TABLE OF CONTENTS

FARMOUT & ROYALTY PROCEDURE

Attached to and forming part of the Agreement dated _____, between _____
_____
_____

1.00 DEFINITIONS AND INTERPRETATION

1.01 Definitions

In this Farmout & Royalty Procedure (and in addition to the definitions incorporated by reference from Clause 1.01 of the 2015 CAPL Operating Procedure under Clause 1.02):

"Agreement" means the Head Agreement and the Schedules attached to it, including this Farmout & Royalty Procedure.

"Cap" means the installation of such casing, plugs and equipment as are necessary to enable a well prospective of production of Petroleum Substances in Paying Quantities to be re-entered for a Completion or other Operations.

"Capping Costs" means the costs of Capping a well.

"Contract Depth" has the meaning set forth in the Head Agreement.

"Earning Well" means a Test Well or an Option Well, as applicable.

"Effective Date" means _____.

"Encumbrances" means those royalties, overriding royalties, production payments, net profits interests or other charges of a similar nature (other than the lessor royalty accruing under the Title Documents and the Overriding Royalty), if any, that apply against the Farmout Lands or the production or proceeds of production of Petroleum Substances therefrom, as described as "Encumbrances" (or by a similar reference) in Schedule "A" (or elsewhere in the Agreement).

"Equivalent Production" means the sum of:

(a) the volume of crude oil and all other liquid hydrocarbons extracted from natural gas at the wellhead, expressed in cubic metres; and

(b) the volume of natural gas, expressed in thousands of cubic metres and divided by 1.7723.

"Existing Agreement" means any agreement described as an "Existing Agreement" (or by a similar reference) in Schedule "A" (or elsewhere in the Agreement) that exists as of the Effective Date and under which one or more third parties hold a Working Interest in any applicable portion of the Farmout Lands.

"Farmee" has the meaning set forth in the Head Agreement in the definition of "Farmee" or "Optionee" therein.

"Farmor" has the meaning set forth in the Head Agreement in the definition of "Farmor" or "Optionor" therein.

"Farmout & Royalty Procedure" means this Schedule.

"Farmout Lands" means the areal, stratigraphic and substance rights described as "Farmout Lands" in Schedule "A" (or elsewhere in the Agreement) or so much of those rights as remain subject to the Agreement and the Title Documents at the relevant time, excluding any Reserved Formations.

"Head Agreement" means the Agreement, other than the Schedules.

"Mutual Interest Lands" has the meaning set forth in the Head Agreement, if applicable, for "Mutual Interest Lands" or any comparable reference therein, such as "AMI Lands" or "Area of Mutual Interest Lands".

"Operating Procedure" means: (i) the Schedule to the Agreement titled "Operating Procedure", if any, including the Accounting Procedure that is an exhibit thereto; or (ii) any similar schedule to an Existing Agreement that will continue to apply to the applicable Farmout Lands after earning by the Farmee hereunder, with any reference herein to a provision of the Operating Procedure interpreted as referring to a comparable provision thereof.

"Option Well" means, if applicable, any well, other than the Test Well(s), that the Farmee may drill, or on which it may conduct a Re-entry Program, to earn a Working Interest under the Head Agreement, and includes any individual well drilled or re-entered under an Option Well Program.

"Option Well Program" means a multi-well program that the Farmee may elect to conduct on the Farmout Lands on the basis prescribed by the Head Agreement, if applicable, after the Farmee has drilled the Test Well(s) or conducted any applicable Re-entry Program respecting the Test Well(s).

"ORR Conversion Date" means, with respect to an Earning Well to which a conversion right under Article 6.00 applies (and subject to any right of conversion under Clause 6.02 or Clause 10.04 because of the proposed Abandonment of that well by the Farmee), the earlier of ____months following the drilling rig release of that Earning Well or that date described in Alternate ___ *(Specify 1 or 2 only if Article 6.00 has been selected to apply)*:

Alternate 1 (Payout Date):
the date of Payout.

Alternate 2 (Volume Recovery Date):
the date of Volume Recovery.

"Overriding Royalty" means, if applicable, that interest in a portion of the Petroleum Substances within, upon, under or attributed to the Royalty Lands that is reserved to the Farmor under the Head Agreement, which interest is as more particularly outlined in Article 5.00.

"Party" means a corporation, partnership, individual, body politic, trust or other legal person that is bound by the Agreement.

"Payout" means that date when the Farmee recovers out of the gross proceeds of sale (calculated using a price not less than a Market Price) from or allocated to the Farmee's Working Interest share of production of Petroleum Substances from an Earning Well to which Alternate 1 in the definition of ORR Conversion Date and the conversion right in Article 6.00 apply, an amount equal to the sum of the Farmee's share of:

(a) all Drilling Costs, Capping Costs, Completion Costs, Equipping Costs and Re-entry Program Costs of that Earning Well and, as applicable, all capital costs of other Operations conducted on that well, less all cash governmental incentives or grants received by the Farmee and derived from those expenditures;

(b) all Operating Costs for that Earning Well, provided that those Operating Costs exclude any Operating Costs that were already deducted hereunder for production volumes applicable to the Overriding Royalty when calculating payments for the Overriding Royalty under Paragraph (c) of this definition;

(c) all payments for the Overriding Royalty and the lessor royalty under the Title Documents respecting the production of Petroleum Substances from that Earning Well, provided that:

    (i) payment of a compensatory royalty under Subclause 2.03B to maintain in good standing under a particular Title Document, prior to the drilling of an Earning Well, the Farmout Lands on which that Earning Well was located will be regarded as payment of lessor royalty for the purposes of this calculation, subject to the qualification that any such particular payment of compensatory royalty for a month may not be included in the Payout calculation for more than one Earning Well; and

    (ii) the Farmee will be deemed to have sold at a Market Price any Petroleum Substances delivered in kind hereunder for the Overriding Royalty or the lessor royalty for the purpose of this calculation, except insofar as the Regulations prescribe use of a different price for any applicable lessor royalties payable to the Crown;

(d) all taxes (other than income taxes) and levies (including those relating to emissions of greenhouse gases) paid by the Farmee pursuant to the Regulations on the equipment for and production or sale of Petroleum Substances from that Earning Well, except as provided in the last grammatical paragraph of this definition;

(e) all Encumbrances applicable to Petroleum Substances produced from that Earning Well, provided that the Farmee will be deemed to have sold at a Market Price any Petroleum Substances delivered in kind hereunder for the Encumbrances for the purpose of this calculation; and

(f) all Facility Fees for handling Petroleum Substances produced from that Earning Well and any enrichment costs incurred for those Petroleum Substances under Subclause 5.05D, provided that those Facility Fees exclude all Facility Fees for production applicable to the Overriding Royalty insofar as:

    (i) Alternate 5.01A(b)(2) precludes the deduction of costs relating to those production volumes; or

    (ii) those Facility Fees were already deducted hereunder when calculating payments for the Overriding Royalty under Paragraph (c) of this definition.

The Farmee will apply those proceeds on a current basis and in order to Paragraphs (b), (c), (d), (e), (f) and (a) during the period before Payout is attained. All payments made by and to the Farmee for federal goods and services taxes and other refundable taxes of a similar nature will be excluded when determining the costs and expenses included in this calculation. If that Earning Well is included in a unit or pooling before that well attains Payout, the Payout account will be credited or debited with the Farmee's share of any adjustment of investment under that unitization or pooling for any prior costs incurred by the Farmee hereunder that are within this definition and relate to the Spacing Unit of that Earning Well.

"Pre-Earning Working Interest" means the Working Interest of the Farmor subject to the farmout in the applicable Farmout Lands at the relevant time before the Farmee earns a Working Interest in those Farmout Lands hereunder, which Working Interest of the Farmor is as initially identified in Schedule "A" (or elsewhere in the Agreement).

"Production Test" means, subject to any restrictions in the Regulations about the conduct of a testing program:

(a) for Petroleum Substances composed predominantly of natural gas, an absolute open flow test of sufficient duration to establish to the Farmor's reasonable satisfaction the initial producibility of an Earning Well; and

(b) for other Petroleum Substances, a sustained test that is conducted on consecutive days, if practicable, for a period of sufficient duration (but not exceeding 30 days) to establish to the Farmor's reasonable satisfaction the initial producibility of an Earning Well;

provided that this requirement will be deemed to be satisfied for a formation if it has been produced from that Earning Well for 30 consecutive days or has sooner ceased to be capable of production in Paying Quantities.

"Re-entry Program" has the meaning set forth in the Head Agreement, if applicable, for "Re-entry Program" or any comparable reference therein, such as "Re-entry", "Re-entry Operation" or "Recompletion Program".

"Re-entry Program Costs" means all Drilling Costs, Capping Costs and Completion Costs, as applicable, for Operations conducted on the applicable Earning Well pursuant to any Re-entry Program.

"Reserved Formations" means:

(a) any rights held under the Title Documents by the Farmor that are not included in the Farmout Lands and that, by surface area, coincide with the Farmout Lands earned or earnable by the Farmee hereunder;

(b) any stratigraphic rights that were originally included in the Farmout Lands and that were not earned by the Farmee hereunder, insofar as those rights: (i) coincide, by surface area, with the Farmout Lands earned by the Farmee hereunder; and (ii) remain held under the Title Documents by the Farmor; and

(c) any right to produce Petroleum Substances assigned to the Farmor by the Farmee under Clause 7.03 with respect to an Earning Well because of the Farmor's successful Completion of that Earning Well in a formation of the Farmout Lands after the Farmee proposed to Abandon that Earning Well.

"ROFR" means, as applicable at the relevant time:

(a) a right of first refusal, pre-emptive right of purchase or similar contractual right under an Existing Agreement, any other agreement or a Title Document, as identified in Schedule "A" (or elsewhere in the Agreement), whereby a third party has the right to purchase or acquire any of the Pre-Earning Working Interest at the time and in the manner prescribed therein due to the applicable disposition of all or some of that Working Interest by the Farmor to the Farmee under the Agreement; or

(b) a right of first refusal that applies under the Operating Procedure because of the selection of Alternate 24.01B (or the applicable corresponding provision thereof).

"Royalty Lands" means those Farmout Lands in which the Farmor reserves the Overriding Royalty, if any, and includes the Petroleum Substances within, upon or under those Farmout Lands.

"Royalty Owner" means a Party reserving the Overriding Royalty.

"Royalty Payor" means a Party holding a Working Interest subject to the Overriding Royalty.

"Royalty Well" means any well from which production: (i) is or may be obtained from the Royalty Lands; or (ii) may be allocated to the Royalty Lands under a pooling, unit or other arrangement.

"Spacing Unit" means, with respect to an Earning Well and subject to any application of Clause 6.06 if an additional well is proposed on the then existing Spacing Unit for that Earning Well before the ORR Conversion Date

therefor, all formations earned by the Farmee under the Agreement in the following area, as determined as of the drilling rig release date of the applicable Earning Well or the date of release of the rig used to conduct the applicable Re-entry Program, as the case may be:

(a) for an Earning Well that has been Capped, Completed or Recompleted: the area(s) allocated to that well under the Regulations for the purpose of producing Petroleum Substances from the formation(s) in which that well has been Capped, Completed or Recompleted; and

(b) in every other case: the area(s) allocated to a well under the Regulations for the purpose of producing crude oil, but, in the absence of that allocation, the quarter-section, unit or similar geographical area that includes the bottom hole coordinates of that well.

Notwithstanding the preceding portion of this definition: (i) a reference in Clause 5.03 to a Spacing Unit that includes Royalty Lands being penetrated by a Royalty Allocation Well refers to the applicable area(s) that would apply to that well under the Regulations if that well were drilled as a vertical well on each such area; and (ii) insofar as the Regulations allow a drilling density of greater than one well in any particular producing formation within a particular Spacing Unit, this definition will apply on a well-by-well basis to the production from the applicable well.

"Test Well" means, as applicable: (i) the first well drilled, or on which a Re-entry Program was conducted, under the Head Agreement; or (ii) any individual well drilled or re-entered under a Test Well Program.

"Test Well Program" means, if applicable, an initial multi-well program committed to be conducted by the Farmee on the Farmout Lands on the basis prescribed by the Head Agreement.

"Title Documents" means the documents of title described as "Title Documents" (or any similar reference) in Schedule "A" (or elsewhere in the Agreement), insofar as they relate to the Farmout Lands. The Title Documents include all amendments, renewals, extensions, continuations or replacements (whether by operation of the applicable document, the Regulations, law or equity or other agreement of the Parties) thereof, in whole or in part, but do not include any interest in any fee simple title held by the Farmor respecting the Farmout Lands.

"Volume Recovery" means, with respect to an Earning Well to which a conversion right applies under Alternate 2 of the definition of ORR Conversion Date and Article 6.00, that date upon which the cumulative gross (100%) production of Petroleum Substances hereunder from, or allocated to, that Earning Well (before lessor royalties, the Overriding Royalty and the Encumbrances and after the removal of basic sediment, water and other applicable impurities) is _____ cubic metres of Equivalent Production.

1.02 Incorporation Of Provisions From 2015 CAPL Operating Procedure

The following provisions of the standard form 2015 CAPL Operating Procedure are incorporated herein by reference, *mutatis mutandis*, as may be modified more specifically below:

1.01 "Abandonment";
"Accounting Procedure", and refers to the standard form 2011 PASC Accounting Procedure if the Agreement does not include an Accounting Procedure as part of a Schedule;
"Affiliate";
"Business Day";
"Commenced";
"Completion";
"Completion Costs";
"Deepen";
"Drilling Costs", which will also include any of those costs associated with the initial well if a well is drilled as a substitute well under Clause 3.02 to earn Farmout Lands that include the location of that initial well;
"Earning Agreement", with "a Party" replacing "the other Party or third party" in the second line and "Mutual Interest Lands" replacing the references to "Joint Lands";
"Environmental Liabilities";
"Equipping";
"Equipping Costs";
"Facility Fees", with "Clause 15.01" replacing "Article 21.00" in the second last line;
"Facility Usage", with "Farmee's" replacing "Party's" in the first line and "from a Royalty Well" replacing "of a Non-Taking Party under Article 6.00 or those produced from an Independent Well" in the second and third lines;
"First Point of Measurement";
"Force Majeure";
"Gross Negligence or Wilful Misconduct";
"Horizontal Leg";
"Horizontal Well", with the addition at the end of ", provided that each Horizontal Leg of a Royalty Well with more than one Horizontal Leg will be treated as a separate Royalty Well" for the purposes of Article 5.00,

but not for the purposes of providing a separate election for each such Horizontal Leg under Article 6.00 or to allow the costs of the vertical portion of that well to be counted more than once in any Payout account applicable to that well;
"HSE";
"Losses and Liabilities";
"Market Price", in which the optional sentence therein will ___/will not ___ *(Specify)* be selected to apply;
"Operating Costs";
"Operation";
"Operation Notice", provided that for purposes of Article 10.00 and any particular Existing Agreement, the term refers to the notice proposing the conduct of a particular Operation independently thereunder;
"Operator";
"Paying Quantities";
"Petroleum Substances";
"Recompletion";
"Regulations";
"Reworking";
"Schedule";
"Sidetracking";
"Spud", in which the phrase "in the AFE or Operation Notice" is deleted;
"Title Administrator";
"Vertical Stratigraphic Wellbore"; and
"Working Interest", in which the phrase "a Production Facility; or" is deleted;

1.02 "References And Interpretation";
1.04 "Conflicts", with "Article 11.00" replacing the phrase "Article 4.00" in the ninth line of Subclause 1.04A;
1.05 "No Partnership Or Fiduciary Relationship", with "Article 14.00" replacing the phrase "Article 5.00" in the first line of Subclause 1.05A and the deletion of the content in items (i) and (ii) from the seventh and eighth lines of Subclause 1.05A;
1.06 "Governing Law", with "Clause 15.01" replacing the phrase "Article 21.00" in the fifth line;
1.07 "Extension Under Alberta Limitations Act", with "Clause 15.01" replacing the phrase "Article 21.00" in the first line;
1.08 "Time Of Essence";
1.09 "No Amendment Except In Writing";
1.10 "Waiver";
1.11 "Supersedes Previous Agreements", with ", any Existing Agreement that will continue to apply to the applicable Farmout Lands following earning hereunder" added after "Title Documents" in the second line;
1.12 "Limitation On Right Of Acquisition";
1.13 "No U.S. Tax Partnership";
1.14 "Term";
3.04 "Proper Practices In Joint Operations", with the deletion of the last sentence;
3.05 "Health, Safety And The Environment", with the deletion of the last sentence of Subclause 3.05A;
3.06 "Protection From Liens", with "Article 14.00" replacing the phrase "Clause 5.05" in the third line;
3.07 "Records And Accounts";
3.08 "Non-Operator's Rights Of Access", insofar only as the Farmor is entitled to access to information from the applicable well hereunder;
3.09 "Surface Rights And Regulatory Licences";
3.10 "Maintenance Of Title Documents", with the addition at the end of the first sentence of Subclause 3.10B of: ", provided that the Farmee is not obligated to consult in this manner with a Royalty Owner that does not then retain the right under Article 6.00 to convert the Overriding Royalty to a Working Interest in Royalty Lands to which that application pertains, unless that application also pertains to the Reserved Formations";
3.11 "Insurance" - Alternate ___ *(Specify (a) or (b))* in Subclause 3.11C;
3.14 "Measurement";
15.01 "Responsibility For Additional Encumbrances";
15.02 "Certain Encumbrances Continue To Apply To Working Interest";
16.01 "Suspension Of Obligations Due To Force Majeure";
16.02 "Obligation To Remedy Force Majeure";
17.01 "Sharing Of Certain Incentives And Benefits", with the addition of the following at the end of Subclause 17.01A: "All royalty incentives accruing to an Earning Well under the Regulations due to the Farmee's activities under this Head Agreement will accrue to the benefit of the Parties in proportion to their respective Working Interests in the applicable Earning Well at the relevant time(s). Insofar as the royalties payable under the Title Documents to the grantor thereof are a function of a Party's capital base, costs incurred under this Farmout & Royalty Procedure with respect to any Earning Well will be regarded as having been incurred by the Parties in proportion to their respective Working Interests therein at the relevant time(s).";
18.01 "Confidentiality Requirement"- The following optional addition at the end of this Clause will ____/will not ___ apply *(Specify)*: "Notwithstanding the preceding portion of this Clause and the requirements of the Agreement pertaining to public announcements, the Parties holding a Working Interest in the applicable

Royalty Lands have no obligation to the Farmor to keep confidential information obtained from any Royalty Well thereon in which the Farmor holds only the Overriding Royalty, unless the Farmor then retains the right under Article 6.00 to convert the Overriding Royalty to a Working Interest in the Earning Well for which the Farmee earned those Royalty Lands";

18.02 "Proprietary Information Disclosed By A Party";

18.03 "Disclosure Of Information For Consideration", with the last sentence replaced by: "For this purpose, a Farmor Party will be regarded as having a proprietary interest in an Earning Well equal to its Working Interest in that Earning Well (or the Working Interest to which it then retains the right under Article 6.00 to convert an Overriding Royalty, if applicable), but a Farmor Party will not be regarded as having a proprietary interest in any other Royalty Well.";

18.04 "Interpretive Data";

18.05 "Confidentiality Requirement To Continue";

18.06 "Warranty Disclaimer Respecting Information Disclosures";

19.01 "Parties To Discuss Public Announcements";

22.01 "Service Of Notice", with the deletion of the last sentence of Subclause 22.01A;

22.02 "Addresses For Service"-The Parties' addresses for service will be as set forth in the Operating Procedure or in the Head Agreement, as applicable;

24.03 "Multiple Assignment Not To Increase Costs", with "or Overriding Royalty" added after "Working Interest" in the second line;

25.01 "Parties To Supply Further Assurances";

25.02 "Waiver Of Partition Or Sale";

25.03 "Enurement";

25.04 "Use Of Name";

25.05 "Waiver Of Relief";

25.06 "Inconsistent Working Interests And Holdings"; and

25.07 "Conflict Of Interest".

