

Addendum VI: Sample Sale Of Undeveloped Lands (With Reserved ORR And Rights)

Purchase & Sale Scenario With Reserved ORR

This is a simple case study and sample agreement that provides a context for the disposition of only undeveloped lands and the potential simplification of the Transaction by using the Property Transfer Procedure as a Schedule.* It is included for illustrative purposes only, and is not to be construed as an endorsement by the CAPL of this form of agreement.

Several layers of complexity (as indicated with an *) have been added to this sale example to illustrate the versatility of this type of document. (Addendum V illustrates the application of this form of Agreement to a much simpler sale, in which the Purchaser acquires the entire interest of the Vendor in the Leases for only cash consideration. Addendum VII illustrates the application of this form of Agreement to a simple exchange of undeveloped acreage.)

1. Vendor: Cherry Canada Resources Ltd.
2. Purchaser: Blake Energy Inc.
3. Lands: Sale of five sections of undeveloped lands without wells for rights below the base of the Triassic in circumstances in which the Vendor is retaining rights to the base of the Triassic.
4. Sale Price: \$300,000, with a reservation of a 3% ORR to the Vendor using a Royalty Agreement that uses as a platform the 2015 CAPL Overriding Royalty Procedure.
5. Other: The Vendor will retain the responsibility for administration of the Leases, and will hold the interest of the Purchaser in trust, subject to the Purchaser reimbursing the Vendor for 50% of the applicable rentals during this period. If the Purchaser drills a well on the acquired lands and places it on production, the Purchaser will assume responsibility for administration of the Leases and the trust responsibility will be reversed. (Note: Parties will often prefer to address rentals in their Trust Agreement.)

*Potential modifications to Property Transfer Procedure: Additional modifications to the defaults included in the PTP and on the sample election sheet might be considered if: (i) the Transaction were an Asset Exchange, rather than a Sale (e.g., GST/HST Registration Numbers on this election sheet; Clause 3.01 place of Closing; and possible differences in the Clause 6.02 Vendor reps); or (ii) the Parties wanted to override time periods or thresholds prescribed in the 2017 PTP that had been elections or Head Agreement content in the 2000 PTP. Examples of these are: Clause 2.02 tax allocations; Clause 2.03 optional 10% Deposit; Subclause 3.04B access to files period; Paragraph 4.02A(b) final statement of adjustments within six months; Clause 6.05 and 13.01 survival period on reps; optional Subclause 7.01E 50% or more ROFR exercise threshold; Subclause 8.02A seven Business Day period for notice of Title Defects; Subclause 8.02B Alternate 2 Title Defects thresholds of 10% and 25%; including a different value in Subclause 13.03A; and the \$25,000 minimum claim threshold in Subclause 13.03B.

Some other provisions that might be reviewed for a Transaction are: the 31-day thresholds for marketing and J.V. agreements used in Paragraphs (c) and (g) of the definition of Title and Operating Documents and the corresponding reps in Paragraphs 6.02(i) and (j); the contemplated handling of freehold mineral tax in Clause 4.01; the \$10,000 threshold in Subclause 4.02B; the estimated \$50,000 authorized expenditure threshold in Clause 5.01, Subclause 5.03A and Paragraph 6.02(h); the estimated \$100,000 threshold for addressing regulatory requirements under Paragraph 6.02(l); the 60-day maximum period prescribed for replacing signs under Clause 11.02; and any modifications to the handling of surplus equipment contemplated in Clause 11.03.

UNDEVELOPED ACREAGE CONVEYANCE AGREEMENT JENSEN AREA, ALBERTA

THIS AGREEMENT made this 1st day of July, 2017.

BETWEEN:

CHERRY CANADA RESOURCES LTD., a body corporate, registered to carry on business in the Province of Alberta and having an office in the City of Calgary, in the Province of Alberta (hereinafter called the "Vendor")

- and -

BLAKE ENERGY INC., a body corporate, registered to carry on business in the Province of Alberta and having an office in the City of Calgary, in the Province of Alberta (hereinafter called the "Purchaser")

Whereas the Vendor has agreed to sell the Assets to the Purchaser and the Purchaser has agreed to purchase the Assets from the Vendor on the terms and conditions set forth herein, the Parties agree as follows in consideration of the premises hereto and the covenants and agreements hereinafter set forth, the receipt and sufficiency of which are hereby acknowledged:

1. Definitions

In this Agreement:

- (a)* **"Base Triassic"** means the point of interface between the Triassic and the top of the stratigraphically deeper Permian, as shown at 2795.5 metres measured depth on the gamma ray log for the well 14-10-XX-YY W5M.
- (b)* **"Cherry Retained Lands"** means the applicable lands and petroleum substances identified as such on Schedule "B", insofar only as those lands and petroleum substances are held under the Leases at the relevant time.
- (c) **"Effective Date"** means July 1, 2017.
- (d)* **"Royalty Agreement"** means the form of royalty agreement attached as Schedule "C", including the schedule of elections and modifications for the 2015 CAPL Overriding Royalty Procedure that is incorporated by reference therein.
- (e) **"Scheduled Closing Date"** means July 16, 2017.
- (f)* **"Trust Agreement"** means a trust agreement substantially in the form attached as Schedule "D".

