



C1548

December 12, 2003

**BY COURIER**

**Devon ARL Corporation**  
1600, 324 – 8<sup>th</sup> Avenue S.W.  
Calgary, Alberta  
T2P 2Z5

**Attention: Mr. Rob Fraleigh**

**Burlington Resources Canada Ltd.**  
2100, 250 - 6<sup>th</sup> Avenue S.W.  
Calgary, Alberta  
T2P 3H7

**Attention: Mr. Dave Schatz**

Dear Sirs:

**Re: Farmout and Option Agreement  
Twp. 80-81 , Rge. 11- 12 W6M:  
Pouce Coupe Area, Alberta**

The following reflects the terms under which Cequel Energy Inc. ("Cequel"), hereinafter referred to as "Farmee", is prepared to farm in on and earn the interests of Devon ARL Corporation ("Devon") and Burlington Resources Canada Ltd. ("Burlington"), hereinafter collectively referred to as "Farmor", in the Farmout Lands:

1. **Definitions**

Each capitalized term used in this Head Agreement will have the meaning given to it in the Farmout & Royalty Procedure, and, in addition:

- (a) "Contract Depth" means in the case of the Test Well or Option Well to be drilled 15m into the base of the Montney formation or to a subsurface depth of 1600 metres subsurface whichever shall first occur.
- (b) "Farmout and Royalty Procedure" means the 1997 CAPL Farmout & Royalty Procedure including the elections and revisions thereof, which are attached hereto as Schedule "B".
- (c) "Test Well" means the first well drilled by Cequel pursuant to this Agreement.
- (d) "Option Well" means any well drilled subsequent to the Test Well pursuant to this Agreement.

- (e) "Operating Procedure" means the 1990 CAPL Operating Procedure along with the 1996 PASC Accounting Procedure, including the elections and revisions thereof, which are attached hereto as Schedule "C".
- (f) "Well Data Requirement Sheet" means the well data required by Farmor as set forth and described in Schedule "D".

## 2. Schedules

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

- (a) Schedule "A" which describes the Title Documents and the Farmout Lands.
- (b) Schedule "B" which is the Farmout and Royalty Procedure.
- (c) Schedule "C" which is the Operating Procedure.
- (d) Schedule "D" which is the Well Data Requirement Sheet.

## 3. Test Well

- (a) On or before January 30, 2004, Farmee will spud the Test Well (conditional upon rig availability, regulatory approval and surface access) at a location of its choice on the Farmout Lands and shall continuously drill the Test Well to Contract Depth.
- (b) Provided Farmee has fulfilled its obligations with respect to the Test Well, as set forth in Article 3.00 of the Farmout & Royalty Procedure, the Farmee will earn the following interest in the Farmout Lands:
  - (i) 70% of the Farmor's interest down to the base of the deepest formation penetrated and evaluated to the satisfaction of Farmor in the section in which the Test Well was drilled.

## 4. Operating Procedure

Upon the Farmee earning an interest in the Farmout Lands, the Farmout Lands and the Title Documents so earned will become subject to the Operating Procedure with Farmee being the initial Operator thereunder. The Operating Procedure will govern all future joint operations of the parties upon or with respect to such Farmout Lands and Title Documents.

## 5. Option Well

- (a) Assuming that the Farmee has fulfilled all obligations pursuant to Clause 3. herein and provided further that Farmee is not in default of any term or condition contained herein, the Farmee will have the option to elect within 45 days of rig release of the Test Well to either:
  - (i) drill an Option Well; or
  - (ii) forfeit its right to further earning under this Agreement.

- (c) Should Farmee elect to drill the Option Well Farmee shall have a period of 90 days from rig release of the Test Well to spud the Option Well. All provisions, terms and conditions of this Agreement which apply to the Test Well shall apply mutatis mutandis to the Option Well.

**6. Encumbrances**

- (a) Except as otherwise provided in this Agreement, if the interest of any party in the Farmout Lands is now or in the future becomes encumbered by any royalty, overriding royalty, production payment or other burden payable out of production attributable to its participating interest hereunder, other than the Lessor's royalties under the Title Documents, and the other encumbrances set out in Schedule "A", such party will be solely responsible for the additional burden and will hold the other parties harmless from and against all claims, demands and causes of action relating thereto.
- (b) The parties acknowledge that section 1-81-12-W6M of the Farmout Lands are governed by a prior agreement and are subject to a Right Of First Refusal ("ROFR"). Devon and Burlington, being the sole parties to the prior agreement, hereby waive any ROFR as it pertains to the Farmout Lands.

