**PRODUCTION ALLOCATION AGREEMENT**

STATE OF \_\_\_\_\_\_\_\_\_\_\_ §

COUNTY OF \_\_\_\_\_\_\_\_\_\_ §

THIS **PRODUCTION ALLOCATION AGREEMENT** (this “Agreement”) is made and entered into this \_\_\_\_\_ day of \_\_\_\_\_\_\_, 20\_\_ (the “Effective Date”), by and between the undersigned parties (individually the “Interest Owner,” collectively the “Interest Owners,”), and **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**, whose address \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (the “Operator”). The Interest Owners and the Operator are sometimes collectively referred to herein as the “Parties” and individually as a “Party.”

**WHEREAS**, each of the undersigned Interest Owners owns an interest in the leases, minerals, royalties and/or executive rights covered by the oil and gas lease or leases described on the attached **Exhibit “A”** (hereinafter the “Lease,” whether one or more);

**WHEREAS**, the Interest Owners and Operator wish to encourage further development of the Lease through drilling one or more Horizontal Wells on lands further described by legal description and/or depicted by plat on the attached **Exhibit “B”** (the “Lands”) and to agree upon a basis for allocating production from such Horizontal Wells in order to:

1. Prevent physical and economic waste and the drilling of unnecessary wells, and to increase the ultimate recovery of hydrocarbons from the Lands and Lease; and

1. Protect the correlative rights of all Interest Owners, so that each may receive a fair share of the hydrocarbon production in and under the Lands and Lease; and

1. Encourage the drilling of Horizontal Wells by establishing a method to allocate production and the proceeds therefrom; and

**WHEREAS**, the Interest Owners wish to enter into this Production Allocation Agreement (the “Agreement”) on the terms set forth herein.

**NOW THEREFORE**, for good and valuable consideration, the receipt and sufficiency of which are acknowledged, the Interest Owners agree as follows:

1. Definitions. The following terms, as used in this Agreement, shall have the following meaning:

1. **“Allocation Factor”** being defined as a fraction, the numerator of which is equal to the length of that portion of the Lateral Line Equivalent that lies within the Lands under which the Interest Owner owns, excluding the Non-Perf Zone, and the denominator being the total length of the Lateral Line Equivalent.

1. **“Allocation Well”** shall be defined as a Horizontal Well in which any portion of the Lateral Line Equivalent crosses any property line, lease line, subdivision line or Pooled Unit boundary line as determined according to the rules of the state regulatory agency having jurisdiction over the Lands (the “Agency”, which (i) is within the Lands, or (ii) forms part of the boundary of the Lands.

1. **“Horizontal Well”** shall have the same meaning as the term defined by the Agency. In the absence of such a definition, the term shall mean a well in which the Lateral Line Equivalent has a horizontal displacement of at least one hundred (100) feet in that formation acknowledged by the Agency in which a Horizontal Well is permitted, drilled to, and completed in.
2. **“Lateral Line Equivalent”** is defined as one of the following depending on the Allocation Well’s “as drilled” plat filed with the Agency.
   1. If the surface location of the Allocation Well is situated on a tract of land with different mineral ownership than the tract of land where the First Take Point is located then the Lateral Line Equivalent shall be a line that begins at the First Take Point of an Allocation Well, runs laterally towards the terminus of the Allocation Well, and ends at the Last Take Point of such Allocation Well;
   2. If the surface location of the Allocation Well is situated on the same tract of land as the First Take Point then the Lateral Line Equivalent shall be a line that begins at the surface location of an Allocation Well, runs laterally towards the terminus of the Allocation Well, and ends at the point directly above the terminus of such Allocation Well; or
   3. If the surface location of the Allocation Well is situated on the same tract of land as the First Take Point but the First Take Point is further from the terminus of the Allocation Well than the surface location to the terminus of the Allocation Well, then the Lateral Line Equivalent shall be a line that begins at the First Take Point of the Allocation Well, runs laterally towards the terminus of the Allocation Well, and ends at the point directly above the terminus of such Allocation Well.
3. **“Non-Perf Zone”** shall be defined as the non-perforated portion, measured in feet, of a wellbore between the last series of perforations and the beginning of the next series of continuous perforations, which span is not open to production.
4. **“Pooled Unit”** shall mean a unit formed by the joining or combining of separately owned leasehold interests pursuant to the pooling clauses of the leases or any other agreement authorizing such pooling.
5. **“Take Point”** means any point along the wellbore path in a Horizontal Well where oil and/or gas can be produced into the wellbore.
   1. **“First Take Point”** shall be defined as the Take Point located closest to the wellhead with respect to the wellbore.
   2. **“Last Take Point”** shall be defined as the Take Point located furthest from the surface location or First Take Point location with respect to the wellbore.

