

Petroleum Education



Workshops

Joint Venture Agreements

Area of Mutual Interest Agreements

Farmout Agreements

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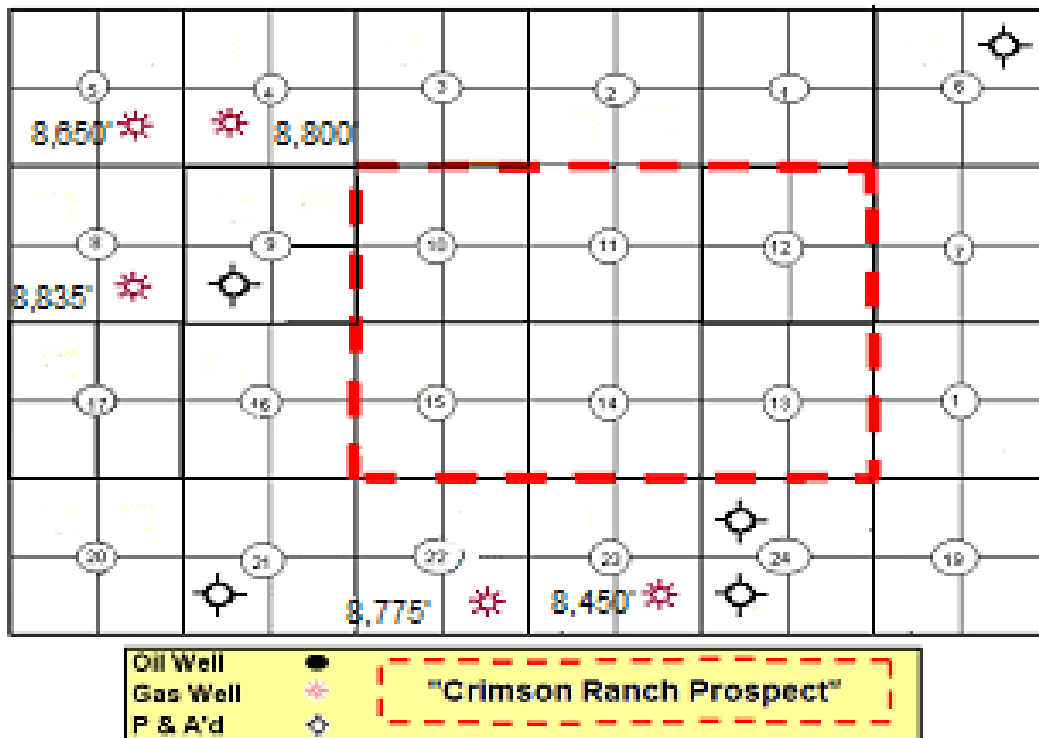
The "Crimson Ranch Prospect" Scenario



For the purpose of this study, assume the following: You work for Sunrise Oil and Gas. Your land manager has placed you and a team of people in charge of a new prospect named the "Crimson Ranch Prospect". This is the first project you have had an opportunity to manage. Your excitement level about this opportunity is very high.

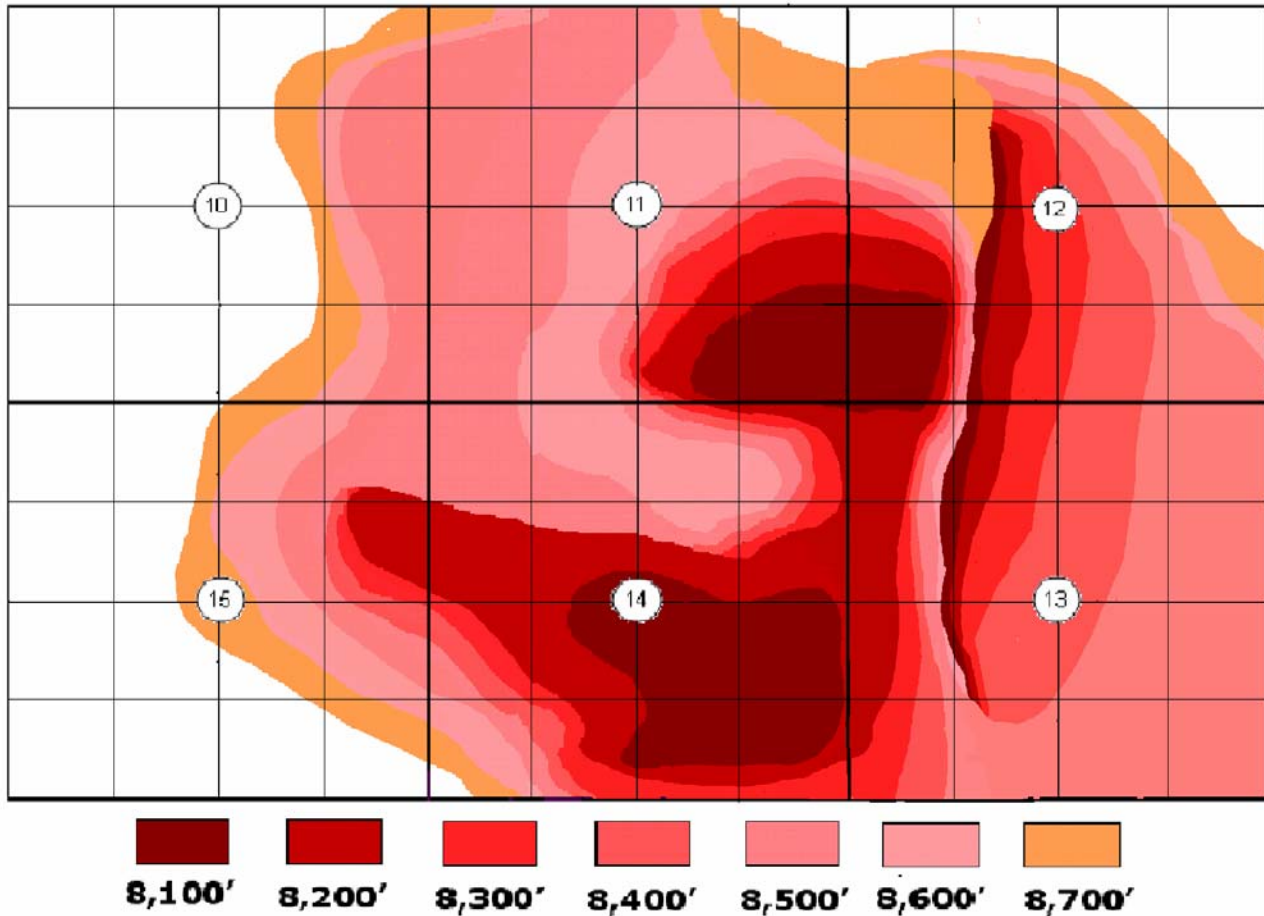
The Crimson Ranch Prospect is a 6-section area of land in Montrose County, North Dakota.

