

Date

[NAME OF ADDRESSEE]
[address]
[city, province, postal code]

Dear Sirs:

RE: Farmout Agreement

Our File:

This letter evidences that certain agreement between the undersigned, the terms and conditions which are as follows:

1. **DEFINITIONS**

- (a) In this Agreement, unless the context otherwise requires, the definitions contained in Clause 101 of the _____ CAPL Operating Procedure shall apply. In addition to such definitions and for the purposes of this Agreement, the following expressions shall have respective meanings assigned to them, namely:
- (i) **"contract depth"** means a depth sufficient to penetrate __ metres into the top of the _____ Formation or _____ metres subsurface, whichever shall first occur;
 - (ii) **"earning well"** means the well drilled pursuant to Clause _____ hereof;
 - (iii) **"Farmee"** means
 - (iv) **"Farmor"** means
 - (v) **"farmout lands"** means the lands as set out and described under the heading "farmout lands" in Schedule "A" attached to and forming part of this Agreement;
 - (vi) **"Operating Procedure"** means the _____ Canadian Association of Petroleum Landmen (CAPL) Operating Procedure and the _____ Petroleum Accountants Society of Canada (PASC) Accounting Procedure, with the elections and rates as set out in Schedule "B" attached to and forming part of this Agreement;
 - (vii) **"payout"** means that point in time when the total of the gross revenues received from the sale of petroleum substances from the earning well spacing unit and from the sale of petroleum substances allocated to the earning well spacing unit pursuant to a pooling or unitization together with any applicable government grants or incentives and cash contributions received as dry hole, bottom hole and other contributions to drilling, deepening or other operations in respect to the earning well equals the total cost of lessor royalties, Farmor royalties, drilling, completing, equipping and operation of the earning well;
 - (viii) **"title documents"** means the document(s) set forth and described in Schedule "A" attached hereto insofar as it affects and relates to the farmout lands and all renewals thereof or further documents of title issued pursuant thereto;
 - (ix) **"Assignment Procedure"** means the _____ CAPL Assignment Procedure attached hereto as Schedule "C".

- (b) If any terms or conditions of the Operating Procedure conflict with a term or condition of this Agreement, then such term or condition of this Agreement shall prevail and the Operating Procedure shall be deemed to be amended accordingly. If any terms or conditions of the title documents conflict with a term or condition of this Agreement, then such term or condition of the title documents shall prevail and this Agreement shall be deemed to be amended accordingly.

2. **MULTIPLE FARMOR OR FARMEE**

- (a) Reference in this Agreement to "Farmor" or "Farmee" shall mean collectively or individually, as the context requires, all parties hereinbefore identified as comprising "Farmor" or "Farmee".
- (b) All rights, duties and obligations of the Farmor or Farmee under this Agreement or the Operating Procedure shall be shared as between the Farmor or Farmee in the following percentages:
- (c) Where the terms of this Agreement require notice or information to be delivered to or received from the Farmor or Farmee, a separate notice shall be required for each party who is a Farmor or Farmee.
- (d) All rights, elections and privileges to which the Farmor or Farmee is entitled under this Agreement shall be shared and may be separately exercised by each Farmor or Farmee party in the proportions set out in paragraph (b) of this Clause.
- (e) Where more than one party has a right hereunder, the parties so entitled shall participate in proportion to the participating interest set out in Clause * hereof. If fewer than all parties having such right elect to participate in exercising that right, then the parties which do elect shall proportionately share the interest to which that non-participating party would otherwise have been entitled.

3. **WARRANTY OF TITLE**

- (a) Farmor does not warrant title to the title documents or agree to convey to Farmee any better title hereto than Farmor has on the date of this Agreement. Farmor covenants only that it has complied with the terms of the title documents to the extent necessary to keep them in force and that it has not encumbered the title documents or made any agreement whereby any person, firm or corporation other than Farmee has acquired or may acquire an interest herein and Farmor represents that it has not, as of the date of this Agreement, received any notice of default from any lessor in respect of the title documents which has not been remedied in respect of any obligation imposed on it by the title documents.
- (b) Farmor shall not do or cause to be done, any act, nor make or cause to be made, any omission whereby the title documents become encumbered, terminated or forfeited during the period from the date of this Agreement until Farmee has earned all interests pursuant to this Agreement in the title documents, its right to do so cease or this Agreement is terminated, whichever first occurs.

4. **ENCUMBRANCES OF INTERESTS**

- (a) No party shall do or cause to be done any act, nor make or cause to be made any omission whereby the title documents become terminated, forfeited or encumbered in any such way as to adversely affect the interest of the other parties during the term of this Agreement.
- (b) If the interest of any party in the farmout lands is now or hereafter shall become encumbered by any royalty, excess royalty, production payment, carried interest or other

charge, other than the royalties, if any, as set forth under the terms of the title documents covering the farmout lands, the additional royalties, production payment, carried interest or charge shall be charged to and paid by the party whose interest is or becomes thus encumbered.

