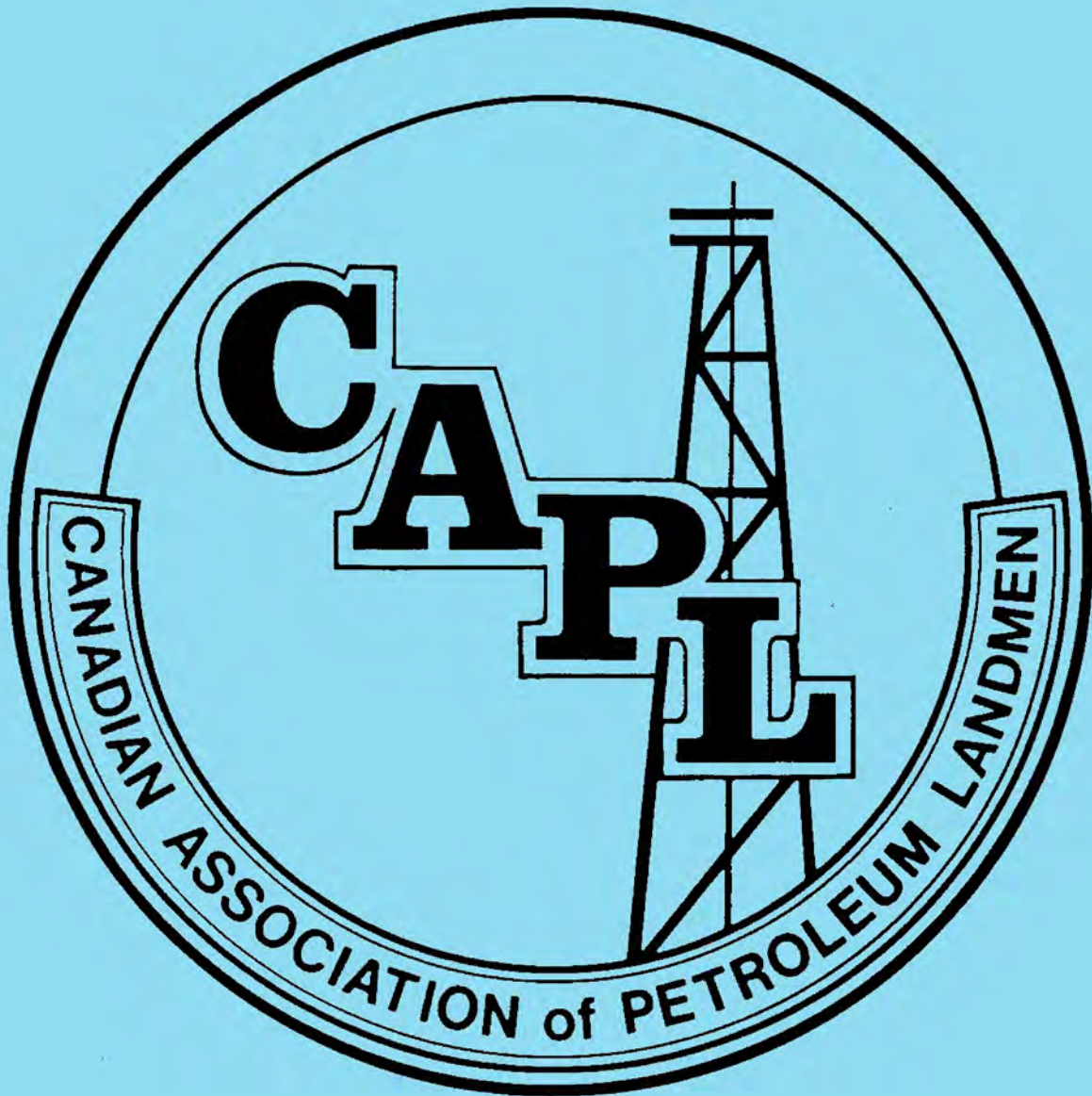


OPERATING PROCEDURE



CANADIAN ASSOCIATION OF PETROLEUM LANDMEN

1974

INDEX

CAPL 1974

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OPERATING PROCEDURE

Attached to and forming part of the Agreement DATED the

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.
- (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 including, without limiting the generality of the foregoing, the pump, 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) "Joint-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 Joint-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 availability of markets, 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 taking of 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 is also a Joint-Operator and as such ceases to hold or 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 Joint-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 Joint-Operator, other than the Operator, may give notice ("the challenge notice") to all other parties hereto that it is ready, able and willing to conduct operations for the joint account on more favourable terms and conditions. The challenge notice shall contain sufficient detail to enable the receiving parties to evaluate the nature of the challenge notice and to measure the effect the revised terms and conditions would have on the joint operations. The Operator shall within Sixty (60) days after receipt of the challenge notice advise the Joint-Operators whether it is prepared to operate on the terms and conditions set out in the challenge notice, and, if so, it shall forthwith proceed to do so. If the Operator is unable or unwilling to do so, the Operator shall resign from the position of Operator within Ninety (90) days after it so advises the Joint-Operators and, subject to Clause 206, the Joint-Operator giving the challenge notice shall become the new Operator and shall thereafter conduct operations pursuant to the undertakings 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 Joint-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) or (c) of Clause 202.

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 Joint-Operators 90 days' notice of its intention to do so

205 MODIFICATION OF TERMS AND CONDITIONS BY OPERATOR — At any time after an Operator has been Operator for a continuous period of two years, it may give notice ("the Operator's notice") to all other parties hereto of the revised terms and conditions on which it is prepared to continue to conduct operations for the joint account. Within 60 days of receipt of the Operator's notice, each Joint-Operator shall advise the Operator whether it agrees to the Operator continuing as Operator and to conduct operations for the joint account on the terms and conditions contained in the Operator's

