

**MODIFICATIONS TO 1997 CAPL FARMOUT & ROYALTY PROCEDURE**  
**(Ignoring Minor Editing Type Changes)**  
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This document is designed to provide users with an overview of all material changes in the 2015 CAPL Farmout & Royalty Procedure relative to the 1997 document. This document also provides a context for the changes in the 2015 Overriding Royalty Procedure, insofar as the provisions of that document mirror those in the Farmout & Royalty Procedure.

<b>Provision</b>	<b>Modification</b>	<b>Rationale For Change</b>
General Format	<ul style="list-style-type: none"> <li>(i) Major editing and use of increased font size for the Clauses.</li> <li>(ii) Greater sub-division of provisions.</li> <li>(iii) Inclusion of a few words of context for the vast majority of cross-references.</li> <li>(iv) Addition of headings for Subclauses.</li> <li>(v) Annotations expanded to emphasize the evolution of certain provisions in the two versions of the document.</li> <li>(vi) Eliminated numbering for individual definitions, such as those in Clause 1.01.</li> <li>(vii) Generally expanded breadth and depth of coverage relative to 1997 document for both Clauses and annotations.</li> </ul>	<ul style="list-style-type: none"> <li>(i) Increased industry application of plainer language drafting principles. Greater alignment of format to subsequent CAPL documents, particularly the 2007 and 2015 CAPL Operating Procedures.</li> <li>(ii) Break up longer provisions for ease of reading.</li> <li>(iii) Simplifies document for users who are not familiar with the Clause references.</li> <li>(iv) Provides high level context of content for users.</li> <li>(v) Increase value to users as a reference document.</li> <li>(vi) Clause references added no value and made use more difficult for users wishing to add additional definitions.</li> <li>(vii) To reflect experiences with the 1997 document. To increase clarity and context for users. To add functionality to accommodate reasonably foreseeable circumstances that otherwise would require significant drafting customization in the Head Agreement and modifications to the FO&amp;RP (e.g., re-entry activities, partial interest farmins, Test Well Programs, Option Well Programs, Horizontal Wells straddling Royalty Lands and other lands). To recognize that some depth of coverage had been sacrificed when preparing the 1997 document because of the need to create a simpler document that industry would accept as the first such document to attain widespread use.</li> </ul>
Clause 1.01-Definitions	Added reference to the definitions of the CAPL Operating Procedure that are also incorporated by reference in Clause 1.02.	Be more transparent that Clause 1.02 also incorporates many definitions by reference from the CAPL Operating Procedure.
Def'n of Contract Depth	Expanded annotations to include sample wording for Contract Depth for a Horizontal Well and a reminder that a Farmor should be very specific if its expectation is that the Horizontal Leg is to be drilled into a specific member of a formation. Added an annotation about the potential use of a modified version to provide greater flexibility in an area with multi-target potential. This could see the Contract Depth definition being structured, for example, as either "Shallow Contract	To share with users a potential structure for use with Horizontal Wells, with a reference to the <u>Shallow Gas</u> case. To alert users about a possible modification that would offer them the flexibility to modify the Contract Depth obligation somewhat in multi-target areas as their drilling program evolves.

