DO NOT SUBMIT. THIS IS A SAMPLE TEMPLATE. GLO STAFF WILL DRAFT THE ACTUAL AGREEMENT.

POOLING AGREEMENT PURSUANT TO TEX. NAT. RES. CODE §32.207
STATE OF TEXAS / _____
STATE LEASE MF_____ (UNLEASED COUNTY HROW TRACT)
GLO UNIT NO. _____ - _____ UNIT
_____ COUNTY, TEXAS
INCLUDING PAYMENTS DIRECTLY TO COUNTY

THIS POOLING AGREEMENT ("Agreement") is made and entered into effective _____ (the "effective date") by and between the Commissioner of the Texas General Land Office (the "Commissioner") on behalf of the State of Texas (the "State") and _____ ("Operator").

A. The State owns the minerals under approximately _____ acres of _____ (the "HROW Tract") that are unleased (the "unleased mineral interest") and within the boundaries of the _____-acre _____ Unit ("Unit").

B. Pursuant to Texas Natural Resources Code §32.207, the School Land Board has authority to pool the oil and gas under State land acquired to construct or maintain a highway, road, street, or alley, such as the HROW Tract.

C. Operator and the State want to pool the unleased mineral interest into the Unit, as depicted on Exhibit "C".

D. Royalties due on State land acquired by a county to construct a county road, such as the HROW Tract, shall be paid to the county treasurer, or officer performing that office's function in the county in which the lands are located for deposit to the credit of the county's road and bridge fund.

E. The School Land Board, at its regular meeting on _____, determined that pooling the unleased mineral interest into the Unit is in the State's best interest.

NOW, THEREFORE, in consideration for the payment to _____ County (the "County") of $_____, the mutual agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Authority. This Agreement is entered into pursuant to the authority granted in Chapters 32 and 52 of the Texas Natural Resources Code and Chapter 9 of Title 31 of the Texas Administrative Code and 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 minerals, and in the interpretation and application hereof this Agreement shall be, in all things, subject thereto.

2. Unit Description. The oil and gas leases included within the Unit are listed on the attached **Exhibit "A"** and are incorporated herein for all pertinent purposes. The Unit consists of the lands described in **Exhibit "B"** attached hereto and incorporated herein, insofar as said lands cover and include the unitized interval, described below. A plat of the pooled Unit is attached hereto as **Exhibit "C"**.

3. Mineral Pooled. The mineral pooled and unitized ("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 over oil and gas wells. The pooled mineral shall initially extend to those depths underlying the surface boundaries of the Unit from _____ to _____ ("pooled interval") but may contract pursuant to Section 5 of Exhibit "1".

4. Term. This Agreement shall remain in effect for a term of **one (1) year** from the effective date (referred to herein as the "primary term") and for so long thereafter as this Agreement is perpetuated under the terms of Exhibit "1".

5. Allocation of Production. For the purpose of computing the share of production of the pooled mineral to which each interest owner shall be entitled from the Unit, there shall be allocated to each tract included therein that pro rata portion of the pooled mineral produced from the Unit, being represented by the number of surface acres covered by each such tract included in the Unit divided by the total number of surface acres in the Unit, and the share of production to which each interest owner is entitled shall be computed on the basis of that owner's interest in the production so allocated to each tract, respectively.

6. Rights and Duties. The State and Operator with respect to the unleased mineral interest within the boundaries of the Unit shall be governed and controlled by the terms, conditions, and covenants contained in **Exhibit "1"** attached hereto and incorporated herein. The State shall receive its share of production from the Unit as provided in Exhibit "1" with no obligation to the Operator for operating costs of any kind, including but not limited to costs of exploration, drilling, equipping, completion, treatment, transportation, marketing, plugging, abandonment, or restoration.