**7. Dispositions by Farmee During Earning Phase**

The Farmee will have the right to dispose of a portion of its rights prior to earning an interest hereunder, subject to the consent of the Farmor, which consent shall not be unreasonably withheld. However, the Farmor is only required to look to the Farmee for performance of any duties and obligations required to be carried out under this Agreement prior to the Farmee earning its interest hereunder and prior to any assignment of interest pursuant to the Assignment Procedure. If the Farmee obtains partners, Cequel will be the representative of the Farmee for the purposes of Clause 1.04 of the Farmout & Royalty Procedure.

**8. Execution in Counterpart**

This Agreement may be executed in any number of counterparts by the parties hereto and all counterparts so executed shall have the same effect as if all parties actually had joined in executing one and the same document.

**9. Conditions**

This proposal is submitted subject to Cequel's verification of Farmor's interest in and title to the Farmout and Option Lands.

If you are in agreement with the preceding terms and conditions please confirm your agreement by signing this and the attached duplicate original and returning one copy to the undersigned.

Yours truly,  
**CEQUEL ENERGY INC.**



Gary Peddle  
Vice-President, Land  
(403) 232-4174

**ACCEPTED AND AGREED THIS 15 DAY  
OF DECEMBER, 2003.**

**DEVON ARL CORPORATION**

Per: \_\_\_\_\_



Name/Title: \_\_\_\_\_

G.R. FRALEIGH  
SENIOR LANDMAN

**ACCEPTED AND AGREED THIS \_\_\_\_\_ DAY  
OF \_\_\_\_\_, 2003.**

**BURLINGTON RESOURCES CANADA LTD.**

Per: \_\_\_\_\_

Name/Title: \_\_\_\_\_

This is a Counterpart Execution page to a Farmout and Option Agreement dated December 12, 2003 between Devon ARL Corporation and Burlington Resources Canada Ltd., collectively as Farmor, and Cequel Energy Inc., as Farmee.

If you are in agreement with the preceding terms and conditions please confirm your agreement by signing this and the attached duplicate original and returning one copy to the undersigned.

Yours truly,  
**CEQUEL ENERGY INC.**

**ACCEPTED AND AGREED THIS \_\_\_\_\_ DAY  
OF \_\_\_\_\_, 2003.**

**DEVON ARL CORPORATION**

Gary Peddle  
Vice-President, Land  
(403) 232-4174

Per: \_\_\_\_\_

Name/Title: \_\_\_\_\_

**ACCEPTED AND AGREED THIS 16<sup>th</sup> DAY  
OF December, 2003.**

**BURLINGTON RESOURCES CANADA LTD.**

Per: 

Name/Title: D.F. Schatz  
Senior Landman

This is a Counterpart Execution page to a Farmout and Option Agreement dated December 12, 2003 between Devon ARL Corporation and Burlington Resources Canada Ltd., collectively as Farmor, and Cequel Energy Inc., as Farmee.

## SCHEDULE "A"

Attached to and forming part of a Farmout and Option Agreement dated December 12, 2003 between Devon ARL Corporation and Burlington Resources Canada Ltd., collectively as Farmor, and Cequel Energy Inc., as Farmee.

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### Farmout Lands

Alberta P&NG Lease No. 0500100219 dated October 5, 2000  
Twp. 81, Rge. 12 W6M: section 1  
All P&NG from surface to basement  
Farmor Working Interest: 100.0% (Burlington 50%, Devon 50%)  
Encumbrances: Alberta Crown Lessor Royalty  
Wells: N/A

Ptn. Alberta P&NG Licence No. 5494070027 dated July 15, 1994  
Twp. 80, Rge. 11 W6M: section 31  
All P&NG from base Charlie Lake to basement.  
Farmor Working Interest: 100.0% (Burlington 50%, Devon 50%)  
Encumbrances: Alberta Crown Lessor Royalty  
1/150 (5% - 15%) Oil, 15% Gas & Other on 100% Production payable to Talisman 100%  
Wells: N/A

## SCHEDULE "B"

Attached to and forming part of a Farmout and Option Agreement dated December 12, 2003 between Devon ARL Corporation and Burlington Resources Canada Ltd., collectively as Farmor, and Cequel Energy Inc., as Farmee.

