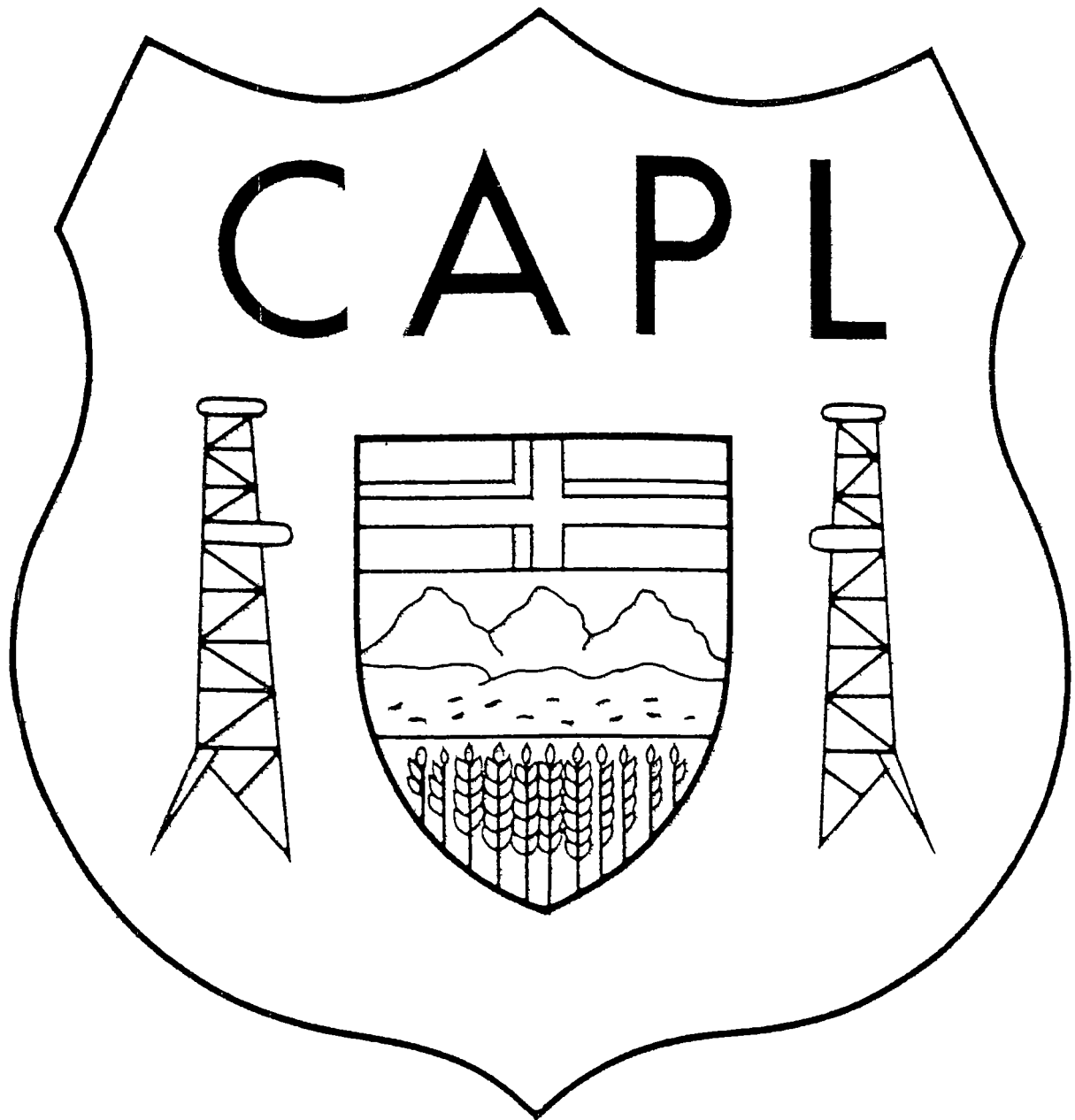


OPERATING PROCEDURE



CANADIAN ASSOCIATION OF PETROLEUM LANDMEN

1971

TERMS OF USE AND DISCLAIMER FOR CAPL BUSINESS FORMS

USE

Model agreements and precedent business forms provided by the Canadian Association of Petroleum Landmen (CAPL Business Forms) are proprietary documents for use by its current members. All or any part of the CAPL Business Forms may not be provided (electronically or otherwise) to any non member of the CAPL. In addition, all or any part of the CAPL Business Forms may not be used in any publication and may not be distributed (electronically or otherwise) or used for educational purposes without the express prior written consent of the CAPL.

Membership applications for the CAPL can be downloaded from the CAPL website www.landman.ca

Enquiries regarding the CAPL Business Forms can be directed to the CAPL Office

DISCLAIMER

CAPL Business Forms and related annotations are intended for use as a guide only. CAPL members are permitted to use the CAPL Business Forms where appropriate and to revise any provisions as desired provided those revisions are identified within the revised Business Form. Use of the CAPL Business Forms in whole or in part shall be at the sole discretion and risk of the user. Any user of a CAPL Business Form should exercise care and ensure that the form meets their particular requirements or that the form is revised accordingly. The CAPL does not assume responsibility for any statements in any form that relate to the suitability of all or any part of the CAPL Business Form for any user's particular requirements. Furthermore, the CAPL does not assume any responsibility for any harm or damages, however caused, from the use or misuse of all or any part of a CAPL Business Form. CAPL makes no warranty, express or implied, in fact or by law. Anyone preparing oil and gas agreements should seek the advice of a CAPL member who is familiar with the preparation of these agreements and can advise as to the suitability of a CAPL Business Form for a particular circumstance.

ARTICLE	HEADINGS	PAGE
I	DEFINITIONS HEADINGS AND REFERENCES	1
	101 Definitions	1
	102 Headings	3
	103 References	3
	104 Optional and Alternate Provisions	3
II	APPOINTMENT AND REPLACEMENT OF OPERATOR	3
	201 Assumption of Duties of Operator	3
	202 Replacement of Operator	3
	203 Challenge of Operator	3
	204 Resignation of Operator	4
	205 Appointment of New Operator	4
	206 Transfer of Property on Change of Operator	4
	207 Audit of Accounts on Change of Operator	4
III	FUNCTIONS AND DUTIES OF OPERATOR	5
	301 Control and Management of Operations	5
	302 Operator as Non-Operator	5
	303 Independent Status of Operator	5
	304 Proper Practices in Operations	5
	305 Books and Records	5
	306 Protection from Liens	5
	307 Non Operator s Rights of Access	5
	308 Surface Rights	5
	309 Maintenance of Leases	5
	310 Production Statements and Reports	6
	311 Insurance	6
IV	INDEMNITY OF OPERATOR	6
	401 Limit of Liability	6
	402 Indemnification of Operator	6
V	COST AND EXPENSES	7
	501 Accounting Procedure as Basis	7
	502 Operator To Pay and Recover From Parties	7
	503 Advance of Costs and Expenses	7
	504 Operator s Lien	7
	505 Reimbursement of Operator	8
	506 Commingling of Funds	8
VI	OWNERSHIP AND DISPOSITION OF PRODUCTION	8
	601 Each Party To Own and Take Its Share	8
	602 Failure to Take in Kind	8
	603 Operator s Failure to Take in Kind	8

VII	OPERATOR S DUTIES RE DRILLING WELLS FOR JOINT ACCOUNT	9
	701 Pre Commencement Information	9
	702 Drilling Information and Privileges of Non Operators	9
	703 Testing Information to Non Operators	9
	704 Logging Information to Non Operators	9
VIII	VELOCITY SURVEYS OR OTHER TESTS	9
	801 Velocity Surveys or Other Tests	9
IX	CASING POINT ELECTION	10
	901 Agreement to Drill Not Authority to Complete	10
	902 Election by Non Operators Re Casing and Completion	10
	903 Less than All Parties Participate	10
	904 Abandonment If Attempt Unsuccessful	10
X	INDEPENDENT OPERATIONS	10
	1001 Definitions Used in This Article	10
	1002 Restriction on Multiple Operation Notices	11
	1003 Proposal of Independent Operation	11
	1004 Time for Commencing Operation	11
	1005 Operator for Independent Operations	11
	1006 Separate Election Where Well Status Divided	11
	1007 Abandonment of Independent Well	11
	1008 Penalty Where Independent Well Results in Production	11
	1009 Independent Deepening Plugging Back or Reworking	12
	1010 Where Well Abandoned Before Penalty Recovered	12
	1011 Exception to Clause 1008 Where Well Preserves Title	12
	1012 Independent Geological or Geophysical Operation	13
	1013 Use of Battery and Other Equipment for Independent Well	13
	1014 Accounts and Audit During Penalty Recovery	13
	1015 Participants Rights and Duties Re Independent Operation	13
	1016 Indemnification of Non Participating Parties	13
XI	SURRENDER OF JOINT LANDS	13
	1101 Initiation of Surrender Proposal	13
	1102 Surrender By All Parties	13
	1103 Surrender By Less Than All Parties	13
	1104 Assignment of Interest Surrendered	14
	1105 Retaining Parties To Meet Obligations	14
	1106 Failure To Surrender As Agreed	14
XII	ABANDONMENT OF WELLS	14
	1201 Procedure For Abandonment	14
	1202 Assignment of Equipment and Surface Rights	14
XIII	RENTALS AND ROYALTIES	14
	1301 Operator To Pay Initially	14
	1302 In Case Of Independent Operators	15