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	Depth or Deep Contract Depth, as designated by the Farmee....". Each term would be defined with the same type of language as used in the more traditional Contract Depth definition. This structure might also be used in conjunction with a layered earning, such that a well drilled to the deeper depth could earn a larger area, a larger interest or a combination of the two.	
Def'n of Encumbrances	<p>(i) Clarified that the ORR accruing to the Farmor under the Farmout &amp; Royalty Procedure is not an "Encumbrance" within the meaning of this document. (However, it retains a preferential status for purposes of the Encumbrances provision under the CAPL Operating Procedure, as was the case under the 1997 document.)</p> <p>(ii) Added an annotation.</p> <p>(iii) Broadened scope of the reference to provide greater flexibility for Parties that used different terminology to address the concept in their Schedule.</p>	<p>(i) Enhance clarity for users.</p> <p>(ii) Enhance clarity for users.</p> <p>(iii) Provide greater flexibility for users. Mitigate potential for form over substance outcomes.</p>
Def'n of Equivalent Production	Added an annotation about a potential modification to the conversion factor to an energy equivalent conversion.	Alert users to alternative 6:1 energy equivalent conversion that could be attractive in a period of sustained high gas prices.
Def'n of Existing Agreement	Included a definition to address the common situation in which the Farmor has less than a 100% Working Interest in all or a portion of the Farmout Lands.	Simplifies construction in other provisions of the document. Reminds users of the importance of considering related issues.
Def'n of Facility Fees	Moved to Clause 1.02 to align more closely with the definition in the CAPL Operating Procedure. Some expansion of annotations.	Consistency with the Operating Procedure definition and increased clarity for users.
Def'n of Facility Usage	Moved to Clause 1.02. A reference to secondary measurement was added in the 2015 CAPL Operating Procedure update.	Consistency with the Operating Procedure definition and increased clarity for users.
Def'ns of Farmee/Farmor	<p>Broadened the scope of the references to recognize that Parties may inadvertently use "Optionor" and "Optionee" descriptions in their Head Agreement.</p> <p>Added an annotation about the need to use terminology in Head Agreements that is consistent with the definitions in the Farmout &amp; Royalty Procedure.</p>	Provide greater context for users. Provide greater flexibility for users to mitigate the potential for form over substance outcomes.
Def'n of Farmout Lands	Added an annotation about the need to use terminology in Head Agreements that is consistent with the definitions in the Farmout & Royalty Procedure.	Provide greater context for users.
Def'n of First Point of Measurement	Renamed the 1997 "Royalty Determination Point". Moved to Clause 1.02 because of alignment with CAPL Operating Procedure.	Make terminology consistent with the term used in the CAPL Operating Procedure to address the same content.
Def'n of Mutual Interest Lands	<p>(i) Enhanced the sample definition included in the annotations and the associated explanations.</p> <p>(ii) Added an annotation about case law relating to an implied duty of good</p>	<p>(i) Provide greater context for users.</p> <p>(ii) Increase awareness of legal responsibilities.</p>

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	<p>faith in the context of a ROFR.</p> <p>(iii) Added an annotation about the potential modification required to address "excluded lands"-lands within the AML boundary in which a particular Party is permitted to increase its &lt;100% Working Interest by acquiring further Working Interests from third parties without any obligation to offer that Working Interest to the other Parties under the AML.</p> <p>(iv) Broadened scope of references, as Parties may inadvertently use slightly different terminology in their Head Agreement definition.</p>	<p>(iii) Increase awareness of this potential modification.</p> <p>(iv) Provide greater flexibility for users to mitigate the potential for form over substance outcomes.</p>
Def'n of Operating Procedure	Modified the definition to recognize that the Operating Procedure could be the document included as a Schedule to the Agreement or, for an Existing Agreement that would continue to govern the earned Working Interest, the Operating Procedure to that Existing Agreement.	Increase clarity for users.
Def'n of Option Well Program	Added a definition. Associated annotation and consequential modification to the definition of Option Well.	Offer greater functionality for users if the Agreement includes a multi-well commitment. This recognizes the increasing number of larger scale Earning Agreements.
Def'n of Overriding Royalty	Added an annotation to address the interest in land aspect of the definition.	Provide greater context for users.
Def'n of ORR Conversion Date	<p>(i) Added definition and associated annotation. Some consequential changes throughout the document.</p> <p>(ii) Inclusion of an early election trigger if Payout or Volume Recovery were not attained prior to a negotiated number of months following drilling rig release. Associated annotation.</p>	<p>(i) The 1997 document included two Alternates in the definition of Payout-the traditional cost recovery and a volume recovery.</p> <p>The definition was created to separate the traditional Payout mechanism from a structure in which the Farmee retains a higher Working Interest until recovery of a prescribed volume.</p> <p>This is designed to facilitate use of a volumetric incentive by causing users to look at it as a separate option, rather than an option that tries to equate the contemplated financial outcomes under the traditional cost recovery.</p> <p>(ii) Reflects the practical fact that the vast majority of the Earning Wells to which the timing trigger would apply are marginal wells for which there is a low likelihood that a Farmor would wish to convert to a Working Interest. This mitigates the potential for long-standing monitoring obligations to remain in our systems. The annotations remind Parties of the need to be cautious about the selection of a date for this provision if the Farmout Lands are in an area of remote access.</p>