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### i) Farmout & Royalty Procedure Elections and Amendments

1. Effective Date (Subclause 1.01(f) –December 1, 2003.
2. Payout (Subclause 1.01(t), if Article 6.00 applies) - Alternate A does not apply
3. Incorporation of Clauses from 1990 CAPL Operating Procedure (Clause 1.02)  
(l) Insurance (311)                      Alternate A - \_\_\_\_\_    Alternate B -   X
4. Article 4.00 (Option Wells) will   X   /will not \_\_\_\_\_ apply.
5. Article 5.00 (Overriding Royalty) will \_\_\_\_\_/will not   X   apply.
10. Quantification of Overriding Royalty (Subclause 5.01 A, if applicable).
  - (i) Crude Oil (a) -            Alternate -   N/A  
    - If Alternate 1 applies            \_\_\_%
    - If Alternate 2 applies \_\_\_\_\_ min \_\_, max. \_\_.
  - (i) Other (b)            -            Alternate -   N/A  
    - If Alternate 1 applies - \_\_\_%
    - If Alternate 2 applies -   ---%   in (i), and   ----%   in (ii)
7. Permitted Deductions (Subclause 5.04B, if applicable) - Alternate –   N/A
8. Article 6.00 (Conversion of Overriding Royalty) - will \_\_\_\_\_/will not   X   apply.
  - If Article 6.00 applies, conversion to \_\_\_\_\_ of Working Interest in Subclause 6.04 A.
9. Article 8.00 (Area of Mutual Interest) - will \_\_\_\_\_/will not   X   apply.
10. Reimbursement of Land Maintenance Costs (Clause 11.02) will \_\_\_\_\_/will not   X   apply. If applies, reimbursement of \$-----.



**Schedule "C" Cont.**

- (c) excess of \$25,000.00
- II. Clause 201(a) 6 Labour: Delete and replace as follows:  
 "Salaries and wages of the Operator's employees engaged in Production Engineering who are either temporarily or permanently assigned to and directly employed off-site in direct support of Joint Operations."
- Clause 202(b) Employee Benefits – not to exceed: 25%
- Clause 207 Services: replace "warehouse" with "Warehouse" throughout
- Clause 213(b) Camp and Housing: shall \_\_\_\_\_ shall not X
- Clause 216 Warehouse Handling: 5%
- Clause 221 Allocation Options: n/a
- III. Clause 301 (a) Cost: Delete and replace as follows:  
 "Cost" means total expenditures described in ARTICLE II, excluding those expenditures pursuant to Subclause 209(b) and Clause 218 of this Accounting Procedure, and salvage credits for Material retired, the value of injected substances purchased for enhanced recovery and any additional exclusions as approved by the Owners.
- IV. Clause 302 Overhead Rates:
- (a) For each Exploration Project:
- |     |           |                                |                   |
|-----|-----------|--------------------------------|-------------------|
| (1) | <u>5%</u> | of first                       | <u>\$ 50,000</u>  |
| (2) | <u>3%</u> | of next                        | <u>\$ 100,000</u> |
| (3) | <u>1%</u> | of costs exceeding (1) and (2) |                   |
- For each Drilling Well:
- (b) (1) 3% of first \$ 50,000  
 (2) 2% of next \$ 100,000  
 (3) 1% of costs exceeding (1) and (2)
- For each Initial Construction Project:
- (c) (1) 5% of first \$ 50,000  
 (2) 3% of next \$ 100,000  
 (3) 1% of costs exceeding (1) and (2)
- For each Subsequent Construction Project:
- (c) (1) 5% of first \$ 50,000  
 (2) 3% of next \$ 100,000  
 (3) 1% of costs exceeding (1) and (2)
- For Operation and Maintenance:
- (d) (1) 10% of the cost of the Joint Property; and  
 (2) \$150 per Producing Well per month; or  
 (3) \_\_\_\_\_ Flat rate per month.
- Subclause 302(e)(2) and 302(e)(3) shall X shall not \_\_\_\_\_
- V. Clause 406 Dispositions: \$25,000
- Clause 406 Dispositions: replace "affiliates" with "Affiliates"
- V. Clause 501(b) Dispositions: replace "warehouse" with "Warehouse"

## **SCHEDULE "D"**

Attached to and forming part of a Farmout and Option Agreement dated December 12, 2003 between Devon ARL Corporation and Burlington Resources Canada Ltd., collectively as Farmor, and Cequel Energy Inc., as Farmee.

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**Well Data Requirement Sheet attached**