2. Allocation. The Interest Owners will share in the production or the proceeds out of production produced and saved from an Allocation Well that physically traverses and/or crosses the Lands, on the basis of that specific Interest Owner’s proportionate interest in the Lease, payable pursuant to the terms and provisions of the Lease, multiplied by the Allocation Factor.

3. Operations. Operations on and oil and gas production from each Allocation Well shall be treated as if they were actual operations on or production from the Lease underlying the Lands, so long as there are perforations in that portion of the Lateral Line Equivalent lying in the Lands covered by the Lease.

4. Limited to Allocation Wells. This Agreement affects only oil and gas production from each Allocation Well traversing Interest Owner’s Lands drilled hereunder, and in no way affects ownership of production from any existing vertical well or any other wells drilled or to be drilled which lie solely within the Lands. Production from any Allocation Well drilled hereunder shall not create any offset obligation, whether express or implied, as to the Lease. As to each Allocation Well drilled, this Agreement protects each Interest Owner’s correlative rights in such well and as a result of such well. In the event any Allocation Well shall be plugged back or recompleted in such a manner that the well can no longer be defined as a Horizontal Well, such well shall no longer be considered an Allocation Well for purposes of this Agreement. This Paragraph 4 shall only be effective as to Interest Owner insofar as it applies to Allocation Wells drilled hereunder that include Interest Owner’s Lands.

5. Terms of the Lease. The provisions of any Lease within the Lands and the various agreements, division orders, transfer orders and pooling agreements covering or affecting the Lease within the Lands are hereby amended to the extent necessary to make such instruments and agreements conform to the provisions herein, but not otherwise. In the case of conflict between the provisions of this Agreement and the provisions of such instruments and agreements, the provisions of this Agreement shall control.

In addition to the foregoing, the Interest Owners do hereby RATIFY, ADOPT, and CONFIRM the Interest Owners’ Lease and do hereby GRANT, LEASE, AND LET unto Operator, all of Interest Owner’s interest in the acreage covered by the Lease, subject to the same terms and conditions provided for therein, as same may have been heretofore amended.

6. Term. This Agreement shall become effective if and when the Operator files same of record in the county of where the Lands are located and will thereafter remain effective for so long as an Allocation Well is operated in conformity with the terms and provisions of the Lease, unless sooner terminated by Operator by filing a notice of termination in the same county. In lieu of filing this Agreement, Operator may file a memorandum of this Agreement, and each Interest Owner will execute such memorandum if requested by Operator.

7. Change in Lateral Length Equivalent. The Operator reserves the continuing right to amend, correct or alter the Lands designation and the proration units created hereby to the extent permitted by law and the authority granted in the Lease, including, without limitation, the power to: (i) include, amend or revise any depth limitations as to the Lands and the Lease; (ii) to dissolve and terminate any then existing proration unit and create another proration unit or several proration units within the Lands and the Lease, (iii) to include in the Lands designated herein any subsequently acquired oil and gas leases, amendments, extensions and/or ratifications thereof, covering interests in the Lands; and (iv) include in the Lands any undivided interest which is not otherwise included herein by the respective owner of such undivided interest. In the event the Lateral Length Equivalent in any Allocation Well is reduced or increased, each Interest Owner’s share of oil and gas production or the proceeds therefrom will change effective upon the first day of the month following the month that the increase or decrease occurs.

8. Pooled Unit. In the event the Lateral Line Equivalent traverses a Pooled Unit which also covers the depths from which the Lateral Line Equivalent is producing, the production or proceeds therefrom attributable to the portion of the Lateral Line Equivalent traversing the Pooled Unit shall be allocated among the parties subject to the Pooled Unit in accordance with the terms of such Pooled Unit and this Agreement.

