

November 24, 2015

2015 CAPL Farmout & Royalty Procedure and 2015 CAPL Overriding Royalty Procedure

We are very pleased to distribute the final products associated with the 2015 CAPL Farmout & Royalty Procedure and the companion CAPL Overriding Royalty Procedure. These documents were finalized after three industry drafts of the FO&RP and two final iterations of our working drafts with the commenting parties to optimize our handling of their comments, to obtain their insights on the other changes and to confirm alignment.

This package includes: (i) an overview of the project scope and the major changes; (ii) a detailed matrix that outlines all material changes relative to the 1997 FO&RP and their rationale; (iii) the text and annotations in a clean and redlined format relative to the June drafts; and (iv) a matrix showing industry comments on the FO&RP and our responses. You can obtain a facing page presentation of the text and annotations by printing the PDFs in a double-sided format.

The overview document and the matrix of changes outline the differences relative to the 1997 documents in a user friendly format. They can simplify materially your effort to bring yourself up to speed on the new documents because of the context that they offer. The changes to the 1997 documents reflect four major factors.

- The need to address specific issues associated with evolving business needs (e.g., the “shale revolution” and the greater frequency of horizontal wells, changes to drilling density rules, more complex transactions).
- Legal influences (i.e., court cases and other changes in the legislative and regulatory environment).
- The use of “plainer language” principles to make the documents more accessible to all users.
- A major expansion of the annotations as a reference tool for users of all experience levels.

Industry feedback on the industry drafts was less than we hoped. However, the formal and informal comments were very positive. The commenting companies reviewed the documents thoroughly, and, as shown by the comment matrices over the course of the project, we evaluated each comment carefully and used the comments to optimize the documents. This comment on the first draft from a company not involved in the project succinctly summarized the essence of the document: *“After reviewing the document with the team we noticed a constant theme. This agreement is predominately providing context and clarity on almost all clauses compared to the 1997 FO and Royalty Procedure. This context and clarity are welcomed as this document is addressing current situations that the industry is facing with the focus on resource plays, technology and horizontal drilling.”*

The length of the documents may initially be a concern. The subdivision of longer provisions into smaller “bites” has simplified the documents, and the addition of new content has increased their depth and breadth materially, as demonstrated by the sample agreements included in the Addendum, particularly the second example. As users routinely include a schedule of elections, we believe that the benefits of enhanced coverage and clarity in these “car manuals” more than offset any negative impact of the increased length in practice.

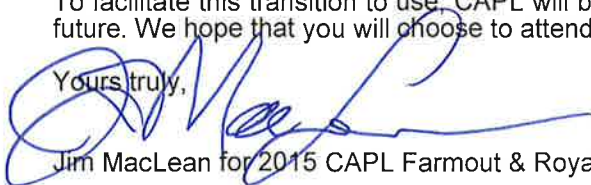
We believe that your investment of time with these materials will provide you with many new insights. We believe that it will confirm that the major effort invested by the participants on the project has resulted in the creation of polished documents with many positive changes to meet the needs of today’s business. You can assess this by looking at how the documents address some of the problems you have faced with the 1997 documents.

To optimize alignment between the documents and the Operating Procedure in the future, we have completed a modest parallel update (i.e., +3.5 pages) to the 2007 CAPL Operating Procedure. Those changes are largely intended to offer some incremental functionality for “long reach”, hz drilling programs, while also addressing intervening legal developments and some other minor adjustments. We will be sharing the final materials shortly.

The compelling case for change in the CAPL documents can be expressed succinctly in two words-horizontal wells. The major changes in our business dictated that these projects be conducted, and the interrelationship of the 2015 CAPL Farmout & Royalty Procedure and the 2015 CAPL Operating Procedure reinforce a timely transition to use of the new documents. Put simply, the status quo does not address industry’s needs suitably.

To facilitate this transition to use, CAPL will be offering half day mini-courses on the new documents in the near future. We hope that you will choose to attend one of these sessions.

Yours truly,



Jim MacLean for 2015 CAPL Farmout & Royalty Procedure Committee