

## EXPLORATION AGREEMENT

This Exploration Agreement (the "Agreement") is entered into on \_\_\_\_\_ (the "Effective Date") between \_\_\_\_\_, (referred to as "First Party") and \_\_\_\_\_, (referred to as ("Second Party")). First Party and Second Party may be referred to collectively as the "Parties."

First Party and Second Party are interested in conducting joint exploration operations, including the drilling of exploratory or development wells, for the discovery of and for the production of oil and/or gas in an area in \_\_\_\_\_ County, \_\_\_\_\_.

In consideration of the premises and the mutual covenants and agreements set out in this Agreement, First Party and Second Party agree as follows:

### I. Contract Area

The area covered by this Agreement, called the "Contract Area," consists of an area in \_\_\_\_\_ County, \_\_\_\_\_ described as follows:

(Description of Contract Area)

### II. Interested Parties

Each of the Parties represents, without warranty of title, that they own leases within the Contract Area. It is the intent of the Parties to combine their interests and share in the costs of exploration, development, and operations on the Contract Area. The parties will assign to one another interests, on a unit-by-unit basis in the Contract Area, prior to the commencement of any drilling operations. Should the interests to be assigned be burdened in excess of \_\_\_\_\_ percent, then the Party owning the interest prior to assignment shall alone bear any burdens in excess of that amount as to the interests assigned, except where that Party farms out its interests as provided for in Section IV. below. Each Party will share costs to the extent that their separate leasehold and/or oil and gas interests in the Contract Area bears to the sum of the interest of all of the Parties in the Contract Area as defined and set out in Exhibit "A" of the Operating Agreement attached to this Agreement as Exhibit "A," unless changed under the provisions of Section IV and/or Section V of this Agreement. In that event, the proportionate amount set out in Exhibit "A" of the Operating Agreement will only apply to jointly owned interests, and the cost attributable to each Party will be the total cost attributable to their respective interest within a drillsite unit.

A. Subject to the other terms and conditions of this Agreement, First Party shall be the Operator of the initial test well under the terms of this Agreement and the Operating Agreement. First Party shall be designated Operator of any test well drilled under this terms of this Agreement in that portion of the Contract Area located in \_\_\_\_\_, as described in Article I of this Agreement.

B. Prior to Operator expending any sums for drilling operations under the terms of this Agreement or the Operating Agreement, for work that has been mutually approved by the Parties, Operator shall prepare and furnish Non-Operator (under the terms of the Operating Agreement) an Authority for Expenditure ("AFE") stating the estimated cost of the well or operation.

### III. Initial Test Well

On or before \_\_\_\_\_, Operator shall commence the drilling of a well in search of oil and/or gas at the following location:

(Description of Well Location)

and shall continue the drilling of the well with due diligence to a depth of \_\_\_\_\_ feet or depth sufficient to test the \_\_\_\_\_ formation, whichever is the lesser depth.

#### **IV. Subsequent Operations**

The Parties shall, by mutual agreement, determine the amount and type of exploratory work to be conducted by Operator on the lands included in the Contract Area, including but not limited to the drilling of test wells, seismic and subsurface studies, and the priority and/or order in which Operator shall conduct operations on the Contract Area.

In the event the Parties cannot mutually agree on the drilling of any test well, after the initial test well is drilling as provided for in Section III, a well may be drilled by one of the Parties in the following manner:

A. The Party electing to drill a test well shall submit a written proposal of the operation by presenting the other Party with the depth, objective formation, location, estimated cost, all in an AFE, and specify the commencement date for the well. Within \_\_\_\_\_ days after the proposal is delivered, the other Party shall make an election to participate in the well or farmout its interest under the terms and conditions set out in Exhibit "B," reserving out of the farmed out interest a proportionately reduced overriding royalty interest equal to the difference between \_\_\_\_\_ percent and all existing royalty and overriding royalty burdens of record, with the right to convert the overriding royalty interest to a \_\_\_\_\_ percent working interest after payout. The Party proposing the well must commence the well within \_\_\_\_\_ days of the date of the proposal or lose the right to propose another well for a period of \_\_\_\_\_ days from the expiration of the \_\_\_\_\_ day period. No Party may propose more than \_\_\_\_\_ wells in any \_\_\_\_\_ day period, unless all Parties agreed to an increase in the number of proposal that may be made.