notice, and failure to respond shall be deemed to be agreement. If any Joint-Operator does not so agree, it shall give notice ("counter proposal") to all parties hereto of the terms and conditions upon which it would conduct operations for the joint account. Any such counter proposal shall be deemed to be a challenge of Operator and shall be subject to all of the terms and conditions of Clause 203 as though such counter proposal was "the challenge notice" provided therein, except that in determining the merits of the counter proposal it shall be compared to the terms and conditions contained in the Operator's notice rather than to existing operating terms and conditions only.

206 APPOINTMENT OF NEW OPERATOR

(a) If an Operator resigns or is to be replaced, an Operator shall be appointed by the affirmative vote of two or more parties representing a majority of the participating interests.

(b) No party shall be appointed Operator hereunder unless it has given its written consent to the appointment; provided that if the parties fail to appoint a replacing Operator or if any appointed Operator fails to carry out its duties hereunder, 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 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.

207 TRANSFER OF PROPERTY ON CHANGE OF OPERATOR — At the 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 pursuant to this Operating Procedure (except any wells in respect of which the succeeding Operator is not entitled to information, which shall be operated by a party hereto determined pursuant to subclause (b) of Clause 206 until the successor Operator becomes entitled to such information)) and of all other facilities and all funds 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.

208 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 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) without a written authority for expenditure from Joint-Operators, unless the expenditure is considered by Operator to be necessary by reason of an event endangering life or property. Particulars of each such event shall be reported promptly to the Joint-Operators.

302 OPERATOR AS JOINT-OPERATOR — The Operator shall also have all the rights and obligations of a Joint-Operator with respect to its participating interest.

303 INDEPENDENT STATUS OF OPERATOR — The Operator in its operations hereunder is an Independent Contractor. The Operator shall furnish or cause to be furnished all material, labor and services necessary for the exploration, 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 its operations hereunder. All employees and contractors used in its operations hereunder shall be the employees and contractors of the Operator.

304 **PROPER PRACTICES IN OPERATIONS** — The Operator shall carry on all operations diligently, in a good and workmanlike manner, in accordance with good oilfield practices, and in accordance with the Regulations.

305 **BOOKS AND RECORDS** — The Operator shall with respect to all operations conducted by it hereunder keep and maintain 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 Joint-Operator, make available in Alberta and there permit each Joint-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 Joint-Operator while not entitled to 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 Worker's Compensation Board to become in arrears.

