

University Gas Royalty In Kind Program

GAS SALES AGREEMENT

This Gas Sales Agreement (this "Contract") is made and entered into effective for all purposes as of _____ (the "Effective Date"), by and between _____, a _____ corporation ("Buyer"), and the BOARD FOR LEASE OF UNIVERSITY LANDS ("Seller").

A. Seller is authorized by the Texas Education Code to execute sales contracts necessary for the disposition of royalty taken in kind.

B. Seller takes its royalty gas in kind from those certain University leases located in Ward County, Texas, described in Exhibit "A" (the "Leases").

C. Buyer desires to purchase from Seller, and Seller wishes to sell to Buyer, the royalty gas Seller takes in kind from the Leases (the "Royalty Gas").

NOW THEREFORE, for and in consideration of the premises and the payment of amounts due hereunder, Seller agrees to sell to Buyer and Buyer agrees to purchase the Royalty Gas on the following terms and conditions:

1. **POINTS OF DELIVERY AND TITLE**. The Points of Delivery for the Royalty Gas shall be at the Koch Waha Header as specially described in Exhibit "B". As between Buyer and Seller, Seller or its lessee shall be responsible for any damage or injury caused thereby until the same shall have been delivered to Buyer at the Points of Delivery. Seller represents and, to the extent authorized under the laws and Constitution of the State of Texas, warrants that Seller holds a valid royalty interest and title to the gas produced from such interest, free of claims, in the properties subject to this Contract; is authorized to take Seller's gas royalty from such properties in kind; and has taken all actions necessary to

cause Seller's gas royalty from such properties to be delivered in kind. Title to, risk of loss from any cause, and liability with respect to the gas royalty production tendered for delivery to Buyer shall pass to Buyer at the point of delivery. Seller shall not be responsible for transportation or any other costs that may be incurred beyond the delivery point with respect to the gas sold under this Agreement.

2. **PRICE.** Subject to all applicable provisions of this Contract, Buyer shall pay to Seller for each MMBtu of Royalty Gas delivered hereunder a price based on the index price published in the _____ effective for the month in which the gas is delivered. The index price shall be effective immediately upon publication. The price shall be equal to one hundred percent (100%) of the index price referenced above, _____ per MMBtu.

3. **TERM.** The term of this Contract shall commence on the Effective Date and continue for a period of _____ (the "initial term") and from month-to-month thereafter, unless and until terminated as provided herein. Either party may terminate this Contract on or after the expiration of the initial term by giving the other party thirty (30) days' advance written notice.

4. **QUALITY.** All Royalty Gas delivered by Seller to Buyer hereunder shall be merchantable gas of pipeline quality.

5. **PRESSURE.** All Royalty Gas delivered by Seller to Buyer hereunder shall be at a pressure sufficient to overcome the operating pressure in Buyer's or its designee's pipeline system.

6. **DEDICATION.** For the term of this Contract, Seller dedicates to the performance of this Contract any and all royalty interest taken in-kind by Seller in all recoverable gas reserves attributable to or produced from the Leases.

7. **REPRESENTATIONS.** Except as to the quality of the Royalty Gas delivered

to Buyer, the sale of the Royalty Gas is made, and Buyer accepts the Royalty Gas "AS IS" and SELLER MAKES NO WARRANTIES, EXPRESS OR IMPLIED, WITH REGARD TO THE MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE WITH RESPECT TO THE GAS.

8. **PAYMENTS.** Buyer shall timely pay to the Board of Regents of The University of Texas System, c/o University Lands Accounting Office ("UT"), any and all amounts due under this Contract. Buyer shall pay to UT on or before the last day of each calendar month or fifteen (15) days after Seller provides the preliminary allocation statement to Buyer pursuant to Paragraph 9, whichever is later, amounts payable for Royalty Gas delivered by Seller to Buyer pursuant to this Contract during the preceding month. Together with each such payment, Buyer shall provide to UT a statement showing the total quantity of Royalty Gas in MMBtu's delivered to Buyer at the Points of Delivery and any other information or documentation deemed necessary and requested by UT to verify the accuracy of payment amounts or for other accounting purposes. If the term of this Contract is more than three (3) months, Buyer shall pay amounts due hereunder to UT by electronic funds transfer. If the term of this Contract is three (3) months or less, Buyer may make payments to UT by any method accepted by the Texas State Treasury and in accordance with applicable law.