5. **EARNING WELL**

On or before _____, Farmee shall, at its sole cost, risk and expense, commence the drilling of a well (hereinafter called the "earning well") at a legal location of its choice on the farmout lands. Farmee shall thereafter diligently and continuously drill the earning well to contract depth, log and test all prospective zones of the earning well to the reasonable satisfaction of the Farmor and complete, equip or abandon the earning well in accordance with the provisions of this Agreement.

6. **SUBSTITUTE WELL**

If in drilling and completing a well hereunder, including a well pursuant to this Clause, Farmee encounters severe operating difficulties or impenetrable formations or any similar cause but not including lack of finances, Farmee shall abandon it in accordance with the provisions of this Agreement and within thirty (30) days of the time of such abandonment shall/may commence and thereafter diligently and continuously carry on the drilling and completion of a substitute well, at a location of its choice on the same spacing unit, and in such event, all the provisions of this Agreement shall apply to the substitute well with the same force and effect as to the abandoned well.

7. **INTEREST EARNED BY THE FARMEE**

- (a) Subject to Farmor's right of conversion as set out herein, upon the performance by Farmee of its obligations pursuant to this Agreement Farmee shall earn an interest in the farmout lands to the base of the deepest formation penetrated as set forth in subclauses (i) and (ii) hereunder:
 - (i) an undivided one hundred (100%) percent of the Farmor's interest in the zone or zones capable of production in paying quantities from the earning well spacing unit (hereinafter called the "producing zones"), subject to the reservation by Farmor of a gross overriding royalty and right of conversion as described in Clauses 8 and 9 of this Agreement; and
 - (ii) an undivided fifty (50%) percent of Farmor's interest in the balance of the farmout lands.

Should equipping of the earning well be delayed due to a lack of market for natural gas or other economic conditions beyond the reasonable control of Farmee, the Farmee may then give to the Farmor written notice of such delay (hereinafter called "the delay notice"), and if the earning well has been logged and drillstem tested to the reasonable satisfaction of the Farmor, and if the Farmor has received all information due under this Agreement, and if the Farmee is not in default under this Agreement, Farmee shall earn the interest described in subclause (i) and (ii) herein effective as of the date of the delay notice.

- (b) Farmor shall hold in trust for Farmee, subject to the terms of this Agreement, the interest earned by Farmee in the title documents and farmout lands, unless an assignment of the same is requested in writing by Farmee and consent of the grantor, if required, has been obtained. Farmor does not hereby assume any obligation to obtain such consent and Farmor shall be liable to Farmee, either in contract or negligence, only for its gross negligence or willful misconduct in holding the said interest for Farmee;

Farmor covenants and agrees that it shall execute and deliver such assignments, transfers, or other conveyances as may be required to vest in Farmee its interest earned in the title documents and the farmout lands;

Any such assignment of the interest earned by Farmee in the title documents and farmout lands, and all operations with respect to and in any way concerning the assignment, shall be subject to the terms and conditions of this Agreement.

8. **FARMOR'S ROYALTY**

- (a) The following defines the royalty reserved to the Farmor on the Farmor's interest:
 - (i) that percentage of the value of all crude oil and crude naphtha produced from each well classified as an oil well, which percentage is determined by multiplying the gross monthly production of crude oil and crude naphtha (expressed in cubic metres) by 1/23.8365, with a maximum of fifteen (15%) percent and a minimum of five (5%) percent;
 - (ii) fifteen (15%) percent of the value of all natural gas produced from any well classified as a gas well (minimum \$0.15 per Mcf); and
 - (iii) fifteen (15%) percent of the value of all other hydrocarbons and other substances produced in association therewith.
- (b) The overriding royalty shall not be subject to any royalties, burdens or other encumbrances payable in respect of the royalty lands.
- (c) The term "value" as used in this Clause shall mean the price received by the Farmee for the substances referred to herein less such deductions and charges as may be allowed as deductions by the Crown in calculating Crown royalty for processing and transportation of the produced substances between the wellhead from which the substances are produced and the point where the same are sold. No such deduction or charge shall exceed fifty (50%) percent of the gross overriding royalty payable. Any deduction derived in the calculation of the royalty on natural gas, as an allowance for gathering, compressing and processing natural gas (gas cost allowance) shall utilize:
 - (i) the original, historic cost of capital assets employed in the facility;
 - (ii) a rate of return on the average capital employed, in accordance with the then prevailing generally accepted industry practice to a maximum of fifteen (15%) percent, on a before tax basis.

THIS IS A 10-PAGE DOCUMENT, including schedules.