307 **JOINT-OPERATOR'S RIGHTS OF ACCESS** — The Operator shall, except as otherwise herein provided, permit each Joint-Operator or its duly authorized representative, at the Joint-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.

308 **SURFACE RIGHTS** — The Operator shall acquire for the joint account all necessary surface rights for purposes of 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: (i) the payment of rentals, and (ii) other encumbrances agreed to be borne for the joint account; and shall do all the 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 Joint-Operator before the 25th day of each month with a statement showing production, inventories, sales and 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 upon request of a Joint-Operator provide it with a copy of each production report filed by Operator with any governmental agency.

311 **INSURANCE**

(a) In respect of operations hereunder for the joint account, the Operator shall comply with the requirements of all Unemployment Insurance and Worker's Compensation legislation and shall, prior to the commencement of operations hereunder, hold or cause to be held with a reputable insurance company or companies, and thereafter maintain or cause to be maintained 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 Worker's Compensation.
- (ii) Automobile Insurance covering all motor vehicles, owned or non-owned, operated and/or licensed by the Operator, with a bodily injury, death 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.

(iv) Aircraft Liability Insurance, if aircraft are to be used in the operation, covering all aircraft, owned or non-owned, operated and/or licensed by the Operator, with a bodily injury, death and property damage limit of One Million (\$1,000,000.00) Dollars inclusive.

(b) The Operator shall use every reasonable effort to have its contractors and sub-contractors comply with applicable Unemployment Insurance and Worker's Compensation legislation and 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.

312 TAXES — Except as otherwise provided herein or in the Agreement, the Operator shall initially pay for the joint account all taxes (except income taxes) with respect to property held for the joint account.

ARTICLE IV

INDEMNITY OF OPERATOR

401 LIMIT OF LIABILITY — The Operator shall not be liable to the Joint-Operators for any loss or damage except for loss or damage resulting from the gross negligence or wilful misconduct of the Operator, its agents and employees.

402 INDEMNIFICATION OF OPERATOR — Each of the Joint-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, resulting from the gross negligence or wilful misconduct of the Operator, its agents or employees, but no act or omission of the Operator, its agents or employees, shall of itself be deemed gross negligence or wilful misconduct if it is done or omitted at the instruction of, or with the concurrence of, the Joint-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 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 Joint-Operator its proportionate share of the said costs and expenses, and each respective Joint-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 option, bear interest from the day such payment is due for the account of the Operator at a rate two (2%) 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 Joint-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 Joint-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

each Joint-Operator of its proportionate share thereof. Each Joint-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 Joint-Operator fails so to make or secure such payment, the unpaid amount may, at the Operator's option, bear interest (payable by that Joint-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 FORECAST OF OPERATIONS — The Operator shall from time to time at the request of a Joint-Operator, furnish the Joint-Operators with a written forecast outlining all operations which it proposes to carry out on the joint lands for the joint account during the forecast period (which shall be no less than three months and no more than twelve months) together with the estimated costs thereof. It is specifically understood that such forecasts are for informational purposes only and shall not bind any of the parties.

505 OPERATOR'S LIEN

(a) The Operator shall have a lien on the interest of each Joint-Operator in the joint lands and in production, wells and equipment therefrom and thereon to secure payment of each Joint-Operator's proportionate share of the cost and expense of all operations carried on by the Operator for the joint account.

(b) If a Joint-Operator fails to pay or advance any of the costs hereby agreed to be paid or advanced by it, and the default continues for 30 days after the Operator has served notice upon the Joint-Operator specifying the default and requiring the same to be remedied, the Operator may, without limiting the Operator's other rights at law:

- (i) withhold from such Joint-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 such Joint-Operator's share of the petroleum substances; and from and after the Operator making such election, the Operator may require the purchaser of such Joint-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 Joint-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 Joint-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 Joint-Operator and not paid by it and any balance remaining shall be paid to the defaulting Joint-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 Joint-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 Joint-Operator or its assigns.