2. Schedules

The following Schedules are attached hereto and made part hereof:

- (a) Schedule "A", which is a list of elections and amendments to the Property Transfer Procedure;
- (b) Schedule "B", which identifies the Lands, the Leases and *the Cherry Retained Lands;
- (c) *Schedule "C", which is the form of the Royalty Agreement;
- (d) *Schedule "D", which is the form of the Trust Agreement; and
- (e) Schedule "E", which is a copy of the form of General Conveyance.

Subject to the elections and amendments identified in Schedule "A", the Property Transfer Procedure is incorporated by reference into this Agreement.

3. Sale and Purchase

- A. The Purchaser agrees to purchase the Assets from the Vendor and the Vendor agrees to sell them to the Purchaser on the terms and conditions set forth in this Agreement.
- B. This Subclause replaces Clause 2.02 of the Property Transfer Procedure. The consideration for the disposition of the Assets will be: (i) payment by the Purchaser to the Vendor of \$300,000; *and (ii) the delivery of an executed copy of the Royalty Agreement in the form of Schedule "C" whereby the Vendor reserves a 3% overriding royalty with respect to the Petroleum and Natural Gas Rights on the basis set forth therein. Except for \$1.00, which is allocated to the Miscellaneous Interests, the entire value of the Assets is allocated to the Petroleum and Natural Gas Rights because there are no Tangibles or Wells associated with the Lands.

4. Trust Agreement* (Note: Subclause C might be addressed in the Trust Agreement instead.)

- A. One of the Specific Conveyances executed by the Vendor for delivery at Closing will be the Trust Agreement.
- B. If the Purchaser drills a well on or through any portion of the Lands following Closing, the Vendor will, upon notification by the Purchaser of the drilling rig release of that well and the intention of the Purchaser to acquire a registered interest in the Leases, promptly transfer to the Purchaser the registered interest and the designated representative and payor status for the Leases. In such event, the Trust Agreement under which the Vendor has held the Lands as trustee on behalf of the Purchaser as beneficiary will, without further action by the Parties, then terminate, other than for any obligations that had accrued before that time. The Parties will promptly prepare and execute a new trust agreement in the form of the Trust Agreement, except that the Purchaser will hold the Cherry Retained Lands as trustee on behalf of the Vendor as beneficiary, insofar as the Cherry Retained Lands remain subject to the Leases.
- C. This Subclause applies if the registered interest, designated representative and payor status in the Leases have not previously been transferred to the Purchaser under Subclause 4B. The Vendor will promptly transfer to the Purchaser the registered interest, designated representative and payor status in any of the applicable Leases if no Cherry Retained Lands remain subject to it, insofar as the Lands remain subject to the applicable Leases. In such event, the Trust Agreement will, without further action by the Parties, terminate, other than for any obligations that had accrued before that time.

5. Maintenance Of Leases* (Note: Rentals might be addressed in the Trust Agreement instead.)

On an ongoing basis, the Parties agree that all rental payments with respect to the Leases will be shared by the Vendor 50% and the Purchaser 50%, provided the rights under the applicable Leases relating to the Cherry Retained Lands and the Lands are retained by the respective Parties. The Party that is not the rental payor under this Clause will provide payment to the applicable rental payor for its 50% share of the rentals within 30 days after receipt of the rental payor's invoice therefor.

In witness whereof the Parties have duly executed this Agreement.

CHERRY CANADA RESOURCES LTD.

BLAKE ENERGY INC.

Per:

Douglas C. Cherry, President

Per:

Michael K. Mitchell, President

Per:

Corinne S. Cherry, Vice-President

Schedule "A"-Property Transfer Procedure Elections And Amendments
Note: This election sheet and the associated elections are for illustrative purposes only.

