

PRODUCTION SHARING AGREEMENT # _____
COMPANY NAME
WELL NAME & #
API#
COUNTY, TEXAS

STATE OF TEXAS §
 § KNOW ALL PERSONS BY THESE PRESENTS:
COUNTY OF _____ §

The Commissioner of the General Land Office, on behalf of the Board for Lease of University Lands (“Board”) through University Lands, the Board’s authorized designee, (with the Board, the State of Texas, and University Lands referred to collectively as “University Lands” or “Lessor”) whose address is 704 W. Dengar Avenue, Midland, Texas 79705, owns an interest in the oil, gas and other minerals in and under the Permanent University Fund (“PUF”) lands covered by the oil and gas leases and/or contracts for development listed on the attached Exhibit “A” (the “Leases”) and [FULL COMPANY NAME] (identified as the “Operator” and/or “Lessee” but referred to collectively as “COMPANY NAME”), whose address is COMPANY ADDRESS owns the Leases covering tracts of PUF lands as described on Exhibit “A” (the “Subject Lands”).

University Lands and _____ (each a “Party” and collectively the “Parties”) enter into this Production Sharing Agreement (the “Agreement”) concerning their interests in and to the oil, gas and other minerals in and under the Subject Lands, as covered by the Leases, on the terms set forth herein. Capitalized terms not defined in this Agreement have the meanings ascribed to them in the Leases.

The Parties wish to encourage further development of the Subject Lands via the drilling of the [INSERT WELL NAME & NUMBER/ID] well (the “Sharing Well”) as a horizontal oil or gas well as shown on the attached Exhibit “B” (the “Proposed Plat for Sharing Well”). The Sharing Well will traverse the Subject Lands to:

- a) prevent physical and economic waste and the drilling of unnecessary wells, and increase the ultimate recovery of oil, gas and/or other minerals from the Leases; and
- b) protect the correlative rights of the Parties so that each may receive a fair share of the oil, gas and/or other mineral production in and under the Subject Lands covered by the Leases.

The Parties recognize that it is advantageous for the Sharing Well to be drilled and completed across the Subject Lands and agree that a basis for allocating production from the Sharing Well should be established.

NOW THEREFORE, for good and valuable consideration received, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows and incorporate the preamble and recitals above as though they were included below:

1. For purposes of this Agreement, the following definitions apply:
 - a. “Agreement” is defined in the recitals.
 - b. “Allocation Factor” is defined in Section 2.
“As-Drilled Plat” is defined in Section 4 and should include the following information: (i) identifying lease numbers; (ii) identifying block and section numbers; (iii) the tract numbers referenced on Exhibit “A”; and (iv) the Productive Drainhole Length for each tract.
 - c. “Board” is defined in the preamble.
 - d. “Effective Date” is defined in Section 10.
 - e. “Field Interval” means and refers to the _____ formation, being defined as the stratigraphic equivalent of ##### feet to ##### feet.
 - f. “Horizontal Well” is an oil or gas well with a horizontal displacement of at least 5,000 feet within the Field Interval.
 - g. “Horizontal Drainhole” is the portion of a Horizontal Well drilled within the Field Interval that includes Take Points.
 - h. “Leases” is defined in the preamble and means the oil and gas leases and/or contracts for development covering the PUF lands listed on Exhibit “A” of this Agreement.
 - i. “Lessee” is defined in the preamble.
 - j. “Lessor” is defined in the preamble.
 - k. “Operator” is defined in the preamble.
 - l. “Party” or “Parties” is defined in the recitals.
 - m. “Productive Acreage” means the acreage earned and retained by the Sharing Well (regardless of its classification as an oil or gas well under the then-current rules and regulations of the Railroad Commission of Texas or its successor), calculated using the following formula: $0.032 \times L = A$, where L = the length (in feet) of the Productive Drainhole Length, and A = the area in acres assigned to the Sharing Well, provided that, if A is not evenly divisible by the number 20, A will be rounded up to the next number divisible by 20.
 - n. “Productive Drainhole Length” is the length of a Horizontal Drainhole that begins at the regulatory setback of the Field Interval OR the first Take Point, whichever is closer to the Lease line nearest to the surface location, and runs along the actual as-drilled surveyed wellbore path to the last Take Point.
 - o. “Proposed Plat for Sharing Well” is defined in the recitals and set forth on Exhibit “B” of this Agreement.
 - p. “PUF” is defined in the preamble.
 - q. “Take Point” means any point along a Horizontal Drainhole where oil, gas and/or liquid hydrocarbons (including condensate, distillate, and other liquids) can be produced into the wellbore from the reservoir or Field Interval.
 - r. “Sharing Well” is the Horizontal Well identified in the recitals whose Productive Drainhole Length is located on and traverses through the Subject Lands.