Five discovery gas wells, located at depths between 8,450' and 8,800', have successfully been drilled near this area. See plat.



Discovery Gas Wells near Crimson Ranch Prospect

Your first step was to hire a seismic company to complete a 3-D seismic shoot over the 6-sections. You have just received the results of that study. The following are those results:



Your team has evaluated the area and located three to four potential drill sites.

You believe that if the acquisition of leases and the drilling of these locations are successful, Sunrise could potentially make multiple millions of dollars and you have achieved a significant "milestone" in your career.

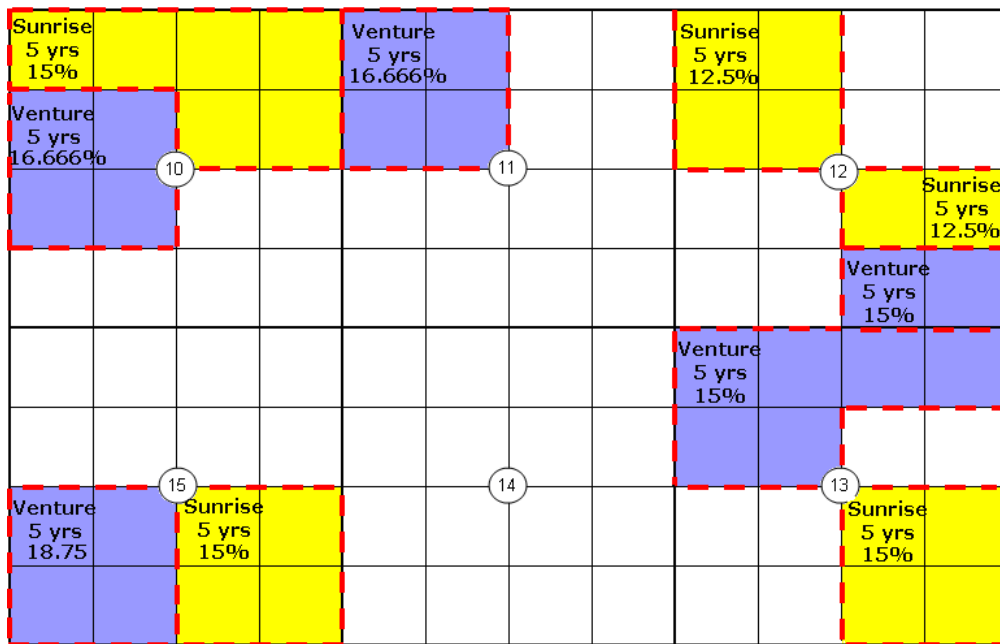
NOTE: The drilling and completion costs for wells in this area are expensive. It has been determined that low end costs run \$5,300,000 – high end costs over \$6,200,000.

Your land manager has only given you a budget to \$10,000,000 for the project.

The initial leasing phase for the Prospect

The following plat depicts the initial leasing phase of the Prospect. After the first two weeks of leasing, and realizing that two companies were battling over the same acreage, competition began to drive up the price of leases. The signing bonuses for the initial leases were under \$100 per acre with a 12.5% royalty. The last leases taken were going at a rate of \$250 an acre and an 18.75% royalty.

With over 2,000 acres yet to be leased, you realized that the total acquisition costs for signing bonuses could exceed a half of a million dollars.



Your first Dilemma

You decided to go to your land manager and ask for more money.



The reply you received was not one you had expected. You were told that because of economic concerns, all prospect budgets had been “slashed” and that the budget for the Prospect had been reduced to \$5 million. You objected and was met with the following reply, “Find a way to get the wells drilled! If you’re successful – expect a big bonus in December! Now, go do your job!”

What is one way you could solve the Dilemma?



You decided to make a phone call to an old geologist friend now working for Windjammer Petroleum.

Windjammer is a small geological firm. They have never acquired a lease nor do they employ any land experts. Over the years, they have made millions by simply spotting prospective areas and investing in the area, allowing the exploration company to do the land work. You made the following proposal to your friend. "We have a prospect that looks great! We're looking for an investor partner for three to four wells. Take a look at the geology and tell me what you think."

Note: Windjammer is willing to invest \$5 million dollars in any prospective area that shows great potential.



THE JOINT VENTURE AGREEMENT

“Crimson Ranch Prospect” Scenario

Assume that after a review of the Prospect, Windjammer decided to invest in its future acquisition and drilling costs in the Prospect - In order to address these issues, an agreement called a *Joint Venture Agreement* must be drawn up.

The JVA forms a type of relationship among two or more parties; however, one of those parties is only bringing finances to the table.

1. JVA's are, generally, created for a single project, thus have a term;
2. Have one partner who owns both geological data and leasehold interest but do not want to carry the entire risk of the project;
3. Have one partner who is looking for a drilling prospect (they are bringing to the table only investment money; and
4. Will set forth the investing party's obligations and the receiving party's obligations.

Confidentiality is always a key factor when JVA's are formed and usually contain some sort of confidentiality language. If not, the JVA would reference the separate Confidentiality Agreement.