506 REIMBURSEMENT OF OPERATOR — If the Operator has not received full payment of a Joint-Operator's share of the costs and expenses of operations hereunder within three (3) months following the date the payment was due, each Joint-Operator, upon being billed therefor by the Operator, shall contribute a fraction of the unpaid amount, excluding interest thereon, which fraction shall have:

- (i) as its numerator — the participating interest of that Joint-Operator, and
- (ii) as its denominator — the aggregate participating interests of all parties hereto except the defaulting Joint-Operator,

and thereupon each contributor shall be proportionately subrogated to the Operator's rights pursuant to Clause 505, and to the interest thereafter payable under Clauses 502 and 503 on the unrecovered portion of its contribution.

507 **COMMINGLING OF FUNDS** — The Operator may commingle with its own funds the moneys which it receives from or for the account of the Joint-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 Joint-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 Joint-Operator at will (subject to existing sales contracts), to sell for the account of that Joint-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 Joint-Operator's share of production as aforesaid shall be for such 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 Joint-Operator's share of production be made for a period in excess of one year.

603 **OPERATOR'S FAILURE TO TAKE IN KIND** — If the Operator is the party who fails or refuses to take in kind and separately dispose of its proportionate share of production, the Joint-Operators or any one or more of them 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 Joint-Operator's share of production under the foregoing provisions of this Article; and in that case the Operator shall follow the instructions with respect to production and marketing given by the Joint-Operators who wish to market and/or take in kind their respective shares of production and to market the Operator's and other Joint-Operators' shares of production as aforesaid. Two or more Joint-Operators exercising their rights under this Clause shall do so in proportion to their participating interests.

604 **PAYMENT OF LESSOR'S ROYALTY** — Each of the parties hereto shall pay or cause to be paid the Lessor's royalty and all other payments required pursuant to the title documents attributable to its proportionate share of petroleum substances.

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 Joint-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 1002 with respect to the well, provided that approval of the Authority for Expenditure by all parties hereto before expiration of the notice period under the operation notice shall nullify the said operation notice; and
- (b) the Operator's proposed program of drilling, coring, logging and testing the well.

702 **DRILLING INFORMATION AND PRIVILEGES OF JOINT-OPERATORS** — During the drilling of the well, the Operator shall provide to each Joint-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 a reasonable opportunity to each Joint-Operator to have a representative present to witness and observe any such tests; and
- (f) derrick floor privileges as set forth in Clause 307.

703 TESTING INFORMATION TO JOINT-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 Joint-Operator with all information relative thereto;
- (d) supply each Joint-Operator with copies of the drillstem test and service report on each drillstem test run, including copies of pressure charts.

704 LOGGING INFORMATION TO JOINT-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 Joint-Operator with copies as requested of each log so run.

ARTICLE VIII

VELOCITY SURVEYS OR OTHER TESTS

801 VELOCITY SURVEYS AND OTHER TESTS — A Joint-Operator after giving written notice to each of the other Joint-Operators of its intention to do so, may at its sole risk and expense (including rig costs) conduct a velocity survey or other survey or test in a well to which it is entitled to have access, unless the Operator advises such Joint-Operator that in the Operator's opinion the hole is not in satisfactory condition for that purpose. Each Joint-Operator entitled to information from the well shall have the right to receive one copy of the results of any velocity survey so run upon paying to the Joint-Operator that conducted the velocity survey one-eighth of the cost thereof; otherwise a Joint-Operator conducting a survey or test shall not be required to make the results thereof available to any other Joint-Operator. Subject to clause 1801, the Joint-Operator so conducting a velocity survey or other survey or test shall retain all trading rights with respect thereto.

Any Joint-Operator which runs a velocity survey or other survey or test shall indemnify the other Joint-Operators from and against all actions, causes of action, claims and demands for all loss, injury or damages such other Joint-Operators may incur or suffer by reason of the exercise of the rights granted by this Clause.