- s. "Subject Lands" is defined in the preamble.
 - t. "University Lands" is defined in the preamble.
 - u. " _____ " is defined in the preamble.
2. _____ shall share in the Sharing Well, from the date of first production, on the basis of _____'s ownership in the Subject Lands multiplied by an "Allocation Factor" defined as a fraction, the numerator of which is equal to the length of that portion of the Productive Drainhole Length lying within the Subject Lands (covered by the Leases under which _____ owns an interest) and the denominator being the total Productive Drainhole Length. Per Section 3, operations on or production from a Sharing Well shall be treated as actual operations on or production from the Subject Lands, provided, however, that production shall be allocated to the Subject Lands in accordance with this Section 2.
3. With the exception of the allocation of the proceeds from a Sharing Well in accordance with Section 2, operations on or production from a Sharing Well shall be treated as if they were actual operations on or production from the Leases (and thus shall be subject to all provisions contained in the Leases, including but not limited to provisions concerning the use of the surface of the Subject Lands). The Parties consent to a Sharing Well traversing the Leases' boundaries, notwithstanding the spacing requirements of the Railroad Commission of Texas or its successor. Except as set forth in this Agreement, all provisions of the Leases remain in full force and effect as originally written.
4. Not later than twenty-five (25) days from the date the Sharing Well begins flowback as a result of completion operations, _____ shall provide the Land Department of University Lands with an as-drilled surveyed plat of the Sharing Well (the "As-Drilled Plat") which identifies the Sharing Well's Productive Drainhole Length, the first and last Take Points, the location of the Lease boundary lines as they relate to the Productive Drainhole Length, and all information specified in Section 1(c). If, after completion of a Sharing Well, the actual Productive Drainhole Length changes as a result of _____'s operations (including but not limited to plug back, recompletion or otherwise) then _____ shall, not later than twenty (20) days after such change, deliver to the Land Department of University Lands, an updated As-Drilled Plat (according to the same specifications set out above and in conformance with Section 1(c)).
5. Productive Acreage will be assigned to the Sharing Well based on the Productive Acreage formula defined in Section 1(n) upon University Lands' approval of the As-Drilled Plat and _____'s Productive Acreage designation per this Section 5. _____ will present to the Land Department of University Lands for approval, a proposed designation of Productive Acreage for the Sharing Well and a preliminary diagram of the proposed Productive Acreage designation, which must be delivered in writing (electronic mail is acceptable). _____ will ensure that the acreage designated as Productive Acreage is in the form of a square or rectangle around the Productive Drainhole Length of the Sharing Well. Upon receipt of University Lands' approval of the configuration of the Productive Acreage, _____ will record in the

appropriate county of record, a survey of the Productive Acreage which includes the name of the Sharing Well and the as-drilled location of the Sharing Well. _____ will provide the Land Department of University Lands with a copy of the recorded document within forty-five (45) days of receipt of University Lands' approval of the configuration of the Productive Acreage. If the actual Productive Drainhole Length changes as described in Section 4, _____ shall submit an amended Productive Acreage designation to University Lands and shall amend the recorded survey document upon University Lands' approval of the amended Productive Acreage configuration.

