

POOLING AND FARMOUT AGREEMENT

THIS AGREEMENT dated the ____ day of _____, _____.

BETWEEN / AMONG:

_____, a body corporate, having an office in the City of _____, in the Province of Alberta (hereinafter referred to as "_____")

OF THE FIRST PART

- and -

_____, a body corporate, having an office in the City of _____, in the Province of Alberta (hereinafter referred to as "_____")

OF THE SECOND PART

WHEREAS:

- A. _____ is the holder of a Title Document covering the lands described as Part I Lands in Schedule "A";
- B. _____ is the holder of a Title Document covering the lands described as Part II Lands in Schedule "A";
- C. The parties wish to pool their respective interests in the Title Documents; and
- D. _____ has agreed to Drill a Test Well on the Pooled Lands and the parties hereto wish to provide for the ownership, operation, development of and production of the Pooled Substances from the Pooled Lands.

NOW THEREFORE THIS AGREEMENT WITNESSES in consideration of the premises and the covenants herein contained, it is agreed by the parties as follows:

1.00 DEFINITIONS

The following terms and expressions shall have the meanings hereinafter assigned to them, namely:

- (a) "Abandon" or "Abandonment" and the derivatives thereof means the proper plugging and abandoning of a well in compliance with all Regulations and shall also include the restoration of the wellsite to the satisfaction of any governmental body having jurisdiction with respect thereto and to the reasonable satisfaction of the owner or occupier of the surface, and the furnishing of satisfactory evidence by Farmee to Farmor of the performance hereunder if so requested.
- (b) "Accounting Procedure" means the Exhibit entitled "Accounting Procedure" attached to and made a part of the Operating Procedure.
- (c) "Agreement" means this agreement and the Schedules attached hereto.
- (d) "Assignment Procedure" means the Exhibit entitled "Assignment Procedure" attached to and made a part of the Operating Procedure.
- (e) "Cap" or "Capping" means to seal and shut in a well prior to installation of a wellhead so as to enable that well to be Completed at a later date.
- (f) "Capping Costs" means the costs of Capping a well.

- (g) "Complete" or "Completion" and the derivatives thereof means in the case of a well capable of producing Petroleum Substances in at least Paying Quantities:
- (i) in the case of an oil well, the acquisition and installation of production casing in the hole (exclusive of surface and intermediate casing) and all other equipment, materials and services required for completion of the well up to and including the outlet valve at the wellhead, and the conduct of a cumulative production test sufficient to establish the initial producibility of the well; and
 - (ii) in the case of a gas well, the acquisition and installation of production casing in the hole (exclusive of surface and intermediate casing) and all other equipment, materials and services required for completion of the well up to and including the outlet valve at the wellhead and running adequate back pressure tests and a sustained production test consisting of an absolute open flow potential test sufficient to establish the initial producibility of the well.
- (h) "Completion Costs" means the costs of Completing a well.
- (i) "Contract Depth" means a depth sufficient to penetrate at least _____ () metres into the Formation or to a final total depth of _____ () metres subsurface, whichever depth first occurs.
- (j) "Drilling" and the derivatives thereof means all activities incidental to the drilling of a well and all services in respect thereof including, without restricting the generality of the foregoing, the acquisition of all surface rights, construction of access roadways and wellsite, drilling, testing, logging and the acquisition and installation of all surface and intermediate casing as well as material and services in respect thereof.
- (k) "Drilling Costs" means the costs of Drilling a well.
- (l) "Earning Depth" means _____.
- (m) "Effective Date" means _____.
- (n) "Equip" or "Equipping" and the derivatives thereof means the acquisition and installation of equipment beyond the outlet valve at the wellhead required to produce Pooled Substances from a well, including without limiting the generality of the foregoing:
- (i) in the case of an oil well, the acquisition and installation of pumping equipment, flowlines, production tankage and all other equipment necessary for the production of Pooled Substances; and
 - (ii) in the case of a gas well, the acquisition and installation of compressors, separators, heaters, treaters, dehydrators or other hydrate control facilities, production test tanks and all other equipment necessary for the production of Pooled Substances,
- but specifically excluding any equipment required to Complete the well and any costs incurred beyond the point of entry into a gathering system, plant or other common facility which is or will be operated pursuant to a separate agreement.
- (o) "Equipping Costs" means the costs of Equipping a well.
- (p) "Farmee" means _____ (hereinafter sometimes referred to as "_____").
- (q) "Farmor" means _____ (hereinafter sometimes referred to as "_____").
- (r) "Operate" or "Operating" and the derivatives thereof means to carry out functions similar to those imposed on an operator pursuant to the Operating Procedure after earning has occurred in the Test Well Spacing Unit, exclusive of the operation of any production facility, together with such additional duties imposed by this Agreement.