SAMPLE

7. Recording. Operator agrees to provide the General Land Office with a recorded copy of the instrument creating the Unit (Declaration or Designation, etc.) and any amendments thereof within thirty (30) days of recording. Operator has the right to amend the Unit as may be provided in the leases pooled or the instrument creating the Unit, provided that any amendment that will include additional unleased mineral interest requires School Land Board approval and consideration to be paid for the same. The State and Operator agree that nothing herein shall be construed as granting a leasehold interest to Operator in the unleased mineral interest but, rather, this Agreement is a contractual pooling of interests with the respective parties' rights and duties defined herein.

8. Production Sharing Agreements. Operator may apply for a production sharing agreement or similar from the GLO. The GLO may approve such agreement if the GLO determines that such an agreement is in the best interest of the State and Operator submits the required processing fee.

9. Dissolution. The Agreement may be dissolved by Operator, its heirs, successors, or assigns by an instrument filed for record in the County or Counties in which the Unit is located, and a certified copy thereof filed in the GLO at any time after the cessation of production from the Unit well(s) or the completion of a dry hole thereon prior to production.

10. Ratification/Waiver. 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 or County lease, pooling agreement, or other contract that has expired, terminated, or has been released in whole or in part or terminated under its terms or the laws applicable thereto; (2) constitute a waiver or release of any claim for money, oil, gas, other hydrocarbons, or other thing due to the State or the County by reason of the existence or failure of such contract; (3) constitute a waiver or release of any claim by the State or the County that such contract is void or voidable for any reason including, without limitation, violations of the laws of the State with respect to such contract 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 or the County has or claims an interest; (5) constitute a ratification of or a waiver or release of any claim by the State or the County 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 or the County; or (6) constitute a waiver of sovereign or governmental immunity.

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

"**Horizontal Drainhole**" means the portion of the Unit well:

(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.

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

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

12. A counterpart hereof may be executed by each party to this Agreement, each of which shall be considered an original, and all of said counterparts shall be construed together as one instrument.

13. The terms and provisions herein extend to and bind the heirs, legal representatives, successors, and assigns of the parties hereto.

(Signature Page and Exhibits Follow)

SAMPLE

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

Date Executed _____

STATE OF TEXAS

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

Approved:
Cont.: _____
MM: ____
OGC: _____
DCC: _____
CC: _____

CERTIFICATE

I, Vicki Gonzales, 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 foregoing instrument was approved by said Board under the provisions of Chapter 32 and 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

SAMPLE

_____

By: _____

Its: _____

On: _____

ACKNOWLEDGMENT

STATE OF TEXAS

COUNTY OF _____

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

as _____ of _____, a _____,

on behalf of said _____.

_____

Notary Public in and for the State of Texas

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EXHIBIT "1"

1. RESERVATION AND GRANT. The State reserves the full use of the property covered hereby and all rights with respect to the surface and subsurface thereof for any and all purposes except those granted to Operator, being the right to explore for, drill, and produce the pooled mineral from the HROW Tract, and the State further reserves the rights of ingress and egress and use of said lands by the State and its mineral lessees for purposes of exploring for and producing minerals and zones not covered by this Agreement. All of the rights in and to the HROW Tract retained by the State and all of the rights in and to the HROW Tract granted to Operator herein shall be exercised in such a manner that neither shall unduly interfere with the operations of the other. All references to the "Commissioner" are references to the Commissioner of the Texas General Land Office.

2. PRODUCTION ROYALTIES. Upon production of the pooled mineral, Operator agrees to pay or cause to be paid to the County during the term hereof:

(A) OIL. As a royalty on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, **1/4** part of the gross production or the market value thereof, at the option of the County, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Operator agrees that before any gas produced from the land hereby pooled is sold, used, or processed in a plant, it will be run free of cost to the County through an adequate oil and gas separator of conventional type or other equipment at least as efficient to the end that all liquid hydrocarbons recoverable from the gas by such means will be recovered. Upon written consent of the Commissioner, the requirement that such gas be run through such a separator or other equipment may be waived upon such terms and conditions as prescribed by the Commissioner.

