

***CERTIFIED MAIL***

July 9, 2014

**Working Interest Owner**

RE: **Well Proposal- Perla Verde 31 State 1H**  
W/2 W/2 Section 31, T 19S, R 35E  
SHL: 170' FSL & 330' FWL  
BHL: 200' FNL & 330' FWL  
Lea County, New Mexico

Gentlemen:

XTO Energy Inc. (XTO), as Operator, proposes the drilling of the Perla Verde 31 State 3H 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 10,960' and a MD of 15,800' to test the Third Bone Spring Formation ("Operation"). The total cost of the Operation is estimated to be \$7,000,000.00. 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 was provided with the well proposal for the Perla Verde 31 State 3H. It is the same form JOA as is governing the W/2 of the section. 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.

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.

**BEFORE THE OIL CONVERSATION  
DIVISION**  
Santa Fe, New Mexico  
Exhibit No. 7  
Submitted by: XTO ENERGY, INC.  
Hearing Date: October 1, 2014

Well Proposal  
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Lea County, New Mexico  
July 9, 2014  
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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

\_\_\_\_\_ I/We hereby elect to participate in the Perla Verde 31 State 1H

\_\_\_\_\_ I/We hereby elect **not** to participate in the Perla Verde 31 State 1H

Company or  
Individual Name: \_\_\_\_\_

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



**XTO ENERGY INC.**  
**AUTHORITY FOR EXPENDITURE**

AFE NO.: 1403784	DISTRICT: PERMIAN BASIN
AFE DESC: D&C - HORZ IN 3RD BONE SPRING	FIELD: OPERATED
DATE: 04/19/2014	ACCOUNTING ID: 21764
AFE TYPE: DEVELOPMENT DRILLING	WELL NAME: PERLA VERDE 31 STATE 01H
OPERATOR: 81 - XTO ENERGY INC.	STATE/COUNTY: New Mexico / Lea
SECTION/TOWNSHIP/RANGE: 31/19S/35E	XTO WI DECIMAL: 0.375000000

**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
<b>TOTAL:</b>		<b>80,000.00</b>		<b>80,000.00</b>

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. DEVLPMNT 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
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**AUTHORITY FOR EXPENDITURE**

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AFE DESC:	D&C - HORZ IN 3RD BONE SPRING	FIELD:	OPERATED
DATE:	04/19/2014	ACCOUNTING ID:	21764
AFE TYPE:	DEVELOPMENT DRILLING	WELL NAME:	PERLA VERDE 31 STATE 01H
OPERATOR:	81 - XTO ENERGY INC.	STATE/COUNTY:	New Mexico / Lea
SECTION/TOWNSHIP/RANGE:	31/19S/35E	XTO WI DECIMAL:	0.37500000

**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
<b>WIP-Lease &amp; Well Equip. TOTAL:</b>	<b>224,000.00</b>	<b>1,123,617.00</b>		<b>1,347,617.00</b>

<b>TOTAL THIS AFE:</b>	<b>3,076,583.00</b>	<b>3,923,417.00</b>	<b>7,000,000.00</b>
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\*\*\* 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. LATERAL LENGTH IS +/- 4350'. TVD IS ESTIMATED AT 10960' WITH A MD OF 15800'. THE WELL WILL BE DRILLED ON A DAYWORK CONTRACT.

Prepared By: STEPHANIE RABADUE

Approved By: TERRY PERKINS

Signature: \_\_\_\_\_

**Non Operator Approval**

DATE \_\_\_\_\_

COMPANY \_\_\_\_\_

BY \_\_\_\_\_

TITLE \_\_\_\_\_