9. **ALLOCATION STATEMENTS.** Seller will make reasonable efforts to provide to Buyer on or before the twenty-fifth (25th) day of each calendar month a preliminary allocation statement setting forth the quantities of Royalty Gas attributable to each well from which Buyer purchases gas hereunder. Buyer shall be entitled to rely upon the accuracy of such preliminary allocation statement for the purpose of making payment pursuant to Paragraph 8. Buyer and Seller will promptly notify each other of any adjustments to a preliminary or other allocation statement and in any event no later than

thirty (30) days after the need for the adjustment was discovered. If an adjusted allocation statement indicates an amount due to Buyer or Seller, such amount shall be taken by Buyer as a credit against amounts owed to Seller in the next payment period. If the adjusted allocation statement indicates an amount due to Seller from Buyer, Buyer shall add such amount to the amount due on the next payment due date that is at least fifteen (15) days after Buyer's receipt of the adjusted allocation statement. Payment for any adjustments not accounted for on or before the last date a payment is due pursuant to Paragraph 8 shall be made no later than sixty (60) days after receipt of the adjusted allocation statement by the party from whom an amount is due. Payment may be made or a credit applied in any manner acceptable to the party to whom the amount is payable.

10. **AUDIT.** Seller shall have the right to reasonable access to any and all metering devices, records, and any other information relevant to any sale or delivery made pursuant to this Contract for purposes of auditing the same to verify the quantity and quality of Royalty Gas delivered to Buyer.

11. **TAXES.** Seller is currently exempt from the payment of all production, severance and other taxes. Seller is responsible for the payment of any such taxes lawfully levied against Seller with respect to the Royalty Gas purchased by Buyer under this Contract. Seller's tax I.D. No. is 1-74-6000203-7 .

12. **DEFAULT AND REMEDIES.** The following shall be deemed to be an Event of Default:

- a. Buyer ceases to continue the business of purchasing gas, is insolvent, or files for protection under any bankruptcy law;
- b. If Buyer is a partnership, Buyer is dissolved;
- c. Failure of Buyer to maintain financial assurance as required by UT as of the effective date of this Agreement;

d. If Buyer is required to maintain a letter of credit, if a circumstance exists that allows UT to draw on the letter of credit;

e. Failure of Buyer to pay any amount due hereunder within five (5) business days after it is due; or

f. Failure of Buyer to perform any other obligation under this Agreement within fifteen (15) business days after notice from Seller specifying such failure.

If an Event of Default occurs, Seller may, at Seller's option, immediately terminate this Agreement by giving written notice of such termination to Buyer.

The parties acknowledge that UT may insure payment of amounts payable to UT hereunder. If such insurance is required by UT as of the effective date of this Agreement and should such insurance be canceled for any reason relating to the performance or insurability of Buyer, UT may demand that Buyer provide additional financial assurance to UT for the remainder of the term of this Agreement. Buyer agrees to immediately provide a letter of credit in favor of UT in a form and with a bank acceptable to UT upon receipt of notice from UT of such cancellation of insurance. Such letter of credit shall be in an amount deemed satisfactory by UT, but in no event less than the amount paid (or payable) hereunder for the immediately preceding 2-month period. If Buyer fails to provide the letter of credit within ten (10) business days, this Agreement shall terminate at the option of UT. Seller hereby authorizes UT or its authorized agent to terminate this Agreement under the above-specified conditions.

13. **INDEMNITY.** Except monetary damages for injury, death, or property damage directly and proximately caused solely by the negligence of Seller, Buyer hereby agrees to indemnify Seller and UT and hold Seller and UT harmless from and against any and all claims, liabilities, demands, causes of action, and any related expenses, including without limitation attorneys' fees, of any type and nature,

specifically including but not limited to claims of strict liability, arising out of or pertaining to this Contract after delivery of the Royalty Gas, or a portion thereof, to Buyer.

14. **NOTICE.** Any notice, request, demand, or statement provided for in this Contract shall be given or made in writing and shall be deemed delivered when deposited in the United States mail and addressed as follows:

BUYER:

Attn: _____
Phone: _____
Fax: _____

SELLER AND UT:

University Lands Accounting Office
P. O. Box 579
Austin, Texas 78767-0579
Attn: Tenzy Rambo Bradley
Phone: (512) 499-4751
Fax: (512) 494-3528

or at such address as Seller or Buyer shall from time to time designate by letter properly addressed.