B. In the event a test well is completed as a well capable of producing oil and/or gas in paying quantities, the Operator will have the option to conduct additional drilling in one additional offsetting drilling or proration unit of Operator's choice, within the Contract Area, with no more than \_\_\_\_\_ days elapsing between the completion of the initial well and the actual drilling of the additional well. A non-participating Party in the initial well must farmout its interest under the terms and conditions set out in Exhibit "B," reserving a proportionate reduced overriding royalty interest equal to the difference between \_\_\_\_\_ percent and all present royalty and overriding royalty burdens of record, with the option to convert the overriding royalty interest to a \_\_\_\_\_ percent working interest after payout of the additional well.

C. Should the Party drilling a test well pursuant to paragraphs A. and B. of this Section fail to reach the objective depth in a well due to mechanical difficulties of because of encountering conditions which are normally considered in the industry to be impenetrable or which, in the Party's opinion would make further drilling impractical by ordinary drilling methods, the party shall have the right within thirty (30) days after good faith discontinuance of operations on the test well, to commence actual drilling of a substitute test well at the location of its choice, under the terms and conditions prescribed for the test well. The substitute well should be treated for purposes of this Agreement as if it were the test well for which it is substituted.

#### **V. Properties and Interest Subject to this Agreement**

A. The properties and interests subject to this Agreement (the "Joint Property") are: (1) the jointly owned oil, gas, and mineral leases and other interests and any renewals and extensions of any leases, (2) all interest in leases acquired after the effective date of this Agreement pursuant to B. below, and any renewals and extensions of those interests in leases; and, (3) all equipment, machinery, supplies, and personal property used or obtained in connection with the Joint Property, except, any portion of the Joint Property to which an interest has been changed by non-participation in the drilling of a well.

B. If during the term of this Agreement, a Party purchases or in any other manner acquires an oil, gas, and/or mineral lease or leases or mineral interests (or any interest), on, in, or covering or affecting any of the lands located within the Contract Area. The Party purchasing or otherwise acquiring the interests (the "Acquiring Party") shall, within thirty (30) days after the date of the purchase or acquisition, deliver to the other Party a written notice setting forth the details concerning the purchase or acquisition, including the amount of consideration paid or agreed to be paid for the lease or interest. This notice should include all available title information concerning the purchase or acquisition. The Party notified shall have the option, which may be exercised only by written notice delivered to the Acquiring Party within twenty (20) days after receipt of the notice, to acquire an interest in the newly acquired lease or interest equal to that Party's undivided interest in the Joint Property as set forth in the Operating Agreement. On exercising the option, the notified Party shall, within thirty (30) days, pay to the Acquiring Party the proportionate share of the cost of the purchase or acquisition of the acquired lease or interest, and the Acquiring Party shall deliver an Assignment or Conveyance of the interest in the acquired lease or interest on which the option has been exercised. The Acquired Property shall then become a part of the Joint Property. The Acquiring Party shall pay all delay rentals which may become due under the terms of any lease acquired, and submit an invoice to the other Party for its proportionate part of the rentals. If the option is not exercised within the time and in the manner provided for above, the notified Party shall have no interest in the property with respect to which the option was not exercised and that property shall no longer be subject to the terms of this Agreement.

#### **VI. Production in Kind**

Each Party shall have the right and option for taking time to separately market its share of production to which it may be entitled or may become entitled to take in kind or separately market under the terms of this Agreement. The right and option to taking kind may be exercised at any time and from time to time so long as there is production from the Contract Area.

