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OPERATING PROCEDURE

Attached to the Head Agreement dated _____, between _____

1.00 DEFINITIONS AND INTERPRETATION

1.01 Definitions

In this Operating Procedure:

"Abandonment" means: (i) the proper plugging and abandonment of a wellbore or the decommissioning or removal of a Production Facility, as applicable; (ii) the salvage of the associated salvable material and equipment; (iii) any required remediation of any associated Environmental Liabilities; and (iv) the reclamation of the applicable surface location and any applicable access roads, all in compliance with the Regulations and the requirements of the documents under which the applicable surface rights were held.

"Accounting Procedure" means the exhibit to this Operating Procedure titled "Accounting Procedure".

"AFE" means an authorization for expenditure for a proposed Operation, and includes:

(a) the type, purpose and description of that Operation, in sufficient detail to enable a Party to understand its nature, scope, sequence and schedule, and, subject to Article 8.00 respecting Horizontal Wells, includes for the drilling of a well (in whole or in part), its projected total depth, the formation in which any proposed Horizontal Well will be drilled, its anticipated surface coordinates and, if materially different, its projected bottomhole coordinates; and

(b) a *bona fide* estimate of the anticipated costs of that Operation, in sufficient detail to enable a Party to identify, in summary form, those for identifiable segments of that Operation, provided that any Drilling Costs, Completion Costs or Equipping Costs are subject to Articles 8.00, 9.00 and 10.00, as applicable, for Horizontal Wells, Casing Point elections and Independent Operations respectively.

"Affiliate" means a corporation, partnership or trust that is affiliated with the Party for which the expression is being applied. For the purpose of this definition, a corporation, partnership or trust is affiliated with another corporation, partnership or trust if it, other than by way of security only, directly or indirectly controls or is controlled by that other corporation, partnership or trust. In determining if a corporation, partnership or trust so controls or is so controlled, it will be deemed that:

(a) a corporation is directly controlled by another corporation, partnership or trust if: (i) shares of the corporation to which are attached more than 50% of the votes that may be cast to elect directors of the corporation are beneficially owned by that other corporation, partnership or trust; and (ii) the votes attached to those shares are sufficient, if exercised, to elect a majority of the directors of the corporation;

(b) a partnership or trust is directly controlled by a corporation, another partnership or another trust if that corporation, other partnership or other trust beneficially owns more than a 50% interest in the partnership or trust; and

(c) a corporation, partnership or trust is indirectly controlled by another corporation, partnership or trust if control, as set forth in Paragraph (a) or (b) above, is exercised through one or more other corporations, partnerships or trusts.

Two or more corporations, partnerships or trusts affiliated at the same time with the same corporation, partnership or trust are deemed to be affiliated with each other.

"Agreement" means the Head Agreement and the Schedules, including this Operating Procedure.

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

"Business Day" means any day other than a Saturday, Sunday or statutory holiday in Alberta.

"Casing Point" means, subject to Clause 8.02 for a Horizontal Well and any specific commitments in an approved drilling AFE, the time when: (i) a well has been drilled to total depth; (ii) the authorized logs and wireline or drillstem tests have been conducted thereon; and (iii) a decision must be made under Article 9.00 to set casing for production or to Abandon that well.

"Commenced" means: (i) Spudded for the drilling of a well; (ii) the physical re-entry of a wellbore with a drilling rig or service rig of adequate capacity for any Operation in an existing well, including a Completion of a Suspended well, a Recompletion or an Abandonment; (iii) for any Operation conducted on the Joint Lands, other than drilling or a re-entry of a wellbore (such as a geophysical program), the initiation of work beyond surveying at the applicable field location; or (iv) for any other Operation (such as an engineering study), the initiation of the Operation.

"Commercial Quantities" means the anticipated output of hydrocarbon substances from a well that would reasonably warrant drilling another well hereunder to the formation indicated to be productive by that well, considering: (i) the anticipated associated Drilling Costs, Completion Costs, Equipping Costs and Operating Costs; (ii) the kind and quality of hydrocarbon substances indicated to be present by that well; (iii) the anticipated availability of facilities for treating, processing,

transporting or otherwise handling those hydrocarbon substances and any associated water, sediment and other impurities, as well as the anticipated cost of that use; (iv) the anticipated availability of markets for that production; (v) the lessor royalties and other burdens payable for the Joint Account for that production; (vi) the probable life of that well; and (vii) the anticipated price to be received for that production when sold.

"Completion" means:

(a) the perforation, stimulation, treating, acidizing, fracing and swabbing of that well and the production tests reasonably required to establish its initial producibility, including the installation of all associated surface equipment temporarily required for the conduct of those activities; and

(b) the installation in or on a well, up to and including the outlet valve of the wellhead, of all production casing, tubing, equipment and material necessary (other than a pump or other artificial lift equipment) for the ongoing recovery of Petroleum Substances.

"Completion Costs" means the costs incurred for the Completion, Recompletion or Reworking of a well.

"Deepen" means the drilling of a well to a formation or depth deeper than: (i) the target formation or estimated equivalent depth identified in the AFE or Operation Notice therefor; or (ii) the deepest formation or depth to which it was previously drilled. A Deepening also includes the extension of any Horizontal Leg beyond the length authorized in Clause 8.01 or otherwise hereunder or the drilling of an additional Horizontal Leg.

"Development Well" means a well, insofar as the geological formations to be penetrated in the drilling thereof are stratigraphically above the base of the deepest geological formation in which a well within 3.2 kilometres thereof (as measured from the coordinates where the respective wells penetrate the top of that geological formation, or, for any such well that is a Horizontal Well, the nearest points of each well in the applicable formation, while treating any applicable Horizontal Leg as a single well for this purpose) is or has been capable of production of petroleum, natural gas or related hydrocarbon substances in Commercial Quantities as of the date of issuance of the applicable AFE or Operation Notice, provided that:

(a) the other well will only be taken into account if, as of the date of issuance of that AFE or Operation Notice: (i) the drilling information therefrom is in the public domain; (ii) all Parties have access to the information therefrom under the Agreement or any other agreement; or (iii) each Party not then having access to information therefrom is entitled to such access in due course under Clause 10.19; and

(b) the Joint Lands in the Spacing Unit for the proposed well (as determined on the basis prescribed by Paragraph (a) of the definition of Spacing Unit) include the same geological formation and specific type of Petroleum Substances that have been capable of production in Commercial Quantities from that other well.

"Drilling Costs" means the costs incurred (other than Completion Costs and Equipping Costs) for drilling a well, including those for: (i) acquiring approvals required under the Regulations and required surface access (including community and stakeholder consultation under Clause 3.09); (ii) preparation of the well site; (iii) construction or use of such roads as are reasonably necessary for access to the well site; (iv) installation of surface and intermediate casing; (v) the logging, coring and wireline or drillstem testing programs; (vi) any insurance policies acquired for the Joint Account specifically for that well; (vii) Abandonment, if Commenced within 12 months after drilling rig release and subject to any allocation of costs under Clause 9.04 and Subclauses 10.06E and 10.08E between the Parties that participated in drilling the well and the Parties that participated in additional Operations; and (viii) the items described above for a Deepening or Sidetracking, as applicable. Insofar as the costs of the acquisition of the applicable surface rights, the preparation of the well site and the construction or use of applicable access roads relate to a Well Pad, the Parties will allocate those costs to the applicable wells on such basis as the Parties may agree in writing at the time that the Well Pad was constructed or in accordance with any applicable separate agreement entered into by them with respect to that Well Pad, provided that, in the absence of any such agreement, the Parties will initially allocate those costs on a well count basis to the wells for which that Well Pad was initially constructed and that are reasonably expected to be drilled over the first 24 months, using the principles outlined in any then current PASC Accounting Guidelines on the Distribution of Shared Pad Costs.

"Earning Agreement" means a farmout or like agreement between a Party and another Party or a third party, the substance of which is that the other Party or third party has the right, obligation or option to acquire a Working Interest in the Joint Lands (and possibly interests in other petroleum and natural gas rights) in return for the conduct of certain operations on the Joint Lands or other lands. A transaction for which all or a portion of the consideration for that acquisition is cash (other than for any reimbursement of rentals or other land maintenance costs or a *bona fide* fee for access to certain proprietary seismic data) or the exchange of another property is not an Earning Agreement.

"Environmental Liabilities" means all liabilities pertaining to the Joint Property in respect of the environment, whether or not relating to a breach of the Regulations and whether or not resulting from Operations, including any liabilities related to:

(a) the transportation, storage, use or disposal of toxic or hazardous substances or hazardous, dangerous or non-dangerous oilfield substances or waste;

(b) the release, spill, escape or emission of toxic or hazardous substances;

(c) any other pollution or contamination of the surface, substrate, soil, air, ground water, surface water or marine environments;

(d) damages and losses suffered by third parties due to any occurrence in Paragraphs (a)-(c) above; or

(e) any obligations under the Regulations to protect the environment or to rectify environmental problems.

"Equipping" means the conduct of such activities and the installation of such equipment as are required for ongoing recovery of Petroleum Substances from an individual Completed well, including, individually or as part of any such activity: (i) a pump or other artificial lift equipment, whether on the surface or in the well; (ii) flow lines and production tankage; (iii) the acquisition of approvals required under the Regulations and any required surface access (including consultation under Clause 3.09); (iv) any associated surface preparation and the construction or improvement of any reasonably necessary road; and (v) a heater, dehydrator or other wellsite facility necessary for the initial treatment, measurement, field gathering or other handling of Petroleum Substances. Equipping excludes: any such equipment that is (or is intended to be) a Production Facility or is otherwise intended to serve more than one well; other activities in a wellbore; and activities otherwise within the scope of this definition, insofar as the costs were included in the Drilling Costs or Completion Costs for the well.

"Equipping Costs" means the costs incurred for Equipping a well.

"Exploratory Well" means a well, insofar as it is not a Development Well.

"Extraordinary Damages" means, except for any Losses and Liabilities respecting a Party's breach of the confidentiality obligations prescribed by Article 18.00, any Losses and Liabilities howsoever arising or occurring that: (i) are in the nature of consequential, indirect, punitive or exemplary damages (including compensation for business interruption, loss of profits, loss of opportunity, opportunity costs, reservoir or formation damage, the inability to produce Petroleum Substances or a delay in their production); or (ii) pertain to loss of well control during drilling or other well Operations or any other inadvertent release of Petroleum Substances during any Operations hereunder, including, for this item (ii), associated Environmental Liabilities.

"Facility Fees" means, as applicable, as a fee for Facility Usage of facility capacity:

(a) not owned by a Party (or its Affiliate), all costs and expenses paid for that use under a *bona fide* arm's length arrangement; and

(b) owned by a Party (or its Affiliate), a fee (designed to cover both operating and return on capital components) determined under Subparagraph (i), (ii) or (iii) below:

(i) the fee for a specified use of that facility under any separate agreement negotiated by the Parties, in accordance with the terms or methodology outlined therein;

(ii) the fee ordinarily chargeable to a third party for a comparable use under a *bona fide* arm's length transaction, if there are third party users and Subparagraph (b)(i) does not apply; or

(iii) in all other circumstances, a fee for that use, in which the capital recovery component thereof is determined using as a guideline the industry recognized Jumping Pound-05 methodology (or the most current replacement therefor in effect at the relevant time) and in which the operating cost component thereof is calculated and assessed on the basis of facility throughput costs;

provided that the Parties will use Article 21.00 to resolve any dispute they have about Facility Fees calculated under Subparagraph (ii) or (iii) of this Paragraph.

"Facility Usage" means a Party's use of facilities, other than those included in Equipping Costs or described in Clauses 10.13 or 10.14 for an Independent Operation, to make merchantable for delivery to market Petroleum Substances of a Non-Taking Party under Article 6.00 or those produced from an Independent Well. It includes, as applicable, the gathering, compression, treatment, processing, transportation, further measurement or other handling of those Petroleum Substances, but excludes in all instances any adjustments for transportation costs made in the determination of the Market Price.

"First Point of Measurement" means the first point at which the applicable Petroleum Substances are metered, measured or allocated downstream of the wellhead after, as applicable: (i) any treatment of crude oil for the separation, removal and disposal of basic sediment, water and other applicable impurities; (ii) any extraction of liquid hydrocarbons from natural gas at or near the wellhead and any wellsite separation, removal and disposal of basic sediment, water and other applicable impurities from those liquid hydrocarbons; and (iii) any wellsite dehydration of natural gas.

"Force Majeure" means an event beyond the reasonable control of a Party claiming suspension under Article 16.00 of an obligation hereunder that has not been caused by its negligence and which it was unable to prevent or provide against by the exercise of reasonable diligence at a cost that was not unreasonable. Subject to the foregoing, Force Majeure includes: (i) an act of God; (ii) a strike, lockout or other industrial disturbance (which will be deemed to be beyond that Party's reasonable control for this purpose in all cases); (iii) war, insurrection, blockade, riot, vandalism or other civil disturbance; (iv) fire, lightning, storms, floods or unusually severe weather for the area; (v) an explosion or accident causing material physical damage or otherwise materially affecting use or access to the Joint Property; (vi) a shortage of labour or materials from established or generally recognized sources of supply; (vii) the requirement to comply with a binding order of a court; and (viii) government restraint, action, delay or inaction, including the inability to obtain any permit, licence or other authorization

required under the Regulations for conduct of an Operation on reasonably acceptable terms. However, lack of finances, changes in a Party's economic circumstances and changes that affect the economic attributes of investments hereunder will not be considered an event of Force Majeure.

"Gross Negligence or Wilful Misconduct" means any act, omission or failure to act (whether sole, joint or concurrent) by a person that: (i) was a marked and flagrant departure from the standard of conduct of a reasonable operator acting in the circumstances at the time of the alleged misconduct; or (ii) was intended to cause, or was in reckless disregard of, or wanton indifference to, the harmful consequences to the safety or property of another person or to the environment which the person acting or failing to act knew (or should have known) would result from such act, omission or failure to act. However, Gross Negligence or Wilful Misconduct does not include any act, omission or failure to act insofar as it: (1) constituted mere ordinary negligence; or (2) was done or omitted in accordance with the express instructions or approval of all Parties, insofar as the act, omission or failure to act otherwise constituting Gross Negligence or Wilful Misconduct was inherent in those instructions or that approval.

"Head Agreement" means the agreement to which this Operating Procedure is appended as a Schedule.

"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.

"Horizontal Leg" means any single wellbore with an inclination of at least 80 degrees into a formation that is the horizontal component of a well: (i) proposed initially as a Horizontal Well; or (ii) drilled from the point of kickoff from a Vertical Stratigraphic Wellbore.

"Horizontal Well" means a well that includes a Horizontal Leg.

"HSE" means health, safety and the environment.

"Independent Operation" has the meaning prescribed by Clause 10.01.

"Independent Well" has the meaning prescribed by Clause 10.01.

"Joint Account" means the sharing of benefits, risks, costs, expenses and obligations by the Parties in proportion to their respective Working Interests at the relevant time.

"Joint Lands" means those lands, formations and Petroleum Substances that have been made subject hereto by the Agreement and so much thereof which remain subject hereto at the relevant time.

"Joint Operation" means an Operation authorized and conducted hereunder for the Joint Account.

"Joint Property" means the Joint Lands, together with all other tangible and intangible property held for the Joint Account at the relevant time, including funds, wells, Production Facilities and other equipment and materials.

"Losses and Liabilities" means all claims, liabilities, actions, proceedings, demands, losses, costs, expenses, penalties, fines and damages, whether statutory, regulatory, contractual, tortious or otherwise, which may be sustained or incurred by a Party, its Affiliates and their respective directors, officers and employees respecting any person (including that Party or any other Party), including reasonable legal fees and disbursements on a solicitor and its own client basis.

"Market Price" means the price at which Petroleum Substances are disposed of for purposes of this Operating Procedure, which price is not unreasonable, having regard to market conditions applicable to similar production in *bona fide* arm's length sales agreements at the time of that disposition. A Party making a determination of a Market Price will use a *bona fide* methodology that is reasonably consistent for the period to which the disposition pertains, and will consider such factors as: (i) the kind, quality and volume of Petroleum Substances disposed; (ii) the timing and duration of the disposition; (iii) whether the disposition is required under a pre-existing *bona fide* arm's length agreement that applies specifically to the Joint Lands and those disposed Petroleum Substances; (iv) the point of sale; and (v) the type of, and costs for using, transportation service (including any applicable demand and variable charges, measurement variance and any other volumetric deductions forming part of the consideration for the transportation service, including fuel) to deliver those Petroleum Substances to the nearest point of sale. Except as provided in item (iii) above and, if applicable, in the optional last sentence of this definition, structured prices for terms exceeding 31 days, whether transacted or referenced, are not relevant to the determination of Market Price hereunder. For this purpose, a structured price includes any fixed price, price swap, forward or futures contract, put or call option, either physical or financial, entered into by a Party for the sale of production volumes.

This optional sentence will ___/will not ___ (Specify) apply: *Notwithstanding the preceding portion of this definition, a Party making a determination of Market Price for a particular type of Petroleum Substance may, for ease of administration, use as a basis for that calculation the weighted average sale price received by it in the applicable period for physical deliveries*

of substantially all of its own production sale volumes produced in the applicable jurisdiction, including deliveries under arm's length sales agreements with terms exceeding 31 days.

"Multiple Well Completion Program" has the meaning set forth in the Head Agreement, if applicable, for this term or a comparable term.

"Multiple Well Drilling Program" has the meaning set forth in the Head Agreement, if applicable, for this term or a comparable term.

"Non-Operator" means a Party other than the Operator.

"Non-Participating Party" has the meaning prescribed by Clause 10.01.

"Non-Taking Party" means a Party that does not take in kind and separately dispose of its entire share of produced Petroleum Substances under Article 6.00.

"Operating Costs" means all costs and expenses (exclusive of Drilling Costs, Completion Costs, Equipping Costs and Facility Fees) incurred for operation and maintenance, as set forth in the Accounting Procedure, to operate and maintain: (i) a well for the recovery of Petroleum Substances; (ii) equipment installed as Equipping Costs; or (iii) a Production Facility.

"Operating Procedure" means this Schedule, including the Accounting Procedure that is an exhibit hereto.

"Operation" means any drilling, Deepening, Sidetracking, Completion, Recompletion, Equipping, Reworking, Abandonment or other activity provided for or conducted hereunder that relates primarily to the exploration, development or exploitation of the Joint Lands (rather than tasks that are primarily administrative or managerial in nature), including: (i) the recovery of Petroleum Substances from wells; (ii) the construction, installation, modification, expansion or operation of any Production Facility; and (iii) the conduct of any geological, geophysical, environmental, biophysical or engineering program or study respecting the Joint Lands and any other lands within the scope of that approved program or study.

"Operation Notice" has the meaning prescribed by Clause 10.01.

"Operator" means the Party appointed to conduct Joint Operations, subject to Clause 10.04 for an Operation proposed as an Independent Operation.

"Outside Substances" means hydrocarbon substances produced from lands other than the Joint Lands.

"Participating Interest" means the percentage share of the cost of a particular Operation (or any respective portion thereof) that a Party has agreed to pay or is required to pay hereunder.

"Participating Party" has the meaning prescribed by Clause 10.01.

"Party" means a corporation, partnership, individual, body politic, trust or other legal person that holds a Working Interest and is bound by the terms of the Agreement.

"Paying Quantities" means, with respect to a drilled well, the anticipated output of Petroleum Substances therefrom that would reasonably warrant incurring the applicable costs, considering: (i) any anticipated Completion Costs and Equipping Costs; (ii) Operating Costs; (iii) the kind and quality of Petroleum Substances indicated to be present by that well; (iv) the anticipated availability of facilities for treating, processing, transporting or otherwise handling those Petroleum Substances and any associated water, sediment and other impurities, as well as the anticipated cost of that use; (v) the anticipated availability of markets for that production; (vi) the lessor royalties and other burdens payable for the Joint Account for that production; (vii) the probable life of that well; and (viii) the anticipated price to be received for that production when sold.

"Petroleum Substances" means petroleum, natural gas (including natural gas from coal or shale) and every other mineral or substance for which the Title Documents grant the right to explore, develop or produce.

"Production Facility" means, subject to any application of: (i) Article 13.00 to create a separate agreement due to inconsistent Working Interests; (ii) Clauses 10.13 and 10.14 for Independent Operations; and (iii) Clause 14.02 to require a separate agreement, any personal property and fixtures beyond wellhead connections serving (or intended to serve) more than one well, including any battery, separator, disposal well, injection well approved by all Parties, compressor station, gathering system, pipeline, production storage facility or warehouse, which is:

(a) constructed or installed for the Joint Account;

(b) owned exclusively by the Parties;

(c) initially designed and intended exclusively for the production, treatment, storage, transportation or other handling of Petroleum Substances or associated sediment, water or other impurities;

(d) not a gas plant, being a facility (other than a dehydration unit) that changes the quality of natural gas, including such activities as fractionation of Petroleum Substances, sulphur extraction or separation of liquids by refrigeration;

(e) not subject to a separate agreement governing the construction, ownership and operation of that facility; and

(f) This optional Paragraph will ___/will not ___ (Specify) apply:

reasonably estimated to have an initial construction or installation cost less than $_____.

A Production Facility includes all directly associated real and personal property of every kind, nature and description, excluding Petroleum Substances, the Joint Lands and the Operator's owned or leased equipment, unless leased for the Joint Account for use as or with respect to a Production Facility.

"Recompletion" means an Operation whereby a Completion in a formation in a well is abandoned, Suspended or otherwise modified to conduct further activities of the type described in the definition of Completion in the existing wellbore of that well in either a different portion of the same formation or in a different formation, and includes the setting of any required bridge plugs and any required removal, repair or replacement of tubing.

"Regulations" means all statutes, laws, rules, orders, directives and regulations in effect from time to time and made by governments or their agencies with jurisdiction over the Joint Property, Operations or the Parties.

"Reworking" means an Operation, other than a Completion, a Recompletion or routine repair or maintenance work, conducted in a Completed well to secure, restore or improve the recovery of Petroleum Substances from a formation then open to production in that well, and includes any non-routine stimulation of that well.

"Schedule" means a schedule or exhibit to the Head Agreement, including this Operating Procedure.

"Sidetracking" means the directional control and intentional deviated drilling of a well from the original well trajectory using part (but not all) of an existing wellbore to change the bottom hole location from the original well trajectory, provided that Sidetracking does not include: (i) any such deviation undertaken to straighten the hole, drill around an obstruction in the hole or overcome mechanical difficulties; or (ii) the drilling of a Horizontal Well.

"Spacing Unit" means:

(a) for a well that has not been Completed for production of Petroleum Substances: the area of the Joint Lands prescribed by the Regulations for drilling that well, to the base of the deepest formation proposed to be penetrated by that well, provided that it will be deemed to be the quarter-section, unit or similar geographical area of the Joint Lands that includes the well's bottomhole coordinates in the absence of any such designation under the Regulations or in the Agreement; and

(b) in every other case: the area of the Joint Lands allocated to a well under the Regulations for production of the applicable Petroleum Substances in each individual formation of the Joint Lands from which they will be produced.

"Spud" means the penetration of the surface location of a well by a drilling rig of adequate capacity to drill that well to the total depth projected in the AFE or Operation Notice therefor.

"Suspend" means, for a well that is not then being Abandoned, to discontinue the drilling, Completion or production of a well and to place in that well such casing, plugs and equipment as are necessary to enable that well to be re-entered at a later date for further Operations.

"Title Administrator" means that Party which is normally the Parties' representative to maintain a particular Title Document in good standing, which will be the Operator, unless the Agreement designates another Party as having that duty.

"Toe" means the bottom hole coordinates of a Horizontal Well, as described on the As Drilled Survey for that well, or the bottom hole coordinates of the applicable Horizontal Leg if a Horizontal Well includes more than one Horizontal Leg.

"Title Documents" means the documents of title (or any of them) through which the Parties hold their Working Interests in the Joint Lands, and any documents issued or derived therefrom, including all amendments, renewals, extensions, continuations or replacements (whether by operation of the applicable document, the Regulations, law or equity, the Agreement or other agreement of the Parties) thereof.

"Vertical Stratigraphic Wellbore" means a wellbore which is drilled vertically with the intent that one or more Horizontal Legs may be kicked off from that wellbore, and which portion of that wellbore is uphole of the point at which a given Horizontal Leg is kicked off from that wellbore.

"Well Pad" means a surface location that is constructed or expanded with the intention that multiple wells will be drilled and operated from that surface location, including any access road constructed to serve solely that Well Pad.

"Working Interest" means the percentage of undivided beneficial interest held by a Party hereunder (other than an overriding royalty, net profits interest or other charge of a similar nature) in: (i) the Joint Lands or the respective formations or portions thereof; (ii) a Production Facility; or (iii) other Joint Property, which percentage initially is as provided in the Agreement and is subsequently subject to modification under the Agreement.

1.02 References And Interpretation

A. *References Apply To Interpretation*-Unless otherwise stated:

(a) the references "hereunder", "herein" and "hereof" refer to the provisions of this Operating Procedure, and a reference to an Article, Clause, Subclause, Paragraph, Subparagraph or Alternate herein refers to the specified provision of this Operating Procedure;

(b) the singular will be construed to include the plural and *vice versa*, and words that refer to a particular gender will include all genders;

(c) the headings of Articles, Clauses and Subclauses and any other headings or indices are for reference only, and will not be used in interpreting any provision herein or as indicating that all provisions of this Operating Procedure relating to a particular topic are found in that Article, Clause or Subclause;

(d) a capitalized derivative or other variation of a defined term will have a corresponding meaning;

(e) all references to "dollars" or "$" refer to lawful currency of Canada, and all billings, payments and receipts will be made and recorded in Canadian currency;

(f) a reference to "includes" or "including" is used to present some (but not necessarily all) examples of the matter for which the reference is used, and is not to be construed to limit the interpretation of that matter to only those examples;

(g) a reference to a statute or similar legislative instrument includes all applicable Regulations, all subordinate or successor legislation in effect from time to time and all amendments thereto;

(h) any reference to time means Mountain Standard Time or Mountain Daylight Time during the respective periods in which each is in force;

(i) any reference to a Party or a Party's Working Interest does not apply to that Party or its interest in its capacity as lessor under a Title Document;

(j) a reference to "costs" and "expenses" excludes all payments made for taxes in the nature of goods and services tax under the *Excise Tax Act* (Canada) or any other value added, sales or transfer tax, insofar as they are refundable (by credit or otherwise) under the Regulations;

(k) any reference to "days" refers to calendar days unless the reference is to Business Days, and if the phrase "within", "at least" or "not later than" is used to refer to a specific number of days or Business Days, the day of receipt of the relevant notice will be excluded and the day of the relevant response or event will be included in determining the relevant time period. However, if the time for doing any act (including a response to a notice within a prescribed period) expires on a day that is not a Business Day, the time for doing that act will be extended to the next Business Day, except as prescribed by Article 9.00 for a Casing Point election and the Accounting Procedure for the payment of funds; and

(l) this Clause will apply, *mutatis mutandis*, to the Head Agreement and the other Schedules.

B. *Parties Participate Equally In Preparation*-The Agreement will be interpreted as if each Party participated equally in its preparation. Any legal rule of construction that would cause the Agreement to be construed against the Party that assumed primary responsibility for drafting it because of that role will not apply to the Agreement.

1.03 Optional And Alternate Provisions

If the Parties have not made an election required hereunder for an optional or alternate provision, that optional provision or the first such alternate provision will apply as if it had been designated, except that the second such alternate provision will apply in that case with respect to Article 21.00.

1.04 Conflicts

A. *Conflicts Within Agreement Or With Regulations*-If there is a conflict between a provision of the Head Agreement and that of a Schedule (including this Operating Procedure), the provision of the Head Agreement will prevail. If a provision herein conflicts with that of the Accounting Procedure or another Schedule, the provision herein will prevail, unless otherwise expressly stated in that other Schedule. If there is a conflict between any provision in the Agreement and the Regulations or the Title Documents, the Regulations or the Title Documents will prevail, except that: (i) the Working Interests will prevail between the Parties if the Working Interests and the interests in the registered legal title in the Title Documents differ; (ii) the classification of wells described herein will apply between the Parties; and (iii) the allocation of responsibility for Losses and Liabilities herein will apply between the Parties, including the liability and indemnification provisions of Article 4.00.

B. *Severance And Enforceability*-The applicable provisions (or portions thereof) of the Agreement will be deemed to be severed from the Agreement to the extent necessary to resolve a conflict, insofar as: (i) the conflict is not within the

exceptions in the last sentence of Subclause 1.04A; or (ii) any provision of the Agreement is judicially determined to be unenforceable. Any such severed provision will be of no further force and effect, provided that the Parties will mutually attempt in good faith to negotiate a replacement provision that will secure the purposes of the original provision in a legally valid manner. As so modified, the Agreement will remain in full force and effect.

1.05 No Partnership Or Fiduciary Relationship

A. *Obligations Not Joint Or Collective*-Except as provided in Article 5.00 for financial default, the Parties' rights, obligations and liabilities hereunder will be separate and not joint or collective or joint and several. The Parties intend that their interests in the Joint Lands and in all other Joint Property will be held as tenants in common, subject to those modifications expressly provided under the Agreement. Nothing contained in the Agreement creates a partnership or association of any kind, imposes upon any Party any partnership duty, obligation or liability to any other Party or authorizes any Party to act as an agent of any other Party for any purpose except as expressly provided in the Agreement. Except as provided for: (i) the commingling of funds in Clause 5.07; (ii) the distribution of the proceeds of sale in Clause 6.06; and (iii) the obligation to maintain information confidential in Article 18.00, the Parties also confirm their intention that there is not any trust, trust duty or fiduciary relationship between them under the Agreement, provided that:

(a) the Parties recognize that the intention expressed by the Parties in this Subclause might not prevent such a trust, trust duty or fiduciary relationship being imposed at law or in equity; and

(b) the Parties do not intend this Subclause to lessen any duty of good faith (or similar duty) that may otherwise apply to them at law or in equity.

B. *Parties Conduct Business As They See Fit*-Each Party acknowledges that the Parties are engaged in the oil and gas business. Each Party is free to conduct its business in such manner as it, in its sole discretion, sees fit, even if it is (or may be) in competition with potential Joint Operations. Nothing in the Agreement restricts a Party from making elections or decisions in what it perceives to be its own interest, economic or otherwise, subject to: (i) any trust, trust duty or fiduciary relationship imposed at law or in equity; (ii) any duty of good faith (or similar duty) contemplated in Subclause 1.05A; and (iii) the other provisions of the Agreement, including any specific obligations not to exercise discretion unreasonably.

C. *Operator's Obligations Limited To Agreement*-Except as expressly provided in the Agreement, the Party appointed as Operator, will not, because of that appointment, have any additional obligation in contract, at law or in equity:

(a) to any other Party hereunder for lands other than the Joint Lands; or

(b) to apply knowledge or information it otherwise obtains about lands other than the Joint Lands in order to propose any Joint Operation or to take or refrain from taking any action hereunder.

1.06 Governing Law

The Agreement will be treated as a contract made in the Province of Alberta. The Agreement will be subject to and be interpreted and enforced in accordance with the laws in effect in the Province of Alberta, including the federal laws of Canada applicable therein, provided that this does not affect the Parties' obligations to comply with the Regulations of another jurisdiction that apply to the Joint Lands or Operations located outside the Province of Alberta. Subject to the dispute resolution processes in Article 21.00, each Party accepts the exclusive jurisdiction of the courts of the Province of Alberta and all courts of appeal therefrom with respect to the Agreement and any associated legal proceedings between the Parties.

1.07 Extension Under Alberta Limitations Act

Subject to the dispute resolution processes in Article 21.00, the Parties agree that the two-year period for seeking a remedial order under section 3(1)(a) of the *Limitations Act* (Alberta), as amended, for any claim (as defined in that Act) arising in connection with the Agreement is extended to:

(a) for claims disclosed by an audit, two years after expiry of the time the Agreement permitted it to be performed; or

(b) for all other claims, four years.

1.08 Time Of Essence

Time is of the essence in the Agreement.

1.09 No Amendment Except In Writing

Except as otherwise provided herein, amendments to the Agreement must be in writing and executed by all Parties.

1.10 Waiver

No waiver by any Party of any application or breach (whether actual or anticipated) of any provision of the Agreement will be effective, unless that waiver is expressed in writing under that Party's authority. Any waiver so given will extend only to the

particular application or breach to which it pertains, and will not limit or affect any rights respecting any future application of that provision or any other or future breach, whether of a like or different character. A Party that fails to take any steps in respect of a breach or non-fulfillment of any provision of the Agreement by another Party will not be regarded as having waived its rights with respect to that matter, except insofar as the Agreement expressly provides that its rights are extinguished with respect to that matter because of its failure to exercise those rights by a specified time.