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 JOINT-OPERATORS RE CASING AND COMPLETION — The Operator shall immediately notify the Joint-Operators when the well has reached the authorized depth and the logs and tests preliminary to completion have been run. Subject to Clause 1015, each Joint-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 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 Joint-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 and the well is completed for the taking of petroleum substances, then paragraph (indicate A or B) below shall apply, namely:

A. The setting of casing and the completion shall be considered an independent operation under the provisions of Article X (including the provisions of Clause 1009 if the well is abandoned before the penalty is recovered) as if the independent operation were with respect to a development well;

or

B. The parties not participating in the setting of casing and the completion shall assign to the parties participating therein all the assignor's 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, and the assignees shall forthwith pay to the assignors 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; provided, if the well is abandoned within six months of the expiry of the 24 hour period provided in Clause 902, such abandonment shall be 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. If the well is not abandoned within the said six months, the cost of abandonment shall be the responsibility of the participants in the completion attempt only.

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 proposed to be penetrated in the drilling thereof as provided in the operation notice 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 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. 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 nature of the operation, the proposed location, purpose and estimated cost of the operation and, if applicable, indicating whether it is a development well, an exploratory well or the extent to which it is both. Each receiving party shall give notice to the proposing party within 30 days after receipt of the operation notice whether that receiving party will participate in the operation, provided if the operation notice relates to the drilling of a well for the purpose of evaluating lands which have been posted for public tender by a governmental authority (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 (which information shall be contained in the operation notice), the said 30 day period within which the receiving party shall give notice to the proposing party shall be reduced to 15 days. No well shall 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. If the receiving party fails to give notice to the proposing party within the time provided, 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 as soon as all receiving parties have replied to the operation notice if such occurs earlier, 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 1015.

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

1004 OPERATOR FOR INDEPENDENT OPERATIONS — If the Operator is a participating party, it shall carry out the operation for the account of the participating parties. If the Operator is not a participating party, the participating parties shall appoint an Operator for the operation. If the operation is commenced prior to the time the Operator becomes a participating party (and it is specifically understood that nothing in this Clause shall restrict or prohibit the proposing party from actually commencing operations as provided in Clause 1003) the operator, upon becoming a participating party, shall take over and carry out the operation for the participating parties.

1005 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 electing to participate in the well shall elect:

- (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. For the purpose of this Article X, development well costs shall be only those costs which would have been incurred had the well been drilled as a development well only; all costs of the well additional to those designated as development well costs shall be deemed to be exploratory well costs.

1006 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.

1007 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 thereon which otherwise would have been borne by the joint account 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 thereon which otherwise would have been borne by the joint account 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 that specified in subclause (a) above 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;

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

1008 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 for response to the operation notice under Clause 1002 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 in which the well is:

- (i) a development well — then with respect to those formations and the petroleum substances produced therefrom, the provisions of subclause 1007 (a) shall apply, mutatis mutandis, to the recovery of costs of the operation (including the penalty provided therein) to the extent that such operation and production relates to the well as a development well.
- (ii) an exploratory well — then with respect to those formations and the petroleum substances produced therefrom, the provisions of subclause 1007 (b) shall apply, mutatis mutandis, to the recovery of costs of the operation (including the penalty provided therein) to the extent that such operation and production relates to the well as an exploratory well.

1009 WHERE WELL ABANDONED BEFORE PENALTY RECOVERED — If the operation involves the drilling of a well (or a well which has been drilled) and the well is abandoned before it is due to be turned over to the Operator for the joint account under Clauses 1007 and 1008, each party who did 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 proceeds from the salvage of 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.

1010 EXCEPTION TO CLAUSE 1007 WHERE WELL PRESERVES TITLE — Notwithstanding Clause 1007, if the operation is 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. The non-participating parties' rights with respect to access to the wellsite and information with respect to a well subject to this Clause shall be as provided in Clause 1018 hereof.