In those incorporated provisions, "Operating Procedure" will be read as "Farmout & Royalty Procedure", "Joint Lands" will be read as "Farmout Lands", "Joint Operations" will be read as "Operations", "Non-Operator" will be read as "Party", "Operator" will be read as "Farmee" or "Farmee Party designated as the representative of the Farmee", as applicable, and references to "AFE", "for the Joint Account" and "Production Facility" will be deleted. Nothing in any of those incorporated provisions requires the Farmor to assume any cost, risk or expense associated with an Operation conducted hereunder unless otherwise provided herein or in the Head Agreement.

1.03 Multiple Farmor Parties

If the Farmor comprises more than one Party:

(a) the Farmee will provide required information and notices individually to each Farmor Party;

(b) elections to be made by the Farmor hereunder may be made individually by each Farmor Party; and

(c) the rights and obligations of the Farmor Parties will be several and not joint or collective, and, subject to any rights of conversion hereunder and any modifications to the Farmor Parties' interests effected under the Agreement, will accrue proportionately to them in the percentages set forth in the Head Agreement.

1.04 Multiple Farmee Parties

If the Farmee comprises more than one Party:

(a) the Farmee's obligations and liabilities to the Farmor will be joint and several;

(b) the Farmor may deal solely with the Farmee Party designated as the Farmee's representative in the Head Agreement (or, if no designation was made, the Farmee Party designated as the initial Operator) for matters arising under the Head Agreement or this Farmout & Royalty Procedure, provided that: (i) the Farmor will provide each Farmee Party with any notice it serves to the Farmee; (ii) the Farmee is bound by the acts and elections of that representative acting in that capacity; and (iii) the Farmee may designate another representative with the Farmor's consent, which consent may not be unreasonably delayed or withheld;

(c) the Farmee's rights and obligations will accrue proportionately to the Farmee Parties in the percentages set forth in the Head Agreement, subject to: (i) Paragraphs 1.04(a) and (d); (ii) any rights of conversion under Article 6.00; and (iii) any modifications to the Farmee Parties' interests effected under the Agreement;

(d) if fewer than all Farmee Parties participate in drilling an Earning Well or in conducting any required Re-entry Program, references to the Farmee for rights pertaining to the applicable Earning Well and any subsequent Earning Wells will be only to those Farmee Parties that participate in the applicable Operation(s). A Farmee Party that does not participate in the Operation(s) required to satisfy the earning requirements for an Earning

Well may not participate in subsequent Earning Wells without the consent of the other Farmee Parties; and

(e) unless otherwise provided in a separate agreement between the Farmee Parties, the Operating Procedure will apply, *mutatis mutandis*, between them with respect to activities conducted by them hereunder before earning their respective Working Interests in the applicable Farmout Lands. If the Agreement does not include an Operating Procedure or there is no such separate agreement, the standard form 2015 CAPL Operating Procedure will apply, *mutatis mutandis*, for purposes of this Paragraph (using multiples of 300% and 500% in Paragraph 10.07A(e) thereof for a "Development Well" and "Exploratory Well", respectively). For the purpose of this Paragraph, activities that the Farmee is required to conduct with respect to an Earning Well in order to earn a Working Interest hereunder will be regarded as falling within the scope of the title preserving provisions of Clause 10.10 of that Operating Procedure for the applicable Farmout Lands if at least one, but fewer than all, Farmee Parties participate in those required activities.

If the Farmee initially comprises one Party and it subsequently disposes of a portion of its interest as permitted hereunder, the Farmee Parties will designate one of them as their representative under this Clause.

1.05 Modifications To CAPL Document Form

This Farmout & Royalty Procedure is in the form of the 2015 CAPL Farmout & Royalty Procedure published by the Canadian Association of Petroleum Landmen. It is modified only by filling in the blanks and making the elections required herein and by those additional changes specifically identified: (i) herein by underlining or strikethrough text; (ii) in the Head Agreement; or (iii) in a Schedule of elections to this Farmout & Royalty Procedure. Each modification hereof that has not been specifically identified in this manner will be deemed to be inoperative, and the 2015 CAPL Farmout & Royalty Procedure will apply as if that modification had not been made.

2.00 TITLE AND ENCUMBRANCES

2.01 Farmee's Right To Review Title

Upon reasonable prior notice by the Farmee to the Farmor, the Farmor will allow the Farmee's representatives and nominees reasonable access, at the Farmor's office, to its records, files and documents, insofar as they relate directly to the Farmor's title to the Farmout Lands (or the applicable portions thereof), for the purpose of assessing and confirming the Farmor's Pre-Earning Working Interest and any associated Encumbrances relating to the applicable Farmout Lands. Subject at all times to any application of Clause 2.02 and except in the event of fraud, the Farmee otherwise waives any rights available to it at law or equity with respect to any claim against the Farmor with respect to the validity or accuracy of the Farmor's Pre-Earning Working Interest described in the Agreement.

2.02 Farmor Makes No Warranty Of Title

The Farmee will not earn any better interest in the Farmout Lands than the Farmor now has under the Title Documents, and the Farmee will acquire any interest earned by it hereunder subject to the lessor royalty under those Title Documents. The Farmor does not represent or warrant title to the Farmout Lands, but represents that:

(a) except for the Encumbrances, any existing ROFR or as specifically provided in the Head Agreement or in Schedule "A", it has not granted any interest (or the right to acquire any interest) in the Farmout Lands or with respect to production of Petroleum Substances therefrom whereby a third party may: (i) acquire any portion of its Pre-Earning Working Interest in the Farmout Lands or production therefrom; or (ii) require that production to use any particular facility for the transportation, processing or other handling thereof; and

(b) it is not aware of any act or omission whereby the Farmor is (or would be) in default under the Regulations or the Title Documents and that, before execution of the Agreement, it has not received, or otherwise become aware of, any notice of default for the Farmout Lands that has not been remedied or that has not been addressed specifically in the Head Agreement or in Schedule "A".

Except as provided in the Head Agreement or in Schedule "A", the Farmee acquires any Working Interest hereunder subject to the Encumbrances and any future application of an existing ROFR, provided that the Farmor will again assume a corresponding share of responsibility therefor insofar as it converts the Overriding Royalty to a Working Interest under Article 6.00 or it otherwise uses its status as a Royalty Owner under this Farmout & Royalty Procedure to acquire any of the Working Interest originally acquired by the Farmee hereunder. The Encumbrances will continue to apply thereto after any application of the surrender, forfeiture or cost recovery provisions of the Operating Procedure, if any.

2.03 Maintaining Title - Earning Phase

A. *Farmor Will Not Encumber Farmout Lands*-During the period in which the Farmee has the right to earn an interest in the Farmout Lands and other than as disclosed or otherwise provided in the Agreement, the Farmor: (i) will maintain the Farmout Lands in good standing under Subclause 13.01A; (ii) will not grant any interest in the Farmout Lands to a third party that limits the Working Interest that may be earned by the

Farmee hereunder, other than as permitted under Clause 10.02 as the consequence of non-participation in an Operation proposed by a third party under an Existing Agreement; and (iii) will not do or cause to be done any act or omission whereby the Farmout Lands become encumbered, terminated or forfeited. However, this obligation will not require the Farmor to conduct any Operation on or with respect to the Farmout Lands or preclude it from entering into any *bona fide* financing that requires a pledge or the granting of other security with respect to any Working Interest to be retained by the Farmor after earning hereunder.

B. *Payment Of Security Or Compensatory Royalty*-This Subclause applies if payment of a security, penalty or compensatory royalty is required to maintain in good standing any Farmout Lands in which the Farmee may then earn a Working Interest under the Agreement. The Farmor will promptly give notice to the Farmee of any such requirement that accrues between the Effective Date and the date the Farmee earns its interest in the applicable Farmout Lands, including with that notice relevant supporting information. On or before the 10th day after its receipt of that notice, the Farmee may elect, by notice to the Farmor, to have that payment made for the Farmee's account, provided that any payments for compensatory royalty will be made on a *per diem* basis. If it elects not to have that payment made for its account or it fails to make an election within that period, the applicable lands will be deleted from the Farmout Lands as of that time. If it elects to have that payment made for its account, the Farmor will make the payment, and the Farmee will reimburse the Farmor for that payment within 30 days after receiving the Farmor's invoice therefor. Insofar as Operations conducted hereunder entitle the Farmor to recover all or a portion of the amounts paid by the Farmee, the Farmor will apply for that reimbursement and forward the recovered amount to the Farmee promptly.

2.04 Obligations Under Existing Agreements And Other Agreements

A. *Required Consents And Approvals*-This Clause applies insofar as an Existing Agreement, any other agreement or a Title Document requires the consent or approval of any third party to the disposition of a Working Interest by the Farmor to the Farmee with respect to any Earning Well and, if applicable, any associated release of information respecting Operations to the Farmee. Each applicable Farmor Party will serve all such notices relating to this transaction that are required under each such applicable Existing Agreement, other agreement or Title Document in a timely manner before the contemplated disposition. Insofar as any such Existing Agreement, any other agreement or a Title Document includes a ROFR that provides the applicable third parties with the right to acquire any of the Working Interest that may be earned by the Farmee hereunder and the Head Agreement does not otherwise address the manner in which the Parties will address it, they will consult about that notice and the timing for its issuance.

B. *Parties Deemed To Consent*-Unless otherwise agreed in writing by the Parties, each Party will be deemed to have granted any required consent or approval contemplated in Subclause 2.04A through its execution of the Agreement. This includes its waiver of any ROFR accruing to it under any Existing Agreement with respect to the contemplated acquisition of Working Interest by the Farmee with respect to each Earning Well.

3.00 TEST WELL

3.01 Farmee's Test Well Obligations

A. *Commencement Of Test Well*-The Farmee will Spud a Test Well or Commence any applicable Re-entry Program on a Test Well at the time and location set forth in the Head Agreement, provided that, unless the Farmee obtains the prior written consent of the Farmor (which consent may not be unreasonably delayed or withheld), the Farmee will conduct its activities with respect to a Test Well at a location that would enable it to be Completed without adverse consequences on the ability to produce that well under the Regulations because of its location. Notwithstanding the preceding portion of this Subclause, nothing in the Agreement provides the Farmee with any right to use a well site or any other surface rights held by the Farmor for another purpose unless expressly agreed by the Farmor.

B. *Difficulties In Commencing Test Well Operations*

(a) Subject only to any provision of the Head Agreement that expressly overrides this Subclause, the obligation to Spud a Test Well or to Commence any applicable Re-entry Program on a Test Well by the date prescribed by the Head Agreement is subject to:

(i) availability of a rig and the related supplies and services, surface access and receipt of all licences, approvals and similar authorizations required under the Regulations, provided that the Farmee has diligently been using reasonable efforts to obtain them; and

(ii) the application of the provisions hereof pertaining to Force Majeure.

The Farmee will promptly notify the Farmor if it reasonably anticipates that it may be unable to Spud a Test Well or Commence any Re-entry Program by the date prescribed by the Head Agreement because of the conditions in this Paragraph. Subject to the termination right in Paragraph 14.01A(b),

Clauses 16.01 and 16.02 of the standard form 2015 CAPL Operating Procedure incorporated by reference in Clause 1.02 hereof will apply, *mutatis mutandis*, to any such notice.

(b) If the Farmee's right to proceed with the Test Well activities contemplated hereunder terminates, the Farmor may notify the Farmee, within 10 Business Days after that termination, that the Farmor wishes to acquire any well licence and surface rights relating solely to the Test Well that had been obtained by the Farmee. The Farmee will transfer to the Farmor in a timely manner the requested well licence and associated surface rights at no charge to the Farmor (or the applicable Farmor Party), provided that the Farmor Party to which the well licence and surface rights are to be transferred: (i) is eligible under the Regulations to accept that transfer; and (ii) assumes, together with any other Farmor Party participating in that acquisition, all Environmental Liabilities associated with those surface rights.

(c) This Subclause B also applies, *mutatis mutandis*, to the timing for Spudding any Option Well or otherwise Commencing any other Operation required to be conducted under the Agreement prior to earning a Working Interest in the applicable Farmout Lands.

C. *Farmee's Obligations To Drill And Evaluate The Test Well*

(a) The Farmee will, for a Test Well:

(i) diligently and continuously drill it to Contract Depth or conduct the Re-entry Program, as applicable, using a well design that would allow that well to be Completed in due course;

(ii) evaluate it to the reasonable satisfaction of the Farmor in the applicable formations of the Farmout Lands, subject to the requirements of the Head Agreement and Subclauses 3.01D and E and any obligation to conduct one or more Production Tests thereunder as part of the Completion of that well;

(iii) Complete, Cap or Abandon it, subject to the requirements of the Head Agreement and Subclauses 3.01D and E; and

(iv) provide the Farmor with well information therefrom in accordance with Article 9.00.

(b) Except insofar as the Agreement expressly permits that use, the Parties otherwise agree or the Farmee has been permitted to Abandon the Test Well under Article 7.00, the Farmee may not:

(i) drill the Test Well or otherwise conduct activities in the Test Well more than 15 metres below formations included in the Farmout Lands; or

(ii) test the Test Well in any formation not included in the Farmout Lands or otherwise propose to produce it on a singular or commingled basis from any other such formation.

(c) As between the Farmor and the Farmee, all activities conducted under this Article and Article 7.00, if applicable, for the Farmee's acquisition of a Working Interest hereunder from the Farmor will be at the Farmee's sole cost, risk and expense, except insofar as otherwise provided in the Agreement.

D. *Farmee's Obligations For Evaluation Of A Test Well*

(a) Unless otherwise provided in the Head Agreement or agreed in writing by the Parties at the relevant time, the Farmee must promptly comply with Article 7.00 for the proposed Abandonment of the Test Well if: (i) the Farmee has drilled it to Contract Depth or conducted the Re-entry Program, as applicable; and (ii) Petroleum Substances are not reasonably anticipated to be present in Paying Quantities in that well from any formation included in the Farmout Lands after the review of the drilling information or after a Completion that is not successful in the relevant formation(s), as applicable. For this purpose, the Farmee will comply with Article 7.00 after a Completion attempt if the Farmee proposes to Abandon that well before it has produced for a total duration of at least 60 days, notwithstanding any application of the Operating Procedure to that well.

(b) This optional Paragraph will ___/will not ___ *(Specify)* apply herein.

Subject to any provision to the contrary in the Head Agreement and Subclause 3.01E, the Farmee will conduct in good faith one continuous Completion attempt with respect to any Test Well that includes a Horizontal Leg in the formation(s) in which that Horizontal Leg was drilled, unless Petroleum Substances are not then reasonably anticipated to be present in Paying Quantities in that Test Well in that formation. The Farmee will design that Completion to evaluate that Test Well in that formation to the reasonable satisfaction of the Farmor. Any subsequent Completion attempt in a different formation

or as a later Recompletion of that initially Completed formation in that Horizontal Leg will not be a condition of earning under this Article, and will be governed by the Operating Procedure, if any.

(c) For a Test Well to which Paragraph 3.01D(b) does not apply, the Farmee will set casing for any such well that it drilled to Contract Depth or in which it conducted the Re-entry Program, as applicable, if Petroleum Substances are reasonably anticipated to be present in Paying Quantities in any formation of the Farmout Lands in that well. The Farmee will evaluate that well through a Completion as soon as practicable with respect to each such formation, subject to: (i) any provision to the contrary in the Head Agreement; (ii) any application of optional Paragraph 3.01D(d); and (iii) Subclause 3.01E.

(d) This optional Paragraph will ___/will not ___ *(Specify)* apply herein.

This Paragraph applies if the Farmee has successfully Completed a Test Well under Paragraph 3.01D(c) for production in Paying Quantities from a formation of the Farmout Lands (including satisfaction of its Production Testing requirements for that formation). Notwithstanding Paragraph 3.01D(c), the Farmee will be relieved from the obligation to conduct further Production Tests in that formation or additional formations of the Farmout Lands in that Test Well at the earlier of the following:

(i) the day on which that well has produced for _____ cumulative production days; or

(ii) the day on which the cumulative gross (100%) Equivalent Production (before lessor royalties, the Overriding Royalty and the Encumbrances and after the removal of water, basic sediment and other applicable impurities) is _____ cubic metres.

E. *Permitted Deferral Of Production Test*

(a) This Subclause is subject to any application of optional Subclause 3.03D to preclude Capping as a method of conditional earning. Notwithstanding the obligations under Subclause 3.01D for the evaluation of the applicable Test Well, if the Farmee intends to Cap the Test Well and to defer that evaluation, it must notify the Farmor of that intention and the reasons for that proposed deferral. Any such request is subject to the consent of the Farmor, which may not be unreasonably withheld. The Farmee may Cap the Test Well, unless, within five Business Days after receipt of the Farmee's notice, the Farmor notifies the Farmee that it withholds its consent to that proposed deferral, including therein the basis on which it is withholding its consent.

(b) Subject to any application of Paragraph 3.01E(c) to further deferrals, a Farmee that deferred the evaluation of a Test Well under Paragraph 3.01E(a) will conduct that evaluation by the earlier of:

(i) 24 months after the drilling rig release date of the Test Well; or

(ii) as soon as practicable after a Farmee, acting reasonably, would then regard the Test Well as potentially capable of production of Petroleum Substances in Paying Quantities.

(c) This Paragraph applies if the Farmee has not conducted the evaluation of a Test Well contemplated in Paragraph 3.01E(b) within 24 months after the drilling rig release date of that Test Well. The Farmee will notify the Farmor of any intention to defer further the conduct of that evaluation and the reasons for that proposed deferral at the end of that period and every 24 months thereafter until it has conducted those tests. Paragraphs 3.01E(a) and (b) will apply, *mutatis mutandis*, to each such notice.

(d) The Parties will use Clause 15.01 to resolve any dispute under Paragraph 3.01E(a) or (b) about the reasonableness of the Farmor's objection to a proposed deferral to the conduct of the required evaluation or whether the Test Well was then potentially capable of production in Paying Quantities.

(e) As soon as practicable after the Farmee has conducted the evaluation under Subclause 3.01D that had been deferred under this Subclause E, it will:

(i) finish Completing the Test Well to attempt to obtain production of Petroleum Substances in Paying Quantities from the applicable formation(s) of the Farmout Lands; or

(ii) Abandon the Test Well if that evaluation does not warrant further Completion of the well with respect to any formation of the Farmout Lands or if that Completion is not successful, subject to the Farmor's rights under Article 7.00 with respect to any such proposed Abandonment.

3.02 Substitute Well

A. *Notice Of Mechanical Difficulties Or Impenetrable Formation*-The application of this Clause is contingent on the Farmee using a rig of appropriate capacity for its Operations respecting the Test Well. The Farmee will

immediately notify the Farmor if the Farmee intends to Abandon the Test Well before attaining Contract Depth because it has encountered mechanical difficulties or a substantially impenetrable formation (or a combination of them) that, in its reasonable opinion, make further drilling of the Test Well commercially impracticable. It will include in that notice the basis for that conclusion in reasonable detail. For the purposes of this Subclause, continued drilling of a Test Well will not be regarded as "commercially impracticable" primarily because the Farmee believes that one or more of the following conditions apply:

(a) the Test Well will not encounter Petroleum Substances in Paying Quantities;

(b) the Drilling Costs or Re-entry Program Costs of the Test Well will be materially higher than initially forecast, except for those directly resulting from the continuing mechanical problems contemplated in this Subclause; or

(c) the expected well results will not allow the Farmee to achieve a satisfactory return on its investment due to any combination of well performance, project costs or anticipated cash flow.

B. *Application Of Abandonment Article*-Article 7.00 will apply, *mutatis mutandis*, to a Test Well the Farmee proposes to Abandon under Subclause 3.02A, provided that Clause 7.03 will not apply if: (i) the Farmee proceeds to drill a substitute well under Subclause 3.02C; and (ii) it consequently earns an interest in the Farmout Lands that include the location of that initial Test Well. Subject to the Farmor's rights under this Subclause and any further planned use of the surface rights on which that initial Test Well was located, the Farmee will Abandon any such initial Test Well in a timely manner.