- (s) "Operating Costs" means all monies expended (exclusive of Drilling Costs, Capping Costs, Completion Costs and Equipping Costs) to Operate a well for the recovery of Pooled Substances, as more particularly set forth in the Accounting Procedure.
- (t) "Operating Procedure" means the Schedule, if any, hereto entitled "CAPL Operating Procedure".
- (u) "Overriding Royalty" means that interest in the Pooled Substances which may be reserved to the Farmor under this Agreement and as described in detail in the Royalty Procedure.
- (v) "Part I Lands" means the lands set forth and described as Part I Lands in Schedule "A".
- (w) "Part II Lands" means the lands set forth and described as Part II Lands in Schedule "A".
- (x) "Paying Quantities" means the anticipated output from a well of that quantity of Pooled Substances which would reasonably warrant incurring (or having incurred) the Completion Costs and Equipping Costs of the well, considering the anticipated Operating Costs associated therewith, the kind and quality of Pooled Substances indicated, the anticipated availability of facilities for treating and processing such Pooled Substances and the anticipated cost of such services, the anticipated availability of markets for such Pooled Substances, the anticipated availability of transportation service for the delivery of such production to market and the anticipated cost of such service, the royalties and other burdens payable by the Farmee with respect to such production, the probable life of the well and the anticipated price to be received for the Pooled Substances produced therefrom as and when sold.
- (y) "Payout" means that point in time when the gross income attributable to the production of or allocation of production of Pooled Substances from the Test Well Spacing Unit equals for the first time the total Drilling, Completion, Capping, Equipping, and Operating Costs of the Test Well, including payment of the royalties payable to the lessor under the Title Documents, any other encumbrances as may be set forth in Schedule "A" and the Overriding Royalty payable to Farmor pursuant to this Agreement, but less any payments received by Farmee related to the Test Well pursuant to any incentives, credits, payments or grants, governmental or otherwise.
- (z) "Pooled Interest" means the percentage interest of a party as set forth in the Clause hereof entitled "Pooling".
- (aa) "Pooled Lands" means the Part I Lands and the Part II Lands, insofar as they include and apply to the Pooled Substances.
- (bb) "Pooled Substances" means petroleum, natural gas and every other mineral or substance, or any of them, in which an interest in or the right to explore for is granted or acquired under the Title Documents insofar as they relate to the Pooled Lands.
- (cc) "Regulations" means all statutes, laws, rules, orders and regulations in effect from time to time made by governments or governmental boards or agencies having jurisdiction over the Pooled Lands and over the operations to be conducted thereon.
- (dd) "Rentals" or "Rental Payments" means all rents, renewals, taxes, penalties and other payments together with compensatory royalty and drilling deferment penalties payable with respect to the Title Documents, but shall not include the initial consideration paid by Farmor with respect to any of the Title Documents.
- (ee) "Royalty Procedure" means the Schedule, if any, hereto entitled "Royalty Procedure".
- (ff) "Spacing Unit" means at the relevant time with respect to which the term is used herein:
 - (i) with respect to a well which has not been Completed for the production of Pooled Substances, the area allocated by the Regulations for the purpose of drilling that well, provided that in the absence of such allocation, the spacing unit for the well shall be

deemed to be the quarter-section, unit or similar geographical area which includes the bottomhole co-ordinates of the well; and

- (ii) in every other case, the area allocated to the well pursuant to the Regulations for the purpose of producing Pooled Substances in each zone from which such Pooled Substances are to be produced.
- (gg) "Spud" means with respect to a well, that a drilling rig of adequate capacity to drill that well to Contract Depth is rigged-up on location and that a drilling bit has penetrated the surface therefrom.
- (hh) "Test Well" means the well or wells Drilled by Farmee pursuant to the Clause hereof entitled "Test Well".
- (ii) "Test Well Spacing Unit" means the Spacing Unit of the Test Well.
- (jj) "Title Documents" means the documents set forth and described as such in Schedule "A" attached hereto and any renewals or extensions thereof or further Title Documents issued pursuant thereto insofar as they relate to the Pooled Lands.

2.00 **SCHEDULES**

The following Schedules are attached hereto and incorporated into this Agreement:

- (a) Schedule "A" which sets forth the Pooled Lands and the Title Documents;
- (b) Schedule "B" which is the Operating Procedure, the Accounting Procedure and the Assignment Procedure;
- (c) Schedule "C" which is the Royalty Procedure; and
- (d) Schedule "D" which comprises the Well Information Requirements of Farmor.