15. **MISCELLANEOUS.**

A. **Applicable Law.** This Contract shall be governed by and construed under the laws of the State of Texas. Venue for any cause of action hereunder shall be in Travis County, Texas.

B. **Standards of Practice.** Buyer shall conduct its business hereunder in a manner consistent with the highest applicable standard of industry practice.

C. **Severability.** In case any one or more of the provisions contained in this Contract shall for any reason be held to be invalid, illegal, or unenforceable in any

respect, such invalidity, illegality, or unenforceability shall not affect any other provision hereof, and this Contract shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

D. Entire Agreement. This Contract constitutes the sole and entire agreement between the parties and cannot be amended except by written instrument signed by both parties.

E. Authority to Enter into this Contract. If Buyer is a corporation, partnership, or other entity, each individual executing this Contract on behalf of Buyer represents that he has full power and authority to enter into this Contract.

F. Captions. The captions used herein are for convenience only and do not limit or amplify the provisions hereof.

G. Gender. Words of any gender used in this Contract shall be held and construed to include any other gender and words in the singular number shall be held to include the plural, unless the context otherwise requires.

H. Actions of Seller. Whenever an action is required to be taken hereunder by Seller, an action taken by an authorized employee of UT shall be sufficient.

I. Assignment. Buyer shall not assign any or all of its rights under this Contract without the prior written consent of Seller.

J. Force Majeure. Any failure of either party hereto to perform any of the obligations hereunder other than to make payments due shall be excused if such failure is due to fires, strikes, floods, lack of water, winds, lightning, or accidents beyond the control of the party failing to perform.

Executed by the parties hereto to be effective for all purposes on the date written above.

SELLER:
BOARD FOR LEASE OF UNIVERSITY LANDS

By: _____
David Dewhurst, Chairman

BUYER:

[TYPED OFFICIAL COMPANY NAME]

By: _____
[authorized representative signature]

Typed Name: _____

Title: _____

EXHIBIT A
Description of Leases Operated by Exxon Corporation

UT Lease	RRC Number	Lease Name	County	Blk	Sec	UT Royalty Rate
58200	044840	Pyote Gas Unit #1	Ward	016	029	16.66667%
58204	044840	Pyote Gas Unit #1	Ward	016	029	16.66667%
58205	044840	Pyote Gas Unit #1	Ward	016	029	16.66667%
58201	044182	Pyote Gas Unit #3	Ward	016	030	16.66667%
58838	044182	Pyote Gas Unit #3	Ward	016	030	16.66667%
58840	044182	Pyote Gas Unit #3	Ward	016	030	16.66667%
58846	044182	Pyote Gas Unit #3	Ward	016	030	16.66667%
58202	045781	Pyote Gas Unit #2	Ward	016	031	16.66667%
58203	045781	Pyote Gas Unit #2	Ward	016	031	16.66667%
58201	048935	Pyote Gas Unit #13	Ward	016	030	16.66667%
58838	048935	Pyote Gas Unit #13	Ward	016	030	16.66667%
58840	048935	Pyote Gas Unit #13	Ward	016	030	16.66667%
58846	048935	Pyote Gas Unit #13	Ward	016	030	16.66667%
58204	048513	Pyote Gas Unit #12	Ward	016	032	16.66667%
58205	048513	Pyote Gas Unit #12	Ward	016	032	16.66667%
58202	147248	Pyote Gas Unit #2	Ward	016	031	16.66667%
58203	147248	Pyote Gas Unit #2	Ward	016	031	16.66667%

EXHIBIT B

Delivery Points – Intrastate

<u>Delivery Point</u>	<u>Transporter's Meter No.</u>	<u>SLN#</u>
Lone Star (Coyanosa)	PG-5-0416	14472
Lone Star (Waha)	PG-5-0012	14470
PG&E	PG-5-0926	14477
TUFCO	PG-5-0925	14476
Oasis	PG-2-0942	14493
Westar	PG-2-0946	14482
Red River	PG-2-0937	14490
Mobil (Waha)	PG-5-0510	14473

Delivery Points – Interstate

El Paso	PG-2-0943	14479
Northern Natural	PG-5-0922	inactive
NGPL	PG-2-0944	14481