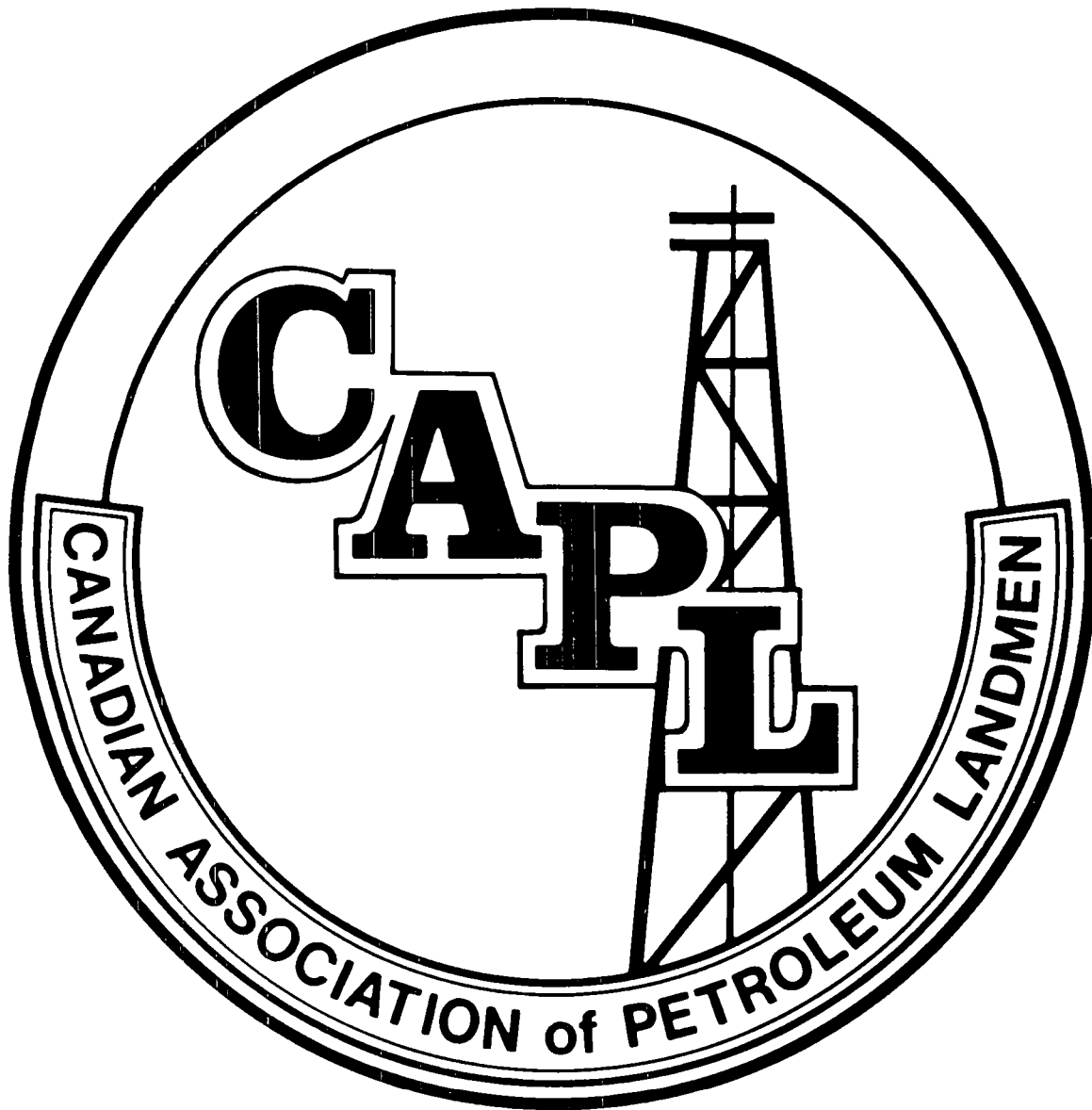


# OPERATING PROCEDURE



**CANADIAN ASSOCIATION OF PETROLEUM LANDMEN**

**1981**

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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 means the schedule entitled Accounting Procedure which is attached hereto and is hereby made a part hereof and as such part of the Agreement
- (b) Affiliate means 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 corporation or body politic and for this purpose a corporation shall be deemed controlled by those persons corporations or bodies politic who own or effectively control sufficient voting shares of the corporation (whether directly through the ownership of shares of the corporation or indirectly through the ownership of shares of another corporation which owns shares of the corporation) to elect the majority of its board of directors
- (c) Agreement means that Agreement to which this Operating Procedure is attached and made a part
- (d) casing point means that point in time with respect to a well that has been drilled to total depth and the authorized logs and tests have been run when a decision must be made by the Joint Operators whether or not to set production casing and attempt to complete the well for the taking of petroleum substances
- (e) commercial quantities means with respect to a well that the anticipated output of petroleum substances from that well would be sufficient to economically warrant the drilling of a well in the same area to the formation or formations indicated to be productive having regard to drilling costs completion costs equipping costs operating costs the kind and quality of petroleum substances indicated the availability of markets therefor the royalties and other burdens payable with respect thereto the probable life of the well and the price to be received for the petroleum substances as and when sold

(f) **completion costs** means 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 incurred subsequent to casing point in attempting to complete the well for the taking of petroleum substances up 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 the cost of running adequate production tests

which without restricting the generality of the foregoing shall include costs incurred in perforating stimulating treating fracing and swabbing the well ( complete completing completed and other derivatives of complete shall have corresponding meanings and relate to those operations in which completion costs are anticipated or incurred )

(g) **drilling costs** means 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 ( drill drilling drilled and other derivatives of drill shall have corresponding meanings and relate to those operations in which drilling costs are anticipated or incurred )

(h) **equipping costs** means with respect to a well all moneys expended beyond completion to acquire and install equipment required to produce petroleum substances from the well including without restricting the generality of the foregoing the pump (or other artificial lift equipment) the acquisition and installation of flow lines and production tankage serving the well and where necessary a heater dehydrator or other facility for the initial treatment of the petroleum substances produced from the well to prepare such production for transport to market but specifically excluding costs incurred beyond the point of entry into a gathering system plant or other common facility which is or will be operated pursuant to a separate agreement ( equip equipping equipped and other derivatives of equip shall have corresponding meanings and relate to those operations in which equipping costs are anticipated or incurred )

(i) **for the joint account** means for the benefit interest ownership risk cost expense and obligation of the parties hereto in proportion to each party's participating interest ( to the joint account and joint account shall have corresponding meanings )

(j) **joint lands** means 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

(k) **Joint Operator** means a party to the Agreement having a participating interest in the joint lands (including the Operator if it has a participating interest in the joint lands )

(l) **operating costs** means 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 ( operate operating operated and other derivatives of operate shall have corresponding meanings and relate to those operations in which operating costs are anticipated or incurred )