1.11 Supersedes Previous Agreements

Insofar as the Head Agreement or any other Schedule becomes ineffective by its own terms, this Operating Procedure supersedes the Head Agreement and such other Schedule. Except for the Title Documents and as otherwise provided in the Agreement or this Clause, the Agreement supersedes all other oral or written agreements, representations and understandings of the Parties about the matters and property governed hereunder, and expresses all of the terms agreed upon by them with respect thereto. Insofar as: (i) two or more (but fewer than all) Parties agree in writing; (ii) an existing agreement has been identified in the Agreement with respect to certain potential reversionary rights for lands that are no longer Joint Lands hereunder; or (iii) an existing agreement respecting an overriding royalty, net profits interest, carried interest or other charge of a similar nature applies to a Working Interest, the applicable existing agreement will continue to apply between the relevant Parties or to the applicable Working Interests on the basis provided therein and the Agreement, provided that it will not derogate from the Parties' obligations under the Agreement, including any obligations of a Party under Article 15.00 with respect to additional burdens that are not borne for the Joint Account.

1.12 Limitation On Right Of Acquisition

Notwithstanding any provision herein, a Party's right to acquire a Working Interest hereunder will not extend beyond the period prescribed by applicable perpetuities Regulations or, in the absence of those Regulations, 21 years after the lifetime of the last survivor of the lawful descendants now living of Her Majesty, Queen Elizabeth II.

1.13 No U.S. Tax Partnership

The Parties do not intend to form a partnership for federal income tax purposes of the United States of America ("U.S."). If, for purposes of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), the Agreement or the Parties' relationship constitutes a partnership (as defined in Section 761(a) of the Code), each Party is deemed to elect to have it excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Code (or any comparable provisions that may exist at the relevant time) to the extent permitted therein. Each Party required to file a U.S. federal income tax return will make all permitted and authorized elections therein to reflect that election, provided that the Party subject to the Code which holds the largest Working Interest may, by notice to the other affected Parties, execute that election for each applicable Party and provide such evidence of that election as is requested by the applicable U.S. authorities. No Party will give any notice or take any action inconsistent with that election. No activity conducted under the Agreement or this Clause will be construed in a way that would cause any Party to be deemed to be engaged in a trade or business within the U.S. or subject to its taxable jurisdiction, unless the Joint Lands are located in the U.S. A Party that is not otherwise subject to the taxable jurisdiction of the U.S. will not be required to do any act or execute any instrument that would subject it to that jurisdiction.

1.14 Term

This Operating Procedure will remain in full force and effect so long as any portion of the Joint Lands or any Production Facility is owned jointly by two or more Parties and for as long thereafter as may be necessary to: (i) Abandon all wells on the Joint Lands and all Production Facilities: (ii) salvage all equipment relating thereto; and (iii) complete a final settlement of accounts among the Parties, whichever last occurs. However:

(a) the confidentiality obligations prescribed by Article 18.00 will continue to apply to information obtained under the Agreement until that particular information is no longer subject to those confidentiality obligations; and

(b) those provisions related in whole or in part to audit, liability, indemnity, disposal and salvage of material, Abandonment, responsibility for Environmental Liabilities and enforcement on default will survive after that prescribed time, insofar as is applicable, for such longer time as the Operator (or any other Party) has rights or obligations with respect to the applicable matter under the Regulations.

Termination of this Operating Procedure will not affect a Party's accrued rights and obligations.

1.15 Modifications To CAPL Document Form

This Operating Procedure is in the 2015 form of CAPL Operating 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 other changes specifically identified: (i) herein by underlining or strikethrough text; (ii) in the Head Agreement; or (iii) in a Schedule of elections and amendments. Each modification hereof that has not been specifically identified in this manner will be deemed to be inoperative, and the 2015 CAPL Operating Procedure will apply as if that modification had not been made.

2.00 APPOINTMENT AND REPLACEMENT OF OPERATOR

2.01 Assumption Of Duties Of Operator

The Party appointed as Operator in the Head Agreement and any successor appointed or deemed appointed hereunder will

assume the rights, duties and obligations of the Operator hereunder.

2.02 Replacement Of Operator

A. *Immediate Replacement*-The Parties acknowledge that the Operator's ability to fulfill its duties and obligations for the Parties' benefit is largely dependent on its ongoing financial viability and that the Operator may not seek relief at law, in equity or under the Regulations to prevent its replacement in accordance with this Subclause. The Operator will be replaced immediately after service of notice from any Non-Operator to the other Parties to such effect if:

(a) the Operator becomes bankrupt or insolvent, commits or suffers any act of bankruptcy or insolvency, is placed in receivership or seeks debtor relief protection under applicable legislation (including the *Bankruptcy and Insolvency Act* (Canada) and the *Companies' Creditors Arrangement Act* (Canada)), and it will be deemed to be insolvent for this purpose if it is unable to pay its debts as they fall due in the usual course of business or if it does not have sufficient assets to satisfy its cumulative liabilities in full;

(b) a third party holding security over the Operator's Working Interest enforces that security;

(c) the Operator initiates shareholder or legal proceedings for its dissolution, liquidation or winding-up in circumstances in which its Working Interest is not being assigned to an Affiliate;

(d) a final judgment or order of a court is entered or rendered against the Operator's Working Interest and it remains unsatisfied for the lesser of a 30-day period or such other period as would permit that Working Interest to be sold thereunder;

(e) the Operator is in default under the Regulations or the Title Documents and: (i) the default may cause cancellation of any Title Document; (ii) the default has continued for at least one-half of the period allowed thereunder for its remedy; and (iii) the Operator is not then diligently attempting to remedy it;

(f) the Operator (or its managing partner or one of its partners if the Operator is a registered partnership or an Affiliate if the Operator is a trust) is not eligible to hold a licence or approval required under the Regulations for a well or other Joint Property; or

(g) the Operator assigns or attempts to assign its general powers and responsibilities of supervision and management as Operator hereunder, except for an assignment to an Affiliate under Clause 2.09, provided that neither of the following will be a breach of this Paragraph:

(i) a pending appointment of a new Operator under Clause 2.06 due to the Operator's disposition of a Working Interest that is not yet binding on the other Parties; or

(ii) a contract operating agreement or a farmout or other similar agreement under which a Party, an Affiliate of a Party or a third party conducts certain specific activities as the Operator's designate.

Any such notice from a Non-Operator must be a *bona fide* notice that specifies the basis for replacement under this Subclause and includes verifiable evidence substantiating that basis in reasonable detail. Subject to the restrictions in Subclause 2.06B on the appointment of a successor Operator, the Party with the largest Working Interest will then act as interim Operator on the same basis as in Subclause 2.06D, unless the Parties have otherwise appointed a successor Operator under Clause 2.06.

B. *Delayed Replacement*-The Operator will be replaced and another Operator appointed under Clause 2.06 if:

(a) at least two Parties holding at least 60% of the Working Interests agree, by notice to the other Parties (including as a single Party for this purpose any Affiliate thereof that is a Party), to replace the Operator, provided that a single Party holding at least a 60% Working Interest may, by notice to the other Parties, become the Operator hereunder, unless it: (i) would then be subject to immediate replacement under Subclause 2.02A; or (ii) is then subject to a *bona fide* notice of default under Clause 5.05;

(b) the Operator defaults in performance of any of its duties or obligations hereunder (other than as contemplated in Paragraph 2.02A(e)) and does not begin to remedy diligently that default within 30 days after receiving a *bona fide* notice from Parties holding a majority of the Working Interests (excluding those of the Operator and any of its Affiliates that are Parties), specifying the default in sufficient detail to enable the Operator to understand its nature and requiring the Operator to remedy it, provided that the Operator will be replaced immediately by an interim Operator under Subclause 2.06D if those duties or obligations must be fulfilled sooner to protect life, property or the environment; or

(c) it receives a *bona fide* notice from Parties holding a majority of the Working Interests (excluding those of the Operator and any of its Affiliates that are Parties) that it has failed to remedy diligently a default it began to remedy under Paragraph 2.02B(b) and the basis for that determination in reasonable detail.

2.03 Challenge Of Operator

A. *Challenge Notice*-At any time after a Party has been the Operator for a continuous period of at least two years, any

Non-Operator may give notice (the "Challenge Notice") to the other Parties that it is prepared to conduct Joint Operations on more favourable terms and conditions. It will include in the Challenge Notice sufficient detail to enable the other Parties to evaluate the nature of the Challenge Notice and the effect the revised terms and conditions would have on Joint Operations. Within 60 days after receipt of the Challenge Notice, the Operator will notify the Parties if it is prepared to operate on the terms and conditions set out therein. If it is, it will promptly proceed to do so, and Subclause 2.03B will apply to it, *mutatis mutandis*. If it is not, it will resign as Operator effective not later than 45 days after that 60-day period. The Operator will be deemed to resign if it fails to deliver such a notice within that 60-day period.

B. *Successor Operates Under Challenge Notice*-If the Operator resigns under Subclause 2.03A, a successor will be appointed under Clause 2.06, provided that the Party that served the Challenge Notice will become the new Operator if no other Party is prepared to operate on the terms and conditions set out therein. The new Operator will conduct Joint Operations on the basis set forth in the Challenge Notice. Any costs in excess of those set out therein in the two-year period after becoming the Operator will be for its sole account. Notwithstanding Clause 2.04 (but subject to Clause 2.09), the new Operator may not resign until it has acted as Operator for at least two years.

C. *Limitation On Issuance*-A Party may not issue a Challenge Notice or become Operator thereunder if it: (i) is in default under Clause 5.05; or (ii) could be replaced immediately under Subclause 2.02A after becoming Operator.

2.04 Resignation Of Operator

An Operator may resign on giving the Non-Operators at least 45 days' notice of its intention to resign, subject to: (i) the challenge and modification of terms and processes in Clauses 2.03 and 2.05 respectively; (ii) any earlier application of the replacement processes in Clause 2.02; or (iii) the selection of a successor Operator under Subclause 2.06C after a disposition by the Operator of all or a portion of its Working Interest. The resigning Operator will remain as Operator until the time that its replacement is effective under Subclause 2.06E.

2.05 Modification Of Terms And Conditions By Operator

A Party that has been the Operator for a continuous period of two years may give notice ("Operator's Notice") to the Non-Operators of the revised terms and conditions on which it would continue as Operator, provided that an Operator operating under a previous Operator's Notice may not serve another Operator's Notice until the previous one has been effective for at least two years. Within 60 days after receipt of the Operator's Notice, each Non-Operator will notify the Operator if it agrees to the Operator operating under those revised terms and conditions. A Non-Operator that fails to respond within that period will be deemed to agree to those revised terms and conditions. A Non-Operator that does not agree must give notice ("Counter-Proposal") to the other Parties of the terms and conditions upon which it would serve as the Operator. Any such Counter-Proposal will be deemed to be a challenge of the Operator. Clause 2.03 will apply, *mutatis mutandis*, as if it were a Challenge Notice, except that the Counter-Proposal will be compared to the terms and conditions proposed in the Operator's Notice. If no Party serves a Counter-Proposal, the Operator will thereafter operate under the Operator's Notice, with any excess costs for its sole account. Notwithstanding Clause 2.04 (but subject to Clause 2.09), the Operator may not resign until it has operated for at least two years under any Operator's Notice that becomes effective.

2.06 Appointment Of New Operator

A. *Appointment Of Successor As Soon As Practicable*-The Parties will appoint a successor Operator under this Clause as soon as is practicable after: (i) removal of the Operator under Clause 2.02; (ii) receipt of notice from the Operator of its intention to resign because of a disposition of all or a portion of its Working Interest; or (iii) receipt of a notice from the Operator of its intention to resign in other circumstances.

B. *Limitation On Appointment*-Unless otherwise agreed by the Parties, no provision of this Article will appoint as the successor Operator: (i) a Party that would then be subject to immediate replacement under Subclause 2.02A (including an assignee that will be a Party when that appointment would be effective under Subclause 2.06E); (ii) a former Operator (or any Affiliate thereof) that was replaced under Clause 2.02 within the preceding 30 months; or (iii) a Party then subject to a *bona fide* notice of default under Clause 5.05.

C. *Appointment Subject To Parties' Approval* -Subject to the other provisions of this Article and the right of a qualified Affiliate to become the Operator under Clause 2.09, the Parties will appoint a successor Operator by the affirmative vote of at least two Parties that are not Affiliates and that collectively hold greater than 50% of the Working Interests. That vote will be conducted by notice from a Party to the other Parties, and the former Operator is eligible to vote if then a Party. Subject to any earlier application of Clause 2.02, the following will apply to any such appointment of a successor Operator because of the Operator's disposition of all or any of its Working Interest under Article 24.00:

(a) the Operator will notify the other Parties of that disposition in a timely manner, including in that notice the identity of the proposed assignee, the closing date for that disposition and confirmation if that assignee wants to be considered as the successor Operator; and

(b) the Operator will continue to represent the disposed Working Interest until that disposition is effective pursuant to the "CAPL Assignment Procedure" under Subclause 24.04A, and it may vote for its assignee as its successor, even though that assignee is not yet recognized as a Party for that Working Interest.

A Party that does not notify the other Parties of its vote for a successor Operator within 15 Business Days after its receipt of a notice requesting confirmation of a successor Operator will be deemed to vote for the successor Operator proposed therein. A Party that holds at least a 60% Working Interest may, by notice to the other Parties, become the Operator. If there are only two Parties when the appointment of a successor Operator is to take effect, the Non-Operator may, by notice to the other Party before that time, become the Operator, provided that such Non-Operator must hold more than a 40% Working Interest if the appointment is because of the Operator's disposition of its Working Interest. Parties that are Affiliates will be regarded as a single Party for this Subclause.

D. *Temporary Appointment Of Operator*-No Party may be appointed as Operator under this Clause unless it gives its written consent to the appointment, provided that the Party (other than the outgoing Operator) with the largest percentage Working Interest (including for this purpose an assignee that will be a Party at the time of replacement) will act (or continue to act) as interim Operator if the Parties have not appointed a successor Operator before the replacement of the Operator is effective under Subclause 2.06E. The Party that held that largest Working Interest for the longest time will be the interim Operator if at least two Parties hold that same percentage of Working Interest. This Subclause will also apply, *mutatis mutandis*, until appointment of a successor Operator under this Clause if an Operator is being replaced immediately under Clause 2.02.

E. *Effective Time Of Replacement*-Subject to Subclause 2.06B and except for any immediate replacement of the Operator under Subclause 2.02A or Paragraph 2.02B(b), a replacement of Operator will be effective at:

(a) 0800 hours on the first day of the second month after a determination to replace the Operator under Subclause 2.02B or a selection of a successor Operator under Subclause 2.06C;

(b) 0800 hours on the day that the assignment of a Working Interest assigned by the Operator to its Affiliate is effective hereunder if that Affiliate is succeeding it as Operator under Clause 2.09;

(c) such time as may be prescribed by Clause 2.03, 2.04 or 2.05, as applicable; or

(d) such other time as the Parties may otherwise agree.

Subject to: (i) the preceding sentence; (ii) any appointment of an interim Operator under this Article; or (iii) any agreement to the contrary by the Parties, the outgoing Operator will retain all of its rights and obligations as Operator hereunder that accrue during the interim period until its replacement as Operator is effective.

F. *No Recourse For Removal*-An Operator that resigns or is replaced in accordance with this Article will not have any claim or recourse against the other Parties because of its resignation or replacement.

2.07 Transfer Of Property On Change Of Operator

At the effective time of the Operator's resignation or replacement prescribed by Subclause 2.02A or 2.06E, as applicable, the outgoing Operator will deliver to the successor Operator possession of:

(a) the wells being drilled or operated by the Operator hereunder, except any wells for which the successor Operator is not then entitled to information, which excepted wells will be operated by the Party determined under Clause 10.04 until the successor Operator becomes entitled to that information;

(b) all Production Facilities or other Joint Property, including funds and any production not delivered in kind;

(c) copies of the relevant books and records kept for the Joint Account; and

(d) all documents, agreements, authorizations, licences and other records relating to the Joint Property transferred hereunder, other than proprietary information developed by the Operator for its own account.

The outgoing Operator will continue to: (i) remain responsible for any unsatisfied obligations that accrued to it before the effective time of its replacement or resignation; and (ii) retain its rights for any amounts owing to it under the Agreement that accrued before that time. Except as provided in this Clause, it otherwise will be released from (and the successor Operator will assume) all of the Operator's duties and obligations as of that time.

2.08 Audit Of Account On Change Of Operator

Within 180 days after a successor Operator commences to act as Operator, the Non-Operators may cause an audit to be made of the books and records kept by the outgoing Operator for the Joint Account and may cause an inventory of "Controllable Material" (as defined in the Accounting Procedure) to be taken. However: (i) no such audit or inventory will be conducted if the successor Operator is an Affiliate of the outgoing Operator; (ii) the scope of any such audit will be as agreed by the Parties before its commencement; (iii) any such audit will be conducted concurrently with any audit that had been scheduled to be conducted under the Accounting Procedure during that 180-day period; and (iv) the conduct of such an audit or a decision not to conduct such an audit does not preclude the conduct of an audit under the audit provisions of the Accounting Procedure. The cost of any such inventory will be for the Joint Account. The cost of any such audit will be a charge for the account of the Parties (including the successor Operator if it is a Party) other than the outgoing Operator, unless otherwise agreed by the Parties before its commencement. The Parties will conduct any such audit under the Accounting Procedure and, insofar as not in conflict with that document, the guidelines in the then most current PASC Joint

Venture Audit Protocol Bulletin.

2.09 Assignment Of Operatorship

Clause 2.06 will apply to the appointment of a successor Operator if the Operator wishes an assignee that is not its Affiliate to succeed it as Operator after its disposition of a Working Interest to that assignee under Article 24.00. An assignee that is the Operator's Affiliate will become the Operator when that assignment becomes effective hereunder (without need for the Operator to issue a specific notice to that effect) if it has acquired all or substantially all of the Operator's Working Interest in the affected Joint Lands, unless it is disqualified by Subclause 2.06B. If the Operator's Affiliate succeeds it as Operator, the two-year time periods described in Clauses 2.03 and 2.05 due to a challenge or modification of terms will be calculated as if that assignment did not occur.

3.00 FUNCTION AND DUTIES OF OPERATOR

3.01 Control And Management Of Joint Operations

A. *Management Of Operations*-The Operator will consult with the Parties periodically about the exploration, development and operation of the Joint Lands, the construction, installation and operation of any Production Facility and management of the Joint Property. It will keep them informed in a timely manner about Joint Operations planned or conducted by it. Subject to the Agreement, the Parties delegate to the Operator, on their behalf, management of the exploration, development and operation of the Joint Lands and management of the other Joint Property. However, the Operator does not have any obligation to initiate or optimize the exploration and development of the Joint Lands, except insofar as the Agreement includes specific obligations to the contrary.

B. *Authorized Expenditures*-Subject to the limitations on charges prescribed by the Accounting Procedure and any provisions of the Agreement that prescribe a different approval process for activities with respect to a Multiple Well Drilling Program, a Multiple Well Completion Program or the development or ongoing exploitation of any of the Joint Lands, the Operator may make such expenditures for the Joint Account as it reasonably considers necessary and prudent to conduct Joint Operations. However, it may not make an expenditure for the Joint Account for settlement of any damage claim or for any single Operation or other undertaking with a total settlement amount or *bona fide* estimated cost in excess of the applicable expenditure threshold prescribed by the Accounting Procedure (or $50,000 if the Accounting Procedure does not prescribe any such amount) without an approved AFE from the Parties, except insofar as the Operator reasonably determines that:

(a) an emergency exists (or is imminent) and the expenditure is then required: (i) for safety or the protection of life or property; or (ii) to prevent or mitigate pollution or other Environmental Liabilities; or

(b) the expenditure: (i) relates to an Abandonment of a well authorized under Clause 12.01; or (ii) is required by the Regulations (including any such expenditure to mitigate pollution or other Environmental Liabilities or to complete Abandonment, in due course, of any surface location associated with a Joint Operation or any Joint Property), where failure to make that required expenditure at that time could result in prosecution of the Operator or the imposition of enforcement actions, penalties or any other material adverse formal consequence on the Operator under the Regulations.

The Operator will promptly notify the Non-Operators of any expenditure it anticipates under Paragraph 3.01B(a) or (b). It will include with that notice an AFE for informational purposes only, in sufficient detail to enable them to understand the event or requirement, the nature, scope and schedule of the expenditure and the anticipated associated costs.

C. *AFE Overexpenditures*-A Party's approval of an AFE constitutes its approval of all expenditures necessary to conduct the Operation described therein, subject to the limitations on charges prescribed by the Accounting Procedure and Articles 8.00 and 9.00 for Horizontal Wells and a Casing Point election respectively. However, the Operator will, for informational purposes only, promptly notify the Non-Operators if it incurs or expects to incur expenditures for a Joint Operation that exceed the total amount estimated in the applicable AFE by more than the greater of $50,000 or 10%. It will include in that notice its explanation for that overexpenditure and its revised cost estimate for that Joint Operation. If that Joint Operation relates to a well, the Operator will then provide estimates of current and cumulative costs incurred therefor on a daily basis where practicable and weekly estimates of forecast costs until that Joint Operation is completed.

D. *Activities Within Scope Of Approval*-Notwithstanding the limited discretionary authority granted to the Operator under Subclause 3.01E and, for an Independent Operation, Subclause 10.02H, the Parties recognize that it is inherent in the approval of a drilling Operation hereunder that the Operator has authority to modify the well described in the original associated AFE or Operation Notice in order to return the well to its original trajectory, to drill around obstructions in the hole or otherwise to overcome drilling difficulties, as reasonably required in the circumstances to conduct the approved Operation in accordance with good oilfield practice.

E. *Permitted Modification Relative To Participating Parties*-Notwithstanding the description of a drilling Operation in an AFE or an Operation Notice, the situations encountered in a well drilled for the Joint Account are such that the Operator might intentionally wish to modify the bottom hole coordinates of the well somewhat from the well coordinates described in the original associated AFE or Operation Notice as information from that well is obtained. As between the Operator and the other Participating Parties and subject to Subclause 3.01D, the Operator may

intentionally modify the bottom hole coordinates of the well insofar as it reasonably believes appropriate (with the participation elections of the Participating Parties remaining in effect), provided that:

(a) the modified well is still being drilled to the deepest geological formation identified in that original AFE or Operation Notice;

(b) the modified well is not being drilled to a deeper geological formation than the deepest geological formation identified in that original AFE or Operation Notice;

(c) the Horizontal Leg of any such well being drilled as a Horizontal Well is not being drilled intentionally in a different geological formation than identified in that original AFE or Operation Notice;

(d) the Parties' Working Interests at the location of the modified bottom hole coordinates of the well are the same as the Parties' Working Interests with respect to the Joint Lands that included the original bottom hole coordinates for the well;

(e) the modified bottom hole coordinates would not result in either: (i) the reduction of the production allowable for the well under the Regulations; or (ii) unless agreed by the Parties, another well located on the Joint Lands being shut-in to accommodate production from the additional well because of a requirement under the Regulations;

(f) the modified drilling program for the applicable Horizontal Leg will not result in a difference in total measured distance within the well from Heel to Toe, relative to the comparable total measured distance therefor identified in that original AFE or Operation Notice, of more than the greater of 75 metres or 7.5% (or such greater variance as may be agreed with respect to the particular AFE or Operation Notice); and

(g) the *bona fide* anticipated modified bottom hole coordinates of the well will not otherwise vary from the anticipated bottom hole coordinates of that well identified in that original AFE or Operation Notice by more than 75 metres or, in the case of a Horizontal Leg, by not more than the greater of 75 metres or 7.5% of the total measured distance from Heel to Toe identified for that well in that original AFE or Operation Notice (or such greater radius as may be agreed with respect to the particular AFE or Operation Notice).

The Operator must obtain the consent of each Participating Party in that well to any such proposed intentional modification if the contemplated modification does not satisfy all of the applicable conditions in Paragraphs 3.01E(a)-(g). Notwithstanding the preceding portion of this Subclause, nothing in this Subclause authorizes the Operator to conduct a plugging back and Sidetracking Operation in a well for which a separate Operation Notice would be required under Clause 10.08.

3.02 Operator As Party

The Operator has all of the rights and obligations of a Party with respect to its Working Interest.

3.03 Independent Status Of Operator And Contracting

A. *Independent Contractor*-The Operator is an independent contractor in activities hereunder. It will supply or cause to be supplied all material, labour and services reasonably necessary for Joint Operations. It will determine the number of employees and contractors required for Joint Operations, their selection, their hours of labour and their compensation, and they will be regarded as the Operator's employees and contractors. The Operator's status as an independent contractor does not alter its responsibility for liability and indemnification, which will continue to be governed by Article 4.00 and the other provisions of the Agreement.

B. *Contracting*-The Operator will award all contracts for the supply of goods and services for expenditures authorized hereunder in accordance with good contracting practices in the oil and gas industry. It will consider such factors as reliability, safety, environmental protection, technology, cost, quality of service, delivery time and other factors relevant to the contract. It will normally award those contracts on a competitive basis, except for goods or services:

(a) supplied by the Operator or an Affiliate of the Operator on the basis authorized by the Agreement or as otherwise authorized by the Parties;

(b) obtained under a *bona fide* arm's length alliance arrangement (or other form of preferred supply arrangement) between the Operator and a supplier that applies generally to the Operator's operations in the area in which the Joint Lands are located, provided that the terms thereof are not unreasonable relative to the terms generally available in the marketplace for similar arrangements;

(c) obtained in compliance with local preference requirements under the Regulations or the Title Documents or under the Operator's normal contracting policy for use of local suppliers; or

(d) obtained under a *bona fide* arm's length contract having a total value of less than $50,000.

3.04 Proper Practices In Joint Operations

The Operator will manage all Joint Property and conduct all Joint Operations diligently, in a good and workmanlike manner, in compliance with the Title Documents and the Regulations and in accordance with good oilfield practice, including prudent reservoir management and conservation principles. Insofar as the Operator hires contractors hereunder, it will supervise them as is reasonable. Notwithstanding the preceding portion of this Clause, a breach of the obligations contained in this Clause will not result in any form of liability (whether in tort, contract or otherwise) of the Operator to the Parties, except insofar as the conduct to which the breach pertains constitutes Gross Negligence or Wilful Misconduct for which the Operator is solely responsible under Article 4.00.

3.05 Health, Safety And The Environment

A. *Management Of HSE Risks*-Without limiting the obligations in Clause 3.04, the Operator will conduct each Joint Operation in compliance with the Regulations pertaining to HSE. With the goals of achieving safety and reliability in Joint Operations and in avoiding adverse and unintended impact on the environment, property and the health or safety of people, the Operator will, in planning and conducting Joint Operations:

(a) design and operate to standards that are intended to achieve sustained reliability and promote the effective management of HSE risks; and

(b) apply structured and documented HSE management systems and procedures consistent with those generally applied by a responsible operator under similar circumstances to manage HSE and security risks effectively and pursue sustained reliability of operations, including: (i) internal processes to identify and minimize or address HSE risks; (ii) internal processes to address the response to any emergency; (iii) work rules that restrict or prohibit the possession or use of alcohol, illicit drugs and other controlled substances and weapons at the field location of Joint Operations; and (iv) internal security processes to protect the Joint Property from harm, damage and theft.

Notwithstanding the preceding portion of this Subclause, a breach of the obligations contained in this Clause 3.05 will not result in any form of liability (whether in tort, contract or otherwise) of the Operator to the Parties, except insofar as the conduct to which the breach pertains constitutes Gross Negligence or Wilful Misconduct for which the Operator is solely responsible under Article 4.00.

B. *HSE Incidents*-The Operator will promptly advise each Non-Operator of any HSE incident that it reasonably determines is significant. It will advise each of them of the measures taken by it, at the time and on a follow-up basis, to address the incident, with such consultation with the Non-Operators about those follow-up measures as is appropriate. It will prepare an incident report for any such incident in due course. It will outline in that incident report, in summary form, the circumstances of the incident and the corrective action, if any, undertaken to prevent a recurrence of the incident.

C. *Periodic HSE Inspections*-The Operator will have its personnel inspect producing wells and Production Facilities held for the Joint Account periodically with respect to HSE matters, provided that it will conduct that inspection at such earlier time as may be reasonably required to assess any material HSE incident. The Operator will cause a HSE audit or review to be conducted for the Joint Account at such frequency as it reasonably determines is appropriate having regard to the nature of the Joint Property (or at such greater frequency as may be prescribed by the Regulations), using such criteria and qualified personnel as it reasonably determines are appropriate.

D. *HSE Reports*-The Operator will provide each Non-Operator that so requests with a copy of any HSE incident report, audit report or review obtained under Subclause 3.05B or C, provided that, subject to the Regulations, the Parties will keep confidential under Article 18.00 any such disclosed information. The Operator will, as soon as is practicable, address and, where appropriate, rectify all material deficiencies identified therein. It will, upon request, provide the Non-Operators with a plan for addressing all material deficiencies identified therein that remain outstanding at the time the Operator receives the applicable report or review.

E. *Non-Operator HSE Audit Rights*-Any Non-Operator may conduct a HSE review or audit of any Joint Property or any Joint Operation at its own cost by reasonable notice to the Operator. If more than one Non-Operator wishes to conduct such a review or audit, they will attempt to coordinate their efforts to minimize the inconvenience to the Operator. A Party that conducts any such review or audit will provide a copy of the report to the Operator and any other Non-Operator that participated therein. The Operator will respond to the Non-Operators about any material deficiencies identified therein in a timely manner, and Subclause 3.05D will apply, *mutatis mutandis*, thereto.

F. *Clause Does Not Create Duty On Non-Operators*-Nothing in this Clause 3.05 is to be interpreted as imposing on any Non-Operator any duty to take action in circumstances in which the Operator's HSE performance is deficient.

3.06 Protection From Liens

The Operator will pay (or cause to be paid) all costs for goods and services supplied with respect to the Joint Lands, any Joint Operations and any other Joint Property as those costs become due. Except for the Operator's lien, the potential remedies for financial default provided in Clause 5.05 and undetermined or inchoate liens permitted or created under the Regulations, the Operator will keep the Joint Lands and the other Joint Property free from liens and encumbrances associated with payment of those costs and all other liens and encumbrances associated with payment of any taxes levied

under the Regulations for the Joint Account, unless there is a *bona fide* dispute about any such payment. Insofar as there is such a *bona fide* dispute, the Operator will proceed in good faith and with reasonable diligence to resolve that dispute, and will take such other lawful and prudent steps as are reasonably appropriate to protect the Joint Property from seizure.

3.07 Records And Accounts

To minimize the possibility of materially inaccurate recording or reporting of transactions, assets or liabilities hereunder, the Operator will maintain internal controls that, by industry practice, are appropriate. The Operator will keep and maintain true and correct records and accounts under the Agreement for the conduct of Joint Operations, the production of Petroleum Substances and the disposition thereof. The Operator will, upon request of a Non-Operator, permit it to: (i) inspect those records and accounts during normal business hours in the Operator's principal Canadian office or its applicable field office; (ii) make extracts or copies therefrom; and (iii) audit those records and accounts as provided in the Accounting Procedure, including the associated processes and procedures respecting internal controls. However, a Non-Operator will not have the rights granted under this Clause for a well for which it is not then entitled to information hereunder.

3.08 Non-Operator's Rights Of Access

Subject to any withholding of rights from a defaulting Non-Operator under Paragraph 5.05B(b), the Operator will permit a Non-Operator's duly authorized representatives, at that Non-Operator's sole risk, cost and expense, full and free access at all reasonable times to each Joint Operation being conducted upon the Joint Lands or at any Joint Property, as well as the records on location of those Joint Operations, provided that: (i) the Operator has received reasonable prior notice of that intention and the name of each such representative; (ii) each such representative will bring such protective clothing and equipment as is appropriate having regard to anticipated weather conditions, the Operator's HSE requirements and the nature and location of those Joint Operations or that Joint Property; and (iii) the Operator may impose such restrictions as are reasonable having regard to HSE, site logistics and any agreed upon restrictions on access to well information or the applicable well site or Well Pad, including those under Subclause 10.03A, Clause 10.19 and any separate agreement that applies to the Parties and a particular Well Pad for activities thereon. Insofar as any Losses and Liabilities are suffered by any other Party as a direct result of the act, omission or failure to act of a Non-Operator's representative under this Clause, that Non-Operator will be solely liable therefor and, in addition, will indemnify and save harmless each such other Party from and against them, except insofar as they result from a Non-Operator's representative following the Operator's instructions.

