



Pan Head Fee #4H 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

Corporate Address: One Concho Center 600 West Blinn Avenue | Midland, Texas 79701 | phone 432.683.7443 fax 432.683.7441

NIMCCD CASE NO. 15030
July 25, 2013
Exhibit No. 3



Pan Head Fee #4H 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 2H) 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 Fee #1H thru 8H and Devon's BAE FED COM #3H or #4H.

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 Lead- New Mexico Shelf

DEVON ENERGY PRODUCTION COMPANY, L.P.


Sam C. Sitton
Manager - Land



Pan Head Fee #4H Well Proposal (1-2)

Sent Certified Mail
Receipt #

April 3, 2013

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

Re: Well Proposal - Pan Head Fee #4H
T17S, R32E, Section 11 & 14
SHL: 330' FNL & 2310' FWL, or a legal location in Unit C
BHL: 990' FNL & 2310' FWL, or a legal location in Unit C
Lea County, New Mexico

Dear Betty M. Dressen:

COG Operating LLC (COG), as Operator, proposes to drill the Pan Head Fee #4H 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 Yeso Formation ("Operation"). The total cost of the Operation is estimated to be \$5,296,000 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 Pan Head Fee #4H 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/2W/2 & Section 14 NENW, 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



Pan Head Fee #4H 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 - Pan Head Fee #4H
T17S, R32E, Section 11 & 14
SHL: 330' FNL & 2310' FWL, or a legal location in Unit C
BHL: 990' FNL & 2310' FWL, or a legal location in Unit C
Lea County, New Mexico

Dear Devon Energy Corporation,

COG Operating LLC (COG), as Operator, proposes to drill the Pan Head Fee #4H 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 \$5,298,000 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 Pan Head Fee #4H 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/2W/2 & Section 14 NENW, Lea County, NM. It has the following general provisions:

- 100/300 Non-consenting penalty
- \$6,000/\$600 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



Pan Head Fee #4H AFE

COG OPERATING LLC AUTHORITY FOR EXPENDITURE DRILLING

WELL NAME: Pan Head Fee #4H PROSPECT NAME: NM Shelf 6001 - 2000' TVD
 LFL: 330 FNL 2310 FWL sec.11 (unit C) STATE & COUNTY: New Mexico, Eddy
 BHL: 900 FNL 2310 FWL sec.14 (unit C) OBJECTIVE: 1.25 mile Vase Horizontal
 FORMATION: LWR Barabry DEPTH: 15,734
 LEGAL: T176-R02E sec.11 & 14 TVD: 6,850

INTANGIBLE COSTS	BCP	ACP	TOTAL
19,000			19,000
201 22,000	303	0	22,000
203 15,000	303	0	15,000
204 3,000	304	0	3,000
308 80,000	305	35,000	115,000
305 5,000	308	2,000	7,000
307 0	307	0	0
308 0	308	0	0
309 394,000	308	47,000	441,000
310 210,000	310	0	210,000
311 84,000	311	12,000	96,000
312 85,000	312	108,000	193,000
313 54,000	313	8,000	62,000
314 51,000	314	0	51,000
315 0	315	0	0
316 0	316	0	0
317 34,000	317	0	34,000
318 20,000	318	0	20,000
319 0	319	111,000	111,000
320 0	320	0	0
321 3,000	321	30,000	33,000
322 1,000	322	12,000	13,000
323 0	323	0	0
324 15,000	324	18,000	33,000
325 25,000	325	31,000	56,000
326 7,000	326	7,000	14,000
327 45,000	327	36,000	81,000
328 1,000	328	12,000	13,000
329 30,000	329	34,000	64,000
330 35,000	330	35,000	70,000
331 3,000	331	33,000	36,000
332 1,750,000	332	30,000	1,780,000
333 30,000	333	0	30,000
334 0	334	0	0
335 48,000	335	350,000	398,000
336 75,000	336	144,000	219,000
337 87,000	337	90,000	177,000
338 6,000	338	3,500	9,500
339 0	339	40,000	40,000
340 0	340	0	0
341 0	341	0	0
342 183,000	342	0	183,000
343 0	343	0	0
344 150,000	344	381,000	531,000
TOTAL INTANGIBLES	1,868,000	3,378,000	5,246,000

TANGIBLE COSTS	BCP	ACP	TOTAL
201 20,000			20,000
202 83,000	303	0	83,000
203 0	303	342,000	342,000
204 0	304	35,000	35,000
205 5,000	305	41,000	46,000
206 0	306	80,000	80,000
207 0	307	30,000	30,000
208 0	308	20,000	20,000
209 0	309	40,000	40,000
210 0	310	21,000	21,000
211 0	311	11,000	11,000
212 0	312	30,000	30,000
213 0	313	20,000	20,000
214 0	314	2,500	2,500
215 0	315	80,000	80,000
216 0	316	5,000	5,000
217 0	317	0	0
218 0	318	0	0
219 0	319	0	0
220 0	320	0	0
221 0	321	0	0
222 0	322	0	0
223 0	323	0	0
224 0	324	0	0
225 0	325	0	0
226 0	326	0	0
227 0	327	0	0
228 0	328	0	0
229 0	329	0	0
230 0	330	0	0
231 0	331	0	0
232 0	332	0	0
233 0	333	0	0
234 0	334	0	0
235 0	335	0	0
236 0	336	0	0
237 0	337	0	0
238 0	338	0	0
239 0	339	0	0
240 0	340	0	0
241 0	341	0	0
242 0	342	0	0
243 0	343	0	0
244 0	344	0	0
245 0	345	0	0
TOTAL TANGIBLES	1,074,000	843,000	1,917,000
TOTAL WELL COSTS	2,942,000	4,221,000	7,163,000

COG Operating LLC

By: Car Bar

Date Prepared: 9/13/2013

We approve: _____
 _____, % Working Interest

COG Operating LLC

By: _____