#### **VII. Operating Agreement**

A. Concurrently with entering into this Agreement, the parties have executed the Operating Agreement attached as Exhibit "A," the terms of which are incorporated into this Agreement for all purposes, and which shall govern the operation of all leases and interests in the Contract Area and the drilling of any well under the terms of this Agreement.

B. In the event of conflict between the terms or provisions of this Agreement and the terms or provisions of the Operating Agreement, the terms or provisions of this Agreement shall control.

#### **VIII. Term**

This Agreement shall be for a term commencing on the Effective Date and shall continue in force, except as otherwise provided, for a period of \_\_\_\_\_ years or until a later date on which all operations then being conducted by the terms of this Agreement have been completed and all obligations of the Parties provided for in this Agreement have been fully discharged. The term may be extended for additional one year periods from year to year by the mutual consent of the Parties.

#### **IX. Notices**

Unless otherwise provided, all notices and communications to be given under the terms of this Agreement shall be delivered by U.S. Mail, or facsimile, addressed to the respective Parties as follows:

First Party

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(Name and Address)

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Telephone Number

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Fax Number

Second Party

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(Name and Address)

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Telephone Number

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Fax Number

Unless otherwise specified in the notice, the date of a notice shall be the date on which the written or faxed notice is delivered to the Party to whom it is addressed. Each Party may change its address by notice to the other Party. No transfer of any interest pursuant to the terms of this Agreement shall be effective until the transferor or transferee (after complying with all other requirements of this Agreement) notify all other Parties of the address and designated representative of the transferee.

#### **X. Laws and Regulations**

The terms of this Agreement and all operations conducted under it shall be subject to all valid laws, rules, regulations, and orders of any regulatory body having jurisdiction, and be governed by the laws of the State of \_\_\_\_\_.

#### **XI. Assignability**

This Agreement shall be binding on the Parties and their respective heirs, successors and assigns. All rights created by this Agreement are freely assignable at anytime, but the Party assigning an interest shall give written notice to the other Party to this Agreement prior to the time of the Assignment.

#### **XII. Force Majeure**

The obligations of each Party, except for the payment of money, shall be suspended while, but only for so long as, a Party is prevented from complying with an obligation in whole or in part, by strikes, lockouts, acts of God, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open markets, inadequate facilities for the transportation of materials, or as a result of any order, requisition, or necessity of the government, or other matters beyond the reasonable control of a Party, whether similar to the matters specifically enumerated above or not; provided, however, that performance shall be resumed within a reasonable time after the cause of force majeure has been removed; and provided further that no Party shall be required, against its will, to settle any labor dispute.

### **XIII. Captions and Titles**

The captions and titles used in this Agreement shall not be construed as adding meaning to the subject matter of this Agreement, but are used only for reference and convenience.

### **XIV. Definitions**

“Test Well” means any well the drilling of which is commenced during the term of this Agreement at a location on land which, on the date of the commencement of the drilling of the well, constitutes a part of the Joint Property.

### **XV. Miscellaneous**

In the event any party should elect to abandon or release all or any part of its rights in the leases lying within the Contract Area, any renewals or extensions of those leases, or any Joint Property, the party electing to do so shall notify the Party no less than \_\_\_\_\_ days in advance of any abandonment or release, and if requested to do so, within \_\_\_\_\_ days of the receipt of notice by the other Party or Parties, shall immediately assign all rights to the other Party or Parties.

This Agreement is binding on and shall inure to the benefit of the Parties and their respective heirs, devisees, legal representatives, successors, and assigns.

This Agreement may be executed in any number of counterparts, each of which shall be considered an original for all purposes, and all counterparts together shall be deemed one and the same Agreement.

This Agreement is signed by each Party as of the date opposite their respective signatures, and when signed by Parties shall be deemed effective as of the stated Effective Date.

Date: **First Party**

Date **Second Party**

Exhibits:

“A”: Operating Agreement

“B”: Terms and Conditions of a Farmout. (The Parties may elect to attach a Farmout Agreement as Exhibit “B.”)