INITIAL CONSIDERATIONS – ROYALTY ALLOCATION LEASE AMENDING AGREEMENT

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This agreement was created to divide the production from a particular well among the mineral leases in which it resides. It is straightforward and easy to understand so freehold lessors with perhaps limited experience with legal documents would feel comfortable executing. This is not an agreement to be set up as a new C file in your land system. It is an amendment to the lease, would be filed with the lease and only a new well specific sub would need to be created in your land system. This document essentially pools the lessor interests for a specific horizontal well. A contract would be needed to pool the working interest amongst the working interest owners.

Please keep in mind:

* If the well is crossing Crown and Freehold interests in Alberta a Production Allocation and Unit Agreement (PAUA) will be required. <http://www.energy.alberta.ca/Tenure/894.asp>
* In Saskatchewan this agreement could be utilized for freehold and crown / freehold allocations.
* Allocation method
* Reserve potential across the span of the wellbore may vary considerably

There are differing methods of allocation, each with its own assumptions. Where these assumptions deviate from reality, the basis of allocation may become a source of contention. Some example are:

Area allocation:

The wellbore is presumed to draw ratably for a deemed distance (i.e. 75 metres from the wellbore). Each set of working interests shares in production to the extent that the drainage area falls within its area

Productive Portion of Wellbore:

Each set of working interests shares in production to the extent that a productive portion of wellbore falls within its lease

Reserves or Pool Information

Reservoir information (to the extent known) serves as the basis for allocation using considerations such as pay thickness, drainage, etc.

**BY COURIER**

Date

|  |  |
| --- | --- |
| Party A  Calgary, AB T2P 0N0  Attention: Land Manager | Party B  Calgary, AB T2P 0N0  Attention: Land Manager |
| Party C  Calgary, AB T2P 0N0  Attention: Land Manager | Party D  Calgary, AB T2P 0N0  Attention: Land Manager |

|  |
| --- |
| **Royalty Allocation Lease Amending Agreement (“Amending Agreement”)**  **Twp XX Rge YY W4M: S ½ of Section 33**  **Any Area, Alberta**  **XYZ Files: 123, 456** |

**BACKGROUND**

The parties hereto are the successors in title to the original parties to the Leases set out on Schedule “A”.

XYZ Energy Canada (hereinafter called “XYZ”) has drilled the horizontal well known as XYZ HZ Any 4-33-XX-YYW4 (the “Well”) on the above referenced lands with a surface location of Lsd 4 of section 34-XX-YYW4M and with the drainage area shown on the plat attached as Schedule “B”. According to the applicable government regulations, XYZ must ensure that the mineral owners of the lands (the “Lessors”) that comprise the Drainage Unit of the Well agree to the allocation of production from the Well. The parties hereto agree that production from the Well will be allocated to the Leases on the following terms and conditions.

# DEFINITIONs

Except as otherwise specifically defined in this Amending Agreement, the definitions set out in the Leases will apply to this Amending Agreement, and, in addition:

“**Amending Agreement** **Effective Date**” means the \_\_\_\_\_\_\_\_ day of \_\_\_\_\_\_\_, 201\_\_.

“**As Drilled Survey**” means a plat created from final survey data obtained after a well has been drilled that shows the actual wellpath of the Well, including the Heel, Toe, Contributed Length and Total Horizontal Length. A copy of the As Drilled Survey for the Well is attached hereto as Schedule “B”.

**“Contributed Length”** means, with respect to the horizontal portion of the Well as measured between the Heel of that well and its Toe on the As Drilled Survey, the actual length, in meters, of that portion of the length of the Well located on the respective Leases multiplied by the undivided mineral interest contained in those Leases. Insofar as operational issues are encountered at any time such that a portion of the horizontal portion of the Well is not capable of contributing to the production of petroleum substances, it is agreed and understood that the allocation will be amended accordingly, and the Lessors will be so notified.

“**Drainage Unit**” means the S ½ of Section 33 Township XX Range YY W4M for the Carpet formation.

“**Heel**” means the downhole coordinates at which the horizontal portion of the Well begins, as described on the As Drilled Survey.

**“Leases”** means those leases described in Schedule “A”.

“**Spacing Unit**”means the area allocated to the Well under the Regulations for the production of the applicable leased substances in each individual formation of the Drainage Unit from which they will be produced through the horizontal portion of the Well.

“**Toe**” means the bottomhole location of the Well as described on the As Drilled Survey.