The JVA will also set out the management roles of each of the partners.

Three types of Joint Ventures

1. Contractual Joint Venture Agreement – When two or more companies come together to form a Contractual Joint Venture, the agreement sets out the term, duties, requirements, and liabilities of all parties.
2. Corporate Joint Venture Agreement – When a long term relationship that covers several projects occurs, a Corporate Joint Venture Agreement might be used.
3. Partnership Joint Venture Agreement – Companies or individuals can create either a general partnership or a limited partnership through a

joint venture agreement. Usually, this partnership is designed for limited purposes.

Other JVA Characteristics

The JVA will outline the specific amount of consideration the investing party is bringing to the table. This money might represent:

- a. A percentage of the current lease acquisition costs;
- b. A percentage of the seismic costs; and
- c. A percent of the future drilling costs.

A JVA with a "Promote"

Often the party bringing the financial investment to the table is "promoted". Promoted means this party will be bringing more money to the table than they will be receiving in leasehold interest. The "promote" might be to pay for 1/3 of the selling party's costs but only receive 1/4 of the interest. In a case like this, the investing party will be "carrying" a portion of the other party's interests. This portion is only carried to a certain point.

1. Pay 1/3 for a 1/4 to casing point

2. Pay 1/3 for a 1/4 through completion

3. Pay 1/3 for a 1/4 through the tanks

4. Pay 1/3 for a 1/4 to payout

In this scenario, the question should be asked, "During the payout period, is the investor paying for 1/3 of the costs but only receiving 25% of the revenue less burdens?"

The Joint Venture Agreement Checklist:

The following is a checklist of topics to be covered by a JVA. Please note this is not an exhaustive list and, depending upon the scope of a project, additional topics should be covered. As with any agreement of this kind, legal counsel should be sought and utilized.

- The effective and execution dates of the agreement
- Names and addresses of the joint venture parties
- Name of the joint venture
- Definitions
- Objective and reason for the joint venture
- Terms of the joint venture
- A designation of the funds that will be used for the joint venture
- A provision for future funds (if needed) with outlined penalties associated for non-compliance
- Designation of the percentages owned, in expenses and benefits by each joint venture participant
- Designation of any initial consideration to be paid by the investing party along with any carried interests
- Designation of ownership in any equipment
- Agreement by all parties to sign any necessary documents
- Establishment of the controlling party to the agreement along with the managing duties and responsibilities of this party
- Establishment of periodic progress reporting
- Establishment of a joint venture bank account
- Contingency in case of death, bankruptcy or insolvency of any party to the agreement
- Insurance clause
- Indemnification clause
- Terms of confidentiality
- Assignment clause
- Dispute and arbitration clause
- Notice clause
- Applicable jurisdiction clause

Following is a sample Joint Venture Letter Agreement whereby Windjammer Petroleum has agreed to purchase 40% of Sunrise's interest in the Madison Prospect. Windjammer's investment will cover:

1. 40% of Sunrise's initial acquisition costs
2. All future leasehold costs at an sum of \$250 per acre
3. Costs to casing point for three wells
4. 40% of all geologic 3-D seismic imaging

In addition, Windjammer agrees to:

1. Receive a 78% net revenue interest on any and all leases.
2. Carry an additional 15.5% of Sunrise's drilling costs through completion.
3. Windjammer's before casing point (BCP) working interest will be 55.5% and their after casing point (ACP) working interest will be 40%.

Joint Venture Letter Agreement

From: Sunrise Oil & Gas
To: Windjammer Petroleum
Dated:

This LETTER AGREEMENT shall set forth the terms and conditions for Windjammer Petroleum's ("Party B") participation in the Sunrise Oil & Gas ("Party A") interest in the Madison Prospect located in _____, County, _____. Specifically, Windjammer shall agree to participate with a 40% Working Interest, subject to the following:

1. Windjammer agrees to purchase an undivided 40% Working Interest in the Madison Prospect for a total Buy-In Cost of \$88,000 ($\$220,000 \times .40$) which is their proportionate share.
2. All future leasehold costs shall be billed to the Joint Account at \$250/acre at a 78% net revenue basis.
3. Windjammer's Buy-In Cost includes all leasehold acquired (800 net acres) all prospect fees, geologic fees and brokerage expenses associated with the Madison Prospect.
4. Windjammer agrees to pay their Buy-In Cost, as well as their proportionate share of the estimated costs to casing point for the three wells in the Madison Prospect.
5. Windjammer agrees to pay 40% of all geological 3-D imaging acquired for the Madison Prospect.
6. Windjammer agrees to participate in the Drilling Operations in three wells with their interest, bearing an additional 15.5% carried Working Interest in all of three operations. The carried working interest shall be to casing point.
7. Windjammer's Before Casing Point Interest "BCP" shall be 55.5% and Windjammer's After Casing Point Interest "ACP" shall be 40%.
8. Windjammer's Net Revenue Interest "NRI" in the Madison Prospect shall be 78%.
9. Windjammer acknowledges that they are a sophisticated & accredited investor and fully understand the inherent risks associated with oil & gas investing. Further, they acknowledge that no Return on Investment or Rate of Return has been guaranteed or promised, and, in fact, accept the possibility that they could lose 100% of their investment in this program.

Should Windjammer agree with these terms and conditions expressed herein, please execute this LETTER AGREEMENT in the space provided below.

After reviewing this agreement, discuss, as a team, the terms you would want on your own JVA on the form provided.

