

DESIGNATION OF UNIT & POOLING AGREEMENT
STATE OF TEXAS / [OPERATOR]
[NAME] UNIT
GLO UNIT NO. [XXXXXX]
[NAME] COUNTY, TEXAS

THIS AGREEMENT is entered into by and between the Commissioner of the General Land Office, on behalf of the State of Texas, as “Lessor” and [OPERATOR], herein referred to as “Lessee”, and such other interested parties as may join in the execution hereof, the undersigned parties herein collectively referred to as the “parties”, in consideration of the mutual agreements hereinafter set forth and other valuable considerations, the receipt and sufficiency of which are hereby acknowledged, and for the purposes and upon the terms and conditions which follow:

PURPOSES:

1.

This Designation of Unit & Pooling Agreement (“Agreement”) is made for the purposes of conservation and utilization of the pooled mineral, to prevent waste, to facilitate orderly development and to preserve correlative rights. To such end, it is the purpose of this Agreement to effect equitable participation within the unit formed hereby. This Agreement is intended to be performed pursuant to and in compliance with all applicable statutes, decisions, regulations, rules, orders and directives of any governmental agency having jurisdiction over the production and conservation of the pooled mineral and in its interpretation and application shall, in all things, be subject thereto.

UNIT DESCRIPTION:

2.

The oil and gas leases, which are included within the pooled unit, are listed on the attached Exhibit “A”, to which leases and the records thereof reference is here made for all pertinent purposes. The pooled unit shall consist of all of the lands described in Exhibit “B” attached hereto and made a part hereof. A plat of the pooled unit is attached hereto as Exhibit “C”.

MINERAL POOLED:

3.

The mineral pooled (“pooled mineral”) hereby shall be oil and gas including all hydrocarbons that may be produced from an oil well or a gas well as such wells are recognized and designated by the Railroad Commission of Texas or other state regulatory agency having jurisdiction of the drilling and production of oil and gas wells. The area from which the pooled mineral may initially be produced shall be from [DEPTH or FORMATION] to [DEPTH or FORMATION] as seen on the well log for the [NAME OF WELL] (API 42-XXX-XXXXX) in order to test the [NAME] Formation (the “Initial Pooled Interval”); provided that on [DATE] (the “Depth Severance Date”), this Agreement shall be limited to and only include those depths from Three Hundred feet (300’) true vertical depth above the shallowest depth reached by the horizontal lateral of the shallowest unit well measured between the first takepoint and the last takepoint to Three Hundred feet (300’) true vertical depth below the deepest depth reached by the horizontal lateral of the deepest unit well measured between the first takepoint and the last takepoint (the “Revised Pooled Interval”). Further, on the Depth Severance Date, the State Lease(s) described on Exhibit “A” attached shall be deemed to be amended such that, unless otherwise held in force and effect, such State Lease(s) shall terminate as to all depths in this pooled unit above and below the Revised Pooled Interval. It is further agreed that if Lessee is drilling, completing, or re-drilling, or recompleting a unit well on the Depth Severance Date, then the Depth Severance Date shall be delayed until operations on said well are complete, and the true vertical depth of such well shall be taken into consideration when determining the depths of the Revised Pooled Interval. Notwithstanding anything contained herein to the contrary both parties agree that should a conflict exist between this Paragraph 3 and any provision of a State Lease or Agreement described on Exhibit “A” that this provision shall prevail and govern.

POOLING AND EFFECT:

4.

The parties hereto commit all of their interests which are within the unit to the extent and as above described into said unit and unitize and pool hereunder the separate tracts described on the attached Exhibit “B”, for and during the term hereof, so that such pooling or unitization shall have the following effect:

