

## PRODUCTION SHARING AGREEMENT

THIS PRODUCTION SHARING AGREEMENT (“**Agreement**”), dated effective as of \_\_\_\_\_ (“**effective date**”), is between \_\_\_\_\_ (“**Operator**”), the Commissioner of the General Land Office (“**GLO**”), on behalf of the State of Texas and the owner or owners below (collectively and each an “**Owner**”).

- Owner owns a mineral, working, and/or royalty interest in the mineral estate of the lands described by one or more of the leases identified under “**Leases**” in **Exhibit “A”** attached hereto (individually a “**Lease**” or collectively the “**Leases**”, if applicable), which may be located within or adjacent to the geographic boundaries of the Pooled Units formed by the unit declarations or designations identified under “**Pooled Units**” in **Exhibit “A”** attached hereto (referred to individually as a “**Pooled Unit**” and collectively as the “**Pooled Units**,” if applicable);
- Operator is the owner and/or operator of the Leases and/or Pooled Units as to the acreage described in **Exhibit “B”** attached hereto and depicted in the plat attached as **Exhibit “C”**;
- The Parties desire to establish an agreed method of allocating production from one or more Sharing Wells (as defined in Section 3) to one or more of the Pooled Units or Leases.

1. **Production Sharing Calculation.** If Operator completes a Sharing Well, Operator shall:

- a. request that the GLO designate that Sharing Well as either (i) a Unit Sharing Well or (ii) a Unit Line Well (each as defined in Section 3), or (iii) both; and
- b. allocate production from that Sharing Well, from the date of first production, to each Sharing Well Property using the applicable fraction below:

Sharing Well Type	Numerator	Denominator
Unit Sharing Well	Portion of the Horizontal Drainhole on the Sharing Well Property	Total Horizontal Drainhole
Unit Line Well	Portion of the Horizontal Drainhole Area on the Sharing Well Property	Total Horizontal Drainhole Area

2. **Effect of Sharing Wells.** Subject to Sections 6 and 7, operations on or production from a Sharing Well will be considered for all purposes (except the calculation and payment of royalties) to be operations on or production from each of the Sharing Well Properties to which production from the Sharing Well is allocated. Operator shall pay royalties under the terms of the Leases on the share of production as calculated in Section 1(b).

3. **Definitions.** For purposes of this Agreement, the following definitions apply:

“**As-Drilled Survey Plat**” means a plat, prepared by a registered professional engineer or surveyor, using a directional survey that shows the Sharing Well’s wellbore path.

“**Horizontal Drainhole**” means the portion of the Sharing Well identified on the As-Drilled Survey Plat:

- a. between the first and last Take Point, excluding any non-perforation zones;
- b. located within one or more productive formations; and
- c. Producing in Paying Quantities.

“**Horizontal Drainhole Area**” means the area within the Sharing Well Properties bounded by two lines three hundred thirty feet (330’) equidistant from and along the Horizontal Drainhole of a Sharing Well, excluding any non-perforation zones. For avoidance of doubt, the distance between the two lines paralleling the Horizontal Drainhole shall be six hundred sixty feet (660’).

**“Producing in Paying Quantities”** means that during the preceding six (6) month period, the receipts from production from a Sharing Well exceed the operating and marketing costs specifically attributable to that Sharing Well (any such Sharing Well is deemed to be “Producing in Paying Quantities”).

**“Sharing Well”** means a well with a horizontal drainhole displacement greater than one hundred feet (100') (as defined by Texas Administrative Code, Title 16, Part I, Chapter 3, Rule §3.86) in which Take Points are located (a) on more than one Sharing Well Property, or (b) within three hundred thirty feet (330') of the boundary between two Sharing Well Properties for a Unit Line Well subject to the Agreement.

**“Sharing Well Property”** means:

- a. any Pooled Unit;
- b. any unpooled portion of a Lease; or
- c. any other lease, pooled unit, or unpooled portion of a lease or tract upon which a portion of the Horizontal Drainhole or Horizontal Drainhole Area (as shown by the As-Drilled Survey Plat) is located.

**“Take Point”** means any point in a horizontal well that is open to the formation where hydrocarbons from the formation can enter the wellbore.

**“Unit Sharing Well”** means a Sharing Well with a Horizontal Drainhole Area that traverses two or more Sharing Well Properties and is designated by the GLO as a “Unit Sharing Well”.

**“Unit Line Well”** means a Sharing Well with a portion of its Horizontal Drainhole located within 330 feet of a common property line between Sharing Well Properties and designated by the GLO as a “Unit Line Well”.

4. **Offset Obligations and Surface Use.** A Sharing Well does not create any obligation to drill internal offsets to any other well drilled under any of the Leases, nor to develop the Sharing Well Property. Operator shall have the right to make reasonable use of the surface and subsurface of each Sharing Well Property for the purpose of exploring, drilling, completing, producing, transporting and marketing oil and gas from any Sharing Well.
5. **Other Wells.** This Agreement does not affect the ownership or production allocation of any well drilled on a Sharing Well Property that is not a Sharing Well.
6. **Related Documents.** The terms of any Leases, agreements, and pooling agreements covering or affecting the Owner’s lands within a Sharing Well Property (collectively, **“Related Documents”**) are hereby amended to conform to this Agreement. A Sharing Well does not constitute a unit well for the purpose of unit production or unit operations or a drilling obligation contained in a pooling agreement, if applicable, unless approved in writing by the GLO. If provisions in any Related Documents conflict with provisions in this Agreement, the provisions in this Agreement will control.
7. **Retained Acreage.** If any Lease or other Related Document contains a retained-acreage clause, partial-termination clause, or other provision that would, based upon the passage of time or the occurrence or non-occurrence of some event or condition, cause the Lease or other Related Document to terminate, **EXCEPT** as to certain portions of the leased premises included within certain types of units or otherwise associated with productive wells, then, for the sole purpose of determining the acreage and/or depths of the leased premises under each such Lease or other Related Document that is perpetuated by a Sharing Well, that portion of the Sharing Well’s Horizontal Drainhole located on the leased premises of said Lease or Pooled Unit or situated within a Horizontal Drainhole Area extending onto said Lease or Pooled Unit (“On-Lease Portion”) shall be treated as a well drilled solely on the leased premises covered by such Lease or other Related Document, and the acreage retained by said On-Lease Portion of a Unit Sharing Well shall be the greater of:
  - a. forty (40) acres or