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Def'n of Party	Added a definition.	The Operating Procedure definition is narrower than required in this document because that definition is premised on Working Interest relationships.
Def'n of Payout	<ul style="list-style-type: none"> <li data-bbox="354 289 894 411">(i) Modified to delete the volumetric Alternate, with associated annotations and resultant changes throughout the document.</li> <li data-bbox="354 504 894 625">(ii) Inclusion of a requirement to use a Market Price when determining the proceeds to be used in the calculation. Associated annotation.</li> <li data-bbox="354 630 894 718">(iii) Added annotation about the generic reference to "all costs of other Operations".</li> <li data-bbox="354 722 894 844">(iv) Moved the Operating Costs component of the 1997 Paragraph (a) to a new Paragraph (b), with consequential changes.</li> <li data-bbox="354 848 894 1054">(v) Clarification that Operating Costs do not include any Operating Costs already applied against ORR volumes as a deduction, with a corresponding modification to the handling of Facility Fees in the definition. Consequential modification to the annotations.</li> <li data-bbox="354 1058 894 1180">(vi) Added new Subparagraph (c)(i) to address the impact of compensatory royalties paid under Subclause 2.03B. Associated annotation.</li> <li data-bbox="354 1184 894 1390">(vii) Added provisos to ensure that any in kind deliveries of ORR, lessor royalty or Encumbrances are deemed to have been delivered at a Market Price, except insofar as the Regulations prescribe use of different pricing for lessor royalties accruing to the Crown.</li> <li data-bbox="354 1394 894 1457">(viii) Modified Paragraph (d) to address emissions levies re greenhouse gas.</li> <li data-bbox="354 1461 894 1701">(ix) Modified Paragraph (f) to be clear that any limitations on deductions of Facility Fees against ORR volumes do not prohibit the Farmee against charging certain Facility Fees in the Payout calculation. This is subject to a restriction against charging the same cost twice.</li> <li data-bbox="354 1759 894 1965">(x) Added a sentence in the last paragraph specifying that proceeds are applied firstly to the expense type items in Paragraphs (b)-(f). Any then remaining positive cash flow is allocated to the capital items in Paragraph (a). Associated annotation.</li> </ul>	<ul style="list-style-type: none"> <li data-bbox="914 289 1463 495">(i) Separated the traditional cost recovery and volumetric approaches because of the tendency to try to equate them, rather than in looking at them as different ways to allow a Farmee to obtain a disproportionate share of production on a temporary basis.</li> <li data-bbox="914 499 1463 621">(ii) Correct a flaw in traditional provision that might encourage Farmees to make notional allocations of least attractive portfolio pricing to Payout accounts.</li> <li data-bbox="914 625 1463 657">(iii) Greater context for users.</li> <li data-bbox="914 722 1463 844">(iv) To accommodate the addition of the content on the order of the application of proceeds to the various cost and expense Paragraphs.</li> <li data-bbox="914 848 1463 995">(v) Correct flaw in traditional Payout provisions that potentially literally allowed for a double deduction of the same costs as had been deducted against the ORR volumes.</li> <li data-bbox="914 1058 1463 1146">(vi) To address something that has traditionally not been addressed expressly.</li> <li data-bbox="914 1184 1463 1215">(vii) Clarification.</li> <li data-bbox="914 1394 1463 1425">(viii) Clarity for users on an emerging issue.</li> <li data-bbox="914 1461 1463 1759">(ix) Clarification. Facility Fees associated with the Farmee's own net share of volumes and deductions captured by the capping mechanisms in Subclause 5.05C are a legitimate charge in the Payout calculation. The only restriction on chargeability (and even then only with respect to the ORR volumes) is if the "no deductions" approach in Alternate 5.01A(b)(2) were selected.</li> <li data-bbox="914 1764 1463 1965">(x) Included to reflect what is inherent in Paragraph 6.01A(c). The frequency of the obligation to deliver Payout statements under Clause 6.01 increases to a monthly basis when the amount outstanding under Paragraph (a) of the Payout definition is less than six times</li> </ul>