(B) NON-PROCESSED GAS. As a royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subsection (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) **1/4** part of the gross production or the market value thereof, at the option of the County, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is greater provided that the maximum pressure base in measuring the gas under this Agreement contract shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to test made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

(C) PROCESSED GAS. As a royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons, **1/4** part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the County. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this Agreement, and on fifty percent (50%) or that percent accruing to Operator, whichever is the greater, of the total plant production of liquid hydrocarbons, attributable to the gas produced from this Agreement; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Operator (or its parent, subsidiary, or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arms' length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this section be less than the royalties which would have been due had the gas not been processed.

(D) OTHER PRODUCTS. As a royalty on carbon black, sulphur, or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning, or any other processing, **1/4** part of gross production of such products, or the market value thereof, at the option of the County, such market value to be determined as follows:

(1) Based on the highest market price of each product, during the same month in which such product is produced, or
(2) Based on the average gross sale price of each product for the same month in which such products are produced; whichever is the greater.

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(E) NO DEDUCTIONS. Operator agrees that all royalties accruing to the County under this Agreement shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, conditioning, compressing, processing, transporting, and otherwise making the oil, gas and other products produced hereunder ready for sale or use. If any contract by which Operator or an affiliate of Operator sells oil or gas produced hereunder makes deductions or adjustments to the price to account for costs of producing, gathering, storing, separating, treating, dehydrating, conditioning, compressing, processing, or transporting of oil or gas produced from the pooled area, then such deductions shall be added back to the price received for purposes of computing the gross production upon which royalties are to be paid. The State and Operator agree that the foregoing provision is to be given full effect and is not to be construed as "surplusage" under *Heritage Resources, Inc. v. Nationsbank*, 939 S.W.2d 118 (Tex. 1996).

(F) ROYALTY IN KIND. Notwithstanding anything contained herein to the contrary, the County may, at its option at any time or from time to time with at least 60 days' notice, require that payment of all or any royalties accruing to the County under this 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 or use. The County's right to take its royalty in kind shall not diminish or negate the County's rights or Operator's obligations, whether express or implied, under this Agreement.

(G) PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this Agreement's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding anything contained herein to the contrary, and subject to the consent in writing of the GLO, Operator may recycle gas for gas lift purposes in the Unit after the liquid hydrocarbons contained in the gas have been removed, and no royalties shall be payable on the gas so recycled until such time as the same may thereafter be produced and sold or used by Operator in such manner as to entitle the County to a royalty thereon under the royalty provisions of this Agreement.

(H) MINIMUM ROYALTY AND KEEP WHOLE. The royalties paid to the County each year in no event shall be less than $10.00 per acre of State lands in the Unit; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of first production a sum equal to $10.00 per acre of State lands in the Unit less the amount of royalties paid during the preceding year. Operator may not pay a royalty hereunder for processed gas that is less than the royalty that would have been due under Section 2(C) for the total energy content of the gas at the processing plant inlet if it had not been processed.

3. ROYALTY PAYMENTS AND REPORTS.

(A) PAYMENTS. All royalties not taken in kind shall be paid to the County. The rules currently provide that royalty on production of oil and gas shall be made directly to the County treasurer or officer performing that office's function for deposit to the credit of the County's road and bridge fund. Royalty on oil is due and must be received by the County on or before the fifth (5^{th}) day of the second (2^{nd}) month succeeding the month of production or such later date as may be prescribed by administrative rule. Royalty on gas is due and must be received by the County on or before the fifteenth (15^{th}) day of the second (2^{nd}) month succeeding the month of production or such later date as may be prescribed by administrative rule. Each royalty payment to the County shall be accompanied by a check stub, schedule, summary, or other remittance advice showing the amount of royalty being paid on each lease number.

