

***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.

Well Proposal  
Perla Verde 31 State 2H  
Lea County, New Mexico  
June 17, 2014  
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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
<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
<b>WIP-INTAN. DEVLPMNT COSTS TOTAL:</b>	<b>2,852,583.00</b>	<b>2,719,800.00</b>		<b>5,572,383.00</b>
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:	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 W1 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.

Prepared By:	STEPHANIE RABADUE	<b>Non Operator Approval</b>	
Approved By:	TERRY PERKINS	DATE	_____
Signature:	_____	COMPANY	_____
		BY	_____
		TITLE	_____