“**Total Horizontal Length**” means the actual total length, in metres, of the horizontal portion of the Well, as measured between the Heel of the Well and its Toe on the As Drilled Survey.

Insofar as there is a conflict between the definitions set out in the Leases and the definitions in this Amending Agreement, the definitions in this Amending Agreement will prevail.

# 2.0 Production Allocation Formula

The Drainage Unit is comprised of the following lands and Leases:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Lands** | **Lease** | **Lessor** | **Undivided Mineral Interest** | **Contributed Length** |
| T XX R YY W4M SE ¼ of Section 33 | Freehold Lease dated January 1, 1950  (TLM File: 123) | Party A 50.00%  Party B 50.00% | 100% | 695.2 m |
| T XX R YY W4M SW ¼ of Section 33 | Freehold Lease dated January 1, 1950  (TLM File: 456) | Party C 25.00%  Party D 75.00% | 100% | 433.31 m |
| **Total Horizontal Length** | | | | **1128.51m** |

Based on the above, production from the Well will be allocated to the Leases as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Lease** | **Contributed Length / Total Horizontal Length x Lease Interest** | | **Production Allocation** |
| Lease A | 695.2 m  1128.51m | x 50% | 30.80% |
| Lease B | 695.2 m  1128.51m | x 50% | 30.80% |
| Lease C | 433.31 m  1128.51m | x 25% | 9.60% |
| Lease D | 433.31 m  1128.51m | x 75% | 28.80% |
|  |  | | 100% |

# 3.0 Lease Amended

The Leases are amended to the extent necessary to permit production from the Well and to provide for the allocation of the leased substances to the Leases according to the production allocation described in Clause 2.0 of this Amending Agreement. This production allocation will apply only to the Well and will not apply to any other well.

# 4.0 TERMINATION

# This Amending Agreement shall terminate upon the occurrence of the earliest of:

# a) the date of the permanent abandonment of the Well; or

# b) the date of the surrender or cancellation of all Leases.

# 5.0 Miscellaneous

## 5.1 **Ratification of Lease**

The Leases are hereby ratified as amended to give effect to this Amending Agreement.

### 5.2 **Enurement**

Subject to the terms and conditions of the Lease, this Amending Agreement shall enure to the benefit of and be binding upon the parties and their respective successors and assigns.

## 5.3 **Further Assurances**

Each party will, on a timely basis and without further consideration, complete such other documents and take such other actions as may be reasonably required to perform its obligations under the Leases and this Amending Agreement.

## 5.4 **Jurisdiction**

This Amending Agreement will be subject to and be interpreted, construed and enforced in accordance with the laws in effect in the Province of Alberta. Each party accepts the jurisdiction of the courts of the Province of Alberta and all courts of appeal therefrom.

## 5.5 **Counterpart Execution**

This Amending Agreement may be executed in counterpart and when each party has executed a counterpart, all counterparts taken together will constitute one and the same agreement.

## 5.6 **Schedules**

The Schedule attached forms part of this Amending Agreement.

## The Assignment Procedure will govern all assignments of interest by any party under this Agreement.

**IN WITNESS WHEREOF** the parties have executed this Amending Agreement to be effective as of the Amending Agreement Effective Date.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **XYZ ENERGY CANADA  (Lessee)** | |  | **PARTY A**  **(Lessor)** | |
| Per: |  |  | Per: |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **PARTY B**  **(Lessor)** | |  | **PARTY C**  **(Lessor)** | |
| Per: |  |  | Per: |  |
|  |  |  |  | |
| PARTY D  (Lessor) | | | | |
| Per: |  |  |  | |
|  |  |  |  | |

This is an Execution Page to a Royalty Allocation and Lease Amending Agreement dated (blank) and made among XYZ Energy Canada, Party A, Party B, Party C and Party D

Schedule “A”

attached to and forming part of a Royalty Allocation and Lease Amending Agreement

dated (blank) and made among

XYZ Energy Canada, Party A, Party B, Party C and Party D

Leases

1. Petroleum and Natural Gas Lease dated XX, between XX, as Lessor, and XX, as Lessee.
2. Petroleum Lease dated XX, between XX, as Lessor, and XX, as Lessee.
3. Petroleum Lease dated XX, between XX, as Lessor, and XX, as Lessee.
4. Petroleum and Natural Gas Lease dated XX, between XX, as Lessor, and XX, as Lessee.

Schedule “B”

attached to and forming part of a Lessor Pooling and Lease Amending Agreement

dated (blank) and made among

XYZ Energy Canada, Party A, Party B, Party C and Party D