Joint Venture Letter Agreement

From: _____
To: _____
Dated: _____

This LETTER AGREEMENT made and entered into by and between _____ ("Party A") and _____ ("Party B") shall set forth the terms and conditions of Party B's participation in the Madison Prospect. Specifically, Party B shall agree to participate with a _____% Working Interest, subject to the following:

1. Party B agrees to purchase an undivided _____% Working Interest in the Madison Prospect for a total Buy-In Cost of \$_____ (\$220,000 x _____%) which is your proportionate share.
2. All future leasehold costs shall be billed to the Joint Account at \$250/acre at a _____% net revenue basis.
3. Party B's Buy-In Cost includes all leasehold acquired (800 net acres) all prospect fees, geologic fees and brokerage expenses associated with the Madison Prospect.
4. Party B agrees to pay their Buy-In Cost, as well as their proportionate share of the estimated costs to _____ casing point, _____ completion, or _____ payout for the three wells in the Madison Prospect.
5. Party B agrees to pay _____% of all geological 3-D imaging acquired for the Madison Prospect.
6. Party B agrees to participate in the Drilling Operations in three wells with their interest, bearing and additional _____% carried Working Interest in all of the operations. The carried working interest shall be to casing point.
7. Party B's Before Casing Point Interest "BCP" shall be _____% and Party B's After Casing Point Interest "ACP" shall be _____%.
8. Party B's Net Revenue Interest "NRI" in the Madison Prospect shall be _____%.
9. Party B acknowledges that they are a sophisticated & accredited investor and fully understand the inherent risks associated with oil & gas investing. Further, they acknowledge that no Return on Investment or Rate of Return has been guaranteed or promised, and, in fact, they accept the possibility that they could lose 100% of their investment in this program.

Should Party B agree with these terms and conditions expressed herein, please execute this LETTER AGREEMENT in the space provided below.

Agreed and accepted this _____ day of _____, 20____

Your Second Dilemma

Assume for the sake of this study that competition in the area has continued to drive the leasing prices up. Landowners knowing that the companies are bidding against each other decided to “wait it out” until the prices reached “unheard of” levels.



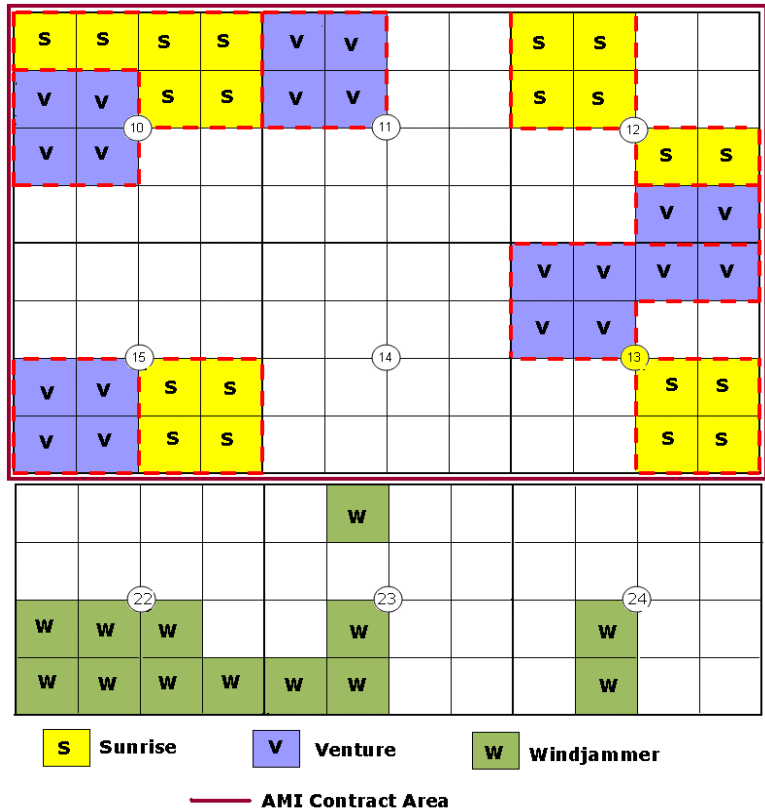
You reported back to your land manager that the leasing strategy was not working. Competition continued to drive bonuses up. The reply you received was not one you had expected. “Then stop the competition!” he said. “Find a way to get the wells drilled! If you’re successful – expect a bigger bonus in December! Now, go do your job!”

What is one way you could solve the Dilemma?

An AMI is also a specific "area" of mutual interest.

As can be seen in the illustration, the Contract Area has been limited to the northern portion of the plat.

Generally, AMI's do not cover huge areas of land. The reason is because of the exploratory nature of the venture. Since the area is a wildcat area, the risks can be very expensive. The smaller the AMI, the less risk involved.



Advantages of the AMI

1. _____

2. _____

3. _____

4. _____

AMI's should contain the following:

1. _____

2. _____

3. _____

4. _____

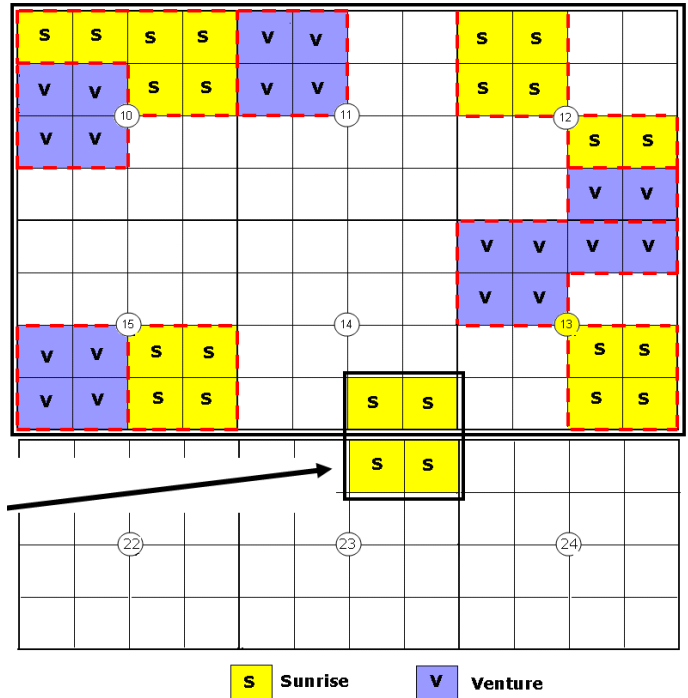
5. The *oil and gas rights* that are to be offered to the other parties must be specifically defined.