6. If, after completion, the Sharing Well is plugged back or recompleted in such a manner that production from the Productive Drainhole Length is no longer produced from all of the Subject Lands, then such well shall only be considered a Sharing Well as to that portion of the Subject Lands that is traversed by the Productive Drainhole Length. In the event the Sharing Well is plugged back or recompleted in such manner that the well no longer traverses more than one Lease within the Subject Lands, such well will no longer be considered a Sharing Well for purposes of this Agreement.

7. _____ shall have the right to make reasonable use of the surface of the Subject Lands for the purpose of exploring, drilling, producing, transporting and marketing oil and gas from the Sharing Well, subject to the then-current University Lands Rate and Damage Schedule and the then-current University Lands Field Manual of Required Operating Procedures.

8. The Parties agree that this Agreement affects only production from the Sharing Well and in no way affects ownership of any other wells drilled or to be drilled on the Subject Lands.

9. Except as may be set forth in this Agreement, the Parties execution of this instrument shall not relieve _____, or its assigns, of compliance with the covenants and duties implied under the law in connection with the Leases covering the Subject Lands, including, but not limited to, the express obligations contained in the Leases and any amendments thereto, the covenant of reasonable development, and the covenant to protect the Leases from drainage. University Lands' execution of this instrument shall NOT be deemed a waiver of any right to claim that _____, or its assigns, have failed to comply with any such covenants or duties.

10. This Agreement is effective on [INSERT DATE] (the "Effective Date") and remains in effect for the twelve (12) months immediately following the Effective Date for the purpose of establishing production from the Sharing Well, and thereafter, for so long as the Sharing Well produces in paying quantities in compliance with the terms and conditions of the Leases.

11. _____ AGREES AND PROMISES TO FULLY AND COMPLETELY INDEMNIFY AND HOLD UNIVERSITY LANDS, ITS HEIRS, SUCCESSORS AND ASSIGNS HARMLESS FROM ANY AND ALL ACTIONS, CLAIMS, SUITS, DEMANDS, DAMAGES, COSTS, EXPENSES, AND ANY LIABILITIES RESULTING FROM _____'S EXECUTION OF THIS AGREEMENT.

12. This instrument shall not constitute nor be construed as a conveyance or cross-conveyance of any interest by a Party to the owners of any acreage or interest entitled to participate in production from a Sharing Well.

13. The intent of this Agreement is to govern the allocation of production from the Sharing Well as it pertains to the Subject Lands and Leases described on Exhibit "A" and the royalties owed thereunder. For the avoidance of doubt, Section 2 of the Agreement governs how the Sharing Well's production proceeds are allocated, and how production from the Sharing Well is allocated to the Subject Lands. This Agreement does not and is not intended to address or govern the allocation of costs associated with the drilling, completing, or any other operation of the Sharing Well and in no way is intended to amend any agreements that govern the allocation of costs as between the Parties to this Agreement.

14. This Agreement reflects the entire and final agreement of the Parties with respect to the subject matter and supersedes any prior written or oral agreements or communications between the Parties. No modifications or amendments of this Agreement will be binding or enforceable unless made in writing and signed by the Parties.

15. This instrument may be executed in multiple original counterparts with the same force and effect as if all signatures were set forth upon a single instrument. The executed counterparts may be combined into one or more instruments for recordation, by combining the signature pages and acknowledgments.

16. The individuals executing this Agreement each represent that they have full power and authority to enter into this Agreement on behalf of the Party for whom the individual is executing this Agreement.

IN WITNESS WHEREOF, each Party indicates acceptance of the terms of this Agreement by the signature below of an authorized representative.

(The remainder of this page is intentionally left blank.)

Exhibit "A"

Subject Lands and Leases

Tract	UL Lease # or CFD #	Royalty Rate	Lease Description	Lessee	Date	Recorded
1			_____ of Section __, Block _____, University Lands Survey, _____ County, Texas			

Exhibit "B"

Proposed Plat for Sharing Well