C. *Right To Drill Substitute Well*-Within 30 days after the rig release date of the rig conducting the Abandonment of the wellbore of the Test Well under this Clause 3.02 or any election by the Farmor under Subclause 3.02B to take over that Test Well, as applicable, the Farmee will notify the Farmor if the Farmee elects to Spud a substitute Test Well as a new drill hereunder. It is not otherwise required to drill a substitute well, and it will be deemed to have elected not to drill that substitute well if it fails to provide that notice by that time. The Farmee will Spud any elected substitute well within 90 days after the rig release date for that Abandonment or the date of the Farmor's election under Subclause 3.02B to take over that well, as applicable, subject to any application of Subclause 3.01B if it is unable to Spud that well within that period. All rights and obligations applicable to the Test Well under the Agreement will apply in the same manner to such a substitute well, provided that the Farmee may drill the substitute well at a location of its choice on the Farmout Lands, subject to: (i) the location restriction in Subclause 3.01A; and (ii) any further restriction on the drilling location for the Test Well prescribed by the Head Agreement. If the Farmee elects to drill a substitute well hereunder, all time periods prescribed for performance of associated obligations under the Agreement will be extended accordingly. The Farmee will not earn any Working Interest for the Test Well if it does not proceed to drill a substitute well in the place of the initial applicable Test Well.

D. *Release From Certain Obligations*-This Subclause applies if the Farmee exercises its rights under this Clause to Abandon the Test Well without drilling a substitute well in the place of the Test Well. In such event, the Farmor will not have any legal or equitable remedy (including specific performance or damages) against the Farmee for failure to fulfill its obligations with respect to the Test Well. However, nothing in this Subclause otherwise releases the Farmee from:

(a) its obligation to Abandon that Test Well, including the reclamation of the applicable surface rights, insofar as those surface rights are not being used for any other well(s);

(b) its other indemnification and liability obligations to the Farmor under Clause 11.01 for any acts or omissions of the Farmee for its activities pertaining to the drilling or Abandonment of that Test Well or any of the Farmee's other activities hereunder; or

(c) any of its other obligations under the Head Agreement that are not specific to the Test Well.

E. *Farmor Not Responsible For Initial Well*-Nothing in the Agreement will make the Farmor responsible for any costs or obligations respecting a Test Well Abandoned by the Farmee under this Clause, except insofar as:

(a) the Farmor conducts Operations on the Test Well under Article 7.00;

(b) the Farmor was a participant in drilling the Test Well under the Head Agreement; or

(c) the Agreement otherwise requires the Farmor to assume any such responsibility.

3.03 Test Well Earning

A. *Earning Is Subject To Any Condition Subsequent*-This Subclause applies if the Farmee has fulfilled its obligations under Subclauses 3.01A, C and D for the Test Well and it is not otherwise in default under the

Agreement. Subject to any condition subsequent prescribed by Clause 3.04 and any application of Subclause 3.03D, the Farmee will earn the interests in the Farmout Lands set forth in the Head Agreement, effective as of the drilling rig release date for the Test Well or the rig release date of the rig used to conduct the Re-entry Program, as applicable, such that all production accruing to the Farmor with respect to the Test Well accrues to it as of that time on the basis set forth herein.

B. *Documentation Confirming Earning*-Subject to Clause 3.04, the Farmor will execute and deliver to the Farmee appropriate assignments, subleases, transfers or other documentation or authorizations to confirm that earning. Insofar as the Farmor holds a legal interest in the affected Title Documents, the Farmor is deemed to hold the Farmee's Working Interest in trust for the benefit of the Farmee insofar as Clause 3.04 applies or it is otherwise impracticable to effect a transfer to the Farmee of a corresponding legal interest in the associated Title Documents because, for example, the applicable Title Document includes any Reserved Formations. However, a Farmor Party that is a partnership will ensure that all obligations applicable to it that are contemplated by this Subclause will be performed by its Affiliate holding the applicable legal interest.

The conditions associated with that trust include the following:

(a) each Farmor Party holding a legal interest in the affected Title Documents will hold that earned interest in trust for the benefit of the Farmee and any other applicable Farmor Party, insofar as that legal interest includes a beneficial Working Interest of the Farmee or that other Farmor Party;

(b) all benefits and advantages accruing to the beneficial Working Interest of the Farmee or another Farmor Party with respect to the interest held in trust hereunder by the applicable Farmor Party will accrue for the full use, benefit and ownership of the owner of the applicable beneficial Working Interest, except as may otherwise be provided in the Agreement;

(c) a Farmor Party acting as Title Administrator will perform the obligations prescribed by the Agreement with respect to: (i) the maintenance of the Title Documents in good standing; and (ii) the timely delivery of copies of material communications with the lessor of the Title Documents to the applicable owners of the beneficial Working Interests;

(d) a duty on each Farmor Party holding a beneficial Working Interest of another Party in trust hereunder not to encumber that beneficial Working Interest;

(e) a duty on each Farmor Party holding a beneficial Working Interest of another Party in trust hereunder not to dispose of its legal interest without the assumption by its assignee of the obligations prescribed by this Subclause;

(f) that the trust relationship contemplated in this Subclause is not to be construed as providing any better title for the beneficial Working Interest held in trust than that held by the applicable Farmor Party under the Title Documents, provided that this does not alter the duty of that Farmor Party to comply with its other obligations under the Agreement; and

(g) a Party that holds a beneficial Working Interest held in trust by the applicable Farmor Party will indemnify and be liable to that Farmor Party for Losses and Liabilities suffered by it with respect to this trust and that Working Interest as provided in Clause 11.01, *mutatis mutandis*, except insofar as those Losses and Liabilities are applicable to that Farmor Party's Gross Negligence or Wilful Misconduct or any other breach by it of a specific obligation prescribed by the Agreement.

Notwithstanding the preceding portion of this Subclause, the Parties will subsequently execute such transfer documentation as is appropriate at the relevant time, insofar as earning becomes unconditional under Clause 3.04 or it subsequently becomes practicable to effect transfers of legal interests in the applicable Title Documents that correspond to the beneficial Working Interests held under the Agreement. The trust obligations otherwise imposed by this Subclause will no longer apply to any such beneficial Working Interest for which a transfer of the associated legal interest has been registered, provided that this does not affect any obligations that accrued under this Subclause prior to the time that transfer became effective.

C. *If Farmee Holds Farmor Interest In Trust*-This Subclause applies if the Farmor or any particular Farmor Party transfers legal interest in any of the Farmout Lands to the Farmee in circumstances in which the Farmor's interest in any Reserved Formations or other rights held under any of the Title Documents will be held in trust by the Farmee. In the absence of any separate trust agreement between the applicable Parties, Subclause 3.03B will apply, *mutatis mutandis*, to the trust obligations of the Farmee to each such Farmor Party.

D. *Capping And Conditional Earning*-This optional Subclause will ___/will not ___ *(Specify)* apply.

Notwithstanding any other provision of this Article, the Farmee may not conditionally earn a Working Interest

hereunder for Capping the Test Well without first having attempted to Complete the Test Well on the basis required under Clause 3.01.

3.04 Deferred Test Well Obligations

A. *Earning Subject To Condition Subsequent*-This Clause applies if the Farmee earns a Working Interest in the Farmout Lands hereunder by Capping or Abandoning the Test Well. Notwithstanding Clause 3.03, that earning is subject to a condition subsequent, for the sole benefit of the Farmor, that the Farmee satisfy any outstanding Completion obligations respecting the Test Well or, subject to any required payment by the Farmee under Subclause 7.02B, finish Abandoning it. The Farmee will satisfy any such outstanding obligations at its sole cost, risk and expense, except to the extent otherwise provided in the Agreement.

B. *Earning Becomes Unconditional*-The Farmee's earning in the applicable Farmout Lands will become unconditional when the Farmee discharges (or the Farmor waives) the condition subsequent described in Subclause 3.04A. Until that time, the Farmor has no obligation to deliver any documents to confirm that the Farmee has unconditionally earned in those Farmout Lands, and the Parties will continue to be bound by this Farmout & Royalty Procedure for all undischarged obligations relating to the condition subsequent. Notwithstanding the preceding portion of this Subclause, the delivery of any documents by the Farmor confirming earning by the Farmee with respect to a particular Earning Well will not in any way require the Farmor to assume costs, obligations, responsibility for Abandonment or other Environmental Liabilities that were to be retained by the Farmee for that Earning Well under Subclause 3.04A or Clause 11.01.

3.05 Equipping And Production Of Test Well

A. *Equipping Of Earning Well If Overriding Royalty*-This Subclause applies if the Farmor reserves the Overriding Royalty under Article 5.00 and the Farmee Completes the Test Well for production of Petroleum Substances in Paying Quantities. The Farmee will Equip the Test Well at its sole cost, risk and expense and place it on production as soon as practicable, having regard to its location, the availability of facilities and the associated Facility Fees and the ability of the Farmee to produce the Test Well in Paying Quantities.

B. *Farmee's Obligation To Obtain Market For Production*-If the Farmee shuts in a Completed Test Well to which Article 5.00 applies, it will make reasonable efforts to obtain a market for the applicable Petroleum Substances to allow it to produce the Test Well in Paying Quantities. Nothing in this Subclause is to be construed as providing the Farmee with any authority to shut in a Completed Test Well then subject to the Operating Procedure, if any.

4.00 OPTION WELLS

This optional Article 4.00 will _____ /will not _____ *(Specify)* apply herein.

4.01 Test Well Provisions Apply To Option Wells

The provisions of this Farmout & Royalty Procedure that apply to a Test Well will apply, *mutatis mutandis*, to each Option Well the Farmee elects to drill or re-enter under the Head Agreement, except to the extent otherwise provided in the Head Agreement.

5.00 OVERRIDING ROYALTY

This optional Article 5.00 will _____/will not _____ *(Specify)* apply herein.

5.01 Quantification Of Overriding Royalty

A. *Reservation Of Overriding* Royalty-The Overriding Royalty is an interest in land. The quantification of the Overriding Royalty under this Clause 5.01 is subject to the other provisions of this Article, including the modified calculation under Subclause 5.02C for production of Petroleum Substances allocated to the Royalty Lands under a pooling, unit or other combination of Royalty Lands with other lands or any other such allocation under Clause 5.03 for a Horizontal Well drilled partly on the Royalty Lands. Effective as of the date and in the manner provided in the Head Agreement and this Farmout & Royalty Procedure, the Royalty Owner reserves the Overriding Royalty out of the interest earned by the Royalty Payor in the applicable Royalty Lands. The Overriding Royalty is based on a grant of a 100% Working Interest. It will be determined on a well-by-well basis at the First Point of Measurement, and will be as follows:

(a) for crude oil, Alternate ____ will apply *(Specify 1 or 2)*, after the removal of basic sediment, water and other applicable impurities.

Alternate 1 (Fixed Percentage):
____*% of the gross monthly production thereof from each Royalty Well.*

Alternate 2 (Sliding Scale):
the gross monthly production thereof from each Royalty Well (expressed in cubic metres) divided by

_____. That amount will be deemed a percentage, and will be not less than __% and not more than ___%. However, the Royalty Payor will quantify the Overriding Royalty for a Royalty Well producing crude oil from two or more formations of the Royalty Lands separately for each such formation, except to the extent otherwise provided in the Agreement or that the Crown in right of the Province in which the Royalty Well is located permits the commingling of production from those formations for the purpose of calculating Crown royalty payments.

(b) for all other Petroleum Substances, Alternate ___ will apply *(Specify 1 or 2)*, after the removal of basic sediment, water and other applicable impurities.

Alternate 1 (Fixed Percentage):
____% of the gross monthly production thereof from each Royalty Well.

Alternate 2 (Free And Clear Of Facility Fees):

(i) insofar as not taken in kind by the Royalty Owner under Clause 5.04, the gross proceeds from the Royalty Payor's sale of _____% of the gross monthly production thereof from each Royalty Well, free and clear of all costs through the First Point of Measurement and all Facility Fees otherwise chargeable under Clause 5.05, other than for certain enrichment expenses prescribed by Subclause 5.05D; and

(ii) insofar as taken in kind by the Royalty Owner, ____% of the gross monthly production thereof from each Royalty Well, free and clear of all costs through the First Point of Measurement.

This grammatical paragraph applies if the Royalty Owner's Pre-Earning Working Interest is less than 100%. In such event, the Royalty Payor will prorate the Overriding Royalty calculated under the preceding portion of this Subclause by multiplying the initial calculated Overriding Royalty by the percentage of the Royalty Owner's applicable Pre-Earning Working Interest.

B. *Petroleum Substances Not Reserved To Royalty Owner*-Notwithstanding the calculation at the First Point of Measurement under Subclause 5.01A, the reservation of the Overriding Royalty to the Royalty Owner will not include Petroleum Substances that the Royalty Payor reasonably uses or unavoidably loses in the Royalty Payor's drilling, Completion and production Operations for the Royalty Lands, including any such activities associated with a Re-entry Program. This includes the use of those Petroleum Substances in batteries, gas plants, pipelines, treaters, compressors, separators, satellites and similar equipment serving Royalty Wells, insofar only as that use is proportionate to their use to handle those Petroleum Substances. However, the permitted use contemplated in this Subclause does not include the use of Petroleum Substances for any enhanced recovery operations or as line fill for any transportation pipelines.

C. *Other Hydrocarbons Used In Fracture Stimulation Programs*-Notwithstanding any provision of the Agreement, any hydrocarbon substances used in a fracture stimulation program on a Royalty Well will not be regarded as Petroleum Substances as and when recovered from that Royalty Well. This Subclause does not modify the Royalty Payor's obligation under this Article for any such hydrocarbon substances that originally were Petroleum Substances within, upon or under the Farmout Lands (or allocated thereto under Clause 5.02) and that were produced from another Royalty Well for use in any such fracture stimulation program.

D. *Other Hydrocarbons And Storage Facility*-Notwithstanding any provision of the Agreement, any hydrocarbon substances produced from a well not subject to the Agreement that are injected in the Royalty Lands as part of a storage project will not be regarded as Petroleum Substances as and when recovered from a Royalty Well. This Subclause does not modify the Royalty Payor's obligation under this Article with respect to any such substances that had originally been Petroleum Substances within, upon or under the Farmout Lands (or allocated thereto under Clause 5.02) and that were originally produced from another Royalty Well.

5.02 Effect Of Pooling Or Unitization On Calculation

A. *Right To Pool On Acreage Basis*-Subject to the limitation in the next sentence and any application of Clause 5.03 for a Horizontal Well drilled partly on the Royalty Lands, the Royalty Payor is authorized to pool the Petroleum Substances (or any of them) in a formation underlying all or a portion of the Royalty Lands insofar as is required to form a Spacing Unit in that formation. Any such pooling must allocate production therefrom to the applicable Royalty Lands on a basis that: (i) is not unreasonable; and (ii) is not less than the proportion that the surface area of the Royalty Lands included in the Spacing Unit bears to the total surface area of the Spacing Unit, and Subclause 5.02B applies if both of those conditions are not satisfied. The Royalty Payor will promptly notify the Royalty Owner of any such permitted pooling, including in that notice a description of the extent to which the Royalty Lands have been pooled and the pooled Spacing Unit.

B. *Other Poolings And Units*-The Royalty Payor must promptly notify the Royalty Owner of any intention to pool, unitize or otherwise combine any portion of the Royalty Lands with any other lands, other than as provided in Subclause 5.02A or Clause 5.03. That notice must include the technical justification therefor and the

proposed terms thereof, provided that the Royalty Payor is not required to provide interpretive data to the Royalty Owner. Unless otherwise permitted under Subclause 5.02A or Clause 5.03, the Royalty Payor may not enter into that pooling, unitization or combination without the Royalty Owner's prior written consent, which consent may not be unreasonably delayed or withheld. For this purpose, the Royalty Owner may withhold that consent, by notice to the other Parties, if it has a reasonable belief that the proposed pooling, unitization or combination would result in it receiving an inequitable allocation of applicable production volumes hereunder and by including in that notice its basis for withholding consent. A Royalty Owner Party that fails to consent or object to that notice from the Royalty Payor within 20 Business Days following its receipt of that notice will be deemed to have consented to that pooling, unitization or other combination.

C. *Impact On Quantification Of Overriding Royalty*-This Subclause applies if any portion of the Royalty Lands is pooled, unitized or combined with any other lands under this Clause. Clause 5.01 will thereupon be deemed to be amended to calculate the volume of the Overriding Royalty by applying the percentage(s) or formula prescribed by that Clause to the quantity of Petroleum Substances allocated to the affected Royalty Lands under the applicable pooling, unitization or combination. If that pooling, unitization or combination applies to crude oil and the sliding scale in Alternate 5.01A(a)(2) applies, the gross monthly production of crude oil to be used under that Alternate in determining the percentage therein will be:

(a) for poolings using Royalty Lands to form a Spacing Unit under Subclause 5.02A or B, the total production of crude oil from the Royalty Well subject to that pooling before the proration of production to the applicable Royalty Lands under that pooling; and

(b) for other forms of poolings, or for any unitization or combination whereby crude oil is allocated to Royalty Lands comprising all or a portion of a crude oil Spacing Unit, the total production of crude oil allocated to that Spacing Unit.

5.03 Royalty Allocation Methodology For Certain Horizontal Wells

A. *Definitions In This Clause*-In this Clause:

"Allocation Ratio" means, subject to any further required allocation under Clause 5.02 due to a pooling or unitization applicable to the Royalty Lands, the allocation described in Alternate ___ *(Specify 1 or 2)*:

Alternate 1 (Ratio Of Royalty Length To Total Horizontal Length):
the Royalty Length of a Royalty Allocation Well divided by the Total Horizontal Length of that well, expressed as a percentage and rounded to two decimal places.

Alternate 2 (Allocation As In Regulations):
the allocation of production volumes to the Royalty Lands from a particular Royalty Allocation Well using the same allocation methodology as is prescribed by the Regulations in the jurisdiction in which that well is located if that well were drilled partly on Crown lands and partly on other lands, regardless of whether it will actually produce from any such Crown lands.

"As Drilled Survey" means a diagrammatic presentation of final survey data obtained after a Royalty Allocation Well has been drilled that shows the actual wellpath of that well, including its Heel, Toe, applicable Royalty Length and Total Horizontal Length.

"Heel" means the point described on the "As Drilled Survey" for the applicable Horizontal Well corresponding to, as applicable, either:

(a) for a well in which intermediate casing is set within the formation being drilled horizontally, the downhole coordinates of the applicable Horizontal Leg corresponding to the bottom of the intermediate casing; or

(b) for a well in which the intermediate casing is set in a formation above the formation being drilled horizontally or in a case in which there is no intermediate casing, the downhole coordinates at which the applicable Horizontal Leg reaches at least 85 degrees inclination from vertical within the formation being drilled horizontally.

"Royalty Allocation Well" means a Royalty Well drilled as a Horizontal Well so that the Horizontal Leg penetrates in part a Spacing Unit that includes Royalty Lands and in part other lands.

"Royalty Length" means that portion of the Total Horizontal Length of a Royalty Allocation Well that is located on a Spacing Unit including Royalty Lands (including for this purpose half of any road allowance being traversed by the Horizontal Leg of that well), as described on the As Drilled Survey for that well.

"Toe" means the bottom hole coordinates of a Royalty Allocation Well, as described on the As Drilled Survey for that well, or the bottom hole coordinates of the applicable Horizontal Leg if a Royalty Allocation Well includes more than one Horizontal Leg, provided that any permanent plugging back or cementing off of a portion of a Horizontal Leg prior to the commencement of production from that Royalty Allocation Well will result in a corresponding adjustment to its Toe, Total Horizontal Length and Royalty Length, as applicable.

"Total Horizontal Length" means the horizontal length in metres of a Royalty Allocation Well, measured within that well between its Heel and Toe, as identified on the As Drilled Survey for that well.