XIV	PARTICIPATION AND FORFEITURE	15
	1401 Participation In Independent Operation	15
	1402 Assignments And Forfeiture To Ba Proportional	15
XV	OPERATION OF LANDS SEGREGATED FROM JOINT LANDS	15
	1501 Operating Procedure To Apply	15
XVI	LITIGATION	15
	1601 Conduct Of Litigation	15
XVII	RELATIONSHIP OF PARTIES	15
	1701 Parties Tenants in Common	15
XVIII	FORCE MAJEURE	16
	1801 Definition of Force Majeure	16
	1802 Suspension of Obligation Due to force majeure	16
	1803 Obligation to Remedy	16
	1804 Exception For Lack of Finances	16
XIX	CASH AND ACREAGE CONTRIBUTIONS	16
	1901 Contributions To Be Shared	16
	1902 No Waiver of Confidential Information	16
XX	CONFIDENTIAL INFORMATION	17
	2001 Information To Be Kept Confidential	17
	2002 Non Participating Party Denied Information	17
XXI	DELINQUENT PARTY	17
	2101 Classification As Delinquent Party	17
	2102 Effect of Classification as Delinquent Party	17
	2103 Restoration of Status	17
	2104 Lien Not Affected	17
XXII	WAIVER	17
	2201 Waiver Must Be In Writing	17
XXIII	FURTHER ASSURANCES	18
	2301 Parties To Supply	18
XXIV	NOTICE	18
	2401 Service Of Notice	18
	2402 Addresses for Notices	18
	2403 Right to Change Address	18
XXV	NO PARTITION	18
	2501 Waiver of Partition or Sale	18

XXVI	DISPOSITIONS OF INTERESTS	19
	2601 Alternate Provisions	19
	2602 Multiple Assignment Not to Increase Costs	19
	2603 Novation Upon Assignment	19
XXVII	PERPETUITIES	20
	2701 Limitation On Right of Acquisition	20
XXVIII	UNITED STATES TAXES	20
	2801 United States Taxes	20
XXIX	MISCELLANEOUS	20
	2901 Supersedes Previous Agreements	20
	2902 Time of Essence	20
	2903 No Amendment Except in Writing	20
	2904 Binds Successors and Assigns	20
XXX	TERM	20
	3001 To Continue During Any Joint Ownership	20

OPERATING PROCEDURE

Attached to and forming part of the Agreement DATED this day of A D 19

BETWEEN (AMONG)

ARTICLE I**DEFINITIONS HEADINGS AND REFERENCES**

101 **DEFINITIONS** — In this Operating Procedure including this Article I the following words and phrases shall have the following respective meanings namely

(a) **Accounting Procedure** shall mean the schedule so entitled which is attached hereto and is hereby made a part hereof

(b) **Affiliate** shall mean with respect to the relationship between corporations that one of them is controlled by the other or both of them are controlled by the same person or corporation and for this purpose a corporation shall be deemed controlled by those persons or corporations who hold or control sufficient voting shares of the corporation to elect the majority of its board of directors

(c) **the Agreement** shall mean that Agreement to which this Operating Procedure is attached and made a part

(d) **completion costs** shall mean with respect to a well all moneys expended for acquiring and installing casing left in the hole (except surface and intermediate casing) and the costs of equipping the well to and including

(i) in the case of a gas well the wellhead and the cost of running adequate back pressure tests

(ii) in the case of an oil well the wellhead (and pump if initially required)

- (e) drilling costs shall mean all moneys expended (exclusive of completion costs and equipping costs) for drilling coring logging and testing a well for the recovery of petroleum substances and in the case of a well which is not completed for the taking of production includes the costs of abandoning the well pursuant to the Regulations and costs of restoring the drilling site
- (f) equipping costs shall mean all costs incurred in equipping a well beyond the wellhead (or in the case of an oil well beyond the pump if initially required) including without limiting the generality of the foregoing the acquisition and installation of flow lines and production tankage and in the case of a gas well a heater or dehydrator or other hydrate control facility
- (g) for the joint account shall mean for the benefit interest ownership risk cost expense and obligation of the parties hereto in proportion to their participating interests and to the joint account and joint account shall have corresponding meanings
- (h) joint lands shall mean those lands or interests therein which by the Agreement have been made subject hereto and except where the context necessarily otherwise requires shall include the petroleum substances within upon or under those lands or interests
- (i) Non-Operator shall mean a party to the Agreement having an interest in the joint lands
- (j) operating costs shall mean all moneys expended exclusive of drilling costs completion costs and equipping costs to operate a well or wells for the recovery of petroleum substances as more particularly set forth in the Accounting Procedure
- (k) the Operator shall mean the party hereto appointed by the Non Operators to carry out operations hereunder for the joint account
- (l) participating interest shall mean the percentage of undivided interest in the joint lands (or the respective parcels thereof) held by a party hereto as provided in the Agreement
- (m) paying quantities shall mean
- (i) in the case of a well not completed and equipped the anticipated output from the well of that quantity of petroleum substances which considering the completion costs equipping costs operating costs kind and quality of production the price to be received therefor and the royalties and other burdens payable with respect thereto would warrant incurring the completion costs and equipping costs of the well
 - and
 - (ii) in the case of a well completed and equipped for production the output from the well of that quantity of petroleum substances which considering the same factors as in (i) except completion costs and equipping costs would warrant the continued production from the well
- (n) petroleum substances shall mean petroleum and natural gas and every other mineral or substance or any of them an interest in which is granted or acquired under the title documents
- (o) proportionate share shall mean with respect to a party hereto a percentage share equal to that party's participating interest
- (p) the Regulations shall mean all statutes laws rules orders and regulations in effect from time to time and made by governmental authorities having jurisdiction over the joint lands and over the operations to be conducted thereon

- (q) spacing unit shall mean (at the relevant time with respect to which the term is used herein)
 - (i) with respect to a well which has not been completed for production of petroleum substances the area allocated to the well by the Regulations for the purpose of drilling that well and
 - (ii) in every other case the area allocated to the well pursuant to the Regulations for the purpose of producing petroleum substances
- (r) title documents shall mean the documents of title by virtue of which the parties hereto are entitled to drill for win take or remove petroleum substances underlying all or any part of the joint lands and all renewals or extensions thereof or further documents of title issued pursuant thereto

102 HEADINGS – The Article headings and any other headings or captions or index hereto shall not be used in any way in construing or interpreting any provision hereof

103 REFERENCES – Unless otherwise expressly stated references to articles clauses or subclauses herein shall mean articles clauses or subclauses of this Operating Procedure

104 OPTIONAL AND ALTERNATE PROVISIONS – Where alternate or optional provisions are provided for herein but the parties have failed to designate which alternate shall apply or whether a respective optional provision shall be included the first alternate provision in each such case shall apply and the undesignated optional provision shall be deemed not to form part hereof

ARTICLE II

APPOINTMENT AND REPLACEMENT OF OPERATOR

201 ASSUMPTION OF DUTIES OF OPERATOR – The Operator of the joint lands named in the Agreement hereby assumes the duties and obligations of the Operator hereunder and shall have all the rights of the Operator hereunder

202 REPLACEMENT OF OPERATOR – The Operator shall be replaced in any one of the following circumstances

- (a) If the Operator becomes bankrupt or insolvent or commits or suffers any act of bankruptcy or insolvency or makes any assignment for the benefit of creditors or causes any judgement to be registered against its participating interest
- (b) If the Operator assigns or purports to assign its general powers and responsibilities of supervision and management as Operator hereunder
- (c) If the Operator ceases to represent at least 10% of the participating interests
- (d) If the Operator defaults in its duties or obligations or any of them hereunder and does not commence to rectify the default within 30 days after written notice from a majority in interest of the Non Operators (excluding the Operator) specifying the default and requiring the Operator to remedy the same