3.09 Surface Rights And Regulatory Licences

This Clause is subject to any separate agreement that applies to the Parties and a particular Well Pad for the management and ongoing operation of activities on that Well Pad. The Operator will acquire, maintain and manage for the Joint Account all necessary surface rights and all licences, approvals or other rights of similar nature required under the Regulations for Joint Operations. In fulfilling that obligation, it will conduct such community and stakeholder consultation as is required by the Regulations and any such additional consultation it reasonably determines is appropriate. Insofar as that consultation pertains to a Joint Operation and any other operation, the Operator will allocate the associated costs between them on an equitable basis. Notwithstanding the preceding portion of this Clause and the financial authority granted by Paragraph 3.01B(b), any costs required to be incurred by the Operator to hold licences or approvals under the Regulations will be for its sole account, insofar as those costs pertain to its unique corporate or organizational attributes.

3.10 Maintenance Of Title Documents

A. *Title Administrator Maintains*-Except as otherwise provided in the Agreement, each Party is responsible for paying its share of lessor royalties under the Title Documents and its Working Interest share of any encumbrances borne for the Joint Account, subject to Clause 6.05 for any lessor royalties paid on behalf of a Non-Taking Party, Article 10.00 for Independent Operations and Clause 12.02 for an assignment of a well. Except as otherwise provided in the Agreement, the applicable Title Administrator will, on behalf of the Parties and for the Joint Account, comply with the Title Documents, including the payment of rentals and other actions required to maintain them in good standing. However, nothing in this Subclause requires or permits the Operator or the Title Administrator to conduct any Joint Operation without the Parties' approval if Clause 3.01 requires their approval of an AFE therefor. A Party other than the Operator that is the Title Administrator has the same rights and obligations as the Operator for that role, including those provided under Clauses 5.05 and 5.06 if a Party defaults in paying its share of rentals and other land maintenance charges. Notwithstanding the preceding portion of this Subclause, a breach of the obligations contained in this Subclause will not result in any form of liability (whether in tort, contract or otherwise) of the Operator or the Title Administrator to the Parties, except insofar as the conduct to which the breach pertains constitutes Gross Negligence or Wilful Misconduct for which it is solely responsible under Article 4.00.

B. *Consultation And Distribution Of Correspondence*-The Title Administrator will consult with the Parties in a timely manner about any application it proposes to make to maintain the Title Documents in good standing, including: (i) continuation, validation and grouping applications; (ii) any notice of pooling to the applicable lessor; and (iii) any other material decisions about their maintenance, such as satisfaction of any offset requirement and payment of compensatory royalties. It will provide each other Party in a timely manner with a copy of material correspondence relating to the Title Documents, excluding any data to which that other Party is not otherwise entitled. This Subclause will apply, *mutatis mutandis*, to the Operator or any other Party for an application under the Regulations to obtain a holding or otherwise modify the Spacing Unit or drilling density that would apply to wells hereunder.

C. *Required Land Selection*-If the Parties may select for retention some (but not all) of the Joint Lands subject to a Title Document because of: (i) Joint Operations that have been conducted; or (ii) a requirement under a Title

Document to relinquish to its grantor any of the Joint Lands subject thereto, the Parties will attempt to maximize the Joint Lands to be retained by them. The following will apply to that land selection, subject to any restrictions on selection under the Title Document or the Regulations:

(a) the Parties holding a Working Interest therein will consult, at least 10 days before the date on which that land selection is required, to confirm the extent to which they agree on that land selection; and

(b) insofar as the Parties are unable to agree on that land selection, the Title Administrator will administer the following process to complete it:

(i) the number of minimum size geographic units prescribed by the Regulations or the Title Document to complete the land selection will be multiplied by each Party's Working Interest to determine its entitlement to whole and partial selection units;

(ii) the Parties will select the whole selection units attributable to each of them, on a selection unit by selection unit basis and in an order of individual selections determined by random draw; and

(iii) insofar as any additional selection units remain because of remaining entitlements to partial selection units, the Parties will make selections in order of the greatest remaining entitlement to a partial selection unit until the land selection is complete, provided that the order of selection will be determined by random draw if the entitlements to partial selection units are equal.

After conclusion of the land selection process, the Title Administrator will submit that land selection on behalf of the Parties in the manner prescribed by the Regulations or the Title Document. This Subclause will apply, *mutatis mutandis*, to the applicable Participating Parties and their respective Participating Interests insofar as the land selection under this Subclause is because of an Independent Operation.

D. *Land Selection For Subclause 3.10C And Clause 10.10*-If the Joint Lands are subject to a Title Document to which Subclause 3.10C applies, a Party may, at any time not earlier than six months before the latest date the land selection may be made, require the Parties to select, for only the purpose of the Clause 10.10 title preservation process, those Joint Lands to be retained hereunder on the same basis as provided in that Subclause. The Parties will make that land selection within 10 days after receipt of that notice. Unless otherwise agreed, that land selection will be binding on them in determining if a well is a "Title Preserving Well" or if any Joint Lands are "Preserved Lands", as those terms are defined in Clause 10.10.

E. *Optional Extension*-Insofar as any payments other than annual rentals (such as continuation fees, extension fees, penalty payments or compensatory royalties) must be paid to the grantor of a Title Document by a prescribed date to maintain all or a portion of the Joint Lands subject to that Title Document in good standing thereafter, the Title Administrator will, not later than 15 Business Days before that date, notify the other Parties of the affected Joint Lands and its recommendation for this right. Each other Party will notify the other Parties if it agrees with that recommendation within seven Business Days after its receipt. A Party that fails to respond to that notice within that period will be deemed to concur with that recommendation. Insofar as some (but fewer than all) Parties exercise that right, a Party that does not pay its Working Interest share of that amount will forfeit its entire Working Interest in the Joint Lands that would otherwise revert to that grantor, as of the date those Joint Lands otherwise would have reverted to the grantor. The Parties retaining their Working Interests will pay the amounts applicable to that forfeited Working Interest (and acquire it) proportionate to their respective Working Interests in the applicable Joint Lands, or in such other proportions as they may agree. Clause 11.03 respecting a surrender by fewer than all Parties otherwise applies, *mutatis mutandis*, to any such forfeiture, including the retention of certain obligations by the forfeiting Party under Subclause 11.03C.

3.11 Insurance

A. *Requirements Respecting Personnel*-In conducting Joint Operations, the Operator will comply with the requirements of all Employment Insurance, Canada Pension, Workers' Compensation and Occupational Health and Safety legislation and all similar Regulations applicable to personnel conducting Joint Operations. The Operator will not suffer any *bona fide* claims or dues payable by it under those Regulations to become in arrears.

B. *Required Financial Responsibility*-The Operator will, for the Joint Account, obtain and maintain all insurance policies, indemnities and other forms of financial responsibility required by the Regulations for Joint Operations insofar as those requirements cannot otherwise be satisfied by the Parties collectively or on an individual basis. However, the Operator is not required to confirm that a Party that represents it has satisfied any such requirement has done so. Insofar as those requirements pertain to evidence of "control of well" or "seepage and pollution" insurance, the Parties will determine how those requirements will be satisfied or the request to be made to regulatory authorities to modify them.

C. *Required Insurance*-In addition to the obligations in Subclauses 3.11A and B, Alternate ___ below (Specify (a) or (b)) will apply:

Alternate (a) (Prescribed Policies To Be Maintained)
The Operator will, before any Joint Operation is Commenced, obtain from reputable insurers and thereafter maintain for the Joint Account and benefit of the Parties and their respective directors, officers and employees, the

following policies of insurance:

(i) "automobile liability insurance" for all motor vehicles, snowcraft and all terrain vehicles, owned or non-owned, operated or licenced by the Operator, insofar as they are used in Joint Operations, with an inclusive bodily injury, death and property damage limit of $5,000,000 per occurrence;

(ii) "commercial general liability insurance", with an inclusive bodily injury, death and property damage limit of $5,000,000 per occurrence, including "employer's liability", "contingent employer's liability", "contractual liability", "contractor's protective liability", "sudden and accidental pollution liability" and "products and completed operations liability"; and

(iii) "aircraft liability insurance" for all aircraft, owned or non-owned, operated or licenced by the Operator, insofar as they are used in Joint Operations and including "passenger hazard", with an inclusive bodily injury, death and property damage limit of $10,000,000 per occurrence.

Alternate (b) (No Prescribed Policies To Be Maintained)
It is the Parties' intention that, except as provided in Subclause 3.11B and in Article 4.00, the cost of any accident, loss or any claim of or liability to third parties or to each other for bodily injury, death or property damage arising out of any Operation will be borne individually by them in proportion to their Participating Interests therein.

D. *Conditions*-This Subclause will apply to any insurance policies maintained for the Joint Account under this Clause.

(a) The amount of the deductible for any such insurance policy may not exceed the amount of the expenditure threshold applicable under Subclause 3.01B without the Parties' prior approval, such approval not to be unreasonably withheld or delayed.

(b) If the required policies are, in the Operator's reasonable opinion, unavailable or available only at an unreasonable cost, it will promptly notify the Non-Operators, so that the policies to be maintained hereunder may be reassessed. Subject to this Clause, policies obtained for the Joint Account (including any renewal thereof) may contain terms, conditions or exclusions affecting or limiting the risks covered thereby or the circumstances under which the insurer may be required to indemnify or compensate the Parties, provided those terms, conditions or exclusions are, in the Operator's reasonable opinion, ordinary or appropriate and the best available from the marketplace on reasonable terms. The Operator must obtain the Parties' prior consent for any such change to be made for the term of the relevant policy or policy renewal after it has been acquired, such consent not to be unreasonably withheld or delayed.

(c) If any losses, damages, claims or liabilities respecting Joint Operations are covered by insurance policies maintained for the Joint Account, payments made by the Operator therefor are chargeable to the Joint Account if they have been approved by the insurers or are otherwise authorized hereunder. The Operator will diligently attempt to process claims under those policies, and will promptly credit the Joint Account the amount it recovers thereunder. Insofar as any such loss, damage, claim or liability is determined not to be borne for the Joint Account, it will promptly adjust accounts accordingly after that determination.

(d) The Operator will use reasonable efforts to ensure that each insurance policy maintained for the Joint Account under this Clause includes a provision that: (i) coverage is primary to any other coverage carried by the Parties (other than any maintained by a Party to reduce its exposure to a deductible); (ii) the policy will survive the default, insolvency or bankruptcy of the insured for claims arising out of an event before that default, insolvency or bankruptcy; (iii) the insurer will endeavour to provide the Operator with 30 days' written notice of cancellation of, or a material change to that policy; and (iv) waives all rights of the insurer, by subrogation or otherwise, against the Parties and their respective directors, officers and employees.

E. *Each Party Responsible*-Except as provided in this Clause or otherwise in the Agreement, each Party is responsible for insuring or self-insuring its own Working Interest in the Joint Property for physical damage to property, loss of income, control of well, seepage and pollution and any other risk not required to be insured for the Joint Account. Each Party will ensure that each such policy maintained for its own account includes waivers of all rights, by subrogation or otherwise, against the other Parties and their respective directors, officers and employees.

F. *Notification Of Damage*-The Operator will notify each Non-Operator of damages or losses incurred respecting its Working Interest as soon as practicable after their discovery. The Operator will provide it with such assistance and materials as are reasonably required to substantiate those damages or losses for the purposes of its insurance.

G. *Requirements For Contractors And Subcontractors*-The Operator will, with respect to all Joint Operations, use reasonable efforts to have its contractors and subcontractors working at or near the location of the Joint Lands:

(a) comply with Employment Insurance, Canada Pension, Workers' Compensation and Occupational Health and Safety legislation and all other similar Regulations applicable to workers employed by them; and

(b) carry insurance policies in such amounts as the Operator reasonably deems necessary, having regard to such factors as the nature of the services being provided, the location of the Joint Lands, the nature of contemplated Operations and the contemplated risk and potential magnitude of loss associated with those Operations, provided that those policies must include waivers of all rights, by subrogation or otherwise,

against the Parties and their respective directors, officers and employees.

H. *Operator To Provide Evidence*-If requested by any Non-Operator, the Operator will provide it in a timely manner with evidence of insurance for each insurance policy maintained by the Operator for the Joint Account.

3.12 Production Statements And Reports

Prior to the 25th day of each month, the Operator will provide each Non-Operator with a statement showing production volumes, inventories, volumes available for sale and deliveries in kind hereunder during the preceding month, insofar as the Non-Operators do not otherwise have independent access to that information under the Regulations. The Operator will submit all reports for Joint Operations and the production of Petroleum Substances as required by the Regulations, and will provide a Non-Operator with a copy of any such report upon request.

3.13 Taxes

The Operator will initially pay, for the Joint Account, all taxes levied against the Joint Property (including, subject to the Regulations, the Working Interest share of any freehold mineral taxes), except income taxes and other levies assessed against the Parties individually. However, the Operator may decline to pay freehold mineral taxes if it is not the lessee under the particular Title Document under which they accrue. The Operator will promptly forward to each Party a copy of any tax notice or assessment it receives for any tax or assessment against the Joint Property that is not borne for the Joint Account.

3.14 Measurement

The Operator will test the accuracy of any metering equipment held as Joint Property and operated by the Operator to measure produced Petroleum Substances or related emissions. It will conduct such tests at such frequency as is required under the Regulations or at such greater frequency as is reasonable, having regard to such matters as the type and volume of those Petroleum Substances. It will conduct each such test using recognized engineering methods not less stringent than those prescribed by the Regulations. The Parties will handle measurement differences related to measurement error identified by such a test on the basis prescribed by the Accounting Procedure or, in the absence of such handling, by reference to the practice prescribed by the standard form 1999 model PJVA Construction, Ownership and Operating Agreement (or the most current replacement therefor then endorsed for use by the Petroleum Joint Venture Association).

4.00 LIABILITY AND INDEMNIFICATION OBLIGATIONS

4.01 Indemnification Of Operator

This Clause applies except insofar as the Operator: (i) is solely responsible for any Losses and Liabilities under Clause 4.02; or (ii) may otherwise be liable to any Party for breach of any of its contractual obligations as Operator under the Agreement, other than for its duties under Clause 3.04, Subclause 3.05A or Subclause 3.10A. The Parties will indemnify and save harmless the Operator, its Affiliates and the respective directors, officers and employees of the Operator and its Affiliates from and against all Losses and Liabilities arising directly out of the Operator's performance of its duties under the Agreement, including those of such Losses and Liabilities arising by reason of, or which may be attributable to, any act, omission or failure to act of the Operator, any of its Affiliates or the respective directors, officers, agents, contractors or employees of the Operator or any of its Affiliates in planning or conducting any Joint Operation. All such Losses and Liabilities for which that indemnification applies will be for the Joint Account, and will be borne by the Parties (including the Operator) in proportion to their respective Working Interests.

4.02 Limit Of Operator's Legal Responsibility

The Operator, its Affiliates and the respective directors, officers and employees of the Operator and its Affiliates will not be liable to any of the Non-Operators for any Losses and Liabilities resulting from or in any way attributable to or arising out of any act, omission or failure to act, whether negligent or otherwise, of the Operator, any of its Affiliates or the respective directors, officers, agents, contractors or employees of the Operator or any of its Affiliates in the performance of the Operator's duties under the Agreement (including those in planning or conducting any Joint Operation), except insofar as:

(a) those Losses and Liabilities are a direct result of, or are directly attributable to the Gross Negligence or Wilful Misconduct of the Operator, any of its Affiliates or the respective directors, officers, employees, agents or contractors of the Operator or any of its Affiliates;

(b) the Operator may otherwise be liable to any Party for breach of any of its contractual obligations as Operator under the Agreement, other than for its duties under Clause 3.04, Subclause 3.05A or Subclause 3.10A; or

(c) those Losses and Liabilities relate to a risk against which the Operator is required to carry insurance for the Joint Account and those Losses and Liabilities are within the limits of that required insurance (insofar as they exceed the authorized deductible thereunder), provided that this Paragraph will not apply insofar as: (i) the insurer is financially unable to pay a valid claim thereunder; (ii) that insurer is determined by a court of competent jurisdiction not to be required to make payment thereunder; or (iii) that insurer denies liability under that policy and the matter is settled with the Parties prior to a determination of the issue by a court.

Insofar as Paragraph 4.02(a), (b) or (c) apply to impose obligations on the Operator for certain Losses and Liabilities, the Operator will, subject to Clause 4.04, be solely liable for them and, in addition, indemnify and save harmless each Non-

Operator, its Affiliates and the directors, officers and employees of that Non-Operator and its Affiliates from and against those Losses and Liabilities. However, all such Losses and Liabilities will initially be for the Joint Account until the Operator's responsibility therefor is finally determined, at which time it will promptly effect any required adjustment of accounts.

4.03 Provisions Apply To Non-Operators

A. *Non-Operator Conducts Activity For Joint Account*-Clauses 4.01 and 4.02 will apply, *mutatis mutandis*, to the Parties for any Joint Operation or other activity a Non-Operator has been authorized to conduct hereunder for the Joint Account.

B. *Joint Account Judgment Enforced Against Non-Operator*-Clause 4.01 will apply, *mutatis mutandis*, to any Losses and Liabilities suffered by a Non-Operator, its Affiliates or the respective directors, officers and employees of that Non-Operator and its Affiliates as a result of enforcement against that Non-Operator of an award of damages that is borne for the Joint Account. All such Losses and Liabilities will be shared by the Parties proportionate to their Working Interests.

4.04 No Responsibility For Extraordinary Damages

No provision herein will make the Operator, any other Party or any of their respective Affiliates, directors, officers or employees responsible for any Extraordinary Damages suffered by any other Party (including any Losses and Liabilities for which the Operator would otherwise be solely responsible under Clause 4.02), except insofar as the damaged Party is entitled to be indemnified hereunder by the Operator or another Party for any such damages suffered by third parties. The preceding sentence also applies to any Extraordinary Damages suffered by a Party in contract because of another Party's breach of the Agreement.

5.00 JOINT COSTS AND EXPENSES

5.01 Application Of Accounting Procedure

The Accounting Procedure will be the basis for all charges and credits for the Joint Account, except insofar as it conflicts with this Operating Procedure or the Head Agreement. The Operator will maintain accounting and financial records for the Joint Account in accordance with established accounting practices in the oil and gas industry and in a manner in which charges and credits hereunder can be accessed separately from those kept by it for operations not conducted hereunder. It is the Parties' general intention that the Operator not gain a profit or suffer a loss because it is the Operator, subject to: (i) the Accounting Procedure; (ii) the supply of certain goods or services by the Operator under Subclause 3.03B; (iii) management of a Non-Taking Party's production under Article 6.00; and (iv) any liability or indemnification obligations that accrue solely to the Operator for a breach of its obligations under the Agreement.

5.02 Operator To Pay And Recover From Parties

The Operator will initially pay all costs and expenses incurred for the Joint Account, subject to the Accounting Procedure and the capital advance process in Clause 5.03. It will charge each Party (and each Party will pay) its Working Interest share of those costs and expenses as required by the Accounting Procedure, subject at all times to each Party's subsequent right to verify those charges on the basis provided in the Agreement.

5.03 Advance Of Expenditures

A. *Advance Request*-The Operator may, by notice to the Non-Operators, require each of them to advance its Working Interest share of the costs the Operator reasonably expects to pay for the Joint Account under an approved AFE in a particular calendar month, provided that the Operator may not make that request earlier than the first day of the calendar month preceding the month for which the advance is requested. Subject to Subclauses 5.03B and C, each Non-Operator will pay its share thereof to the Operator on or before the later of: (i) 20 days after its receipt of the Operator's itemized written estimate of those costs and request for payment; and (ii) the 15th day of the month to which that estimate relates.

B. *Adjustments*-The Operator will adjust each monthly billing to reflect advances received under this Clause. Costs exceeding the requested advances will be billed by the Operator and paid by the Non-Operators under the Accounting Procedure. The Operator will either refund to each Non-Operator amounts advanced by it in excess of its Working Interest share of actual costs paid for the month to which the advance pertained or retain those amounts to reduce its share of the following month's advance proportionately. However, the Operator must refund any such excess amount insofar as it exceeds that Non-Operator's Working Interest share of the advances applicable to the month to which the advance pertained and the following month. The default provisions of Clause 5.05 will apply, *mutatis mutandis*, to any such excess amounts not managed by the Operator in this manner.

C. *Security For Payment*-Notwithstanding Subclause 5.03A:

(a) the Operator may, by notice, require a Non-Operator to secure payment of its Working Interest share of costs for an approved Joint Operation in a manner satisfactory to the Operator, acting reasonably, if it reasonably believes that the Non-Operator may be unable to pay those costs as and when due hereunder;

(b) a Non-Operator that does not believe that this request is reasonable will notify the Operator of its

objection, and those Parties will resolve the matter under the dispute resolution process in Article 21.00;

(c) that objecting Non-Operator is not required to comply with the Operator's request until a determination under Article 21.00 (or other notification by that Non-Operator) that the request was reasonable, subject to Paragraph 5.03C(d) and provided that this does not otherwise affect its obligation under the Accounting Procedure to pay amounts owing by it for that Joint Operation;

(d) a Non-Operator requested to secure payment under this Subclause may not dispute the request under this Subclause and Article 21.00 if that Non-Operator: (i) has been placed into bankruptcy or receivership; (ii) is then subject to debtor relief protection under the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada) or similar Regulations; or (iii) has been served a *bona fide* notice of default under Subclause 5.05B during the preceding six months; and

(e) a Non-Operator that secures payment under this Subclause through an irrevocable standby letter of credit will establish it in favour of the Operator with a Canadian chartered bank. The Operator may then draw on the letter of credit on the same basis as in Subclause 5.03A or on such other basis as is provided in the Agreement for amounts to be paid with respect to a Joint Operation.

5.04 Forecast Of Operations

This Clause is subject to any provisions of the Agreement that prescribe a process for the creation of a forecast or work program and budget with respect to activities relating to the development and ongoing exploitation of any of the Joint Lands. The Operator will, in a timely manner after a Non-Operator's request, consult with the Non-Operators to create a written forecast outlining all anticipated Joint Operations during the next 12-month period and their estimated costs. Any such forecast is for informational purposes only. It does not commit any Party to propose or conduct any Operation described therein or restrict any Party from issuing an Operation Notice therefor.

5.05 Operator's Lien And Default Remedies

A. *Operator's Lien*-As of the effective date of the Agreement or such later date as this Schedule applies to the affected Joint Lands, the Operator will have a lien and charge with respect to the interest of each Party in the Joint Lands, the wells and equipment thereon, the Petroleum Substances produced therefrom and any other Joint Property, to secure payment of that Party's share of the costs and expenses incurred for the Joint Account. Subject to the Regulations, that lien and charge has priority over any other lien, charge, mortgage or other security interest applicable to those interests, provided that this will not preclude a Party from entering into any *bona fide* financing that requires a pledge or the granting of other security.

B. *Default Remedies*-It is the Parties' general intention that the remedies in this Clause only be used on a *bona fide* basis with respect to failure to pay amounts owing hereunder. Subject to the last paragraph of this Subclause and the Regulations, if a Non-Operator does not pay as and when due any amounts required to be paid by it under Clause 5.02, the Operator may, without limiting its other rights hereunder or otherwise held at law or in equity:

(a) charge that Non-Operator compound interest, as computed monthly, on that unpaid amount from the day that payment is due until the day it is paid. Interest will accrue at the rate of 2% per annum higher than the rate designated as the prevailing prime rate for Canadian commercial loans by the principal Canadian chartered bank used by the Operator, regardless of whether the Operator has notified that Non-Operator in advance of its intention to charge interest on that unpaid amount;

(b) withhold from that Non-Operator any further information and rights with respect to Joint Operations, which information and rights will be supplied or restored to it promptly after the default is fully rectified, provided that this does not permit the Operator to: (i) incur any expenditure for the Joint Account that requires approval under Subclause 3.01B; (ii) deny the right of that Non-Operator to issue or receive any notice served hereunder; or (iii) deny that Non-Operator's rights hereunder with respect to any such notice;

(c) set-off against that unpaid amount, any amount payable to that Non-Operator from the Operator hereunder or under any other agreement then in effect between them (including any separate agreement created under Article 13.00 because of an inconsistency in Working Interests), without any right of that Non-Operator to set-off or counter-claim;

(d) maintain actions against that Non-Operator for all such unpaid amounts and interest thereon on a continuing basis, as if those payment obligations were liquidated demands payable on the date they were due to be paid, without any right of that Non-Operator to set-off or counter-claim;

(e) treat the default as an immediate and automatic assignment to the Operator of that Non-Operator's share of produced Petroleum Substances and the right to dispose of them on its behalf at a Market Price on whatever terms the Operator can arrange, acting reasonably, after having given at least five Business Days' prior notice to that Non-Operator of the specific intention to use this remedy. The Operator will apply the proceeds from any such disposition to the amount owed by that Non-Operator hereunder, including accrued interest, until that amount has been recovered under this Paragraph or paid by that Non-Operator to the Operator. The Operator will thereafter acquire the proceeds from any such disposition for that Non-Operator's account until such time as it resumes responsibility for disposing its share of those Petroleum

Substances. Insofar as the Operator has acted within the authorities granted to it in this Paragraph, that Non-Operator will indemnify the Operator for any Losses and Liabilities suffered by the Operator because of defects in that Non-Operator's title to those Petroleum Substances, including any contractual obligations to deliver any of those Petroleum Substances to a third party;

(f) assume that defaulting Non-Operator's share of unpaid and remaining costs pertaining to a Joint Operation to which the default pertains, by specific notice to that defaulting Non-Operator and the other Non-Operators of the exercise of the remedy in this Paragraph. The Operator will also identify in that notice the amount then owing by that defaulting Non-Operator for that Joint Operation and any application of Subparagraph 5.05B(f)(iii) to that Joint Operation. That defaulting Non-Operator will then be deemed to be a Non-Participating Party with respect to the unpaid and future costs of that Joint Operation, and Article 10.00 respecting Independent Operations will apply, *mutatis mutandis*, thereto, notwithstanding any prior election by it to participate in that Joint Operation, subject to the following:

(i) that Non-Operator may avoid the consequence in this Paragraph by paying the amount owed by it for that Joint Operation, including accrued interest, within five Business Days after the Operator notifies it of the application of this remedy to its participation in that Joint Operation;

(ii) within five Business Days after being notified by the Operator of the application of this remedy to that defaulting Non-Operator's unpaid share of costs of that Joint Operation, each other Non-Operator may elect if it will assume any share of that defaulting Non-Operator's share of costs therein on the same basis as under Subclause 10.02C, *mutatis mutandis*, provided that: (1) the Operator will be deemed to have elected thereunder to assume its proportionate share of all available interest on a *pro rata* basis without any limitation thereunder; and (2) a Non-Operator that does not respond to the Operator's notice during that period will be deemed to elect not to assume any portion of that defaulting Non-Operator's share of costs;

(iii) the Operator will reimburse to that defaulting Non-Operator any costs already paid by it for that Joint Operation if a forfeiture of any Joint Lands will apply to that defaulting Non-Operator under Clause 10.10 as a result of it becoming a Non-Participating Party. The Operator will reimburse that amount to that defaulting Non-Operator within 20 Business Days after the Parties' election to assume that defaulting Non-Operator's share of the cost of that Operation under this Paragraph. The Parties will share responsibility for that reimbursed amount in the same proportions as determined under Subparagraph 5.05B(f)(ii);

(iv) the Operator will not be permitted to recover any such unpaid amount from the Non-Operators through the reimbursement process in Clause 5.06; and

(v) the Operator waives its rights to pursue the defaulting Non-Operator for any amount owing by it with respect to a Joint Operation if the Operator effects the remedy in this Paragraph for costs not paid by that Non-Operator with respect to that Joint Operation; and

(g) provided that the Operator obtains any required court order confirming a disposition under this Paragraph before it is completed and that a Non-Operator may avoid a disposition of a Working Interest contemplated in this Paragraph by paying the amount owed by it hereunder, including accrued interest, prior to, as applicable, the Operator's receipt of that court order or the completion of any such disposition under this Paragraph that does not require a court order, enforce the lien referred to in Subclause 5.05A on the following basis:

(i) by taking possession of and using free of charge any part of that defaulting Non-Operator's Working Interest in the Joint Lands and other Joint Property and all of its rights relating to that Working Interest until the default is fully rectified;

(ii) subject to Paragraph 5.05B(f) and the other Subparagraphs of this Paragraph (but notwithstanding Clauses 6.01 and 24.01 respecting the handling of production and dispositions respectively), by disposing of any Working Interest of which it has taken possession in whole, in part or in separate parcels, at public auction or by private tender on whatever terms it may arrange, having given at least 10 Business Days' prior notice to that Non-Operator of the time and place of that disposition;

(iii) the Operator may only dispose of that Working Interest for such price and on such conditions as it determines on a *bona fide* basis are reasonable, having due regard to the possible recovery of funds for that Non-Operator in excess of the amount owed by it hereunder;

(iv) that disposition will be without prejudice to the Operator's claim for deficiency, and will be free from any right of redemption by that Non-Operator, which right is hereby waived, and that Non-Operator also waives all formalities prescribed by custom or by law respecting that disposition;

(v) the Operator will apply the proceeds of that disposition to the amount then owing to it by that Non-Operator under the Agreement, including accrued interest and reasonable costs incurred by it in making that disposition, such as reasonable legal fees and disbursements on a solicitor and

its own client basis; and

(vi) the Operator will promptly pay any balance then remaining to that Non-Operator.

Any such disposition will be a perpetual bar at law and in equity against that Non-Operator and its assigns and against all other persons claiming an interest through it in that disposed Working Interest. The Operator will deliver to that Non-Operator all transfers, assignments and other conveyance documents required to effect that disposition. That Non-Operator will execute and return them to the Operator within five Business Days after their receipt. It hereby authorizes the Operator to act as its attorney for their execution without further authorization at the time if it does not execute and return them within that period, and it agrees to ratify all lawful actions taken on its behalf by the Operator as its attorney.

The Operator may issue a notice to that Non-Operator specifying the default and requiring it to be remedied, and the Operator will provide a copy of that notice to the other Non-Operators for informational purposes. The Operator may exercise the rights granted in Paragraph 5.05B(b) immediately after issuance of that default notice. Subject to compliance with any additional notice requirement prescribed by the applicable Paragraph, the Operator may not exercise the rights granted in Paragraphs 5.05B(c)-(g) until expiry of the following periods after issuance of that default notice: (1) 30 days for Paragraphs 5.05B(c)-(f); and (2) 60 days for Paragraph 5.05B(g).

C. *Operator To Issue Statement Of Account*-After request by a Party subject to a notice of default served under this Clause, the Operator will issue a statement to it in a timely manner that identifies in reasonable detail the amount it owes hereunder and all debits and credits against that amount on a month-by-month basis.

D. *Remedies Are Cumulative*-The rights and remedies granted to the Operator under this Clause are cumulative, and may be exercised separately or in combination. Subject to any application of Clause 1.07 to the time for commencing legal proceedings and any application of Paragraph 5.05B(f) to cause a defaulting Party to become a Non-Participating Party, the Operator's exercise, or failure to exercise, any rights and remedies available to it hereunder, at law, in equity or under the Regulations does not limit its rights or remedies for the particular default or release the defaulting Non-Operator from any other obligations that have accrued to it under the Agreement.

E. *No Merger*-The obligation to pay interest at the rate specified in Paragraph 5.05B(a) applies until the financial default is rectified, and will not merge into a judgment for principal and interest, or either of them. The Parties waive the application of any Regulations to the contrary, insofar as permitted thereunder.

F. *Operator's Records As Prima Facie Proof*-The Operator's *bona fide* records constitute *prima facie* proof of the existence of any financial default hereunder, subject to a Non-Operator's rights of inspection and audit hereunder.

G. *Default By Operator*-The Non-Operators that assumed the Operator's share of costs or expenses incurred for the Joint Account because of a default of the Operator may appoint a Non-Operator as their representative to enforce their rights under this Clause, pending the appointment of a new Operator under Article 2.00. That appointed representative may then exercise any of the rights and remedies otherwise available to the Operator hereunder, *mutatis mutandis*, to rectify that default.

H. *Recovery Of Royalty Amounts*-A Party that is required to pay royalties on behalf of another Party (or its predecessor in interest) to maintain any of the Title Documents in good standing after that other Party's default in payment of royalty to the grantor thereof may exercise any of the rights and remedies otherwise available to the Operator under this Article, *mutatis mutandis*, to recover the additional royalties paid by it because of that default.

5.06 Reimbursement Of Operator

If: (i) the Operator has not received full payment of a Party's share of the charges incurred for the Joint Account within 60 days after the date payment was due; and (ii) the Operator has not made that Party a Non-Participating Party under Paragraph 5.05B(f), the Operator may bill each other Party for a fraction of that unpaid amount, excluding interest thereon. That fraction will have:

(a) as its numerator - the Working Interest of that Party; and

(b) as its denominator - the total Working Interests of all Parties except the defaulting Party.