(m) **Operator** means the party appointed by the Joint Operators to carry out operations hereunder for the joint account

(n) **party** means a person corporation or body politic bound by this Operating Procedure

(o) **participating interest** means the percentage of undivided interest in the joint lands (or the respective parcels thereof) held by a party as provided in the Agreement



(p) paying quantities means

- (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 petroleum substances indicated the availability of markets therefor the royalties and other burdens payable with respect thereto the probable life of the well and the price to be received for the petroleum substances as and when sold would economically warrant incurring the completion costs and equipping costs of the well

OR

- (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 economically warrant the taking of production from the well

(q) petroleum substances means petroleum natural gas and every other mineral or substance or any of them an interest in which is granted or acquired under the title documents

(r) proportionate share means with respect to a party hereto a percentage share equal to that party's participating interest

(s) Regulations means 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

(t) spacing unit means (at the relevant time with respect to which the term is used)

- (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 provided in the absence of such allocation by the Regulations or specific designation in the Agreement the spacing unit for the well shall be deemed to be the quarter section unit or similar geographical area containing the well and
- (ii) in every other case the area allocated to the well pursuant to the Regulations for the purpose of producing petroleum substances

(u) title documents means 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 — 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

(a) references to articles clauses or subclauses herein shall mean articles clauses or subclauses of this Operating Procedure

(b) whenever the singular or masculine or neuter is used in this Operating Procedure the same shall be construed as meaning plural or feminine or body politic or corporate or vice versa as the context so requires

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 remaining 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 named in the Agreement or any succeeding Operator appointed hereunder shall assume the duties and obligations of the Operator hereunder and shall have all the rights of the Operator hereunder

202 REPLACEMENT OF OPERATOR —

(a) The Operator shall be replaced immediately and another Operator appointed pursuant to Clause 206 in any one of the following circumstances

- (i) 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
- (ii) If the Operator assigns or purports or attempts to assign its general powers and responsibilities of supervision and management as Operator hereunder

(b) The Operator shall be replaced and another Operator appointed pursuant to Clause 206 in any one of the following circumstances

- (i) If the Operator is also a Joint Operator and as such ceases to hold or represent at least ten (10 / ) percent of the participating interests
- (ii) If the Operator defaults in its duties or obligations or any of them hereunder and does not commence to rectify the default within thirty (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 either that

(a) it is prepared to operate on the terms and conditions set out in the challenge notice whereupon it shall forthwith proceed to do so

OR

(b) it is unable or unwilling to operate on the terms and conditions set out in the challenge notice and that it will resign as Operator effective not later than ninety (90) days following the sixty (60) days above provided

Failure to advise the Joint Operators within the sixty (60) days above provided shall be deemed to be an election by the Operator to resign. If the Operator resigns a new Operator shall be appointed pursuant to Clause 206 and such new Operator shall operate on the terms and conditions set out in the challenge notice. If no other Joint Operator is prepared to act as Operator on the terms and conditions set out in the challenge notice then 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. Any costs in excess of those set out in the challenge notice 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 any item contained in Clause 202

204 RESIGNATION OF OPERATOR — Except as provided in Clause 203 at any time after an Operator has been Operator for one (1) year it may resign as Operator on giving each of the Joint Operators ninety (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 (2) 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 sixty (60) days of receipt of the Operator s notice each Joint Operator shall advise the Operator whether or not it agrees to the Operator continuing as Operator and conducting operations for the joint account on the terms and conditions contained in the Operator s notice provided any 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

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 (2) or more parties representing a majority of the participating interests provided if there are only two (2) Joint Operators to this Operating Procedure and the Operator that resigned or is to be replaced is one (1) of the Joint Operators then notwithstanding the foregoing the other Joint Operator shall have the right to become the Operator

(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 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

(d) Except as provided in Subclause (a) of Clause 202 (in which case the Operator shall be replaced immediately) every replacement of Operator shall take effect at eight (8 00) o clock a m on the first (1st) 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 an Operator as hereinbefore provided the Operator being replaced 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 Clause 1004 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 theretofor been delivered in kind and copies of books of account and records kept for the joint account and on 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 sixty (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 control and management of the exploration development and operation of the joint lands for the joint account provided it shall consult with the Joint Operators from time to time with respect to decisions to be made for the exploration development and operation of the joint lands and keep the Joint Operators informed with respect to operations planned or conducted for the joint account

Subject to Clause 304 the Operator shall be entitled to make or commit to such operating expenditures for the joint account as it shall consider necessary and prudent in order to carry on a good and workmanlike operation for the joint account provided the Operator shall not make or commit to an expenditure for the joint account for any single operation the total estimated cost of which is in excess of twenty five thousand (\$25 000) dollars 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

Notwithstanding the foregoing if the Operator while conducting any single operation for the joint account which operation is covered by a written Authority for Expenditure incurs or expects to incur expenditures for the joint account in excess of the total amount authorized in writing by the Joint Operators for that operation plus ten (10 / ) percent thereof the Operator shall forthwith so advise the Joint Operators and submit for their approval a written supplementary authority for such excess expenditures

**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 If any term or provision of this Operating Procedure is found to be inconsistent with or contrary to anything contained in the Regulations from time to time the Regulations shall apply and this Operating Procedure shall be deemed modified to the extent necessary to comply with the Regulations and as so modified shall continue in full force and effect

**305 BOOKS RECORDS AND ACCOUNTS** — The Operator shall keep and maintain the records and accounts required of it in the Accounting Procedure and with respect to all operations conducted by it hereunder for the joint account 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 books records and accounts 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

**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) the payment of other encumbrances agreed to be borne for the joint account and (iii) all things necessary to maintain the title documents in good standing and in full force and effect provided that nothing in this Clause shall be construed to require or permit the Operator to drill a well or conduct any operation for the joint account which operation otherwise would be preceded by an approved Authority for Expenditure

310 PRODUCTION STATEMENTS AND REPORTS — The Operator shall furnish each Joint Operator before the twenty fifth (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 such report filed by Operator with any governmental agency

311 INSURANCE — In respect of operations conducted for the joint account the Operator shall prior to the commencement of such operations comply with the provisions of ALTERNATE \_\_\_\_\_ below (Specify A or B)

#### ALTERNATE A

(a) In respect of operations hereunder for the joint account the Operator shall comply with the requirements of all Unemployment Insurance and Workers Compensation legislation and all other similar Regulations and legislation applicable to workers employed for the joint account and shall not suffer any bona fide claims of or dues to or on behalf of any such Regulations or legislation to become in arrears The Operator 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 The insurance required pursuant to this Subclause shall apply to each separate claim and shall be as follows