6. _____

7. How lands both inside and outside the AMI will be treated – are they to be offered to the AMI partners?

8. _____

9. _____



There is a practical reason for having a shorter term rather than a longer term. Assume that a 20 year AMI was created between Sunrise and Venture. Many things will happen in 20 years. One of the companies could go out of business or have diminished interest in the area. One company could sell their assets in the area, Sunrise and Venture could grow to intensely distrust one another or deeper or shallower reservoirs could be discovered giving rise to a second AMI. In a case like this, one AMI would be sitting on top of the other AMI. Regardless of any of these events, as long as the 20 year clock was ticking, the terms of the contract must be upheld.

The AMI and Land Administration

Managing leases and staying on top of every lease obligation is a full time job. Throw an AMI in the mix and the situation can prove daunting.

Pointers for the Land Professional

- Any assignments of leases made, under the term of an AMI agreement, should contain language referencing the AMI agreement.
- If a partner were to assign interest in the AMI leases to a non-AMI company, the AMI should be binding on the future owners.
- When lease obligation payments are due on an AMI lease, the question should be asked, "Who is in charge of making the payment?"

Prospect Scenario

Understanding the value of an AMI in an area like the Crimson Ranch Prospect, you asked Windjammer if they would agree to approach Venture with the idea of forming a Prospect AMI. Upon further review of the idea, they realized that the AMI would do more than just stop the competition during leasing. The combined investment money of all three companies could be enough to drill multiple wells!

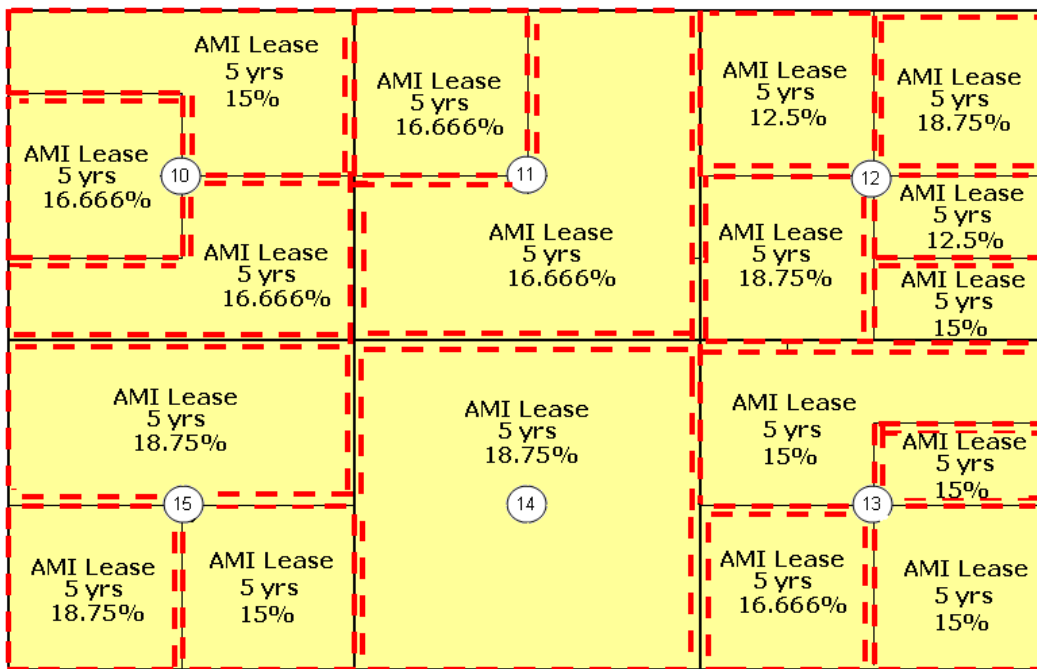
The following is an AMI checklist. Working as a team, use this checklist as your "wish list". File it out including the items you would want in your AMI agreement.

AMI Checklist	
<input type="checkbox"/>	Establish AMI Boundary
<input type="checkbox"/>	Establish AMI Partners
<input type="checkbox"/>	Establish How Ownership will be Split between partners
	_____ Is it based on percentage of acreage currently owned in AMI?
	_____ Is it based on some arbitrary percent?
<input type="checkbox"/>	Establish if this split will be for
	_____ New Leases only?
	_____ All Leases including current and new?
	_____ Leases that contain acreage both inside and outside the AMI?
<input type="checkbox"/>	Establish if split on new leases is:
	_____ Mandatory for all partners
	_____ Optional for partners
<input type="checkbox"/>	If optional, establish the time frame for electing to pick up share of new leases
	_____ 45 days?
	_____ 30 days?
	_____ 15 days?
<input type="checkbox"/>	Establish Term of AMI
	_____ 1 year
	_____ 24 months
	_____ months
<input type="checkbox"/>	Establish the type of Rights that will be split
	_____ Only Leasehold rights
	_____ Seismic Information
	_____ Mineral acquisitions or royalty acquisitions
<input type="checkbox"/>	Establish the depth covered in the AMI
<input type="checkbox"/>	Establish which company is in charge of rental payments and lease obligations

Your Third Dilemma

For the purpose of this study, assume all parties including Sunrise, Venture, and Windjammer entered into an AMI covering the six section area of the Madison Prospect. Jointly you began leasing those critical tracts of land using the following lease form.

At the conclusion of the leasing phase, the entire Prospect was leased as shown in the following illustration. The average per acre acquisition cost was \$200 per acre:



Yesterday, your CEO called an emergency meeting with all of the company's employees. The meeting was solemn as he explained that the company was facing a serious financial crisis. "Like everyone else," he said, "we are facing financial cutbacks. Layoffs are possible; however, before we let anyone go, we are first cutting our exploration budget for all wildcat areas. The money allocated to each of these projects is being cut in half. *Read my lips.* If you have a project you're working on then go do your jobs. You just have less money than before!"