203 CHALLENGE OF OPERATOR – At any time after an Operator has been Operator for at least Two (2) years any Non Operator may give notice (the challenge notice) to all parties hereto that it is ready able and willing to conduct operations for the joint account on more favourable terms and conditions The Operator shall within Sixty (60) days after receipt of the challenge notice advise the Non Operators whether it is prepared to operate on such terms and conditions as set out in the challenge notice and if so it shall forthwith proceed so to do If the Operator is unable or unwilling so to do the Operator shall resign from the position of Operator within Ninety (90) days after it so advises the Non Operators and the Non Operator giving the challenge notice shall become the new Operator and shall thereafter conduct operations pursuant to the undertaking made by it in the challenge notice and any costs in excess thereof shall be for the new Operator s sole account The new Operator shall not resign from the position of Operator until it has acted as Operator for a period of at least Two (2) years

A Non Operator may not issue a challenge notice or become Operator pursuant thereto if at the time of issuing the challenge notice or assuming its duties as Operator it would be disqualified to act as Operator by reason of Subclause (a) (b) or (c) of Clause 202

A Non-Operator shall not be entitled to issue a challenge notice if the more favourable terms and conditions under which it proposes to conduct operations consist principally of a reduction of less than 10% in the average annual costs for the two immediately preceding years of the aggregate of those charges made by the Operator pursuant to the Accounting Procedure for labour employee benefits travel expenses services and utilities legal services camp and housing expense and overhead adjusted for changes in the services performed in each of the respective two years

204 RESIGNATION OF OPERATOR – Except as provided in Clause 203 at any time after an Operator has been Operator for a year it may resign as Operator on giving each of the Non Operators 90 days notice of its intention so to do

205 APPOINTMENT OF NEW OPERATOR

(a) If an Operator resigns or is to be replaced and the parties do not unanimously agree on an Operator an Operator shall be appointed by the affirmative vote of two or more parties representing a majority of the participating interests

(b) No party hereto shall be appointed Operator hereunder unless it has given its written consent to the appointment provided that if by reason of failure to appoint a replacing Operator or by reason of failure of any appointed Operator to carry out its duties hereunder no Operator is functioning at any time the party having the greatest participating interest shall act as Operator pro tem with the right should a similar situation re occur after a new Operator has been appointed to require the party hereto having the next greatest participating interest to act as Operator pro tem and so on as occasion demands

(c) No provision of this Article shall be construed to re appoint as next succeeding Operator an Operator who has been replaced under subclause (a) (b) (c) or (d) of Clause 202 except with the unanimous consent of the parties hereto

(d) Except as provided in subclauses (a) (b) and (c) of Clause 202 (in which cases the Operator shall be replaced immediately) every replacement of Operator shall take effect at 8 00 a m on the first day of the calendar month following the expiration of any period of notice effecting a change of Operator notwithstanding anything hereinbefore contained

206 TRANSFER OF PROPERTY ON CHANGE OF OPERATOR – At an effective date of the resignation or replacement of the previous Operator as hereinbefore provided the preceding Operator shall deliver to the successor Operator possession of the wells being drilled or operated by the Operator for the joint account or otherwise operated by the Operator (except any wells in respect of which the succeeding Operator is not entitled to information) and of all other facilities held for the joint account together with all production if any which has not theretofore been delivered in kind and copies of books of account and records kept for the joint account and wells delivered and all documents agreements and other papers relating thereto Upon delivery of the said property books and records the Operator shall be released and discharged and the successor Operator shall assume all duties and obligations of the Operator except the unsatisfied duties and obligations of the Operator accrued prior to the effective date of the change of Operator and for which the Operator shall notwithstanding its release or discharge continue to remain liable

207 AUDIT OF ACCOUNTS ON CHANGE OF OPERATOR – Upon every change of Operator and by not later than 60 days after the new Operator commences to act as Operator the parties shall cause an audit to be made of the books of account and records kept for the joint account The cost of the audit shall be charged to the joint account

ARTICLE III

FUNCTIONS AND DUTIES OF OPERATOR

301 **CONTROL AND MANAGEMENT OF OPERATIONS** – The Operator is hereby delegated the exclusive control and management of the exploration development and operation of the joint lands for the discovery and production of petroleum substances for the joint account

The Operator shall not make an expenditure for any single undertaking the total estimated cost of which is in excess of Ten Thousand Dollars (\$10 000) nor shall the aggregate amount of expenditures for single undertakings under Ten Thousand Dollars (\$10 000) exceed Fifteen Thousand Dollars (\$15 000) in any 30 day period without a written authority for expenditure from the Non Operators unless the expenditure is necessary by reason of an event endangering life or property Particulars of each such event shall be reported promptly to the Non Operators

302 **OPERATOR AS NON OPERATOR** – The Operator shall also have all the rights and obligations of a Non Operator with respect to its participating interest

303 **INDEPENDENT STATUS OF OPERATOR** – The Operator in its operations hereunder is an independent contractor and shall furnish or cause to be furnished all material labor and services necessary for the development and operation of the joint lands The Operator shall determine the number of employees their selection and the hours of labor and the compensation for services to be paid them in connection with operations hereunder All employees and contractors used in operations hereunder shall be the employees and contractors of the Operator

304 **PROPER PRACTICES IN OPERATIONS** – The Operator shall carry on all operations in a proper manner in accordance with established modern and scientific and good oilfield practices with due skill and vigor with good and sufficient appliances and in accordance with the terms and conditions of and as and when and to the extent required by the title documents and the Regulations

305 **BOOKS AND RECORDS** – The Operator shall with respect to all operations conducted by it hereunder keep and maintain for the joint account true and correct books records and accounts showing the development and progress made drilling done other operations carried out the quantity of the petroleum substances taken out of each well and the disposition thereof and shall upon request of a Non Operator make available in Alberta and there permit each Non Operator during normal business hours to inspect the said books records and accounts and to make extracts or copies therefrom and thereof and to audit the Operator's accounts and records as provided in the Accounting Procedure provided that a Non Operator while not entitled to geological information with respect to a well shall not have the rights granted under this Clause with respect to that well

306 **PROTECTION FROM LIENS** – The Operator shall pay or cause to be paid as and when they become due and payable all accounts of contractors and claims for wages and salaries for services rendered or performed and for materials supplied on to or in respect of the joint lands or any operations for the joint account thereon and keep the joint lands free from liens and encumbrances resulting therefrom unless there be a bona fide dispute with respect thereto and not suffer any claims of or dues to or on behalf of the Workmen's Compensation Board to become in arrears

307 **NON OPERATOR'S RIGHTS OF ACCESS** – The Operator shall except as otherwise herein provided permit each Non Operator or its duly authorized representative and at the Non Operator's sole risk cost and expense full and free access at all reasonable times for the purpose of inspection and observation to all operations of every kind and character being conducted for the joint account upon the joint lands and to the records of operations conducted thereon and any information obtained as a result thereof

308 **SURFACE RIGHTS** – The Operator shall acquire for the joint account all necessary surface rights for purposes of the joint operations hereunder

309 **MAINTENANCE OF LEASES** – Except as otherwise provided herein or in the Agreement the Operator shall on behalf of the parties and for the joint account comply with all the terms and conditions of the title documents including

the payment of rentals and shall do all things necessary to maintain the title documents in good standing and in full force and effect provided that this Clause shall not require or permit the Operator to drill a well for the joint account

310 PRODUCTION STATEMENTS AND REPORTS – The Operator shall furnish each Non Operator before the 25th day of each month with a statement showing production inventories and sales or deliveries in kind to the parties of petroleum substances during the preceding month

The Operator shall also make all necessary reports relating to operations for the joint account on the joint lands as required by the Regulations and shall provide each Non Operator with a copy of each production report filed by it with any governmental agency not later than the 20th day of the month following the month in which the period to which the production report relates expires

311 INSURANCE

(a) In respect of operations hereunder for the joint account the Operator shall comply with the requirements of all Unemployment Insurance and Workmen s Compensation Legislation and shall prior to the commencement of operations hereunder take out with a reputable insurance company or companies and thereafter maintain for the joint account and benefit of the parties hereto the insurance hereinafter set forth and the cost thereof shall be charged to the joint account The insurance referred to in this Subclause is as follows

- (i) Employer s Liability Insurance covering each employee engaged in the operations hereunder to the extent of One Hundred Thousand (\$100 000 00) Dollars where such employee is not covered by Workmen s Compensation
- (ii) Automobile and Aircraft Liability Insurance covering all motor vehicles and aircraft owned or non-owned operated and/or licensed by the operator with a bodily and property damage limit of Five Hundred Thousand (\$500 000 00) Dollars inclusive
- (iii) Comprehensive General Liability Insurance with a bodily injury death and property damage limit of Five Hundred Thousand Dollars (\$500 000 00) inclusive and without restricting the generality of the foregoing provisions of this Subclause such coverage shall include Contractual Liability Tortious Liability Contractor s Protective Liability Products and Completed Operations Liability