- (a) The unit, to the extent as above described, shall be operated as an entirety for the exploration, development, and production of the pooled mineral, rather than as separate tracts.
- (b) All drilling operations, reworking or other operations with respect to the pooled mineral on land within the unit shall be considered as though the same were on each separate tract in the unit, regardless of the

actual location of the well or wells thereon, for all purposes under the terms of the respective leases or other contracts thereon and this Agreement. In the event the unitized area covered by this Agreement is maintained in force by drilling or reworking operations conducted on a directional or horizontal well drilled under the unitized area from a surface location on adjacent or adjoining lands not included within the boundaries of the unitized area, such operations shall be considered to have been commenced on the unitized area when drilling is commenced on the adjacent or adjoining land for the purpose of directionally drilling under the unitized area and production of oil or gas from the unitized area through any directional or horizontal well surfaced on adjacent or adjoining land or drilling or reworking of any such well shall be considered production or drilling or reworking operations, as the case may be, on the unitized area for all purposes under this Agreement. Nothing in this Agreement is intended or shall be construed as granting to Lessee any leasehold interest, easements, or other rights in or with respect to any such adjacent or adjoining land in addition to any such leasehold interests, easements, or other rights which the lessee, operator or other interest owner in the unitized area may have lawfully acquired from the state or others.

- (c) Production of the pooled mineral from the unit allocated to each separate tract, respectively, as hereinafter provided, shall be deemed to have been produced from each such separate tract in the unit, regardless of the actual location of the well or wells thereon, for all purposes under the terms of the respective leases or other contracts thereon and this Agreement. Provided that, if any State Lease described in Exhibit "A" attached hereto contains provision 4(E) VARIABLE ROYALTY, and a unit well is not located on such State Lease and a reduced royalty has not otherwise been earned, then a reduced royalty may be earned by unit production, but it shall only apply to the acreage included within the unit. Acreage outside of the unitized area must earn a reduced royalty independently.
- (d) All rights to the production of the pooled mineral from the unit, including royalties and other payments, shall be determined and governed by the lease or other contract pertaining to each separate tract, respectively, based upon the production so allocated to such tract only, in lieu of the actual production of the pooled mineral therefrom. Provided that, payments that are made on a per acre basis shall be reduced according to the number of acres pooled and included herein, so that payments made on a per acre basis shall be calculated based upon the number of acres actually included within the boundaries of the pooled unit covered by this Agreement.
- (e) A shut-in oil or gas well located upon any land or lease included within the unit shall be considered as a shut-in oil or gas well located upon each land or lease included within the unit; provided, however, that shut-in oil or gas well royalty shall be paid to the State on each State lease wholly or partially within the unit, according to the terms of such lease as though such shut-in oil or gas well were located on said lease, it being agreed that shut-in royalties provided in each State lease shall not be shared with other royalty owners.
- (f) Notwithstanding any other provision hereof, it is expressly agreed that each State lease may be maintained in force as to areas lying outside the unitized area only as provided in each such lease without regard to unit operations or unit production. Neither production of the pooled mineral, nor unit operations with respect thereto, nor the payment of shut-in royalties from a unit well, shall serve to hold any State lease in force as to any area outside the unitized area regardless of whether the production or operations on the unit are actually located on the State lease or not. "Area" as used in this paragraph shall be based upon surface acres. Depths, if held, shall be held in accordance with Paragraph 3 of this Agreement.
- (g) If the Railroad Commission of Texas (or any other Texas regulatory body having jurisdiction) shall adopt special field rules providing for oil and/or gas proration units of fewer than 000.00 acres, then Lessee agrees to either (1) drill to the density permitted by the Railroad Commission, (2) make application to the School Land Board of the State of Texas to reform the unit to comply with Railroad Commission unit rules, or (3) make application to the School Land Board of the State of Texas for such remedy as may be agreeable to the Board.
- (h) This Agreement shall not relieve Lessee from the duty of protecting the State leases described in Exhibit "A" and the State lands within the boundaries of the pooled unit described in Exhibit "B" from drainage from any well situated on privately owned land lying outside the unitized area described in Exhibit "B", but, subject to such obligation, Lessee may produce the allowable for the entire unit as

fixed by the Railroad Commission of Texas or other lawful authority, from any one or more wells completed thereon.