Each such Party will pay the amount owing by it within 30 days after receipt of that bill. Each such contributor will then be proportionately subrogated to the Operator's rights under Clause 5.05 for that default and to the interest thereafter payable on the unrecovered portion of its contribution.

5.07 Commingling Of Funds

A. *Commingling Permitted*-The Operator may commingle with its own funds monies that it receives for the Joint Account or otherwise on behalf of a Non-Operator hereunder. However, its right to commingle funds will terminate (and the obligation to segregate funds held hereunder will accrue) if Parties holding the majority of the Non-Operators' Working Interests (excluding any Affiliate of the Operator that is a Party) serve notice to such effect to the Operator if the Operator cannot be replaced immediately under Subclause 2.02A after notice thereunder that any of Paragraphs 2.02A(a), (b), (c) or (d) apply.

B. *Funds Held In Trust*-The right to commingle funds has been granted to the Operator as an administrative aid to perform its duties hereunder. Notwithstanding any such commingling, any funds paid to, received by or held by it on behalf of a Non-Operator will be deemed to be held by it in trust on behalf of that Non-Operator, including any such funds held on behalf of: (i) a Non-Taking Party under Article 6.00; (ii) the applicable Participating Parties for distribution of certain amounts to them under Subclause 10.13E; or (iii) a delinquent Party under Clause 23.02. Those funds will be applied only to their intended use, and will not be deemed to belong to the Operator.

6.00 OWNERSHIP AND DISPOSITION OF PRODUCTION

6.01 Each Party Owns And Takes Its Share Of Production

A. *Take In Kind*-Each Party owns its Working Interest share of Petroleum Substances produced from wells operated for the Joint Account. Each Party will have the right and obligation to take in kind and separately dispose of its share of that production at its own expense, subject only to the consequences prescribed in this Article for any failure to fulfill that obligation. The Operator will measure and deliver into the possession of each Party, at the First Point of Measurement (or the first practicable delivery point thereafter if delivery is not practicable at the First Point of Measurement), its share of that production, excluding production that has been unavoidably lost and production used by the Operator in producing Operations conducted for the Joint Account. Prior to that delivery, the risk of loss of production will be for the Joint Account, except to the extent provided in Article 4.00. Each Non-Operator will, within a reasonable time prior to applicable pipeline nominations or scheduling deadlines, provide the Operator with such information about its arrangements for disposition of that production as the Operator may reasonably require to fulfill its obligations under this Article.

B. *Transportation Service*-The Operator may not contract gathering, processing or transportation service for the Joint Account without the Parties' approval, except insofar as that contracted service: (i) is on terms that are not unreasonable; (ii) may be terminated on notice without any use or pay obligations, termination fee or other penalty; and (iii) does not provide for any dedication of reserves. A Party disposing of a Non-Taking Party's share of production under this Article may, for that Non-Taking Party's account, contract only for such gathering, processing and transportation service as is reasonable to facilitate that disposition.

6.02 Parties Not Taking In Kind

A. *Operator's Authority To Dispose*-Insofar as a Party is a Non-Taking Party and notwithstanding Clause 6.01, the Operator has the authority (but not the obligation) to dispose of that Non-Taking Party's share of production under an arrangement with a term not exceeding 31 days, unless that arrangement is terminable at any time on not more than 31 days' notice by the Operator without an early termination penalty or other cost. The Operator may sell that production at a Market Price to a third party in a *bona fide* arm's length agreement or purchase it at the First Point of Measurement for the account of the Operator (or its Affiliate) at a Market Price. It will account to that Non-Taking Party for the proceeds from that disposition, less: (i) Facility Fees for all direct processing, transportation and other product enhancement pertaining to that production (insofar as they have not already been deducted in the calculation of Market Price); and (ii) the applicable marketing fee prescribed by Clause 6.04.

B. *Consent For Sales Exceeding 31 Days*-Insofar as the Operator proposes to dispose of a Non-Taking Party's share of produced Petroleum Substances under a sales contract that has a term greater than 31 days or which is not terminable at any time on notice of 31 days or less without an early termination penalty or other cost:

(a) the Operator will notify the Non-Taking Party of that intention and provide it with a summary of the terms of the proposed sales contract in sufficient detail to enable it to determine if it wishes that production to be sold under that proposed sales contract;

(b) the Non-Taking Party will notify the Operator, within five Business Days after its receipt of that notice (or by such later time as the Operator may prescribe in its notice), if it consents to the sale of its share of production thereunder, provided that it will be deemed to refuse its consent to that sale if it fails to deliver notice to the Operator within that period;

(c) if that Non-Taking Party consents to that sale, the Operator will sell that production under that sales contract. If it does not consent to that sale, it will state in its notice if it intends to commence taking that production in kind and separately disposing of it, and, if so, it will promptly supply the Operator with the information required by the Operator under Clause 6.01; and

(d) if that Non-Taking Party does not consent to that sale and does not proceed to take that production in kind and separately dispose of it, the Operator will dispose of it under Subclause 6.02A.

C. *Non-Taking Party Takes In Kind*-A Non-Taking Party that intends to exercise its right to take in kind and separately dispose of its share of production under this Article will notify the Operator of that intention and promptly supply the information required by the Operator under Clause 6.01. That notice will be effective at the end of the term of any sales contract or purchase agreement under which that production is being handled by the Operator under this Clause, or at the date that sales contract is terminated, if terminable by the Operator at an earlier date, provided that, unless otherwise agreed by the Operator, any such election to take in kind will be effective on the first day of the calendar month next following expiration of the applicable notice period. If that sales contract is terminable by the Operator, that Non-Taking Party must serve its notice at least 15 Business Days before any specified date on

which the Operator is required to serve notice of termination to the applicable purchaser thereunder.

6.03 Operator Does Not Take In Kind

Insofar as the Operator is a Non-Taking Party or it does not intend to dispose of production not being taken in kind by a Non-Taking Party under Clause 6.02, it will notify the Non-Operators in a timely manner. The Operator will include in that notice the information required by them to exercise their rights under this Clause, including the forecast incremental production volumes and, if applicable, the time when that failure to take production will begin. The Non-Operators, or any of them, will have the same rights and obligations for that production as the Operator has under Clause 6.02, and will promptly provide the information required by the Operator under Clause 6.01 for delivery of that production. The Non-Operators exercising those rights will do so in proportion to their Working Interests, or in such other proportions as they may agree, and will attempt to coordinate their instructions to the Operator for disposition of that production. For so long as the Operator is a Non-Taking Party, it will advise those Non-Operators periodically under Subclause 6.02C when and to the extent it intends to take in kind and separately dispose of its share of production. Insofar as a Non-Taking Party's share of production is handled under this Clause, the Operator may, by notice to the Non-Operators, exercise its rights under Clause 6.02 for the disposition of production not taken in kind, whereupon it will assume responsibility for management of that production after termination of any contract entered into for that production under this Clause.

6.04 Marketing Fee

Insofar as a Party disposes of a Non-Taking Party's production under Clause 6.02, it may charge a marketing fee of:

(a) 1.25% of the proceeds of sale of that production, calculated (through an adjustment to the applicable Market Price) at the wellhead, for all Petroleum Substances delivered at the wellhead, provided that there will be a minimum marketing fee of $0.05/gigajoule for any natural gas delivered at the wellhead; or

(b) 1.25% of the proceeds of sale of that production, calculated (through an adjustment to the Market Price) at the outlet of the applicable gas plant, for all Petroleum Substances delivered at or after that location, provided that there will be a minimum marketing fee of: (i) $0.05/gigajoule for natural gas; and (ii) $1/tonne for sulphur.

6.05 Payment Of Lessor's Royalty

A. *Disposing Party May Pay Royalty*-Each Party will pay the lessor's royalty and all other amounts required under the Title Documents for its share of production of Petroleum Substances. Notwithstanding the distribution of proceeds in Clause 6.02, a Party disposing of a Non-Taking Party's production under Clause 6.02 or 6.03 may, by notice to it, pay those royalties and other amounts attributable to that production on its behalf. A Non-Taking Party will provide such information as is reasonably required to enable that disposing Party to pay those amounts. The disposing Party will deduct amounts so paid from amounts payable to that Non-Taking Party under Clause 6.06.

B. *Indemnification If Disposing Party Pays Royalty*-A Non-Taking Party will indemnify each Party, its Affiliates and their respective directors, officers and employees with respect to any Losses and Liabilities suffered by any of them with respect to the calculation and payment of a Non-Taking Party's share of royalties and other amounts under Subclause 6.05A, provided that: (i) those payments are consistent with the information available to that Party about the royalties and other amounts payable on behalf of the Non-Taking Party; and (ii) the distribution of proceeds to the Non-Taking Party under Clause 6.06 is consistent with the payments made under this Clause.

6.06 Distribution Of Proceeds To Non-Taking Party

A. *Payment To Non-Taking Party*-Subject to the preceding provisions of this Article, a Party that disposes of a Non-Taking Party's share of production under Clause 6.02 or 6.03 will hold those sale proceeds on behalf of that Non-Taking Party on the same basis as provided in Clause 5.07. However, that disposing Party will be deemed to have received proceeds for that share of production if the applicable purchaser fails to pay for it, unless that disposing Party can reasonably demonstrate that: (i) such production was specifically sold under that particular contract; and (ii) the disposing Party has made reasonable efforts to collect the applicable amount owing from that purchaser. It will pay the Non-Taking Party those sale proceeds, less those deductions and fees prescribed by this Article, not later than the 25th day of the second month after the production month. Upon request of a Non-Taking Party, that disposing Party will provide the Non-Taking Party in a timely manner with a statement that shows in reasonable detail the manner in which that amount was calculated. If actual production data is not available at such time, that disposing Party may calculate those sale proceeds based on its reasonable estimate of the applicable production volumes, provided that this amount will be identified as an estimate in that statement. It will apply any positive or negative adjustments for a prior payment period to the sale proceeds accruing to a Non-Taking Party for the next production month, and will identify any such adjustment in reasonable detail in the applicable statement.

B. *Default Remedies Apply*-The default provisions of Clause 5.05 will apply, *mutatis mutandis*, between the Non-Taking Party and a disposing Party for the outstanding amount if: (i) a disposing Party does not pay any amount payable to a Non-Taking Party under Subclause 6.06A by the time prescribed therein; or (ii) if not previously deducted from the proceeds of that sale hereunder, that Non-Taking Party does not pay the direct processing, transportation and other product enhancement expenses or the marketing fee applicable to that production within 30 days after being invoiced therefor by that disposing Party.

C. *Amounts Calculated Monthly*-A disposing Party will calculate the proceeds of sale of a Non-Taking Party's share of

production under Clause 6.02 or 6.03 and the applicable marketing fee prescribed by Clause 6.04 once each month having regard to the volume of production taken by each Party in the entire production month.

6.07 Audit By Non-Taking Party

Insofar as a Party disposes of a Non-Taking Party's share of production, the audit provisions of the Accounting Procedure will apply, *mutatis mutandis*, between that Party and that Non-Taking Party for the determination of production volumes and the costs associated with that sale. However, the disposing Party will not be required to provide auditors with access to any contract under which it sells its own Working Interest share of production, except insofar as the audit is conducted by the Non-Taking Party's external auditors under reasonable conditions of confidentiality.

6.08 Disposing Party To Be Indemnified

A Non-Taking Party will indemnify the Party that disposes of its share of production under this Article for any Losses and Liabilities suffered by it because of defects in that Non-Taking Party's title to that production.

7.00 OPERATOR'S DUTIES IN CONDUCTING JOINT OPERATIONS

7.01 Pre-Commencement Requirements

If the Operator proposes to conduct a Joint Operation, the conditions in this Clause will apply.

(a) The Operator will submit an AFE therefor to each Non-Operator for approval, if required by Clause 3.01. That AFE will be void unless each Non-Operator has returned an approved copy thereof to the Operator within 30 days after its receipt, provided that the Operator has the right (but not the obligation) to increase this period to 75 days for an AFE pertaining to repair or maintenance of the Joint Property in the response period stated within the notice included with that AFE or by separate notice to the Parties. The Operator will promptly notify the Non-Operators if that AFE has been approved by all of them.

(b) The Operator may not Commence a Joint Operation described in an approved AFE more than 120 days after that AFE is deemed to be received by the Non-Operators, provided that this period will be increased by 30 days for a Joint Operation respecting a Production Facility and it will be the period permitted for Commencement under the Regulations if that AFE is for an Operation required to be committed to under the Regulations as a condition of the extension of a Title Document. If that Operation is not Commenced within the applicable period, that AFE will be void, except insofar as the Parties consent in writing to that delay.

(c) Submission or approval of an AFE will not preclude any Party from serving an Operation Notice for the Operation proposed in that AFE. Approval of that initial AFE by all Parties before expiration of the response period for the Operation Notice under Clause 10.02 will nullify that Operation Notice. However, the Operation will be conducted as a Joint Operation under that Operation Notice if the initial AFE is not so approved and all Parties elect to participate in the proposed Independent Operation through their responses to the Operation Notice.

(d) If the Operation is the drilling of a well for the Joint Account, the Operator will submit to each Non-Operator at least 48 hours before Spudding that well:

(i) a copy of the plan of the well location survey, the application for that well licence and, when available, a copy of that well licence; and

(ii) a copy of the proposed program for drilling, coring, logging, testing and casing that well, and, subject to the Casing Point election in Article 9.00, a Non-Operator will be deemed to have approved the program, unless it otherwise notifies the Operator within seven days after its receipt.

7.02 Drilling Information And Privileges Of Non-Operators

During the drilling of a well for the Joint Account, the Operator will provide to each Non-Operator:

(a) prompt notice of the Spud date of that well;

(b) the Kelly Bushing elevation;

(c) daily drilling and geological reports;

(d) access to the Operator's samples of the cuttings of formations penetrated and a complete sample description, or, if requested by a Non-Operator and at its own expense, its own set of those samples;

(e) access to all cores taken and copies of any core analysis conducted for the Joint Account;

(f) prompt advice of any porous formations with showings of Petroleum Substances encountered and the proposed tests, if any, to be run on those porous formations;

(g) a reasonable opportunity for each Non-Operator to have a representative present to observe any tests conducted

under Paragraph 7.02(f), subject to Clause 3.08 respecting access to a well site;

(h) access to each well, including derrick floor privileges, subject to Clause 3.08; and

(i) estimates of current and cumulative costs incurred for the Joint Account.

7.03 Logging And Testing Information To Non-Operators

After a well drilled for the Joint Account reaches its projected total depth (or earlier, if any such Joint Operations are to be conducted before that well reaches its projected total depth), the Operator will, unless otherwise agreed:

(a) run agreed log surveys and supply each Non-Operator, in a timely manner, with a copy of each such log;

(b) test it in accordance with the approved program;

(c) make such further tests as are warranted of any porous formations with showings of Petroleum Substances encountered or indicated and, subject to Clause 3.08 respecting access to a well site, provide each Non-Operator with a reasonable opportunity to observe any such tests;

(d) take such mud and drillstem test fluid samples as are appropriate to obtain accurate resistivity, mud filtrate and formation water readings, and supply each Non-Operator with the information therefrom in a timely manner; and

(e) supply each Non-Operator, in a timely manner, with copies of each wireline or drillstem test run and the applicable service report, including copies of pressure charts.

7.04 Well Completion And Production Information To Non-Operators

During any Completion conducted for the Joint Account, the Operator will Complete that well in accordance with the approved program. It will supply each Non-Operator with current reports on all Completion activities, including: (i) a summary of the casing program; (ii) the location and density of perforations; (iii) details of formation treatment and stimulation; (iv) results of back pressure tests; (v) daily Completion reports; and (vi) estimates of current and cumulative costs. It will promptly provide each Non-Operator with all relevant information pertaining to any formation tests and production tests conducted on that well and daily advice as to the nature, rate and amount of Petroleum Substances and other fluids produced from that well. This Clause and Clause 7.05 will apply, *mutatis mutandis*, to a Recompletion or Reworking.

7.05 Well Information Subsequent To Completion

Subsequent to the Completion of any well for the Joint Account, the Operator will supply to each Non-Operator:

(a) copies of any directional, temperature, caliper or other well surveys conducted for that well;

(b) copies of any petroleum, natural gas, water or other substance analyses made respecting that well, provided that it will supply representative samples of water and Petroleum Substances (other than natural gas) from each test if it does not make analyses of water and Petroleum Substances;

(c) a complete summary of the drilling and Completion of that well;

(d) notice of commencement of production of any Petroleum Substances from that well; and

(e) initial production rates and the nature, kind, and quality of Petroleum Substances and any other substances produced from that well.

7.06 Data Supplied In Accordance With Established Standards

The Operator will supply all data under this Article in accordance with established industry standards. Insofar as is practicable, the Operator will supply all information to be delivered by it under this Article in a digital format, including all data being acquired for the Joint Account and all data acquired for the account of the applicable Parties through the participation right granted to them under Clause 7.07 with respect to additional testing of the Joint Lands.

7.07 Additional Testing By Fewer Than All Parties

Any Party may, at its sole risk and expense (including rig costs), conduct such other or additional tests of its choosing in the Joint Lands with respect to a well drilled hereunder in which it is participating after giving notice to each other Party of its intention to do so and offering them the opportunity to participate therein on the same basis as under Clause 10.02. However, it may not conduct any such test if the Operator reasonably determines that the wellbore is not in satisfactory condition for that purpose and gives notice to that effect to that Party, including therein the basis for that determination. Subject to that participation right, the Casing Point election in Article 9.00, the conduct of additional Operations in a well under Clause 10.08 and the confidentiality obligations in Article 18.00, a Party conducting any such test will retain all rights thereto, and it is not required to provide information therefrom to any other Party. The liability and indemnification obligations in Clause 10.18 will apply, *mutatis mutandis*, as if that additional testing program were an Independent Operation.

8.00 HORIZONTAL WELLS

8.01 AFE Or Operation Notice For A Horizontal Well

A. *Operation May Vary*-Notwithstanding the definition of AFE, an AFE or an Operation Notice for a Horizontal Well may include a range of potential Operations, including a Vertical Stratigraphic Wellbore and one or more Horizontal Legs of various lengths kicking off from that Vertical Stratigraphic Wellbore, provided that a Party serving an AFE or Operation Notice for a Vertical Stratigraphic Wellbore must identify therein its potential intention to drill one or more Horizontal Legs therefrom, the contemplated length and direction of each such contingent Horizontal Leg and the anticipated cost thereof. However, no such AFE or Operation Notice may include as its primary target more than one formation. Subject to the limitations on variation contemplated in Subclause 8.01B because of the situations encountered as that Horizontal Well is drilled, no such AFE or Operation Notice will be invalid because the Operation eventually conducted varies from the Operation proposed therein because of the length, direction or eventual bottomhole coordinates of one or more of the proposed or contemplated Horizontal Legs.

B. *Limitation On Variance*-Notwithstanding Subclause 8.01A, the Operator of a Horizontal Well may not vary it from the description in the associated AFE or Operation Notice by: (i) drilling a different number of Horizontal Legs than the number identified therein; or (ii) intentionally varying the length or direction of any single Horizontal Leg, other than as required to address drilling difficulties in accordance with Subclause 3.01D or as permitted under Subclause 3.01E or 10.02H, as applicable. An approved AFE or Operation Notice for a Horizontal Well will not apply insofar as Operations are not conducted in compliance with this Subclause, and any such Operations must be conducted pursuant to further approvals of the Parties or under a separate Operation Notice, as applicable.

8.02 Well Evaluation And Kickoff Of Vertical Stratigraphic Wellbore

A. *Completion Program For Horizontal Leg*-Article 9.00 will not apply to a Horizontal Leg drilled as part of a well proposed initially as a Horizontal Well. Clause 10.08 will apply to the Completion of that Horizontal Leg, unless the Parties have otherwise agreed to the Completion program for that Horizontal Leg in conjunction with the drilling of that Horizontal Well.

B. *Vertical Stratigraphic Wellbores*-Notwithstanding the definition of Casing Point, Article 9.00 will apply, *mutatis mutandis*, to the Parties participating in a Vertical Stratigraphic Wellbore for a program to kick off one or more Horizontal Legs therefrom after the Vertical Stratigraphic Wellbore has been drilled to its final depth. A Party may not elect to participate in only some Horizontal Legs if that program includes the drilling of more than one Horizontal Leg. Clause 10.08 relating to a Deepening or Sidetracking will apply, *mutatis mutandis*, if any Party subsequently proposes to drill any additional Horizontal Leg from that Vertical Stratigraphic Wellbore.

9.00 CASING POINT ELECTION

9.01 Agreement To Drill Not Authority To Complete

This Article 9.00 is subject to any provisions of the Agreement prescribing the notice procedure for wells included in a Multiple Well Drilling Program or a Multiple Well Completion Program or any other activities relating to a particular Well Pad, as applicable. Subject to Article 8.00 for Horizontal Wells and any specific commitment in any other drilling AFE to set casing as required by the Regulations or as otherwise integral to the drilling of the well to its proposed depth, agreement to drill a well for the Joint Account is not a Party's agreement to participate in: (i) the setting of casing for production; (ii) the further attempted Completion of that well; or (iii) any Completion program described in the drilling AFE. All such additional expenditures for setting casing and the Completion of that well are subject to approval on the basis prescribed by this Article.

9.02 Election By Parties Re Casing And Completion

A. *Operator's Proposed Program*-The Operator will immediately notify the Non-Operators when a well drilled, in whole or in part, for the Joint Account has been drilled to its authorized total depth and the authorized logs and wireline or drillstem tests have been conducted. Subject to any qualifications in Clause 9.01, the following will then apply:

(a) the Operator will also notify the Non-Operators at that time, as applicable, of any program it proposes to set casing for production and to Complete that well, and will promptly provide an AFE for that program;

(b) the Operator may structure that program so that a specific proposed Completion program in addition to the setting of that casing may be conducted separately using a service rig if that portion of the program will be Commenced not later than 120 days after receipt of that notice;

(c) the Operator will be deemed to have satisfied its obligation to notify the Non-Operators of its proposed program if it notifies them at that time that a contingent program for setting casing for production and Completing that well and any associated cost estimate provided with the AFE for drilling that well still reflects its proposed program and cost estimate; and

(d) notwithstanding this Clause and Clause 9.03 for the consequences of non-participation, the Operator may limit its proposed program to setting casing for production and Suspending that well, so that it may be re-entered for the conduct of a Completion program proposed subsequently under Clause 10.08.

B. *Response To Program*-Each Non-Operator will have a period of 24 hours after its receipt of the logs and results of the tests in which it participated and the information prescribed by Subclause 9.02A to notify the Operator if it will participate in setting casing for production and any associated additional Completion program for that well. That election will be on the same basis as under Subclauses 10.02C-E for determination of the Participating Interests in that Operation and as under Clause 10.05 for a well with a divided status. A Party will be deemed to elect to participate in the Operator's proposed program for its Working Interest share of costs if it fails to reply to that notice within that 24-hour period. A Party that elects to participate in that Operation will be deemed to accept that program unless it notifies the Parties within that period that it objects to that program. However, a Party may limit its participation in that Operation to setting casing and Suspending that well, by notice to the Operator.

C. *Material Modifications To Proposed Program*-The Operator will forthwith notify the Parties if it intends to alter materially the program proposed under Subclause 9.02A because of a Party's objections, and will include in any such notice the objections and its proposed modifications to that program. Each Party may re-elect if it will participate in that modified program, by notice to the Operator within 12 hours after its receipt of that notice.

D. *Outcome Of Elections*-The applicable Parties will proceed to set casing for production and attempt, if applicable, to Complete the well for production of Petroleum Substances if any of the Parties elect to participate in the program proposed by the Operator under this Clause, and Clause 10.08 will apply to additional Operations conducted in the well. The Operator will Abandon that well in a timely manner if none of the Parties elect to participate therein and the Operator does not proceed with it.

9.03 Consequences If Fewer Than All Parties Participate

This Clause applies if fewer than all Parties set casing for production and further attempt to Complete a well that is Completed for production of Petroleum Substances under this Clause. That Operation will be considered an Independent Operation under Article 10.00, as if it were for a Development Well or an Exploratory Well, as applicable, subject to any potential forfeiture under Clause 10.10 insofar as the well is a "Title Preserving Well" (as defined in Clause 10.10). However, the Drilling Costs and any costs of casing assumed under Subclause 9.02B by a Party will not be included in any cost recovery applicable to that Party under Article 10.00 as a consequence of it becoming a Non-Participating Party.

9.04 Abandonment Of Well After Completion Attempt

This Clause applies if fewer than all Parties that participated in drilling a well conduct further Operations under Clause 9.02. The Parties that participated in those Operations will notify the drilling Parties that did not participate in those Operations of any later intention to Abandon that well. The Parties will Abandon that well for the Joint Account if the wellbore is Abandoned within six months after expiry of the election period in Subclause 9.02B, except that:

(a) the Parties participating in that Completion attempt will assume all extra costs of that Abandonment incurred because of that Completion attempt; and

(b) Subclause 10.09B will apply, *mutatis mutandis*, to: (i) income received from the sale of Petroleum Substances produced from that well within that six-month period; (ii) any amounts received from the sale of salvable material and equipment pertaining to that well; and (iii) subject to Paragraph 9.04(a), the costs of Abandonment of that well.

The Parties participating in an Operation conducted under this Article will be solely responsible for the costs of Abandoning that well if that wellbore is not Abandoned within that six-month period, subject to any reacquisition of participation in that well by a Non-Participating Party under Clause 10.07 or 10.08.

9.05 Provisions Of Article 10.00 To Apply

Article 10.00 will apply, *mutatis mutandis*, to any Operation conducted under this Article by fewer than all Parties, except insofar as those provisions would conflict with those contained in this Article.

10.00 INDEPENDENT OPERATIONS

10.01 Definitions - Article 10.00

In this Article:

"Independent Operation" means an Operation proposed to be conducted under this Article.

"Independent Well" means any portion of a well in which an Independent Operation is conducted.

"Non-Participating Party" means a Party that does not participate in an Independent Operation, provided that a Party that elected under Subclause 10.08F for an Equipping or Subclause 10.13B for a Production Facility to: (i) take its share of production in kind; or (ii) pay any applicable usage fee will not be a Non-Participating Party for that Independent Operation.

"Operation Notice" means a notice of intention to conduct an Independent Operation that includes:

(a) its nature, including any information required under Article 8.00 for a Horizontal Well;

(b) its proposed location, including any information required to be provided under the definition of AFE about the surface and bottomhole coordinates of a well, if applicable;

(c) its anticipated Commencement and estimated duration;

(d) any application of Paragraph 10.02B(a), (b) or (c) to the response period therefor, including, in reasonable detail, the basis for the conclusion that such Paragraph applies;

(e) the classification, if applicable, as a Development Well or Exploratory Well and any expected application of the title preserving process in Clause 10.10 thereto, including a description of the Joint Lands to which Clause 10.10 would be expected to apply, subject to the potential application of Subclause 10.10H to any applicable disputes;

(f) any application of the divided well status process in Clause 10.05 or the dual use process in Clause 10.06 to a well and the additional information required under the applicable Clause; and

(g) an AFE for the proposed Independent Operation, provided that an AFE that does not form part of an Operation Notice issued under this Article 10.00 will not by itself be construed as an Operation Notice.

"Participating Party" means a Party that participates in the Independent Operation, including the Proposing Party.

"Proposing Party" means the Party that issued an Operation Notice.

"Receiving Party" means a Party entitled to receive an Operation Notice, provided that a Non-Participating Party subject to a cost recovery with respect to an existing well will not be regarded as a Receiving Party for any further Operation Notice respecting that well, except for: (i) the rights granted to it under Subclause 10.07B for a Recompletion of a well in a formation for which it received a reimbursement under Paragraph 10.05C(b); (ii) the rights granted to it under Subclause 10.08B for a Recompletion of a well in which it had participated in setting production casing; (iii) the rights granted to it under Subclause 10.08C for the Deepening or Sidetracking of that well; and (iv) any other re-election rights it may have at law or in equity.

10.02 Proposal Of Independent Operation And Responses

A. *Operation Notice May Be Issued*-This Subclause is subject to the other provisions of this Article and any restrictions in the Agreement on a Non-Participating Party's ability to issue an Operation Notice for certain wells described in a Multiple Well Drilling Program or a Multiple Well Completion Program, the applicable Joint Lands within the area to which any such program relates or for any particular Well Pad. A Party may, at any time, issue an Operation Notice to the other Parties for an Operation: (i) on or with respect to the Joint Lands; or (ii) for the construction, acquisition, installation, modification or expansion of a Production Facility. A Party may serve an Operation Notice for a well (and the provisions of this Clause will apply to it) during the period in which a holding or other amendment to the Spacing Unit or drilling density is required to produce that well from a formation that is already productive in another well, provided that: (1) any required application will be submitted under the Regulations prior to expiry of the response period for that Operation Notice; and (2) that Operation Notice and all elections thereunder will be void if that application has been rejected under the Regulations prior to that Operation being Commenced.

B. *Response Period*-This Subclause is subject to any provisions of the Agreement prescribing the notice procedure for wells included in a Multiple Well Drilling Program or a Multiple Well Completion Program or any other activities relating to a particular Well Pad, as applicable. Subject to the last Paragraph of this Subclause and the additional election rights for an Equipping under Subclause 10.08F or a Production Facility under Subclause 10.13B, a Receiving Party is deemed to have elected not to participate in an Independent Operation unless, within 30 days after its receipt of the associated Operation Notice, it has notified the Proposing Party that it elects to participate therein. However, that 30-day response period will be reduced to:

(a) 15 days after receipt of that Operation Notice if it is for a well and it states that the proposed Operation is being conducted to evaluate lands specified therein being offered for public tender by a regulatory authority within 60 days after that receipt. However, an Operation will only be regarded as being conducted for that evaluation if: (i) any of those lands are within 1.6 kilometres of the well location; (ii) the stratigraphic rights included in those lands include any formation that corresponds to those being evaluated in the Joint Lands by that well; and (iii) the evaluation of any such formation(s) by that well would reasonably be expected to occur before the date of that offering by public tender;

(b) 48 hours after receipt of that Operation Notice if: (i) the Operation Notice is for an Operation on an existing well under Clause 10.08 for a: Deepening; Sidetracking; re-entry and Completion of a Suspended well; Recompletion; or Reworking; (ii) the drilling or service rig to be used is then on location for a prior Operation on that well; and (iii) that Operation Notice states that such rig is so located. However, no Operation Notice issued under this Paragraph during the response period prescribed under this Clause for that prior Operation will be deemed to be received by a Party until the earlier of its election for that prior Operation or expiry of the response period therefor. All incremental expenses accruing during that 48-hour period because of issuance of that Operation Notice, including standby time, will be for the account of the Participating Parties if that Operation is Commenced, but only for the account of the Proposing Party if that Operation is not Commenced. Those incremental expenses will be included in the costs of the additional Operation hereunder; or

(c) seven Business Days after receipt of that Operation Notice if the Operation Notice is for an Operation under Subclause 10.06C and: (i) the Operation Notice complies with the requirements in Paragraphs 10.06C(a)-(d); (ii) the drilling or service rig to be used is then on location for prior work on that well; and (iii) that Operation Notice states that such rig is so located. Other than for those costs for which responsibility is retained by the Proposing Party under Subparagraph 10.06C(b)(v), all incremental expenses accruing during that seven-Business Day period because of issuance of that Operation Notice, including standby time, will be for the account of the Participating Parties if that Operation is Commenced, but only for the account of the Proposing Party if that Operation is not Commenced. Those incremental expenses will be included in the costs of the additional Operation hereunder.

A Receiving Party will also provide to the other Receiving Parties a copy of its response to the Proposing Party, but failure to provide that copy will not affect the validity of its response to the Operation Notice. Notwithstanding the preceding portion of this Subclause, a Receiving Party may defer its response to an Operation Notice under: (i) Subclause 10.02F because of the distance between a proposed well and certain other wells hereunder; (ii) Paragraph 10.06C(c) because of the requirement to be provided certain well information from a well to which an equalization applies under Clause 10.06; and (iii) Subclause 10.13B because of an objection that the proposed Operation does not satisfy the requirements in the definition of Production Facility.

C. *Determination Of Participation*-Each Party may participate in a proposed Independent Operation in the proportion that its Working Interest bears to those of the Participating Parties. A Proposing Party, in an Operation Notice and a Receiving Party, in its response thereto, may elect to participate therein:

(a) only to the extent of its Working Interest; or

(b) to the extent of its Working Interest and increased by its proportionate share of: (i) the unassumed percentage of participation for that Independent Operation; and (ii) any then remaining Participating Interest on a *pro rata* basis until the Participating Parties have fully assumed the Participating Interests therein, provided that a Participating Party that elects to assume a Participating Interest greater than its Working Interest under this Paragraph may include in that election a limitation on the maximum total Participating Interest it is prepared to accept for that Independent Operation.