1. **Definition of Title Defect (Clause 1.01):** Alternate ____ will apply. **N/A**
2. **Definition of Wells (Clause 1.01):** (Specify) Alternate 1 only ____; a combination of Alternates 1 and 2 ____; a combination of Alternates 1 and 3: ____; or Alternate 2 only ____ will apply. **N/A**
3. **Base Purchase Price And Tax Allocations (Clause 2.02):** Replaced by Subclause 3B of the Head Agreement.
4. **Receipt And Handling Of Deposit (Clause 2.03):** Optional Clause will ____/ will not ☒ apply.
5. **GST/HST And Other Sales Taxes (Subclause 2.05A):** (i) GST/HST Election: Alternate 1 will apply.
(ii) GST/HST Registration Numbers: R12345678 for the Vendor and R23456789 for the Purchaser.
6. **Interest Accrual (Clause 2.06):** Alternate ____/Neither Alternate 1 nor 2 ☒ will apply.
7. **Distribution Of Specific Conveyances (Clause 3.05):** Alternate 1 will apply.
8. **Pipeline Records And Associated Licence Transfers (Subclause 3.07B):** Alternate ____ will apply. **N/A**
9. **Adjustments (Article 4.00):** This Article is deleted. There are no adjustments because the Lands are undeveloped. (Note: Possible that there could be adjustments if V held <100% and work was then being conducted.)
10. **Per Diem Rental Adjustment (Paragraph 4.01(d)):** Optional Paragraph will ____/ will not ____ apply. **N/A**
11. **Adjustment For Income Tax-Interim Period Income (Clause 4.03):** Adjustment: ____%. **N/A**
12. **Vendor's Representations And Warranties (Clause 6.02):** The representations and warranties that apply are indicated by a Yes below. (Those indicated by a No, N/A or strikethrough do not apply.)

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|--|--|
| <u>Yes</u> (a) Residency For Tax Purposes | <u>No</u> (o) Condition Of Tangibles |
| <u>Yes</u> (b) Lawsuits And Claims | <u>Yes</u> (p) Provision Of Documents |
| <u>Yes</u> (c) No Default Notices | <u>No</u> (q) Well And Tangibles Transfers |
| <u>Yes</u> (d) Compliance With Title And Op Docs | <u>No</u> (r) Records Relating To Op Tang. |
| <u>Yes</u> (e) Payment Of Royalties And Taxes | <u>No</u> (s) Reg. Production Penalties |
| <u>Yes</u> (f) Encumbrances & ROFRs | <u>No</u> (t) Reg. Production Allowables |
| <u>Yes</u> (g) No Reduction | <u>Yes</u> (u) Area Of Mutual Interest/Exc. |
| <u>Yes</u> (h) Authorized Expenditures | <u>Yes</u> (v) No Notice Of Offset Obligations |
| <u>Yes</u> (i) Sale Agreements | <u>Yes</u> (w) No Commitment To Deliver |
| <u>No</u> (j) Production Handling Agreements | <u>Yes</u> (x) Not A Disposition Of Sub. All |
| <u>Yes</u> (k) Environmental Matters | <u>No</u> (y) Leased Vehicles, Equipment... |
| <u>No</u> (l) Operations And Compliance | <u>No</u> (z) No Removal Of Assets |
| <u>No</u> (m) Condition Of Wells | <u>Yes</u> (aa) Quiet Enjoyment |
| <u>No</u> (n) Abandonment Of Wells | <u>No</u> (bb) Additional Representations |
13. **Right Of First Refusal Values (Subclause 7.01B):** Optional sentence will ☒/ will not ____ apply.
14. **Rights Of First Refusal And Consents (Subclause 7.01E):** Optional Subclause will ____/ will not ☒ apply.
15. **Purchaser's Review (Article 8.00):** Optional Article will ____/ will not ☒ apply.
16. **Election Respecting Title Defects (Subclause 8.02B, if Article 8.00 selected):** Alternate _ will apply. **N/A**
17. **Assets Acquired On "As Is Basis" (Clause 13.04):** Replace the first three sentences of the Clause with the following paragraph: "Notwithstanding Clause 13.01 or any other provision herein, the Purchaser does not assume any obligations from the Vendor hereunder with respect to any abandoned well drilled on the Lands prior to the Effective Date, except to the extent that the Purchaser attempts to re-enter that well. Subject at all times to the preceding sentence, the Purchaser is not relying upon any representation or warranty of the Vendor as to the condition, environmental or otherwise, of the Assets, except as is specifically made under Clause 6.02, and the Purchaser, as of the Effective Date, will:"
18. **Addresses For Service (Clause 15.02):**

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|---|---|
| Vendor Cherry Canada Resources Ltd. Attention: Manager, Land #AAA, Rolling Greens Ave. S.W. Calgary, AB T2P E1O Fax: (403) 555-8090 | Purchaser Blake Energy Inc. Attention: Manager, Land #MKM, LKL-B S.W. Calgary, AB T2V 0A1 Fax: (403) 555-6404 |
|---|---|