B. *Royalty Owner's Consent And Royalty Payor's Discretion*-The Royalty Payor will notify the Royalty Owner of any Royalty Well that is anticipated to be a Royalty Allocation Well prior to Spudding it, and will include with that notification the preliminary survey plan for that well, as well as that well's anticipated Heel, Toe, Royalty Length, Total Horizontal Length and, subject to any application of Alternate 2 of the definition of Allocation Ratio, the preliminary, estimated Allocation Ratio. Each Party comprising the Royalty Owner confirms that it consents to the drilling of one or more Royalty Allocation Wells and the allocation of production therefrom on the basis provided in this Clause. This consent is subject to the discretion of the Royalty Payor:

(a) not to proceed to drill any anticipated Royalty Allocation Well;

(b) to modify the anticipated wellpath trajectory and bottom hole location, or either of them, for any Royalty Allocation Well; and

(c) to Complete or otherwise manage a Royalty Allocation Well;

in the manner that it sees fit, insofar as the Royalty Payor otherwise complies with its obligations under the Agreement. Notwithstanding the foregoing portion of this Subclause (but subject to any application of Alternate 2 of the definition of Allocation Ratio), the Allocation Ratio for a Royalty Allocation Well will be adjusted accordingly insofar as any modification contemplated in Paragraph (b) above alters the Royalty Length or the Total Horizontal Length of that Royalty Allocation Well.

C. *Calculation Of Overriding Royalty Respecting Royalty Allocation Well*

(a) This Subclause is subject to any provision in the Head Agreement to the contrary, any different outcome that may be agreed in writing by the Parties for a particular Royalty Allocation Well, any application of Alternate 2 of the definition of Allocation Ratio and any additional allocation that may be required to be made under Clause 5.02 due to a pooling or unitization applicable to the Royalty Lands.

(b) Insofar as this Clause 5.03 applies to a Royalty Allocation Well, the quantity of produced Petroleum Substances allocated to a Spacing Unit that includes Royalty Lands under this Clause from that Royalty Allocation Well will be determined by multiplying the Allocation Ratio by the total volume of Petroleum Substances produced from that Royalty Allocation Well.

(c) During the period prior to receipt of the As Drilled Survey and confirmation of the Allocation Ratio for the applicable Royalty Allocation Well, the Royalty Payor will use as a preliminary Allocation Ratio the anticipated Royalty Length of that Royalty Allocation Well to its anticipated Total Horizontal Length, as contained in the preliminary survey plan for that Royalty Allocation Well.

D. *No Alteration Of Allocation Over Time*-The Parties recognize that the productivity of a Royalty Allocation Well may change over time, but, other than for any potential adjustment contemplated in the definition of Toe in Subclause 5.03A, this will not result in any alteration of the Allocation Ratio.

E. *Separate Calculations For Distinct Horizontal Legs*-If a Royalty Allocation Well includes more than one Horizontal Leg, the Royalty Payor will make the calculation contemplated in this Clause for each such Horizontal Leg as if it were by itself an individual Royalty Allocation Well. Notwithstanding the preceding sentence (but subject to any application of Alternate 2 of the definition of Allocation Ratio), if it is not feasible for the Royalty Payor to determine the production actually attributable to each such separate Horizontal Leg, it will use as a basis for the calculation the ratio of the Total Horizontal Length of each such Horizontal Leg to the sum of the Total Horizontal Lengths of all of those Horizontal Legs.

F. *Confirmation Of Allocation Ratio*

(a) The Royalty Payor will use reasonable efforts to obtain an As Drilled Survey for any Royalty Allocation Well in a timely manner following the drilling rig release of that well. It will provide a copy of the As Drilled Survey for any Royalty Allocation Well to the Royalty Owner within 30 days after receiving it.

(b) This Paragraph is subject to any application of Alternate 2 of the definition of Allocation Ratio. The Royalty Payor will notify the Royalty Owner of the Allocation Ratio for a Royalty Allocation Well within 45 days after the Royalty Payor's receipt of the As Drilled Survey for that well. It will outline in that notice the basis for the calculation of the Allocation Ratio in reasonable detail. The information in that notice will be deemed to be correct unless, within 30 days after its receipt, a Party comprising the Royalty Owner notifies the Royalty Payor that it does not believe that the information in that notice is accurate, its reasons for that belief and its suggested correction to the Allocation Ratio. The Parties will refer the matter for resolution under Clause 15.01 in a timely manner if they are otherwise unable to agree on the Allocation Ratio. This Paragraph and Subclause 5.03G will also apply, *mutatis mutandis*, to any required adjustment of the Allocation Ratio provided for in that definition.

G. *Modified Allocation Ratio And Adjustment Of Accounts*-This Subclause applies insofar as an initial Allocation Ratio used for the calculation of the Overriding Royalty for a Royalty Allocation Well is being modified as a result of the receipt of the As Drilled Survey or any application of the Regulations pursuant to Alternate 2 of the definition of Allocation Ratio, as applicable. Any such modification to the Allocation Ratio for a Royalty Allocation Well will be done on a cash basis, and the Parties will adjust accounts accordingly for the required amount within 60 days following the finalization of that Allocation Ratio. Any such adjustment will be made using the Market Price that was used for the calendar month to which the applicable portion of any such adjustment pertains. The Royalty Payor will effect any such adjustment with or against the production volumes or amount payable to the Royalty Owner in conjunction with the calculation of the Overriding Royalty in the calendar month following finalization of that Allocation Ratio. The Royalty Payor will identify clearly any such adjustment attributable to a modified Allocation Ratio on its statement delivered with respect to the calculation of the Overriding Royalty for the production month in which that adjustment is effected.

5.04 Royalty Owner's Rights To Take Overriding Royalty In Kind

A. *Royalty Payor Initially Appointed As Agent*-The Royalty Payor is appointed as the Royalty Owner's agent for the handling and disposition of the Overriding Royalty share of Petroleum Substances, subject to this Clause. All acts of the Royalty Payor under this Clause in the handling and disposition of those Petroleum Substances and the receipt of proceeds of sale therefrom will be as trustee for the Royalty Owner.

B. *Royalty Owner's Election To Take In Kind*

(a) The Royalty Owner may, on a minimum of 30 days' prior notice to the Royalty Payor, revoke the agency established in Subclause 5.04A and elect to take delivery of the Petroleum Substances comprising the Overriding Royalty in kind at the First Point of Measurement. The Royalty Owner may exercise this right separately for each type of Petroleum Substance. Any such election will be effective on the first day of the calendar month following expiry of that minimum 30-day period.

(b) The Royalty Owner will supply the Royalty Payor in a timely manner with such information about the Royalty Owner's arrangements for disposition of Petroleum Substances being taken in kind under this Subclause as the Royalty Payor may reasonably require to co-ordinate custody transfer and shipping arrangements for those Petroleum Substances. The Royalty Owner will be deemed to have failed to take those Petroleum Substances in kind if it does not provide the Royalty Payor with that information.

C. *Delivery Of Volumes Being Taken In Kind*

(a) This Subclause applies if the Royalty Owner takes in kind its Overriding Royalty share of production of Petroleum Substances.

(b) The Royalty Payor will remove basic sediment, water and other applicable impurities from Petroleum Substances being taken in kind by a Royalty Owner in accordance with good oilfield practice, so that relevant pipeline specifications can be met. The Royalty Payor will provide the Royalty Owner, at the Royalty Payor's cost, production tankage capacity for an accumulation of the Overriding Royalty share of any such crude oil or liquid products extracted from natural gas at the wellhead consistent with the Royalty Payor's shipping schedule for its own share of those Petroleum Substances.

(c) The Royalty Payor will deliver the Overriding Royalty share of Petroleum Substances being taken in kind by the Royalty Owner to it (or its nominee) at the First Point of Measurement, in accordance with usual and customary pipeline and shipping practice. It will deliver those Petroleum Substances free and clear of all charges to that point, other than: (i) as prescribed in Paragraph 5.04C(d); and (ii) for certain enrichment expenses prescribed by Subclause 5.05D.

(d) Costs for the removal and disposal of basic sediment, water and other applicable impurities from Petroleum Substances to and including the First Point of Measurement will be allocated between the Royalty Payor and the Royalty Owner on the same basis as prescribed by Subclause 5.05A, except insofar as Paragraph 5.05A(2)(c) or Alternate 5.01A(b)(2) require the Royalty Payor to retain full

responsibility for those costs.

(e) The Royalty Owner will assume sole responsibility for all costs and expenses incurred for the transportation, processing or other handling of Petroleum Substances delivered to it under this Subclause following that delivery.

(f) This Paragraph is subject to any provision of the Agreement that otherwise requires the Royalty Owner to assume any responsibility for any particular Encumbrance. Notwithstanding any other provision of this Farmout & Royalty Procedure, a Royalty Owner that takes in kind does not otherwise assume any responsibility for the lessor royalty or any Encumbrances attributable to the Overriding Royalty share of Petroleum Substances it takes in kind. The Royalty Payor retains full responsibility for all such burdens relating to that share of Petroleum Substances.

D. *Dispositions By Royalty Payor As Agent*-Unless otherwise agreed in writing by the Royalty Payor and the Royalty Owner, this Subclause applies insofar as the Royalty Owner is not taking its Overriding Royalty share of Petroleum Substances in kind under this Clause. The Royalty Payor will dispose of those Petroleum Substances on behalf of the Royalty Owner by:

(a) selling them at a Market Price and accounting to the Royalty Owner for the proceeds of that sale; or

(b) purchasing them for the Royalty Payor's own account (or the account of an Affiliate) at a Market Price and accounting to the Royalty Owner for the proceeds of that purchase.

E. *Revocation Of Royalty Owner's Election To Take In Kind*

(a) Insofar as the Royalty Owner has elected under Subclause 5.04B to take the Overriding Royalty in kind, it may re-establish the agency in Subclause 5.04A on a minimum of 30 days' prior notice to the Royalty Payor. Any such election will be effective as of the first day of the calendar month following expiry of that minimum 30-day period. The Royalty Owner may exercise this revocation right separately for each type of Petroleum Substance.

(b) Notwithstanding the remainder of this Clause 5.04, the Royalty Payor may, by notice to the Royalty Owner, revoke a particular election of a Royalty Owner to take its Overriding Royalty share of Petroleum Substances in kind if the Royalty Owner failed to comply with its election to take them in kind for a period of greater than 45 consecutive days at any point after that election became effective.

F. *Marketing Fee If Electing Royalty Owner Fails To Take In Kind*-This Subclause applies insofar as a Royalty Owner that elected to take its Overriding Royalty share of Petroleum Substances in kind under Subclause 5.04B fails to fulfill that obligation. Insofar as a Royalty Payor disposes of that Royalty Owner's Overriding Royalty share of those Petroleum Substances under this Clause after that election became effective, that Royalty Payor may charge a marketing fee of:

(a) 2.5% of the proceeds of sale of that production, determined (by an adjustment to the applicable Market Price) at the wellhead, for all such Petroleum Substances delivered at the wellhead, provided that there will be a minimum marketing fee of $0.10/gigajoule for any such natural gas; or

(b) 2.5% of the proceeds of sale of that production, determined (by an adjustment to the Market Price) at the outlet of the applicable gas plant, for all such Petroleum Substances delivered at or after that location, provided that there will be a minimum marketing fee of: (i) $0.10/gigajoule for natural gas; and (ii) $2/tonne for sulphur.

5.05 Royalty Payor's Allowed Deductions

A. *Costs Through First Point Of Measurement*-Costs and expenses incurred to and including the First Point of Measurement for the Overriding Royalty share of Petroleum Substances will be borne solely by the Royalty Payor, provided that the responsibility for expenses for removal, transportation and disposal of basic sediment, water and other applicable impurities to and including the First Point of Measurement will be as prescribed by Alternate __ *(Specify 1 or 2)*:

Alternate 1 (Royalty Payor Responsible For All Costs):
The Royalty Payor will be solely responsible for all expenses for removal, transportation and disposal of basic sediment, water and other applicable impurities from the Overriding Royalty share of Petroleum Substances to and including the First Point of Measurement.

Alternate 2 (Royalty Owner Bears Proportionate Share Of Certain Costs):
(a) Except for any prohibition on the charges under Alternate 5.01A(b)(2) and as provided in Paragraph 5.05A(2)(c), the Royalty Owner will be responsible, on a well-by-well basis, for all expenses for

removal, transportation and disposal of basic sediment, water and other applicable impurities from the Overriding Royalty share of Petroleum Substances to and including the First Point of Measurement.

(b) The Royalty Payor will handle costs described in Paragraph 5.05A(2)(a) as a deduction against the amount payable to the Royalty Owner under Clause 5.06 insofar as it does not take its Overriding Royalty in kind under Clause 5.04. The Royalty Payor will invoice the Royalty Owner for any such amounts on a monthly basis insofar as it takes its Overriding Royalty in kind. The Royalty Owner will pay that invoice within 30 days after receipt, subject to its rights to verify amounts owing hereunder.

(c) Notwithstanding Paragraph 5.05A(2)(a), nothing in this Alternate 2 requires the Royalty Owner to assume any responsibility for any costs and expenses reasonably associated with the removal, storage and disposal of water:

(i) previously injected into that Royalty Well in conjunction with any fracture stimulation program conducted as part of the Completion or Recompletion of that Royalty Well; and

(ii) being recovered during the initial cleanup period following that Completion or Recompletion in which high, initial volumes of fluids used in that fracture stimulation program are being recovered and managed using water storage facilities that are temporarily on site.

Nothing in this Subclause or Alternate 5.01A(b)(2) precludes the Royalty Payor from including the costs and expenses incurred by it for its own account under this Subclause when calculating Payout for an Earning Well to which those costs and expenses pertain, including those for its own share of production volumes.

B. *Costs After First Point Of Measurement*

(a) This Subclause is subject to the limitations on deductions prescribed by Subclause 5.05C and the handling of certain enrichment expenses under Subclause 5.05D. The deductions contemplated in this Subclause and Subclause 5.05C also do not include certain adjustments to proceeds under the definition of Market Price for transportation expenses.

(b) Insofar as the Royalty Payor disposes of Petroleum Substances comprising the Overriding Royalty on behalf of the Royalty Owner hereunder, the Royalty Owner will be responsible, on a well-by-well basis, for the following costs and expenses incurred after the First Point of Measurement for its share of those Petroleum Substances:

(i) for crude oil and liquid products extracted from natural gas at the wellhead, any associated Facility Fees and any transportation expenses to transport those Petroleum Substances from the First Point of Measurement to the point of sale;

(ii) for other Petroleum Substances, the relevant Facility Fees if Alternate 5.01A(b)(1) applies; and

(iii) for any further costs incurred to satisfy pipeline specification requirements or for any secondary removal, storage or disposal of water, basic sediment and other impurities insofar as Alternate 5.01A(b)(2) does not apply.

However, a cost or expense attributable to more than one Petroleum Substance being disposed of by the Royalty Payor may be deducted only once.

C. *Limitations On Deductions If Royalty Payor Markets*-Notwithstanding Subclauses 5.05A and B, this Subclause potentially limits the deductions the Royalty Payor may make under those Subclauses against the amount payable to the Royalty Owner under Clause 5.06 for expenses incurred by the Royalty Payor in handling the Overriding Royalty share of Petroleum Substances. Those authorized deductions are subject to Alternate(s): 1 only___; 2 only ___; 3 only ____; a combination of _____; or none of 1, 2 or 3 ___ below *(Specify Alternate)*. However, the applicable deductions for the Overriding Royalty share of Petroleum Substances from or allocated to a Royalty Well may not exceed the lowest authorized deduction prescribed below if more than one such Alternate is selected to apply:

Alternate 1 (Deductions As Prescribed By Regulations):
The deductions must not exceed those permitted by the Regulations for the calculation of royalties if the lessor under the relevant Title Documents were the Crown in right of the Province in which the Royalty Lands are located.

Alternate 2 (Percentage Cap On Deductions):
The deductions must not be greater than _____% of the Market Price received by the Royalty Payor from the sale of the Royalty Owner's Overriding Royalty share of those Petroleum Substances, provided that the

Market Price will first be adjusted for certain enrichment expenses as prescribed by Subclause 5.05D, if any.

Alternate 3 (Dollar Cap On Deductions Re Natural Gas And Associated Products):
The deductions for natural gas and associated products must not be greater than $____/10³m³ of natural gas, provided that the Market Price will first be adjusted for certain enrichment expenses as prescribed by Subclause 5.05D, if any.

D. *Special Handling Of Enrichment Expenses*-It is the Parties' intention that neither the Royalty Payor nor the Royalty Owner will suffer a loss as a result of expenses incurred to enrich the Overriding Royalty share of Petroleum Substances to increase the heating value or to facilitate transportation or marketing of those Petroleum Substances. Notwithstanding any other provision of this Article, the Royalty Payor may deduct against the gross proceeds of sale of the Overriding Royalty share of Petroleum Substances any such expenses incurred by the Royalty Payor to enrich those Petroleum Substances. For this purpose, enrichment operations include condensate blending in the case of heavy oil and any enrichment by propane or butane in the case of gas with a low heating value.

E. *Deductions Expressed As Cash Obligations*-The Royalty Payor's right to make the deductions set forth in Subclauses 5.05A-D pertains to the costs and expenses that would otherwise be incurred by the Royalty Owner to bring those Petroleum Substances to the point of sale if it took them in kind. The allowable deductions from the proceeds of sale of the Royalty Owner's Overriding Royalty share of Petroleum Substances are expressed as cash obligations for convenience of record keeping and audit. This handling is not to be construed as altering the nature of the Overriding Royalty as an interest in land.

5.06 Monthly Accounting To Royalty Owner

A. *Royalty Payor Receives Funds As Trustee*-The Royalty Payor may commingle with its own funds monies it receives for the Overriding Royalty on behalf of a Royalty Owner hereunder. Notwithstanding any such commingling, a Royalty Payor receiving funds with respect to the disposition of the Overriding Royalty share of produced Petroleum Substances will be deemed to hold those funds in trust for the Royalty Owner.

B. *Payment To Royalty Owner*

(a) The Royalty Payor must remit to the Royalty Owner all funds accruing to the Royalty Owner for the Overriding Royalty on or before the 25th day of the calendar month next following the calendar month in which those funds were received by the Royalty Payor. For the purpose of this Subclause, "received" will be read as "normally received" if the purchaser of those Petroleum Substances fails to pay the Royalty Payor for that production, unless the Royalty Payor can reasonably demonstrate that:

(i) both the Overriding Royalty share of that production and the Royalty Payor's own Working Interest share of that production were specifically sold under that particular contract; and

(ii) the Royalty Payor has made reasonable efforts to collect the applicable amount owing from that purchaser, provided that any such recovered proceeds will be applied first to the amount owing to the Royalty Owner.

(b) The Royalty Payor must provide the Royalty Owner with a statement in written or electronic format showing in reasonable detail the manner in which the Royalty Payor calculated payment for the Overriding Royalty, including the unit sale price for those Petroleum Substances. It will provide to the Royalty Owner, upon request, a copy of all reports the Royalty Payor is required to submit under the Regulations for the production of those Petroleum Substances, insofar as the Royalty Owner does not otherwise have independent access to that information under the Regulations.

5.07 Royalty Owner's Lien

As of the effective date that the Overriding Royalty is reserved by the Royalty Owner, it will secure the Overriding Royalty by having a lien and charge on the Royalty Payor's Working Interest in the Royalty Lands, the wells and equipment thereon and the Petroleum Substances within, upon or under the Royalty Lands or produced therefrom. The Overriding Royalty and that lien are interests in land that attach to the Title Documents, and the Overriding Royalty is a charge and encumbrance against the applicable Working Interest of the Royalty Payor and its successors in interest with respect to all or any of that Working Interest. However, this lien will not preclude a Party from entering into any *bona fide* financing that requires a pledge or the granting of other security.

5.08 Royalty Wells To Be Produced Equitably

The Royalty Payor will not discriminate against the Petroleum Substances produced or producible from the Royalty Lands in the production and marketing thereof because they are subject to the Overriding Royalty. The Royalty Payor will use reasonable efforts to produce Petroleum Substances from a Royalty Well equitably with production from any diagonally or laterally offsetting well producing from the same pool as a Royalty Well, insofar as the

Royalty Payor, or its Affiliate, has an interest in that offsetting well. The Parties will resolve any dispute about the performance of the Royalty Payor's obligations under this Clause in accordance with Clause 15.01.