- (i) There shall be no obligation to drill internal offsets to any other well on separate tracts within the pooled unit, nor to develop the lands within the boundaries thereof separately, as to the pooled interval.
- (j) Should this Agreement terminate for any cause, the leases and other contracts affecting the lands within the unit, if not then otherwise maintained in force and effect, shall remain and may be maintained in force and effect under their respective terms and conditions in the same manner as though there had been production or operations under said lease or contract and the same had ceased on the date of the termination of this Agreement.

ALLOCATION OF PRODUCTION: 5.

For the purpose of computing the share of production of the pooled mineral to which each interest owner shall be entitled from the pooled unit, there shall be allocated to each tract committed to said unit that pro rata portion of the pooled mineral produced from the pooled unit which the number of surface acres covered by each such tract and included in the unit bears to the total number of surface acres included in said unit, and the share of production to which each interest owner is entitled shall be computed on the basis of such owner's interest in the production so allocated to each tract.

TAKING ROYALTY IN KIND: 6.

Notwithstanding anything contained herein to the contrary, the State may, at its option, upon not less than sixty (60) days' notice to Lessee, require that payment of all or any royalties accruing to the State under this Pooling Agreement be made in kind, without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting and otherwise making the oil, gas and other products produced hereunder ready for sale and use.

EFFECTIVE DATE: 7.

Upon execution by the Commissioner of the General Land Office of the State of Texas this Agreement shall become effective as of **[EFFECTIVE DATE]**.

TERM: 8.

This Agreement shall remain in effect so long as the pooled mineral is being produced in paying quantities from the unit, or so long as all leases included in the pooled unit are maintained in force by payment of delay rentals or shut-in oil or gas well royalties, by drilling or rework, or by other means, in accordance with the terms of said leases. Nothing herein shall amend or modify Section 52.031 of the Natural Resources Code, or any of the provisions thereof which are contained in any State lease covered by this Agreement.

SPECIAL TERMS AND CONDITIONS: 9.

Notwithstanding anything contained herein to the contrary, this Agreement is subject to the terms and conditions of the attached Addendum "A". To prevent physical and economic waste, subject to the terms and provisions of the Leases and rules and regulations of the Texas Railroad Commission or any other applicable regulatory agency, Lessee shall make every effort to drill each horizontal well with the longest productive lateral reasonably possible within the boundaries of the unit.

Additionally, all existing and any future Five-Thousand-foot (5,000') laterals are excluded from this unit (the "Excluded Well(s)"). Production from and operations on the Excluded Well(s) shall maintain the applicable State Lease(s) in accordance with the terms of such State Lease(s) and in the same manner as such State Lease(s) would be maintained in the absence of this Agreement. This unit is for wells which traverse both Section XX and Section XX.

STATE LAND: 10.

Insofar as the royalty interest of the State of Texas in and under any State tract committed to the unit is concerned, this Agreement is entered into, made and executed by the undersigned Commissioner of the General Land Office by virtue of the authority and pursuant to the provisions of Subchapter E, Chapter 52, of the Natural Resources Code, authorizing the same, after the prerequisites, findings and approval hereof, as provided in said Code having been duly considered, made and obtained.

DISSOLUTION:

11.

The unit covered by this Agreement may be dissolved by Lessee, successors or assigns, by an instrument filed for record in [NAME] County, Texas, and a certified copy thereof filed in the General Land Office at any time after the cessation of production on said unit or the completion of a dry hole thereon prior to production or upon such other date as may be approved by the School Land Board and mutually agreed to by the undersigned parties, their successors or assigns.

RATIFICATION/WAIVER:

12.

Nothing in this Agreement, nor the approval of this Agreement by the School Land Board, nor the execution of this Agreement by the Commissioner shall: (1) operate as a ratification or revivor of any State lease that has expired, terminated, or has been released in whole or in part or terminated under the terms of such State lease or the laws applicable thereto; (2) constitute a waiver or release of any claim for money, oil, gas or other hydrocarbons, or other thing due to the State by reason of the existence or failure of such lease; (3) constitute a waiver or release of any claim by the State that such lease is void or voidable for any reason, including, without limitation, violations of the laws of the State with respect to such lease or failure of consideration; (4) constitute a confirmation or recognition of any boundary or acreage of any tract or parcel of land in which the State has or claims an interest; or (5) constitute a ratification of, or a waiver or release of any claim by the State with respect to any violation of a statute, regulation, or any of the common laws of this State, or any breach of any contract, duty, or other obligation owed to the State.