1011 INDEPENDENT GEOLOGICAL OR GEOPHYSICAL OPERATION — Nothing in this Operating Procedure shall preclude a party from conducting a geological or geophysical operation provided that the participating parties shall not interfere with other operations being conducted on the joint lands for the joint account. The non-participating parties shall not be entitled to any information or data with respect to such operations except that upon paying to the participating parties 150% of what its share of any such operation would have been had all the parties hereto participated therein, a non-participating party shall be entitled to a copy for its own use of all data obtained from the operation, other than interpretations of such data made by the participating parties or any of them. The right to so acquire information and data from any such operation shall cease at the end of the second calendar year following the calendar year in which the operation was completed.

1012 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 is made with respect to all such joint facilities.

1013 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.

1014 PARTICIPANT'S RIGHTS AND DUTIES RE INDEPENDENT OPERATION — As among the participating parties in any independent operation, the provisions of this Operating Procedure relating to the rights, duties and obligations of the Operator and the Joint-Operators including the provisions of Article IX, shall apply, mutatis mutandis, to the conduct of the operation and to the operation of any well during the recovery of costs and penalties with respect thereto under this Article.

1015 PARTICIPATION IN INDEPENDENT OPERATION — The parties participating in an independent operation hereunder shall have the right to do so in the proportions that their respective participating interests, bear one to the other, 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.

1016 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 the proportions that their respective participating interests bear one to the other, unless the contrary is expressly otherwise provided herein.

1017 INDEMNIFICATION OF NON-PARTICIPATING PARTIES — The participating parties in any independent operation shall, in proportion to their respective interests in the operation, 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.

During recovery of costs and penalties out of production resulting from an operation under this Article X, the participating parties in proportion to their respective interests in the operation, shall pay the Lessor's royalties and all other payments and encumbrances relative thereto which otherwise would be borne for the joint account and shall save harmless the non-participating parties from and against all such payments.

1018 NON-PARTICIPATING PARTY DENIED INFORMATION — If the operation involves the drilling of a well (or a well which has been drilled) the non-participating parties 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 to conduct the operation, provided if a party is required to make an assignment pursuant to Clause 1010, such party shall not be entitled to access to the wellsite or any information with respect to the well pursuant to this Operating Procedure at any time.

1019 NO JOINT OPERATIONS UNTIL INFORMATION RELEASED — Any party withholding well information within the 90 day period provided in Clause 1018, shall not propose or conduct any further operation on the joint lands within 4½ miles of such well until it has released such information to the non-participating parties.

1020 CONTRIBUTION TO INDEPENDENT OPERATIONS — If any party receives a cash contribution towards the cost of the operation, the contribution will be shared by the participating parties only, but the cost of the operation shall be reduced by the amount of the contribution for the purpose of determining the recovery of costs and expenses under this Article X.

If the contribution is an acreage contribution, the party offered the contribution shall give each other participating party the right to participate therein to the extent of its share of the cost of the operation at the time the operation was conducted.

1021 UNITIZATION PRIOR TO RECOVERY — If the operation involves the drilling of a well (or a well which has been drilled) and the well and its spacing unit becomes subject to a unit operation, the participating parties shall receive the production allocated to the spacing unit until they have recovered all costs and penalties to which they are entitled pursuant to this Article X. The credits under any adjustment of investment accruing to the participating parties for well costs paid and equipment supplied by them, shall be deemed to be proceeds from production and the debits under any adjustment of investment shall be deemed to be operating costs and such credits or debits shall be applied to the well by the participating parties consistent with the terms of Clauses 1007 and 1008 and shall be recorded in the monthly statement. If the adjustment credit applicable at any time is in excess of the amount required by the participating parties to fulfill the recovery of costs and penalties, such excess shall be reported to the Operator and credited by the Operator to the joint account.

ARTICLE XI

SURRENDER OF JOINT LANDS

1101 INITIATION OF SURRENDER PROPOSAL — Not later than 60 days before the next ensuing rental date or other obligation date 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. Not later than 30 days before the next ensuing rental date or

other obligation date, the parties receiving the notice shall each give notice to all other parties stating whether or not they wish to join in the proposed surrender. Failure to respond to the said notice shall be deemed to be 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 up to but not later than 30 days before the next ensuing rental date or other obligation date, revoke its notice of intention to surrender.