5.09 Royalty Owner's Rights Upon Surrender

If there are multiple Royalty Payor Parties and any of them proposes to surrender all or a portion of the Royalty Lands to the grantor of the Title Documents, that Royalty Payor Party will first comply with the applicable provisions of the Operating Procedure, if any, or any other agreement otherwise governing the Royalty Payor. Insofar as those Royalty Lands are thereafter proposed for surrender or there is only one Royalty Payor, Article 11.00 of the standard form 2015 CAPL Operating Procedure will apply, *mutatis mutandis*, between the Royalty Payor and the Royalty Owner. For this purpose, the Royalty Payor will notify the Royalty Owner of the proposed surrender at least 20 days before the next anniversary date or other obligation date contemplated in Clause 11.01 therein, and the 30-day response period thereto contemplated in that Clause will be reduced to 10 days.

5.10 Audits Of Overriding Royalty And Payout Account

A. *Audit Rights*-Upon reasonable notice to the Royalty Payor and at the Royalty Owner's own expense, the Royalty Owner may audit the Royalty Payor's books, records and accounts with respect to the production, disposition or sale of the Overriding Royalty and, if applicable, the Payout status of an Earning Well. The Royalty Owner may conduct that audit within 24 months following the end of the applicable calendar year with respect to the Overriding Royalty and within 24 months after receipt of a Payout statement for an Earning Well. The Royalty Owner will conduct any such audit in accordance with: (i) the provisions of the standard form 2011 PASC Accounting Procedure, *mutatis mutandis*; and (ii) insofar as they do not conflict with that document, the guidelines in the then most current PASC Joint Venture Audit Protocol Bulletin.

B. *Presumption Of Correctness*-Any statement issued by the Royalty Payor to the Royalty Owner about the calculation of the Overriding Royalty will be presumed to be true and correct 26 months after the end of the calendar year in which that statement was issued, unless the Royalty Owner takes written exception thereto and requests an adjustment under this Clause within that 26-month period. The adjustment processes in Clause 107 of the standard form 2011 PASC Accounting Procedure will apply, *mutatis mutandis*, to any adjustments proposed to be made as a result of an audit or any other review of financial statements conducted under this Clause 5.10.

C. *Resolution Of Disputes*-Any dispute respecting an audit or a proposed retroactive adjustment under this Clause will be resolved under Clause 15.01.

6.00 CONVERSION OF OVERRIDING ROYALTY

This optional Article 6.00 will _____/will not ___ *(Specify)* apply herein.

6.01 Payout Accounts And Statements

A. *Statements*-This Subclause applies if the Farmee earns a Working Interest in the Farmout Lands subject to the Overriding Royalty and there is a Payout account because of the selection of Alternate 1 in the definition of ORR Conversion Date. In such event, the Farmee will establish and maintain records at its registered Canadian office for the calculation of Payout in accordance with the Agreement, including the Accounting Procedure. It will provide to the Farmor (and the other Farmee Parties, if applicable) a written statement showing in reasonable detail all debits and credits made in that calculation for each Earning Well. It will issue those statements at the following frequency:

(a) within six months after the drilling rig release of an Earning Well for the initial statement;

(b) every 12 months following issuance of the prior statement (or the time prescribed for issuance of that statement hereunder) for an Earning Well capable of production, but not then producing;

(c) every six months following issuance of the prior statement (or the time prescribed for issuance of that statement hereunder) for an Earning Well producing Petroleum Substances, provided that the Farmee will issue that statement on a monthly basis for any such well if the outstanding amount under Paragraph (a) of the definition of Payout is less than six times the net proceeds applied under that Paragraph for that well in the preceding month; and

(d) before the date any pending assignment of the entire Working Interest of the Farmee or the Party providing statements under this Subclause becomes effective hereunder, provided that the obligation in this Paragraph will not apply if the assignment is to an Affiliate of the assigning Party.

B. *Operating Procedure Provisions Apply*-Subclauses 10.15B-E of the standard form 2015 CAPL Operating Procedure respecting such matters as use of the Operator's cost and revenue experience, adjustments of

accounts, audit processes and failure to deliver statements upon request will apply, *mutatis mutandis*, to the Farmee's obligations with respect to statements respecting the Payout status of an Earning Well.

6.02 Conversion Election Upon Abandonment Or Takeover

A. *Application Of Clause And Notice Of Abandonment*-The Farmee will notify the Farmor of its intention to Abandon an Earning Well under this Subclause if the Farmee:

(a) has Completed an Earning Well and obtained production in Paying Quantities from a formation of the Farmout Lands for a total duration of at least 60 days; and

(b) wishes to Abandon the wellbore of that Earning Well before the ORR Conversion Date.

B. *Operating Procedure Applies To Proposed Abandonment*-Article 12.00 of the standard form 2015 CAPL Operating Procedure will apply, *mutatis mutandis*, to the Farmee's notice of Abandonment of an Earning Well under Subclause 6.02A. For this purpose, failure by the Farmor to elect, within the period prescribed by that Article, to take over that well will constitute its election not to take over that well. That Article will also apply, *mutatis mutandis*, to any Farmor Party that elects to convert to a Working Interest under Subclause 6.02C, but does not elect to participate in any takeover of that well, provided that Subclause 6.02D will then continue to apply to any such Farmor Party until such time, if any, as it becomes a participant in that well.

C. *Farmor's Conversion Election*-Subject to any takeover of the applicable Earning Well under Subclause 6.02B and any application of Clause 6.06 to any other well on the applicable Spacing Unit, the Farmor will be deemed to convert its Overriding Royalty in the Royalty Lands comprising the Spacing Unit for the applicable Earning Well to the Working Interest set forth in Subclause 6.04A unless, within 30 days after its receipt of a notice of Abandonment served by the Farmee under Subclause 6.02A, the Farmor notifies the Farmee that it elects to retain the Overriding Royalty. A Farmor that fails to give that notice within that 30-day period will be deemed to elect to convert its Overriding Royalty in the applicable Royalty Lands to a Working Interest.

D. *Conversion*-A conversion to a Working Interest by the Farmor under Subclause 6.02C will be effective as of the first day of the month after the rig release date of the rig used to Abandon the Earning Well or at such earlier date as the Farmor takes over the Earning Well, as applicable. Except as provided in Subclause 6.02B or E for a Farmor that takes over an Earning Well under Subclause 6.02B or Article 7.00, the Farmor will not acquire any interest in that well or assume any obligations therefor because of that conversion, including any associated Abandonment obligations and any other accrued Environmental Liabilities.

E. *Article 7.00 And Conversion*-This Subclause is subject to any application of Clause 6.06 to any other well on the Spacing Unit of an Earning Well to which this Subclause applies and Paragraph 7.04C(b) if fewer than all Farmor Parties participate in a takeover of that Earning Well. If an Earning Well to which a right of conversion under this Article 6.00 applies is proposed for Abandonment in accordance with Article 7.00:

(a) if the Farmor does not take over that Earning Well under Article 7.00, the Farmor will be deemed to convert its Overriding Royalty in the Royalty Lands comprising the Spacing Unit for that Earning Well to the Working Interest set forth in Subclause 6.04A unless, within 30 days after its receipt of the notice of Abandonment served by the Farmee under Subclause 7.01A, the Farmor notifies the Farmee that it elects to retain the Overriding Royalty, with any such conversion effective as of expiry of that notice period. A Farmor that fails to give that notice within that 30-day period will be deemed to elect to convert its Overriding Royalty in the applicable Royalty Lands to a Working Interest; and

(b) if the Farmor (or a particular Farmor Party) takes over that Earning Well under Article 7.00, its Overriding Royalty in the Royalty Lands comprising the Spacing Unit for that Earning Well will automatically convert to a Working Interest, effective at that takeover. That conversion is also subject to any additional assignment of the Farmee's Working Interest in the production of Petroleum Substances from that well to the Farmor under Clause 7.03.

6.03 Election For Conversion At ORR Conversion Date

A. *Election To Convert*-The Farmee will notify the Farmor of the ORR Conversion Date for an Earning Well within 60 days after that date. The Farmor may elect to convert its Overriding Royalty to the Working Interest set forth in Subclause 6.04A by notice to the Farmee within 30 days after receipt of that Farmee notice. A Farmor that fails to give that notice within that 30-day period will be deemed to elect not to convert its Overriding Royalty with respect to the applicable Earning Well to a Working Interest.

B. *Applies To Earning Well And Royalty Lands*-This Subclause is subject to any application of Clause 6.06 to any other well on the Spacing Unit of an Earning Well to which this Subclause applies. The Farmor's conversion to a Working Interest will apply to the Royalty Lands comprising the Spacing Unit for that Earning Well, the wellbore for that Earning Well and all equipment related thereto (insofar only as the costs therefor

were Drilling Costs, Completion Costs, Re-entry Program Costs or Equipping Costs). That conversion is effective as of the ORR Conversion Date.

C. *Cash Adjustment*-If the Farmor elects to convert to a Working Interest under this Clause, the Parties will effect a cash adjustment for the period between the ORR Conversion Date and the first day of the month next following the month in which the Farmee received notice of that conversion. That adjustment will reflect both the credits and charges that would have accrued to that Working Interest and those that accrued to the Overriding Royalty. The Parties will thereafter manage the applicable production volumes under the Operating Procedure. For this purpose:

(a) the sale proceeds for the associated production for that adjustment period will not be less than a Market Price; and

(b) no marketing fee will be assessed against the Farmor under the Operating Procedure for failure to take that production in kind during that period.

6.04 Operations After Conversion

A. *Operating Procedure Applies After Conversion*-This Clause 6.04 is subject to any application of Clause 6.06 to any other well on the Spacing Unit of an Earning Well to which this Subclause applies. A Farmor that converts the Overriding Royalty under this Article will convert its Overriding Royalty to ____% of its Pre-Earning Working Interest in the applicable Spacing Unit. The Operating Procedure will apply to the Working Interests of the Farmee and those Farmor Parties that convert their Overriding Royalty, as of the effective date of that conversion, including any associated responsibility for Abandonment and Environmental Liabilities. Other than for the application of the Operating Procedure to those Working Interests, nothing in this Article 6.00 will otherwise relieve the Farmee from any obligation or liability that may have accrued to it with respect to the applicable Earning Well before the effective date of that conversion, including any obligations of the Farmee for Abandonment or Environmental Liabilities under Clauses 3.04 and 6.02.

B. *Only Some Farmor Parties Convert*-If there are multiple Farmor Parties and fewer than all of them elect to convert their Overriding Royalty to a Working Interest:

(a) that portion of the Overriding Royalty that had been held by a Farmor Party that converted to a Working Interest will terminate and will not accrue to any of the Farmor Parties electing not to convert;

(b) the provisions of the Farmout & Royalty Procedure relating to the Overriding Royalty will thereafter remain in effect only for that portion of the Overriding Royalty retained by the Farmor Parties not electing to convert to a Working Interest; and

(c) that portion of the Overriding Royalty retained by the applicable Farmor Parties will be an encumbrance on the applicable portion of each Farmee Party's Working Interest, and will continue to apply to the applicable portion of the Farmee's Working Interest, notwithstanding any application of the surrender, forfeiture or cost recovery provisions of the Operating Procedure to it.

C. *Conversion And Facility Access*-This Subclause applies to facilities not included in Equipping Costs that were used to handle production from an Earning Well before a conversion under this Article. Subject to the remainder of this Subclause, a Farmor Party that converts its Overriding Royalty to a Working Interest under Clause 6.03 will have a right to continue to use capacity in any such facility for the production volumes to which the conversion pertains. It will exercise this right through the Farmee, subject to:

(a) any custom-usage agreements entered into by the Farmee with third parties for access to the applicable facility;

(b) negotiation with the Farmee of a separate agreement for a usage fee or the purchase of an ownership interest in the applicable facility for any such facility owned by the Farmee, as applicable, provided that nothing herein commits a Farmee to completion of any such agreement if the Parties are unable to finalize an agreement after *bona fide* negotiations; and

(c) for such a facility owned jointly by the Farmee and third parties, the terms of the Farmee's facility operating agreements with those third parties.

6.05 Late Notice Of Payout

A. *Deemed Notification*-This Clause 6.05 applies if the ORR Conversion Date has been attained and the Farmee has not notified the Farmor of that event or has issued that notification later than 60 days after the end of the calendar month in which it occurred. In such event, the Farmee will be deemed to have issued notice of the ORR Conversion Date at the date provided in Clause 6.03, and the Farmor may convert its

Overriding Royalty to a Working Interest on the same basis as under Clause 6.03.

B. *Adjustment*-The Parties will adjust accounts retroactively on a cash basis to the ORR Conversion Date if the Farmor converts its Overriding Royalty to a Working Interest under Subclause 6.05A. The amount payable to the Farmor by the Farmee with respect to the Working Interest to which it converts will be calculated under the Operating Procedure, with Subclause 6.03C applying, *mutatis mutandis*, to the adjustment.

C. *Interest Accrual If Amount Owing To Farmee*-This Subclause applies if the amount payable to the Farmor by the Farmee for the converted Working Interest exceeds the payments made to the Farmor on account of the Overriding Royalty after the ORR Conversion Date. The Farmor may, by notice to the Farmee, require it to pay interest to the Farmor under Subclause 14.01B on the amount owed to the Farmor from the date that amount became due to be paid to the Farmor until the date that amount is paid by the Farmee.

6.06 Additional Well On Spacing Unit Before Conversion Election

A. *Farmee's Proposal*-This Clause applies if the Farmee proposes to drill an additional well on a Spacing Unit containing an Earning Well before that Earning Well is proposed for Abandonment or reaches the ORR Conversion Date. The Farmee must provide the Farmor with an Operation Notice for that additional well on the same basis as is provided in Article 10.00 of the Operating Procedure, as if the Farmor had already elected to convert to a Working Interest in the applicable Farmout Lands. The Farmor may not propose an additional well under this Clause without the Farmee's consent, which may be refused for any reason.

B. *Proposal Of Additional Well In Different Formation*-This Subclause (rather than Subclause 6.06D) applies if the additional well contemplated in this Clause is not intended to produce Petroleum Substances from a formation in which the applicable Earning Well is already capable of producing Petroleum Substances. Within the period prescribed under the Operating Procedure for response to an Operation Notice served under Subclause 6.06A, the Farmor will notify the Farmee if it elects to:

(a) convert its Overriding Royalty in the Spacing Unit for that additional well to the Working Interest set forth for it in Subclause 6.04A, in which case it will also notify the Farmee at that time of its election, under Clause 10.02 of the Operating Procedure: (i) to participate for that Working Interest and any greater percentage of interest therein as it elects to assume thereunder; or (ii) not to participate with respect to that Operation Notice and to be subject to the consequence of non-participation prescribed under the Operating Procedure for that Working Interest; or

(b) retain the Overriding Royalty for the Spacing Unit for that additional well (with no resultant change to the percentage Working Interest on which that Overriding Royalty is based) without any future right, other than may exist under Clause 7.05, to convert to a Working Interest therein.

C. *Qualifications To Election For Additional Well Under Subclause 6.06B*-The following will apply to the election process for an additional well under Subclause 6.06B (but not an additional well under Subclause 6.06D):

(a) failure to make an election within the prescribed period will be deemed to be an election to retain the Overriding Royalty under Paragraph 6.06B(b) for that additional well and its Spacing Unit;

(b) an election under Subclause 6.06B will not apply to any formation of the Farmout Lands: (i) deeper than the deepest formation to be penetrated by that additional well; or (ii) in which the applicable Earning Well has been Capped or Completed for the production of Petroleum Substances;

(c) the Farmor's election for the Spacing Unit for that additional well under Subclause 6.06B will not otherwise affect its right to convert to a Working Interest in the Spacing Unit for that Earning Well (as modified due to that election or any other Subclause 6.06B election) under Clause 6.02 or 6.03; and

(d) the conversion to a Working Interest for the Spacing Unit for an additional well under Subclause 6.06B will not require the Farmor to elect to participate in the additional well to which the Farmee's Operation Notice thereunder pertains.

D. *Proposal Of Additional Well In Same Formation As Earning Well*-This Subclause (rather than Subclause 6.06B) applies if the additional well under this Clause is intended to produce Petroleum Substances from a formation in which the applicable Earning Well is already capable of producing Petroleum Substances. Notwithstanding Subclause 6.06B, the Farmor will notify the Farmee within the period prescribed by the Operating Procedure for response to an Operation Notice served under Subclause 6.06A if it elects:

(a) to participate in that additional well under the Operating Procedure for the Working Interest share of costs set forth for the Farmor in Subclause 6.04A and any greater percentage of interest therein as it elects to assume under Clause 10.02 of the Operating Procedure, with no application of its Overriding Royalty to that well and no conversion to a Working Interest in the Farmout Lands in the Spacing Unit

for that Earning Well, provided that a subsequent election by the Farmor under Paragraph 6.06D(c) respecting another such additional well and the Spacing Unit for it and that Earning Well will not operate to release the Farmor from any accrued obligations for any such additional well in which it had participated, which obligations will continue to be governed under the Operating Procedure;

(b) not to participate in that additional well and to be subject to the consequence of non-participation prescribed by the Operating Procedure as to the Working Interest set forth for the Farmor in Subclause 6.04A, with no accrual of its Overriding Royalty to that well, other than as a result of any subsequent application of Subparagraph 6.06D(c)(ii) to that well; or

(c) to retain the Overriding Royalty for the Spacing Unit for that additional well (with no resultant change to the percentage Working Interest on which that Overriding Royalty is based) without any future right, other than under Clause 7.05, to convert to a Working Interest therein, provided that a Farmor that makes this election:

(i) is thereby also deemed to have waived its right under Article 6.00 to convert its Overriding Royalty in the applicable Earning Well and its Spacing Unit to a Working Interest with respect to all formations to which that conversion right then applies, after application of any earlier election(s) under Subclause 6.06B to that Spacing Unit; and

(ii) is then entitled to its Overriding Royalty for Petroleum Substances produced from (or allocated to) any applicable additional well in which it had previously elected not to participate under Paragraph 6.06D(b), commencing as of the effective date of any subsequent election by it under this Paragraph 6.06D(c) to retain the Overriding Royalty for another such additional well.

Failure to make an election within the prescribed period will be deemed to be the Farmor's election not to participate in that additional well under Paragraph 6.06D(b) and to be subject to the consequences of non-participation prescribed by the Operating Procedure. The Farmor's election for that additional well under Paragraph 6.06D(a) or (b) will not affect the Farmor's right to convert to a Working Interest in any formation of the Farmout Lands for the Spacing Unit for that Earning Well under Clause 6.02 or 6.03, except for any application of Paragraph 6.06D(b) to that additional well. Revenues, costs and expenses associated with that additional well also will not impact any calculation of Payout for that Earning Well. This Subclause will apply, *mutatis mutandis*, if there are any further such additional wells drilled on the Spacing Unit for that Earning Well before any election by the Farmor under Paragraph 6.06D(c) to retain the Overriding Royalty for an additional well and to waive its right of conversion for the applicable Earning Well and its Spacing Unit.

E. *Failure To Drill*-The Farmor's election under this Clause will be effective as of the date of the Farmor's receipt of the Farmee's Operation Notice for the additional well. The Farmee will be deemed not to have issued that Operation Notice if it fails to Commence that well within 120 days after the Farmor is deemed to have received that Operation Notice (or such other period as may be prescribed for Commencement of that particular well under Clause 10.03 of the Operating Procedure). The Farmor's election (or deemed election) under Subclause 6.06B or D will be void if that additional well is not Commenced within that period.