(B) LATE PAYMENT PENALTIES. If Operator pays its royalty on or before thirty (30) days after the royalty payment was due, then Operator owes a penalty of 5% on the royalty or $25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or $25.00, whichever is greater. In addition to a penalty, royalties shall accrue interest at the rate of 12% per year; such interest will begin accruing when the royalty is sixty (60) days overdue. The Operator shall bear all responsibility for paying or causing royalties to be paid as prescribed by the due date provided herein. Payment of the delinquency penalty shall in no way operate to prohibit the State's right of forfeiture as provided by law nor act to postpone the date on which royalties were originally due. The above penalty provisions shall not apply in cases of title dispute as to the County's portion of the royalty or to that portion of the royalty in dispute as to fair market value.

(C) REPORTS TO GLO. Even though payments are made directly to the County, Operator must submit to the GLO:

(1) the affidavit of the owner, manager, or other authorized agent, completed in the form and manner prescribed by the General Land Office. Operator must show the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, as well as a copy of all documents, records, or reports confirming the gross production, disposition, and market value including gas meter readings, pipeline receipts, gas line receipts, and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the GLO may require to verify the gross production, disposition, and market value. In all cases, the authority of a manager or agent to act for the Operator herein must be filed with the GLO. Affidavits and supporting documents which are not filed with the GLO when due shall incur a penalty in an amount set by the General Land Office for State mineral lease reporting according to the GLO administrative rule effective on the date when the affidavits or supporting documents were due.

(2) any other production/royalty reports as provided in the GLO administrative rules.

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4. RECORDS.

(A) RESERVES, CONTRACTS, AND OTHER RECORDS. When requested by the GLO or the County, Operator will provide copies of all contracts under which gas is sold or processed and all subsequent agreements and amendments to such contracts. Such contracts and agreements when received by the GLO shall be held in confidence by the GLO unless otherwise authorized by Operator. All other contracts and records pertaining to the production, transportation, sale, and marketing of the pooled mineral produced from the pooled area, including the books and accounts, receipts and discharges of all wells, tanks, pools, meters, and pipelines shall at all times be subject to inspection and examination by the Commissioner, the Attorney General, the Governor, or the representative of any of them.

(B) DRILLING RECORDS. Written notice of all operations on this Unit shall be submitted to the GLO by Operator five (5) days before spud date, workover, re-entry, temporary abandonment, or plug and abandonment of any well(s). Such written notice to the GLO shall include copies of Railroad Commission forms for application to drill. Copies of well tests, completion reports, and plugging reports shall be supplied to the GLO at the time they are filed with the Texas Railroad Commission. Division orders must be submitted to the GLO within thirty (30) days of first production. The GLO shall not be required to sign any division orders. Operator shall have a basic electrical log as defined by the Railroad Commission made on the borehole section, from the base of the surface casing to the total depth of well, of all wells drilled on the Unit or such other log or logs as a reasonable and prudent operator would run and shall transmit a complete suite of such logs on each well to the GLO within fifteen (15) days after the making of said logs. Upon request, Operator shall supply the GLO with any other records, memoranda, accounts, reports, cuttings and cores, or other information related to the operation of the Unit not otherwise expressly addressed herein.

(C) PENALTIES. Operator shall incur a penalty whenever reports, documents, or other materials are not filed in the GLO when due. The penalty for late filing shall be set by the GLO administrative rule which is effective on the date when the materials were due in the GLO.

5. RETAINED DEPTHS. Two (2) years after the end of the primary term of this Agreement, the pooled interval shall terminate **EXCEPT** as to:

(A) all depths from three hundred feet (300') true vertical depth above the shallowest Take Point reached by any Horizontal Drainhole to three hundred feet (300') true vertical depth below the deepest Take Point reached by any Horizontal Drainhole; or

(B) if the Unit contains only vertical wells, all depths from the top of the pooled interval to one hundred feet (100') true vertical depth below the deepest then-producing perforation in the Unit.

6. NO SURFACE USE. No drilling or other operations are allowed on the surface of land during the period in which the land is used by this state as a highway, road, street, alley, or maintenance facility.

7. OFFSET WELLS. If the pooled mineral should be produced in commercial quantities from a well located on land privately owned or on State land leased at a lesser royalty, which well is within two thousand five hundred feet (2,500') of the HROW Tract, or which well is draining the area covered by this Agreement, the Operator shall drill an offset well if (1) the Unit is not Producing in Paying Quantities or (2) drainage is occurring.

