

This is Schedule "C" attached to and forming part of a _____ Agreement dated _____ between *, as Farmee, and *, as Farmor.

OVERRIDING ROYALTY AGREEMENT

THIS AGREEMENT made as of *

BETWEEN:

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

OF THE FIRST PART

- and -

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

OF THE SECOND PART

WHEREAS pursuant to the _____ Agreement to which this overriding royalty Agreement is attached, the Grantor owns or may become entitled to certain interests in the royalty lands and the leases, as are more particularly set forth from time to time in Exhibit "A" thereto; and

WHEREAS pursuant to the _____ Agreement, the Grantor has agreed to allow the Grantee to reserve out of the Grantor's earned interest in the royalty lands and the leases the said royalty as set forth herein; and

WHEREAS the parties hereto wish to set forth the terms and conditions under which the said interest in land is granted and the royalties shall be payable to the Grantee.

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the premises and the covenants and agreements herein contained, the parties agree as follows:

1. **DEFINITIONS**

In addition to the definitions of the _____ Agreement, in this Agreement, including this Clause, unless the context otherwise requires:

- (a) **"condensate"** means a mixture of mainly pentanes and heavier hydrocarbons that may be contaminated with sulphur compounds, that is recovered or is recoverable at a well from an underground reservoir and that may be gaseous in its virgin reservoir state but is liquid at the conditions under which its volume is measured or estimated;
- (b) **"crude oil"** means any mixture of hydrocarbons, except natural gas and condensate, that is recovered or is recoverable at a well from an underground reservoir and that is liquid at the conditions under which its volume is measured or estimated;
- (c) **"_____ Agreement"** means the agreement dated _____ between Grantor and Grantee to which this Agreement is attached as Schedule "C";
- (d) **"leases"** means the respective documents of title and any extension or renewal of such documents pursuant to which the Grantor holds an interest in the royalty lands;

- (e) **"natural gas"** means petroleum substances which at atmospheric conditions of temperature and pressure are in a gaseous phase;
- (f) **"overriding royalty"** means the overriding royalty granted pursuant to Clause 2 hereof;
- (g) **"petroleum substances"** means crude oil, condensate, natural gas and related hydrocarbons and all other substances produced in association therewith but only to the extent that the same are granted by the leases;
- (h) **"regulations"** means all statutes, laws, rules, orders, regulations or directives in effect from time to time and made by any governmental authority having jurisdiction over the royalty lands and the operations to be conducted thereon;
- (i) **"royalty lands"** means the lands set forth in Schedule "A" of the Farmout and Option Agreement as farmout lands; and
- (j) **"well"** means any well on the royalty lands or on lands pooled with the royalty lands.

2. **GRANT OF OVERRIDING ROYALTY**

- (a) The Grantor hereby reserves an overriding royalty in and to the petroleum substances within, upon or under the royalty lands and the Grantor agrees to pay to the Grantee the following overriding royalty which shall be calculated on _____ (____%) percent of production and paid on _____ percent (____%):
 - (i) in the case of crude oil, that percentage of crude oil determined by multiplying the gross monthly production of crude oil (expressed in cubic metres) produced or deemed to be produced from or allocated to each well and marketed, excluding basic sediment and water, by 1/23.8365 with a minimum of ___ (____%) per cent and a maximum of _____ (____%) per cent; and
 - (ii) in the case of natural gas, _____ (____%) percent of gross monthly production (expressed in cubic metres) produced from or allocated to each well and marketed (minimum \$____ per thousand cubic metres); and
 - (iii) in the case of condensate and all other petroleum substances, ___ (____%) per cent of the gross monthly production thereof (expressed in cubic metres) produced or deemed to be produced from or allocated to each well and marketed.
- (b) In the event any well is completed in two or more zones producing crude oil and the production therefrom is segregated and accounted for separately in accordance with the regulations, the overriding royalty shall be quantified separately for each zone producing crude oil rather than upon the total production from such well.
- (c) The overriding royalty shall not be subject to any royalties, burdens or other encumbrances payable in respect of the royalty lands.

3. **AGENCY AND RIGHT TO TAKE IN KIND**

- (a) The Grantor is hereby appointed as agent of Grantee with full power and authority to:
 - (i) negotiate and enter into contracts for the sale of the Grantee's share of petroleum substances; and
 - (ii) take possession of and separately dispose of the Grantee's share of petroleum substances.

The Grantor, as agent, shall not enter into a contract for the sale of the Grantee's share of petroleum substances for a price which is less than the price which the Grantor receives for the sale of its own petroleum substances. Until the agency created hereby (the "agency") is revoked by the Grantee, all sales by the Grantor of petroleum substances shall include the Grantee's share thereof. The Grantee may, on a minimum of forty-five (45) days' notice to the Grantor, revoke the agency or re-establish the agency, which rights may be exercised separately with respect to each of:

- (i) crude oil (including condensate),
- (ii) sulphur, and
- (iii) all other petroleum substances,

and may be exercised from time to time subject only to Clauses 3(b) and 3(c). If the agency is revoked, the Grantee shall take possession of and separately dispose of its share of petroleum substances.

- (b) The Grantor shall notify the Grantee of any proposed contract of sale of petroleum substances to third parties which is for a period in excess of forty-five (45) days, providing reasonable details thereof and the following provisions shall apply:
 - (i) if the agency is in effect, the Grantee shall, within ten (10) business days of receiving notice aforesaid, either revoke the agency with respect to those of the petroleum substances proposed to be sold or consent to the sale of the Grantee's share of petroleum substances on the terms and conditions set forth in the said notice. If the Grantee fails either to revoke the agency or consent pursuant to the terms of this subclause, the Grantee shall be deemed to have consented to the proposed sale. If the Grantee consents or is deemed to consent, its right to revoke the agency with respect to those of the petroleum substances proposed to be sold shall be suspended during the term of such contract. If the Grantee revokes the agency pursuant to the terms of this subclause, its right to re-appoint Grantor as agent with respect to those of the petroleum substances proposed to be sold shall be suspended during the term of such contract; and
 - (ii) if the agency is not in effect, the Grantee may re-establish the agency on a minimum ten (10) days' notice to Grantor such that the Grantee's share of petroleum substances is thereafter sold pursuant to the terms and conditions of the contract for which notice has been given as provided above. If the agency is re-established pursuant to the terms of this subclause, the right of the Grantee to revoke the agency with respect to those of the petroleum substances thereafter sold pursuant to the said contract shall be suspended.
- (c) If the Grantee revokes the agency and thereafter fails to take possession of and separately dispose of the Grantee's share of petroleum substances, the Grantor shall, while petroleum substances are being produced from the royalty lands, take possession of and dispose of the Grantee's share of petroleum substances and shall be entitled to retain a management fee equivalent to _____ (_____) percent of the gross proceeds received therefrom until the later of such time as the agency is re-established pursuant to Clauses 3(a) and 3(b) on forty-five (45) days' notice or upon termination of any contract of sale of petroleum substances to third parties. The Grantee shall not be deemed to have failed to take possession of and separately dispose of the Grantee's share of petroleum substances for the purposes of this Clause where the actual failure to take was caused by:

THIS IS A 9-PAGE CONTRACT.