

CERTIFIED MAIL

June 17, 2014

Working Interest Owner

RE: **Well Proposal- Perla Verde 31 State 2H**

W/2 E/2 Section 31, T 19S, R 35E

SHL: 230' FSL & 2060' FEL

BHL: 200' FNL & 1865' FEL

Lea County, New Mexico

Gentlemen:

XTO Energy Inc. (XTO), as Operator, proposes the drilling of the Perla Verde 31 State 2H as a horizontal well on the above referenced location, or at a legal location as approved by the governing regulatory agency to a TVD of approximately 10,980' and a MD of 15,700' to test the Third Bone Spring Formation ("Operation"). The total cost of the Operation is estimated to be \$7,000,000. Details of the cost are set out in the enclosed Authority for Expenditure ("AFE").

XTO is proposing to drill this well under the terms of the modified A.A.P.L. Form 610-1989 (Horz.) form Operating Agreement which is enclosed for your review and approval. The Operating Agreement covers the E/2 of Section 31- T19S, R35E. It has the following general provisions:

- 100/300 Non-Consenting Penalty
- \$7,500/\$700 Drilling and Producing Rates
- XTO Energy Inc. is named as Operator

Your interest is shown on the Working Interest Owners exhibit attached. If you do not wish to participate in the Operation, XTO would be agreeable to a mutually agreeable purchase or farm-in of your leasehold.

In addition to the referenced well, XTO plans to drill the Perla Verde 31 State 1H, Perla Verde 31 State 3H, and the Perla Verde 31 State 4H. You will have the same WI in the 4H, to be drilled on the E/2 E/2 of Section 31 and will be subject to the JOA attached. The Perla Verde 31 State 1H and Perla Verde 31 State 3H will be drilled in the West half of Section 31. Your WI will be reduced in the West half by 25% due to additional working interest owners. A JOA covering the W/2 and the additional well proposals/AFE's will be forthcoming in the near future.

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Perla Verde 31 State 2H
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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 Memorandum of Joint Operating Agreement together with a copy of your geologic well requirements.

If you have any questions, please contact me at 817-885-2905 or keith_sawyer@xtoenergy.com.

Sincerely,

Keith R. Sawyer
Division Landman- Permian Basin

Enclosure(s)
AFE
Operating Agreement

_____ I/We hereby elect to participate in the Perla Verde 31 State 2H

_____ I/We hereby elect not to participate in the Perla Verde 31 State 2H

Company or
Individual Name: _____

By: _____

Name: _____

Title: _____

Date: _____



XTO ENERGY INC.
AUTHORITY FOR EXPENDITURE

| | | | |
|-------------------------|-------------------------------|-----------------|--------------------------|
| AFE NO.: | 1403785 | DISTRICT: | PERMIAN BASIN |
| AFE DESC: | D&C - HORZ IN 3RD BONE SPRING | FIELD: | OPERATED |
| DATE: | 04/19/2014 | ACCOUNTING ID: | 21765 |
| AFE TYPE: | DEVELOPMENT DRILLING | WELL NAME: | PERLA VERDE 31 STATE 02H |
| OPERATOR: | 81 - XTO ENERGY INC. | STATE/COUNTY: | New Mexico / Lea |
| SECTION/TOWNSHIP/RANGE: | 31/19S/35E | XTO WI DECIMAL: | 0.500000000 |