The size of and interest 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 thirtieth 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.

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 elect by notice to the other parties to take over the well. The party or parties taking over the well shall 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. 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.

ARTICLE XIII

OPERATION OF LANDS SEGREGATED FROM JOINT LANDS

1301 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 any portion of the former joint lands shall thereafter hold the same as if they are parties to a separate Operating Procedure, the terms of which are identical to the terms hereof, having regard only to the different owners and percentages of ownership interest, 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 the initial Operator of those lands.

ARTICLE XIV

LITIGATION

1401 CONDUCT OF LITIGATION — All litigation in connection with the title documents and the joint lands shall be conducted for and on behalf of all parties. Each party shall notify the other party or parties of any process served upon it, or of any process it intends to serve, in any action involving the title documents and/or 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.

ARTICLE XV

RELATIONSHIP OF PARTIES

1501 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. Nothing 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 XVI

FORCE MAJEURE

1601 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.

1602 **SUSPENSION OF OBLIGATIONS DUE TO FORCE MAJEURE** — If any party hereto is prevented by force majeure from carrying out any obligation hereunder, the obligations of the party in so far as its obligations are affected by the force majeure shall be suspended while (but only so long as) the force majeure continues to prevent the performance of the said obligations. Any party prevented from carrying out any obligation by force majeure shall promptly give the other parties notice of the force majeure including reasonably full particulars in respect thereof.

1603 **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.

1604 **EXCEPTION FOR LACK OF FINANCES** — Notwithstanding anything contained in this Article, lack of finances shall not be considered a force majeure nor shall any force majeure suspend any obligation for the payment of money due hereunder.

ARTICLE XVII

CASH AND ACREAGE CONTRIBUTIONS

1701 **CONTRIBUTIONS TO JOINT OPERATIONS TO BE SHARED** —

- (i) **Cash** — If any party receives a cash contribution towards the cost of any operation to be carried out for the joint account, that party shall pay the cash contribution so received to the joint account.
- (ii) **Acreage** — If any party is offered an acreage contribution in support of any operation to be carried out for the joint account, that party shall give each other party hereto the right to participate in such acreage contribution to the extent of its participating interest hereunder.

1702 **NO WAIVER OF CONFIDENTIAL INFORMATION** — Clause 1701 shall not permit a party to accept a contribution from a third party in return for information from an operation hereunder.

ARTICLE XVIII

CONFIDENTIAL INFORMATION

1801 **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.

ARTICLE XIX

DELINQUENT PARTY

1901 **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.

1902 **EFFECT OF CLASSIFICATION AS DELINQUENT PARTY** — From the 15th day after the registered notice has been mailed to the delinquent party under Clause 1901, 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;

provided that the proceeds of the sale of the delinquent party's share of petroleum substances shall be retained in trust by the Operator for the account and benefit of the delinquent party after deducting the delinquent party's proportionate share of operating costs and all other relevant costs incurred for the joint account.

1903 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 thereafter shall be restored to the normal status of a party hereto.

1904 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 505 and 506.

ARTICLE XX

WAIVER

2001 WAIVER MUST BE IN WRITING — No waiver by 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 XXI

FURTHER ASSURANCES

2101 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 XXII

NOTICE

2201 SERVICE OF NOTICE — Whether or not so stipulated herein, all notices, communications and statements (hereinafter called "notices") required or permitted hereunder shall be in writing. Notices may be served:

- (a) Personally by leaving them with the party on whom they are to be served at that party's address hereinafter given. Personally served notices shall be deemed received by the addressees when actually delivered provided such delivery shall be during normal business hours; or
- (b) by telegraph (or by any other like method by which a written and recorded message may be sent) directed to the party on whom they are to be served at that party's address hereinafter given. Notices so served shall be deemed received by the addressees thereof eight hours after the time of transmission or at the commencement of the next ensuing normal business day, whichever is the later; or
- (c) by mailing them first class (air mail if to or from the United States of America) registered post, postage prepaid, to the party on whom they are to be served. Notices so served shall be deemed to be received by the addressees 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.

