

Contact History  
Esperanza 3E Fee #2  
W/2 Section 3-T22S-R27E  
Eddy County, New Mexico

- July 8, 2004-well proposal, drilling and completion AFE, request for ratification of March 1, 2001 JOA.
- August 9, 2004-telephone conversation with Toni Wood with Magnum Hunter. Magnum will, participate, sign AFE, but not inclined to ratify March 1, 2001 JOA. Advised Magnum Hunter that Devon would file for compulsory pooling.
- August 9, 2004-telephone conversation with Raye Miller with Marbob/Pitch; request for their ratification of March 1, 2001 JOA. Discussion on the merits of drilling of a second well in the spacing unit under different contractual arrangements than the first well. Marbob advised that would review and get back to Devon.
- August 16, 2004-telephone conversation with Raye Miller with Marbob/Pitch. Marbob advised that they would oppose Devon's compulsory pooling application. Further discussions on the merits of drilling of a second well in the spacing unit under different contractual arrangements than the first well.
- August 30, 2004-telephone conversation with Raye Miller with Marbob/Pitch re: whether or not compulsory pooling would be heard on September 2.
- August 31, 2004-telephone conversation with Raye Miller with Marbob/Pitch re: merits of drilling second well in spacing unit under different contractual arrangements than the first the first well. Risk penalty was discussed, Devon offered to agree to a 200% penalty. Lengthy discussion re: contractual associated with the first well.
- August 31, 2004-telephone conversation with Raye Miller and Johnny Gray with Marbob/Pitch re: merits of drilling second well in spacing unit under different contractual arrangements than the first the first well. Risk penalty was discussed, Devon offered to agree to a 200% penalty. Lengthy discussion re: contractual arrangements associated with the first well. Agreed to continue compulsory pooling to September 16.
- August 31, 2004-telephone conversation with Toni Wood with Magnum Hunter advising her of status of conversations with Marbob.
- September 14, 2004-telephone conversation with Raye Miller with Marbob/Pitch re: they will contest compulsory pooling application.

OIL CONSERVATION DIVISION

CASE NUMBER

EXHIBIT NUMBER

3



Devon Energy Corporation  
20 North Broadway  
Oklahoma City, Oklahoma 73102-8260  
Fax 405-552-8113

August 13, 2004

To Working Interest Owners  
Address List Attached

Re: Esperanza 3E Fee #2  
1980' FNL & 890' FWL  
Section 3-T22S-R27E  
Eddy County, New Mexico

Gentlemen:

By letter dated July 8, 2004, Devon Energy Production Company, L.P. ("Devon") proposed the drilling of the referenced well as a 12,000' Morrow test. Additionally, Devon proposed that the Carlsbad Drilling Block interest owners who are subject to that certain Joint Operating Agreement dated November 4, 1968 ratify and adopt the March 1, 2001 Joint Operating Agreement which has been executed and/or ratified by certain interest owners whose combined interest is in excess of 81.25% of the spacing unit. To date, the following parties have not responded to Devon's prior correspondence with regard to such proposal or have elected to participate or be a non-consenting party under the November 4, 1968 Carlsbad Drilling Block Joint Operating Agreement:

Magnum Hunter Production, Inc.  
Marbob Energy Corporation  
BK Exploration Corporation  
T.J. & Mary R. Sivley Irrevocable Trust  
Poza Rico Partners, Ltd.  
Pitch Energy Corporation  
Wadi Petroleum, Inc.  
Tex-Ok Energy Ltd. Partnership  
Cody Energy, Inc.  
James L. Pierce

In order to clarify Devon's proposal with respect to the above mentioned interest owners, please be advised that Devon is not a party to the aforementioned November 4, 1968 Agreement and is not proposing the Esperanza 3E Fee #2 under such agreement. Devon intends to file a Compulsory Pooling Application before the New Mexico Oil Conservation Division to be heard on September 2, 2004. Such application will seek to pool all interest owners who have not reached a voluntary agreement with respect to Devon's well proposal. You should receive notice of such application in the next few days. In the event you wish to participate in the drilling of the referenced well as