7.00 ABANDONMENT OF WELLS

7.01 Farmor's Right To Take Over Earning Well

A. *Scope Of Clause 7.01*-This Clause 7.01 applies if:

(a) the Farmee has drilled an Earning Well to Contract Depth or conducted the Re-entry Program, as applicable;

(b) the Farmee has performed all related obligations hereunder to the Farmor's reasonable satisfaction;

(c) the Farmee: (i) has not Completed that Earning Well in a formation of the Farmout Lands; (ii) has Completed it in such a formation without obtaining production of Petroleum Substances in Paying Quantities therefrom; or (iii) has conducted a Completion attempt and is proposing to Abandon that Earning Well before it has produced for a total duration of at least 60 days; and

(d) subject to the Farmee's obligation under Paragraph 3.01D(a) to Abandon an Earning Well that has not produced for a total duration of at least 60 days, the Operating Procedure does not then apply between the Farmor and the Farmee with respect to that Earning Well.

Subclauses 6.02A-D, rather than this Clause, apply to an Earning Well subject to a right of conversion under Article 6.00 that is proposed for Abandonment if the Farmee has Completed it and produced it for a total duration of at least 60 days.

B. *Abandonment Notice*-The Farmee must provide prior notice to the Farmor on the basis prescribed by this Clause 7.01 if the Farmee intends to Abandon an Earning Well to which Subclause 7.01A applies. The Farmee must also supply the Farmor with all required information for that Earning Well hereunder and such other data respecting that well to which the Farmor is entitled as the Farmor may reasonably require for the exercise of its rights under this Article.

C. *Time For Response*-The Farmor will respond to a notice delivered under Subclause 7.01B within:

(a) 24 hours after its receipt of the notice and information prescribed by that Subclause if a rig is already located on the wellsite for the conduct of any Operations on that Earning Well other than its Abandonment; or

(b) 15 days after that receipt in any other case.

D. *Farmor Election*-If, within the applicable period prescribed by Subclause 7.01C:

(a) the Farmor fails to reply to the Farmee or notifies it that the Farmor consents to the Abandonment of that Earning Well, the Farmee will promptly Abandon the wellbore of that Earning Well, unless the Farmee wishes to use it for another purpose, as contemplated in the last grammatical paragraph of this Subclause. The Farmee will conduct its reclamation work for that well in a timely manner following its Abandonment of that wellbore;

(b) the Farmor notifies the Farmee of those additional tests it wishes to have conducted on that well and, in the Farmee's reasonable opinion, the condition of the wellbore so permits, the Farmee will:

(i) conduct those tests in a timely manner on behalf of the Farmor at the Farmor's sole cost, risk and expense, provided that the Farmee may require the Farmor to provide the Farmee with payment for the estimated cost of those tests before conducting them; and

(ii) promptly provide the data therefrom to the Farmor, in which case Subclause 7.01C and this Subclause will then apply, *mutatis mutandis*, to the Farmor's election for the potential takeover of that Earning Well, except that the Farmor may not then elect to conduct further tests under this Paragraph 7.01D(b) without the Farmee's consent; or

(c) the Farmor notifies the Farmee that it wishes to take over that Earning Well for further activities in the Farmout Lands, the Reserved Formations or other formations, provided that:

(i) a Farmor that elects to take over an Earning Well under this Paragraph for further activities in the Farmout Lands will have priority over one or more Farmor Parties that elect to conduct additional tests under Paragraph 7.01D(b);

(ii) a Farmor may only take over an Earning Well that is a Royalty Allocation Well (as defined in Subclause 5.03A) only insofar as that well is with respect to the Farmout Lands or any other lands in which the Farmor otherwise has the right to use that wellbore to conduct operations, provided that: (1) the Farmor may not use that well for producing or injection operations in any other lands held by the Farmee without the consent of the Farmee on such terms as may be negotiated by the applicable Parties at the time; and (2) any required plugging of the applicable portion of the Horizontal Leg of that Royalty Allocation Well from its Toe (as defined in Subclause 5.03A) back to a location within the Farmout Lands at which the Farmor would be permitted to produce that well under the Regulations will be at the expense of the Farmee, notwithstanding anything to the contrary otherwise contained in this Article 7.00; and

(iii) a Farmor may take over an Earning Well under this Paragraph only if it (or its Affiliate) is eligible to accept a transfer of the well licence therefor under the Regulations.

Notwithstanding the preceding portion of this Subclause, if the Farmor permits the Farmee to Abandon an Earning Well under Paragraph 7.01D(a), the Farmee may use that Earning Well in a formation not included in the Farmout Lands if it otherwise has the right to conduct operations in that other formation. In such event, the Farmee will be regarded as having satisfied the Abandonment obligation in that Paragraph if it promptly Abandons any portion of the wellbore of that Earning Well that will not be used for that other purpose.

E. *Assignment Of Well To Farmor*-Effective as of the date of the Farmor's election to take over an Earning Well in accordance with Paragraph 7.01D(c), the Farmee will assign that well (including the material, equipment and surface access rights relating solely thereto that the Farmor wishes to use and the associated regulatory approvals and licences) to the Farmor. Subject to the potential application of Subclause 7.02B to require the Farmee to assume a share of the Abandonment costs of that Earning Well thereunder:

(a) that assignment will be on an "as is, where is" basis, without warranty (environmental or otherwise) on the basis prescribed by Paragraph 7.02C(c); and

(b) the Farmee will be released from all obligations and liabilities thereafter accruing for the property so assigned to the Farmor.

However, other than for the obligations assumed by the Farmor under this Article for the Abandonment of that Earning Well, that assignment will not release the Farmee from any obligation that should have been performed by it or any liability that accrued to it for that well under Clause 11.01 before that assignment.

F. *Satisfaction Of Farmee's Obligations*-The Farmee's compliance with the provisions of this Clause constitutes the Farmee's satisfaction of its obligation to Abandon the wellbore of the applicable Earning Well for the purpose of earning hereunder. If the Farmor does not take over the applicable Earning Well, this is subject to a condition subsequent that the Farmee fulfils its remaining obligations associated with the Abandonment of that well under Clause 3.04, including all obligations for the reclamation and remediation of the applicable surface rights. If the Farmor takes over the applicable Earning Well, this is subject to a condition subsequent that the Farmee pays any required adjustment under Subclause 7.02B for costs the Farmor incurs on behalf of the Farmee for Abandonment of that well under that Subclause.

7.02 Well May Be Abandoned For Account Of Farmee

A. *Farmor To Conduct Operations*-If the Farmor takes over an Earning Well under Clause 7.01, the Farmor will Complete or Commence to Abandon it within six months after the Farmor's election to take it over, provided that this period will be extended to 12 months if the Farmout Lands are in a winter access only area.

B. *Farmee's Responsibility For Certain Abandonment Costs*

(a) The Farmor will Abandon an Earning Well it took over under Clause 7.01 for the Farmee's account if the Farmor Commences to Abandon it within the period prescribed by Subclause 7.02A. However, the Farmee will not be responsible for any extra costs of Abandonment resulting from the Farmor's takeover of that Earning Well, relative to the *bona fide* estimate of the Abandonment costs that would have been incurred by the Farmee at the time it initially proposed the Abandonment of that well.

(b) The Farmor will calculate the estimated Abandonment costs for which the Farmee is responsible under this Subclause (including any costs for required reclamation and remediation of the applicable surface rights) and credit against that estimate the net salvage value of any material and equipment the Farmee installed respecting the applicable Earning Well. The Farmor will provide the Farmee with a statement showing the calculation of the proposed adjustment of accounts in reasonable detail.

(c) The Party owing an amount under this Subclause will pay it to the other Party within 30 days after receipt of the statement issued under Paragraph 7.02B(b). However, the adjustment amount will be determined under Clause 15.01 if the Parties are unable to agree on it, and the resultant payor will pay the payee the amount so determined within 30 days after that determination.

C. *Farmor To Pay Net Salvage Value For Retained Equipment*

(a) This Subclause C applies if the Farmor took over an Earning Well under Clause 7.01 and it does not Complete or Commence to Abandon it within the period prescribed by Subclause 7.02A.

(b) After the end of the period prescribed by Subclause 7.02A, the Farmee will promptly calculate the amount of the estimated net salvage value of any material and equipment assigned to the Farmor under this Clause with respect to the applicable Earning Well. The Farmor will pay that proposed adjustment within 30 days after receiving the Farmee's invoice therefor. However, the adjustment amount will be determined under Clause 15.01 if the Parties are unable to agree on it, and the resultant payor will pay the payee the amount so determined within 30 days after that determination.

(c) This Paragraph is subject to any reacquisition of a Working Interest in the applicable Earning Well by the Farmee (or its successors in interest) under Subclause 7.03C. The adjustment in the Farmee's favour contemplated in this Subclause 7.02C will not be reduced by the accrued Abandonment costs and the related Environmental Liabilities assumed by the Farmor for that Earning Well. The Farmee will also have no future responsibility for Abandonment costs of an Earning Well retained by the Farmor under this Subclause and the related Environmental Liabilities.

7.03 Effect On Farmee's Working Interest In Certain Production

A. *Assignment Of Production*-This Subclause applies if, within the applicable six or 12-month period in Subclause 7.02A, the Farmor Completes an Earning Well for production of Petroleum Substances in Paying

Quantities from a formation then contained in the Farmout Lands. Effective as of the date of the Farmor's election to take over that well, the Farmee will assign to the Farmor, without warranty, the Working Interest otherwise being earned by the Farmee hereunder in the right to produce Petroleum Substances from the Spacing Unit for that well, insofar only as it pertains to the formation(s) so Completed by the Farmor and the exploitation thereof through that wellbore. Except as provided in the preceding sentence for produced Petroleum Substances, that assignment does not apply to the Farmee's earned Working Interest in any Farmout Lands comprising that Spacing Unit or its right to recover Petroleum Substances from that formation in a different location in that Spacing Unit through the use, in whole or in part, of a different wellbore. That assignment will not release the Farmee from any obligation that should have been performed by it or any liability that accrued to it before that assignment.

B. *No Assignment By Farmee*-The Farmee will not be required to make an assignment to the Farmor under Subclause 7.03A if, within the applicable six or 12-month period prescribed by Subclause 7.02A, the Farmor:

(a) does not Complete an Earning Well taken over by it for production of Petroleum Substances in Paying Quantities from a formation of the Farmout Lands; or

(b) Completes an Earning Well taken over by it hereunder in only a Reserved Formation or any other rights not included in the Farmout Lands.

C. *Subsequent Operation In Farmout Lands*-This Subclause applies if the Farmee assigned its Working Interest in the production of certain Petroleum Substances under Subclause 7.03A and the Parties holding a Working Interest in the applicable Earning Well subsequently propose to plug back or Deepen that Earning Well to conduct additional Operations in the Farmout Lands. The Operation Notice or other authority for expenditure for that subsequent Operation must also offer a Farmee that made that assignment (or its successor in interest) which then holds a Working Interest in the applicable Farmout Lands the opportunity to reacquire a Working Interest in that well equal to its Working Interest in those Farmout Lands. Subclause 7.02C will apply, *mutatis mutandis*, to the consideration for the reacquisition of that well and the associated equipment, provided that any Farmee Party that reacquires an interest in that well and equipment will assume a corresponding share of responsibility for the related Abandonment liabilities and Environmental Liabilities.

7.04 Operating Procedure Applies Among Farmor Parties

A. *Testing By Fewer Than All Farmor Parties*-This Subclause applies if the Farmor is comprised of more than one Party and one or more (but fewer than all) of the Farmor Parties elect to conduct additional tests for an Earning Well proposed to be Abandoned under this Article in circumstances in which no Farmor Party had elected to take over that Earning Well for further activities in the Farmout Lands under Paragraph 7.01D(c). The Farmor Parties that do not elect to participate in those tests will not be entitled to participate in the takeover and Completion of that Earning Well in the tested formation.

B. *Takeover By Fewer Than All Farmor Parties*-If one or more (but fewer than all) of the Farmor Parties elect to take over an Earning Well proposed to be Abandoned by the Farmee under this Article, that takeover will be:

(a) at the sole cost, risk and expense of those Farmor Parties taking over that Earning Well;

(b) deemed to be an "Independent Operation" under Articles 9.00 and 10.00 of any Operating Procedure, with the applicable consequences of non-participation prescribed therein; and

(c) subject to the indemnification and liability provisions of Article 11.00, *mutatis mutandis*, as between those Farmor Parties that take over that Earning Well and those Farmor Parties that do not elect to take over that well.

For this purpose, the amount (if any) paid to the Farmee under Clause 7.02 will be deemed to be an Operating Cost for the purpose of determining any prescribed cost recovery applicable to the takeover and Completion of that Earning Well under Paragraph 7.04B(b).

C. *Operating Procedure Applies Between Participating Farmor Parties*

(a) From and after the time referred to in Subclause 7.03A, the Operating Procedure will apply, *mutatis mutandis*, to the Farmor Parties for an Earning Well taken over under Subclause 7.04B and the production of that well from the applicable formation(s) and Spacing Unit. The applicable participating Farmor Parties will appoint one of them to be the initial Operator under the Operating Procedure.

(b) If a right of conversion applies to the Earning Well under Article 6.00, the Overriding Royalty applicable thereto will not be payable (and no conversion of the Overriding Royalty of a non-participating Farmor Party to a Working Interest in that Earning Well under Clause 6.02 will apply) until the cost recovery prescribed by the Operating Procedure for the Operation under this Clause is

recovered or ceases to apply. At that time, each Farmor Party that elected not to participate in the takeover of that well may elect to convert to a Working Interest in that well on the same basis as is provided in Article 6.00, as if that date were the ORR Conversion Date.

(c) This Paragraph applies if an Earning Well to which this Clause applies is subject to the Overriding Royalty and there is no right of conversion applicable to that well under Article 6.00. In such event, the applicable share of the Overriding Royalty will continue to accrue to a Farmor Party that elected not to participate in the takeover of that well, unless otherwise agreed in writing by the Farmor Parties.

D. *If No Operating Procedure Included*-If the Agreement does not include an Operating Procedure, references to the "Operating Procedure" in this Clause are to the standard form 2015 CAPL Operating Procedure and, as an attachment, the standard form 2011 PASC Accounting Procedure. For this purpose, those documents will include those rates and elections as the Farmor Parties taking over that well may then negotiate, provided that the cost recoveries under Subclause 10.07A of that Operating Procedure will be 300% for a "Development Well" and 500% for an "Exploratory Well", unless otherwise agreed in writing by them.

7.05 Abandonment Obligation For Other Royalty Wells

Alternate ____ *(Specify 1 or 2)* will apply to any Royalty Well on the Royalty Lands that is not an Earning Well, provided that the Royalty Owner does not have the right to elect to take over any such Royalty Well until the Parties holding Working Interests in that well have all elected to Abandon that well.

Alternate 1 (Limited Abandonment Rights):
Other than for Subclause 7.01A, this Article 7.00 will apply, mutatis mutandis, to any such Royalty Well only if the Royalty Owner then retains a right under Article 6.00 to convert its Overriding Royalty to a Working Interest for the Earning Well for which the Farmee earned the Royalty Lands on which that Royalty Well is located.

Alternate 2 (Abandonment Right Applies To All Royalty Wells):
Other than for Subclause 7.01A, this Article 7.00 will apply, mutatis mutandis, to each Royalty Well on the Royalty Lands that is not an Earning Well.

8.00 AREA OF MUTUAL INTEREST

This optional Article 8.00 will _____/ will not _____ *(Specify)* apply herein.

8.01 Scope Of Area Of Mutual Interest Obligation

A. *Head Agreement Outlines Other Specific Terms*-The Head Agreement outlines: (i) the definition of Mutual Interest Lands; (ii) the duration of the obligations in this Article; (iii) the relative shares in which the Parties may acquire Mutual Interest Lands hereunder; and (iv) any other special conditions not addressed in this Article that pertain to the Parties' obligations for Mutual Interest Lands.

B. *Obligation Includes Right To Acquire And Acquisitions By Affiliate*-Other than for the exempt acquisitions described in Subclause 8.01C, for the purposes of this Article:

(a) all references to Mutual Interest Lands in the Agreement also include rights to acquire an interest in those lands; and

(b) a Party will be deemed to have acquired any Mutual Interest Lands acquired by an Affiliate of that Party during the period in which this Article is in effect.

C. *Acquisitions To Which This Article Does Not Apply*-Except insofar as the Head Agreement or the definition of Mutual Interest Lands specifically override this Subclause, the obligations in this Article will not apply to legal or beneficial interests (or rights thereto) acquired on a *bona fide* basis by a Party or its Affiliate:

(a) pursuant to a corporate reorganization or the amalgamation with, or acquisition of, a third party;

(b) before the Effective Date, including any document of title issued in direct substitution for the document of title under which those interests had been held before the Effective Date;

(c) through: (i) a scheme of unitization approved under the Regulations; or (ii) a pooling or other similar arrangement because of a requirement under the Regulations that interests then held by that Party or its Affiliate in certain lands must be combined in some manner with the acquired interests or rights in order to drill or produce a particular well in rights then held by that Party or Affiliate;

(d) insofar as an additional interest is acquired by the Farmor in any unearned petroleum and natural gas rights originally included in the Farmout Lands and still held under the Title Documents, in which the Farmee's right to earn a Working Interest hereunder has expired or terminated as of the effective time

of that acquisition;

(e) through a transaction in which the consideration for the acquisition of the applicable interest or rights is the exchange of interests or rights in any unearned petroleum and natural gas rights originally included in the Farmout Lands and still held under the Title Documents, in which the Farmee's right to earn a Working Interest hereunder has expired or terminated as of the effective time of that acquisition, provided that the formations being acquired by the Farmor thereunder are the same as those exchanged by it;

(f) through a transaction in which a Party is acquiring an additional interest in certain lands it then holds, if the other Party does not then hold any Working Interest in those lands and the associated document of title because it (or its predecessor in interest) previously declined the opportunity to acquire an interest in them under this Article. However, this Paragraph does not affect the acquiring Party's obligations under this Article to any other Party that then holds an interest in those acquired lands; or

(g) if the net hectares of working interest petroleum and natural gas rights that would otherwise be Mutual Interest Lands that are potentially being acquired in a transaction represent, as of the effective date of that transaction, less than 10% of the total net hectares of working interest petroleum and natural gas rights being acquired by that Party and any of its Affiliates thereunder, provided that this percentage will be increased to 35% of the total net hectares that may be earned by that Party or any of its Affiliates if the applicable transaction is an Earning Agreement.

D. *Duty To Deliver Data Promptly*-The Parties recognize that the ability of another Party to evaluate and participate in any acquisition of Mutual Interest Lands within the periods contemplated herein is potentially compromised if the Party responsible for delivering data from an Operation conducted hereunder fails to comply with its obligations under Article 9.00 and the other provisions of the Agreement to deliver that data on a current basis. Insofar as a Party did not receive information to which it was entitled under the Agreement and that information: (i) was material to the evaluation of the applicable Mutual Interest Lands; and (ii) was then in the possession of the Farmee (or other applicable Party conducting the particular Operation), Clause 8.03 will apply, *mutatis mutandis*, following receipt of that information with respect to any such acquisition of Mutual Interest Lands.

8.02 Crown Mutual Interest Lands

A. *Consultation About Possible Bid*-This Clause applies if Mutual Interest Lands are offered for disposition by the Crown through public tender during the term of this Article. A Party will consult in good faith with the other Parties at least 48 hours before the applicable bid submission deadline about the possible submission of a joint bid for any or all applicable Mutual Interest Lands to which this Clause applies at the relevant time.

B. *Bidding Process For Offered Rights*-If, after the consultation contemplated in Subclause 8.02A:

(a) the Parties unanimously agree to attempt to acquire jointly any applicable parcel of Mutual Interest Lands, the Farmee (or the applicable agreed upon Party) will submit that bid on behalf of all Parties;

(b) two or more (but not all) Parties agree to attempt to acquire any such parcel of Mutual Interest Lands, those Parties in agreement may participate in that bid proportionate to the relative shares prescribed for them in the Head Agreement (or in such other percentages as they may agree), in which case the Farmee (or the applicable agreed upon Party) will submit that bid on their behalf; and

(c) no Parties agree on the terms of a joint bid for those Mutual Interest Lands, any Party may submit an independent bid for them, subject to the notice requirements under Clause 8.03.