A Participating Party (including the Proposing Party in its Operation Notice) that does not specify the level of its participation under this Subclause will be deemed to have elected to participate for its proportionate share of all remaining Participating Interests under Paragraph 10.02C(b) without any limitation thereunder.

D. *Interests Not Fully Subscribed*-The Proposing Party will notify the Participating Parties as soon as practicable (but not later than five Business Days after expiry of the response date for the Operation Notice) if they have not fully assumed the Participating Interests in an Independent Operation after the elections in Subclause 10.02C. The Operation Notice will be deemed to be withdrawn if the remaining Participating Interests are not otherwise assumed within five Business Days after the Proposing Party provides that notification. However, each of those five-Business Day periods will be reduced to 12 hours if the response period for the Operation Notice was 48 hours or less.

E. *Notification Of Outcome*-If fewer than all Receiving Parties elect to participate in the proposed Independent Operation, the Proposing Party will notify the other Parties within five Business Days after completion of the election process in Subclauses 10.02C and D how the costs, risks and benefits of that Independent Operation will be shared or advising them that it is withdrawn under Subclause 10.02D. The Operator of an Independent Operation will, for informational purposes only, issue an AFE updating the Participating Interests on request of a Participating Party.

F. *Limitations On Operation Notice*-This Subclause is subject to any provisions of the Agreement prescribing the notice procedure for wells included in a Multiple Well Drilling Program or a Multiple Well Completion Program or any other activities relating to a particular Well Pad, as applicable. A Party may be a Proposing Party for more than one Operation Notice at any given time, but an Operation Notice may not relate to more than one well or more than one Production Facility, or any combination thereof. A Party that serves more than one Operation Notice at a time will state the order in which they are deemed to be received by the Receiving Parties, subject to this Subclause. They will be deemed to be received in accordance with Clause 22.01 (and then by order of anticipated Commencement date if that Clause would deem the same date of receipt) if the Proposing Party fails to state that order. However, subject to any application of the last sentence of this Subclause, Subclause 10.02G or, for the Deepening or Sidetracking of an Independent Well, Subclause 10.08C and provided that the Receiving Party is entitled to receipt of well information from the other Operation on the other applicable well located on the Joint Lands in due course under Clause 10.19, the Receiving Parties will be deemed not to have then received an Operation Notice served by a particular Proposing Party (or its Affiliate) for a drilling or Completion, Recompletion or Reworking Operation respecting a well if any well on the Joint Lands located within 3.2 kilometres of the well to which the new Operation Notice pertains (as measured from the respective bottom hole coordinates of the wells, or, for any such well that is a Horizontal Well, the nearest points of each well in the applicable formation, while treating any applicable Horizontal Leg as a single well for this purpose):

(a) has then been approved to be drilled, Completed, Recompleted or Reworked for the Joint Account under an earlier AFE or Operation Notice; or

(b) is then the subject of any other Operation Notice issued by that Proposing Party (or its Affiliate) for a drilling, Completion, Recompletion or Reworking Operation which has not then been approved for the

Joint Account.

If the preceding sentence applies to defer receipt of an Operation Notice served by a Proposing Party, the Receiving Parties will be deemed to have received that Operation Notice at: (i) completion of that other Operation on that other well and the provision to them of the information prescribed by Clauses 7.02, 7.03 and, insofar as is then available, 7.04 and 7.05 in accordance with Article 7.00 or Clause 10.19, as applicable; or (ii) that earlier date at which that pre-existing AFE or Operation Notice is withdrawn or expires. However, deferral of receipt of an Operation Notice under this Subclause will not apply to: (1) a particular defaulting Party from which that information is being withheld under Paragraph 5.05B(b); (2) any well to preserve title to which Clause 10.10 applies; or (3) the conduct of an Operation on an existing well under Clause 10.08 between the Parties that participated in that well, provided that a Party that participated in a well is deemed not to have received an Operation Notice for the Completion or Equipping of that well or the installation of a Production Facility until, as applicable; (A) its receipt of the drilling information therefrom prescribed by Clauses 7.02 and 7.03; (B) for an Equipping, the Completion information prescribed by Clause 7.04; or (C) for the installation of a Production Facility, the Completion information prescribed by Clause 7.04 for at least one of the wells to be served by that Production Facility.

G. *Receiving Party May Not Defer Response*-This optional Subclause will ____/will not ____ (Specify) apply herein.

A Party may not defer its response to an Operation Notice under Subclause 10.02F for the drilling or Completion of a well if the well's bona fide projected total vertical depth is above the base of the _____ formation.

H. *Permitted Modification Relative To Non-Participating Parties*-Notwithstanding the description of a drilling Operation in an AFE or an Operation Notice and in addition to the Operator's rights and obligations relative to the Participating Parties under Subclauses 3.01D and E, Subclauses 3.01D and 3.01E apply, *mutatis mutandis*, to a well drilled as an Independent Well between the Participating Parties and each Non-Participating Party with respect to that well. For this purpose, the original election of a Non-Participating Party not to participate in the well will remain in effect (and no right to elect to participate in the modified well will arise due to that modification), provided that:

(a) the references to 75 metres and 7.5% in Paragraphs 3.01E(f) and (g) are changed under this Subclause to, respectively, 150 metres and 10%; and

(b) the restriction in Subclause 3.01E about a plugging back and Sidetracking will not apply under this Subclause relative to the Non-Participating Parties with respect to a modification to an Independent Well that is consistent with the other requirements of this Subclause, as modified by Paragraph 10.02H(a).

All additional costs incurred under this Subclause will be added to the costs of that well in determining any cost recovery prescribed under this Article for that well.

10.03 Time For Commencing Operation

A. *May Be Commenced During Response Period*-A Proposing Party may Commence the Operation described in an Operation Notice without waiting for the response period prescribed by Clause 10.02 to lapse. A Proposing Party is not to Commence an Operation to which this Article applies with respect to a well without first serving an Operation Notice for it to the applicable Receiving Parties. If a Party Commences such an Operation prior to serving an Operation Notice for it, the notice and election process in Clause 10.02 will apply following issuance of the Operation Notice for the conduct of that Operation, provided that a Receiving Party will otherwise retain any remedy it may have at law or in equity for the Proposing Party's failure to serve that Operation Notice prior to Commencement of that Operation. Subject to Clause 10.19, the Proposing Party will not be required to provide any other information pertaining to that Independent Operation to a Party before it elects to participate therein.

B. *Period Within Which Operation Must Be Commenced*-The Proposing Party may not Commence an Operation more than 120 days after the Receiving Parties are deemed to have received the associated Operation Notice, provided that the period for Commencement will be increased by 30 days if the Operation Notice is for a Production Facility and it will be the period permitted for Commencement under the Regulations if the Operation Notice is for an Operation required to be committed to under the Regulations as a condition of the extension of a Title Document. The Receiving Parties will no longer be bound by their elections thereunder if the Operation is not Commenced within that period, except insofar as they consent in writing to that delay. If the period to Commence an Independent Operation lapses under this Subclause or the Proposing Party gives earlier notice that it will not proceed with that Operation, any Party may thereafter serve a new Operation Notice for that Operation or any similar Operation.

10.04 Operator For Independent Operation

A. *Party Conducting Operation*-This Clause 10.04 is subject to any restrictions on the ability of a Party to propose or conduct Operations with respect to a particular Well Pad under the Agreement or any separate agreement that applies to the Parties and that Well Pad. Alternate ___ (Specify (a) or (b)) will apply in this Subclause.

Alternate (a) (Proposing Party Conducts)
Notwithstanding anything to the contrary herein, the Proposing Party will be the Operator of an Independent Operation, unless: (i) it is in default under Clause 5.05; or (ii) it would be disqualified from being the Operator therefor under Subclause 2.02A.

Alternate (b) (Operator Has Option To Conduct)
Notwithstanding anything to the contrary herein, the Proposing Party will be the Operator of an Independent Operation, unless: (i) it is in default under Clause 5.05; (ii) it would be disqualified from being the Operator therefor under Subclause 2.02A; or (iii) the Operator is a Participating Party therein that exercises its right under this Alternate to conduct it. An Operator that is a Participating Party (but not the Proposing Party) may elect to become the Operator for that Operation in its notice to participate, in which case it will conduct it in substantial compliance with the Operation Notice. The Proposing Party will cooperate with the Operator in effecting promptly the transfer of operatorship (including the required transfer of any applicable licences or approvals under the Regulations and any associated surface rights) following any such election by the Operator under this Subclause (including any such election made by the Operator after the Proposing Party has Commenced that Operation under Clause 10.03), provided that the Proposing Party will not be obligated to transfer any contract for goods or services that does not pertain exclusively to that Operation. Notwithstanding the selection of this Alternate, an Operator that exercises its right to conduct a particular Operation and then fails to Commence it by the time prescribed by Clause 10.03 may not exercise its rights under this Alternate if that Operation or a substantially similar Operation is proposed in a subsequent Operation Notice within 365 days after issuance of the original Operation Notice.

B. *Subsequent Option To Succeed Proposing Party*-Subject to any election by the Operator to conduct an Operation under Alternate 10.04A(b), an Operator that is a Participating Party in a proposed Independent Operation (but not the Proposing Party) may, at its option by notice to the Proposing Party, succeed the Proposing Party as Operator thereof at its completion or, if agreed by the Proposing Party and the Operator, at conclusion of a particular phase of that Operation. In such event, the Proposing Party will cooperate with the Operator in effecting the required transfers on the same basis as provided in Alternate 10.04A(b). For the drilling of a well, the completion of that Operation will be at the conclusion of any program proposed by the Proposing Party at Casing Point under Article 9.00, except that the Operator will not succeed it for a well being Abandoned thereunder.

C. *Proposed Operation Conducted For Joint Account*-The rights and obligations of the Operator for Joint Operations will apply, *mutatis mutandis*, to a Proposing Party other than the Operator that conducts a proposed Independent Operation that is approved for the Joint Account, insofar only as is required for the conduct of that Joint Operation.

10.05 Separate Election Where Well Status Divided

A. *Operation Notice Describes Respective Portions*-If a proposed Independent Well being drilled or Completed would be in part a Development Well and in part an Exploratory Well, the Proposing Party will identify in reasonable detail the respective portions of that well and the estimated costs for each such portion in the associated Operation Notice and AFE. For this cost allocation, the costs of the Development Well portion will include only costs anticipated to be incurred if the well were being drilled and, if applicable, Completed as only a Development Well. All additional costs anticipated to be incurred because it is also being drilled or Completed as an Exploratory Well will be allocated to that portion of the well, including the use of any required special equipment or casing.

B. *Participation Rights*-A Party that elects to participate in an Operation described in Subclause 10.05A will specify in its election if it participates in the entire Operation or in only the Development Well portion. A Participating Party that fails to specify the extent of its participation is deemed to elect to participate in the entire Operation.

C. *Priorities If Well Productive In Both Portions*-The following applies if: (i) participation varies between the Development Well and Exploratory Well portions of a well; and (ii) testing demonstrates that it is capable of producing Petroleum Substances in Paying Quantities from at least one formation in each such portion of the well:

(a) the Operator for the Participating Parties in the deepest producing formation will operate that well if those Petroleum Substances can be produced simultaneously from each portion of the well. It will produce the Petroleum Substances separately for measurement purposes. It will apportion the Operating Costs of the well to each producing formation on an equitable basis, and deliver to the Operator for the Participating Parties in each other producing formation all production therefrom. Each such Operator will account for that production to the respective Participating Parties under Clause 10.07, as if a separate Operation had been conducted for each such producing formation; and

(b) the Participating Parties in the Exploratory Well portion of the well will have the pre-emptive right to produce it if the Petroleum Substances cannot be produced simultaneously from both the Development Well and Exploratory Well portions of the well. They will notify the Participating Parties in the Development Well if they exercise this right not later than 30 days after obtaining 30 days of production data from the Exploratory Well portion of that well. If one or more of those Participating Parties exercise that pre-emptive right, they must promptly reimburse the Participating Parties in the Development Well portion all applicable Drilling Costs and Completion Costs incurred by them with respect to the Development Well portion of that well. That well will then be deemed to be a single Operation conducted by them in the Exploratory Well portion of that well for the purposes of this Article.

10.06 Wells Serving Joint Lands And Other Lands

A. *Limitations On Use Of Joint Well For Other Purposes*-A Party may not use a wellbore held for the Joint Account to: (i) drill more than 15 metres deeper than formations included in the Joint Lands; or (ii) conduct a test in any formation not included in the Joint Lands, except insofar as the other Parties have authorized that use.

B. *Use Of Independent Well For Formations Not Included In Joint Lands*-Subject to the consent of the other Participating Parties on such terms as they may agree, a Participating Party may use an Independent Well to drill more than 15 metres deeper than formations included in the Joint Lands or to conduct a test in any formation not included in the Joint Lands. However:

(a) that Participating Party must provide prior notice of that intended use to each Non-Participating Party;

(b) that Participating Party may not conduct such an activity in an Independent Well that is producing or is reasonably anticipated to be capable of producing Petroleum Substances in Paying Quantities from the Joint Lands without the consent of the Non-Participating Parties on such terms as they may agree;

(c) the Participating Parties will reduce the Drilling Costs and Completion Costs included under Paragraph 10.07A(e) in the cost recovery for that Independent Well on the same basis as under Subclause 10.06C, regardless of whether that Participating Party successfully Completes the well in any such other formation;

(d) the Participating Parties will be deemed to waive entirely any cost recovery otherwise applicable to that Independent Well under this Article (and the Non-Participating Parties will have no residual interest in that well) if: (i) any consent required under Paragraph 10.06B(b) is obtained; and (ii) hydrocarbon production is obtained from any such other formation through that well for more than 30 total days (other than for test purposes), unless, with agreement of the Non-Participating Parties and the other Participating Parties, that well will be produced simultaneously from both the Joint Lands and any such other formation, or the Parties otherwise agree; and

(e) the liability and indemnification obligations in Clause 10.18 will apply, *mutatis mutandis*, to any such activity in any formation not included in the Joint Lands, as if it were an Independent Operation, except that the Clause will not be subject to the exclusion of Extraordinary Damages prescribed by Clause 4.04.

The Operator of any such well that will be produced simultaneously from both the Joint Lands and any such other formation will manage the production from the respective portions of the well separately for measurement purposes, and it will allocate costs on a reasonable basis between the respective portions of that well. Subject to the handling of certain costs prescribed by Paragraph 10.06B(c) for use of an existing well for activities in such other formations, it will allocate: (i) costs relating to a specific portion of the well to that portion insofar as it can reasonably do so; and (ii) costs on an equitable basis, insofar as they cannot be allocated under the preceding portion of this sentence, including the costs of Abandoning that well in due course. The Operator will consult with the other Parties about the basis for that allocation, and they will resolve the matter under Article 21.00 insofar as they are unable to agree.

C. *Use Of Well Outside Agreement For Operations In Joint Lands*-A Party may propose to use a well already used by it for the evaluation of formations not included in the Joint Lands for the conduct of Operations in the Joint Lands, subject to Subclause 10.06F for the acquisition of a wellbore, provided that use of a wellbore under this Subclause for the Joint Lands requires the consent of the other Parties if that use is proposed to begin later than 48 months after the initial drilling rig release date of that well. That Party must negotiate the basis for that use with the other Parties if it intends to use that well to produce from both any formation included in the Joint Lands and any other formation(s). If that use is to be exclusively for the evaluation of the Joint Lands and the recovery of production therefrom, that Party must, in addition to the other requirements prescribed for an Operation Notice for the proposed Independent Operation:

(a) identify such prior use in the applicable Operation Notice;

(b) include in that Operation Notice its proposed *bona fide* equalization of Drilling Costs between the respective portions of the well and the basis therefor in reasonable detail on the following basis:

(i) the Proposing Party will estimate the Drilling Costs from surface to 15 metres below the base of the deepest formation of the Joint Lands in which a *bona fide* Completion is proposed under this Subclause (or from surface to the base of the well's original target formation if the proposed Operation is the Deepening of that well to a formation in the Joint Lands), as if the well were a new well drilled only to that depth. It will identify clearly in that estimate that portion of those costs subject to adjustment under the next Subparagraph, and exclude from that estimate all additional costs (such as those for any specialized equipment or casing) incurred due to that well also being drilled to evaluate formations not included in the Joint Lands;

(ii) that portion of the Drilling Costs estimated under the preceding Subparagraph that serve both the evaluation of those formations of the Joint Lands and other formations evaluated by that Party using that well will be reduced to reflect the dual use of that portion of the well. Unless otherwise agreed, that reduction will be: (1) 50% for any well subject to such an Operation Notice within 72 months after its original drilling rig release date; (2) 75% for any well subject to such an Operation Notice more than 72 months and less than 180 months after its original drilling rig release date; and (3) 90% for any other such well;

(iii) the Drilling Costs calculated in Subparagraph 10.06C(b)(i), less the reduction prescribed by Subparagraph 10.06C(b)(ii), will be used as 100% of Drilling Costs for that portion of the well for the Operation Notice and under Paragraph 10.07A(e) for any cost recovery for that well;

(iv) all other Drilling Costs and Completion Costs for the proposed Independent Operation that pertain to formations included in the Joint Lands will be included in the cost of the proposed Independent Operation without being adjusted under this Subclause; and

(v) all costs of preparing the well for conduct of the proposed Independent Operation, including any Abandonment of the wellbore below the depth described in Subparagraph 10.06C(b)(i), will be assumed by that Proposing Party, and will not be allocated to the Parties under this Clause;

(c) include with that Operation Notice drilling information (including logs) for the formations for which Drilling Costs are equalized under this Subclause if they include any Joint Lands, insofar as that information is not already in the public domain under the Regulations. The Receiving Parties will be deemed not to have received that Operation Notice until receipt of that information; and

(d) include in that Operation Notice its proposed equalization for any other existing equipment pertaining exclusively to the well that will be used in the proposed Independent Operation and resultant production activities. The *bona fide* estimated net salvage value of this equipment will be used for this equalization, on the same basis as prescribed by the Accounting Procedure. This amount will also be included as Operating Costs under Paragraph 10.07A(b) for any cost recovery under Clause 10.07.

The Parties will be deemed to agree to the calculation of Drilling Costs under Subparagraph 10.06C(b)(i) unless a Party objects to it, by notice to the Proposing Party, within 10 Business Days after receipt of the Operation Notice, provided that this period will be five Business Days if a seven-Business Day response period applies to it under Paragraph 10.02B(c). A Party serving a notice of objection must include in its notice the basis for its objection and a proposed alternate calculation in reasonable detail. Insofar as the Parties are unable to agree on the handling of such an objection, they will resolve it under Article 21.00. This will defer the response period for the Operation Notice until the later of expiry of the response period prescribed by Subclause 10.02B or five Business Days after the determination under Article 21.00.

D. *Limited Representations About Well Drilled Outside Agreement*-A Proposing Party that offers a well to the Parties under Subclause 10.06C makes no representations about its condition (environmental or otherwise), except that:

(a) it has complied with the terms of any agreement to which it is subject insofar as is necessary to assign an interest in that well hereunder;

(b) there are no existing or threatened lawsuits or other proceedings that pertain to that well or any right to gain surface access to that well;

(c) to its knowledge, that well is free and clear of all liens, mortgages, pledges, claims, options, encumbrances or other burdens or adverse claims that were created by, through or under that Proposing Party or of which it had knowledge;

(d) to its knowledge: (i) the well has been drilled and operated in accordance with generally accepted oil and gas field practices and the requirements of the Regulations as they existed at the relevant time; and (ii) the condition of the well is reasonably appropriate for the purpose of the proposed Operation; and

(e) it is not aware of any existing or threatened demand or notice issued respecting that well for the breach of Regulations pertaining to HSE or any particular or existing circumstance respecting that well that it reasonably believes to be a reportable event under those Regulations.

A Proposing Party may not propose to apply Subclause 10.06C to a well for which it cannot make those representations. It will allow a Party's representatives to review the associated well file and conduct a field inspection of the associated field location on reasonable notice to it, at the reviewing Party's sole cost, risk and expense, insofar as is reasonably appropriate to assess: (i) the technical integrity of the wellbore for the contemplated use; (ii) HSE matters; and (iii) any proposed cost allocation under this Clause. The liability and indemnification obligations in Clause 10.18 will apply, *mutatis mutandis*, to any prior activity in that well in any formation not included in the Joint Lands, as if it were an Independent Operation conducted by the Proposing Party, except that the Clause will not be subject to the exclusion of Extraordinary Damages prescribed by Clause 4.04. A Party that accepts participation in a well under this Clause will initially acquire an ownership interest in the relevant portion of the well and the associated equipment to which its equalization pertains equal to its Participating Interest in the applicable Operation. That interest is subject to adjustment under Clause 10.07 to reflect any subsequent participation rights of a Non-Participating Party if any applicable prescribed cost recovery is attained for that well.

E. *Abandonment Of Well Serving Joint Lands And Other Lands*-Any well to which Subclause 10.06C applies will be held for the account of the Participating Parties in the Operation, subject to: (i) a Party's responsibility for any misrepresentation under the first sentence of Subclause 10.06D; (ii) any application of a cost recovery mechanism prescribed by this Article; (iii) the Proposing Party's responsibility for Abandoning a portion of the well under Subparagraph 10.06C(b)(v); and (iv) any other agreement between the applicable Parties for use of the well. Subject to the preceding sentence, those Participating Parties will assume responsibility for all Abandonment obligations and Environmental Liabilities that accrued with respect to the well and all other obligations thereafter accruing with respect to that well, provided that the Abandonment costs for the Abandonment of the wellbore within six months after expiry of the response period for the applicable Operation Notice will be allocated between its

respective portions on the same basis as the Drilling Costs were allocated under Subclause 10.06C, except that the Participating Parties will assume all extra Abandonment costs resulting from the conduct of that Operation.

F. *Well Acquired For Use In Joint Lands*-Subject to the consent of the other Parties if the acquisition in this Subclause will occur later than 48 months after the initial drilling rig release date of the applicable well, but notwithstanding any other provision of this Clause 10.06, the following will apply if a Party makes a *bona fide* arm's length acquisition of a well not subject to the Agreement which it then proposes to use exclusively for an Independent Operation for one or more formations included in the Joint Lands:

(a) in addition to the other requirements prescribed for an Operation Notice, it will identify in reasonable detail therein the basis on which it acquired that well, and offer each Receiving Party the opportunity to acquire an ownership interest in that well equal to its Working Interest by: (i) reimbursing it for a corresponding share of the cost of that acquisition; and (ii) assuming a corresponding share of the rights and obligations respecting its acquisition of that well, including those pertaining to any associated surface rights;

(b) Subclauses 10.06D and E will apply, *mutatis mutandis*, to that well, including a Receiving Party's right to assess its condition and its suitability for use for the Joint Lands;

(c) a Participating Party therein will pay its Participating Interest share of that cost to that other Party within 21 Business Days after the later of: (i) expiry of the response period for that Operation Notice; or (ii) execution of the agreement under which the well is acquired, and the default remedies in Clause 5.05 will apply, *mutatis mutandis*, if it has not paid that amount within that period; and

(d) the consideration paid by it (as calculated on a 100% interest) will be deemed to be Drilling Costs of an Independent Well for the purposes of any cost recovery prescribed by this Article if there is a Non-Participating Party with respect to the proposed Independent Operation.

If that acquisition includes other assets or is for consideration that cannot be matched in kind, the Proposing Party must disclose this in that Operation Notice and include its *bona fide* estimate, in cash, of the value allocated to that well. Paragraph 24.01B(f) will apply, *mutatis mutandis*, to that allocation and the response period to that Operation Notice. The applicable Parties will complete, in a timely manner, any documentation reasonably appropriate to reflect an assignment under this Subclause.

10.07 Penalty If Independent Well Results In Production

A. *Cost Recovery For Independent Well*-This Subclause is subject to: (i) any provisions of the Agreement that prescribe a different consequence for non-participation with respect to a Multiple Well Drilling Program, a Multiple Well Completion Program or any other well being drilled as part of the development of a Well Pad; (ii) Clause 10.06 for wells that have been used for lands other than the Joint Lands: (iii) Clause 10.08 for Operations on an existing well on the Joint Lands; and (iv) Clause 10.10 for wells that preserve title. The Participating Parties will retain possession of an Independent Well Completed or Recompleted for the production of Petroleum Substances from one or more formations of the Joint Lands under the associated Operation Notice and all production from those formations through that well (including any such drilled formation in which they subsequently Complete or Recomplete that well) until the gross proceeds from the sale of that production equal the total of:

(a) 100% of the lessor's royalty and 100% of any overriding royalties, freehold mineral taxes or other encumbrances borne for the Joint Account that are paid with respect to that production, subject to any application of Subclause 10.07F to certain encumbrances not borne for the Joint Account, provided that any Petroleum Substances delivered in kind to satisfy any of those obligations will be deemed to have been sold at a Market Price, except insofar as the Regulations prescribe use of a different price for any of such lessor royalties that are payable to the Crown;

(b) 100% of the Operating Costs respecting that well and, insofar as permitted hereunder and they do not duplicate Facility Fees included under Paragraph 10.07A(c), any Production Facility for its use in the production, processing, treatment, storage, transmission or other handling of that production;

(c) 100% of the Facility Fees incurred for use of a facility in the production, processing, treatment, storage, transportation or other handling of that production, calculated for 100% on the same basis as they are paid for that share of production otherwise applicable to the Non-Participating Party's Working Interest;

(d) 200% of the Equipping Costs of that well;

(e) a multiple of the *bona fide* Drilling Costs and Completion Costs of that well as a Development Well or an Exploratory Well, as applicable, being ____% for a Development Well and ____% for an Exploratory Well (including in that multiple the first 100% of those costs), subject to Subclause 10.07H for any cash contribution and Subclause 10.10F if that well is in part a "Title Preserving Well" or "Subsequent Title Preserving Well" (as defined in Clause 10.10). If that well was in part a Development Well and in part an Exploratory Well and it was Completed for production only as an Exploratory Well under Clause 10.05, all of the Drilling Costs and Completion Costs will be deemed to have been incurred solely for an Exploratory Well, subject to Subclause 10.07B if there had been a cash reimbursement to the former Participating Parties in the Development Well portion of the well under Paragraph 10.05C(b).

The proceeds of sale from or allocated to the Participating Parties' share of production from that well will be deemed to be sold at a price not less than a Market Price for this calculation, provided that 100% of the proceeds will be calculated using the price paid under any pre-existing arm's length *bona fide* agreement pertaining specifically to the Non-Participating Party's Working Interest in formations of the Joint Lands and the associated reserves if the production otherwise applicable to the Non-Participating Party's Working Interest must be sold thereunder. The charges included under this Subclause will include any associated overhead charges prescribed by the Accounting Procedure, and will be modified to reflect any subsequent adjustments, including those from an audit. The Participating Parties will apply those proceeds on a current basis and in order, to Paragraphs 10.07A(a), (b), (c), (d) and (e) during the period in which they retain that production under Subclause 10.07A.

B. *If Cash Reimbursement Under Clause 10.05*-Between only the Participating Parties in the Exploratory Well and the former Participating Parties in the Development Well, the following will apply to the cost recovery prescribed by Subclause 10.07A after a cost reimbursement under Paragraph 10.05C(b):

(a) all Drilling Costs and Completion Costs incurred for that well as a Development Well and reimbursed to the former Participating Parties in the Development Well under Paragraph 10.05C(b) will be included in Paragraph 10.07A(e) at cost, with no multiple applied thereto;

(b) proceeds of sale applied to the cost recovery under Paragraph 10.07A(e) will be applied firstly to the costs of the original Exploratory Well portion of the well before being applied to that reimbursed amount; and

(c) any outstanding amount of the cost recovery associated with the costs of the original Exploratory Well portion of the well under Paragraph 10.07A(e) will be waived if that portion of the well is Abandoned for the conduct of a Completion or Recompletion in a formation to which that reimbursement pertained.

Notwithstanding the preceding portion of this Subclause and Subclause 10.07A, the applicable Proposing Party will serve an Operation Notice under Clause 10.02 to a former Participating Party in the Development Well portion of the well if, prior to the prescribed cost recovery, the Exploratory Well portion of the well is being Abandoned for the conduct of a Completion or Recompletion in a formation to which the reimbursement in Paragraph 10.05C(b) pertained. Any such former Participating Party that elects to participate in that proposed Completion or Recompletion must reimburse the other applicable Participating Parties that portion of the following amounts applicable to its Working Interest that then remains outstanding under the cost recovery: (i) the amount previously reimbursed under Paragraph 10.05C(b); and (ii) any Equipping Costs for equipment reasonably anticipated to be used in conjunction with that Completion or Recompletion, without the multiple otherwise prescribed by Subclause 10.07A(d). Any such former Participating Party that elects to participate in that Completion or Recompletion will make the required reimbursement within 21 Business Days after being notified of that amount.

C. *Obligation To Notify Parties Of Cost Recovery*-The Operator of an Independent Well will notify the Non-Participating Parties that the proceeds prescribed by Subclause 10.07A have been recovered within 30 days after the end of the calendar month in which that recovery occurred. Subject to Subclauses 10.13B and D for any cost recovery for a Production Facility, each Non-Participating Party will notify the Operator within 30 days after receipt of that notice if it accepts participation in that well and the production from that well from the associated formations of the Joint Lands in which it is Completed or Recompleted. A Non-Participating Party that fails to make that election within that period will be deemed to elect to accept that participation.

D. *Participation In Well Accepted*-A Non-Participating Party that accepts participation in an Independent Well under Subclause 10.07C will acquire its Working Interest share therein, effective as of full recovery of the proceeds prescribed by Subclause 10.07A. Subject to any cost recovery for a Production Facility under Subclause 10.13D, the Parties then participating therein will hold that well for their account, and the Parties will adjust accounts accordingly on a cash basis for the period between the date of that cost recovery and the first of the calendar month next following the month in which that former Non-Participating Party notified the Operator that it accepted participation. The Operator will operate that well if it is an owner of that well, provided that the applicable Parties will appoint another Operator under Clause 2.06, *mutatis mutandis*, if the Operator has not accepted participation in that well or it declines the opportunity to become Operator at the time it acquires participation under this Subclause.

E. *Participation In Well Not Accepted*-A Non-Participating Party that does not accept participation in an Independent Well under Subclause 10.07C will forfeit to the Participating Parties its right of participation therein and its right to Petroleum Substances produced from its Spacing Unit, insofar only as that Spacing Unit relates to production through that wellbore from the formations of the Joint Lands in which that well is then Completed or Recompleted. Except as provided in the preceding sentence for produced Petroleum Substances, that Non-Participating Party does not forfeit its Working Interest in the Joint 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. Clause 12.03 will apply, *mutatis mutandis*, to allow a Non-Participating Party that does not accept participation in a well under this Subclause to participate in any plugging back or Deepening Operations that may be conducted in that well hereunder in due course.

F. *Encumbrances Not Borne For Joint Account*-If any Party's Working Interest is subject to an encumbrance not borne for the Joint Account to which Clause 15.02 applies:

(a) a Participating Party may not include under Paragraph 10.07A(a) any such amounts paid by it with respect to its own Working Interest share of production from the Independent Well; and

(b) the Participating Parties will make the required payments for any such encumbrance for the share of production from the Independent Well that relates to a Non-Participating Party's Working Interest. For the purposes of Paragraph 10.07A(a) and the cost recovery attributable only to that Non-Participating Party, the Participating Parties will include 150% of the amounts paid on behalf of that Non-Participating Party.

G. *Incentives Do Not Reduce Cost Recovery*-Notwithstanding anything to the contrary in this Article, the Participating Parties will not adjust the costs to be included under Subclause 10.07A for any incentives, grants, credits, waivers, exemptions, abatements or other benefits received by (or available to) the Participating Parties (or any of them individually) under the Regulations for an Independent Well. However, the Participating Parties may not include in the amounts to be recovered under Paragraph 10.07A(a) any amount that is not paid by them, such as the value of any royalty reduction, exemption or waiver that accrues to that well.

H. *Cash Contributions From Release Of Information*-The Participating Parties will apply as a credit under Paragraph 10.07A(e) any cash contribution received by them under Clause 18.03 for the release of information from an Independent Well.