(b) The Operator shall use its best efforts to require its contractors and sub contractors to comply with applicable Unemployment Insurance and Workmen s Compensation Legislation and to carry such insurance (if any) in such amounts as the Operator deems necessary

(c) Each party hereto shall be responsible for insuring its own interest in the joint lands with respect to physical damage to property loss of income and any insurance other than that referred to in Subclause (a) of this Clause

(d) If so requested by any party the Operator shall furnish evidence of compliance with the foregoing insurance provisions

ARTICLE IV

INDEMNITY OF OPERATOR

401 LIMIT OF LIABILITY – The Operator shall not be liable to the Non Operators for any loss or damage except for loss or damage resulting from the gross negligence or wilful or wanton misconduct of the Operator its agents and employees

402 INDEMNIFICATION OF OPERATOR – Each of the Non Operators proportionate to its participating interest hereby indemnifies and agrees to hold harmless the Operator against any claim of or liability to any third person resulting from any act or omission of the Operator or its agents and employees in conducting operations for the joint account provided however that the Operator shall not be indemnified or held harmless by the parties for any loss damage claim or liability covered by insurance hereunder or resulting from the gross negligence or wilful or wanton misconduct of the

Operator or its agents and employees but no act or omission of the Operator its agents and employees shall of itself be deemed gross negligence or wilful or wanton misconduct if it is done or omitted at the instruction of or with the concurrence of the Non Operators

ARTICLE V

COSTS AND EXPENSES

501 ACCOUNTING PROCEDURE AS BASIS – The Accounting Procedure shall be the basis for all charges and credits to the joint account except as the Accounting Procedure may be in direct conflict herewith or with the Agreement

502 OPERATOR TO PAY AND RECOVER FROM PARTIES – Subject to the provisions of Clause 503 the Operator in its operations for the joint account shall initially advance and pay all costs and expenses of operations conducted for the joint account The Operator shall charge to each Non-Operator its proportionate share of the said costs and expenses and each respective Non Operator shall pay the same to the Operator within 15 days after receipt of the Operator's statement thereof Failing payment when due the amount unpaid may at the Operator's election bear interest for the account of the Operator at a rate one (1%) percentage point higher than the then prevailing prime bank interest rate charged by the chartered bank in Canada used by the Operator with respect to operations hereunder until the amount is paid

503 ADVANCE OF COSTS AND EXPENSES – The Operator may at its election require each Non Operator to advance its proportionate share of all costs and expenses to be incurred for the joint account If the Operator so elects it may not earlier than 30 days prior to the first day of each calendar month submit to each Non Operator an itemized estimate of the costs and expenses proposed to be a charge for the joint account in that calendar month with a request for payment by the Non Operator of its proportionate share thereof Each Non Operator shall pay the Operator its proportionate share of the costs and expenses so estimated or secure the payment thereof in a manner satisfactory to the Operator on or before the 15th day after receipt by it of such estimate or by the first day of the calendar month to which the estimate relates whichever is the later and if any Non Operator fails so to make or secure such payment the unpaid amount may at the Operator's election bear interest (payable by that Non Operator) for the account of the Operator at the rate of interest provided for in Clause 502 from the day such payment is due until it is paid Adjustments between estimated and actual costs shall be made by the Operator at the close of each calendar month and the accounts of the parties shall be adjusted accordingly

504 OPERATOR'S LIEN

(a) The Operator shall have a lien on the interest of each Non Operator in the joint lands and in production wells and equipment therefrom and thereon to secure payment of that Non Operator's proportionate share of the cost and expense of all operations carried on by the Operator for that Non-Operator but the said lien shall not attach to any portion of any Non-Operator's share of the petroleum substances produced prior to the enforcement by the Operator of the lien as hereinafter provided

(b) If a Non-Operator shall fail to pay or advance any of the costs hereby agreed to be paid or advanced by it in respect of the joint lands and the development thereof and the default shall continue for 30 days after the Operator shall have served notice upon the Non Operator specifying the default and requiring the same to be remedied the Operator may

- (i) withhold from the Non Operator any further information and privileges with respect to operations
- (ii) treat the default as an immediate and automatic assignment to the Operator of the proceeds of the sale of the Non-Operator's share of the petroleum substances and from and after the Operator making such election the Operator may require the purchaser of the Non Operator's share of the petroleum substances to make payment therefor to the Operator while the default continues and
- (iii) enforce the lien created by the default in payment by taking possession of all or any part of the interest of the defaulting Non Operator in the joint lands or in all or any part of the production therefrom and equipment thereon and the Operator may sell and dispose of any interest production or equipment of which it has so taken possession either in whole or in part or in

separate parcels at public auction or by private tender at a time and on whatever terms it shall arrange having first given notice to the defaulting Non Operator of the time and place of the sale. The proceeds of the sale shall be first applied by the Operator in payment of any costs to be paid by the defaulting Non Operator and not paid by it and any balance remaining shall be paid to the defaulting Non Operator after deducting reasonable costs of the sale. Any sale made as aforesaid shall be a perpetual bar both at law and in equity against the defaulting Non Operator and its assigns and against all other persons claiming the property or any part or parcel thereof sold as aforesaid by from through or under the defaulting Non Operator or its assigns.

The procedure set out in this subparagraph (iii) for enforcement of liens shall be valid only to the extent that it is not contrary to the laws of the jurisdiction where the joint lands are situated but shall not derogate from any other legal procedure or remedy which may also be applicable in the circumstances.

505 REIMBURSEMENT OF OPERATOR — If the Operator has not received full payment of a Non Operator's share of the costs and expenses of operations hereunder within three (3) months following the date the payment was due, each Non Operator shall, upon being billed therefor by the Operator, contribute a fraction of the unpaid amount, excluding interest thereon, having as its numerator the participating interest of that Non Operator and as its denominator the aggregate participating interests of all parties hereto except the defaulting Non Operator, and thereupon each contributor shall be proportionately subrogated to the Operator's rights pursuant to Clause 504 and to the interest thereafter payable under Clauses 502 and 503 on the unrecovered portion of its contribution.

506 COMMINGLING OF FUNDS — The Operator may commingle with its own funds the moneys which it receives from or for the account of the Non Operators pursuant to this Operating Procedure.

ARTICLE VI

OWNERSHIP AND DISPOSITION OF PRODUCTION

601 EACH PARTY TO OWN AND TAKE ITS SHARE — Each of the parties hereto shall own its proportionate share of the petroleum substances produced from wells operated for the joint account and shall, at its own expense, take in kind and separately dispose of its proportionate share of production exclusive of the production which may be used by the Operator in developing and producing operations and of production unavoidably lost.

602 FAILURE TO TAKE IN KIND — When and so often as a Non Operator shall fail or refuse to take in kind and separately dispose of its proportionate share of any production, the Operator shall have the authority, revocable by that Non Operator at will (subject to existing sales contracts), to sell for the account of that Non Operator its proportionate share of production to others at the same price which the Operator receives for its own portion of the production or to purchase the same for its own account at the field price prevailing in the area. All sales made by the Operator of a Non-Operator's share of production as aforesaid shall be for reasonable periods of time only as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any contract for the sale of the Non Operator's share of production be made for a period in excess of one year except with the consent of that Non Operator.

603 OPERATOR'S FAILURE TO TAKE IN KIND — Should the Operator be a party who fails or refuses to take in kind and separately dispose of its proportionate share of production, the Non Operators or any one or more of them who wish to market their respective shares of production shall have the same rights mutatis mutandis with respect to production, including the Operator's share thereof, as the Operator has with respect to a Non Operator's share of production under the foregoing provisions of this Article, and in that case the Operator shall not neglect or refuse to follow the instructions with respect to production and marketing given by the Non Operators who wish to market and take in kind their respective shares of production and to market the Operator's and other Non-Operators' shares of production as aforesaid. Two or more Non Operators exercising their rights under this Clause shall do so in proportion to their participating interests.