What is one way you could solve the Dilemma?



THE FARMOUT

For the purpose of this study, assume the following:



You immediately called an old landman friend at Monroe Oil & Gas, explaining your dilemma. You asked, "Would you be interested in participating with 50% of our interest in a great Prospect?" The Monroe landman agreed to look at the project. "Monroe is still in great financial shape," he said. "If it looks good, count us in!"

What is a Farmout?

A farmout agreement is a contractual agreement between two parties. The first is an owner of a working interest in an oil and gas lease or leases (the "farmor"). The farmor desires to assign all or a portion of that interest to a second party (the "farmee"). In exchange, the farmee agrees to fulfill specified conditions outlined in the farmout agreement. The agreement often stipulates that the farmee must drill a well to a certain depth, at a specified location, within a certain time frame. Once the farmee fulfills the stipulations, they will have earned an assignment to the lease or leases. The farmor often reserves a specified overriding royalty interest, and can include language that permits the farmor to convert the before payout overriding royalty interest to a specified working interest upon payout of the well.

Why would a company farmout their leases?

There are several reasons why a farmor would desire to farm their interest out to another company. There are also reasons why a farmee would desire to farm the interest into their company.

1. _____

2. _____

3. _____

4. _____

5. _____

Three primary issues addressed in a farmout agreement

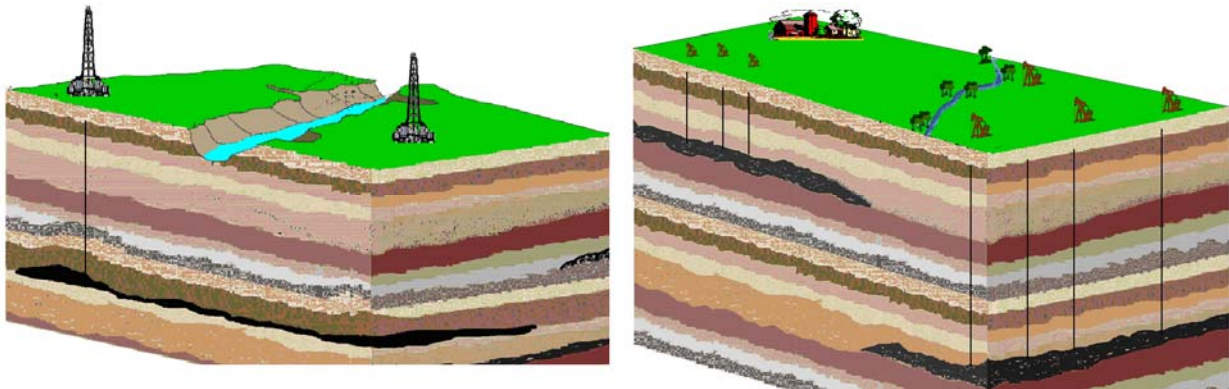
Every farmout will contain a handful of crucial ingredients. Several of these ingredients are *peculiar* to the "Farmout Agreement" and are what makes this contract different from others used in the oil and gas industry.

1. What is the farmor willing to give up?
2. What must the farmee do to earn an assignment?
3. What interest is the farmor reserving?

What is the farmor willing to give up?

What the farmor is giving up may vary from farmout to farmout. The farmor might be giving ...

1. *A Leasehold farmout.*
2. *A Wellbore farmout.*
3. *A Multiple well farmout.*
4. *A farmout where earning rights are the same in each well drilled.*
5. *A farmout where earning rights are different in each well drilled.*
6. *A farmout with no depth restriction.*
7. *A farmout with depth restrictions.*



What is the Farmor giving up?

In this case, what is the farmor giving up?

What is the Farmor willing to give up?

After such time as *Farmee* has drilled and completed an Earning Well as a well capable of producing in paying quantities, *Farmor* shall deliver to *Farmee* an assignment to (1) 100% of *Farmor's* right, title and interest in the 160 acre spacing unit established for the Earning Well and (2) an undivided 75% of *Farmor's* right, title, and interest in and to the balance of the farmout acreage within the earned section.

What is the Farmor willing to give up?

After such time as *Farmee* has drilled and completed an Earning Well as a well capable of producing in paying quantities, *Farmor* shall deliver to *Farmee* an assignment to (1) 100% of *Farmor's* right, title and interest in and to the wellbore of the McGregor 1-15 well as to the stratigraphic equivalent of the total depth drilled.

In this case, what is the farmor giving up?

In this case, what is the farmor giving up?

Earning Language

By drilling the Initial Test Well at a legal location of *Farmee's* choice on the farmout lands, *Farmee* shall have earned an assignment of one hundred percent (100%) of *Farmor's* right, title, and interest in and to the farmout lands included within the drillsite "spacing" unit to the stratigraphic equivalent to total depth drilled; however, in no event shall *Farmee* earn any interest to any depths below 5,250 feet.

What must the farmee do to earn an assignment?

The second primary issue addressed in a farmout is that the farmee is given the opportunity to drill a well on farmout acreage and by doing so they *earn* the right to an assignment. Farmout interest is ***earned*** rather than ***purchased***.

The farmee must accomplish certain tasks or meet certain requirements in order to earn the farmout acreage.

In the example, the farmee must do two things to earn an assignment in the initial test well. What are they?

Earning Language

By drilling the initial Test Well and completing same as a well capable of commercial production, the Farmee shall have earned an assignment of one hundred percent (100%) of Farmor's right, title and interest in and to the farmout lands included within the drillsite "spacing unit". By drilling the Initial Test Well, Farmee shall have earned the continuing option, to drill similar test wells on the remaining undrilled farmout lands and earn an undivided seventy-five percent (75%) of Farmor's interest, as long as no more than sixty (60) days elapse between drilling rig release in one well and commencement of drilling operations for the next succeeding well.

What interest is the farmor reserving?

The third primary issue addressed in the farmout is that the farmor may keep certain interests or rights.