10.08 Operations On An Existing Well

A. *Restrictions On Independent Operations In Existing Well*-A Proposing Party may not serve an Operation Notice for an existing well held hereunder in any circumstance in which it is reasonable to believe that: (i) the condition of the wellbore is not reasonably appropriate for the purposes of the proposed Operation; or (ii) the proposed Operation would damage the wellbore or pose material HSE risks. It also may not serve an Operation Notice for an existing well held hereunder for:

(a) a Deepening, Sidetracking, Recompletion, Reworking or other downhole Operation for a well held hereunder that is producing or capable of producing Petroleum Substances in Paying Quantities, unless: (i) that Operation has been authorized by the other Parties then having Participating Interests in that well on such terms as they may agree; or (ii) the last sentence of this Subclause permits issuance of that Operation Notice; or

(b) a Deepening or Sidetracking of a well below its authorized total depth if at least one Party has proposed to Complete or Recomplete that well in a formation at or above that depth under Article 9.00 or this Clause 10.08 until: (i) the period to Commence that Completion or Recompletion has expired; or (ii) the Parties then having Participating Interests in that well conduct that Completion or Recompletion and the well is not capable of producing Petroleum Substances in Paying Quantities.

Notwithstanding the restriction in Paragraph (a) (but subject to the other restrictions in this Subclause and any existing application of Article 16.00 to the well due to Force Majeure), a Proposing Party may serve an Operation Notice for a well held hereunder that: (i) is not Completed within at least 36 months after its drilling rig release date; or (ii) has been produced (other than for test purposes), but has then been Suspended for a period of at least 24 consecutive months, provided that this sentence does not authorize a Party to serve an Operation Notice for a Completed well that has never been produced (other than for test purposes).

B. *Non-Participating Party May Not Propose*-A Non-Participating Party with respect to an Independent Well may only propose or participate in an Operation respecting that well after it has regained the right to share in the production of Petroleum Substances therefrom, except that:

(a) it may participate in (but not propose) a Completion or Recompletion in the Development Well portion of a well for which a reimbursement of costs had previously been made to it under Paragraph 10.05C(b), as provided in Subclause 10.07B;

(b) it may participate in (but not propose) a Deepening or Sidetracking under Subclause 10.08C; and

(c) a Non-Participating Party in a Completion or Recompletion that had previously participated in the drilling and setting of production casing for that well may participate in (but not propose) an additional Completion or Recompletion of that well in a formation not included in the Completion program in which it elected not to participate. A Non-Participating Party exercising this right of participation will not be required to pay any cash amount for any unrecovered costs of the earlier Completion or Recompletion under Paragraph 10.07A(e), and Clause 10.07 will continue to apply to that original Completion or Recompletion and any production through the well from the formation to which that Operation pertained. However, it will be required to pay that portion of the Equipping Costs applicable to its Working Interest that then remains outstanding under the cost recovery, without the multiple otherwise prescribed by Subclause 10.07A(d), insofar as that equipment is reasonably anticipated to be used in conjunction with that additional proposed Completion or Recompletion, with a corresponding adjustment to the cost recovery account. Paragraph 10.05C(a) will apply, *mutatis mutandis*, to address any variance in participation in the well as a result of any participation election(s) under this Paragraph.

C. *Deepening Or Sidetracking*-Subject to the restriction on a Non-Participating Party's participation therein if Subclause 10.02H applies to the particular Operation, the following will apply to an Operation Notice for a Deepening or Sidetracking of an Independent Well for which there is then at least one Non-Participating Party:

(a) the Proposing Party will serve a copy of that Operation Notice to each Non-Participating Party for that well in accordance with Clause 10.02, including therein a *bona fide* estimate of the Drilling Costs and Completion Costs already accrued for that well, and provided that it is only then required to provide well information from that well to a Non-Participating Party on the basis prescribed by Clause 10.19;

(b) each such Non-Participating Party may participate in that Deepening or Sidetracking, provided that, subject to the qualification in Paragraph 10.08C(c) for a Sidetracking, it reimburses the applicable Participating Parties 100% of its Working Interest share of the estimated Drilling Costs and Completion Costs already accrued for that well within the later of 21 Business Days after being notified of that amount or service of its notice to participate in that Deepening or Sidetracking;

(c) for the purpose of the cash reimbursement in Paragraph 10.08C(b), the costs of an Independent Well on which a Sidetracking is proposed will exclude: (i) all costs incurred with respect to the initial wellbore of that well to drill it deeper than the depth at which the Sidetracking begins; (ii) all associated formation specific evaluation costs of the formations deeper than that depth (including those pertaining to any such coring, wireline or drillstem testing and Completion attempts); and (iii) the cost of plugging back that initial wellbore below that depth;

(d) a former Non-Participating Party that becomes a Participating Party in that well by making a reimbursement under this Subclause will be treated as if it had originally been a Participating Party in the well activities to which that reimbursement pertains, including: (i) the elimination of any cost recovery otherwise applicable to it for those activities under Clause 10.07; (ii) its assumption of its share of all accrued liabilities and obligations associated with that well; (iii) any required revenue adjustments on a cash basis; and (iv) any subsequent adjustment of costs, whether by audit or otherwise;

(e) the cost recovery prescribed by Subclause 10.08D and Clause 10.07 will apply to a Non-Participating Party that does not participate in that Deepening or Sidetracking for: (i) the applicable original well activities; and (ii) that Deepening or Sidetracking and any associated Completion, including for the purpose of that cost recovery the costs excluded under Paragraph 10.08C(c) for a Sidetracking; and

(f) the Operator of that Operation may, in lieu of the default remedies available under Clause 5.05, notify a Non-Participating Party that elected to participate in that Deepening or Sidetracking and failed to make payment by the time required under Paragraph 10.08C(b) that its election to participate is void, in which case Paragraph 10.08C(e) will apply to that Non-Participating Party.

To facilitate the rights granted under this Subclause, the Operator of that well will allow a Non-Participating Party's representatives to conduct a field inspection of that well, at that Non-Participating Party's sole cost, risk and expense, insofar as is reasonably appropriate to assess: (i) the technical integrity of that well for the proposed Operation; (ii) HSE matters; and (iii) any proposed cost allocation under this Subclause, provided that this review does not entitle that Non-Participating Party to any well information from that well to which it is not then otherwise entitled under Clause 10.19.

D. *Clause 10.07 Cost Recovery Applies*-Subject to the re-election right provided in Subclause 10.07B and 10.08B for certain Completions or Recompletions and any application of Clause 10.10 to wells that preserve title, the cost recovery process in Clause 10.07 will apply, *mutatis mutandis*, to the applicable formation(s), the production of Petroleum Substances therefrom and the recovery of costs if an Independent Operation under this Clause 10.08 is a Deepening, Sidetracking, re-entry and Completion of a Suspended well, Recompletion or Reworking that results in the production of Petroleum Substances in Paying Quantities from at least one formation in which that well is then a Development Well or an Exploratory Well.

E. *Plugging Of Wellbore Within Six Months*-This Subclause applies between the Participating Parties in a Deepening, Sidetracking, re-entry and Completion of a Suspended well, Recompletion or Reworking conducted as an Independent Operation under this Clause 10.08 or Clause 10.10 and any Non-Participating Party therein that initially participated in drilling that well. The Operator of that Independent Operation will serve notice to each such Non-Participating Party if the Participating Parties do not conduct that Operation or propose to Abandon that well. The Participating Parties will be deemed to have returned that well to the Parties that held Participating Interests therein (or their respective successors in interest) when that additional Independent Operation was proposed, effective as of the date of issuance of that notice, if the Operator serves that notice within six months after expiry of the response period for the Operation Notice for that Independent Operation. Subject to Clause 9.04 for a wellbore Abandoned thereunder, all further Operations with respect to that well after that notice, including Abandonment, will be proposed for the account of the Parties then holding Participating Interests therein, except that:

(a) the Participating Parties in the additional Independent Operation will salvage for their own account any salvable materials and equipment placed by them in and on that well;

(b) the Participating Parties in the additional Independent Operation will assume all extra costs of Abandonment and any additional Environmental Liabilities that accrued because of that Operation; and

(c) nothing in this Subclause will otherwise alter the Parties' respective rights and obligations for Losses and Liabilities that accrued because of that additional Independent Operation.

If those Participating Parties do not serve that notice within that six-month period, they will promptly pay to each such Non-Participating Party (or its successor in interest) its proportionate Participating Interest share of the net salvage value of the materials and equipment respecting that well, calculated as of the date the Operation Notice for the additional Independent Operation was served. Subject to any application of the dispute resolution process in Article 21.00, the Parties will adjust accounts accordingly. The default remedies in Clause 5.05 will apply, *mutatis mutandis*, if they have not adjusted accounts within 30 days after that determination. The Participating Parties will include the amounts paid to those Non-Participating Parties in any cost recovery for that well as Operating Costs under Paragraph 10.07A(b). Thereafter, such a Non-Participating Party has no responsibility for that well, including its Abandonment, except insofar as it resumes participation in the well and the production therefrom.

F. *Equipping*-A Receiving Party of an Operation Notice for an Equipping will elect on the basis in Clause 10.02:

(a) to participate in that Equipping;

(b) not to participate in that Equipping and to take in kind, at a point before use of the equipment to which the Equipping pertains (or such later point involving a partial use of that equipment as is the earliest at which the Regulations allow a Party to take in kind), its share of Petroleum Substances that would otherwise be served by that Equipping, provided that: (i) the nature of the proposed Equipping and the Regulations allow a Party to take in kind without using all or a significant portion of the equipment to which the Equipping pertains; (ii) the installation of any additional equipment for the measurement or other handling of those Petroleum Substances will be at that Receiving Party's sole cost, provided that it will be at the cost of the applicable Participating Parties if the proposed Equipping is for the installation of equipment serving substantially the same function as equipment already on the well when that Operation Notice was issued; and (iii) the indemnification and liability provisions of Clause 10.18 will apply, *mutatis mutandis*, between the Party taking in kind and the other Parties with respect to the installation and ongoing operation of: (1) any such additional equipment; and (2) the equipment comprising the Equipping; or

(c) not to participate in that Equipping and be subject to a cost recovery under Clause 10.07, *mutatis mutandis*, provided that the Participating Parties may not include in that cost recovery any additional costs they are required to incur because of item (ii) in Paragraph 10.08F(b).

If the nature of the Equipping is that the Regulations do not permit a Party to take in kind before using some of the associated equipment, a Party that elects under Paragraph 10.08F(b) may elect to participate in that Operation for only the equipment required to satisfy the applicable requirements under the Regulations and then to take in kind without using the remaining equipment, in which case that Paragraph will apply, *mutatis mutandis*, and the Proposing Party will adjust the Operation Notice and related AFE accordingly to reflect that election. Insofar as a Party that elected under Paragraph 10.08F(b) does not take its share of Petroleum Substances in kind, the Participating Parties in that Equipping may, on its behalf, produce, process, treat, store, transport or otherwise handle that production using the equipment to which such Equipping pertains. They may charge that other Party a fee for that use on the same basis as charged to a third party under Clause 14.04, including a reasonable rate of return on capital investment. They may also charge a marketing fee of twice the fee prescribed under Clause 6.04.

10.09 Abandonment Of Independent Well

A. *Where Well Not Initially Capable Of Production*-The Participating Parties will Abandon an Independent Well in a timely manner if it is not capable of production of Petroleum Substances in Paying Quantities.

B. *Abandonment During Cost Recovery*-The Participating Parties Abandoning an Independent Well before the prescribed cost recovery will do so at their expense as a charge under Paragraph 10.07A(b), including in that charge a reasonable estimate of surface restoration costs, subject to Subclause 10.08E for an Independent Operation conducted on an existing well. They will record as a credit the net salvage value of the material and equipment recoverable from that well, as if that amount were proceeds from production, and will report that credit in the statement required under Clause 10.15. If the gross proceeds from production from that well then exceed the total charges under Paragraphs 10.07A(a) to (e) inclusive, that excess amount will be a credit for the Joint Account.

C. *Non-Participating Party And Abandonment*-A Non-Participating Party will not assume any responsibility for the costs or risks of an Abandonment under this Clause (including subsequent surface restoration costs) and does not acquire any rights in a well Abandoned hereunder, except insofar as Clause 9.04 or Subclause 10.08E prescribe any allocation of Abandonment costs between the Parties that participated in the drilling of the well and the Parties that participated in additional Operations on that well.

10.10 Wells That Preserve Title

A. *Definitions For Clause 10.10*-In this Clause:

"Common Preserved Lands" means those areal and stratigraphic rights of the Preserved Lands retained because of a Title Preserving Well that also could have been retained because of a Subsequent Title Preserving Well, subject to any subsequent revision to those lands under Subclause 10.10D.

"Preserved Lands" means any areal and stratigraphic rights included in the Joint Lands that would have reverted to the grantor of the applicable Title Document(s) if there were no Title Preserving Well, subject to any designation

of Preserved Lands under Subclause 3.10D.

"Subsequent Title Preserving Well" means a well that is drilled (in whole or in part), Completed, Recompleted or placed on production hereunder at such time and in such manner that it also would have been a Title Preserving Well for any Preserved Lands, provided that a well that is a Subsequent Title Preserving Well for certain Preserved Lands may also simultaneously be a Title Preserving Well for other areal and stratigraphic rights included in the Joint Lands.

"Title Preserving Well" means a well that is drilled (in whole or in part), Completed, Recompleted or placed on production hereunder, insofar as failure to conduct that Operation would result in the reversion of any Joint Lands to the grantor of the applicable Title Document(s), provided that: (i) such Operation is to be Commenced not earlier than ____ days before the date that reversion would occur; and (ii) the reversion date for a Title Document that may be extended for another year, without approval of its grantor, by paying either or both of a prescribed rental or fee will be the last day of that extension period.

B. *Title Preserving Well*-A Non-Participating Party will be subject to the cost recovery prescribed by Clause 9.03, 10.07 or 10.08 for a Title Preserving Well and its Spacing Unit, insofar as the areal and stratigraphic rights of that Spacing Unit do not pertain to Preserved Lands. Notwithstanding Clauses 9.03, 10.07 and 10.08, a Non-Participating Party for a Title Preserving Well will forfeit to the Participating Parties therein 100% of its Working Interest in:

(a) that well and its Spacing Unit (as determined on the basis prescribed by Paragraph (a) of the definition of Spacing Unit when the applicable Operation Notice is issued) at completion of that Operation, insofar only as that Spacing Unit pertains to Preserved Lands and a Subsequent Title Preserving Well has not then been Commenced whereby that Spacing Unit would be included in the Common Preserved Lands; and

(b) the balance of the Preserved Lands at the date they otherwise would have reverted under the applicable Title Document(s), subject to Subclauses 10.10C, D and E for a Subsequent Title Preserving Well.

This Subclause will also apply, *mutatis mutandis*, between the Parties with respect to a Subsequent Title Preserving Well, insofar as it is also a Title Preserving Well for any Joint Lands in addition to the Common Preserved Lands.

C. *Subsequent Title Preserving Well*-The following will apply to a Subsequent Title Preserving Well:

(a) a Non-Participating Party for a Title Preserving Well that participates in that Subsequent Title Preserving Well will not forfeit its Working Interest in any Common Preserved Lands under Paragraph 10.10B(b);

(b) insofar as the Subsequent Title Preserving Well is on a Spacing Unit of Preserved Lands that does not form part of the Spacing Unit for the Title Preserving Well, a Non-Participating Party for both that well and the Title Preserving Well will forfeit its entire Working Interest in that Subsequent Title Preserving Well and the Common Preserved Lands in its Spacing Unit to the Participating Parties in that Subsequent Title Preserving Well on the same basis as in Subclause 10.10B, rather than to the Participating Parties in the Title Preserving Well under Paragraph 10.10B(b) or Subclause 10.10E; and

(c) subject to any revision of Common Preserved Lands under Subclause 10.10D, a Participating Party in the Title Preserving Well that is a Non-Participating Party for that Subsequent Title Preserving Well will be subject to the cost recovery prescribed by Clause 9.03, 10.07 or 10.08 for that Subsequent Title Preserving Well and its Spacing Unit, insofar as that well is located on a Spacing Unit of Common Preserved Lands or other Joint Lands not then subject to a pending forfeiture under this Clause 10.10.

D. *Temporary Retention Of Common Preserved Lands*-Notwithstanding Subclauses 10.10B, C and E, the Parties recognize that the conduct of activities with respect to a Title Preserving Well or Subsequent Title Preserving Well may only allow the applicable Common Preserved Lands to be retained temporarily for a prescribed period, following which the applicable Joint Lands may revert to the grantor of the applicable Title Document(s). Insofar as any such temporary retention applies to the Common Preserved Lands and the participation between the Title Preserving Well and the Subsequent Title Preserving Well differs, the applicable Participating Parties will redetermine the Preserved Lands and Common Preserved Lands as of the expiry of each such temporary retention, based on the principle that the benefits of continued retention of the applicable Joint Lands should accrue to the Participating Parties in the work conducted hereunder that allows those lands to continue to be retained. The Parties will apply Subclauses 10.10B and C, *mutatis mutandis*, to adjust their Working Interests in the former Common Preserved Lands accordingly to reflect any redetermination under this Subclause.

E. *Allocation Of Forfeited Interest In Common Preserved Lands*-Subject to the other provisions of this Clause 10.10, the Working Interest forfeited in any Common Preserved Lands will be allocated equally to the Title Preserving Well and each applicable Subsequent Title Preserving Well. The Participating Parties in each such well will then allocate that Working Interest among them under Clause 10.17.

F. *Allocation Of Costs Where Cost Recovery For Portion Of Well*-A Non-Participating Party in a Title Preserving Well or Subsequent Title Preserving Well may be subject to a cost recovery under Clause 9.03, 10.07 or 10.08 for a portion of that well for those portions of its Spacing Unit that are not Preserved Lands, while having no rights for the remainder of that well for formations in which it is a Title Preserving Well or Subsequent Title Preserving Well. The Participating Parties will include in Paragraph 10.07A(e) only those Drilling Costs to the base of the deepest

formation drilled in the Joint Lands that is not subject to forfeiture under this Clause and Completion Costs of the well for those penetrated formations of the Joint Lands not subject to forfeiture under this Clause.

G. *Obligations For Existing Wells Unchanged*-Other than as prescribed in this Clause 10.10 with respect to a well that is a Title Preserving Well or a Subsequent Title Preserving Well, any assignment of Preserved Lands under this Clause will not affect the obligations of the applicable Parties with respect to any other well held hereunder that is located on the area of the Preserved Lands. The obligations of the applicable Parties with respect to any such well remain governed by the other provisions of the Agreement.

H. *Article 21.00 Applies To Disputes*-A Party may, by notice to the other Parties, refer a dispute about the classification of a well as a Title Preserving Well or Subsequent Title Preserving Well or the determination of the Preserved Lands or the Common Preserved Lands for resolution under Article 21.00 not later than 45 days after the date the Preserved Lands otherwise would have reverted to the grantor under the applicable Title Document.

10.11 Independent Geological Or Geophysical Operation

A Party may conduct a geological or geophysical program on or with respect to the Joint Lands for its own account, provided that it does not interfere with any Joint Operation. A Party that did not participate in that program is not entitled to any data from it, unless all owners of that data later agree to provide that Party with a licence or other access to that data.

10.12 Use Of Production Facility For Independent Well

The Participating Parties in an Independent Well may use any available capacity in a Production Facility operated for the Joint Account in the same manner as if that well was held for the Joint Account, provided there is an allocation of Operating Costs for that use under Clause 14.05. Insofar as that Production Facility cannot accommodate Petroleum Substances from both the Independent Well and wells operated for the Joint Account, the wells operated for the Joint Account will have priority for use of that Production Facility.

10.13 Non-Participation In Installation Of Production Facility

A. *Consultation About Production Facilities*-The Parties normally will consult about the construction, acquisition or installation of a Production Facility. They may, at any time, attempt to negotiate a separate agreement for a Production Facility or the fee to be charged to a Party that wishes to use it without participating in that Operation, in which case it will become subject to that agreement on the basis prescribed therein. Regardless of whether that consultation has occurred (but subject to any such separate agreement), a Party may, at any time, issue an Operation Notice for a Production Facility.

B. *Elections For Proposed Production Facility*-A Receiving Party of an Operation Notice for the construction, acquisition or installation of a Production Facility will elect on the basis prescribed by Clause 10.02:

(a) to participate in the Operation;

(b) not to participate in the Operation, but to take in kind, after the First Point of Measurement and before the inlet of that proposed Production Facility, its share of any Petroleum Substances that would otherwise use it, provided that: (i) the nature of the proposed Production Facility allows a Party to take in kind without using that Production Facility; (ii) the installation of any additional equipment for the measurement or other handling of that production will, unless agreed by it and the Operator, be by the Operator at that Party's sole cost, including overhead to the Operator as prescribed, *mutatis mutandis*, by the Accounting Procedure; and (iii) the indemnification and liability provisions of Clause 10.18 will apply, *mutatis mutandis*, between the Party taking in kind and the other Parties with respect to the installation and ongoing operation of: (1) any such additional equipment; and (2) the Production Facility;

(c) not to participate in the Operation and be subject to a cost recovery for it under Subclause 10.13D; or

(d) This optional Paragraph will ___/will not ___ (Specify) apply:

to use that Production Facility for a fee, to be determined in the same manner as third party fees are determined under Clause 14.04, using as an initial capital component 100% of the costs recognized under Paragraph 10.13D(d) for the construction, acquisition and installation of that Production Facility.

A Receiving Party that fails to make an election for that Operation Notice within that period will be deemed to elect under Paragraph 10.13B(c). Notwithstanding the preceding portion of this Subclause and the response period for an Operation Notice prescribed by Subclause 10.02B, a Receiving Party that determines that the Production Facility proposed in an Operation Notice does not satisfy the requirements in the definition of Production Facility may, within 10 Business Days after its receipt of that Operation Notice, notify the other Parties of that objection in sufficient detail to enable them to understand its basis. The Parties will refer the matter for resolution under Article 21.00 after receipt of any such notice. The last day of the response period for that Operation Notice will then be the later of: (i) the expiry of the original 30-day response period prescribed by Subclause 10.02B; or (ii) 10 days after confirmation under Article 21.00 that the proposed Production Facility satisfies those requirements. That Operation Notice will be void if the determination under Article 21.00 is that the proposed Production Facility does not satisfy those requirements. A Party that fails to serve such a notice of objection within that 10-Business Day period may

not issue a notice of objection under this Subclause.

C. *Cost Recovery Process Applies*-Subclauses 10.13D to J inclusive will apply between the Participating Parties and the Non-Participating Parties that elected under Paragraph 10.13B(c) to be subject to a prescribed cost recovery for a Production Facility constructed, acquired or installed as an Independent Operation.

D. *Specified Cost Recovery*-Subject to a Non-Participating Party's right to become a Participating Party by making a cash payment under Subclause 10.13E, the Participating Parties will retain possession of a Production Facility proposed under Subclause 10.13B and a Non-Participating Party's share of production from those wells held hereunder that use it from the time that use begins until the gross proceeds from the sale of that production equal the total of:

(a) 100% of the lessor's royalty and any overriding royalties, freehold mineral taxes or other encumbrances thereon otherwise borne for the Joint Account that are paid with respect to that production, subject to any application of Subclause 10.07F, provided that any Petroleum Substances delivered in kind to satisfy any of those obligations will be deemed to have been sold at a Market Price, except insofar as the Regulations prescribe use of a different price for any of such lessor royalties that are payable to the Crown;

(b) 100% of the Operating Costs incurred for those wells and, insofar as permitted herein and they do not duplicate those included by Paragraph 10.13D(c), for that use of the Production Facility;

(c) 100% of the Facility Fees incurred for use of any additional facility for the production, processing, treatment, storage, transportation or other handling of Petroleum Substances, calculated for 100% on the same basis as they are paid for that use with respect to the share of Petroleum Substances otherwise applicable to the Non-Participating Party's Working Interest; and

(d) 200% of the cost of the construction, acquisition and installation of that Production Facility.

The proceeds of sale from or allocated to the Participating Parties' share of production from those wells will be deemed to be sold at a price not less than a Market Price for this calculation, provided that 100% of the proceeds will be calculated using the price paid under any pre-existing arm's length *bona fide* agreement pertaining specifically to the Non-Participating Party's Working Interest in formations of the Joint Lands and the associated reserves if the production otherwise applicable to the Non-Participating Party's Working Interest must be sold thereunder. Insofar as the cost recovery in Clause 10.07 then applies to the interest of that Non-Participating Party in any such well, the Participating Parties may not retain its share of production therefrom under this Subclause until full recovery of the amounts prescribed by Subclause 10.07A. If the amounts prescribed by Subclause 10.07A have been recovered, that Non-Participating Party may not resume participation in that well until full recovery of any additional amounts prescribed by this Subclause. The charges included under this Subclause will include any associated overhead charges prescribed by the Accounting Procedure, and will be modified to reflect any subsequent adjustments, including those from an audit.

E. *Right To Pay Cash* Amount-Notwithstanding any other provision of this Clause, a Non-Participating Party with respect to a Production Facility may, at any time, become a Participating Party therein on the following basis:

(a) it may pay to the applicable Operator (on behalf of the applicable Participating Parties), in cash, the outstanding amount to be recovered from its Working Interest share of production under Subclause 10.13D, subject to the rights of inspection and audit hereunder to confirm that amount in due course;

(b) that payment (and any associated adjustment) will be deemed by the Parties to be a payment for the reacquisition of that Non-Participating Party's Working Interest share of the rights to take Petroleum Substances that were suspended under this Clause;

(c) the Parties intend this to be considered for tax purposes as the acquisition of a tangible property;

(d) subject to the tax impact described in this Subclause, a Non-Participating Party that pays that amount will thereafter be treated as if it had initially been a Participating Party for its Working Interest share of the costs of that Production Facility, including: (i) all accrued liabilities and obligations associated with that Production Facility; (ii) any required revenue adjustments on a cash basis; and (iii) any subsequent adjustment of costs, whether by audit or otherwise;

(e) the accounts of the applicable Parties will be adjusted accordingly for any such adjustments, including any adjustment to the amount prescribed by the percentage multiple in Paragraph 10.13D(d);

(f) the Operator will distribute to the applicable Participating Parties any amount received by it on their behalf within 21 Business Days after its receipt, failing which the default remedies in Clause 5.05 will apply, *mutatis mutandis*, to the amount owing; and

(g) the Participating Parties will not apply as a credit under Subclause 10.13D any cash payment from a Non-Participating Party under this Subclause when determining the cost recovery applicable to any other Non-Participating Party's Working Interest with respect to that Production Facility.

To facilitate the rights granted under this Subclause, the Operator of a Production Facility will allow a Non-Participating Party's representatives to conduct a field inspection of the Production Facility and to review the associated facility file on reasonable notice to it, at that Non-Participating Party's sole cost, risk and expense, insofar as is reasonably appropriate to assess: (i) the technical integrity of the Production Facility for the contemplated use; (ii) HSE matters; and (iii) title to the Production Facility.

F. *Application Of Proceeds*-The Participating Parties will apply the proceeds from a Non-Participating Party's share of production on a current basis, and in order, to Paragraphs 10.13D(a), (b), (c) and (d) during the period they retain that production under Subclause 10.13D. Except to the extent modified in this Clause, Subclauses 10.07F, G and H and Subclause 10.09B will apply, *mutatis mutandis*, to this Clause.

G. *Notice Of Cost Recovery And Election Right*-The Operator for the Participating Parties in the Production Facility described in this Clause will notify the Non-Participating Parties subject to the cost recovery that the proceeds prescribed by Subclause 10.13D have been recovered within 30 days after the end of the calendar month in which that recovery occurred. Within 30 days after receipt of that notice, each Non-Participating Party will notify the Operator if it accepts or refuses participation in that Production Facility. A Non-Participating Party that fails to make an election within that period will be deemed to elect to accept that participation.

H. *Participation Accepted*-A Non-Participating Party that pays in cash the outstanding amount to be recovered from its share of production under Subclause 10.13E or that accepts participation in a Production Facility under Subclause 10.13G will acquire an interest in the Production Facility equal to its Working Interest, effective as of the date of that payment or full recovery of the proceeds prescribed by Subclause 10.13D, as applicable, provided that a Party that acquires its Working Interest by making that cash payment makes that acquisition subject to the sharing of rights and obligations contemplated in Paragraph 10.13E(d). The Operator of the Production Facility will revise the Working Interests therein to reflect elections under Subclause 10.13G, and the Parties will adjust accounts accordingly on a cash basis for the period between the date of that payment or cost recovery and the first of the calendar month next following the month in which that Non-Participating Party made that payment or notified the Operator that it accepted participation. The Parties with Working Interests in that Production Facility will then hold it for their Joint Account. The Operator will operate that Production Facility, provided that a different Operator will be appointed under Clause 10.04 if the Operator does not have a Working Interest in that Production Facility or it declines the opportunity to become Operator at the time it acquires participation under this Subclause.

I. *Participation Not Accepted*-A Non-Participating Party that refuses participation in a Production Facility under Subclause 10.13G will forfeit its right of participation therein to the applicable Participating Parties. It may then only use it for such fee as may be agreed with the Parties that own it, and, failing agreement, under Subclause 10.13J.

J. *Failure To Take In Kind After Election To Do So*-The Parties owning a Production Facility may produce, process, treat, store, transport or otherwise handle Petroleum Substances on behalf of a Party, insofar as that Party elected to take its share of production in kind under Paragraph 10.13B(b) and then does not do so. Those Parties may charge that Party a fee for that use on the same basis as provided in Clause 14.04, including a reasonable rate of return on capital investment. They may also charge a marketing fee of twice the fee prescribed under Clause 6.04.

10.14 Non-Participation In Expansion Of Production Facility

Subject to Clause 14.02 for expansions that result in a Production Facility no longer being subject hereto, Clause 10.13 will apply, *mutatis mutandis*, to an expansion of or an addition to an existing Production Facility, except that:

(a) the associated Operation Notice will be served to those Parties holding a Working Interest in that Production Facility and those Non-Participating Parties subject to the cost recovery prescribed by Subclause 10.13D, provided that participation thereunder will be limited to those Parties holding a Working Interest in that Production Facility at the expiry of the response period for that Operation Notice;

(b) a Receiving Party of such an Operation Notice that holds a Working Interest therein (including any Non-Participating Party that has made a cash payment under Subclause 10.13E to obtain participation therein) will elect, on the same basis as prescribed by Clause 10.02, to participate in that Operation or to be subject to a cost recovery therefor in the same manner as provided in Subclause 10.13D;

(c) the cost recovery therefor prescribed by Paragraph 10.13D(d) will be 150%, rather than 200%;

(d) a Party that holds a Working Interest in that Production Facility that is a Non-Participating Party for that expansion or addition will acquire its Working Interest in the portion of the Production Facility resulting from that Operation after recovery of the prescribed cost recovery; and

(e) the costs of that expansion or addition will be added to the costs to be recovered for that Production Facility under Subclause 10.13D if that Operation is to be conducted before the recovery of costs prescribed by that Subclause, provided that the proceeds of production to be applied against those costs will first be applied to the cost recovery prescribed by Clause 10.13 for the construction, acquisition or installation of that Production Facility.

10.15 Accounts And Audits During Penalty Recovery

A. *Statements*-The Operator of an Independent Operation subject to a cost recovery under this Article will maintain

accounting records therefor on a financial month basis in accordance with the requirements of this Article and the Accounting Procedure. It will periodically provide to the Non-Participating Parties and the affected Participating Parties a written statement showing in reasonable detail all debits and credits made in that calculation, subject to the obligations to maintain accounts and provide information under Clauses 3.07 and 10.19. The Operator will issue those statements at the following frequency:

(a) within six months after the drilling rig release of an Independent Well or completion of the Independent Operation, as applicable, for the initial statement;

(b) every 12 months for an Independent Well capable of production, but not then producing; and

(c) every six months for an Independent Well producing Petroleum Substances or a Production Facility, provided that the Operator will issue that statement on a monthly basis for any such Independent Well or Production Facility if the outstanding capital amount under the cost recovery is less than six times the net proceeds applied to that capital amount in the preceding month.

The obligations of the Operator under this Clause will be performed by the Proposing Party if the Operator of the Independent Operation has participated therein for only its Working Interest share of costs.

B. *Operator May Use Its Cost And Revenue Experience*-The Operator of an Independent Operation may use its own costs and revenues as a proxy for those of the Participating Parties when making calculations under this Clause, subject to any audit by a Non-Participating Party.

C. *Adjustments To Accounts*-Any adjustments to the debits or credits used in the calculation of a cost recovery hereunder after a Non-Participating Party's election to acquire its Working Interest in the applicable well or Production Facility will be handled as a financial adjustment between the applicable Parties. This includes any adjustments that pertain to a period prior to the effective date of that election.

