



**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**

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

| INTANGIBLE COSTS                      |     | BCP              | ACP              | TOTAL            |
|---------------------------------------|-----|------------------|------------------|------------------|
| 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/Site Location                  | 204 | 7,000            | 304              | 7,000            |
| Location/Pits/Road Expense            | 205 | 100,000          | 305 25,000       | 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 10,000       | 94,000           |
| Water                                 | 212 | 40,000           | 312 210,000      | 250,000          |
| Bits                                  | 213 | 69,000           | 313 4,500        | 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       | 90,000           |
| Cement Squeeze & Other (Kickoff Plug) | 220 | 0                | 320              | 0                |
| Float Equipment & Centralizers        | 221 | 10,000           | 321 20,000       | 30,000           |
| Casing Crews & Equipment              | 222 | 20,000           | 322 20,000       | 40,000           |
| Fishing Tools & Service               | 223 | 0                | 323              | 0                |
| Geologic/Engineering                  | 224 | 0                | 324              | 0                |
| Contract Labor                        | 225 | 10,000           | 325 125,000      | 135,000          |
| Company Supervision                   | 226 | 0                | 326              | 0                |
| Contract Supervision                  | 227 | 28,000           | 327 50,000       | 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       | 10,000           |
| Perforating/Wireline Services         | 231 | 15,000           | 331 90,000       | 105,000          |
| Stimulation/Treating                  |     | 0                | 332 1,280,000    | 1,280,000        |
| Completion Unit                       |     | 0                | 333 50,000       | 50,000           |
| Swabbing Unit                         |     | 0                | 334              | 0                |
| Rentals-Surface                       | 235 | 75,000           | 335 250,000      | 325,000          |
| Rentals-Subsurface                    | 236 | 75,000           | 336 25,000       | 100,000          |
| Trucking/Forklift/Rtg Mobilization    | 237 | 140,000          | 337 25,000       | 165,000          |
| Welding Services                      | 238 | 5,000            | 338 7,500        | 12,500           |
| Water Disposal                        | 239 | 0                | 339 280,000      | 280,000          |
| Plug to Abandon                       | 240 | 0                | 340              | 0                |
| Seismic Analysis                      | 241 | 0                | 341              | 0                |
| Closed Loop & Environmental           | 244 | 125,000          | 344 10,000       | 135,000          |
| Miscellaneous                         | 242 | 0                | 342              | 0                |
| Contingency                           | 243 | 77,500           | 343 50,000       | 127,500          |
| <b>TOTAL INTANGIBLES</b>              |     | <b>1,598,000</b> | <b>2,642,000</b> | <b>4,240,000</b> |
|                                       |     |                  |                  |                  |
| TANGIBLE COSTS                        |     |                  |                  |                  |
| Surface Casing                        | 401 | 36,000           |                  | 36,000           |
| Intermediate Casing                   | 402 | 125,000          | 503              | 128,000          |
| Production Casing                     |     | 0                | 503 212,000      | 212,000          |
| Tubing                                |     | 0                | 504 80,000       | 80,000           |
| Wellhead Equipment                    | 405 | 20,000           | 505 35,000       | 55,000           |
| Pumping Unit                          |     | 0                | 506 115,000      | 115,000          |
| Prime Mover                           |     | 0                | 507 20,000       | 20,000           |
| Rods                                  |     | 0                | 508 50,000       | 50,000           |
| Pumps                                 |     | 0                | 509 22,000       | 22,000           |
| Tanks                                 |     | 0                | 510 75,000       | 75,000           |
| Flowlines                             |     | 0                | 511 50,000       | 50,000           |
| Heater Treater/Separator              |     | 0                | 512 50,000       | 50,000           |
| Electrical System                     |     | 0                | 513              | 0                |
| Packers/Anchors/Hangers               | 414 | 0                | 514 10,000       | 10,000           |
| Couplings/Fittings/Valves             | 415 | 0                | 515 160,000      | 160,000          |
| Gas Compressors/Meters                |     | 0                | 516 8,100        | 8,100            |
| Dehydrator                            |     | 0                | 517              | 0                |
| Injection Plant/CO2 Equipment         |     | 0                | 518              | 0                |
| Miscellaneous                         | 419 | 0                | 519              | 0                |
| Contingency                           | 420 | 10,000           | 520 44,900       | 54,900           |
| <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.