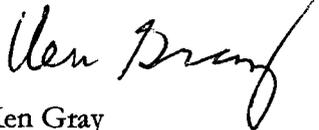
Esperanza 3E Fee #2  
Working Interest Owners  
August 13, 2004  
Page Two

proposed, please execute (1) one copy of the Authority for Expenditure and (1) one copy of the letter agreement ratifying and adopting the March 1, 2001 Joint Operating Agreement, both of which have been furnished to you previously, and return to the undersigned at your earliest convenience.

Feel free to contact me at (405) 552-4633 if there are any questions or if additional information is required.

Yours very truly,

DEVON ENERGY PRODUCTION COMPANY, L.P.

A handwritten signature in black ink, appearing to read "Ken Gray", written over a horizontal line.

Ken Gray  
Senior Land Advisor

KG:\esperanza#2followupltr

Esperanza 3E Fee #2  
Working Interest Owners

Magnum Hunter Production, Inc.  
3500 William D. Tate Avenue, Suite 200  
Grapevine, Texas 76051

Marbob Energy Corporation  
P. O. Box 227  
Artesia, NM 88211-0227

BK Exploration Corporation  
810 S. Cincinnati, Suite 208  
Tulsa, OK 74119-1635

T. J. & Mary R. Sivley Irrevocable Trust  
c/o Nations Bank, N.A.  
P. O. Box 832407  
Dallas, TX 75283-2407

Pozo Rico Partners, Ltd.  
900 N. E. Loop 419, Suite D-202  
San Antonio, TX 78209

Pitch Energy Corporation  
P. O. Box 304  
Artesia, NM 88210-0304

Wadi Petroleum, Inc.  
14405 Walters Road, Suite 400  
Houston, TX 77014-1320

Tex-Ok Energy Ltd. Partnership  
P. O. Box 3010  
Cody, WY 82414-5915

Cody Energy, Inc.  
P. O. Box 3010  
Cody, WY 82414-5915

James L. Pierce  
2607 Ward Street  
Midland, TX 79705-7328



Devon Energy Corporation  
20 North Broadway  
Oklahoma City, Oklahoma 73102-8260  
Fax 405-552-8113

July 8, 2004

Working Interest Owners  
Address List Attached

Re: Esperanza 3E Fee #2  
1980' FNL & 890' FWL  
Section 3-T22S-R27E  
Eddy County, New Mexico  
DEC #49848-020; C-02-0002905

Ladies and Gentlemen:

Devon Energy Production Company, L.P., ("Devon"), as Operator, proposes to drill the referenced well as a vertical Morrow test well expected to require drilling to a depth of approximately 12,000'. Enclosed you will find two (2) copies of Devon's Authority for Expenditure ("AFE") estimating a dry hole cost of \$887,315 with a completed well cost of \$1,480,397.

The W/2 of said Section 3 is currently designated as a pooled unit for the production of gas by virtue of the completion of the Esperanza 3N Fee #1. Devon's records reflect that such pooled unit is subject to two (2) separate Joint Operating Agreements ("JOA's"), one of which, dated November 4, 1968 covers approximately sixty (60) net acres within the pooled unit and is owned by the Carlsbad Drilling Block interest owners in the percentages listed on Exhibit A attached hereto. The other JOA dated March 1, 2001 covering the remaining 260.02 acres within the pooled unit is owned by Devon, et al in the percentages listed on Exhibit B attached hereto and representing approximately 81.25% of the pooled unit.

In lieu of continuing to operate under separate JOA's, Devon also proposes that the non-operators currently subject to the November 4, 1968 JOA agree to ratify and adopt the March 1, 2001 JOA, a copy of which is enclosed for your review, in order to facilitate the drilling of the proposed well.