3.00 **TITLE**

3.01 **Requisite Authority**

Each of the parties hereto represents and warrants that it has the requisite capacity, power and authority to execute this Agreement and to perform the obligations to which it thereby becomes subject.

3.02 **No Warranty of Title**

No party hereto warrants title to its Title Documents or the Pooled Lands or agrees to convey to the other party any better title thereto than it has therein or is entitled to acquire therein on the Effective Date. Each of the parties hereto covenants that its Title Documents are only encumbered by the applicable lessor's royalty and any other encumbrances as set forth in Schedule "A" and that it has complied with the terms of the Title Documents in which it has an interest at the Effective Date to the extent necessary to keep such Title Documents in force.

3.03 **Responsibility for Encumbrances**

Except as otherwise provided herein, if the interest of any party in the Pooled Lands is now or hereafter shall become encumbered by any security interest or by any royalty, overriding royalty, production payment or other charge of a similar nature, other than the lessor's royalty under the Title Documents and other encumbrances as set forth in Schedule "A", such security interest, royalty, overriding royalty, production payment or other charge of a similar nature shall be charged to and paid entirely by the party whose interest is or becomes thus encumbered. Any such encumbrance hereafter made or granted by a party shall be expressly made subject to the rights of the other parties hereunder. In no event shall a party hereto acquiring an interest in such lands by virtue of the

operation of any provision of the body of this Agreement or of the Operating Procedure (Except for Article XXIV of the Operating Procedure where applicable) ever be required to assume any part of such interest, payment or charge.

4.00 **POOLING**

4.01 **Parties to Pool Interests**

Subject to the terms and conditions of this Agreement, the parties hereby pool their respective interests in and to the Title Documents and the Pooled Lands so that from and after the Effective Date all Operations on the Pooled Lands may be conducted without regard to the boundary lines of the separate documents comprising the Title Documents and as though the Pooled Lands were covered by a single petroleum and natural gas lease executed by the respective lessors of the documents comprising the Title Documents in favour of all parties, it being the intention of the parties that, save as hereinafter provided, the interests of the parties in the Pooled Lands, the Pooled Substances and the Title Documents shall be as follows:

_____ %
_____ %

(hereinafter referred to as the "Pooled Interests")

4.02 **Interests Held in Trust**

Each party shall hold its respective Title Documents in trust insofar as they relate to the Pooled Lands for the parties hereto, and the terms of such trust shall be subject and limited to the express terms of this Agreement. Notwithstanding anything to the contrary herein contained, such pooling shall not give rise to a cross assignment of interests and upon termination of this Agreement, the interests of the parties in the Title Documents and Pooled Lands shall revert to the undivided interests which were in effect immediately prior to the Effective Date, subject to the provisions of the Clause herein entitled "Interest Earned".

4.03 **Allocation of Production, Revenue and Expenses**

From and after the Effective Date, and unless otherwise provided herein:

- (a) all costs and expenses incurred in the exploration, development or Operation of Pooled Lands; and
- (b) all Pooled Substances produced, or revenues received, as a result of Operations on the Pooled Lands

shall be shared by and be allocated to the parties according to their respective Pooled Interests.

4.04 **Termination of Pooling**

Notwithstanding the foregoing, if the Farmee fails to earn its interest pursuant to the Clause herein entitled "Interest Earned", then upon the date that the Farmee's right to earn an interest terminates, the pooling of interests as provided herein shall dissolve and be at an end and the Pooled Lands shall again be held by the Farmor and Farmee in the undivided interests which were in effect immediately prior to the Effective Date.

5.00 **PARTIES**

5.01 **More than One Farmor Party**

Reference in this Agreement to "Farmor" shall mean collectively or individually, as the context requires, all the parties hereinbefore identified as comprising Farmor and where the terms of this Agreement require notice or information to be delivered to or received from Farmor, a separate notice shall be required for each party comprising Farmor.

5.02 **Interests of Farmor Parties**

All rights, duties, obligations, elections and privileges to which Farmor is entitled under this Agreement shall be shared and may be separately exercised by each Farmor party in the following percentages of interest:

%
%

6.00 **TEST WELL**

6.01 **Farmee to Spud Test Well**

On or before _____, 200__, the Farmee shall Spud the Test Well at a location of its choice on the Pooled Lands and shall diligently and continuously, at its sole cost, risk and expense, drill same to at least Contract Depth, log, test to the reasonable satisfaction of Farmor all formations prospective of containing Pooled Substances and either Complete, Cap or Abandon it in accordance with the terms of this Agreement and the Regulations.

THIS IS AN 18-PAGE DOCUMENT, including schedules.