Operator shall, within sixty (60) days after such initial production from the draining well or the well located within two thousand five hundred feet (2,500') of the HROW Tract, begin in good faith and prosecute diligently the drilling of an offset well in the Unit, and such offset well(s) shall be drilled to such depth as may be necessary to prevent the undue drainage of the Unit, and the Operator, manager, or driller shall use all means necessary in a good faith effort to make such offset well(s) produce Oil and/or Gas in commercial quantities. Only with the Commissioner's written approval, which may be granted or withheld in the Commissioner's sole discretion, may the payment of a compensatory royalty satisfy Operator's obligation to drill offset well(s) as required under this section.

For the purposes of this section, the parties agree that drainage is occurring under subsection (2) if a non-Unit well is completed with takepoints within three hundred thirty feet (330') of the HROW Tract.

8. DRILLING AND REWORKING AT EXPIRATION OF PRIMARY TERM. If, at the expiration of the primary term, the pooled mineral is not being Produced in Paying Quantities from the Unit but Operator is then engaged in drilling or reworking operations thereon, this Agreement shall remain in force so long as operations on said well or for drilling or reworking of any additional wells are prosecuted in good faith and in workmanlike manner without interruptions totaling more than sixty (60) days during any one such operation, and if they result in the production of oil and/or gas, so long thereafter as oil and/or gas is Produced in Paying Quantities from said land, or payment of shut-in oil or gas well royalties or compensatory royalties is made as provided in this Agreement.

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9. CESSATION, DRILLING, AND REWORKING. If, at the end of or after the primary term, production of the pooled mineral, once obtained, should cease being Produced in Paying Quantities from any cause, this Agreement shall not terminate if Operator re-establishes Production in Paying Quantities within sixty (60) days after such cessation or commences additional drilling or reworking operations within sixty (60) days after such cessation, and this Agreement shall remain in full force and effect for so long as such operations continue in good faith and in workmanlike manner without interruptions totaling more than sixty (60) days. For a cessation of Production in Paying Quantities prior to the end of the primary term, Operator may use the expiration of the primary term as the date of cessation of Production in Paying Quantities. If such drilling or reworking operations result in the production of the pooled mineral, the Agreement shall remain in full force and effect for so long as the pooled mineral is Produced in Paying Quantities from the Unit or payment of shut-in oil or gas well royalties or payment of compensatory royalties is made as provided herein or as provided by law. If the drilling or reworking operations result in the completion of a well as a dry hole, this Agreement will not terminate if the Operator commences additional drilling or reworking operations within sixty (60) days after the completion of the well as a dry hole, and this Agreement shall remain in effect so long as Operator continues drilling or reworking operations in good faith and in a workmanlike manner without interruptions totaling more than sixty (60) days. Operator shall give written notice to the GLO within thirty (30) days of any cessation of Production in Paying Quantities.

10. SHUT-IN ROYALTIES. For purposes of this section, "well" means any well that has been assigned a well number by the state agency having jurisdiction over the production of oil and gas. If at any time after the end of the primary term, a well capable of Producing in Paying Quantities is located in the Unit, but the pooled mineral is not being produced for lack of suitable production facilities or lack of a suitable market, then Operator may pay as a shut-in oil or gas royalty an amount equal to $10.00 per acre of State lands in the Unit, but not less than $1,200 for each well in the Unit capable of Producing in Paying Quantities.

Operator may not maintain this Agreement under this section for lack of suitable production facilities if all or part of such production facilities are owned or operated by Operator or its affiliate and the cause is Operator's improper maintenance or neglect. A low price for Oil or Gas does not, by itself, constitute lack of a suitable market. Operator may also request approval to maintain the Agreement under this section if the purpose of the shut-in is to protect such well from potential damage from the fracturing or refracturing of a nearby well (an "Offset Frac").