- (i) Employer's Liability Insurance covering each employee engaged in the operations hereunder to the extent of two hundred and fifty thousand (\$250 000 00) dollars where such employee is not covered by Workers Compensation
- (ii) Automobile Liability Insurance covering all motor vehicles owned or non owned operated and/or licensed by the Operator and used in the joint operation hereunder (but only insofar as any such motor vehicles are used in the joint operation) with a bodily injury death and property damage limit of one million (\$1 000 000 00) dollars inclusive
- (iii) Comprehensive General Liability Insurance with a bodily injury death and property damage limit of one million (\$1 000 000 00) dollars 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 covering all aircraft owned or non owned operated and/or licensed by the Operator and used in the joint operation hereunder (but only insofar as any such aircraft are used in the joint operation) with a bodily injury death and property damage limit of two million (\$2 000 000 00) dollars inclusive

With respect to any insurance carried for the joint account the amount of the deductible specified therein for each separate claim shall not exceed the amount set forth in Clause 301 without the prior approval of the Joint Operators

- (b) The Operator shall use every reasonable effort to have its contractors and sub contractors
  - (i) comply with Unemployment Insurance and Workers Compensation legislation and all other similar Regulations and legislation applicable to workers employed by them and
  - (ii) 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) Insurance policies maintained by the Operator for the joint account shall include a waiver of subrogation in favor of the other Joint Operators
- (e) If so requested by any party the Operator shall furnish evidence of compliance with the foregoing insurance provisions

OR

#### ALTERNATE B

- (a) In respect of operations hereunder for the joint account the Operator shall comply with the requirements of all Unemployment Insurance and Workers Compensation legislation and all other similar Regulations and legislation applicable to workers employed for the joint account and shall not suffer any bona fide claims of or dues to or on behalf of any such Regulations or legislation to become in arrears. The Operator 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 only that insurance as is specifically required to comply with all applicable Regulations and legislation and the cost thereof shall be charged to the joint account
- (b) The Operator shall use every reasonable effort to have its contractors and sub contractors
  - (i) comply with Unemployment Insurance and Workers Compensation legislation and all other similar Regulations and legislation applicable to workers employed by them and
  - (ii) carry such insurance (if any) in such amounts as the Operator deems necessary
- (c) It is the intention of the parties that the cost of any accidental loss of or damage to joint property and any claim of or liability to third parties or to each other for bodily injury death or property damage arising out of any operation conducted hereunder shall be borne individually by the parties participating in the operation proportionate to their respective participating interests in the operation

Except as provided in Subclause (a) of this Clause each party shall be responsible for its own interest in the joint lands and in any joint operation hereunder and for insuring its own interest to the extent and in the amounts it would have if any. The cost of any such insurance so carried by an individual party shall be for its sole account and not charged to the joint account

- (d) Any insurance policies maintained by the Operator for the joint account shall include a waiver of subrogation in favor of the other Joint Operators
- (e) 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 with respect to property held for the joint account provided nothing herein contained shall require or permit the Operator to pay for the joint account income taxes mineral taxes conservation taxes or any other taxes assessments or levies

based on reserves or on a unit of production or on the value thereof. The Operator shall promptly forward to each applicable Joint Operator copies of all tax notices or assessments received by it relative to property held for the joint account and for which payment is not the responsibility of the Operator.

## ARTICLE IV

### INDEMNITY OF OPERATOR

401 **LIMIT OF LIABILITY** — The Operator shall not be liable to the Joint Operators for any loss or damage incurred by any of them relative to any operations carried out pursuant to this Operating Procedure except that

(a) the Operator shall be solely responsible for and shall indemnify and save harmless each Joint Operator from and against all actions, causes of action, suits, claims and demands by any person or persons whomsoever in respect of any loss, injury, damage or obligation to compensate to the extent of the risks against which the Operator is required to carry insurance as provided in Clause 311 and within the limits of such insurance, except that if an insurer is financially unable to pay all or any portion of a valid claim, the Operator shall be released from the indemnity and responsibility assumed by it under this Clause to the extent only of such inability to pay, and

(b) in addition to the provisions of Subclause (a) of this Clause, the Operator shall be solely liable for any loss or damage of whatsoever nature when such loss or damage is caused by the Operator's gross negligence or wilful misconduct 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. If the Operator is liable under this Clause, the Operator shall indemnify and save harmless each Joint Operator from and against all actions, causes of action, suits, claims and demands by any person or persons whomsoever in respect of any loss, injury, damage or obligation to compensate.

402 **INDEMNIFICATION OF OPERATOR** — Except as provided in Clause 401, all liabilities incurred by the Operator in the carrying out of any operations pursuant to this Operating Procedure, whether contractual or tortious, shall be for the joint account and shall be borne by the parties in accordance with their respective participating interests.

## 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 thirty (30) 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 points 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 thirty (30) days prior to the first (1st) day of a 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 fifteenth (15th) day after receipt by it of such estimate or by the fifteenth (15th) day of the calendar month to which the estimate relates, whichever is the later. 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 provided for in

Clause 502 from the day such payment is due until it is paid. Amounts advanced by a Joint Operator hereunder shall be recorded as a credit to the account of that Joint Operator and the Operator shall adjust the monthly billing in accordance with the Accounting Procedure to reflect such advances received by it from a Joint Operator. Any amounts advanced by a Joint Operator hereunder and then not required by Operator for charges to the Joint Account within the time and in the manner proposed shall be refunded to that Joint Operator in a prompt and timely manner but in any event prior to the end of the calendar month following the month to which such advance applied, following which any amounts not so refunded may, at that Joint Operator's option, bear interest (payable by the Operator for the account of that Joint Operator) at the rate provided for in Clause 502 from the day such refund is due until it is paid.

**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 (3) months and no more than twelve (12) 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 thirty (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 other 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 being billed, 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 shall own its proportionate share of the petroleum substances produced from wells operated for the joint account and shall have the right at its own expense to 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 and at the expense of that Joint Operator its proportionate share of production to others at the same price which the Operator receives for its own share 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 (1) 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

605 DISTRIBUTION OF PROCEEDS — Subject to the foregoing provisions of this Article any party that receives income or proceeds from the sale of another party's share of production shall forthwith distribute such income or proceeds to the party or parties entitled thereto. If a party fails to distribute such income or proceeds within ten (10) days following its receipt the undistributed amount may at the option of the party entitled thereto bear interest (payable by the party holding such income or proceeds for the account of the party entitled thereto) at the rate provided for in Clause 502 from and after the aforesaid ten (10) days until it is paid

## ARTICLE VII

### OPERATOR'S DUTIES RE DRILLING AND COMPLETING 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 which shall contain the location and intended total depth of the well and summarize the anticipated drilling costs and completion costs of the well. If the Authority for Expenditure does not contain the expected time of commencement of the well a Joint Operator may make its approval conditional upon the well being

commenced within a specified time and upon approval of such condition by all parties to the Authority for Expenditure such condition shall become an essential part of the approved Authority for Expenditure. If the Authority for Expenditure is not subject to a time specification as above provided, any party to the approved Authority for Expenditure may at any time prior to the time the well is commenced, serve notice on the other parties thereto requiring that the well be commenced within sixty (60) days of such notice, failing which the Joint Operator's approval of the Authority for Expenditure shall be void. (In the absence of other specified and agreed designation, a well shall be deemed commenced when actually spudded, that is, when a drill rig of adequate capacity to drill that well to proposed total depth is rigged up on location and a drilling bit has penetrated the surface.) 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 before expiration of the period provided in Clause 1002 for notice by the receiving parties in response to the operation notice shall nullify the said operation notice.