ARTICLE VII

OPERATOR S DUTIES RE DRILLING WELLS FOR JOINT ACCOUNT

701 PRE-COMMENCEMENT INFORMATION – Prior to commencing any well for the joint account the Operator shall submit to each Non Operator

- (a) an Authority for Expenditure summarizing the anticipated drilling costs and completion costs of the well Submission or approval of the Authority for Expenditure shall not preclude any party from giving an operation notice under Clause 1003 with respect to the well unless all parties have meanwhile approved the Authority for Expenditure and
- (b) the Operator s proposed program of drilling coring logging and testing the well

702 DRILLING INFORMATION AND PRIVILEGES OF NON OPERATORS – During the drilling of the well the Operator shall furnish to each Non-Operator

- (a) prompt notice of the date of spudding in of the well
- (b) daily drilling and geological reports
- (c) if requested a complete set of washed samples of the cuttings of the formations penetrated
- (d) access to all cores taken
- (e) immediate advice of any porous zones with showings of petroleum substances encountered and the proposed tests if any to be run on those porous zones and opportunity to each Non Operator to have a representative present to witness and observe any such tests and
- (f) derrick floor privileges to each Non-Operator s designated employees or agents

703 TESTING INFORMATION TO NON-OPERATORS – During the drilling of the well the Operator shall

- (a) test it in accordance with the proposed program
- (b) make such further tests as are warranted in the circumstances of any porous zones with showings of petroleum substances encountered or indicated by any survey
- (c) take representative mud samples and drillstem test fluid samples in order to obtain accurate resistivity mud filtrate and formation water readings and supply each Non Operator with all information relative thereto
- (d) supply each Non-Operator with copies of the drillstem test and service report on each drillstem test run including copies of pressure charts

704 LOGGING INFORMATION TO NON-OPERATORS – During the drilling of the well and upon the well reaching the proposed depth the Operator shall run all log surveys agreed upon among the parties and shall supply each Non-Operator with copies as requested of each log so run

ARTICLE VIII

VELOCITY SURVEYS OR OTHER TESTS

801 VELOCITY SURVEYS OR OTHER TESTS – Each Non-Operator after giving sufficient notice to the Operator of its intention so to do may at that Non-Operator s risk and expense run a geophone or make a velocity survey or any

test in a well to which it is entitled to have access provided the hole is in the opinion of the Operator in satisfactory condition for that purpose. Each party entitled to information from the well shall have the right to receive one copy of any velocity survey run by any other party on paying one-eighth of the cost thereof. The party running the velocity survey or other test shall retain all trading rights with respect thereto.

ARTICLE IX

CASING POINT ELECTION

901 **AGREEMENT TO DRILL NOT AUTHORITY TO COMPLETE** – Agreement by the parties to drill or deepen a well for the joint account shall be deemed not to include agreement to the setting of production casing and to attempting completion of the well.

902 **ELECTION BY NON OPERATORS RE CASING AND COMPLETION** – The Operator shall give immediate notice to the Non-Operators when the well has reached the authorized depth and the logs and tests preliminary to completion have been run. Each Non-Operator shall have a period of 24 hours after the logs and results of the tests have been made available to it to inform the Operator whether it wishes to participate having regard to Clause 1401 in the cost of setting casing and making a completion attempt. Failure to reply to the notice from the Operator shall be deemed an election to participate provided at least one Non Operator has actually communicated to the Operator its election to participate. If no party elects to participate the Operator shall plug and abandon the hole.

903 **LESS THAN ALL PARTIES PARTICIPATE** – If one or more but not all of the parties elect to set casing and attempt to complete the well then paragraph _____ (indicate A or B) below shall apply namely

A The setting of casing and the completion attempt shall be considered an independent operation under the provisions of Article X hereof as if the independent operation were with respect to a development well

or

B Upon the casing having been set and the well successfully completed for the production of petroleum substances the parties not participating in the setting of casing and the completion attempt shall assign to the parties participating therein all the assignors interest in the spacing unit of the well in so far only as it relates to the zone or zones in which the well is so completed upon payment by the assignees to the assignors of the latter's share of the estimated salvage value of the material and equipment placed in or on the well prior to commencement of the completion attempt.

904 **ABANDONMENT IF ATTEMPT UNSUCCESSFUL** – If the attempt to complete the well is unsuccessful the well shall be abandoned for the joint account except that the participants in the completion attempt shall bear all extra costs of the abandonment incurred by reason of the completion attempt.

ARTICLE X

INDEPENDENT OPERATIONS

1001 **DEFINITIONS USED IN THIS ARTICLE** For the purpose of this Article X the proposing party shall mean the party hereto (whether one or more) giving notice of its intention to conduct independently an operation on the joint lands (hereinafter called the operation). operation notice shall mean such notice of intention receiving parties shall mean the parties (whether one or more) other than the proposing party participating parties shall mean the parties (whether one or more) participating in the operation and shall include the proposing party non participating parties shall mean the parties hereto (whether one or more) not participating in the operation. development well shall mean a well in so far as the geological horizons penetrated in the drilling thereof are not deeper than the deepest geological horizon in which another well within two miles of the proposed well is or has been capable of production of petroleum substances in commercial quantities (that is such quantities as would warrant the drilling of a like well in the vicinity thereof) and exploratory well shall mean a well in so far as it is not a development well.

1002 RESTRICTION ON MULTIPLE OPERATION NOTICES – A party shall not give an operation notice with respect to the drilling of a well at any time when another well within 4 ½ miles from the proposed well is being drilled on the joint lands or has been proposed under Clause 1003 but this restriction shall not apply if a party wishes to drill a well for the purpose of evaluating lands which have been posted for sale by public tender (hereinafter called a Crown Sale) or which it is known will be posted for a Crown sale to be held not later than 60 days after the date of the operation notice whether or not any other party or parties hereto shall also have proposed or commenced the drilling of a well or wells on the joint lands for the purpose of such evaluation or for any other purpose. No well shall however be considered as being drilled for such evaluation if the lands proposed to be evaluated are all at a greater distance than one mile from the location of the proposed well

1003 PROPOSAL OF INDEPENDENT OPERATION – The parties normally shall consult with respect to decisions to be made for the further exploration and development of the joint lands. Subject to Clause 1002 and whether or not such consultation has occurred or has been requested a proposing party may at any time give to the receiving parties an operation notice for an operation on the joint lands stating in the operation notice the proposed location purpose and estimated cost of the operation. Each receiving party shall give notice to the proposing party within 30 days after receipt of the operation notice (15 days in the case of a well proposed to evaluate lands for a Crown sale) whether that receiving party will participate in the operation failing which that receiving party shall be deemed to have given notice to the proposing party that it will not participate in the operation. As soon as the said 30 or 15 day period (as the case may be) has expired or if earlier as soon as each receiving party has replied to the operation notice the proposing party shall forthwith give notice to all the participating parties how the costs risks and benefits of the operation will be shared having regard to Clause 1401

1004 TIME FOR COMMENCING OPERATION – The proposing party may begin the operation without waiting for the 30 or 15 day period of notice under Clause 1003 to lapse but shall not commence the operation more than 60 days after giving the operation notice although in that case subject to Clause 1002 an operation notice may again be given for the same operation within or after the expiration of the said 60 day period

1005 OPERATOR FOR INDEPENDENT OPERATIONS – If the proposing party and all receiving parties are participating parties the operation shall be carried out by the Operator for the joint account otherwise the Operator if a participating party shall carry out the operation. If the Operator is not a participating party the participating parties shall appoint an operator for the operation

1006 SEPARATE ELECTION WHERE WELL STATUS DIVIDED – If the operation is the drilling of a well which is in part a development well and in part an exploratory well each receiving party shall have the right to elect separately whether to participate in the well

- (i) to the extent only that it is a development well or
- (ii) to the extent that it is both a development well and an exploratory well

If the participation in the well varies between the well as a development well and the well as an exploratory well the drilling costs and completion costs of the well shall be allocated between the well as a development well and the well as an exploratory well as nearly as they can be determined having regard in the case of a development well only to those costs which would have been incurred had the well not also been drilled as an exploratory well

1007 ABANDONMENT OF INDEPENDENT WELL – If the operation is the drilling of a well and the well is not capable of production of petroleum substances in paying quantities the participating parties shall abandon the well in accordance with the Regulations

1008 PENALTY WHERE INDEPENDENT WELL RESULTS IN PRODUCTION

- (a) If the operation is the drilling of a well and the well is completed for the production of petroleum substances from one or more formations in which the well is a development well then with respect only to those formations the participating parties shall be entitled to retain possession of the well and to all production therefrom until the gross proceeds of production less lessor's royalty and any overriding royalties or other encumbrances normally borne by the joint account thereon and less the equipping costs and operating costs of the well as a development well shall equal _____ % of the drilling costs and completion costs of the well as a

development well after which the well shall be held for the joint account and operated by the Operator

(b) If the operation is the drilling of a well and the well is completed for the production of petroleum substances from one or more formations in which the well is an exploratory well then with respect only to those formations the participating parties shall be entitled to retain possession of the well and to all production therefrom until the gross proceeds of production less lessor's royalty and any overriding royalties or other encumbrances normally borne by the joint account thereon and less the equipping costs and operating costs of the well as an exploratory well shall equal