D. *Audit Processes For Cost Recovery Accounts*-The audit provisions of the Accounting Procedure will apply, *mutatis mutandis*, to a cost recovery for an Independent Operation. The Parties will conduct any such audit in accordance with the guidelines in the then most current PASC Joint Venture Audit Protocol Bulletin, insofar as they do not conflict with the Accounting Procedure. A Non-Participating Party may conduct any such audit with respect to any Participating Party entitled under Clause 10.17 to a cost recovery because of its assumption of costs applicable to a Non-Participating Party's Working Interest.

E. *Failure To Deliver Statement After Request*-A Non-Participating Party that does not receive a cost recovery statement when prescribed by Subclause 10.15A may, by notice to the Operator of the Independent Operation and the other Participating Parties that assumed its share of costs therein, request a statement that complies with the requirements of that Subclause. That Non-Participating Party may, by notice to those Parties, conduct an audit of the cost recovery account if the Operator does not distribute that statement within 60 days after issuance of that notice. Those Participating Parties will bear the cost of any such audit in the same proportions as they assumed the costs otherwise applicable to that Non-Participating Party. If more than one Non-Participating Party conducts such an audit, they will conduct it simultaneously.

F. *Late Notice Of Recovery*-This Subclause applies if the prescribed recovery of costs for an Independent Operation has occurred and the Participating Parties have not notified the Non-Participating Parties of that recovery or have given that notification later than 30 days after the end of the calendar month in which that recovery occurred. Each Non-Participating Party may elect, within 30 days after its discovery of that omission or its receipt of that notice, to obtain participation in the applicable Independent Well or Production Facility under this Article, effective as of the date of that recovery. The Parties will retroactively adjust their accounts accordingly through a cash adjustment for the applicable charges and credits if any Non-Participating Party elects to obtain that participation. Clause 5.05 will apply, *mutatis mutandis*, to any amount owed to a Non-Participating Party after its election under this Subclause.

10.16 Rights And Duties Of Participating Parties

Subject to this Article, the provisions of this Operating Procedure will apply, *mutatis mutandis*, to an Independent Operation, as if it otherwise were a Joint Operation of the Participating Parties.

10.17 Benefits And Obligations To Be Shared

The Participating Parties will share, in the same proportions as they assumed the costs of the Independent Operation applicable to the Non-Participating Party's Working Interest: (i) any allocation of production; (ii) any forfeiture of interest; (iii) any cash payment by a Non-Participating Party under Clause 10.13 and 10.14; or (iv) any right of a Non-Participating Party to resume participation under this Article. Subject to the previous sentence, they will share the benefits and obligations relating to an Independent Operation in proportion to their respective Participating Interests therein.

10.18 Indemnification Of Non-Participating Parties

Subject to the handling of Extraordinary Damages prescribed by Clause 4.04, the Participating Parties will:

(a) be liable to each Non-Participating Party for its Losses and Liabilities; and

(b) in addition, indemnify and hold harmless each Non-Participating Party, its Affiliates and the respective directors, officers and employees of that Non-Participating Party and its Affiliates from and against all of their Losses and Liabilities;

insofar as they are a direct result of, or directly attributable to, any act, omission or failure to act (whether negligent or otherwise) of the Participating Parties, any of their Affiliates or the respective directors, officers, agents, employees, independent contractors, licencees or invitees of the applicable Participating Parties or any of their Affiliates in planning or conducting that Independent Operation. This Clause will also apply, *mutatis mutandis*, between the applicable Participating Parties and a Receiving Party that elected under Subclause 10.08F for an Equipping or Subclause 10.13B for a Production Facility to: (i) take its share of production in kind; or (ii) pay any applicable usage fee.

10.19 Non-Participating Party Denied Information

This Clause is subject to any provisions of the Agreement that prescribe a different handling of information respecting non-participation in a Multiple Well Drilling Program, a Multiple Well Completion Program or any other well being drilled as part of the development of a Well Pad. A Non-Participating Party with respect to an Independent Well will not initially be entitled to access to the well site or any information therefrom, including the information prescribed by Article 7.00 and Clause 10.15. Subject to any withholding of information from it under Paragraph 5.05B(b) because of its default, it is entitled to access to that well site and the delivery of that information at the earlier of the date it becomes a Participating Party in that well or that date prescribed for the delivery of the applicable information by Paragraph (a) or (b) of this Clause. Those dates are:

(a) for the drilling of a new well or the Deepening or Sidetracking of an existing well and the delivery of the information prescribed by Clauses 7.02 and 7.03, 150 days after the drilling rig release date of the rig used to drill that well to its projected depth or to conduct that Deepening or Sidetracking, as applicable, provided that the drilling of a new well and its Deepening or Sidetracking will be regarded for this Clause as: (i) distinct Operations if the Deepening or Sidetracking is conducted by re-entering that well after its initial drilling rig release date; and (ii) a single, continuous Operation if the Deepening or Sidetracking is conducted prior to the initial drilling rig release date of that well;

(b) for the conduct of a Completion, Recompletion or Reworking and the delivery of the information prescribed by Clauses 7.04 and 7.05, at the later of: (i) the date prescribed by Paragraph 10.19(a) because that Non-Participating Party did not participate in the applicable drilling Operation; and (ii) 90 days after the conclusion of that Completion, Recompletion or Reworking. Insofar as the information prescribed by Clause 7.05 is obtained by the Participating Parties after the expiry of the period prescribed by this Paragraph, a Non-Participating Party will be entitled to that information 45 days after receipt of that information by the Operator of that well.

However, a Non-Participating Party will not be entitled to any access to that well site or the delivery of that information insofar as: (i) it has no subsequent right to obtain participation in that well because of the application of Clause 10.10 to that well; or (ii) the well is classified as an experimental well under the Regulations.

10.20 Pooling Or Unitization Prior To Cost Recovery

The Participating Parties in an Independent Well to which a cost recovery applies hereunder may include that well and its Spacing Unit in a pooling or unit agreement with the Non-Participating Parties' consent, which consent may not be unreasonably withheld or delayed. They will retain the production allocated to that Spacing Unit thereunder until the prescribed cost recovery has been attained. They will adjust the costs incurred by them in the cost recovery account for that well for any credits and debits accruing to them under that pooling or unit agreement for any adjustment of investment for wells and equipment. They will identify any such adjustment in the statements issued under Clause 10.15.

11.00 SURRENDER OF JOINT LANDS

11.01 Surrender Notice And Reply

Not later than 60 days before the next anniversary date or other date on which an obligation must be fulfilled to maintain a Title Document in good standing, a Party may notify the other Parties that all or some of the Joint Lands held thereunder are proposed for surrender to their grantor. That Party may only propose for surrender Joint Lands of dimensions that such grantor would be required to accept the surrender, and, subject to any financial obligations in Subclause 11.03C, those Joint Lands must not then be subject to any obligation under the applicable Title Document that cannot be avoided by their surrender. Each other Party will notify the other Parties within 30 days after receipt of that notice if it elects to join in the surrender. A Party that fails to respond to that notice within that period will be deemed to elect not to join in the surrender, subject to any application of Article 23.00 to a delinquent Party. Any Party may, by notice to the other Parties, revoke its notice to surrender not later than three Business Days after expiry of that 30-day period if at least one other Party elected (or was deemed to elect) not to join in the surrender.

11.02 Surrender By All Parties

A. *Duties*-Insofar as all Parties elect to surrender under Clause 11.01, the Operator will promptly salvage all salvable Joint Property serving only the Joint Lands to be surrendered, including any Production Facilities serving only wells located on those Joint Lands, subject to Articles 8.00, 9.00 and 10.00 for Horizontal Wells, Casing Point elections and Independent Operations respectively. The Title Administrator will prepare all required documents, and deliver them promptly to the grantor of the applicable Title Document after any required execution by the other Parties.

B. *Rights Retained Until Surrender Effected*-If all Parties agree to effect a surrender, the Parties will hold the applicable Joint Lands and other associated Joint Property for the Joint Account until the surrender has been irrevocably effected. Each Party will accrue its Working Interest share of all benefits and obligations pertaining to those Joint Lands and that Joint Property during the interim period until the surrender is complete. If any Party that elected to surrender does not surrender and any further resultant obligations arise respecting those Joint Lands or that Joint Property, it will be solely responsible for their satisfaction, and will be liable to and indemnify each other Party from and against any Losses and Liabilities that other Party may suffer as a direct result thereof.

C. *Responsibility For Liabilities*-The Parties will remain responsible under the Agreement for any accrued liabilities pertaining to the Joint Lands surrendered under this Clause, including any Abandonment obligations or other Environmental Liabilities for associated surface rights.

11.03 Surrender By Fewer Than All Parties

A. *Appointment Of Operator For Retained Lands*-If fewer than all Parties elect to join in a surrender, the non-surrendering Parties will, if the Operator is not one of them, promptly appoint an Operator for the applicable Joint Lands. That Party, or the Title Administrator if it retains a Working Interest, will take the necessary steps to maintain those Joint Lands in good standing under the Title Documents, subject to Subclause 11.03D.

B. *Assignment By Surrendering Parties*-Effective as of 2400 hours on the day before the anniversary date or obligation date in Clause 11.01, each Party that elected to surrender its Working Interest in the applicable Joint Lands and associated Joint Property will be deemed to have assigned those interests to the non-surrendering Parties in proportion to their respective Working Interests therein, or in such other proportions as they may agree. Within 30 days after that deemed assignment, the Parties will determine, under the Accounting Procedure, the surrendering Parties' pre-surrender Working Interest share of the net salvage value of the salvable material and equipment so assigned, less their pre-surrender share of the estimated cost of Abandoning each well and the associated Joint Property, including reclamation of the associated surface rights. Subject to any application of the dispute resolution process in Article 21.00, the Parties will adjust accounts accordingly. The default remedies in Clause 5.05 will apply, *mutatis mutandis*, if they have not adjusted accounts within 30 days after that determination. The Parties will complete, in a timely manner, any documentation reasonably appropriate to reflect such an assignment.

C. *Surrender Not Full Release*-Upon completion of the deemed assignment and adjustment of accounts under Subclause 11.03B, a surrendering Party will be released from all obligations thereafter accruing for the surrendered Joint Lands and the associated Joint Property. However, this release will not apply to any obligation that accrued before the effective date of that deemed assignment, including: (i) any Environmental Liabilities; (ii) any costs applicable to an emergency that occurred or commenced before that time, regardless of when those costs are incurred; (iii) payment of its share of costs for each approved Joint Operation and any Independent Operation in which it elected to participate; (iv) any adjustment of accounts under the Accounting Procedure; (v) any application of Article 15.00 to an encumbrance not borne for the Joint Account; and (vi) any application of Article 18.00 to information required to be kept confidential, except that this retention of responsibility will not apply to Abandonment obligations or other Environmental Liabilities for those Joint Lands, that Joint Property and the associated surface rights insofar as the Parties adjusted accounts therefor under Subclause 11.03B.

D. *Retaining Parties' Obligation*-The non-surrendering Parties will satisfy the obligation that prompted the surrender notice if: (i) it could have been avoided by the proposed surrender; and (ii) failure to satisfy it would prejudice the Parties' title in any other Joint Lands. However, this Subclause will not require the non-surrendering Parties to conduct any Operation to maintain the surrendered Joint Lands in good standing under that Title Document.

12.00 ABANDONMENT OF JOINT WELLS

12.01 Abandonment Procedure

This Article 12.00 is subject to any provisions of the Agreement or any separate agreement that applies to the Parties with respect to any Abandonment activities being conducted on a Well Pad. Except for any Abandonment conducted under Article 9.00 after a Casing Point election or any partial Abandonment of a well for a Recompletion or Sidetracking under Clause 10.08, a Party must notify the other Parties under this Article of its intention to initiate Abandonment of a well held for the Joint Account, provided that: (i) it may not serve such a notice while an emergency exists respecting that well; and (ii) any such notice will be void if an emergency arises respecting that well before expiry of the response period for that notice. Each other Party will notify the other Parties within 30 days after receipt of that notice if it wishes to take over that well. A Party that fails to respond to that notice within that period will be deemed to elect to retain that well, subject to any application of Article 23.00 to a delinquent Party. Any Party may, by notice to the other Parties, revoke its election to Abandon a well not later than three Business Days after expiry of that 30-day period if at least one Party elected (or was deemed to elect) not to join in that Abandonment. The Operator will Abandon that well for the Joint Account if all Parties elect to Abandon it, subject to Paragraph 10.06C(b) for an acquired well, and any resultant AFE will be for informational purposes only.

12.02 Assignment Of Right To Produce, Equipment And Surface Rights

A. *Assignment*-Subject to the revocation right in Clause 12.01 and any application of Article 15.00 to an encumbrance not borne for the Joint Account, if fewer than all Parties elect to Abandon a well under Clause 12.01, the Abandoning Parties will, effective as of expiry of the 30-day period therein and without consideration or warranty (environmental or otherwise), be deemed to have assigned to the other Parties on an "as is, where is" basis the

Abandoning Parties' Working Interests in: (i) that well; (ii) the surface rights and other Joint Property serving only that well; and (iii) the right to produce Petroleum Substances from the Spacing Unit of that well, insofar only as it relates to the formation in which that well was Completed and the exploitation thereof through that wellbore. However, except as provided in the preceding sentence for produced Petroleum Substances, this assignment does not apply to the Abandoning Parties' Working Interests in the Joint 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. All such assignments will be in proportion to the non-Abandoning Parties' respective Working Interests in that well before any such assignment, or in such other proportions as they may agree. The Parties not joining in the proposed Abandonment will, if the Operator is not one of them, promptly appoint an Operator for the well and applicable assets, provided that such Party is eligible under the Regulations to accept a transfer of the well licence for that well. Unless otherwise agreed, each Party will be deemed to have elected to join in the Abandonment if no retaining Party is eligible to accept a transfer of the well licence therefor under the Regulations, in which case the Operator will proceed to Abandon that well for the Joint Account. The Parties will complete, in a timely manner, any documentation reasonably appropriate to reflect such an assignment.

B. *Adjustment Of Accounts*-Within 30 days after the deemed assignment in Subclause 12.02A, the Parties will determine, under the Accounting Procedure, the Abandoning Parties' Working Interest share of the net salvage value of the assigned material and equipment, less their Working Interest share of the estimated cost of Abandoning that well (including the associated Environmental Liabilities). Subject to any application of the dispute resolution process in Article 21.00, the Parties will adjust accounts accordingly. The default remedies in Clause 5.05 will apply, *mutatis mutandis*, if they have not adjusted accounts within 30 days after that determination.

C. *Subsequent Responsibility For Well*-Subject to Clause 12.03, the Parties receiving an assignment under this Clause are responsible for all Abandonment obligations and Environmental Liabilities that accrued respecting that well and all other obligations thereafter accruing respecting the well. The liability and indemnification obligations in Clause 10.18 will apply, *mutatis mutandis*, between the Abandoning Parties and the Parties receiving that assignment, as if that well were an Independent Well. However, this Article will not release a Party from any costs directly associated with an emergency that occurred before the effective date of the assignment, regardless of when those costs are incurred, insofar as they were not included in the adjustment of accounts under Subclause 12.02B.

12.03 Abandoning Parties' Rights Upon Subsequent Abandonment Of Formation

If the Parties holding the Working Interests in a well assigned under Clause 12.02 subsequently plug back or Deepen that well to conduct additional Operations in the Joint Lands, the Operation Notice or AFE for that Operation must also offer the Abandoning Parties (or their respective successors in interest) then holding Working Interests in the applicable Joint Lands the opportunity to reacquire a Working Interest in that well equal to their Working Interest in those Joint Lands. Subclause 12.02B will apply, *mutatis mutandis*, to the consideration for the reacquisition of that well and the associated equipment, including an adjustment between the applicable Parties to reflect the assumption of Abandonment liabilities and related Environmental Liabilities associated with the Working Interest being acquired in that well.

13.00 OPERATION OF SEGREGATED INTERESTS

13.01 Operating Procedure To Apply

A. *Deemed Separate Agreement*-If, due to operation of any provision of the Agreement (including Article 24.00), the Joint Lands are not all owned by the Parties in the same percentages of Working Interests or by the same Parties, the Parties will hold each portion of the Joint Lands in which the Working Interests are common as if they are Parties to separate agreements, effective as of the date that the applicable change of interest becomes binding under Subclause 24.04A or is otherwise effective under the Agreement. The terms of the Agreement (including this Operating Procedure and, as applicable, the Head Agreement and any other Schedule) will apply, *mutatis mutandis*, to each such separate agreement and the affected lands, having regard only to the different ownership therein. Insofar as lands held under any such separate agreement are again held by the Parties in common Working Interests, those separate agreements will be treated as a single agreement for the applicable lands, effective as of the date that the applicable change of interest becomes binding under Subclause 24.04A or is otherwise effective under the Agreement. This Clause will also apply, *mutatis mutandis*, to a Production Facility.

B. *Operator Under Separate Agreement*-The Operator will be the initial Operator under a separate agreement described in Subclause 13.01A if it holds a Working Interest in the Joint Lands or Production Facility operated thereunder. The Parties holding Working Interests in the Joint Lands or Production Facility operated under such a separate agreement will appoint an initial Operator under Article 2.00 of the Operating Procedure thereto if the Operator does not hold a Working Interest therein.

14.00 OPERATION OF JOINT PRODUCTION FACILITIES

14.01 Ownership Of Production Facilities

Each Party will own an undivided interest in a Production Facility equal to its Working Interest, subject to Clauses 10.13 and 10.14 with respect to Independent Operations relating to a Production Facility.

14.02 Article Ceases To Apply In Certain Circumstances

Other than for the outstanding rights and obligations of any Non-Participating Parties under Clauses 10.13 and 10.14 and any other rights and obligations that accrued while it was operated as a Production Facility, a Production Facility will no longer be operated hereunder if:

(a) surplus capacity therein will be used to handle Outside Substances of a Party or third party and any Party requests, by notice, that the Production Facility be governed by a separate agreement, in which case it will cease to be a Production Facility effective as of the first day of the second calendar month after issuance of that notice;

(b) any proposed expansion of or addition to a Production Facility would result in it thereupon being used to handle Outside Substances or no longer satisfying the condition in Paragraph (d) of the definition of Production Facility, in which case the expansion or addition may only proceed hereunder with the Parties' consent and it will cease to be a Production Facility as of Commencement of the associated construction; or

(c) the Parties so agree, in which case it will cease to be a Production Facility as of the time they designate.

If a Production Facility ceases to be a Production Facility under this Clause, the Parties will negotiate a separate agreement for its operation with due diligence and in good faith, using as a basis the 1999 PJVA CO&O Agreement (or the most current replacement therefor then endorsed for use by the Petroleum Joint Venture Association) and the Accounting Procedure.

14.03 Use Of Production Facilities

Each Production Facility will initially be designed and used exclusively for Petroleum Substances. The Operator will notify the Parties of the current and forecast use and capacity of a Production Facility at such frequency as it regards as appropriate. Any Party owning a Working Interest in a Production Facility may, subject to Clause 14.02 and Subclause 14.04D, use all or a portion of any surplus capacity therein on an interruptible basis for Outside Substances owned by it, provided that:

(a) the Outside Substances are compatible with the design and operation of that Production Facility and with the nature of Petroleum Substances, including the manner and timing of their delivery to that Production Facility; and

(b) subject to any agreement under Clause 14.04, the production, processing, treatment, storage, transportation or other handling of Petroleum Substances will always have priority in the use of that Production Facility, and, insofar as that surplus capacity is required for that purpose, the delivery of those Outside Substances will be curtailed.

The Operator will prorate any additional surplus capacity to the Parties wishing to use it in the ratio that each of their Working Interests therein bears to their total Working Interests therein. The Operator will allocate to a Party its desired surplus capacity if its entitlement to surplus capacity exceeds its desired capacity. The Operator will then allocate any remaining surplus capacity to which that Party would be entitled on the same basis to those other Parties wishing to use it, until the required surplus capacity has been allocated fully.

14.04 Custom Usage

A. *Approval Of Terms*-Subject to Clause 14.02, a Production Facility may only be used for Outside Substances owned by a third party with the approval of all Parties with Working Interests therein. The Operator will notify the other Parties of the material terms of any such proposed third party arrangement. A Party that does not notify the Operator that it objects to that proposed arrangement within 10 Business Days after its receipt of the Operator's notice will be deemed to have approved it. The Operator will enter into any such arrangement with a third party on behalf of all of those Parties on such terms and for such fees as may be approved by them. However, the Operator will include in each such agreement with a third party provisions that are consistent with the conditions in Paragraphs 14.03(a) and (b) and Clauses 14.05, 14.06 and 14.07, unless otherwise agreed by the Parties.

B. *Fee Components*-Unless otherwise agreed by the Parties, the fee charged to a third party for use of a Production Facility under this Clause will include:

(a) a capital recovery component designed to provide a reasonable rate of return on the capital investment in the Production Facility by using as a guideline the industry recognized Jumping Pound-05 methodology (or the most current replacement therefor in effect at the relevant time); and

(b) an operating cost component calculated and assessed on the basis of facility throughput costs.

C. *Sharing Of Fees*-The Operator will credit the Parties on a monthly basis the capital recovery component of all fees received from a third party in proportion to their Working Interests in the Production Facility. This is based on the principle that the Parties have pooled their interests in surplus capacity therein and that all arrangements for use of surplus capacity and all such capital fees will be shared in proportion to their Working Interests therein. The Operator will credit the operating cost component of the fees against the Parties' share of the Operating Costs of the Production Facility.

D. *Operator May Deny Entry*-Notwithstanding anything to the contrary herein, the Operator may deny any Outside Substances entry into a Production Facility if the Operator reasonably believes that the cost to process, treat, store, transport or otherwise handle them would significantly exceed the average cost for a similar handling of Petroleum

Substances, unless those additional costs were taken into account when setting the fees to be charged for handling those Outside Substances.

14.05 Allocation Of Costs

The Operator will allocate the Operating Costs of a Production Facility on a throughput basis, proportionate to the volumes of Petroleum Substances and Outside Substances delivered to the Production Facility for handling, subject to: (i) Clause 14.02; (ii) any special allocation of costs under Subclause 14.04D; and (iii) any other agreement of the Parties. The Operator will make this allocation monthly on an estimated basis and then adjust it within 180 days after the end of the year based on actual annual Operating Costs and actual annual throughput volumes. Each Party with a Working Interest in a Production Facility will bear its Working Interest share of capital costs subsequently incurred for that Production Facility, subject to Clauses 10.13 and 10.14 for Independent Operations and Clause 14.02.

14.06 Allocation Of Products

Subject to Clause 14.02, the Operator will sample the composition of the applicable inlet streams at such frequency as is reasonably appropriate if a Production Facility handles any Outside Substances. The Operator will allocate to each Party and each applicable third party a share of any products produced from the processing or treatment of those inlet streams as produced from the Production Facility. The Operator will make that allocation in the proportion that the volume of Petroleum Substances and Outside Substances of each Party and each applicable third party delivered to that Production Facility bears to the total volume thereof in the absence of a significant variation in the composition of those inlet streams and subject to Clauses 10.13 and 10.14 for Independent Operations. The Parties will attempt to determine an equitable method of allocating the products produced therefrom if there is a significant variation in the composition of those inlet streams.

14.07 Allocation Of Losses And Shrinkage

Subject to Clause 14.02, the Operator may use inlet streams of Petroleum Substances and Outside Substances delivered to a Production Facility insofar as necessary for their efficient processing or handling and in a manner that is reasonable and not disproportionate to its use for those inlet streams. The Operator may also flare any Petroleum Substances, Outside Substances or any product obtained from the processing or treatment thereof at any time, acting reasonably, to maintain minimum necessary flare volumes or if it reasonably determines that there is an emergency or operational problem. Each Party and third party using the applicable Production Facility will share any losses or gains actually incurred with respect to Petroleum Substances, Outside Substances or any products obtained from the processing or treatment thereof, due to evaporation, leakage, spills, flaring, handling, measurement or use as facility fuel. They will bear any such loss or gain in proportion to the applicable ownership if the Operator can identify the actual owner of any such gain or loss. Otherwise, each Party and applicable third party will bear those losses or gains in the proportion that the volume of its applicable Petroleum Substances and Outside Substances delivered to that Production Facility bears to the total volume thereof.

14.08 Resolution Of Certain Disputes Under Article 14.00

A Party may, by notice to the other Parties, refer a dispute between the Parties for resolution under Article 21.00 if the dispute is about: (i) the capacity or surplus capacity available to handle any Petroleum Substances or Outside Substances under Clause 14.03 and 14.04; (ii) a fee for use of a Production Facility under Subclause 10.08F or Clause 10.13 or 14.04; (iii) the allocation of Operating Costs under Clause 14.05; (iv) a significant variation in the composition of inlet streams of Petroleum Substances and Outside Substances under Clause 14.06; or (v) the allocation of products or losses and shrinkage under Clause 14.06 or 14.07 respectively.

15.00 ENCUMBRANCES

15.01 Responsibility For Additional Encumbrances

A Party will be solely responsible for the additional encumbrance if its Working Interest is or becomes encumbered by any royalty, overriding royalty, net profits interest, carried interest, production payment or other charge of a similar nature in addition to the royalties payable to the grantor of the Title Documents and any other charge borne for the Joint Account. It will retain sole responsibility for any such additional encumbrance if its Working Interest (or the share of Petroleum Substances applicable thereto) is subject to any assignment hereunder because of: (i) the default remedies in Clause 5.05; (ii) any consequence of non-participation in an Operation under a Casing Point election in Article 9.00 or the Independent Operation processes in Article 10.00; (iii) any surrender or proposed Abandonment by fewer than all Parties under Article 11.00 or 12.00; or (iv) any other provision of the Agreement other than Article 24.00 respecting dispositions. That Party will be liable to and, in addition, indemnify each other Party from and against any Losses or Liabilities that other Party may suffer because of the encumbered Party's failure to fulfill its responsibilities for that additional encumbrance.

15.02 Certain Encumbrances Continue To Apply To Working Interest

Notwithstanding Clause 15.01 (but subject to the Head Agreement), a Party's obligation under Clause 15.01 to bear sole responsibility for an additional encumbrance applicable to its Working Interest will not apply, insofar as it is created under the Agreement or is specifically acknowledged therein to be an encumbrance that applies to its Working Interest (or the associated share of Petroleum Substances).

16.00 FORCE MAJEURE

16.01 Suspension Of Obligations Due To Force Majeure

Notwithstanding any provision herein requiring performance of a particular obligation or its performance by a particular time (including that prescribed for Commencement of an Operation under Article 7.00 or 10.00), the obligations of a Party prevented by Force Majeure from fulfilling any obligation hereunder, in whole or in part, will be suspended (and the period for performance extended). That suspension will apply insofar only as: (i) an obligation is affected by that Force Majeure; and (ii) the Force Majeure continues to prevent its performance and, subject to the obligation to remedy in Clause 16.02, for that time thereafter as that Party may reasonably require to commence diligently to fulfill that obligation. However, a Force Majeure will not suspend any obligation to pay an amount hereunder. A Party prevented from fulfilling an obligation by Force Majeure will promptly notify the other Parties, outlining in reasonable detail in that notice the suspended obligations, the date and extent of the suspension, its anticipated duration and its cause.

16.02 Obligation To Remedy Force Majeure

A Party claiming Force Majeure under Clause 16.01 will promptly remedy its cause and effect, insofar as it is reasonably able to do so. However, it will not be required to resolve any strike, lockout or other industrial disturbance solely to remedy promptly a Force Majeure. That Party will update the other Parties about the status of the Force Majeure and its efforts to remedy it at reasonable frequency. It will promptly notify the other Parties when that Force Majeure ceases to prevent the performance of the applicable obligation.

17.00 INCENTIVES

17.01 Sharing Of Certain Incentives And Benefits

A. *Basis For Sharing*-The Parties participating in an Operation will share any resultant drilling incentives, geophysical incentive credits, royalty exemptions or other incentives that accrue collectively to them under the Regulations in proportion to their Participating Interests therein. The Operator for that Operation will apply for any such benefits at such time and in such manner as are prescribed by the Regulations. However, the Parties will not share royalty tax credits, scientific research credits, experimental development investment tax credits, emission credits or other benefits or incentives that accrue to a Party individually due to its unique corporate or organizational attributes, including a different cost base in the Joint Property that may entitle it to a lower royalty rate than other Parties.

B. *Entitlements For Land Retention*-If an Operation enables the Parties to apply entitlements under the Regulations to retain portions of the Joint Lands for a further period under the Title Documents, the Parties will first apply them to the Joint Lands. Insofar as there are additional entitlements that would allow retention of other petroleum and natural gas rights, the Parties that participated in that Operation will consult about their use. Insofar as the Parties are unable to agree on the use of the additional entitlements, each Party may apply a share of them to such other petroleum and natural gas rights as it chooses, subject to any restrictions in the Regulations. For this purpose, the Parties will share those additional entitlements in proportion to their Participating Interests in that Operation.

18.00 CONFIDENTIALITY AND USE OF INFORMATION

18.01 Confidentiality Requirement

Each Party entitled to information obtained under the Agreement may use it and its interpretations thereof for its own benefit and account. However, subject to the disclosure process in Clause 18.03, each Party will take such measures respecting internal security and access to information as are appropriate to keep confidential from third parties and Parties not then entitled to it hereunder all such information, except insofar as the Parties have agreed to release it or a Party discloses it:

(a) as required under a Title Document or to regulatory authorities: (i) as required by the Regulations; or (ii) as regarded as appropriate by that Party to optimize retention of the Joint Lands or other lands held by it, provided that it may not disclose that information to any third party with which it holds those other lands and that it will request any confidentiality protection permitted by the Regulations;

(b) as required by securities laws applicable to it, provided that it will request any confidentiality protection permitted thereunder and that any such disclosure beyond that required by those laws is subject to the requirements of Article 19.00 for public announcements;

(c) to its employees, contractors, officers, directors and Affiliates to the extent appropriate for the applicable purpose, provided that: (i) such Party will be deemed to have required each such employee, contractor, officer, director and Affiliate to maintain the disclosed information confidential under this Article; (ii) each of them will be deemed to have accepted that obligation; and (iii) such Party will be liable to, and, in addition, will indemnify, each other Party from and against any Losses and Liabilities suffered by that other Party because of the failure of that employee, contractor, officer, director or Affiliate to maintain that information confidential;

(d) to a third party that is a *bona fide* prospective assignee of any of that Party's Working Interest (including for this purpose an agreement granting it the right to acquire a Working Interest for the conduct of certain operations) or to a third party with which it is conducting *bona fide* negotiations directed towards a merger, amalgamation or sale of shares representing a majority ownership interest of that Party or any of its Affiliates, provided that any such

disclosure of geophysical data is: (i) restricted to showing it at the offices of the disclosing Party or in its data room; and (ii) is not prohibited by any agreement under which it was acquired;

(e) to the extent reasonably appropriate for the applicable purpose, to its lenders, legal counsel, auditors, underwriters, financial and other professional advisors and credit rating agencies; or

(f) to the extent required by any legal or administrative proceedings or because of any order of a court or any regulatory authority binding on it, provided that it will promptly notify the other Parties of any such anticipated disclosure and that it will request any confidentiality protection permitted thereunder.

No Party may make a disclosure under Paragraph 18.01(d) unless there is a prior agreement with each applicable third party which provides, as a minimum, that such third party will take such measures with respect to internal security and access to information as are appropriate to ensure that no such information will be disclosed by it to any other third party or used by it for other than the contemplated purpose. The confidentiality obligation in this Clause will not apply to information insofar as it is in the public domain, provided that specific items of information will not be considered to be in the public domain only because more general information is in the public domain. For this purpose, information is in the public domain if it: (i) is or becomes publicly available through no act or omission of a Party or its Affiliates, directors, officers, employees, contractors or advisors in breach of this Article; (ii) is already in possession of the Party to which it was disclosed, or any of its Affiliates, without prior restriction on disclosure; (iii) is subsequently obtained lawfully by a Party from a third party which that Party does not reasonably believe is obligated to maintain that information confidential; or (iv) is independently developed by a Party or its Affiliate without reference to the information required to be kept confidential hereunder.

18.02 Proprietary Information Disclosed By A Party

No Party that holds information proprietary to it or any of its Affiliates (including for this purpose, proprietary processes, procedures, technology or equipment or any interpretive data described in Clause 18.04) is required to disclose any such information hereunder. However, the Parties recognize that a Party may offer, by notice, to disclose such information to the other Parties under this Clause for the benefit of Operations, including the disclosure of certain of such information for which patents may be held or pending. Subject to the other terms of this Article and any confidentiality or licencing agreement required as a condition of the disclosure, the Parties agreeing to receive that information will keep the acquired information confidential from third parties on the same basis as is provided under Clause 18.01, provided that a Party may not disclose any such acquired information under Paragraph 18.01(a) or (d). Except as otherwise provided in any such agreement, a Party will not use that acquired information for any purpose other than the furtherance of Operations without entering into a separate licencing agreement with the disclosing Party for that other use.