- (b) the Operator's proposed program of drilling, coring, logging and testing the well, and
- (c) the Operator's proposed completion program, provided that participation in any completion operation by a Joint Operator shall at all times be subject to Article IX.

**702 DRILLING INFORMATION AND PRIVILEGES OF JOINT OPERATORS** — During the drilling of the well, the Operator shall provide to each Joint Operator participating therein:

- (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 and copies of any core analysis conducted for the joint account
- (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 for each Joint Operator participating therein to have a representative present to witness and observe any such tests
- (f) derrick floor privileges as set forth in Clause 307, and
- (g) upon request, estimates of current and cumulative costs incurred for the joint account.

**703 LOGGING AND TESTING INFORMATION TO JOINT OPERATORS** — Upon the well reaching total depth (or during the drilling of the well if any such operations are to be conducted prior to the well reaching final total depth), the Operator shall:

- (a) test it in accordance with the approved 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 participating therein with all information relative thereto
- (d) supply each Joint Operator participating therein with copies of the drillstem test and service report on each drillstem test run, including copies of pressure charts, and
- (e) run all log surveys agreed upon among the participating parties and supply each such party with copies of each log so run.

**704 COMPLETION AND PRODUCTION INFORMATION TO JOINT OPERATORS** — During any completion operation conducted on the well the Operator shall

(a) complete it in accordance with the approved program and supply each Joint Operator participating in the completion operation with current reports on all completion activities which without restricting the generality of the foregoing shall include

- (i) summary of the casing program
- (ii) location and density of perforations
- (iii) details of formation treatment and stimulation
- (iv) results of back pressure tests and
- (v) upon request estimates of current and cumulative costs incurred for the joint account and

(b) promptly provide each Joint Operator participating in the completion operation with all relevant information pertaining to any formation tests and production tests conducted on the well and current advice as to the nature rate and amount of petroleum substances and other fluids produced from the well

**705 ADDITIONAL TESTING BY LESS THAN ALL JOINT OPERATORS** — 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 such other or additional tests of its choosing 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. Except as provided in Clause 801 and subject always to Clause 1801 the Joint Operator so conducting any such tests shall retain all rights thereto and shall not be required to make the results thereof available to any other Joint Operator pursuant to this Operating Procedure. Any Joint Operator so conducting any such tests 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 VIII**

### **VELOCITY SURVEYS AND OTHER GEOPHYSICAL TESTS**

**801 VELOCITY SURVEYS AND OTHER GEOPHYSICAL 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 geophysical 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 (1) copy of the results of any velocity survey so run upon paying to the Joint Operator that conducted the velocity survey an amount equal to the greater of its participating interest hereunder or one sixth (1/6th) of the cost thereof. A Joint Operator conducting a geophysical survey or test other than a velocity survey shall not be required to make the results thereof available to any other Joint Operator pursuant to this Operating Procedure. Subject to Clause 1801 any Joint Operator so conducting a velocity survey or other geophysical survey or test shall retain all trading rights with respect thereto. Any Joint Operator so conducting a velocity survey or other geophysical 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 not be deemed to include agreement by any Joint Operator to participate in the setting of production casing

or to attempt completion of the well or to the completion program as set forth in the Authority for Expenditure submitted pursuant to Subclause 701 (a)

902 ELECTION BY JOINT OPERATORS RE CASING AND COMPLETION — The Operator shall immediately notify the Joint Operators when the well has been drilled to the authorized total depth and the logs and tests required or permitted pursuant to Articles VII and VIII have been run. Subject to Clause 1015, each Joint Operator shall have a period of twenty four (24) hours after the logs and results of the tests in which it participated have been made available to it to inform the Operator whether it wishes to participate in the cost of setting production casing and making a completion attempt. Failure to reply to the notice from the Operator shall be deemed an election by a party to participate to the extent of its participating interest provided at least one Joint Operator (which may include or be the Operator) other than a Joint Operator that failed to reply has actually confirmed its election to participate in the completion attempt. If one or more Joint Operators elect to participate in the completion attempt, the participating party(s) shall proceed to run production casing and attempt to complete the well for the taking of petroleum substances. If none of the Joint Operators elects to participate, the Operator shall plug and abandon the well.

903 LESS THAN ALL PARTIES PARTICIPATE — If one or more, but not all, of the parties elect to set production casing and attempt to complete the well and the well is completed for the taking of petroleum substances in at least paying quantities, then ALTERNATE \_\_\_\_\_ below (Specify A or B) shall apply, namely:

#### ALTERNATE A

The setting of production 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

#### ALTERNATE B

Each party not participating in the setting of production casing and the completion attempt shall assign to the party(s) that paid such non-participating party(s) share of such costs, all the assignor's interest in the spacing unit of the well insofar only as it relates to the zone or zones in which the well is so completed, and the assignee(s) shall forthwith pay to the assignor(s) 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 (6) months of the expiry of the twenty four (24) hour period provided in Clause 902, such abandonment shall be for the joint account except that: (i) the participants in the completion attempt shall bear all extra costs of the abandonment incurred by reason of the completion attempt, and (ii) income received by the participants from the sale of petroleum substances produced from the well within the said six (6) months plus income from the sale of salvable material and equipment shall firstly be applied to abate costs incurred by the participants in the completion attempt and the balance, if any, credited to the joint account. If the well is not abandoned within the said six (6) months, the cost of abandonment shall be the responsibility of the participants in the completion attempt only.

Notwithstanding anything to the contrary contained in this Clause, if and when the well is abandoned as a producer of petroleum substances from any zone, an interest in which was assigned to the participating parties as hereinabove provided, then upon such abandonment, the participating parties shall each re-assign to the applicable assignor, all of the interest in that zone assigned to it by the assignor and such interest shall again be vested in the assignor and included in the joint lands.