- b. the amount of acreage determined by the following formula:  $0.032 \times L = A$ , where  $L$  = the length (in feet) of the On-Lease Portion, and  $A$  = the area retained (in acres), provided that, if  $A$  is not divisible by the number 5,  $A$  will be rounded up to the next number divisible by 5, (e.g.  $0.032 \times 4,500$  feet = 144 acres, which rounds up to 145 acres).

*E.g. If 1,000 feet of a 5,000 foot-long Sharing Well is located on a leased premises covered by a Lease with a retained acreage provision, then upon the triggering event as specified in that Lease, the Sharing Well will be considered to be 1,000 feet long (i.e., the portion located on the relevant leased premises) for purposes of the retained acreage provision of such Lease and will terminate except as to 35 acres ( $1,000$  feet  $\times$   $0.032$  = 32 acres, rounded up to 35 acres) on the River Tract.*

However, the cumulative area retained (in acres) under the foregoing calculation when applied to multiple Leases may not exceed  $0.032 \times (L - \text{non-perf zones})$  rounded up to the next number divisible by 5. The acreage retained by a Unit Line Well shall be the On-Lease Portion of the Horizontal Drainhole Area for said well.

Furthermore, the depths retained by said On-Lease Portion of a Sharing Well shall be limited to: (1) three hundred feet (300') true vertical depth above the shallowest depth reached by the Horizontal Drainhole inside the Lease and/or Pooled Unit; and (2) three hundred feet (300') true vertical depth below the deepest depth reached by the Horizontal Drainhole inside the Lease and/or Pooled Unit.

8. **Term.** This Agreement will remain in effect for a period of one (1) year from the effective date and for so long thereafter as a Lease remains in effect as to all or any portion of the lands covered thereby and a Sharing Well is Producing in Paying Quantities, as defined by the respective Lease. If all Sharing Wells fail to Produce in Paying Quantities, this Agreement shall automatically terminate.
9. **Dissolution.** This Agreement may be dissolved by Operator, its heirs, successors or assigns, by an instrument filed for record in the county records where the Sharing Well Properties are situated, and a certified copy thereof filed in the GLO at any time after the cessation of production on the Sharing Well Property or the completion of a dry hole thereon prior to production or upon such other date as may be approved by the Owner and mutually agreed to by the undersigned parties, their successors or assigns.
10. **Cross-conveyance.** Nothing in this Agreement shall be construed as effecting a cross-assignment or cross-conveyance of any interest that is subject to this Agreement.
11. **Existing Production Excluded.** Any wells producing from the Sharing Well Properties prior to the effective date of this Agreement are specifically excluded from the provisions of this Agreement and will be governed by their respective leases, agreements, and units, as applicable.
12. **Counterparts.** The parties may sign this Agreement in one or more counterparts, each of which is an original, and all of which constitute only one agreement between the parties. The executed counterparts may be combined by Operator into one or more instruments for recordation, by combining the signature pages and acknowledgments, and the executing parties agree that such instruments will be treated and given effect for all purposes as a single instrument.
13. **Memorandum.** Operator may record a memorandum of this Agreement.

**(Signature Pages and Exhibits Follow)**

OWNER is signing this Agreement on the date stated below, but this Agreement is effective as of the effective date.

Date Executed: \_\_\_\_\_

STATE OF TEXAS

\_\_\_\_\_  
DAWN BUCKINGHAM, M.D.  
Commissioner, General Land Office

Approved:

cont. \_\_\_\_\_

MM \_\_\_\_\_

OGC \_\_\_\_\_

DCC \_\_\_\_\_

CC \_\_\_\_\_

STATE OF TEXAS §

COUNTY OF TRAVIS §

This instrument was acknowledged before me on \_\_\_\_\_, 20\_\_\_\_, by Dawn Buckingham, M.D., Commissioner, General Land Office.

\_\_\_\_\_

Notary Public in and for the State of \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

OPERATOR is signing this Agreement on the date stated below, but this Agreement is effective as of the effective date.

Date Executed \_\_\_\_\_

**[OPERATOR]**

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

Printed: \_\_\_\_\_

Its: \_\_\_\_\_

**ACKNOWLEDGEMENT**

STATE OF TEXAS §

COUNTY OF TRAVIS §

This instrument was acknowledged before me on \_\_\_\_\_, 20\_\_\_\_, by \_\_\_\_\_

as \_\_\_\_\_ of \_\_\_\_\_, on behalf of such company.

\_\_\_\_\_

Notary Public in and for the State of \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

**EXHIBIT "A"**

**Attached to and made a part of that certain Production Sharing Agreement by and between,  
[OPERATOR] as Operator, and Owner.**

(the "Pooled Units")

(the "Leases")

Sample

**EXHIBIT "B"**

**Attached to and made a part of that certain Production Sharing Agreement by and between,  
[OPERATOR] as Operator, and Owner.**

(Legal description of the Sharing Well Properties, limited to tracts which may be allocated production  
from a Sharing Well)

Sample

**EXHIBIT "C"**

(Plat of included Leases/Pooled Units/proposed allocation wells)

Sample