To be effective, each shut-in oil or gas royalty payment must be accompanied by the GLO's form shut-in affidavit (explaining and supporting the reason for the proposed shut-in) and paid on or before the latest of: (i) the expiration of the primary term; (ii) sixty (60) days after Operator ceases to produce oil or gas from the Unit, or (iii) sixty (60) days after Operator completes a drilling or reworking operation in accordance with the Agreement. If the shut-in oil or gas royalty is paid, accompanied by the shut-in affidavit with an explanation that is reasonably acceptable to the State, the HROW Tract shall be considered to be Producing in Paying Quantities and this Agreement will be deemed extended for one (1) year following the later of the end of the primary term or the first (1st) day of the month following the month in which Production in Paying Quantities ceased.

If no suitable production facilities or suitable market for the oil or gas exists despite a diligent effort, that being the effort of a reasonable and prudent operator to obtain or repair the production facilities or to obtain a market, Operator may, upon the GLO's written approval, extend this Agreement four (4) more successive periods of one (1) year each by paying the same amount and submitting a satisfactory shut-in affidavit each year on or before the expiration of each shut-in year. If Operator seeks to shut in to protect the well from an Offset Frac, Operator may request shut-in periods that, upon the GLO's written approval, extend this Agreement for a period not to exceed six (6) months each, provided Operator pays a pro rata portion of the shut-in fee.

11. COMPENSATORY ROYALTIES DURING SHUT-IN. If, during the period the Agreement is kept in effect by payment of the shut-in oil or gas royalty, the pooled mineral is sold and delivered in paying quantities from a well located within two thousand five hundred feet (2,500') of the HROW Tract and completed in the same producing reservoir, or in any case in which drainage of the pooled mineral is occurring, the right to continue to maintain the Agreement by paying the shut-in oil or gas royalty shall cease, but the Agreement shall remain effective for the remainder of the year for which the royalty has been paid. The Operator may maintain the Agreement for four (4) more successive years by Operator paying compensatory royalty at the royalty rate provided in this Agreement of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within two thousand five hundred feet (2,500') of the HROW Tract. The compensatory royalty must be paid monthly to the Commissioner beginning on or before the last day of the month following the month in which the pooled mineral is produced from the well causing the drainage or that is completed in the same producing reservoir and located within two thousand five hundred feet (2,500') of the Unit. If the compensatory royalty paid in any 12-month period is in an amount less than the annual shut-in oil or gas royalty, Operator shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. None of these provisions will relieve Operator of the obligation of reasonable development nor the obligation to drill offset wells as provided above, however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties shall satisfy the obligation to drill offset wells. Compensatory royalty payments that are not timely paid will accrue penalty and interest in accordance with Section 3 of this exhibit.

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12. USE OF WATER; SURFACE. Operator shall have the right to use water produced from said land necessary for operations hereunder and solely for the Unit; provided, however, Operator shall not use potable water or water suitable for livestock or irrigation purposes for water flood operations without the prior written consent of the State. Subject to its obligation to pay surface damages, Operator shall have the right to use so much of the surface of the land that may be reasonably necessary for drilling and operating wells and transporting and marketing the production therefrom, such use to be conducted under conditions of least injury to the surface of the land.

13. POLLUTION. In developing the Unit, Operator shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers, and impounded water shall be prevented using containment facilities sufficient to prevent spillage, seepage, or groundwater contamination. In the event of pollution, Operator shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties.

Failure to comply with the requirements of this provision may result in the maximum penalty allowed by law including forfeiture of the Agreement. Operator shall be liable for the damages caused by such failure and any costs and expenses incurred in cleaning areas affected by the discharged waste.