## ARTICLE X

### INDEPENDENT OPERATIONS

1001 DEFINITIONS USED IN THIS ARTICLE — For the purpose of this Article X, the *proposing party* shall mean the party (whether one or more) giving notice of its intention to have a certain operation conducted on the joint lands (hereinafter called *the operation*) and that it is prepared to conduct the operation independently if necessary. *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 insofar as the geological formations penetrated or proposed to be penetrated in the drilling thereof as provided in the operation notice are not deeper than the deepest geological formation in which another well within two (2) miles thereof is or has been capable of production of petroleum substances in commercial quantities and *exploratory well* shall mean a well insofar 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 exploration development and operation of the joint lands. Whether or not such consultation has occurred or has been requested a party may at any time become a proposing party and 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 the expected time of commencement the purpose and estimated cost of the operation (it being understood that the estimate of expenditures shall be in sufficient detail to enable the receiving parties to identify in summary form the estimated cost of the various aspects of the operation such estimate may be in the form of an Authority for Expenditure provided an Authority for Expenditure otherwise submitted under this Operating Procedure shall not in itself be construed as an operation notice unless it is specifically part of an operation notice served pursuant to this Article X) and indicating whether it is a development well or an exploratory well or if applicable the extent to which it is both. Each receiving party shall give notice to the proposing party within thirty (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 offered for public tender by a governmental authority or which it is known will be so offered within sixty (60) days after receipt of the operation notice (which information shall be contained in the operation notice) the said thirty (30) day period within which the receiving party shall give notice to the proposing party shall be reduced to fifteen (15) days. No well shall be considered as being drilled for such evaluation if the lands proposed to be evaluated are all at a distance greater than one (1) mile from the location of the proposed well. If a 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 thirty (30) or fifteen (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 specifying how the costs risks and benefits of the operation will be shared having regard to Clause 1015.

A party may become a proposing party with respect to more than one operation at any given time and may serve as many operation notices as it so wishes and proceed to conduct operations pursuant thereto provided no single operation notice shall relate to more than one well and provided further that if the operation proposed is the drilling of a well the receiving parties shall not be required to operate as having received the operation notice served by a party unless and until all operation notices previously served by that party relative to wells located within three (3) miles of the proposed well have expired been withdrawn or the operation proposed thereunder has been completed and the information therefrom has been provided to the receiving parties and the receiving parties have been so advised by that proposing party. If a party serves more than one (1) operation notice at one time it shall subject to the foregoing provisions of this Clause state the order in which the operation notices are to be deemed received by the receiving parties. Otherwise operation notices shall be deemed received in accordance with Clause 2201.

**1003 TIME FOR COMMENCING THE OPERATION** — The proposing party may begin the operation without waiting for the thirty (30) or fifteen (15) day period provided under Clause 1002 to lapse but shall not commence the operation more than sixty (60) days after the operation notice is deemed to be received by the receiving parties although the proposing party may serve a new operation notice for the same operation within or after the expiration of the said sixty (60) day period.

**1004 OPERATOR FOR INDEPENDENT OPERATIONS** — Notwithstanding anything to the contrary contained in this Operating Procedure if the Operator is a participating party it shall carry out the operation for the account of the participating parties provided if the Operator is not a participating party the participating parties shall as and among themselves and in accordance with the provisions of Clause 206 mutatis mutandis 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 have the right to take over and carry out the operation for the participating parties.

## 1005 SEPARATE ELECTION WHERE WELL STATUS DIVIDED —

(a) 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 to participate

- (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

(b) If the participation in the well varies between the well as a development well and the well as an exploratory well the following shall apply

- (i) 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 can reasonably be determined and such allocation shall be stated in the operation notice (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 (and completed if applicable) as a development well only All drilling costs and completion costs of the well additional to those designated as development well costs shall be deemed to be exploratory well costs)
- (ii) If the well is capable of producing petroleum substances in at least paying quantities from more than one geological formation and such petroleum substances can be produced simultaneously from all such formations through the well then the Operator for the participating parties in the deepest producing formation shall operate the well apportioning the operating costs of the well to each formation on an equitable basis and deliver to the Operator for the participating parties in each productive formation their respective total share of production from each formation and each such Operator shall account for such production to their respective participating parties in accordance with Clause 1007 as if each producing formation was a separate operation
- (iii) Notwithstanding anything to the contrary contained in Subclause (ii) above if the well is capable of producing petroleum substances in at least paying quantities from a geological formation that is contained in the part of the well that is designated as exploratory and the participants in the exploratory part of the well wish to complete the well in any such formation they shall have the pre-emptive right to do so provided if the well is also capable of producing petroleum substances in at least paying quantities from a geological formation contained in the part of the well that is designated as development and the participating parties in the exploratory part of the well exercise their pre-emptive right as above provided they shall reimburse the participating parties in the development part of the well for all costs incurred by them in drilling (and completing if applicable) the well as a development well and thereafter the well shall be deemed to be a single operation ab initio involving the drilling of an exploratory well only and conducted by the participating parties in the exploratory part of the well pursuant to this Article X except that the drilling costs and completion costs (if applicable) reimbursed to the participating parties in the development part of the well as above provided shall be deemed to be operating costs and included as a charge under Subclause 1007(b) (ii)

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 — If an operation is conducted by a proposing party pursuant to this Article X and the operation is the drilling of a well then the following shall apply as and between the participating parties and the non-participating parties with respect thereto

- (a) If 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 to those formations only and the production therefrom the participating parties shall be entitled to retain possession of the well and all production therefrom until the gross proceeds of such production equals the sum total of

- (i) one hundred (100 / ) percent of the lessor s royalty and any overriding royalties or other encumbrances thereon which otherwise would have been borne by the joint account with respect to the said production plus
- (ii) one hundred (100 / ) percent of the costs of operating the well as a development well plus
- (iii) one hundred (100 / ) percent of the costs of equipping the well as a development well plus interest on the unrecovered amount thereof at the rate set forth in Clause 502 calculated monthly from and after the date of the first contract sales of production therefrom plus
- (iv) ----- / of the drilling costs and completion costs of the well as a development well

at which time the Operator for the participating parties shall forthwith notify the non participating parties and each of the non participating parties shall have thirty (30) days following receipt of the notice within which to elect to accept or refuse participation in the well the said formation(s) and the production therefrom If a non participating party refuses participation as above provided it thereby shall subject to Clause 1022 have forfeited its right of participation in and to the well and to the spacing unit of the well insofar as it relates to the producing formations only and the production therefrom If a non participating party elects to accept participation in the well and the said formation(s) and the production therefrom as above provided its participation shall be equal to its participating interest and be effective as of the time when the gross proceeds of production from the well equalled the sum total of items (i) (ii) (iii) and (iv) above and the accounts of the parties shall be adjusted accordingly Thereafter the well shall be held for the account of the parties then participating and shall be operated by the Operator if it is one of the parties then participating or if it is not an Operator shall be appointed pursuant to Clause 1004 by the parties then participating If a non participating party fails to reply to the said notice within the time and in the manner above provided it shall be deemed to have elected to accept participation to the extent of its participating interest in the well the said formation(s) and the production therefrom as above provided

(b) If 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 to those formations only and the production therefrom the participating parties therein shall be entitled to retain possession of the well and all production therefrom until the gross proceeds of such production equals the sum total of