(i) _____ % of the drilling costs and completion costs of the well as an exploratory well plus

(ii) the same percentage as in subclause (a) of the drilling costs of the well as a development well if no production is obtained from any formation in which the well is a development well

Thereafter the well will be held for the joint account and operated by the Operator

1009 INDEPENDENT DEEPENING PLUGGING BACK OR REWORKING

(a) No operation notice for a deepening plugging back or reworking operation may be given with respect to a well producing or capable of producing petroleum substance in paying quantities nor shall any drilling well be deepened if one or more parties wish to attempt to complete the well pursuant to Article IX

(b) A non participating party in a well may not propose any further operation in the well unless and until (and only to the extent that) it has regained the right to participate in production from the well

(c) Where a drilling rig is on location the period in which to respond to the operation notice under Clause 1003 with respect to a deepening plugging back or reworking operation shall be reduced to 48 hours after which rig time shall be at the expense of the parties agreeing to participate in the operation whether or not the operation is carried out

(d) If a deepening plugging back or reworking operation results in the production of petroleum substances in paying quantities from one or more formations the provisions of subclause 1008 (a) shall apply to the recovery of costs of the operation (and penalty provided therein) out of production resulting from the operation unless the operation includes the deepening of the well beyond the point where it becomes an exploratory well in which case subclause 1008 (b) shall apply to the extent that the deepening is the drilling of an exploratory well

1010 WHERE WELL ABANDONED BEFORE PENALTY RECOVERED — If a well (or applicable formations thereof) be abandoned before being turned over to the Operator for the joint account under Clause 1008 and 1009 each party who does not participate in the independent operation but who would have been responsible for a proportionate share of the costs of abandoning the well prior to the conduct of the independent operation shall pay upon abandonment thereof its said share of such costs and the participating parties shall bear the balance of the costs of abandonment and shall be entitled to the salvable equipment used in connection with the independent operation and resulting from the abandonment provided that if the salvage proceeds from the equipment used in connection with the independent operation as determined under the Accounting Procedure exceeds the amount remaining to be recovered before the well would have been turned over to the Operator for the joint account the excess proceeds shall be credited to the joint account Any proceeds from salvable equipment owned by the parties prior to the independent operation shall be credited to the joint account

1011 EXCEPTION TO CLAUSE 1008 WHERE WELL PRESERVES TITLE — Notwithstanding Clause 1008 if the operation be the drilling of a well required to preserve title the drilling of which is commenced later than 45 days before the title document covering the lands upon which the well is drilled is due to terminate as to all or part of those lands unless a well similar to the proposed well is sooner drilled thereon the non participating parties shall effective upon the well reaching sufficient depth to prevent such termination assign to the participating parties (in proportion to their percentages of participation in the operation) all the non participating parties interest in and under that title document in so far as it relates to the lands with respect to which such termination would otherwise have occurred unless the non participating parties have prior to the date upon which such termination would have occurred drilled (or are in course of drilling) another well which also has prevented or will prevent such termination

1012 INDEPENDENT GEOLOGICAL OR GEOPHYSICAL OPERATION – If the operation be a geological or geophysical operation the participating parties shall not interfere with other operations being conducted on the joint lands for the joint account and the non participating parties shall not be entitled to any information or data with respect to the operation provided that upon paying to the participating parties 150% of what its share of the operation would have been had all the parties hereto participated therein a non participating party shall be entitled to a copy of all data obtained from the operation other than interpretations of such data made by a party for its own use The right so to participate in information and data from the operation shall cease at the end of the second calendar year following the calendar year in which the operation was completed

1013 USE OF BATTERY AND OTHER EQUIPMENT FOR INDEPENDENT WELL – To the extent that battery gathering or processing facilities or any of them are available on the joint lands the participating parties in an operation shall be permitted to make use of and to share them in the same manner as if the operation had been carried out for the joint account provided (i) operations for the joint account shall have priority in all cases where any such facilities may be inadequate and (ii) an equitable division of capital and operating costs will be made with respect to all such joint facilities

1014 ACCOUNTS AND AUDIT DURING PENALTY RECOVERY – During the period of recovery of costs and penalties under any preceding Clause of this Article the operator for the operation shall supply all parties with a monthly statement showing the status of the recovery of such costs and penalties

The provisions of the Accounting Procedure relating to audit of accounts shall apply mutatis mutandis to the audit of accounts with respect to recovery of costs and penalties by participating parties under this Article

1015 PARTICIPANTS RIGHTS AND DUTIES RE INDEPENDENT OPERATION – As among the participating parties (i) the provisions of this Operating Procedure relating to the duties and rights of the Operator and (ii) the rights and obligations of Non Operators shall apply mutatis mutandis to the conduct of the independent operation and to the operation of any well during recovery of costs and penalties with respect thereto under this Article

1016 INDEMNIFICATION OF NON PARTICIPATING PARTIES – The participating parties shall indemnify and hold harmless the non participating parties from all costs expenses suits claims liens liabilities and losses resulting from the carrying out of the operation

ARTICLE XI

SURRENDER OF JOINT LANDS

1101 INITIATION OF SURRENDER PROPOSAL – Not later than 60 days before the then next ensuing rental date or other obligation with respect to the joint lands affected (except an obligation to pay royalty or a drilling obligation not being enforced under the title documents) a party hereto may give notice to the other parties proposing that some or all of the joint lands be surrendered to the grantor under the title documents Within 30 days after receipt of the notice the parties receiving the notice shall each give notice to all other parties whether they wish to effect the proposed surrender Failure to respond to the surrender proposal shall be deemed an election not to join in the surrender Any party giving notice of the proposed surrender or giving notice of its intention to join in the proposed surrender may by notice to the other parties at any time within the said 30-day period revoke its intention to surrender

The size and interest of and in the joint lands affected under this Clause must be such that the said grantor would be obliged to accept a surrender thereof pursuant to the title documents

1102 SURRENDER BY ALL PARTIES – If all parties duly elect to surrender under Clause 1101 the Operator shall proceed forthwith to salvage for the joint account all salvable material and equipment upon the lands and interests to be so surrendered and all parties hereto shall execute and deliver all documents which may be necessary to effect the surrender

1103 SURRENDER BY LESS THAN ALL PARTIES – If all the parties do not join in the surrender the parties not joining in the surrender shall (unless the Operator be one of them) promptly appoint an Operator pro tem for the parties retaining the said lands and interests and shall be responsible for taking the necessary steps to ensure payment of rentals or the meeting of any other obligation to maintain the said lands and interests for the benefit of the retaining parties

1104 **ASSIGNMENT OF INTEREST SURRENDERED** – Effective on the day before the rental or other obligation referred to in Clause 1101 is required to be paid or met the parties which elected to surrender shall assign to the retaining parties all their interest in the lands and interests which were the subject of the proposed surrender. The parties receiving the assignment shall within 30 days after receipt of the assignment pay to the assignors the assignors' participating interest share (prior to such surrender) in the salvage value of the recoverable material and equipment on the lands so assigned the amount to be determined by the Operator in accordance with the Accounting Procedure and billed by the Operator to the assignees.

1105 **RETAINING PARTIES TO MEET OBLIGATIONS** – Where failure by the retaining parties to meet any obligation which prompted the surrender proposal would prejudice the title of the parties in any other portion of the joint lands the retaining parties shall be deemed to have covenanted to meet that obligation in accepting the interests of the surrendering parties under Clause 1104.

1106 **FAILURE TO SURRENDER AS AGREED** – Where all the parties have agreed to effect surrender under this Article and whether or not some or all of them have taken any action by way of release or assignment pursuant to an intention to join in the surrender the lands and interests which are the subject of the surrender notice shall be deemed to be held for the joint account until the surrender has been irrevocably effected including the termination of any right to reinstate any title document so that all the parties shall receive or have the right to participate in any benefits which might accrue during the period before the surrender is irrevocably effected. If however any party to whom any interest is conveyed or released for the purpose of effecting the surrender should not duly proceed with the surrender and thereby causes any further obligation to arise that party shall be solely responsible for meeting the obligation and shall indemnify the other parties with respect thereto.

ARTICLE XII

ABANDONMENT OF WELLS

1201 **PROCEDURE FOR ABANDONMENT** – If a party proposes to abandon a well on the joint lands (except at casing point when Article IX shall apply) it shall give notice of proposed abandonment to the other parties who may within 30 days of receipt of the notice (48 hours in the case of a drilling well where Article IX does not apply) elect by notice to the other parties to take over the well. The party or parties taking over the well should be entitled to an assignment without consideration or warranty of the abandoning parties' interest in the spacing unit of the well in so far as it relates to the producing zone of the well or in the case of a drilling well to which Article IX does not apply to the zone or zones in which the parties taking over the well complete the well for the taking of production. If all parties elect to join in the abandonment the well shall be abandoned for the joint account.