| DETAIL OF EXPENDITURES | DRYHOLE | COMPLETION | SUPPLEMENT | TOTAL |
|--|---------------------|---------------------|------------|---------------------|
| FRAC FLUID/SW DISPOSAL | 0.00 | 40,000.00 | 0.00 | 40,000.00 |
| COMPL WATER TRANSFER SERVICE | 0.00 | 40,000.00 | 0.00 | 40,000.00 |
| TOTAL: | | 80,000.00 | | 80,000.00 |
| Drilling/Rig Move | 1,048,000.00 | 0.00 | 0.00 | 1,048,000.00 |
| Completion Unit | 0.00 | 25,000.00 | 0.00 | 25,000.00 |
| Surf/Int Csg Crew/Laydown Service | 25,000.00 | 0.00 | 0.00 | 25,000.00 |
| Directional Tools/Services | 182,000.00 | 0.00 | 0.00 | 182,000.00 |
| Roads & Location | 218,000.00 | 0.00 | 0.00 | 218,000.00 |
| Mud/Chemicals | 190,000.00 | 0.00 | 0.00 | 190,000.00 |
| Well Logging: Open Hole | 68,000.00 | 0.00 | 0.00 | 68,000.00 |
| Surf/Int Cement & Related Services | 122,000.00 | 0.00 | 0.00 | 122,000.00 |
| BITS, MILLS, REAMERS | 107,333.00 | 0.00 | 0.00 | 107,333.00 |
| DRLG RENTALS: SUB-SURFACE | 30,000.00 | 0.00 | 0.00 | 30,000.00 |
| DRLG RENTALS: SURFACE | 166,000.00 | 0.00 | 0.00 | 166,000.00 |
| RIG FUEL, POWER & WATER | 181,000.00 | 0.00 | 0.00 | 181,000.00 |
| CASED HOLE LOGGING/PERF | 0.00 | 15,000.00 | 0.00 | 15,000.00 |
| STIMULATION & PUMPING SERVICES | 0.00 | 1,650,000.00 | 0.00 | 1,650,000.00 |
| DRILLING SUPERVISION | 134,250.00 | 0.00 | 0.00 | 134,250.00 |
| MISC SUPPLIES | 9,000.00 | 0.00 | 0.00 | 9,000.00 |
| COMMISSION/LEGAL | 18,000.00 | 0.00 | 0.00 | 18,000.00 |
| DRILLING OVERHEAD | 11,000.00 | 0.00 | 0.00 | 11,000.00 |
| DRLG TRUCKING & HOT SHOT | 31,000.00 | 0.00 | 0.00 | 31,000.00 |
| FLUID HAUL/SOLID CONTROL | 268,000.00 | 15,000.00 | 0.00 | 283,000.00 |
| FLOWBACK | 0.00 | 300,000.00 | 0.00 | 300,000.00 |
| FRAC TANKS/FLUID HAULING | 0.00 | 125,000.00 | 0.00 | 125,000.00 |
| PROD CSG CEMENT & RELATED SERVICE | 0.00 | 214,000.00 | 0.00 | 214,000.00 |
| DISTRICT TOOL - SUBSURFACE | 0.00 | 40,000.00 | 0.00 | 40,000.00 |
| PROD CSG CREW/LAYDOWN SERVICE | 0.00 | 29,000.00 | 0.00 | 29,000.00 |
| CMPL RENTALS: SUB-SURFACE | 0.00 | 10,000.00 | 0.00 | 10,000.00 |
| Cmpl Rentals: Surface | 0.00 | 45,000.00 | 0.00 | 45,000.00 |
| Cmpl Engr/Supervision | 0.00 | 15,000.00 | 0.00 | 15,000.00 |
| Intang. Cmpl Contingencies | 0.00 | 15,000.00 | 0.00 | 15,000.00 |
| Cmpl Misc Labor | 0.00 | 6,800.00 | 0.00 | 6,800.00 |
| Misc Labor/Welding | 44,000.00 | 0.00 | 0.00 | 44,000.00 |
| Cmpl Fluid/Chem/Transp | 0.00 | 125,000.00 | 0.00 | 125,000.00 |
| Completion Bits, Scrapers, and Mills | 0.00 | 40,000.00 | 0.00 | 40,000.00 |
| Frac Pit | 0.00 | 50,000.00 | 0.00 | 50,000.00 |
| WIP-INTAN. DEVLPMT COSTS TOTAL: | 2,852,583.00 | 2,719,800.00 | | 5,572,383.00 |
| Conductor Pipe / Caisson | 20,000.00 | 0.00 | 0.00 | 20,000.00 |



XTO ENERGY INC.
AUTHORITY FOR EXPENDITURE

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| SECTION/TOWNSHIP/RANGE: | 31/19S/35E | XTO WI DECIMAL: | 0.500000000 |

| DETAIL OF EXPENDITURES | DRYHOLE | COMPLETION | SUPPLEMENT | TOTAL |
|--|-------------------|---------------------|------------|---------------------|
| Tubing | 0.00 | 96,000.00 | 0.00 | 96,000.00 |
| Wellhead Equipment | 28,000.00 | 15,000.00 | 0.00 | 43,000.00 |
| Pumping & Lifting Equipment | 0.00 | 7,817.00 | 0.00 | 7,817.00 |
| Tank Batteries | 0.00 | 100,000.00 | 0.00 | 100,000.00 |
| Lease & Flow Lines | 0.00 | 4,000.00 | 0.00 | 4,000.00 |
| Sep, Dehy, Treaters, Heat Exch, and Scrubbers. | 0.00 | 100,000.00 | 0.00 | 100,000.00 |
| Packer & Sub-surface Equip | 0.00 | 420,000.00 | 0.00 | 420,000.00 |
| Sub-surface Pump, Rods, & Acces | 0.00 | 120,000.00 | 0.00 | 120,000.00 |
| Surface Casing | 73,000.00 | 0.00 | 0.00 | 73,000.00 |
| Intermediate Casing | 103,000.00 | 0.00 | 0.00 | 103,000.00 |
| Production / Liner Casing | 0.00 | 260,800.00 | 0.00 | 260,800.00 |
| WIP-Lease & Well Equip. TOTAL: | 224,000.00 | 1,123,617.00 | | 1,347,617.00 |

| | | | | |
|------------------------|---------------------|---------------------|--|---------------------|
| TOTAL THIS AFE: | 3,076,583.00 | 3,923,417.00 | | 7,000,000.00 |
|------------------------|---------------------|---------------------|--|---------------------|

*** This AFE is an estimate only. By returning one signed copy, you agree to pay your share of the actual costs incurred. ***

REMARKS: TO DRILL AND COMPLETE A NEW HORIZONTAL WELL IN THE 3RD BONE SPRING FORMATION AND SET 5-1/2" CASING WITH SLIDING SLEEVES FOR PRODUCTION. TVD IS ESTIMATED AT 10980' WITH A MD OF 15700'. THE WELL WILL BE DRILLED ON A DAYWORK CONTRACT.

| | | Non Operator Approval | |
|--------------|-------------------|-----------------------|-------|
| Prepared By: | STEPHANIE RABADUE | DATE | _____ |
| Approved By: | TERRY PERKINS | COMPANY | _____ |
| Signature: | _____ | BY | _____ |
| | | TITLE | _____ |