- (i) one hundred (100 / ) percent of the lessor s royalty and any overriding royalties or other encumbrances thereon which otherwise would have been borne by the joint account with respect to the said production plus
- (ii) one hundred (100 / ) percent of the costs of operating the well as an exploratory well plus
- (iii) one hundred (100 / ) percent of the costs of equipping the well as an exploratory well plus interest on the unrecovered amount thereof at the rate set forth in Clause 502 calculated monthly from and after the date of the first contract sales of production therefrom plus
- (iv) ----- / of the drilling costs and completion costs of the well as an exploratory well provided that with respect to a well that was in part a development well and in part an exploratory well which is completed for production pursuant to this Subclause (b) only all of the drilling costs and completion costs of the well shall be deemed to be costs incurred to drill and complete the well as an exploratory well only provided any part of such costs paid by a party while participating in the well as a development well (excluding those costs reimbursed to a party pursuant to Subclause 1005 (b) (iii) which shall be handled in accordance with that Subclause) shall be credited to that party and excluded from the provisions of this Subclause (b) when determining that party s penalty hereunder

at which time the Operator for the participating parties shall forthwith notify the non participating parties and each of the non participating parties shall have thirty (30) days following receipt of the notice within which to elect to accept or refuse participation in the well the said formation(s) and the production therefrom If a non participating party refuses participation as above provided it thereby shall subject to Clause 1022 have forfeited its right of participation in and to the well and to the spacing unit of the well insofar as it relates to the producing formations only and the production

therefrom. If a non participating party elects to accept participation in the well and the said formation(s) and the production therefrom as above provided, its participation shall be equal to its participating interest and be effective as of the time when the gross proceeds of production from the well equalled the sum total of items (i) (ii) (iii) and (iv) above and the accounts of the parties shall be adjusted accordingly. Thereafter the well shall be held for the account of the parties then participating and shall be operated by the Operator if it is one of the parties then participating, or if it is not, an Operator shall be appointed pursuant to Clause 1004 by the parties then participating. If a non participating party fails to reply to the said notice within the time and in the manner above provided, it shall be deemed to have elected to accept participation to the extent of its participating interest in the well, the said formation(s) and the production therefrom as above provided.

(c) Throughout the time that participating parties are retaining production from a well pursuant to Subclauses (a) or (b) of this Clause, the proceeds from such production shall be applied on a current basis and in order to items (i) (ii) (iii) and (iv) of the respective Subclause.

(d) Any cash contributions received by the participating parties from a non governmental source in support of any of the items set forth in Subclauses (a) (i) to (iv) and (b) (i) to (iv) inclusive of this Clause, shall firstly be applied to the cost of such item and operate to reduce the cost thereof before any penalty is calculated thereon, provided nothing in this Subclause shall be construed to permit any party to release information relative to a well until it has complied with Clause 1801.

(e) Notwithstanding anything to the contrary contained in this Article, it is specifically understood that any cash payments, incentives, grants, credits, waivers, exemptions, abatements or other benefits received by or available to the participating parties from any governmental source pursuant to the Regulations with respect to an operation conducted by less than all parties hereunder, shall not be taken into account when calculating any of the items set forth in Subclauses (a) (i) to (iv) and (b) (i) to (iv) inclusive of this Clause.

#### 1008 INDEPENDENT DEEPENING PLUGGING BACK WHIPSTOCKING RE COMPLETING REWORKING OR EQUIPPING —

(a) No operation notice for a deepening, plugging back, whipstocking, re completing or reworking operation may be given with respect to a well producing or capable of producing petroleum substances in paying quantities, nor shall any drilling well be deepened below the authorized total depth if one or more parties wish to attempt to complete the well at or above that depth and proceed to do so pursuant to Article IX.

(b) A non participating party in a well may not propose any 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, whipstocking, re completing or reworking operation shall be reduced to forty eight (48) hours. Any additional costs incurred for rig time resulting from any such operation notice, shall be at the expense of the participating parties, regardless of whether the operation is carried out or not.

(d) If the operation is or relates to a deepening, plugging back, whipstocking, re completing, reworking or equipping operation which 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 Subclauses 1007 (a) (c) (d) and (e) shall apply mutatis mutandis to the operation and 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, or

(ii) an exploratory well — then with respect to those formations and the petroleum substances produced therefrom, the provisions of Subclauses 1007 (b) (c) (d) and (e) 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.



(e) If the operation is or relates to a deepening plugging back whipstocking re completing reworking or equipping operation and within six (6) months of receipt of the operation notice by the receiving parties the participating parties elect to terminate the operation or propose to abandon the well they shall so notify the non participating parties and thereby be deemed to have returned the well and the formations to the parties that were participants therein before the operation was proposed and all further operations thereon including abandonment shall be deemed proposed for the joint account except that

- (i) the salvable materials and equipment placed in and on the well by the participating parties shall be salvaged by and for the account of the participating parties and
- (ii) the participating parties shall bear all extra costs of abandonment incurred by reason of the operation

If the participating parties do not propose termination of the operation or abandonment of the well within the six (6) month period as above provided they shall forthwith thereafter pay to the non participating parties each non participating party's proportionate share of the salvage value of materials and equipment located in and on the well at the time the operation notice was received by the non participating parties and the amounts so paid shall be charged to the well as completion costs thereafter the non participating parties shall have no liability with respect to the well or for the abandonment thereof unless and until (and only to the extent that) they have individually regained and elected to resume participation in the well and the production therefrom

#### 1009 WHERE WELL ABANDONED BEFORE PENALTY RECOVERED —

(a) If the operation involves the drilling of a well and the well is to be abandoned before the gross proceeds of production from a development well drilled pursuant to Subclause (a) of Clause 1007 or an exploratory well drilled pursuant to Subclause (b) of Clause 1007 as the case may be equalled the sum total of items (i) (ii) (iii) and (iv) contained in that Subclause then the participating parties shall carry out the abandonment of the well and restore the drillsite pursuant to the Regulations and record as a credit to the well the salvage value of materials and equipment recoverable from the well as if such value was proceeds from production and report same in the monthly statement provided for in Clause 1013 If the gross proceeds from production from the well then exceeds the sum total of items (i) (ii) (iii) and (iv) contained in the respective Subclause (a) or (b) of Clause 1007 the excess amount shall be credited to the joint account

(b) Subject to Subclause (e) of Clause 1008 if the operation involves the deepening plugging back whipstocking re completing reworking or equipping of a well pursuant to Clause 1008 and the participating parties propose to abandon the well before the gross proceeds of production received therefrom by the participating parties after commencement of the operation equals the sum total of the costs and penalties to be recovered by the participating parties prior to the time they are required to offer participation therein to the non participating parties then the participating parties shall carry out the abandonment of the well and restore the drillsite pursuant to the Regulations and record as a credit to the well the salvage value of materials and equipment recoverable from the well as if such value was proceeds from production and report same in the monthly statement provided for in Clause 1013 If the gross proceeds of production from the well then exceeds the sum total of the items chargeable to the well pursuant to Clause 1008 the excess amount 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 during the final one sixth (1/6th) or the final three hundred sixty five (365) days whichever is the shorter period of the term of a title document which is due to terminate as to all or part of the lands or formations contained therein unless a well similar to the proposed well is sooner drilled on the joint lands (which terminating lands and formations and expected preserved lands and formations shall be described in the operation notice) the non participating parties shall effective upon the well reaching sufficient depth to prevent such termination assign to the participating parties (proportionate to the participating parties participation in the operation) all the non participating parties interest in and under the title documents insofar as they relate to the lands or formations with respect to which such termination would have occurred had the well not been drilled 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