2202 ADDRESSES FOR NOTICES — The address of each of the respective parties hereto shall be as follows:

2203 RIGHT TO CHANGE ADDRESS — Any party hereto may change its said address by notice served as aforesaid.

ARTICLE XXIII

NO PARTITION

2301 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 XXIV

DISPOSITIONS OF INTERESTS

2401 RIGHT TO ASSIGN, SELL OR DISPOSE — Subject to Clause 2402, a party hereto shall not assign, sell or dispose of any interest in the joint lands (other than as required and allowed one party to the other elsewhere in this Operating Procedure) without first complying with the provisions of paragraph below (specify A or B):

A. The party wishing to make the assignment, sale or disposition shall first notify the other parties and obtain their written consent, which shall not be unreasonably withheld;

or

B. If a party (in this paragraph called "the selling party") wishes to assign, sell or dispose of, or has received an offer which it is willing to accept for the assignment, sale or disposition of, all or part of its interest in all or part of the joint lands (in this paragraph called "the subject interest"), the selling party shall give notice thereof to the other parties (in this paragraph called "the offerees"). The selling party's notice shall contain the terms and conditions of the proposed assignment, sale or disposition, including the consideration to be received for the subject interest and, if applicable, the name of the offering party. The offerees shall have the right for a period of 20 days after receipt of the notice from the selling party (in this paragraph called "the notice period"), to elect in writing to acquire the subject interest from the selling party on the terms and conditions contained in the notice. The offerees so electing to acquire the subject interest (in this paragraph called "the buying parties") shall be obligated to acquire the subject interest in its entirety. The buying parties

shall have the right to acquire the subject interest in the proportions that their respective participating interests bear one to the other. If all the offerees decline or fail to elect within the notice period to acquire the subject interest, the selling party shall be free for a period of 60 days next following the expiry of the notice period, to assign, sell or dispose of the subject interest on the terms and conditions and to the offering party (if applicable) 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 stipulated in the offer for the subject interest is one which cannot be matched in kind by the offerees, the selling party may set out in its notice its bona fide estimate of the value in cash of the said consideration. If the selling party's notice did not include its bona fide estimate as aforesaid, the offerees, or any of them, may request such estimate, in which event the notice period shall be suspended until such estimate is received by all of the offerees. In case of dispute as to the reasonableness of the estimate, the matter shall 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, but the notice period shall not be extended by such referral of the dispute to arbitration. If the equivalent cash consideration determined by the arbitration is lower than the estimate submitted by the selling party, the cash consideration determined by arbitration shall be the sale price for the subject interest and the accounts of the selling party and the buying parties shall be adjusted accordingly; if the equivalent cash consideration determined by arbitration is higher than the estimate submitted by the selling party, the estimate submitted by the selling party shall be the sale price for the subject interest.

2402 EXCEPTIONS TO CLAUSE 2401 — Clause 2401 shall not apply in the following instances, namely:

- (a) An assignment made by way of security for the assignor's indebtedness;
- (b) An assignment, sale or disposition to an affiliate of the assignor, or in consequence of a merger or amalgamation of the assignor with another company;
- (c) An assignment, sale or disposition made by the assignor of all, or substantially all, or of an undivided interest in all, or substantially all of its petroleum and natural gas rights in the province, state or territory where the joint lands are situated.

2403 MULTIPLE ASSIGNMENT NOT TO INCREASE COSTS — If any assignment of an interest in the joint lands or any part thereof is 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.

2404 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; provided, 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 XXV

PERPETUITIES

2501 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 lawful descendants now living of Her Majesty Queen Elizabeth II.

ARTICLE XXVI**UNITED STATES TAXES**

2601 **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 XXVII**MISCELLANEOUS**

2701 **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.

2702 **TIME OF ESSENCE** — Time shall be of the essence of this Operating Procedure.

2703 **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.

2704 **BINDS SUCCESSORS AND ASSIGNS** — Subject to the provisions of Article XXIV, 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, administrators and assigns of natural persons who are or become parties hereto.

ARTICLE XXVIII**TERM**

2801 **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.