14. IDENTIFICATION MARKERS. Operator shall erect, at a distance not to exceed twenty-five (25) feet from each well on the premises covered by this Agreement, a legible sign on which shall be stated the name of Operator, the State Lease Number designation, and the well number. Where two or more wells on the same lease or where wells on two or more leases are connected to the same tank battery, whether by individual flow line connections direct to the tank or tanks or by use of a multiple header system, each line between each well and such tank or header shall be legibly identified at all times, either by a firmly attached tag or plate or an identification properly painted on such line at a distance not to exceed three (3) feet from such tank or header connection. Said signs, tags, plates, or other identification markers shall be maintained in a legible condition throughout the term of this Agreement.

15. ASSIGNMENTS. This Agreement may be transferred at any time; provided, however, that the liability of the transferor to properly discharge its obligation under the Agreement, including properly plugging abandoned wells, removing platforms or pipelines, or remediation of contamination at drill sites shall pass to the transferee upon the prior written consent of the Commissioner. The Commissioner may require the transferee to demonstrate financial responsibility and may require a bond or other security. All assignments must reference this Agreement by the State Lease Number and must be recorded in the county where the Unit is located, and the recorded assignment or a copy certified to by the County Clerk of the county where the transfer is recorded must be filed in the General Land Office within ninety (90) days of the execution date, accompanied by the filing fee prescribed by the GLO rules in effect on the date of receipt by the GLO of such assignment or certified copy thereof. Every transferee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the County by the original Operator or any prior transferee of the Agreement, including any liabilities to the County for unpaid royalties.

16. LIEN. The County shall have a first lien upon all of the pooled mineral produced from the Unit to secure payment of all unpaid royalty and other sums of money that may become due under this Agreement. By accepting this Agreement, Operator grants the County, in addition to any other applicable lien, an express contractual lien on and security interest in all pooled minerals in and extracted from the Unit, all proceeds which may accrue to Operator from the sale of such minerals, whether such proceeds are held by Operator or by a third party, and all fixtures on and improvements to the Unit used in connection with the production or processing of such minerals in order to secure the payment of all royalties or other amounts due or to become due under this Agreement and to secure payment of any damages or loss that the County may suffer by reason of Operator's breach of any covenant or condition of this Agreement, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in Title 1, Chapter 9 of the Texas Business and Commerce Code. Operator agrees that the Commissioner may require Operator to execute and record such instruments as may be reasonably necessary to acknowledge, attach, or perfect this lien. Operator hereby represents that there are no prior or superior liens arising from and relating to Operator's activities upon the above-described property or from Operator's pooling of the area. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this Agreement forfeited as provided herein.

17. FORFEITURE. If Operator shall fail or refuse to make the payment of any sum within thirty (30) days after it becomes due, or if Operator or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Operator shall fail or refuse to drill any offset well(s) in good faith as required by law and the rules and regulations adopted by the Commissioner, or if Operator should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the GLO, the School Land Board, or the Railroad Commission, or refuse the proper authority access to the records pertaining to operations, or if Operator or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the GLO a correct log of any well, or if Operator shall knowingly violate any of the material provisions of this Agreement, the rights acquired under this Agreement shall be subject to forfeiture by the Commissioner, and the Commissioner shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited, the area shall again be subject to lease or pooling. Nothing herein, however, shall be construed as waiving the automatic termination of this

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Agreement by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this Agreement and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the Commissioner of future compliance with the provisions of the law and of this Agreement and the rules and regulations that may be adopted relative hereto.

18. APPLICABLE LAWS AND DRILLING RESTRICTIONS. This Agreement shall be subject to all rules and regulations, and amendments thereto, promulgated by the Commissioner governing drilling and producing operations on Permanent School Fund land, payment of royalties, and auditing procedures, and shall be subject to all other valid statutes, rules, regulations, orders, and ordinances that may affect operations under the provisions of this Agreement. Without limiting the generality of the foregoing, Operator agrees by accepting this Agreement to be bound by and subject to all statutory and regulatory provisions relating to the GLO's audit billing notice and hearings procedures. Said provisions are currently found at Texas Natural Resources Code §§52.135 and 52.137 – 52.140.