1011 **INDEPENDENT GEOLOGICAL OR GEOPHYSICAL OPERATION** — Nothing in this Operating Procedure shall be interpreted to preclude a party from conducting a geological or geophysical operation on or over the joint lands for its own account provided that such operation shall not interfere with other operations being conducted on the joint lands for the joint account. The parties not participating in such operation shall not be entitled to any information or data with respect thereto unless such operation was the subject of an operation notice in which case any non participating party may pay to the participating parties two hundred (200 / ) percent of what its share of the cost of such operation would have been had all the parties participated therein whereupon such non participating party shall be entitled to a copy for its own use of all basic data obtained from the operation specifically excluding any trading rights and interpretations of such data made by or for the participating parties or any of them. The right of a non participating party to so acquire any such information and data shall terminate at the end of the 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 similar facilities or installations owned by the parties 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** — Subject to Clauses 305 and 1018 during the period of recovery of costs and penalties under any preceding Clauses 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 OPERATIONS** — 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 receiving 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 notify the other participants and determine from them 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. Failure to respond to the proposing party s notice within forty eight (48) hours of receipt shall be deemed an election by a party to not assume any additional percentage.

1016 **ASSIGNMENTS AND FORFEITURES TO BE PROPORTIONAL** — Any assignment or forfeiture of any interest in the joint lands as herein provided shall be made to the applicable assignees 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 an independent operation shall in proportion to their respective participating 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 participating interests in the operation shall pay the Lessor s royalties and any overriding royalties and/or 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 following shall apply with respect thereto

(a) If the operation involves the drilling of a well a party shall not be entitled to access to the wellsite or any information with respect to the well including monthly statements and audit privileges as provided in Clause 1013 until it becomes a participating party or until the expiration of ninety (90) days after the date of the release of the drilling rig used to conduct the operation whichever first occurs or

(b) If the operation involves a well which has been drilled a party shall not be entitled to access to the wellsite or any information with respect to the well including monthly statements and audit privileges as provided in Clause 1013 until it becomes a participating party or until the expiration of one hundred twenty (120) days after the date the operation notice is deemed received by it whichever first occurs

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** — A party withholding well information as provided in Clause 1018 shall not propose or conduct any joint interest operations on the joint lands within three (3) miles of such well (except regular production and maintenance operations on producing wells) 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 it shall be received and allocated in accordance with Subclause 1007(d) 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 provided nothing in this Clause shall be construed to permit any party to release information relative to a well until it has complied with Clause 1801

**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 become subject to a unit operation (it being understood that nothing herein contained shall operate to restrict or prohibit the participating parties from including the well and its spacing unit in a unit operation) the participating parties shall retain 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 and debits accruing to the participating parties under any adjustment of investment for well costs paid and equipment supplied by them shall be allocated to the payout account of the well by the participating parties consistent with the terms of Clauses 1007 and 1008 and shall be recorded in the monthly statement referred to in Clause 1013

**1022 REVERSION OF ZONE OR FORMATION UPON ABANDONMENT** — Except as provided in Clause 1010 if and when a zone or formation in a well is abandoned as a producer of petroleum substances which zone or formation was assigned to the participating parties or the right to production therefrom was forfeited by a party pursuant to the provisions of this Article X (excluding Clause 1010) then upon such abandonment the participating parties shall each re assign or quit claim to the applicable party all of the interest assigned or forfeited to it by that party in that zone or formation and such interest or right shall again be vested in that party and included in the joint lands An assignment made by a party pursuant to Clause 1010 shall not be subject to re assignment pursuant to this Clause

## **ARTICLE XI**

### **SURRENDER AND QUIT CLAIM OF JOINT LANDS**

**1101 INITIATION OF SURRENDER PROPOSAL AND QUIT CLAIM OF INTERESTS** — A party may at any time surrender and quit claim unto the other parties its participating interest in part or all of the joint lands provided there is not then existing with respect to those joint lands an obligation which cannot be avoided by surrender or quit claim to the grantor of the title documents affected and provided further that such notice of surrender and quit claim is received by the other parties not later than sixty (60) days before a rental date or other obligation date which rental or obligation can be avoided by the surrender of the joint lands affected otherwise a party may at anytime prior to but not later than sixty (60) days before a 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) 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 thirty (30) days before the next ensuing rental date or other obligation date under the respective title documents included in the surrender notice, 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 thirty (30) days before the next ensuing rental date or other obligation date under the respective title documents, revoke its notice of intention to surrender.

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

**1102 SURRENDER BY ALL PARTIES** — If all parties join in a surrender under Clause 1101, the Operator shall proceed forthwith to salvage for the joint account all salvable material and equipment upon the lands to be surrendered and all parties shall promptly execute and deliver to the Operator all documents necessary to effect the surrender. Operator shall thereafter forthwith deliver all such documents to properly effect the surrender.

**1103 SURRENDER BY LESS THAN ALL PARTIES** — If less than all parties join in the surrender, the parties not joining in the surrender shall (unless the Operator is one of them) promptly appoint an Operator pro tem for the parties retaining the said lands and interests, and such Operator 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 (30) day before the rental or other obligation referred to in Clause 1101 is required to be paid or met with respect to a title document included in the surrender notice, the parties which elected to surrender shall assign to the retaining parties all their interest in the joint lands and interests which were the subject of the proposed surrender notice. The parties receiving the assignment shall within thirty (30) days after receipt of the assignment, pay to the assignors the assignors' participating interest share (prior to such surrender) of the salvage value of the recoverable material and equipment on the lands so assigned, the amount to be determined by the parties 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, which obligation could have been avoided without prejudice to the title of the parties had all parties joined in the proposed surrender, 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 the proposed abandonment to the other parties who may within thirty (30) days of receipt of the notice, elect by notice to the other parties to take over the well. Failure by a party to respond to the said notice shall be deemed to be an election by that party to take over, or participate in the take over, of the well. Subject to Clause 1202, 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 well and in the spacing unit of the well insofar as it relates to the producing zone or zones of the well. All

such assignments shall be proportionate to the parties respective participating interests each to the other prior to any such take over or assignment

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 and such other parties shall promptly pay to the transferors the latter's share of the salvage value of the said materials and equipment determined by the parties in accordance with the Accounting Procedure. The abandoning parties shall also transfer to the other parties without warranty or consideration the surface rights appurtenant to the well

