

SEISMIC OPTION AGREEMENT

THIS AGREEMENT made as of the ____ day of _____, _____.

BETWEEN:

OPTIONOR, a body corporate, with an office in the City of _____, in the Province of Alberta (hereinafter called the "optionor")

OF THE FIRST PART

- and -

OPTIONEE, a body corporate, with an office in the City of _____, in the Province of Alberta (hereinafter called the "optionee")

OF THE SECOND PART

WITNESSES THAT in consideration of the premises and the covenants and agreements herein contained, the parties agree 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 * Formation or * metres subsurface, whichever shall first occur;
 - (ii) "**earning well**" means the well drilled pursuant to Clause 5 hereof;
 - (iii) "**option lands**" means the lands as set out and described under the heading "option lands" in Schedule "A" attached to and forming part of this Agreement;
 - (iv) "**Operating Procedure**" means the ____ Canadian Association of Petroleum Landmen (CAPL) Operating Procedure and the ____ Petroleum Accounting Society of Canada (PASC) Accounting Procedure, with the elections and rates as set out in Schedule "B" attached hereto and forming part of this Agreement;
 - (v) "**Royalty Agreement**" means the Overriding Royalty Agreement attached hereto as Schedule "C";
 - (iv) "**title documents**" means the document(s) set forth and described in Schedule "A" attached hereto insofar as it affects and relates to the option lands and all renewals thereof or further documents of title issued pursuant thereto.
- (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. **WARRANTY OF TITLE**

Optionor does not warrant title to the title documents or agree to convey to optionee any better title hereto than optionor has on the date of this Agreement. Optionor 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 optionee has acquired or may acquire an interest therein.

3. **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 option 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 option 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.

4. **SEISMIC OPTION**

- (a) Optionee shall shoot, at its sole cost, risk and expense, a minimum of one square mile of 3-D seismic shot across the option lands including sufficient spread lengths so as to permit optionor to interpret the seismic to evaluate the hydrocarbon-bearing potential of the option lands. This minimum seismic commitment and all additional seismic surveys conducted pursuant to this Agreement contemporaneously therewith on or in the reasonable proximity of the option lands shall hereinafter be referred to as the "qualifying seismic program".
- (b) On or before *, the optionee shall provide the optionor with copies of all pertinent field data, including magnetic tapes, mylar copies of the shot point map and each processed section of the qualifying seismic program. The optionee will also provide the optionor with copies of other non-pertinent basic field data which shall include copies of survey notes, drillers' logs, recorders' logs and shooters' logs within fifteen (15) days of its receipt thereof.
- (c) Trading rights for the qualifying seismic program would be earned one hundred (100%) percent by the optionee.
- (d) In consideration for shooting the qualifying seismic program and providing the optionor with the data as outlined in subclause (b) hereof, the optionee shall have the option to elect, in writing, on or before * to either:
 - (i) terminate this Agreement in the event of which optionee shall have no further right to interest hereunder but shall nevertheless be obligated to fully perform any commitments already undertaken by optionee hereunder; or
 - (ii) elect to drill a well as outlined in Clause 5 hereof.

Failure to make an election shall be deemed an election under 4(d)(i) hereof.

5. **EARNING WELL**

Within thirty (30) days of optionee's election pursuant to Clause 4, optionee shall, at its sole cost, risk and expense, commence the drilling of a well (hereinafter called the "earning well") at a

location of its choice on the option lands. Optionee 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 optionor 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, optionee encounters severe operating difficulties or impenetrable formations or any similar cause but not including lack of finances, optionee 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 OPTIONEE**

(a) Subject to optionor's right of conversion as set out herein, upon the performance by optionee of its obligations pursuant to this Agreement optionee shall earn an interest in the option lands to the base of the deepest formation penetrated as set forth hereunder:

- (i) an undivided one hundred (100%) percent of the optionor's interest in the earning well spacing unit, subject to the reservation by optionor of a gross overriding royalty as described in Schedule "C" attached hereto and forming part of this Agreement; and
- (ii) an undivided * (*%) percent of the optionor's interest in the remainder of the option 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 optionee, the optionee may then give to the optionor written notice of such delay (hereinafter called "the delay notice"), and if the earning well has been completed to the reasonable satisfaction of the optionor, and if the optionor has received all information due under this Agreement, and if the optionee is not in default under this Agreement, optionee shall earn the interest described herein effective as of the date of the delay notice.

- (b)
 - (i) Optionor shall hold in trust for optionee, subject to the terms of this Agreement, the interest earned by optionee in the title documents and option lands, unless an assignment of the same is requested in writing by optionee and consent of the grantor, if required, has been obtained. Optionor does not hereby assume any obligation to obtain such consent and optionor shall be liable to optionee, either in contract or negligence, only for its gross negligence or wilful misconduct in holding the said interest for optionee;
 - (ii) Optionor covenants and agrees that it shall executed and deliver such assignments, transfers, or other conveyances as may be required to vest in optionee its interest earned in the title documents and the option lands;
 - (iii) Any such assignment of the interest earned by optionee in the title documents and option 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. **OPTIONOR'S ROYALTY**

Schedule "C" defines the royalty reserved to the optionor on the optionor's interest in the option lands.

9. **ABANDONMENT BY OPTIONEE**

If, at any time after reaching contract depth and prior to payout of any well drilled hereunder, optionee wishes to abandon any or all zones in such well:

- (a) Optionee shall give optionor twenty-four (24) hours' notice where a rig is present on location and in all other cases thirty (30) days notice prior to commencing the abandonment (the "Notice of Abandonment").
- (b) Optionor may, within the notice period, at its sole risk and expense, examine and make tests of such zones. At the request of optionor, optionee shall furnish optionor with all available information regarding such well. If optionor does not examine and make tests of such zones, or upon completion of such examination and tests, as the case may be, and concurs that the well should be abandoned in accordance with the Notice of Abandonment, optionee shall proceed to abandon the well. Optionor agrees to reimburse optionee for all expenses incurred by optionee which optionee would not have incurred had optionor not exercised the right to test herein granted.

THIS IS A 19-PAGE DOCUMENT, including schedules.