19. REMOVAL OF EQUIPMENT. Upon the termination of this Agreement, Operator shall not, in any event, be permitted to remove the casing or any part of the equipment from any producing, dry, or abandoned well(s) on State land without the written consent of the Commissioner authorized representative; nor shall Operator, without the written consent of the Commissioner or authorized representative remove from the HROW Tract the casing or any other equipment, material, machinery, appliances, or property owned by Operator and used by Operator in the development and production of the pooled mineral therefrom until all dry or abandoned wells have been plugged and until all slush or refuse pits have been properly filled and all broken or discarded lumber, machinery, or debris shall have been removed from the premises to the satisfaction of the Commissioner or authorized representative.

20. FORCE MAJEURE. Should Operator be prevented from complying with any express or implied covenant of this Agreement, from conducting drilling operations thereon, or from producing the pooled mineral therefrom, after effort made in good faith, by reason of war, rebellion, riots, strikes, fires, acts of God or any order, rule, or regulation of governmental authority, then while so prevented, Operator's obligation to comply with such covenant shall be suspended upon proper and satisfactory proof presented to the GLO in support of Operator's contention and Operator shall not be liable for damages for failure to comply therewith and this Agreement shall be extended while and so long as Operator is prevented, by any such cause, from drilling, reworking operations, or producing the pooled mineral from the pooled area. Operator agrees to immediately notify the GLO of any force majeure event and when the reason for force majeure has ceased.

21. NO WARRANTY AND PROPORTIONATE REDUCTION CLAUSE. This Agreement is entered into by the State without any covenant of title or warranty of title, express or implied, and without any recourse against the State in the event of any failure of title, not even for the return of any consideration paid. If the State owns less than the entire undivided interest in the above-described land, then the royalties herein provided to be paid to the State shall be paid in the proportion which its interest bears to the entire undivided interest. Before Operator adjusts the royalty due to the State, however, Operator or its authorized representative must submit to the GLO a written explanation of the discrepancy between the interest purportedly included under this Agreement and the actual interest owned by the State**.**

22. SECURITY. Operator shall take the highest degree of care and all proper safeguards to protect said premises and to prevent theft of oil, gas, and other hydrocarbons produced from the Unit. This includes, but is not limited to, the installation of all necessary equipment, seals, locks, or other appropriate protective devices on or at all access points of the Unit's production, gathering, and storage systems where theft of hydrocarbons can occur. Operator shall be liable for the loss of any hydrocarbons resulting from theft and shall pay the County's royalties thereon as provided herein on all oil, gas, or other hydrocarbons lost by reason of theft.

23. SUCCESSORS AND ASSIGNS. The covenants, conditions, and agreements contained herein shall extend to and be binding upon the heirs, executors, administrators, successors, or assigns of Operator herein.

24. ANTIQUITIES CODE. In the event that any site, object, location, artifact, or other feature of archaeological, scientific, educational, cultural, archeological or historical interest are encountered on State land during the activities authorized by this Agreement, Operator will immediately cease activities and will immediately notify the General Land Office (ATTN: Archaeologist, Asset Management Division, 1700 N. Congress Ave., Austin, Texas 78701) and the Texas Historical Commission (P.O. Box 12276, Austin, TX 78711) so adequate measures may be undertaken to protect or recover such discoveries or findings, as appropriate. Operator is expressly placed on notice of the National Historical Preservation Act of 1966 (PB-89-66, 80 Statute 915; 16 U.S.C.A. 470) and the Antiquities Code of Texas, Chapter 191, Texas Natural Resources Code.

25. VENUE. The State and Operator hereby agree that venue for any dispute arising out of a provision of this Agreement, whether express or implied, regarding interpretation of this Agreement, or relating in any way to this Agreement or to applicable case law, statutes, or administrative rules, shall be in a court of competent jurisdiction located in Travis County, Texas.

26. FILING. Pursuant to Chapter 9 of the Texas Business and Commerce Code, this Agreement must be filed of record in the office of the County Clerk in any county in which all or any part of the Unit is located, and recorded copies thereof must be filed in the General Land Office.

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