1203 REVERSION OF ZONES UPON SUBSEQUENT ABANDONMENT — If a party or parties take over a well on the joint lands pursuant to Clause 1201 and the abandoning parties make an assignment of their interests in the spacing unit of the well and in the producing zone or zones as provided in Clause 1201 and the party or parties that took over the well subsequently cease to maintain the well as a producer of petroleum substances from a zone which was assigned as aforesaid the party or parties that so received an assignment shall each re-assign to the applicable assignor all of the interest assigned to it by the assignor in that zone or zones and such interest shall again be vested in the assignor and included in the joint lands provided nothing in this Clause shall be construed to affect the ownership of the well and the materials and equipment appurtenant thereto as determined pursuant to Clauses 1201 and 1202 and the responsibility for its abandonment which shall continue with the party or parties that took over 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 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 ownership and percentages of ownership interest in those lands 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 under the said separate Operating Procedure

## ARTICLE XIV

### LITIGATION

1401 CONDUCT OF LITIGATION — Litigation in connection with the title documents the joint lands and/or any operation conducted for the joint account 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 the joint lands and/or with respect to any operation conducted for the joint account. The parties then shall decide whether the action for the joint account shall be handled by the solicitors of the parties or by joint counsel mutually selected by the parties. Notwithstanding the foregoing with respect to action to be conducted for the joint account nothing contained in this Clause shall preclude a party from also acting on its own (and at its own expense) if in its sole opinion it considers such action advisable or necessary to protect its particular interest hereunder provided a party so acting on its own shall not pursue a course of action contrary to litigation then being conducted 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 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 joint venture or association of any kind 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 and
- (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 is prevented by force majeure from carrying out any obligation hereunder the obligations of the party insofar 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 claiming suspension of its obligations as aforesaid shall promptly remedy the cause and effect of the force majeure described in the said notice insofar 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 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 — Any party receiving a contribution of cash credits acreage (or an interest in acreage or in the proceeds therefrom) or other benefit of whatsoever kind towards the cost of or in support of any operation conducted for the joint account shall

- (a) If the contribution is in the form of cash credit such contribution to the joint account or
- (b) If the contribution is in any other form give each other party the right to participate therein 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 unless and until that party has complied with the terms of Clause 1801.

**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. Each party shall take such measures in connection with operations and internal security as shall be advisable in the circumstances to maintain such confidentiality.

Notwithstanding the foregoing, a party may make available to one or more of its Affiliates any information obtained in the course of or as a result of operations on the joint lands provided each such Affiliate firstly shall be bound through that party to all of the terms and conditions of the Agreement and this Operating Procedure including this Clause.

**ARTICLE XIX****DELINQUENT PARTY**

1901 **CLASSIFICATION AS DELINQUENT PARTY** — If any party moves its location and does not provide the other parties 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 fifteenth (15th) day after the notice has been mailed by registered mail to the delinquent party under Clause 1901, the delinquent party shall thereafter

- (a) not be entitled to any further notices or communications from the Operator or any other party hereto with respect to any matter hereunder; and
- (b) be deemed to have elected to not participate in any operations thereafter proposed or carried out by a party on the joint lands for the joint account; and
- (c) be deemed to have elected to join proportionate to its participating interest with the Operator in the joint lands affected in all farmouts, assignments, surrenders and abandonments proposed and effected hereunder by the Operator for its own account and any such dispositions effected by the Operator or by any of the parties at the direction of the Operator shall be binding on the delinquent party.

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 of any breach of any of the covenants, provisions, 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 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 (herein called notices ) required or permitted hereunder shall be in writing Notices may be served

(a) personally by delivering them to the party on whom they are to be served at that party's address hereinafter given provided such delivery shall be during normal business hours Personally served notices shall be deemed received by the addressees when actually delivered as aforesaid 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 respective addressees thereof (i) when actually received by them if received within the normal working hours of a business day or (ii) at the commencement of the next ensuing business day following transmission thereof whichever is the earlier or

(c) by mailing them first class (air mail if to or from a location outside of Canada) 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 at noon local time on the earlier of the actual date of receipt or the fourth (4th) day (excluding Saturdays Sundays and Statutory Holidays) following the mailing thereof

2202 **ADDRESSES FOR NOTICES** — The address for service of notices hereunder of each of the respective parties shall be as follows



2203 RIGHT TO CHANGE ADDRESS — Any party may change its said address for service by notice to the other parties served as aforesaid

## ARTICLE XXIII

### NO PARTITION

2301 WAIVER OF PARTITION OR SALE — No party 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

### DISPOSITION OF INTERESTS

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

#### ALTERNATE A

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

OR

#### ALTERNATE B

If a party (in this Article 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 Article called the subject interest) the selling party shall give notice thereof to the other parties (in this Article 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 twenty (20) days after receipt of the notice from the selling party (in this Article 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 Article 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 sixty (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 sixty (60) day period nor otherwise than as so stipulated without again complying with the provisions of this Article.

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 or pursuant to an assignment sale or disposition made by a party of its entire participating interest in the joint lands to a corporation in return for shares in that corporation or to a registered partnership in return for an interest in that partnership
- (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
- (d) An assignment sale or disposition by a party in which the net acres being assigned sold or otherwise disposed of by that party in the joint lands represents less than five (5 / ) percent of the total net acres being assigned sold or otherwise disposed of by that party pursuant to the transaction affecting its interest in the joint lands

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 (1st) day of the month next following the date upon which an executed copy of the assignment has been lodged with each party 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 This Subclause shall not operate to affect or impede an assignment proposed or made by a party by way of security for the assignor's indebtedness

## ARTICLE XXV

### PERPETUITIES

2501 LIMITATION ON RIGHT OF ACQUISITION — Notwithstanding anything elsewhere herein contained but subject always to the Regulations relative to the laws of perpetuities as they relate to the joint lands the right of any party to acquire any interest in the joint lands from any other party hereto shall not extend beyond twenty one (21) 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 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 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

2705 **USE OF CANADIAN FUNDS** — In this Operating Procedure all reference to dollars or \$ shall mean lawful currency of Canada and all payments and receipt shall be made and recorded in lawful currency of Canada

2706 **LAWS OF JURISDICTION TO APPLY** — The parties agree that this Operating Procedure shall for all purposes be construed and interpreted according to the laws of the jurisdiction within which the joint lands are situated and that the courts having jurisdiction with respect to matters relating to this Operating Procedure shall be the courts of that jurisdiction

2707 **USE OF NAME** — The parties covenant and agree not to use suffer or permit to be used directly or indirectly the name of any of the other parties for the purpose of or in connection with the financing of or obtaining financial assistance for any of the operations hereunder or for the promotion of any corporate enterprise syndicate partnership or other association designed intended or purporting to control direct or finance directly or indirectly such operations

## **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 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 and abandoned all equipment thereon salvaged and final settlement of accounts has been made among the parties