 15029
July 25, 2013
Exhibit No. 3



Flat Head Federal Com #8H COG-Devon Letter Agreement



and Proration Unit and for Compulsory Pooling under Case No. 14975 scheduled to be heard on April 30, 2013.

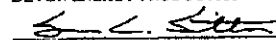
- Devon will agree to forego drilling its proposed wells (BAE 14 Fed Com 1H and BAE 14 Fed Com 211) in the N/2 N/2 Section 14, T17S-R32E and will agree to dismiss its Applications for a Non-Standard Oil Spacing and Proration Unit and Compulsory Pooling under Case Nos. 14951 and 14952 covering the N/2 N/2 of Section 14, and will agree to dismiss COG from its Applications for a Non-Standard Oil Spacing and Proration Unit and Compulsory Pooling under Case Nos. 14953 and 14954 covering lands in the S/2 N/2 Section 14, T17S-R32E.
- COG and Devon will trade well information for the respective operated wells, being COG's Pan Head Fed#1H thru 811 and Devon's BAE FED COM #31H or #41H.

If the above correctly reflects your understanding of our agreement, then please so indicate by signing in the space below, returning one (1) executed copy of this letter to the attention of the undersigned

COG OPERATING LLC


David R. Evans
Land Lord - New Mexico Shelf

DEVON ENERGY PRODUCTION COMPANY, L.P.


Sam C. Sitton
Manager - Land



Flat Head Federal Com #8H Well Proposal (1-2)

Sent Certified Mail
Receipt #

April 3, 2013

Betty M. Dressen (aka Betty Kyle Dessen),
Trustee of the Betty M. Dessen Revocable Living Trust dated 10/17/1977
P.O. Box 817
Los Altos, California 94023-0817

Re: Well Proposal - Flat Head Fed Com #8H
T17S, R32E, Section 11 & 14
SHL: 1170' FNL & 330' FEL, or a legal location in Unit A sec.14
BHL: 330' FNL & 330' FEL, or a legal location in Unit A sec.11
Lea County, New Mexico

Dear Betty M. Dessen,

COG Operating LLC (COG), as Operator, proposes to drill the Flat Head Fed Com #8H well as a horizontal well at the above-captioned location to a TVD of approximately 8,850' and a MD of 12,735' to test the Yezo Formation ("Operation"). The total cost of the Operation is estimated to be \$5,260,000 and a detailed description of the cost is set out in the enclosed Authority for Expenditure ("AFE"). COG anticipates that it will spud the well soon after an approved order is received from the NMOCD for the Flat Head Fed Com #8H non-standard spacing unit and force pooling request.

COG is proposing to drill this well under the terms of the modified 1982 AAPL form of Operating Agreement modified for horizontal development enclosed herein. A completed copy will be sent at a later date for proper execution. The Operating Agreement covers, T17S-R32E Section 11 E/2E/2 & Section 14 NENE, Lea County, NM. It has the following general provisions:

- 100/300 Non-consenting penalty
- \$8,000/\$600 Drilling and Producing rate
- COG named as Operator

If you do not wish to participate in the Operation and have an un-leased interest, COG would like to offer the following lease terms:

- 3 year primary term
- 20% royalty interest
- \$750 per net acre bonus consideration

The Lease offer is subject to the approval of COG's management and verification of title.

If we do not reach an agreement within 30 days of the date of this letter COG will apply to the New Mexico Oil Conservation Division for compulsory pooling of your interest into a spacing unit for the proposed well.

If you have any questions, please do not hesitate to contact the undersigned at 432-818-2230.

Respectfully,

Sean Johnson

Landman

Enclosure(s)
cp



Flat Head Federal Com #8H Well Proposal (2-2)

Sent Certified Mail
Receipt

April 3, 2013

Devon Energy Corporation
333 W. Sheridan
Oklahoma City, Oklahoma 73102-5010
Attn: Carl Allen

Re: Well Proposal - Flat Head Fed Com #8H
T17S, R32E, Section 11 & 14
SHL: 1170' FNL & 330' FEL, or a legal location in Unit A sec.14
BHL: 330' FNL & 330' FEL, or a legal location in Unit A sec.11
Lea County, New Mexico

Dear Devon Energy Corporation,

COG Operating LLC (COG), as Operator, proposes to drill the Flat Head Fed Com #8H well as a horizontal well at the above-captioned location to a TVD of approximately 6,850' and a MD of 12,735' to test the Yezo Formation ("Operation"). The total cost of the Operation is estimated to be \$5,286,000 and a detailed description of the cost is set out in the enclosed Authority for Expenditure ("AFE"). COG anticipates that it will spud the well soon after an approved order is received from the NMOC for the Flat Head Fed Com #8H non-standard spacing unit and force pooling request.