1202 **ASSIGNMENT OF EQUIPMENT AND SURFACE RIGHTS** – If less than all parties elect to abandon a well under Clause 1201 the abandoning parties shall without warranty, transfer to the other parties the materials and equipment appurtenant to the well in consideration of the payment by the transferees to the transferors of the latter's share of the fair salvage value of the said materials and equipment less the transferors' shares of the estimated salvage costs all determined by the Operator in accordance with the Accounting Procedure and billed to the transferees. The abandoning parties shall also transfer to the other parties without warranty or consideration the surface rights appurtenant to the well except in the case of a dually completed well where the abandoning parties have abandoned less than all the producing zones in which case the surface rights shall be shared, maintained and serviced equally by the owners of the respective producing zones.

ARTICLE XIII

RENTALS AND ROYALTIES

1301 **OPERATOR TO PAY INITIALLY** – Except as herein expressly provided the Operator shall initially pay for the joint account all rentals hereafter accruing and all royalties and taxes (except income taxes) with respect to the joint lands PROVIDED that any royalty created by or enforced upon any party hereto other than the normal royalty payable to the grantor of the title documents or other royalty agreed to be borne for the joint account shall be borne by the party creating the same or against whom the same is enforced. A Non Operator which takes its share of production in kind shall pay or cause to be paid directly the royalty attributable to its share of production.

1302 IN CASE OF INDEPENDENT OPERATIONS – During recovery of costs and penalties out of production resulting from an operation under Article X the participating parties in the operation shall pay and save the other parties harmless against the payment of royalties which would otherwise be borne for the joint account under Clause 1301 with respect to that production

ARTICLE XIV

PARTICIPATION AND FORFEITURE

1401 PARTICIPATION IN INDEPENDENT OPERATION – The parties participating in an independent operation hereunder shall do so in proportion to their respective participating interests except that a party may in its election to participate in the operation specify that it will participate only to the same percentage as its participating interest. In the latter case the proposing party shall promptly determine from the other participants whether they wish to assume with the proposing party their respective proportionate shares of the percentage not assumed by the party so limiting its participation. The proposing party shall be responsible for assuming any percentage of the costs and benefits of the operation not taken up as aforesaid if the operation is carried out

1402 ASSIGNMENTS AND FORFEITURES TO BE PROPORTIONAL – Any assignment or forfeiture of any interest in the joint lands hereinbefore provided shall be made to the assignees or receiving parties as the case may be in proportion to their participating interests unless the contrary is expressly otherwise provided herein

ARTICLE XV

OPERATION OF LANDS SEGREGATED FROM JOINT LANDS

1501 OPERATING PROCEDURE TO APPLY – Where by reason of the operation of any provision hereof any portion of the joint lands ceases to be owned by the parties hereto in the same percentages of interest as their participating interests hereunder or ceases to be owned by all the parties hereto the parties hereto acquiring the different percentages of interest in or portion of the former joint lands shall thereafter hold the same as if they were parties to a separate Operating Procedure the terms of which were identical to the terms hereof having regard only to the different owners and percentages of ownership interest unless those owners unanimously agreed otherwise and the said portion of the joint lands shall cease to be joint lands hereunder. If the Operator is a party participating in the lands ceasing to be joint lands under this Clause it shall be initial Operator of those lands

ARTICLE XVI

LITIGATION

1601 CONDUCT OF LITIGATION – All litigation in connection with the title documents and the joint lands shall be defended carried on and conducted for and on behalf of all parties. Each party shall notify the other or others of any process served upon it in any action involving the title of the joint lands and thereupon the parties shall decide whether the action shall be handled exclusively by the solicitors of the parties or by joint counsel mutually selected by the parties for the joint account. The actual and necessary expense of the solicitors of the parties incurred with respect to the action shall be for the joint account but if fewer than all parties participate through their solicitors in the litigation a reasonable charge for their solicitors services shall be for the joint account. If the solicitors of all parties participate no fee for their services shall be charged to the joint account

ARTICLE XVII

RELATIONSHIP OF PARTIES

1701 PARTIES TENANTS IN COMMON – The rights duties obligations and liabilities of the parties hereto shall be several and not joint or collective it being the express purpose and intention of the parties hereto that their interest in the joint lands and in the wells equipment and property thereon held for the joint account shall be as tenants in common. Nothin herein contained shall be construed as creating a partnership of any kind joint venture or association or as imposing upon any party hereto any partnership duty obligation or liability to any other party hereto

ARTICLE XVIII

FORCE MAJEURE

1801 DEFINITION OF FORCE MAJEURE — force majeure shall mean any one or more of the following events

- (a) an act of God
- (b) a war revolution insurrection riot blockade or any other unlawful act against public order or authority
- (c) a strike lockout or other industrial disturbance
- (d) a storm fire flood explosion or lightning
- (e) a governmental restraint
- (f) any other event (whether or not of the kind enumerated in (a) to (e) of this Clause) which is not reasonably within the control of the party hereto claiming suspension of its obligations hereunder due to force majeure

1802 SUSPENSION OF OBLIGATIONS DUE TO FORCE MAJEURE — If any party hereto is prevented by force majeure from carrying out any obligation hereunder then if that party promptly gives the other parties hereto notice of the force majeure (including reasonably full particulars thereof) the obligations of the party giving the said notice in so far as its obligations are affected by the force majeure described in the said notice shall be suspended while (but only so long as) the force majeure continues to prevent the performance of the said obligations

1803 OBLIGATION TO REMEDY — The party hereto claiming suspension of its obligations as aforesaid shall promptly remedy the cause and effect of the force majeure described in the said notice in so far as it is reasonably able so to do provided that the terms of settlement of any strike lockout or other industrial disturbance shall be wholly in the discretion of the party hereto claiming suspension of its obligations hereunder by reason thereof and that party shall not be required to accede to the demands of its opponents in any strike lockout or industrial disturbance solely to remedy promptly the force majeure thereby constituted

1804 EXCEPTION FOR LACK OF FINANCES — Notwithstanding anything contained in this Article lack of finances shall never be considered a force majeure nor shall any force majeure suspend any obligation for the payment of money due hereunder

ARTICLE XIX

CASH AND ACREAGE CONTRIBUTIONS

1901 CONTRIBUTIONS TO BE SHARED — If any party receives a cash contribution from a third party towards the cost of its share of any operation to be carried out on the joint lands that party shall be required to contribute the cash contribution to the joint account provided that if the operation is an independent operation the contribution will be shared only by the participating parties but the cost of the operation shall be reduced by the amount of the contribution for the purposes of recovery of costs and expenses under Article X hereof

If the contribution is an acreage contribution the party offered the contribution shall give each other party hereto the right to participate therein to the extent of its participating interest whether or not the operation is an independent operation

1902 NO WAIVER OF CONFIDENTIAL INFORMATION — Clause 1901 shall not permit a party to accept a contribution from a third party in return for information from an operation which the parties hereto have agreed to hold confidential unless all the parties participating in the operation consent thereto

ARTICLE XX**CONFIDENTIAL INFORMATION**

2001 INFORMATION TO BE KEPT CONFIDENTIAL – The parties shall keep confidential from third parties all information obtained in the course of or as a result of operations on the joint lands except information which the parties have expressly agreed to release and shall take such measure in connection with operations and internal security as shall be advisable in the circumstances

2002 NON-PARTICIPATING PARTY DENIED INFORMATION – A party not participating in a well being drilled or which has been drilled shall not be entitled to access to the wellsite or any information with respect to the well until the expiration of 90 days after the date of the release of the rig used in the drilling of the well provided however that any party which is withholding well information pursuant to this Clause shall not propose or conduct any further operation on the joint lands until it shall have released such information to such non-participating parties.