18.03 Disclosure Of Information For Consideration

Notwithstanding the confidentiality obligation in Clause 18.01, a Party that proposes to disclose information obtained under the Agreement to a third party (other than to its own Affiliate): (i) for cash; (ii) in exchange for other information; or (iii) for other consideration must notify each other Party with a proprietary interest in that information of the proposed terms of that disclosure. Each such Party will notify those other Parties within 15 days after receipt of that notice if it approves the proposed disclosure. A Party that fails to respond within that period will be deemed to approve the proposed disclosure. The Party that proposes that disclosure may not proceed with it unless it has obtained the approval of all those other Parties. If those approvals are obtained, it may proceed with the disclosure on those terms, and will distribute to those other Parties a copy of the acquired information (and any associated confidentiality or licencing agreement) or a share of the other consideration received for that disclosure. The Parties with proprietary interests in the applicable information will share any cash consideration in proportion to their interests therein, subject to the requirement in Subclause 10.07H to credit that amount to any applicable cost recovery amount. For this purpose, a Non-Participating Party with respect to an Operation from which the information proposed for disclosure was obtained will not be regarded as having a proprietary interest therein.

18.04 Interpretive Data

Except as may otherwise be provided in the Head Agreement, nothing herein requires a Party to disclose to any other Party any interpretation developed at its own expense from geological, geophysical or other data held by it.

18.05 Confidentiality Requirement To Continue

Notwithstanding anything in this Article, any Party that otherwise ceases to be a Party will remain bound by this Article, except insofar as information obtained under the Agreement is in the public domain under Clause 18.01.

18.06 Warranty Disclaimer Respecting Information Disclosures

Each Party acknowledges that any sharing of information under the Agreement is intended to facilitate Joint Operations, and is not intended to replace or limit independent review and evaluation of that information or any Joint Operation. Except in the event of fraud or deceit, each Party releases each other Party and its Affiliates, directors, officers, employees and contractors from any Losses and Liabilities that Party incurs or suffers because of the use or reliance on advice, information and materials that were provided to it by (or on behalf of) another Party before or under the Agreement, including any evaluations, projections, reports and interpretive or non-factual materials prepared by that other Party or otherwise in its possession.

18.07 Application Of Seismic Data Ownership Agreement

Notwithstanding any other provision of the Agreement, the obligations in this Article will not apply to geophysical data acquired under the Agreement insofar as the Parties (or the applicable owners of that data) are managing that data under a separate agreement that applies to the ongoing management of that data and its handling as intellectual property. Any disposition of a Working Interest under the Agreement will not apply to any such geophysical data, except to the extent, if any, required under that separate agreement and in the manner prescribed therein.

19.00 PUBLIC ANNOUNCEMENTS

19.01 Parties To Discuss Public Announcements

A. *Party To Provide Draft*-Except to the extent provided in Subclauses 19.01B and C or elsewhere in the Agreement, a Party proposing to make a public announcement or release under this Clause will provide the other Parties, by notice, with a draft of it for their comment not later than two Business Days before the proposed disclosure to the public. The proposed disclosure is subject to the Parties' prior approval, which approval may not be unreasonably withheld. A Party that fails to object to that disclosure, by notice to that Party within that period, will be deemed to approve it. A Party that issues such a notice will specify the nature of its objection in reasonable detail and any suggested modifications to the proposed public announcement or release.

B. *Public Announcements By Operator*-The Operator will be responsible for the preparation and release of all public announcements and releases being made collectively on behalf of the Parties about the Agreement and Joint Operations. Notwithstanding Subclause 19.01A, it may issue a public announcement or release about an emergency without prior approval to do so, insofar as: (i) it reasonably determines that the Non-Operators' prior approval of that disclosure is not feasible; and (ii) it limits the release of confidential information to that information that is required to satisfy the requirements of the Regulations applicable to the emergency or for other health and safety purposes arising from the emergency.

C. *Regulatory And Securities Requirements*-Except as otherwise provided in this Clause, Article 18.00 and elsewhere in the Agreement, any Party may make a public announcement or release under this Article about its involvement in the Agreement or Operations, including disclosure in an annual report or other periodic report or presentation to shareholders or the public. Notwithstanding Subclause 19.01A (but subject to the restrictions in Clause 25.04 about use of another Party's name or trademark), a Party is not prohibited from making any such public announcement or release before expiry of the time prescribed by Subclause 19.01A, insofar only as required by the Regulations, securities laws or stock exchange requirements applicable to it.

20.00 LITIGATION

20.01 Conduct Of Litigation

Each Party will promptly notify the other Parties of any process served upon it, or of any process it intends to serve, in any action pertaining to the Title Documents, the Joint Lands, any Joint Operation, any other Joint Property or any other matter pertaining to the Agreement. The Operator will conduct any litigation pertaining thereto for the Joint Account on behalf of the Parties in consultation with the Parties, except insofar as that litigation pertains to fewer than all Parties or is between the Parties. Nothing in this Clause will preclude a Party from acting on its own behalf at its own expense if it considers that action appropriate. However, a Party acting on its own behalf may not settle, abandon or otherwise compromise any claim or action being conducted for the Joint Account for its own Working Interest share of that claim or action without the other Parties' written consent, which consent may not be unreasonably withheld or delayed.

21.00 DISPUTE RESOLUTION

This optional Article will ___/will not ___(Specify) apply herein. However, if it is not selected to apply, Clause 21.03 will apply, *mutatis mutandis*, for the use of arbitration under the *Arbitration Act* (Alberta) for the resolution of any dispute identified in Paragraphs 21.03(c)-(j) that the Parties are unable to resolve through negotiation. Those Parties will then use reasonable efforts to complete that arbitration in a timely manner.

21.01 Negotiation Of Disputes

A. *Consultation And Negotiation In Good Faith*-The Parties will attempt to resolve any dispute between them arising under the Agreement through consultation and negotiation in good faith.

B. *Notice To Arbitrate Certain Disputes*-A Party may, by notice to the other Parties to the dispute, refer any dispute to which Clause 21.03 specifically applies for resolution by arbitration at any time under Clause 21.03 without first attempting or completing the negotiation and mediation processes in Subclause 21.01A and Clause 21.02.

21.02 Referral To Mediation

A. *Notice Requesting Use Of Mediation*-Subject to a Party's right under Subclause 21.01B to refer certain disputes directly to arbitration, a Party that reasonably believes that the direct financial impact of a dispute on it exceeds $50,000.00 may, by notice to the other applicable Parties at any time during the negotiations contemplated in Clause 21.01, request them to attempt to resolve that dispute on a without prejudice basis through structured non-

binding negotiations with the assistance of a mediator. That Party will provide sufficient detail in that notice to enable those other Parties to understand: (i) the issues that remain in dispute; (ii) the basis for its belief that the direct financial impact of that dispute exceeds that amount; and (iii) a synopsis of the status of negotiations to date, including a summary of the Parties' perspectives on those issues.

B. *Mediation Proceedings*-The applicable Parties will attempt to agree on the selection of a mediator within seven Business Days after receipt of a notice requesting mediation, provided that a mediation will be deemed to be terminated if a Party notifies the other applicable Parties within that period that it is not prepared to proceed with mediation for that dispute. Unless otherwise agreed, the Parties to a dispute will commence any mediation within 15 Business Days after selection of the mediator. The mediation process will continue until: (i) the dispute is resolved; (ii) a Party notifies the other Parties that it terminates the mediation; or (iii) the mediator provides the applicable Parties with a written determination that the mediation is terminated, whichever first occurs. For the purposes of Clause 21.04, any such termination of a mediation will be deemed to be effective on the date the applicable notice of termination is deemed to be received under Article 22.00.

C. *Costs*-The Parties will each bear their own costs and expenses for a mediation, but will share the common costs of a mediation equally (or in such other proportions as they may agree), including the cost of the mediator.

21.03 Arbitration Proceedings

Subject to a Party's right under Subclause 21.01B to refer certain disputes directly to arbitration and except for any civil proceedings permitted under Clause 21.04, a Party that wishes to pursue further proceedings for a dispute to which mediation under Clause 21.02 does not apply or for which a mediation was terminated thereunder will, by notice to the other Parties to that dispute, refer it to binding arbitration for final resolution if it pertains only to one or more of:

(a) the determination of Commercial Quantities or Paying Quantities;

(b) the determination of a Market Price;

(c) the determination of Facility Fees being charged for Facility Usage under Subparagraph (b)(ii) or (iii) of the definition of Facility Fees;

(d) the Operator's determination under Subclause 5.03C that a particular Party is required to secure payment of its share of certain costs being incurred for the Joint Account;

(e) the allocation of costs between respective portions of a well under Clause 10.05, Subclause 10.06B or Subparagraph 10.06C(b)(i) because of differences in the percentages of participation therein;

(f) the classification of a well as a Title Preserving Well or Subsequent Title Preserving Well or the determination of Preserved Lands or Common Preserved Lands under Clause 10.10;

(g) whether a proposed Production Facility or an expansion or addition to an existing Production Facility satisfies the requirements in the definition of Production Facility;

(h) the calculation of an adjustment of accounts under Subclause 10.08E, 11.03B or 12.02B after, respectively, a Clause 10.08 Independent Operation by fewer than all owners in a well or a surrender or proposed Abandonment by fewer than all Parties;

(i) a determination under Clause 14.08 for a Production Facility, being: (i) available capacity or surplus capacity under Clauses 14.03 and 14.04; (ii) a fee for its use under Subclause 10.08F or Clause 10.13 or 14.04; (iii) the allocation of Operating Costs under Clause 14.05; (iv) a significant variation in composition of inlet streams under Clause 14.06; or (v) the allocation of products or losses and shrinkage under Clause 14.06 or 14.07 respectively;

(j) the estimated cash value provided under Paragraph 24.01B(c) with respect to a right of first refusal; or

(k) This optional Paragraph will ____/will not ____ (Specify) apply:

the settlement of an unresolved audit exception reasonably estimated to result in a potential adjustment of less than $_____.

Each Party to the dispute will have a fair opportunity to participate in the preparation of the description of the mandate to be provided to the arbitrator and to present its perspective on the issue(s) in dispute during the arbitration process. Unless otherwise agreed, any such arbitration (and any other arbitration the Parties agree to conduct hereunder) will be conducted in Calgary, Alberta by a single arbitrator under the "National Arbitration Rules" of the ADR Institute of Canada Inc. (or any replacement for them), in conjunction with the *Arbitration Act* (Alberta). Except as otherwise provided in Clause 21.02 and this Clause, a Party may commence a court action for any other dispute.

21.04 Limitation Periods And Interim Relief

For the purpose of determining any applicable limitation periods (and provided the Regulations permit an extension thereof), all limitation periods pertaining to a particular dispute will be suspended:

(a) for a mediation, from the time a Party serves a notice to mediate under Subclause 21.02A until 45 days after termination of that mediation, or such other date as may be agreed by the applicable Parties; and

(b) for an arbitration, from the time: (i) a Party issues a notice to arbitrate under Clause 21.03 for a matter specified in any of Paragraphs 21.03(a)-(k), as applicable; or (ii) the Parties otherwise agree in writing to arbitrate that dispute, as applicable, until 45 days after termination of the arbitration under the Regulations and the associated processes governing that arbitration, or such later date as may be agreed by the applicable Parties.

Subject to the preceding sentence, each Party waives all rights it may have to assert the expiry of any such limitation period during that time as a defence or bar in any civil proceeding for that dispute. Notwithstanding anything to the contrary in this Article, a Party may, at any time it believes necessary to protect its interest while attempting to resolve a dispute under this Article, seek interim or provisional relief, in the form of a temporary restraining order, preliminary injunction or other interim equitable relief respecting that dispute.

22.00 NOTICE

22.01 Service Of Notice

A. *General Notice Requirements*-Whether or not stipulated herein, each notice and notification required or permitted hereunder must be in writing and served on a Party at its current address for service under Clause 22.02 by:

(a) delivering the notice personally or by private courier. A notice so served will be deemed to be received by that Party when actually delivered, if that delivery is during normal business hours on any Business Day. If a notice is not delivered on a Business Day or is delivered after those business hours, it will be deemed to have been received at the beginning of the first Business Day after the time of delivery;

(b) facsimile or other electronic medium, if included in its address for service. A notice served by facsimile will be deemed to be received when actually received by that Party, if received during normal business hours on any Business Day, or at the beginning of the next Business Day if receipt is after those business hours. A notice served by other electronic medium is presumed to be received when the notice or notification enters the recipient Party's information system and becomes capable of being retrieved and processed by that Party if those events occur during normal business hours on any Business Day, or at the beginning of the next Business Day if those events are after those business hours; or

(c) mailing it. A notice so served will be deemed to be received at noon, local time, on the earlier of the actual date of receipt by that Party or the 4th Business Day after its post-mark date, provided that notice may not be served by mail while postal service is interrupted or operating with unusual or imminent delay.

A notice must be given under Paragraph 22.01A(a) or (b) if the applicable notice period is 48 hours or less. Notices of 24 hours or less under Article 9.00 may be made by telephone, and will be deemed to be received at the conclusion of that conversation if that notice is then confirmed by notice served (and received) under Paragraph 22.01A(a) or (b) within three Business Days after that conversation.

B. *Use Of Electronic Delivery System*-Notwithstanding Subclause 22.01A, this Subclause applies to the delivery of AFEs and Operation Notices and responses thereto through an electronic delivery system operated by a third party service provider and the relationship between any Parties that subscribe to that service with respect to any such delivery and response hereunder. Provided that: (i) the delivery or response, as applicable, of any such Party complies with the obligations relating to the applicable AFE or Operation Notice prescribed by the subscription agreement entered into by each such Party with the provider of that service; and (ii) the delivery of that AFE or Operation Notice or the related response is otherwise consistent with the requirements of the Agreement, each such subscribing Party confirms only to each such other subscribing Party that:

(a) the delivery of any such AFE or Operation Notice and any related response through that electronic delivery system will be regarded as valid, notwithstanding that the Agreement may not have otherwise contemplated the delivery of any such AFE or Operation Notice or the associated response through that electronic delivery system or that the applicable Party's address for service or designated representative for purposes of that electronic delivery system may differ from that otherwise designated for it under Clause 22.02 at the relevant time;

(b) nothing precludes any such subscribing Party from issuing any particular AFE or Operation Notice or any response to any particular AFE or Operation Notice in accordance with the Agreement without using that electronic delivery system for the delivery of any such AFE or Operation Notice or any such response; and

(c) the terms and conditions of any subscription agreement entered into by any such subscribing Party with that third party service provider are intended only to supplement the rights and obligations of those subscribing Parties to each other hereunder, and are not otherwise intended to modify their respective rights and obligations hereunder.

Notwithstanding the preceding portion of this Subclause, nothing in this Subclause is intended to modify the rights and obligations of any such subscribing Party relative to any other Party that does not use that electronic delivery system for the issuance of AFEs or Operation Notices or the response thereto. It is intended that this Subclause

will not affect in any way the rights and obligations of any Party that does not use that electronic delivery system.

22.02 Addresses For Service

The Parties' initial addresses for service of notices hereunder are:

A Party may change its address for service by notifying the other Parties, and each Party will notify the other Parties of any such changed address for service in a timely manner. Any such changed address for service will thereafter be effective for all purposes of the Agreement. Unless otherwise agreed in writing, no Party may select as an address for service under this Clause an address that does not permit delivery of a notice under Paragraph 22.01A(a) to a civic address of that Party.

23.00 DELINQUENT PARTY

23.01 Classification As Delinquent Party

If a Party: (i) changes its address and does not provide the other Parties with notice of its changed address, such that notices are returned undeliverable in circumstances in which that Party cannot readily be located; (ii) is struck off the corporate register or its legal entity is no longer in existence or recognized under the Regulations; or (iii) otherwise consistently does not answer communications addressed to it at its address for service, the Operator may serve notice to that Party at its last address for service advising it that it is considered a delinquent Party under this Article. The Operator will provide the other Parties with a copy of that notice in a timely manner, but failure to provide that copy will not affect the validity of that notice.

23.02 Effect Of Classification As Delinquent Party

From the 15th day after the Operator has served the notice described in Clause 23.01 that a Party is considered a delinquent Party, that delinquent Party will, subject to restoration of its status under Clause 23.03:

(a) not be entitled to any further notices or communications from the Operator or any other Party respecting any matter hereunder, including information from Operations;

(b) be deemed to have elected not to participate in any proposed Joint Operation (including any Independent Operation proposed under Article 10.00), provided that it is responsible for its share of any expenditure incurred for the Joint Account that does not require the Parties' prior approval under Subclause 3.01B;

(c) be deemed to have elected to join, proportionate to its Working Interest, with the Operator in all farmouts, assignments, surrenders and Abandonments proposed and effected hereunder by the Operator on a *bona fide* basis for its own account for the applicable Joint Lands or Joint Property; and

(d) be deemed to have authorized the Operator to act as its attorney for the execution of all documents required to give effect to this Article, and will indemnify the Operator from and against any Losses and Liabilities suffered by the Operator in fulfilling that role on a *bona fide* basis.

The Operator will retain, on behalf of the delinquent Party, the proceeds of the sale of its share of Petroleum Substances and any other funds accruing to its Working Interest, after deducting its share of Operating Costs and all other costs and expenses permitted to be incurred for the Joint Account under this Clause and any marketing fee for that production under Article 6.00. The Operator will hold those funds in trust for it under Clause 5.07, with no obligation to account for interest for the period in which those funds are held. If a delinquent Party has not restored its status under Clause 23.03 within 24 months after issuance of notice under Clause 23.01 that it is a delinquent Party, its Working Interest and all associated funds, rights, benefits, obligations and liabilities will be assigned by the Operator to the Parties other than that delinquent Party and any other then delinquent Party (and assumed by them) in proportion to their respective Working Interests.

23.03 Restoration Of Status

If, before the allocation of a delinquent Party's Working Interest and associated rights and obligations under Clause 23.02, it: (i) communicates with the Operator; (ii) provides notice of its current address for service under Clause 22.02; (iii) pays all amounts owing by it hereunder; (iv) satisfies all of its other outstanding obligations hereunder; and (v) undertakes in writing to comply with the Agreement, its rights, benefits and obligations hereunder will be restored to it, as of the date of that payment. Any such restored Party will be deemed to have ratified all *bona fide* actions taken under this Article, including any elections or transactions made on its behalf under Clause 23.02. The Operator will deliver any amounts held by it under Clause 23.02 on behalf of that Party to it not later than 30 days after restoration of its rights, benefits and obligations.

23.04 Operator's Lien Not Affected

Nothing in this Article limits the enforcement of the remedies for default in Clause 5.05 against a delinquent Party.

24.00 DISPOSITION OF INTEREST

24.01 Right To Dispose

Subject to the Regulations and the exceptions in Clause 24.02, and other than for a disposition by a Party to another Party by operation of another provision of the Agreement, a Party (the "Disposing Party") may not dispose of any of its Working Interest (or enter into an agreement that binds that Party to dispose any of its Working Interest without compliance with its obligations under this Clause), whether by sale, asset exchange, Earning Agreement, lease, sublease or otherwise, without first complying with Alternate __ below (Specify A or B). For the purposes of Paragraphs 24.01B(h) and (i) and Clause 24.02, a disposition will also be deemed to include execution of an Earning Agreement under which the right to earn a Working Interest for the conduct of certain operations is granted, even though it is uncertain if and when the disposition of that Working Interest will occur thereunder. Notwithstanding the preceding sentence, if the Disposing Party chooses, under Subparagraph 24.01B(a)(ii), to limit its Disposition Notice (as defined in Paragraph 24.01B(b)) to only the applicable subset(s) of the petroleum and natural gas rights subject to an Earning Agreement that includes the specific Joint Lands being earned for the associated work program thereunder, the execution of any such Earning Agreement, insofar as it relates to any such particular Joint Lands, will be deemed to occur for only the purposes of Paragraphs 24.01B(h) and (i) and Clause 24.02 on the date of service to the other Parties of the applicable Disposition Notice relating to those Joint Lands.

Alternate A (Consent Not To Be Unreasonably Withheld)
A Disposing Party must, by notice, advise the other Parties of its intention to make any particular disposition, including therein: (i) a description of the Working Interest proposed for disposition; (ii) the identity of the proposed assignee; and (iii) a request for the written consent of the other Parties to that disposition, which consent may not be unreasonably withheld. A Party that fails to reply to that request, by notice to the Disposing Party within 20 days after its receipt, will be deemed to consent to that disposition. A Party may withhold its consent to that disposition in its notice if it has a reasonable belief that the disposition would be likely to have a material adverse effect on it, including a reasonable belief that the proposed assignee does not have the financial capability to meet prospective obligations under the Agreement or that the assignment could adversely affect the recovery of amounts owing by a Disposing Party then subject to a bona fide notice of default under Clause 5.05. A Party that serves notice that it is withholding its consent will include therein its basis for withholding consent.

Alternate B (Right Of First Refusal)

(a) *A Disposing Party must comply with this Alternate B for any particular bona fide disposition it intends to make that is either effective prior to, or for which an agreement is completed prior to, _____ (insert date). It will comply with Alternate 24.01A for any bona fide disposition for which both the effective date and the agreement date are after the date prescribed by this Paragraph. Insofar as this Alternate B applies to a particular Earning Agreement that provides a Disposing Party's proposed assignee with the option to earn an interest in one or more subsets of the petroleum and natural gas rights thereunder by conducting a prescribed work program with respect to one or more selected subsets of those petroleum and natural gas rights, that Disposing Party may comply with any obligations in this Alternate 24.01B either:*

(i) with respect to all of the Joint Lands subject to that Earning Agreement after entering into it; or

(ii) by complying with the obligations in Clause 24.01 and this Alternate B for the applicable Joint Lands after its proposed assignee notifies the Disposing Party under that Earning Agreement that it will conduct the work program that would enable it to earn a Working Interest in those particular Joint Lands, as if the obligations relating to each applicable subset of petroleum and natural gas rights subject to that Earning Agreement that include any Joint Lands were a separate disposition to that proposed assignee for the purposes of this Clause 24.01, including any application of the last sentence of Paragraph 24.01B(d).

(b) *A Disposing Party must notify each other Party (the "Offeree") of its intention to make a disposition, including in that notice (the "Disposition Notice"): (i) a description of the Working Interest proposed for disposition; (ii) the identity of the proposed assignee; (iii) the price or other consideration for which it is prepared to make that disposition; (iv) its proposed effective date and, for a sale, an asset exchange or a similar disposition, its proposed closing date; (v) any other information about the terms of that disposition it reasonably believes would be material to the exercise of an Offeree's rights hereunder; and (vi) a request for consent sufficient to comply with Paragraph 24.01B(g).*

(c) *The Disposing Party must identify in the Disposition Notice if: (i) the consideration described in the Disposition Notice cannot be matched in kind; or (ii) the proposed disposition includes assets in addition to the Working Interest described therein. Subject to Paragraph 24.01B(d), it must also include therein its bona fide estimate of the value (or allocated value), in cash, of that consideration as it applies to that Working Interest.*

(d) *Notwithstanding Paragraph 24.01B(c), if the proposed disposition of the Working Interest described in the Disposition Notice (including an option to earn that Working Interest) is granted pursuant to an Earning Agreement, the Disposing Party will identify therein the earning operations in sufficient detail to enable the Offerees to understand their general nature, schedule and location, insofar as they pertain to the Joint Lands. The Disposing Party will offer the Offerees the opportunity to assume the entire obligations of the proposed assignee under the Earning Agreement if it includes only Joint Lands. If the Earning Agreement includes Joint Lands and other lands, the Disposing Party will have complied with the obligation in that Paragraph by, at the option of the Disposing Party:*

(i) providing its bona fide estimate of the value (or allocated value), in cash, of that consideration, insofar as it pertains to the Working Interest proposed for disposition in the Joint Lands; or

(ii) offering the Offerees the opportunity to assume the entire obligations of the proposed assignee under that Earning Agreement as it relates to both the Joint Lands and the other lands subject thereto.

(e) *A Party that objects to the reasonableness of an estimate of the cash value of the consideration included in a Disposition Notice under Paragraph 24.01B(c) must, within seven Business Days after its receipt of that estimate, serve notice of that objection in sufficient detail to enable the Disposing Party to understand its basis. The Parties will refer the matter for resolution under Article 21.00 after receipt of any such notice. The equivalent cash value determined thereunder will be deemed to be the value for the Working Interest described in the Disposition Notice. A Party that fails to serve such a notice within that period will be precluded from challenging that estimate.*

(f) *An Offeree will be deemed to have elected not to exercise its right to acquire the Working Interest to which a Disposition Notice pertains unless it serves notice to the Disposing Party that it elects to acquire it for the applicable consideration (a "Notice of Acceptance") within the later of: (i) 30 days after its receipt of that Disposition Notice; or (ii) 15 days after its receipt of notice of the value determined under Article 21.00 if the dispute resolution process in Paragraph 24.01B(e) is used. A Notice of Acceptance creates a binding contractual obligation on the Disposing Party and an Offeree giving a Notice of Acceptance to proceed with the disposition and acquisition of that Working Interest on the terms and conditions described in that Disposition Notice and the agreement to which it pertains. If more than one Offeree serves a Notice of Acceptance, each will acquire that Working Interest in the proportion that its Working Interest bears to the total Working Interests of all such Offerees, unless otherwise agreed by them.*

(g) *If the Working Interest described in the Disposition Notice is not disposed of to an Offeree under Paragraph 24.01B(f), the disposition to the proposed assignee is subject to the Offerees' consent on the same basis as prescribed by Alternate 24.01A. However, an Offeree will be deemed to have consented to that disposition, unless, within the period prescribed by Paragraph 24.01B(f) for response to the Disposition Notice, it notifies the other Parties that it does not consent to that disposition, including in that notice its basis for withholding consent.*

(h) *The Disposing Party may dispose of the Working Interest described in the Disposition Notice to the proposed assignee within 150 days after issuance of that Disposition Notice if the Disposing Party does not dispose of that Working Interest to any Offeree under Paragraph 24.01B(f), subject to Paragraph 24.01B(g). However, the Disposing Party may not make that disposition to the proposed assignee on terms that are more favourable than those offered in the Disposition Notice.*

(i) *This Alternate will again apply to the Working Interest described in a Disposition Notice: (i) after a disposition herein; or (ii) 150 days after its issuance if the proposed disposition to the identified assignee did not occur.*

24.02 Exceptions To Clause 24.01

Except as provided in the last sentence of this Clause, Clause 24.01 will not apply to the following dispositions by a Party:

(a) a *bona fide* assignment or pledge made by way of security for its present or future indebtedness or liabilities (whether contingent, direct or indirect and whether financial or otherwise), its issuance of bonds or debentures or its performance of its obligations as a guarantor under a guarantee, provided that the restrictions on disposition in Clause 24.01 will apply if that security is enforced by sale or foreclosure;

(b) a *bona fide* disposition to one or more of its Affiliates, or in consequence of its amalgamation with a Party or third party (or another *bona fide* business combination of like effect), other than for any transaction that could limit the remedies available under Clause 5.05 if that assigning Party is then subject to a notice of default thereunder;

(c) a *bona fide* disposition made by it of all, or substantially all, or of an undivided interest in all or substantially all, of its petroleum and natural gas rights in the province, territory or state in which the Joint Lands are located, if that disposition is: (i) intended to be made under a single transaction (including a *bona fide* arm's length transaction under which that interest may be acquired by two or more assignees or may be earned under an Earning Agreement); or (ii) to the same proposed assignee in different transactions as of the same date, where "substantially all" for the purpose of this Paragraph means 90% or more of the net hectares of working interest petroleum and natural gas rights held by that Party in that province, territory or state;

(d) a *bona fide* disposition by it, other than through an Earning Agreement, in which the net hectares being disposed of by it in the Joint Lands represent, as of its effective date (as defined therein), less than 10% of the total net hectares of working interest petroleum and natural gas rights being disposed of by it and any of its Affiliates therein;

(e) a *bona fide* arm's length disposition by it pursuant to an Earning Agreement, in which the net hectares of the Joint Lands that can be earned from it represent, as of its effective date (as defined therein), less than 35% of the total net hectares of working interest petroleum and natural gas rights that can potentially be earned thereunder from the Disposing Party and any of its Affiliates; or

(f) This optional Paragraph will ____/will not ____ (Specify) apply:

the right of another Party or person to earn a Working Interest (or the right to earn a Working Interest) under a bona fide arm's length Earning Agreement.

However: (i) a Party will notify the other Parties of any disposition under Paragraph 24.02(b), (c), (d), (e) or (f) in a timely manner, including in that notice the basis for its determination that the applicable Paragraph applies; and (ii) Alternate 24.01A will apply to a disposition under an Earning Agreement if Paragraph 24.02(f) applies to that disposition and no other Paragraph of this Clause applies to exempt that disposition from the application of Clause 24.01.

24.03 Multiple Assignment Not To Increase Costs

If a disposition made to multiple assignees under this Article increases the Operator's administrative burden and costs, it may require them (and the Disposing Party if it retains a Working Interest) to appoint one of them as their representative hereunder, unless arrangements acceptable to the Operator are made to compensate it for that increased burden.

24.04 Incorporation Of CAPL Assignment Procedure

A. *Deemed To Apply*-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 was included as a Schedule. Subject to the permitted dispositions in Clause 24.02, 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 Parties by operation of another provision of the Agreement.

B. *Application Where Segregation*-If separate agreements have been deemed to apply under Clause 13.01 because of an inconsistency in Working Interests, a Party may serve any notice of assignment under Subclause 24.04A to only those Parties holding an interest under the Agreement in the portion of the Joint Lands to which the notice of assignment pertains. Notwithstanding the preceding sentence and Clause 13.01, a Party may serve a single notice of assignment for the disposition of its interests under more than one of those separate agreements if: (i) it is disposing of an interest under all of such separate agreements that, when combined, cover all of the Joint Lands in which it has an interest; or (ii) that Party identifies clearly in the notice of assignment each portion of the Joint Lands covered by those separate agreements to which that notice of assignment pertains and the interest being assigned in each such block.

25.00 MISCELLANEOUS PROVISIONS

25.01 Parties To Supply Further Assurances

Each Party will, on a timely basis and without further consideration, complete such other documents and take such other actions as may be reasonably required to perform its obligations under the Agreement.

25.02 Waiver Of Partition Or Sale

No Party may apply for any partition of the Joint Lands, any Production Facility or any other Joint Property, or any sale thereof in lieu of partition.

25.03 Enurement

Subject to the provisions hereof, the Agreement will enure to the benefit of the Parties and their respective trustees, receivers, receiver-managers, successors and permitted assignees.

25.04 Use Of Name

Subject to Article 19.00 for public announcements, no Party may use the name or trademark of another Party in connection with the financing of any Operation, the sale of any securities or the formation or promotion of any enterprise, without first obtaining that other Party's prior written consent in each instance. A Party may refuse its consent to any such request for any reason it sees fit.

25.05 Waiver Of Relief

The Parties acknowledge that:

(a) the ability to conduct Joint Operations depends on the Parties' performance of their obligations hereunder and the ability to enforce their respective rights under the Agreement in a timely manner;

(b) any default, forfeiture, cost recovery or assignment provisions contained herein are reasonable and equitable, given the nature of Operations and the risks inherent in the oil and gas industry; and

(c) each Party unconditionally waives all rights and remedies it has at law, in equity or under the Regulations to seek relief against default, forfeiture or penalty if those provisions are invoked or enforced hereunder.

25.06 Inconsistent Working Interests And Holdings

If a portion of the Joint Lands is subject to a holding or other similar order under the Regulations that is designed to facilitate production from the same formation(s) in multiple wells within areas of common ownership and the Parties' Working Interests in the Joint Lands become inconsistent within that area of common ownership, the Parties' intention is that such holding or similar order will remain in full force and effect, subject to any order to the contrary under the Regulations. Each Party holding a Working Interest in the applicable Joint Lands subject to that holding or similar order agrees that it will not use the change of ownership as a basis under the Regulations to file: (i) any objection to that holding or similar order; (ii) any application to terminate it; or (iii) any application to modify the allocation of Petroleum Substances thereunder.

25.07 Conflict Of Interest

Except for such promotional and entertainment expenses that are reasonable and are not precluded by the Regulations, no Party or any director, officer, employee or agent of that Party will confer any economic advantage on, or receive any such benefit from: (i) any representative of any other Party; (ii) any potential supplier of goods or services hereunder; (iii) any representative of a government, regulatory agency or other government authority; or (iv) any person seeking political office.