COG is proposing to drill this well under the terms of the modified 1982 AAPL form of Operating Agreement modified for horizontal development enclosed herein. A completed copy will be sent at a later date for proper execution. The Operating Agreement covers, T17S-R32E Section 11 E/2E/2 & Section 14 NENE, Lea County, NM. It has the following general provisions:

- 100/300 Non-consenting penalty
- \$5,000/\$500 Drilling and Producing rate
- COG named as Operator

If you do not wish to participate in the Operation, COG would like to acquire a Term Assignment of your leasehold for the following general terms:

- 3 year primary term
- Delivering a 80% NRI, proportionately reduced
- \$750 per net acre bonus consideration

The Term Assignment offer is subject to the approval of COG's management and verification of title.

If we do not reach an agreement within 30 days of the date of this letter COG will apply to the New Mexico Oil Conservation Division for compulsory pooling of your interest into a spacing unit for the proposed well.

If you have any questions, please do not hesitate to contact the undersigned at 432-818-2230.

Respectfully,

Sean Johnson

Landman

Enclosure(s)
cp



WELL NAME: Flat Head Wg Corr MSH	PROJECT NAME: NW Shale Bldg - 7000 TWD
SIZ: 1170 FWH, 330 FFL acc 14 (url A)	YASZ & COLUW: NW Shale, 2 acc
BW: 1170 FWH, 330 FFL acc 11 (url A)	CALCUTIVE: 1.25 mile Yase Horizontal
FORMATION: LWRB Burnaby	IN-PH: 12.35
IPCAL: 1170 FWH acc 11 & 14	TVD: 6.85d

TANGIBLE ASSETS			
Buildings (Lines 13-16) and (42-47)	451	21,800	73,895
Leasehold Improvements (Lines 17-20)	452	8,100	8,600
Equipment (Lines 21-24)	453	34,100	34,100
Tools	454	35,000	35,000
Transportation Equipment	455	2,500	2,500
Other	456	10,000	10,000
Public Utility	457	30,000	30,000
Other	458	20,000	20,000
Land	459	30,000	30,000
Other	460	21,000	21,000
Land	461	11,000	11,000
Other	462	31,000	31,000
Equipment	463	30,000	30,000
Land	464	30,000	30,000
Other	465	30,000	30,000
Land	466	30,000	30,000
Other	467	30,000	30,000
Land	468	30,000	30,000
Other	469	30,000	30,000
Land	470	30,000	30,000
Other	471	30,000	30,000
Land	472	30,000	30,000
Other	473	30,000	30,000
Land	474	30,000	30,000
Other	475	30,000	30,000
Land	476	30,000	30,000
Other	477	30,000	30,000
Land	478	30,000	30,000
Other	479	30,000	30,000
Land	480	30,000	30,000
Other	481	30,000	30,000
Land	482	30,000	30,000
Other	483	30,000	30,000
Land	484	30,000	30,000
Other	485	30,000	30,000
Land	486	30,000	30,000
Other	487	30,000	30,000
Land	488	30,000	30,000
Other	489	30,000	30,000
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Land	492	30,000	30,000
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Other	531	30,000	30,000
Land	532	30,000	30,000
Other	533	30,000	30,000
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Other	535	30,000	30,000
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Land	540	30,000	30,000
Other	541	30,000	30,000
Land	542	30,000	30,000
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Other	619	30,000	30,000
Land	620	30,000	30,000
Other	621	30,000	30,000
Land	622	30,000	30,000
Other	623	30,000	30,000
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Other	711	30,000	30,000
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Other	713	30,000	30,000
Land	714	30,000	30,000
Other	715	30,000	30,000
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Other	717	30,000	30,000
Land	718	30,000	30,000
Other	719	30,000	30,000
Land	720	30,000	30,000
Other	721	30,000	30,000
Land	722	30,000	30,000
Other	723	30,000	30,000
Land	724	30,000	30,000
Other	725	30,000	30,000
Land	726	30,000	30,000
Other	727	30,000	30,000
Land	728	30,000	30,000
Other	729	30,000	30,000
Land	730	30,000	30,000
Other	731	30,000	30,000
Land	732	30,000	30,000
Other	733	30,000	30,000
Land	734	30,000	30,000
Other	735	30,000	30,000
Land	736	30,000	30,000
Other	737	30,000	30,000
Land	738	30,000	30,000
Other	739	30,000	30,000
Land	740	30,000	30,000
Other	741	30,000	30,000
Land	742	30,000	30,000
Other	743	30,000	30,000
Land	744	30,000	30,000
Other	745	30,000	30,000
Land	746	30,000	30,000
Other	747	30,000	30,000
Land	748	30,000	30,000
Other	749	30,000	30,000
Land	750	30,000	30,000
Other	751	30,000	30,000
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Other	755	30,000	30,000
Land	756	30,000	30,000
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Land	758	30,000	30,000
Other			

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