9. No Presumed Pooling or Communitization. No pooling or communitization of any royalty, mineral or any other interest is intended by or shall result from the execution of this Agreement, from the drilling of any Allocation Well, production therefrom or the inclusion of separate tracts under this Agreement.

10. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be considered an original for all purposes, and shall be binding on those Parties who execute same, whether executed by all or a portion of the Parties hereto. The executed counterparts may be combined into one or more instruments for recordation, by combining the signature pages and acknowledgments, and the executing Parties agrees that such instruments shall be treated and given effect for all purposes as a single instrument.

11. No Cross-Conveyance. This Agreement shall not affect a cross-conveyance of real property interests or otherwise affect titles to real property.

12. Commingling. Commingling of oil and gas production from the Lands with production from other acreage shall be allowed. If and to the extent Operator exercises such commingling power, Operator shall be obligated to allocate production to each Allocation Well based upon industry accepted well testing (conducted no less frequently than monthly during the first six months following initial production from a new Allocation Well and no less frequently than quarterly thereafter), metering or other reasonable, commonly accepted method of production allocation.

13. Severability. In the event that any condition or covenant herein contained is held to be invalid or void by any court of competent jurisdiction, the same shall be deemed severable from the remainder of this Agreement and shall in no way affect any other covenant or conditions herein contained. If such condition, covenant or other provision shall be deemed invalid due to its scope or breadth, such provision shall be deemed valid to the extent of the scope or breadth permitted by law.

14. Representations. Each of the Parties hereto expressly warrants and represents, and does hereby affirm and stipulate, that no representation, promise or agreement, or statement of a past or existing fact, not expressed in this written Agreement, was made to induce the execution of same. Furthermore, the Parties hereto do each expressly warrant and represent, and do hereby affirm and stipulate, that they have not relied upon any representation, promise or agreement, or statement of a past or existing fact, which is not expressed in this written Agreement. Each of the Parties hereto is relying upon his, her, or its own judgment, and has had a full, fair and adequate opportunity to read and understand this Agreement, including but not limited to this provision. Each of the Parties hereto recognize that this paragraph is binding, as a matter of law and fact, and shall preclude them from asserting that they were wrongfully induced to enter into this Agreement by any representation, promise or agreement, or statement of a past or existing fact, which is not found within the four corners of this Agreement.

The terms and provisions of this instrument shall be binding upon and shall inure to the benefit of the Parties hereto, their respective heirs or successors and assigns.

EXECUTED by each Party on the date shown for each such Party’s acknowledgment, but effective for all purposes as of the Effective Date.

**INTEREST OWNERS:**

**Owner:**

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

Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Owner:** \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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

Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**OPERATOR:**

By:

**ACKNOWLEDGEMENT**

STATE OF \_\_\_\_\_\_\_\_ §

§

COUNTY OF §

This instrument was acknowledged before me on this day of 2019,

by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

NOTARY PUBLIC, STATE OF \_\_\_\_\_\_\_

SEAL

Print

Name

**ACKNOWLEDGEMENT**

STATE OF \_\_\_\_\_\_\_\_\_\_\_\_ §

§

COUNTY OF \_\_\_\_\_\_\_\_\_\_ §

Before me, the undersigned officer in and for the County and State aforesaid, this day personally appeared the within named \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, who signed the foregoing instrument on the day and year therein named, as the free and voluntary act of the said corporation, being informed of the contents of said instrument.

Given under my hand this the day of , 2019.

My Commission Expires:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Notary Public

**EXHIBIT "A"**

Attached to and made a part of that certain Production Allocation Agreement

by and between \_\_\_\_\_\_\_\_\_\_\_, as the Interest Owners

and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, as the Operator

**LIST OF INTEREST OWNERS’ LEASES**

Lease Date:

Lessor:

Lessee:

Recording:

Lands:

**EXHIBIT "B"**

Attached to and made a part of that certain Production Allocation Agreement

by and between \_\_\_\_\_\_\_\_\_\_\_, as the Interest Owners

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, as the Operator

**LEGAL DESCRIPTION**

**PLAT**