C. *Sharing Of Obligations For Jointly Acquired Rights*-Each Party participating in a bid under this Clause will pay its share of the applicable amount to the Party that submitted a successful bid within three Business Days after being notified by the bidding Party that the bid was successful. The bidding Party will include with that notice an invoice for the applicable amount, and the bidding Party may apply Clause 14.02 with respect to any Party participating in the bid that does not pay that amount within that period.

8.03 Notice Of Acquisition Of Mutual Interest Lands

A. *Acquisition Notice*-Subject to the exemptions in Clause 8.01 and the rights of the other Parties under this Clause, if a Party acquires Mutual Interest Lands during the term of this Article:

(a) through a Crown sale contemplated in Clause 8.02 without prior consultation with the other Parties or without disclosing to them the bid the acquiring Party was prepared to submit for that acquisition;

(b) through a Crown sale contemplated in Clause 8.02 if, after consultation, unanimous agreement was

not reached thereunder and the price paid to acquire those Mutual Interest Lands differed by more than 5% from the last amount the acquiring Party disclosed it was prepared to bid for their acquisition;

(c) through a sale contemplated in Clause 8.02 if unanimous agreement was reached under that Clause and the acquiring Party proceeded to acquire those Mutual Interest Lands for an amount different than the amount the Parties had agreed to bid for the joint acquisition of those Mutual Interest Lands; or

(d) other than by bidding at a Crown sale contemplated in Clause 8.02, whether through purchase, trade, Earning Agreement or otherwise, if this Article applies to such an acquisition;

that acquiring Party will notify the other Parties of the material terms of that acquisition of Mutual Interest Lands (or rights thereto) within seven Business Days after that acquisition.

B. *Provision Of Estimated Value*

(a) An acquiring Party required to serve notice of an acquisition of Mutual Interest Lands under Subclause 8.03A must identify in that notice if: (i) the consideration described in that notice cannot be matched in kind; or (ii) the proposed acquisition includes assets in addition to the Mutual Interest Lands described therein. That Party must also include in that notice its *bona fide* estimate of the value (or allocated value), in cash, of that consideration as it applies to those Mutual Interest Lands in that circumstance.

(b) A Party that objects to the reasonableness of an estimate provided under Paragraph 8.03B(a) must, within five Business Days after its receipt of that estimate, serve notice of that objection in sufficient detail to enable that acquiring Party to understand its basis. The Parties will refer the matter for resolution under Clause 15.01 after receipt of any such notice. The equivalent cash value determined thereunder will be deemed to be the value for the Mutual Interest Lands described in that notice. A Party that fails to serve such a notice within that period is precluded from challenging that estimate.

8.04 Right To Acquire Mutual Interest Lands

A. *Response To Notice Of Acquisition*-Each Party receiving a notice under Subclause 8.03A will be deemed to have elected not to participate in the applicable acquisition, unless it notifies the acquiring Party that it elects to participate in that acquisition. It must make that election within seven Business Days after the later of receipt of: (i) the notice issued under Subclause 8.03A; or (ii) notice of the equivalent cash value determined under Clause 15.01 if the dispute resolution process in Paragraph 8.03B(b) is used.

B. *Participation In Acquisition*-A Party may elect to participate in an acquisition to which Subclause 8.04A applies to the extent of:

(a) the percentage share prescribed for that Party in the Head Agreement; or

(b) that percentage share increased by its proportionate share of unassumed participation in that acquisition, provided that a Party that elects to assume more than its percentage share of that acquisition under this Paragraph may include in its election a limitation as to the maximum amount of total participation it is prepared to accept in that acquisition.

A Party will be deemed to elect to participate for its proportionate share of all available interest if it fails to limit its participation in a notice to acquire an interest in those Mutual Interest Lands. For this purpose, the acquiring Party will be deemed to have elected to participate in the acquisition for its proportionate share of all available interest under Paragraph 8.04B(b) without any limitation thereunder, such that any unassumed percentage of participation after these elections will remain with the acquiring Party. The acquiring Party will notify the Parties within seven Business Days after completion of the election process under Subclause 8.04A and this Subclause of the percentage shares in which the Parties acquire those Mutual Interest Lands if fewer than all Parties elected to participate in the acquisition.

C. *Reimbursement Of Acquisition Costs*-Once the respective interests in the applicable Mutual Interest Lands are determined, each Party that elected to acquire an interest therein will pay the corresponding share of the cash consideration applicable to that acquisition (including any applicable issuance fees) to the acquiring Party. It must pay that amount within five Business Days after receipt of the acquiring Party's invoice therefor that reflects those respective interests, and the acquiring Party may apply Clause 14.02 with respect to a Party that elected to acquire an interest that does not pay that amount within that period.

D. *Deferred Response To Notice*-This optional Subclause will __/will not __ *(Specify)* apply herein.

This Subclause applies if a Farmor Party has not received all information to which it is or will be entitled hereunder (other than from Production Tests delayed with the Farmor's consent) for any Earning Well Spudded before an acquisition of Mutual Interest Lands in circumstances in which the delay in obtaining the

required well information is not attributable to Force Majeure or any other application of Subclause 3.01B. In such event and notwithstanding any other provision of this Article, that Farmor Party may, by notice to the other Parties, defer its election to acquire an interest in those Mutual Interest Lands until such time as it receives all of that information. If this condition applies, each applicable Farmor Party may elect to acquire an interest in the applicable Mutual Interest Lands under Subclause 8.04A within seven Business Days after its receipt of the last of that information.

8.05 Earning Agreements

This Clause applies if: (i) Earning Agreements are within the scope of Mutual Interest Lands; and (ii) the consideration for the acquisition of Mutual Interest Lands (or rights thereto) is the conduct of certain operations. A Party that elects to participate in any such acquisition under this Article will be required to assume a corresponding share of the cost, risk and expense of the applicable operations. If the terms of that acquisition enable the Parties to earn additional interests in Mutual Interest Lands by conducting optional operations and fewer than all acquiring Parties exercise that option, only those Parties participating in the applicable optional operation will share any portion of the interest so earned and any additional associated rights or options thereunder.

8.06 Encumbrances On Mutual Interest Lands

A. *Crown Sale Acquisition*-Other than for the royalty payable to the Crown under the applicable Title Document, under no circumstance will another Party be obligated to assume an encumbrance under this Article with respect to an acquisition made by the acquiring Party (or on its behalf) at a Crown sale contemplated in Clause 8.02 in circumstances in which Clause 8.03 then requires that Party to offer any other Party the opportunity to participate in that acquisition.

B. *Other Acquisitions And Encumbrances*-This Subclause applies if the Mutual Interest Lands acquired by an acquiring Party are not acquired by it (or on its behalf) at a Crown sale contemplated in Clause 8.02 and they are acquired subject to a *bona fide* arm's length royalty, overriding royalty, production payment, net profits interest or other charge of a similar nature in addition to the royalty payable to the grantor under the applicable Title Document. The acquiring Party must disclose that encumbrance in the notice of acquisition served to the other Parties under this Article. Subject to the limitation in Subclause 8.06C, the Parties that acquire an interest in those Mutual Interest Lands will assume a corresponding share of that disclosed encumbrance. Those Parties are not required to assume any share of an encumbrance insofar as it was not disclosed in that notice of acquisition.

C. *Prohibition On Certain Non-Arm's Length Encumbrances*-The obligation to assume an encumbrance under Subclause 8.06B will not apply to any encumbrance created directly or indirectly by or through an acquiring Party with its Affiliate, director, officer, agent, employee, independent contractor or consultant because of:

(a) any agreement that attaches such an encumbrance to an interest acquired by the acquiring Party or its Affiliate from a different third party; or

(b) the use of that Affiliate, director, officer, agent, employee, independent contractor or consultant as an agent or other intermediary for the acquisition of that interest from a third party.

8.07 Application Of Operating Procedure

The Parties' relationship and the maintenance and operation of Mutual Interest Lands acquired under this Article will be governed by the Operating Procedure without need for completion of a specific agreement to that effect, unless those Mutual Interest Lands are to be governed by a different agreement under Clause 8.05 or otherwise or they were acquired by some (but fewer than all) Parties. The Operating Procedure will apply, *mutatis mutandis*, to those Mutual Interest Lands if those Mutual Interest Lands were acquired by some (but fewer than all) Parties. The Operator will be the initial Operator thereunder if it holds a Working Interest in those Mutual Interest Lands, and the Parties will appoint an Operator for those Mutual Interest Lands on the same basis as provided in the Operating Procedure if the Operator is not a Party that participates in that acquisition.

8.08 Parties Not Required To Disclose Information

Nothing in this Article requires a Party to disclose to any other Party:

(a) any information beyond that which it is then required to provide to that other Party under the Agreement; or

(b) any interpretation developed at its own expense from geological, geophysical or other data acquired by that Party under the Agreement.

Insofar as a Party discloses any information proprietary to it in discussions under this Article, the confidentiality provisions of the Agreement will apply, *mutatis mutandis*, to that disclosed information.

9.00 WELL INFORMATION TO FARMOR

9.01 Farmor's Well Information Requirements-Earning Wells

The Farmee will, for each Earning Well, supply the Farmor with the information prescribed in the well information requirement Schedule. Unless otherwise agreed in the Head Agreement, this obligation applies to:

(a) all formations penetrated by that Earning Well with respect to drilling information (including logs), insofar as those formations are not more than 15 metres deeper than formations included in the Farmout Lands at the relevant location; and

(b) only formations of the Farmout Lands for cores, drillstem or wireline tests and Completion and production activities.

9.02 General Conditions Applicable To Earning Well Information

A. *Delivery Of Data*-The Farmee will conduct its drilling and Completion Operations for an Earning Well or any Re-entry Program, as applicable, in material compliance with the applicable drilling, Completion or Recompletion programs supplied to the Farmor therefor. The Farmee will supply all data to be provided to the Farmor under this Article on a current basis at the Farmee's sole cost and expense. The Farmor will notify the Farmee of:

(a) the Farmor's representative(s) to whom the information described in this Article is to be provided; and

(b) the reasonable number of additional copies or samples of any of that information required by the Farmor if the Farmor requires more than one copy or sample.

B. *Farmor's Access*-Subject to the application of Clause 3.08 of the 2015 CAPL Operating Procedure in accordance with Clause 1.02 hereof and on reasonable notice by the Farmor, the Farmee will allow the Farmor's authorized representatives access to the wellsite of an Earning Well, including derrick floor privileges, at the Farmor's sole cost, risk and expense.

9.03 Well Information To Royalty Owner

A. *Information Provided*-This Subclause A is subject to any restriction on disclosure of well information from a Royalty Well that is not an Earning Well to the Royalty Owner under any applicable Existing Agreement, provided that the Farmee will make reasonable efforts to have the other applicable Working Interest owner(s) consent to disclosure to the Royalty Owner, on a confidential basis, of well information from an additional Royalty Well to which this Subclause applies. If the Royalty Payor drills a Royalty Well that is not an Earning Well on the Royalty Lands or lands pooled therewith to complete a Spacing Unit, it will supply the following information to the Royalty Owner at the Royalty Payor's sole expense:

(a) notice of intention to drill that Royalty Well before Spudding that well; and

(b) subject to Subclause 9.03B, the data prescribed by Alternate ___ *(Specify 1 or 2)*:

Alternate 1 (Information Only If Conversion Right):
the additional information described in the well information requirement Schedule and Clause 9.01, mutatis mutandis, only if the Royalty Owner then retains the right under Article 6.00 to convert its share of the Overriding Royalty to a Working Interest for the Earning Well for which the Farmee earned those Royalty Lands.

Alternate 2 (Information From All Royalty Wells):
the additional information described in the well information requirement Schedule and Clause 9.01, mutatis mutandis, for each such Royalty Well.

B. *Deferral Of Delivery Of Well Information*-The Royalty Payor's obligation to deliver information from a Royalty Well under Paragraph 9.03A(b) will be suspended until seven days after the applicable Crown land sale if:

(a) that Royalty Well is being drilled to obtain information to evaluate any petroleum and natural gas rights then offered for public tender by the Crown;

(b) any of those offered rights correspond to the formations being penetrated by that Royalty Well and are within 3.2 kilometres of that well; and

(c) the Royalty Owner does not then have area of mutual interest rights under Article 8.00 with respect to any particular parcel of those offered rights.

10.00 NOTICES UNDER EXISTING AGREEMENTS

10.01 Farmor Serves Required Notices On Behalf Of Farmee

A. *Application To Existing Agreements*-This Clause applies insofar as the Farmor holds less than a 100% Working Interest in the Farmout Lands and an Existing Agreement requires delivery of an Operation Notice to one or more third parties holding a Working Interest with respect to an Operation to be conducted hereunder before the time that the Farmee has become a party to that Existing Agreement.

B. *Farmee To Provide Information For Operation Notice*-The Farmee will provide the Farmor with all required information and supporting documentation that the Farmor requires in order to serve any applicable Operation Notice on behalf of the Farmee under an Existing Agreement. That information and documentation will be sufficient to satisfy the requirements pertaining to issuance of an Operation Notice under that Existing Agreement. Those materials will include, as applicable, an authority for expenditure for the Operation and a draft Operation Notice that addresses such matters as: (i) the location of that Operation; (ii) the nature of that Operation; (iii) its anticipated Commencement date and duration; (iv) the response period for that Operation Notice; and (v) the consequence prescribed by that Existing Agreement for non-participation.

C. *Consultation About Operation Notice*-The Farmor and Farmee will consult about the form of an Operation Notice contemplated in Subclause 10.01B as appropriate in the circumstances. The Farmor may refuse to serve any such Operation Notice if it reasonably believes that the Farmee's instructions with respect to that Operation Notice conflict with the Farmor's obligations under the applicable Existing Agreement.

D. *Service Of Operation Notice By Farmor*-Except as provided in Subclause 10.01C, the Farmor (or the applicable agreed upon Farmor Party) will, on behalf of the Farmee, serve any required Operation Notice contemplated in this Clause to the applicable third parties under the applicable Existing Agreement. The Farmor will cooperate with the Farmee in making all further required elections or issuing all other required notices under that Existing Agreement with respect to the Operation to which that Operation Notice pertains. The Farmor will promptly provide the Farmee with copies of the resultant elections of those third parties.

10.02 Operation Notice Served By Third Party

A. *Overview Of Election*

(a) This Clause 10.02 applies if the Farmor receives an Operation Notice under an Existing Agreement for an Operation respecting the Farmout Lands before the Farmee has become a party to that Existing Agreement for those Farmout Lands.

(b) If the Operation Notice described in Paragraph 10.02A(a) is received before the Farmee is recognized under that Existing Agreement as the holder of the Working Interest that has been earned by the Farmee hereunder in the Farmout Lands on which the applicable Operation is located, the Farmor will attempt to have the other Parties to that Existing Agreement recognize the Farmee directly for that Working Interest prior to expiry of the response period for that Operation Notice. Subclause 10.02B will apply between the Farmor and the Farmee with respect to their respective Working Interests in the Farmout Lands that include the location of that Operation in the absence of that recognition.

(c) This Paragraph applies if: (i) the Operation Notice described in Paragraph 10.02A(a) relates to a new well that targets the same formation as that contemplated for one or more Earning Wells being drilled hereunder; and (ii) the Farmee has not yet Commenced an Earning Well that will result in it earning a Working Interest hereunder in the Farmout Lands that include the location of the well to which that Operation Notice pertains. The Farmee may elect to participate in that well with respect to the Farmor's Working Interest share of costs in substitution for another Earning Well on the same basis as provided in the Agreement. Unless otherwise agreed in writing by the Parties, the Farmor may elect to participate in that well if the Farmee elects not to participate in that well. In such event, the Farmee's right to earn a Working Interest hereunder in the applicable Farmout Lands that the Farmee could earn by participating in that well as an Earning Well will terminate, provided that any such termination will be void if that well is not Commenced by the time prescribed under the Existing Agreement.

(d) The Parties will negotiate in good faith how to address an Operation Notice described in Paragraph 10.02A(a) if: (i) that Operation Notice relates to a pre-existing well or a well that targets a different formation than that contemplated for one or more Earning Wells being drilled hereunder; or (ii) the Farmee is in the process of earning a Working Interest in the Farmout Lands that include the location of the applicable Operation because of an Earning Well the Farmee has already Commenced hereunder. However, the Parties recognize that those negotiations ultimately might not be successful.

B. *Election Process*-Subject to any application of Paragraph 10.02A(b) to the location of a proposed Operation to which an Operation Notice described in Subclause 10.02A applies and any handling otherwise negotiated by the Parties under Subclause 10.02A, the following will apply to that Operation Notice:

(a) the Farmor will promptly provide a copy of that Operation Notice to the Farmee;

(b) the Farmee will notify the Farmor prior to the date prescribed under the applicable Existing Agreement for response to that Operation Notice if the Farmee elects to participate in the applicable Operation for the applicable portion of the Farmor's Working Interest and any greater proportionate share of costs the Farmee elects to assume on the basis prescribed by that Existing Agreement, such notice to be provided by the Farmee:

(i) at least two Business Days before that date if the response period prescribed for that Operation Notice under that Existing Agreement is at least seven days; and

(ii) at least one Business Day before that date if the response period prescribed for that Operation Notice under that Existing Agreement is shorter than seven days;

(c) the Farmor will make the election authorized by the Farmee in response to that Operation Notice in the manner and by the time prescribed by the Existing Agreement, provided that failure by the Farmee to make a required election by the time prescribed by Paragraph 10.02B(b) will be deemed to be the Farmee's election not to participate in the Operation to which that Operation Notice pertains;

(d) the Farmor may require the Farmee to advance or otherwise secure in a reasonably appropriate manner any costs to be incurred by the Farmor on behalf of the Farmee with respect to an Operation in which the Farmee has elected to participate under this Clause;

(e) insofar as the Farmor does not apply Paragraph 10.02B(d) with respect to that Operation, the Farmee will pay amounts owing by it for that Operation under the Existing Agreement within the period prescribed for payment of amounts owing thereunder, whereupon the Farmor will in turn pay those amounts to the applicable third party within that period. The Farmee and Farmor will coordinate whether those amounts will be paid directly to the applicable third party respecting that Operation or they will be paid to the Farmor to reimburse it for payments made by it to that third party therefor;

(f) any amounts paid by the Farmee to the Farmor for distribution to the third party under this Subclause will be held by the Farmor in trust for the Farmee on the same basis as provided in Subclause 5.07B of the standard form 2015 CAPL Operating Procedure; and

(g) the Farmor will promptly provide information from that Operation to the Farmee insofar as the applicable third party operator of that Operation is unwilling to provide the Farmee with its own copy of that information.

10.03 Consequence Of Non-Participation Accrues To Farmee

This Clause applies insofar as the Farmor elects to assume a share of participation in an Operation on behalf of the Farmee under this Article and the applicable Existing Agreement that is in addition to the Farmor's Working Interest share of costs under that Existing Agreement. In such event, the applicable third parties holding Working Interests in the Farmout Lands that elect not to participate in the applicable Operation may become subject to a cost recovery, forfeiture or other consequence of non-participation under that Existing Agreement. Unless otherwise provided in the Head Agreement, any consequence of non-participation of third parties that accrues to the benefit of the Farmor under that Existing Agreement will accrue to it solely on behalf of the Farmee, insofar as the Farmee assumed the share of costs of the applicable third parties to which that consequence pertains.

10.04 Consequence Of Farmee Non-Participation In Completion

This Clause applies if: (i) the Farmee has elected to Abandon an Earning Well under Article 7.00; (ii) the Farmor chooses not to exercise its takeover rights thereunder; and (iii) at least one of the third parties holding Working Interests in the applicable Farmout Lands under an Existing Agreement exercises a right to Complete that Earning Well thereunder. The Farmor and Farmee acknowledge that they are subject to the applicable consequences of their non-participation in the applicable Completion activity as prescribed by that Existing Agreement and that any Overriding Royalty otherwise payable by the Farmee to the Farmor hereunder for that Earning Well will be suspended during the period in which that consequence of non-participation applies to that Earning Well under that Existing Agreement. As between the Farmor and the Farmee, if Article 6.00 applies to that Earning Well and the cost recovery prescribed by that Existing Agreement for that non-participation is attained, the Farmor may then elect to convert its Overriding Royalty to a Working Interest under that Article, as if the date at which that cost recovery were attained is the ORR Conversion Date.