Farmouts can have strings attached

Farmouts are like gifts with strings attached. Each string represents revenue, potential revenue or valuable information that will come to the farmee.

These strings might vary from one farmout to another and could include one or more from the following list:



1. A farmout with an override attached
2. A farmout with a backin at 100% payout
3. A farmout with a backin at 150% payout
4. A farmout with a promote of 1/3rd for a 1/4 at payout
5. A farmout where payout is based on a well by well basis

String #1: A farmout with an overriding royalty interest attached

Generally, every farmout will have a provision whereby the farmor is reserving an overriding royalty interest. The amount of the override is, of course, a matter for negotiations and will be carved out of the assigned leasehold interest.

The override can be established a couple of ways. The language could simply state that the reserved override will be a 3% override or a .25% override. In the following example, the override is created with different language.

Interest Assigned and ORR Reserved

Such assignment shall be subject to Farmor's reservation of a proportionately reduced overriding royalty interest equal to the difference between the sum of existing lease burdens and twenty-five percent (25%).

This latter approach is intended to give the farmee a net revenue interest (N.R.I.) of 75% and reserve to the farmor an override equal to whatever is left after deducting the other burdens.

Calculating the Override

The wording in the example sets out exactly how to calculate the override. The wording sets out a math problem and even explains what type of math problem will be used to calculate the override. Notice the word **“difference”**. This is a subtraction problem!

The override is to be calculated by simply subtracting the **difference** between the sum of existing burdens on the lease from an arbitrary number **twenty-five percent (25%)**.

Twenty-five percent (25%), as used in this language, is an arbitrary number. The language could have said 20% or 23%. If the land professional knew the sum of existing lease burdens they would simply subtract that number from 25%. The answer to that number would be the override reserved by the farmor on this lease.

Existing lease burdens represent any burden that is currently attached to the lease.

Example 1:

Assume that Sunrise farmed out a lease to Monroe Oil & Gas in the Madison Prospect. The mineral owner had negotiated a **12.5% lease royalty** and Sunrise had previously assigned a **3% override** to their geologist. If these were the only existing lease burdens, the sum of them would be **15.5%**.

$$\begin{array}{r} \mathbf{25.0\% \text{ Arbitrary Number}} \\ \mathbf{- 15.5\% \text{ Sum of existing lease burdens}} \\ \mathbf{= 9.5 \% \text{ Reserved Override on this lease}} \end{array}$$

NOTE: Not all leases attached to a farmout would necessarily have the same lease burdens. The reason is simple. The 25% would stay the same in each equation but the sum of existing lease burdens might be greater or smaller in other leases.

What does the arbitrary number (25%) represent?

Example 2:

Assume that Monroe Oil & Gas had negotiated a farmout with Sunrise whereby the arbitrary number was 20% instead of 25%. In this case the outcome would be different.

$$\begin{array}{r} \mathbf{20.0\% \text{ Arbitrary Number}} \\ \mathbf{-15.5\% \text{ Sum of existing lease burdens}} \\ \hline \mathbf{= 4.5\% \text{ Reserved Override on this lease}} \end{array}$$

Question: If this lease generated a million dollars from production, how much of the money would Monroe be able to keep? _____
How much would they have to payout in burdens? _____

Example 3:

If a well produced \$1,000,000, calculate how much the farmee would pay in burdens and be able to keep if the arbitrary number was 23%.

Sum of existing burdens	15.5%
Reserved override by Farmor	+ _____%
Total burdens	= _____%
Total amount due the burdens	= \$ _____
Total amount farmee is able to keep	= \$ _____

String #2: A farmout can provide for a backin after payout (APO)

Often, a farmout will give the option but not the obligation for the farmor to come back into the well with a working interest at the point in time the well reaches payout. The term "back-in" refers to an event that happens when an owner reacquires a previously owned interest in a well.

Payout occurs when the farmee has recovered all drilling costs out of their share of production after deducting operating costs, certain taxes, and other expenses.

If this provision is added to the farmout, at payout two things usually happen:

1. The override converts (goes away).
2. The farmor's new working interest is a reduction of the farmor's original working interest.