Please make your election to either (1) participate in the drilling of the proposed well or (2) be a non-consenting party pursuant to Article VI B.2. of the March 1, 2001 JOA. An election to participate should be accompanied by a fully executed AFE as well as one (1) executed copy of this letter agreement. Please return your election and/or executed AFE, including well requirement sheet with email address, to the undersigned at the earliest possible time. Upon receipt of all elections, I will forward a revised Exhibit A to the JOA reflecting the current working interests in the contract area. Devon expects to drill this well in the next sixty (60) days, so your immediate attention will be greatly appreciated.

If there are any questions or if additional information is required, feel free to call me at (405) 552-4633.

Yours very truly,

DEVON ENERGY PRODUCTION COMPANY, L.P.



Ken Gray  
Senior Land Advisor

Kg/esperanza3E-2pro.ltr w/enclosures

Esperanza 3E Fee #2

\_\_\_\_\_The undersigned hereby ratifies, adopts and confirms that certain Joint Operating Agreement dated March 1, 2001, and further elects to participate in the drilling of the Esperanza 3E Fee #2 with the interest as reflected on Exhibit A.

\_\_\_\_\_The undersigned hereby ratifies, adopts and confirms that certain Joint Operating Agreement dated March 1, 2001, and further elects **not** to participate in the drilling of the Esperanza 3E Fee #2, thereby electing to be a non-consenting party pursuant to Article VI.B.2.

Company/Individual: \_\_\_\_\_

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

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

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

Esperanza 3E Fee #2  
Working Interest Owners

Featherstone Development Corporation  
1801 West Second Street  
Roswell, NM 88201

Prospector, LLC  
1801 West Second Street  
Roswell, NM 88201

Upside, LLC  
1801 West Second Street  
Roswell, NM 88201

Parrot Head Properties, LLC  
1801 West Second Street  
Roswell, NM 88201

Tom Brown, Inc.  
508 West Wall, Suite 500  
Midland, TX 79702  
Attn: Brent Robertson

Magnum Hunter Production, Inc.  
3500 William D. Tate Avenue, Suite 200  
Grapevine, Texas 76051

Marbob Energy Corporation  
P. O. Box 227  
Artesia, NM 88211-0227

Diverse GP III  
16414 San Pedro, Suite 340  
San Antonio, TX 78232

BK Exploration Corporation  
810 S. Cincinnati, Suite 208  
Tulsa, OK 74119-1635

T. J. & Mary R. Sivley Irrevocable Trust  
c/o Nations Bank, N.A.  
P. O. Box 832407  
Dallas, TX 75283-2407

Pozo Rico Partners, Ltd.  
900 N. E. Loop 419, Suite D-202  
San Antonio, TX 78209

David Sorenson  
P. O. Box 1453  
Roswell, NM 88201-1453

Pitch Energy Corporation  
P. O. Box 304  
Artesia, NM 88210-0304

Wadi Petroleum, Inc.  
14405 Walters Road, Suite 400  
Houston, TX 77014-1320

Sharbro Oil Ltd. Co.  
P. O. Box 840  
Artesia, NM 88211-0840

Lillie M. Yates Estate  
Frank Yates, Jr., Personal Rep.  
P. O. Box 840  
Artesia, NM 88211-0840

G. Dee Williamson  
P. O. Box 2206  
Roswell, NM 88202-2206

Tex-Ok Energy Ltd. Partnership  
P. O. Box 3010  
Cody, WY 82414-5915

Lanita C. Williamson  
9352 Highedge Circle  
Dallas, TX 75238-2585

Cody Energy, Inc.  
P. O. Box 3010  
Cody, WY 82414-5915

James L. Pierce  
2607 Ward Street  
Midland, TX 79705-7328

J. C. Davis  
P. O. Box 8343  
Midland, TX 79708-8343

Esperanza 3E Fee #2  
Working Interest Owners

Carolyn Ann Nunnaly  
507 Meadowview Lane  
Coppell, TX 75019-5742

Georgette Olmsted  
8724 Madre Avenue N.E.  
Albuquerque, NM 87111-6610