COUNTERPARTS:

13.

This Agreement may be executed in counterparts and if so executed shall be valid, binding and have the same effect as if all the parties hereto actually joined in and executed one and the same document. For recording purposes and in the event counterparts of this Agreement are executed, the executed pages, together with the pages necessary to show acknowledgments, may be combined with the other pages of this Agreement so as to form what shall be deemed and treated as a single original instrument showing execution by all parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement upon the respective dates indicated below.

[Signature Pages Follow]

Date Executed _____

STATE OF TEXAS

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

Approved:

cont. _____

MM _____

OGC _____

DCC _____

CC _____

CERTIFICATE

I, _____, Secretary of the School Land Board of the State of Texas, do hereby certify that at a meeting of the School Land Board duly held on the _____ day of _____, 20____, the foregoing instrument was presented to and approved by said Board under the provisions of Subchapter E, Chapter 52, of the Natural Resources Code, all of which is set forth in the Minutes of the Board of which I am custodian.

IN TESTIMONY WHEREOF, witness my hand this the _____ day of _____, 20____.

Secretary of the School Land Board

Date Executed _____

[OPERATOR]

By: _____

Printed: _____

Its: _____

ACKNOWLEDGEMENT

STATE OF _____

COUNTY OF _____

This instrument was acknowledged before me on _____, 20____, by _____

as _____ of _____, a _____, on

behalf of such company.

Notary Public in and for the State of _____

ADDENDUM "A"
ATTACHED TO AND MADE A PART OF THAT CERTAIN
DESIGNATION OF UNIT & POOLING AGREEMENT
STATE OF TEXAS / [OPERATOR]
[NAME] UNIT; GLO UNIT NO. XXXXX
[NAME] COUNTY, TEXAS

The parties hereby agree that should any conflict exist between the terms and provisions of this Addendum "A", the terms and provisions of the body of this Agreement, or the terms and provisions of any of the State Leases (as defined herein) listed on the attached Exhibit "A", then the terms and provisions of this Addendum "A" shall supersede and control.

1. Notwithstanding anything to the contrary in this Agreement, or in the leases listed on the attached Exhibit "A" covering tracts in which the State of Texas owns the minerals (hereinafter "State Leases"), Lessee shall drill a minimum of Four (4) unit wells within the unit in the following manner (the "Drilling Obligation Dates"):

- First unit well: Must be spud on or before [DATE] and completed within 9 months of spud Date;
- Remaining 3 unit wells: Must be spud on or before [DATE] and completed within 9 months of spud Date.

In the event Lessee chooses to drill unit wells ahead of the Drilling Obligation Date described above, then Lessee shall not be penalized for doing so and shall conserve the benefit of the Drilling Obligation Date. At such time as Lessee has drilled and completed Four (4) unit wells, in accordance with the Drilling Obligation Dates, the parties hereby agree that the pooled unit shall remain in the original, unaltered size and shape described in Exhibit "B" and depicted in Exhibit "C".

Lessee's failure to timely comply with the Drilling Obligation Dates above shall result in the formation of a "Contracted Pooled Unit" wherein the unit will reduce in size to a maximum size of XXX.XX acres per unit well drilled.

Should any unit well intended to satisfy a Drilling Obligation Date be completed as a dry hole or be incapable of producing in paying quantities ("Uneconomic Well"), it shall not satisfy the corresponding Drilling Obligation Date in this Addendum "A" unless an additional well ("Additional Well") is spud, drilled, and completed by the Drilling Obligation Date or as may be approved in writing by the GLO. Said Additional Well shall serve as a replacement for the Uneconomic Well and shall contribute to the minimum number of unit wells or Drilling Obligation Dates stipulated above.

END OF ADDENDUM "A"