

Addendum VII: Sample Swap Of Undeveloped Lands (With Cash Component)

Acreage Exchange Scenario With Cash Component

This is a simple case study and sample agreement that provides a context for the exchange 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.

This example illustrates the application of this form of Agreement to a simple Transaction in which the Parties are exchanging undeveloped rights in circumstances in which there is need to add a cash component to the exchange (underlined). (Addendum V illustrates the application of this form of Agreement to a simple sale, in which the Purchaser acquires the entire interest of the Vendor in the Leases for only cash consideration. Addendum VI is a sale that includes several layers of complexity (i.e., the reservation of an ORR by the Vendor, the retention of shallow rights and a trust agreement) to illustrate the versatility of this type of document).

1. Parties: PCN Canada Resources Ltd. and Brown Oil & Gas Canada Inc.
2. Lands: The exchange of each Party's entire interest in the applicable undeveloped Lands without wells in circumstances in which PCN must pay an additional \$75,000 to Brown to equalize the value.
3. Values: \$500,000 for the Brown Lands and \$425,000 for the PCN Lands.

*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 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 EXCHANGE CONVEYANCE AGREEMENT
LAURA AND KENDRA AREAS, ALBERTA**

THIS AGREEMENT made this 1st day of June, 2018.

BETWEEN:

PCN 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 "PCN")

- and -

BROWN OIL & GAS CANADA 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 "Brown")

Whereas PCN wishes to obtain the Brown Assets from Brown and Brown wishes to obtain the PCN Assets from PCN 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) **"Brown Assets"** means the Petroleum and Natural Gas Rights described in Schedule "C" and the Miscellaneous Interests pertaining thereto.
- (b) **"Brown Lands"** means the lands set forth and described in Schedule "C", insofar as rights pertaining to the Petroleum Substances underlying those lands are granted by the Brown Leases.
- (c) **"Brown Leases"** means the Leases for which Brown is the Transferor hereunder.
- (d) **"Effective Date"** means June 1, 2018.
- (e) **"PCN Assets"** means the Petroleum and Natural Gas Rights described in Schedule "B" and the Miscellaneous Interests pertaining thereto.
- (f) **"PCN Lands"** means the lands set forth and described in Schedule "B", insofar as rights pertaining to the Petroleum Substances underlying those lands are granted by the PCN Leases.
- (g) **"PCN Leases"** means the Leases for which PCN is the Transferor hereunder.
- (h) **"Scheduled Closing Date"** means June 21, 2018.

2. SCHEDULES

The following Schedules are attached hereto and made part of this Agreement:

- (a) Schedule "A", which is a list of elections and amendments to the Property Transfer Procedure;
- (b) Schedule "B", which identifies the PCN Lands and the PCN Leases;
- (c) Schedule "C", which identifies the Brown Lands and the Brown Leases; and
- (d) Schedule "D", which is a copy of the form of the General Conveyance.

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

3. ASSET EXCHANGE

- A. PCN agrees to dispose of the PCN Assets to Brown and Brown agrees to dispose of the Brown Assets to PCN. These dispositions are on the terms and conditions in this Agreement and for the consideration of the transfer of the Assets being so disposed by the other Party, *together with a payment of \$75,000 from PCN to Brown to equalize the value of the Assets hereunder.
- B. This Subclause replaces Clause 2.02 of the Property Transfer Procedure. The Parties agree that the value allocated to the PCN Assets is \$425,000 and that the value allocated to the Brown Assets is \$500,000. Except for \$1.00, which is allocated to the Miscellaneous Interests, the entire value of the respective Assets is allocated to the Petroleum and Natural Gas Rights because there are no Tangibles or Wells associated with the Brown Assets or the PCN Assets.

In witness whereof the Parties have duly executed this Agreement.

PCN CANADA RESOURCES LTD.

BROWN OIL & GAS CANADA INC.

Per:

Paul Natland, President

Per:

Adam Brown, V.P., Legal

Per:

Ethan Brown, V.P., Engineering

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.
4. **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. **Place Of Closing (Clause 3.01):** Replace "the Vendor" with "PCN".
8. **Distribution Of Specific Conveyances (Clause 3.05):** Alternate 1 will apply.
9. **Pipeline Records And Associated Licence Transfers (Subclause 3.07B):** Alternate ____ will apply. **N/A**
10. **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.)
11. **Per Diem Rental Adjustment (Paragraph 4.01(d)):** Optional Paragraph will ____/ will not ____ apply. **N/A**
12. **Adjustment For Income Tax-Interim Period Income (Clause 4.03):** Adjustment: ____%. **N/A**
13. **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.)

<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>No</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>No</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
14. **Right Of First Refusal Values (Subclause 7.01B):** Optional sentence will ____/ will not ☒ apply.
15. **Rights Of First Refusal And Consents (Subclause 7.01E):** Optional Subclause will ____/ will not ☒ apply.
16. **Purchaser's Review (Article 8.00):** Optional Article will ____/ will not ☒ apply.
17. **Election Respecting Title Defects (Subclause 8.02B, if Article 8.00 selected):** Alternate _ will apply. **N/A**
18. **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:"
19. **Addresses For Service (Clause 15.02):**

<u>PCN</u> PCN Canada Resources Ltd. Attention: Manager, Land #CCC, BBB-CJ Ave. S.W. Calgary, AB T2P 2M8 Fax: (403) 555-9734	<u>Brown</u> Brown Oil & Gas Canada Inc. Attention: Manager, Land #PMA, LCB-CB Ave. S.W. Calgary, AB T2P 0A3 Fax: (403) 555-7315
---	---