ARTICLE XXI**DELINQUENT PARTY**

2101 CLASSIFICATION AS DELINQUENT PARTY – If any party hereto moves its location and does not provide the other parties hereto with notice of its change of address and subsequently cannot readily be located or if any party becomes inactive or is struck off the register or otherwise refuses or neglects to answer communications addressed to it at its address for service the Operator may send notice by registered mail to that party at its last address for service hereunder advising the party that it shall thereafter be considered a delinquent party within the meaning of this Article

2102 EFFECT OF CLASSIFICATION AS DELINQUENT PARTY – From the 15th day after the registered notice has been mailed to the delinquent party under Clause 2101 the delinquent party shall thereafter

- (i) not be entitled to any further notices or communications from the Operator or any other party hereto with respect to any matter hereunder
- (ii) be deemed to have elected not to participate in any operations thereafter carried out on the joint lands
- (iii) be deemed to have elected to join in all surrenders and abandonments proposed and effected hereunder notwithstanding that it may be named a registered party under the title documents

2103 RESTORATION OF STATUS – If a delinquent party subsequently communicates with the Operator pays all arrears of moneys due the joint account and undertakes in writing to comply from that time with the provisions of this Operating Procedure the delinquent party shall be restored to the normal status of a party hereto

2104 LIEN NOT AFFECTED – Nothing in this Article shall derogate from the enforcement of the lien of the Operator and the other parties pursuant to Clauses 504 and 505

ARTICLE XXII**WAIVER**

2201 WAIVER MUST BE IN WRITING – No waiver by or on behalf of any party hereto of any breach of any of the covenants provisos conditions restrictions or stipulations herein contained shall take effect or be binding upon that party unless the same be expressed in writing under the authority of that party and any waiver so given shall extend only to the particular breach so waived and shall not limit or affect any rights with respect to any other or future breach

ARTICLE XXIII**FURTHER ASSURANCES**

2301 **PARTIES TO SUPPLY** – Each of the parties hereto shall from time to time and at all times do all such further acts and execute and deliver all further deeds and documents as shall be reasonably required in order fully to perform and carry out the terms of this Operating Procedure

ARTICLE XXIV**NOTICE**

2401 **SERVICE OF NOTICE** – Whether or not so stipulated herein all notices communications and statements which may be required or permitted hereunder shall be in writing and may be served personally by leaving them with the party on whom they are to be served or by telegraphing or mailing them to the parties to whom they are addressed at the addresses hereinafter given. If a notice is sent by registered mail it shall be deemed validly served and to have been received by the addressee thereof on the second day (excluding as the second day Saturdays Sundays and statutory holidays) following the mailing thereof in Canada or the United States of America (excluding Alaska and Hawaii). If a notice is served by telegram it shall be deemed to have been received by the addressee thereof eight hours after being delivered for transmission to the telegraph company

2402 **ADDRESSES FOR NOTICES** – The address of each of the respective parties hereto shall be as follows

2403 **RIGHT TO CHANGE ADDRESS** – Any party hereto may change its said address by notice served as aforesaid

ARTICLE XXV**NO PARTITION**

2501 **WAIVER OF PARTITION OR SALE** – No party hereto shall during the term of this Operating Procedure exercise any right to apply for any partition of the joint lands or sale thereof in lieu of partition

ARTICLE XXVI

DISPOSITIONS OF INTERESTS

2601 ALTERNATE PROVISIONS – Except in the case of an assignment made by way of security for the assignor's indebtedness or to an affiliate of the assignor or in consequence of a merger or amalgamation of the assignor with another company or as part of the sale by the assignor of all or substantially all or of an individed interest in all or substantially all its petroleum and natural gas rights in the province state or territory where the joint lands are situated a party hereto shall not assign or dispose of any interest in the joint lands (other than as elsewhere provided herein with respect to abandonment of wells surrender of lands or forfeiture of interest) without first complying with the provisions of paragraph _____ below (specify A or B)

- A The party wishing to make the assignment or disposition shall first obtain the written consent of the other parties which shall not be unreasonably withheld

or

- B The party (in this paragraph called the selling party) wishing to make the assignment or disposition shall first give the other parties the first right and opportunity to purchase the interest (in this paragraph called the subject interest) which the selling party wishes to assign or of which it intends to dispose. If the selling party has received an offer for the subject interest which it wishes to accept (or in any other circumstances which would result in a disposition of the subject interest) the selling party shall give notice to the other parties stating the terms and conditions of the proposed disposition including the consideration to be received for the subject interest and shall in that notice offer to sell the subject interest to the other parties on the same terms and conditions. The offer shall remain open for a period of 15 days after receipt thereof and shall then automatically terminate unless acceptance thereof has meanwhile been actually received by the selling party. The offerees shall have the right to accept the offer in proportion to their participating interests.

If the offer from the selling party is not duly accepted the selling party shall be free for a period of 60 days after termination of its offer to the other parties to dispose of the subject interest on the terms and conditions and for the consideration stipulated in its offer but not after the said 60-day period nor otherwise than as so stipulated without again complying with this paragraph B.

If the consideration offered to the selling party for the subject interest is one which cannot be matched in kind by an offeree party hereto the selling party shall set out in its offer (or supply upon request) its best bona fide estimate of the value as a cash consideration of the consideration offered to the selling party for the subject interest. In case of dispute as to the reasonableness of the estimate the matter will be referred to arbitration under the provisions of the Arbitration Act or Ordinance of the province state or territory where the joint lands are situated. The time to accept the offer from the selling party shall not thereby be extended but the equivalent cash consideration determined by the arbitration if lower than the estimate submitted by the selling party shall be the sale price for the subject interest and the accounts of the selling party and the parties accepting the offer who participate in the arbitration shall be adjusted accordingly.

2602 MULTIPLE ASSIGNMENT NOT TO INCREASE COSTS – If any assignment of an interest in the joint lands or any part thereof should be made to multiple parties so that the expenses or duties of the Operator are thereby increased the Operator may require the assignees (and the assignor if it retains an interest) to appoint one of their number as representing all of them for the purposes of this Operating Procedure unless arrangements satisfactory to the Operator are made to compensate the Operator for the increased expenses or duties.

2603 NOVATION UPON ASSIGNMENT – No assignment of an interest in the joint lands (except pursuant to the abandonment surrender and forfeiture provisions of this Operating Procedure) shall be effective against the parties hereto who are not parties to the assignment until the first day of the month next following the date upon which an executed copy of the assignment has been lodged with each party hereto who is not a party to the assignment. As a condition of their recognition of any such assignment the other parties may require the assignor and assignee to enter into a novation agreement with and satisfactory to them under which the assignee will undertake to assume the obligations of the assignor hereto with respect to the interest assigned to the assignee.

ARTICLE XXVII**PERPETUITIES**

2701 LIMITATION ON RIGHT OF ACQUISITION— Notwithstanding anything elsewhere herein contained the right of any party hereto to acquire any interest in the joint lands from any other party hereto shall not extend beyond twenty-one years after the lifetime of the last survivor of the issue now living of His Late Majesty King George V

ARTICLE XXVIII**UNITED STATES TAXES**

2801 UNITED STATES TAXES — The parties hereto agree that if for purposes of the United States Internal Revenue Code of 1954 this agreement or the relationship established thereby constitutes a partnership as defined in section 761(a) of the said Code each of the parties hereto who are entitled under the said section 761(a) to elect hereby elects to have the said partnership excluded from the application of subchapter K of chapter 1 of subtitle A of the said Code or such portion thereof as the Secretary of the Treasury of the United States or his delegate shall permit by election to be excluded therefrom. The Operator is authorized to execute such election on behalf of the parties who are entitled to make such election and to file the election with the proper United States government office or agency and the Operator is further authorized and directed to execute and file such additional and further evidence of such election as may be required provided that if the Operator is not subject to the said Code with respect to the joint lands the obligations of the Operator under this Clause shall be carried out by the party hereto who is subject to the said Code with respect to the joint lands and who holds the greatest participating interest

ARTICLE XXIX**MISCELLANEOUS**

2901 SUPERSEDES PREVIOUS AGREEMENTS — Except for the Agreement (other than to the extent that the Agreement by its terms becomes ineffective when this Operating Procedure is made effective) this Operating Procedure supersedes all other agreements documents writings and verbal understandings among the parties relating to the joint lands

2902 TIME OF ESSENCE — Time shall be of the essence of this Operating Procedure

2903 NO AMENDMENT EXCEPT IN WRITING — No amendment or variation of the provisions of this Operating Procedure shall be binding upon any party unless it is evidenced in writing executed by the party

2904 BINDS SUCCESSORS AND ASSIGNS Subject to the provisions of Article XXVI this Operating Procedure shall enure to the benefit of and shall bind the parties hereto and their respective successors and assigns and the heirs executors and administrators of natural persons who are or become parties hereto

ARTICLE XXX**TERM**

3001 TO CONTINUE DURING ANY JOINT OWNERSHIP — This Operating Procedure shall terminate when no portion of the joint lands is owned jointly by two or more parties hereto or at that later date upon which (joint ownership continuing) all documents of title (and all renewals and extensions thereof) to the joint lands have terminated and all wells on the joint lands have been plugged or abandoned all equipment thereon salvaged and final settlement of accounts had among the parties hereto