



**FEDERAL EXPRESS**

October 22, 2014

R & R Royalty Ltd.  
500 N. Shoreline Blvd. #322  
Corpus Christi, TX 78401

Re: **Well Proposal – Monet Federal Com #10H**  
W/2 of Section 4, T25S-R33E: Unit Area  
SHL: 190' FNL & 410' FWL, or a legal location in Lot 4  
BHL: 330' FSL & 380' FWL, or a legal location in Unit M  
Lea County, New Mexico

Dear Sir/Madam:

COG Operating LLC (COG), as Operator, proposes to drill the Monet Federal Com #10H well as a horizontal well at the above-captioned location, or at a legal location as approved by the governing regulatory agency, to a TVD of approximately 9,340' and a MD of 13,800' to test the Avalon Formation ("Operation"). The total cost of the Operation is estimated to be \$5,344,000.00 and a detailed description of the cost is set out in the enclosed Authority for Expenditure ("AFE").

COG is proposing to drill this well under the terms of the modified 1989 AAPL form of Operating Agreement which is enclosed for your review and approval. The Operating Agreement covers the W/2 of Section 4-T25S-R33E. It has the following general provisions:

- 100/300 Non-Consenting Penalty
- \$7,000/\$700 Drilling and Producing Rate
- COG Operating LLC named as Operator

If you own leasehold in the above referenced acreage and do not wish to participate in the Operation, COG would like to farm-in your acreage under the following general terms:

- Delivery of 80% NRI, proportionately reduced
- Option to convert ORRI after 100% payout to a 25% WI, proportionately reduced
- 180 Day Continuous Development

Please indicate your participation election in the space provided below, sign and return this letter, along with a signed copy of the enclosed AFE and a copy of your geologic well requirements. A self-addressed, postage paid envelope is enclosed for your convenience.

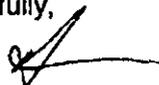
BEFORE THE OIL CONVERSATION  
DIVISION

Santa Fe, New Mexico  
Exhibit No. 3

Submitted by: COG Operating LLC  
Hearing Date: January 8, 2015

If you have any questions, please do not hesitate to contact the undersigned at 432-221-0465.

Respectfully,



Mike Wallace  
Senior Landman

Encls.

**Election to Participate  
Monet Federal Com #10H**

\_\_\_\_\_  
\_\_\_\_\_

I/We hereby elect to participate in the Monet Federal Com #10H  
I/We hereby elect not to participate in the Monet Federal Com #10H.

Company or  
Individual Name: R & R Royalty Ltd.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

**COG OPERATING LLC  
AUTHORITY FOR EXPENDITURE  
DRILLING**

<b>WELL NAME:</b> MONET FEDERAL COM #10H	<b>PROSPECT NAME:</b> BULLDOG 2533 (717043)
<b>SHL:</b> 190 FNL & 410 FWL	<b>STATE &amp; COUNTY:</b> NEW MEXICO, LEA
<b>BHL:</b> 330 FSL & 380 FWL	<b>OBJECTIVE:</b> DRILL & COMPLETE
<b>FORMATION:</b> AVALON SHALE NO-PH	<b>DEPTH:</b> 13,800
<b>LEGAL:</b> 4-25S-33E	<b>TVD:</b> 9,340

		<u>BCP</u>	<u>ACP</u>	<u>TOTAL</u>
<b>INTANGIBLE COSTS</b>				
Title/Curative/Permit	201	11,000		11,000
Insurance	202	5,000	302	5,000
Damages/Right of Way	203	15,000	303	15,000
Survey/Stake Location	204	7,000	304	7,000
Location/Pits/Road Expense	205	100,000	305	125,000
Drilling / Completion Overhead	206	8,000	306	8,000
Turnkey Contract	207	0	307	0
Footage Contract	208	0	308	0
Daywork Contract	209	330,000	309	330,000
Directional Drilling Services	210	166,000	310	166,000
Fuel & Power	211	84,000	311	94,000
Water	212	40,000	312	250,000
Blis	213	89,000	313	73,500
Mud & Chemicals	214	70,000	314	70,000
Drill Stem Test	215	0	315	0
Coring & Analysis	216	0		0
Cement Surface	217	35,000		35,000
Cement Intermediate	218	50,000		50,000
Cement 2nd Intermediate/Production	218	0	319	90,000
Cement Squeeze & Other (Kickoff Plug)	220	0	320	0
Float Equipment & Centralizers	221	10,000	321	30,000
Casing Crews & Equipment	222	20,000	322	40,000
Fishing Tools & Service	223	0	323	0
Geologic/Engineering	224	0	324	0
Contract Labor	225	10,000	325	125,000
Company Supervision	226	0	326	0
Contract Supervision	227	28,000	327	78,000
Testing Casing/Tubing	228	7,000	328	7,000
Mud Logging Unit	229	22,500	329	22,500
Logging	230	0	330	10,000
Perforating/Wireline Services	231	15,000	331	80,000
Stimulation/Treating		0	332	1,290,000
Completion Unit		0	333	50,000
Swabbing Unit		0	334	0
Rentals-Surface	235	75,000	335	250,000
Rentals-Subsurface	236	75,000	336	25,000
Trucking/Forklift/Rig Mobilization	237	140,000	337	25,000
Welding Services	238	5,000	338	7,500
Water Disposal	239	0	339	280,000
Plug to Abandon	240	0	340	0
Seismic Analysis	241	0	341	0
Closed Loop & Environmental	244	125,000	344	10,000
Miscellaneous	242	0	342	0
Contingency	243	77,500	343	50,000
<b>TOTAL INTANGIBLES</b>		<b>1,598,000</b>	<b>2,642,000</b>	<b>4,240,000</b>
<b>TANGIBLE COSTS</b>				
Surface Casing	401	38,000		38,000
Intermediate Casing	402	128,000	503	128,000
Production Casing		0	503	212,000
Tubing		0	504	80,000
Wellhead Equipment	405	20,000	505	35,000
Pumping Unit		0	506	115,000
Prime Mover		0	507	20,000
Rods		0	508	50,000
Pumps		0	509	22,000
Tanks		0	510	75,000
Flowlines		0	511	50,000
Heater Treater/Separator		0	512	50,000
Electrical System		0	513	0
Packers/Anchors/Hangers	414	0	514	10,000
Couplings/Fittings/Valves	415	0	515	160,000
Gas Compressors/Meters		0	516	8,100
Dehydrator		0	517	0
Injection Plant/CO2 Equipment		0	518	0
Miscellaneous	419	0	519	0
Contingency	420	10,000	520	44,800
<b>TOTAL TANGIBLES</b>		<b>192,000</b>	<b>912,000</b>	<b>1,104,000</b>
<b>TOTAL WELL COSTS</b>		<b>1,790,000</b>	<b>3,554,000</b>	<b>5,344,000</b>

COG Operating LLC

Date Prepared:

We approve:  
\_\_\_\_\_% Working Interest

COG Operating LLC

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

Company: R & R Royalty Ltd.  
By: \_\_\_\_\_

Printed Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

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