11.00 LIABILITY AND INDEMNITY

11.01 Farmee's Responsibility

A. *General Obligation*-This Clause applies, except to the extent that: (i) the Operating Procedure becomes effective between the Farmor and the Farmee hereunder; or (ii) the Agreement provides otherwise for activities conducted by the Farmor on behalf of the Farmee prior to application of the Operating Procedure. Subject to any application of Subclause 11.01B to limit the Farmee's responsibility for Losses and Liabilities, the Farmee will, with respect to activities hereunder:

(a) be liable to the Farmor for all Losses and Liabilities that the Farmor may suffer, sustain, pay or incur; and, in addition

(b) indemnify and hold harmless the Farmor, its Affiliates and the respective directors, officers and employees of the Farmor and its Affiliates from and against all Losses and Liabilities that may be brought against or suffered by them or that they may sustain, pay or incur.

B. *Limitations On Farmee's Responsibility*-The Farmee's obligation under Subclause 11.01A will apply only insofar as the Losses and Liabilities contemplated therein are a direct result of:

(a) any act, omission or failure to act (whether negligent or otherwise) of the Farmee, any of its Affiliates or the respective directors, officers, employees, agents or contractors of the Farmee or any of its Affiliates with respect to Operations or activities conducted by the Farmee or on its behalf hereunder;

(b) a breach of a provision herein by the Farmee, any of its Affiliates or the respective directors, officers, employees, agents or contractors of the Farmee or any of its Affiliates; or

(c) the Gross Negligence or Wilful Misconduct of the Farmee, any of its Affiliates or the respective directors, officers, employees, agents or contractors of the Farmee or any of its Affiliates.

However, the Farmee's obligation under this Clause will not apply, insofar as the particular act, omission or failure to act resulting in those Losses and Liabilities was done or omitted to be done in accordance with the Farmor's written instructions or written approval and that act, omission or failure to act was inherent in those instructions or that approval.

11.02 Farmor's Responsibility

Except as otherwise provided in the Agreement for activities conducted by the Farmor on behalf of the Farmee prior to application of the Operating Procedure, Clause 11.01 will apply, *mutatis mutandis*, to the Farmor's activities and obligations with respect to the Farmout Lands or the Reserved Formations.

12.00 ASSIGNMENT

12.01 Incorporation Of Assignment Procedure

The 1993 CAPL Assignment Procedure (or the most current replacement therefor then endorsed for use by the Canadian Association of Petroleum Landmen) is incorporated by reference into the Agreement using the addresses for service provided in the Agreement. It will be deemed to apply as if it had been included as a Schedule. It applies to the recognition process for all dispositions made under this Article, but will not apply (and is not required) for other assignments between or among any of the Parties by operation of another provision of this Farmout & Royalty Procedure. Subclause 24.04B of the standard form 2015 CAPL Operating Procedure will apply, *mutatis mutandis*, for the purposes of processing any notice of assignment thereunder in circumstances in which the Parties' interests are inconsistent in the Farmout Lands.

12.02 Dispositions Of Royalty Lands

A. *Consent Requirement And Disposition Of Royalty Lands*-Except as provided in Subclause 12.02B, Article 24.00 (using Alternate 24.01A-consent not to be unreasonably withheld) of the standard form 2015 CAPL Operating Procedure will apply, *mutatis mutandis*, to any disposition of Royalty Lands by either the Royalty Owner or the Royalty Payor.

B. *Right Of First Refusal And Disposition Of Royalty Lands*-This Subclause applies if:

(a) the Agreement includes an Operating Procedure in which a right of first refusal has been selected under Alternate 24.01B therein (or the applicable corresponding provision thereof) and that Alternate then remains in effect;

(b) Article 6.00 has been selected to apply hereunder; and

(c) the Royalty Owner then retains the right under Article 6.00 to convert the Overriding Royalty to a Working Interest for any portion of the Royalty Lands being disposed of by a Party.

Article 24.00 of the Operating Procedure (or the applicable corresponding provision thereof) will apply, *mutatis mutandis*, to any such disposition by any Party of a Working Interest or any of the Overriding Royalty respecting that portion of the Royalty Lands to which that conversion right pertains. That Article will apply to the administration of the ROFR, in the same manner as if the Royalty Owner had elected to convert its Overriding Royalty to the Working Interest prescribed by Subclause 6.04A in the applicable Royalty Lands immediately before issuance of any required disposition notice. However, this Subclause does not constitute an election by a Royalty Owner to convert the Overriding Royalty to a Working Interest under Article 6.00.

13.00 LAND MAINTENANCE COSTS

13.01 Land Maintenance Charges During And After Earning Phase

A. *Farmor To Pay During Earning Phase*-The Farmor will initially pay all rentals, shut-in or suspended well payments and any other payments required to maintain the Farmout Lands in good standing while the Farmee may earn a Working Interest in them hereunder. This obligation is subject to Subclause 2.03B if any security or compensatory royalty obligation accrues before the Farmee earns a Working Interest in the applicable Farmout Lands hereunder.

B. *Responsibility After Earning*-Except as otherwise may be prescribed by the Head Agreement (and regardless of the elections made under Clause 13.02) and the last grammatical paragraph of this Subclause:

(a) the Parties will share responsibility, in proportion to their respective Working Interests therein, for rentals, shut-in or suspended well payments and other payments required to be made under the Title Documents to maintain in good standing those Farmout Lands in which the Farmee has earned a Working Interest hereunder, notwithstanding any stratigraphic earning restrictions herein; and

(b) this Subclause will begin to apply to those obligations and the applicable earned Farmout Lands on the anniversary date of the applicable Title Document next following the date at which the Farmee earns a Working Interest hereunder in those Farmout Lands.

Notwithstanding the preceding portion of this Subclause, the Parties will share responsibility for any compensatory royalties respecting Farmout Lands in which the Farmee has earned its Working Interest in proportion to their Working Interests, except as otherwise provided in the Agreement, herein or in the Operating Procedure.

13.02 Farmee To Reimburse Farmor For Charges During Earning Phase

Alternate ___ *(Specify 1, 2 or 3)* of this Clause will apply to the charges described in Subclause 13.01A, provided that Subclause 2.03B will apply to any security or compensatory royalty obligation contemplated therein.

Alternate 1 (No Reimbursement For Earning Phase):
The Farmee has no obligation to reimburse the Farmor for any amounts paid by it under Subclause 13.01A to maintain the Farmout Lands in good standing while the Farmee may earn a Working Interest in them hereunder.

Alternate 2 (Payment Of Prescribed Amount):
The Farmee will pay the Farmor $_____ within 30 days after the Effective Date, as full reimbursement for amounts paid by the Farmor under Subclause 13.01A to maintain the Farmout Lands in good standing while the Farmee may earn a Working Interest in them hereunder.

Alternate 3 (As Otherwise Prescribed In Head Agreement):
The Head Agreement outlines the Farmee's responsibility for amounts paid by the Farmor under Subclause 13.01A to maintain the Farmout Lands in good standing while the Farmee may earn a Working Interest in them hereunder.

14.00 DEFAULT

14.01 Farmor's Default Remedies

A. *Failure To Commence Required Operation*

(a) If: (i) the Farmee fails to Spud an Earning Well or Commence and conduct any other Operation within the time period required in the Head Agreement (or any mutually agreed extension); and (ii) Subclause 3.01B does not extend the period for performance of that obligation, the Farmee's right to conduct Operations hereunder terminates without any requirement for the Farmor to notify the Farmee of that termination. That termination is subject to any application of Subclause 14.01C to Farmout Lands in the process of being earned by the Farmee and the limitation in Subclause 14.01D for

Farmout Lands in which the Farmee has already earned its Working Interest hereunder.

(b) Notwithstanding any temporary extension of the period for performance of an Operation under Subclause 3.01B and any other handling of Force Majeure contemplated in Clause 1.02, if Subclause 3.01B applies to the Farmee's failure to Spud an Earning Well or Commence any other Operation, either the Farmor or the Farmee may give notice to the other terminating the Farmee's right to drill that well or Commence that Operation if the period for Commencement of the applicable Operation has been extended for more than six months under that Subclause, provided that this period will be extended to 12 months if the Farmout Lands are located in a winter access only area. Except insofar as Clause 11.01 or Paragraph 14.01A(c) applies to the applicable Earning Well or Operation for other liabilities that have accrued to the Farmee because of its acts or omissions, the Farmor will not have any legal or equitable remedy (including specific performance or damages) against the Farmee for failure to fulfill the obligations for which notice was served under this Paragraph.

(c) If the Farmee has conducted any activities respecting the applicable Earning Well or other Operation before termination of the Farmee's rights under this Subclause, the Farmee will Abandon any associated well site and access roads at its sole cost, risk and expense, unless the Farmor has agreed in writing to accept an assignment of those surface rights. Any such assignment of surface rights will be at no cost to the Farmor, other than for the assumption by the applicable Farmor Parties acquiring those surface rights of all Environmental Liabilities respecting those surface rights.

B. *Farmee's Failure To Pay*-Subclauses 5.05B, C, E, F and H of the standard form 2015 CAPL Operating Procedure will apply, *mutatis mutandis*, to any failure of the Farmee to pay the Overriding Royalty or any other amount it is required to pay the Farmor hereunder, as if the Farmor is the Operator and the Farmee the defaulting Party thereunder. For this purpose, the reference in the fifth line of Paragraph 5.05B(g) thereof to "the lien referred to in Subclause 5.05A" will be amended to read "the Royalty Owner's lien hereunder".

C. *Other Farmee Defaults*-If the Farmee is in default of any obligations hereunder or under the Head Agreement other than as provided in Subclause 14.01A or B, the Farmor will give notice to the Farmee of that default if the Farmor intends to exercise its rights under this Subclause. It will include in that notice reasonable detail to enable the Farmee to understand the nature of that default. Within 30 days after its receipt of that default notice, the Farmee will either: (i) remedy or commence to remedy the default or defaults alleged by the Farmor and thereafter diligently continue to remedy them; or (ii) commence and diligently pursue proceedings for a judicial determination as to whether the alleged acts, omissions or failures to act constitute one or more defaults of the Farmee's obligations of the Agreement to which this Subclause applies. If the Farmee fails to address the applicable default(s) in the manner prescribed by the preceding sentence within that 30-day period, the Farmor may, by notice to the Farmee, terminate:

(a) all or any portion of the Working Interest the Farmee acquired (or was in the process of acquiring with respect to an Earning Well that was Spudded prior to issuance of that notice) in the Farmout Lands hereunder, subject to the limitation in Subclause 14.01D;

(b) any right of the Farmee to Spud an additional Earning Well; and

(c) any future obligation otherwise applicable with respect to Article 8.00 and any Area of Mutual Interest, insofar only as it affects obligations from the Farmor to the Farmee thereunder.

D. *Termination And Earned Working Interests*-No termination of the Farmee's interests or rights under this Clause will apply to any Farmout Lands in which the Farmee has earned a Working Interest hereunder, unless that default is with respect to any condition subsequent applicable to them under Clause 3.04.

E. *No Release*-Nothing in this Article will release the Farmee from any obligation: (i) to indemnify or be liable to the Farmor under Clause 11.01; (ii) to pay any amount owing by it hereunder; (iii) to keep information confidential; or (iv) if applicable, to finish the Abandonment of an Earning Well.

F. *Remedies Are Cumulative*-The rights and remedies granted to the Farmor under this Article are in addition to and not in substitution for any other right or remedy that it may have under the Agreement. The existence or the exercise of those rights or the termination of the Farmee's interests or rights under this Clause will not deprive the Farmor of any other right or remedy at law or in equity, including damages and indemnity, except as otherwise expressly provided in the Agreement.

14.02 Application Of Article To Other Financial Defaults

Subclause 14.01B will apply, *mutatis mutandis*, between the Party owed an amount and the Party owing that amount with respect to:

(a) the Farmor's failure to pay any required amount to the Farmee hereunder;

(b) any failure of a Party to indemnify the other Parties with respect to an encumbrance or similar burden under Clause 15.01 of the standard form 2015 CAPL Operating Procedure; and

(c) any failure of a Party to pay any amount applicable to its acquisition of Mutual Interest Lands under Article 8.00 by the applicable date prescribed by that Article.

However, if the default pertains to Paragraph 14.02(c), the acquiring Party will have the option, in lieu of those rights, to terminate the defaulting Party's right to participate in the applicable acquisition of Mutual Interest Lands. The acquiring Party may do so, by notice to that defaulting Party, after having given at least 15 Business Days' prior notice to it of the specific intention to use this remedy if that amount remains unpaid by it at expiry of that period.

15.00 DISPUTE RESOLUTION

15.01 Parties To Negotiate In Good Faith

This Clause is subject to any application of the Operating Procedure in due course. The Parties will attempt to resolve any dispute arising hereunder through consultation and negotiation in good faith. Article 21.00 of the standard form 2015 CAPL Operating Procedure will ___/will not ___ *(Specify)* apply, *mutatis mutandis*, herein. Insofar as the Parties are unable to resolve their dispute through negotiation, they will submit it to arbitration under, as applicable, Clause 21.03 thereof or, if that Article has not been selected to apply, the Arbitration Act of the Province of Alberta (as amended) if the dispute pertains solely to one or more of the issues listed below:

(a) the determination of Facility Fees being charged for Facility Usage under Subparagraph (b)(ii) or (iii) of the definition of Facility Fees incorporated by reference in Clause 1.02;

(b) any determination of whether Petroleum Substances are capable of production in Paying Quantities;

(c) the reasonableness of the Farmor's objection under Subclause 3.01E to a requested deferral of the Farmee's Production Testing obligation for an Earning Well or any determination under Subclause 3.01E or 3.05A about the ability to produce Petroleum Substances from an Earning Well in Paying Quantities;

(d) the settlement of a disputed Allocation Ratio (as defined in Subclause 5.03A) under Paragraph 5.03F(b);

(e) whether a Royalty Payor has used reasonable efforts under Clause 5.08 to produce a Royalty Well equitably relative to certain offsetting wells producing from the same pool as the Royalty Well;

(f) the settlement of an unresolved audit exception or a retroactive adjustment of accounts under Clause 5.10 with respect to the Overriding Royalty or a Payout Account, if it is reasonably estimated to result in a potential adjustment of less than $50,000;

(g) an adjustment of accounts under Subclause 7.02B or C with respect to an Abandonment; or

(h) the estimated cash value provided under Subclause 8.03B with respect to an acquisition of Mutual Interest Lands to which that Subclause applies.

16.00 RESERVED FORMATIONS

16.01 Farmor's Access To Reserved Formations

The Farmor (or its nominee) may enter upon the Farmout Lands at any time to drill a well to penetrate any Reserved Formations and to obtain production therefrom. The Farmor will conduct (or cause to be conducted) any such drilling and any testing and production activities with respect to the Reserved Formations in a manner that will interfere as little as is reasonably possible with drilling, Completion and other Operations conducted on the Farmout Lands under the Agreement. Nothing in this Clause, however, permits the Farmor (or its nominee) to use a well drilled to the Reserved Formations for the production or testing of Petroleum Substances from any formation then included in the Farmout Lands, unless otherwise agreed in writing by the Parties or permitted under the Agreement.

16.02 Farmee's Activities And Reserved Formations

The Farmee will conduct (or cause to be conducted) any drilling, Completion or production Operations on the Farmout Lands under the Agreement in a manner that will interfere as little as is reasonably possible with drilling, testing and production activities with respect to the Reserved Formations.

17.00 GOODS AND SERVICES TAXES

17.01 Joint Election For Goods And Services Tax

If the Agreement includes an Operating Procedure, the Parties jointly elect, effective as of the Effective Date and

while the election is in effect pursuant to paragraph 273(1)(a) of the *Excise Tax Act* (Canada) (or any replacement therefor of similar effect), to have the Farmee account for goods and services tax in respect of all properties and services that are supplied, acquired or imported by the Farmee on behalf of the Parties, including any interest in properties that may be acquired by the Farmor as a result of a conversion of the Overriding Royalty to a Working Interest under Article 6.00. If there is more than one Farmee Party or a Party other than the Farmee is conducting Operations on behalf of the Parties under the Agreement, the obligations of the Farmee in this Clause will be assumed by the Farmee Party designated as the representative of the Farmee or that other Party, as applicable.

18.00 APPLICATION OF PROCEDURES TO SUBSEQUENT OPERATIONS

18.01 Application Of Farmout & Royalty Procedure

This Farmout & Royalty Procedure will apply as of the Effective Date. It will apply to all matters or Operations pertaining to the Farmout Lands until such time as the Farmee fully performs its obligations for those portions of the Farmout Lands to be earned by it hereunder, including any residual obligations that are required to be satisfied under Clause 3.04 for the Farmee to earn a Working Interest unconditionally. Notwithstanding any application of the Operating Procedure under Clause 18.03, this Farmout & Royalty Procedure will continue to apply after that earning with respect to:

(a) all provisions pertaining to the Overriding Royalty, including Articles 5.00, 6.00, 9.00 and 14.00, insofar as the Overriding Royalty exists hereunder; and

(b) Paragraph 3.01D(a), Subclauses 3.03B and C, Articles 7.00, 8.00, 11.00, 12.00, 15.00, 16.00 and 17.00 and Clauses 18.02 and 18.04, insofar as they do not cease to apply by their own terms.

Nothing in this Clause, however, will relieve a Party from any obligation or liability that accrued under the Head Agreement or this Farmout & Royalty Procedure before the date the Operating Procedure becomes effective.

18.02 Restriction On Additional Drilling

This optional Clause will ___/will not ___ *(Specify)* apply herein.

This Clause does not apply to any well being drilled to preserve title under Clause 10.10 of the Operating Procedure (or the applicable corresponding provision thereof). Until the Farmee has earned a Working Interest in all of the Farmout Lands on the unconditional or conditional basis contemplated in Clause 3.03 or 3.04 or its option to drill additional Earning Wells has terminated, no Party may, without the consent of the other Parties, propose the drilling of a well:

(a) on the Farmout Lands earned as a result of an Earning Well; or

(b) on any Mutual Interest Lands acquired jointly hereunder, except as required under Clause 8.05 pursuant to an Earning Agreement.

Notwithstanding the immediately preceding sentence (but subject to any application of the first sentence of this Clause), only the Farmor may propose the drilling of an additional well on Farmout Lands conditionally earned for Capping an Earning Well under Article 3.00 until the Farmee satisfies its obligations for the evaluation of that well under Subclause 3.01D and for the Completion or Abandonment of that well under Paragraph 3.01E(e).

18.03 Application Of Operating Procedure

Subject to Clauses 3.04, 18.01 and 18.02 and any restrictions under the Head Agreement, each Operation conducted upon any portion of the Farmout Lands in which the Farmee has earned a Working Interest hereunder will be conducted under the Operating Procedure, if any. The initial Operator and the initial Working Interests of the Parties thereunder will be as set forth in the Head Agreement.

18.04 Title Administrator

Notwithstanding Clause 18.03, this Clause applies if a Party other than the Operator is identified in the Head Agreement as being the Title Administrator with respect to the maintenance and administration of one or more of the Title Documents pertaining to the Farmout Lands. Any such designated Title Administrator will have the same rights and obligations as the Operator under the Operating Procedure (or the standard form 2015 CAPL Operating Procedure if the Agreement does not include an Operating Procedure) for that purpose with respect to each such Title Document. It is the Parties' intention that the Operator will assume these responsibilities in due course with respect to any Title Document that pertains solely to Farmout Lands in which the Farmee has earned a Working Interest hereunder, and each Party will execute such documents or other authorizations as are required to effect this change at that time.