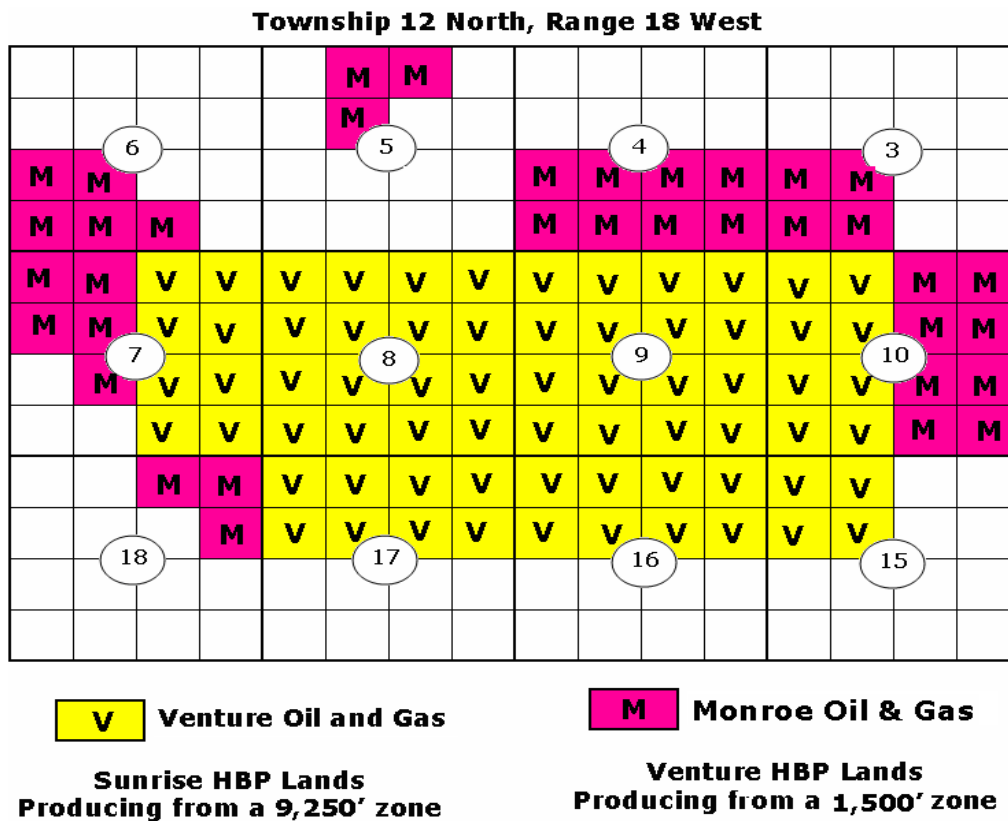
Farmout Practice

Certain designated captioned lands on the following plat are currently held by production (HBP) from deep 9,000' wells that Venture Oil and Gas drilled years ago. Designated captioned lands are currently HBP from shallow 1,500' wells that Monroe Oil & Gas recently drilled.

Venture's geologist (whose strength is drilling deep wells) is not really interested in drilling shallow wells on the acreage. However, Monroe having been very successful in shallow drilling recently approached Venture with a farmout proposal for these shallow rights.

Venture's management has directed that any farmouts must have valuable "strings attached".

Monroe's management has directed that any farmouts must be economically feasible.



Assume that you work for Venture Oil and Gas. Using the Farmout template on the following page determine the best possible farmout terms for your company.

Farmout Proposal Letter

RE: Farmout Request

Farmout Land: T12N, R13W, Sec 7: E/2, Sec 8 & 9: All, Sec 10: W/2, Sec 15: NW/4, Sec 16, 17: N/2

_____ "Farmee" is interested in acquiring the interest of _____ "Farmor" under the above captioned lands. Therefore, Farmee respectfully requests that Farmor grant a Farmout covering its interest in the captioned lands.

1. On or before _____ (date) Farmee shall commence, or cause to be commenced, an Initial Test Well at a location in the above lands.
2. In the event the Initial test well is drilled and completed as a well capable of commercial production, Farmee shall have earned an assignment of (a) _____ 100%, (b) _____ 75%, or (c) _____ Other Percent of Farmor's right, title and interest in the spacing unit designated for the initial test well together with (a) _____ 100%, (b) _____ (75%), or (c) _____ other Percent of Farmor's right, title and interest in and to any Option well(s) as to (a) _____ all depths, (b) _____ the stratigraphic equivalent of total depth drilled, (c) _____ some other depth.
3. By drilling the Initial Test Well, Farmee shall have earned the option, but not the obligation, to continuously drill Option Wells at locations of Farmee's choice on the Farmout Lands as long as no more than (a) _____ 60 days, (b) _____ 90 days, (c) _____ other elapse between drilling rig release in one well and commencement of drilling operations for the next succeeding well.
4. Such assignment shall be subject to Farmor's reservation of a proportionately reduced overriding royalty interest equal to the difference between the sum of existing lease burdens and (a) _____ 25% or (b) _____ Other Percent _____.
5. Upon payout of the Initial Test Well Farmor will have the option, but not the obligation, to convert their overriding royalty interest reserved herein into a _____ (a) 25%, _____ (b) 35%, or _____ (c) Other Percent _____.

Should the terms and conditions herein above provided be acceptable, please execute in the space provided below.

Farmor _____ Farmee _____

Resource Material Available

Calculating Your Division of Interest Workbook - Cost \$45.00

Probate, Descent and Distribution Manual 2007 Edition - Cost \$45.00

Becoming a Guardian of your Company's Assets - Mastering the Oil & Gas Lease
- Cost \$85.00

Negotiating – Becoming a Great Negotiator – Cost \$55.00

On-Line Classes

An Introduction to Petroleum Land Management

Choosing a career as an oil and gas landman or land administration professional is one that is highly sought after by many individuals. These types of jobs can be rewarding both personally and financially offering an income that can be substantially greater than many other professions that require far more training. This class is excellent for those wishing to examine the subjects and tasks the land professional is called upon to manage including: land and mineral ownership in the United States, leasing available minerals, land strategies, pooling, unitization, searching for and drill for oil and gas.

A Comprehensive Study of the Oil & Gas Lease, Lease Obligations and Lease Clauses

This on-line class is perhaps the best resource available for those wanting to learn about the management of a company's oil and gas lease assets. This class is designed to offer specialized instruction for the landman, land tech., lease or title analyst as they deal with particular lease and lease related issues. Besides studying lease obligations and clauses, participants will also be involved in studying right-of-ways and surface agreements, legal descriptions including metes and bounds, calculations, federal leases, regulations and unique laws for several states.

A Comprehensive Study of Property Ownership and Transferring Title

Understanding property ownership and transferring title is critical for all those working in land and land administration. This self-paced course takes an in-depth and thorough look at the subject - studying the origins of ownership in the United States including land grants to states, railroads and those moving west; differing types of property ownership such as real property, personal property, community property, separate property, homestead laws or dower estates; the rules surrounding mineral and royalty ownership including surface, divided and undivided interests; the 12 rules for conveying property; varying types of conveyances such as general warranty or special warranty deeds, life estates, term mineral or term reservation deeds and trusts; testate and intestate succession laws and the many types of title transfers that result from court actions such as quiet title action, adverse possession, sheriff's deeds, tax deeds, eminent domain, after-acquired title and dormant minerals.

Numbers Tell a Story, Calculating the Division of Interest

This on-line class comes with both a text book and the Calculating Your Division of Interest Workbook and will be a tremendous value in helping the land professional calculate all types of interests including net mineral acres, royalty, net revenue, gross working and overriding royalty interest. Chapters also include Unit calculations, calculating payouts, non-consents, farmouts and calculating overrides based on farmout language.

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