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		<p>the amount applied against that Paragraph in the most recent month.</p> <p>This handling is consistent with Subclause 10.07A of the CAPL Operating Procedure and the earlier versions of that provision.</p>
Def'n of Pre-Earning Working Interest	Included a definition that links to the Farmor's original Working Interest subject to the farmout.	Offers greater precision in the body of the document.
Def'n of Production Test	<ul style="list-style-type: none"> <li>(i) Modified definition to be clear that it is subject to any restrictions imposed under the Regulations, such as those on flaring. Associated annotation.</li> <li>(ii) Extended the application of the 30 day production/cease to produce outcomes to all wells.</li> <li>(iii) Added annotation providing insights on a "reasonable satisfaction" type reference in Agreements.</li> </ul>	<ul style="list-style-type: none"> <li>(i) Greater context for users.</li> <li>(ii) A logical extension to reflect the frequency of Horizontal Wells.</li> <li>(iii) Provide greater context for users.</li> </ul>
Def'ns of Re-entry Program and Re-entry Program Costs	Added definitions, with related annotations. Consequential changes throughout the document, such as modifications to the definitions of Test Well and Option Well.	Offer greater functionality in the document if the transaction pertains to Operations being conducted on a pre-existing well. The modifications have been made so that users working with that type of transaction would include the required context in their Head Agreement (i.e., the details of what is the "Re-entry Program" and additional content relating to the particular transaction and the Parties' expectations). The generic changes required for their transaction are now waiting for them in the Farmout & Royalty Procedure without need to make a series of consequential modifications to the document, as had been the case for re-entry work under the 1997 document.
Def'n of Reserved Formations	<ul style="list-style-type: none"> <li>(i) Significant editing.</li> <li>(ii) Clarified the reference to Clause 7.03.</li> </ul>	<ul style="list-style-type: none"> <li>(i) Clarification for users.</li> <li>(ii) Clarification for users.</li> </ul>
Def'n of ROFR	Included a definition of ROFR with two contexts-(i) obligations under Existing Agreements, other agreements (e.g., to royalty holders) and the Title Documents; and (ii) any ROFR created in the Operating Procedure under this Agreement. Related annotations and consequential changes in other provisions.	Primarily due to the increasing frequency of partial interest farmouts.
Def'n of Spacing Unit	<ul style="list-style-type: none"> <li>(i) Expanded annotations to provide insights about the Spacing Unit in the context of a Horizontal Well and the situation in which a Royalty Allocation Well required a secondary allocation under Clause 5.02 respecting a pooling or unitization because production allocated to a particular traditional spacing unit had to be allocated to Royalty Lands and other lands.</li> <li>(ii) Modified, so that determinations are</li> </ul>	<ul style="list-style-type: none"> <li>(i) A clarification for users about some subtleties associated with the definition, its application within Clause 5.03 and the impact of a potential secondary allocation under Clause 5.02.</li> <li>(ii) To try to mitigate potential issues if</li> </ul>

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	made on a well by well basis if the Regulations allow a drilling density of greater than one well in any particular producing formation within a Spacing Unit. Associated annotation.	there is increased drilling density in a producing formation at the location of an Earning Well.
Def'n of Target Area	Deleted definition, with consequential changes in Subclause 3.01A.	Greater clarity about the limited ability of an explorer to drill a well at an off target location without adverse regulatory consequences.
Def'n of Test Well	Added an annotation about the need to use terminology in Head Agreements that is consistent with the definitions in the Farmout & Royalty Procedure.	Provide greater context for users.
Def'n of Test Well Program	Added a definition. Associated annotation and consequential modification to the definition of Test Well.	Offer greater functionality for users if the Agreement includes a multi-well commitment. This recognizes the increasing number of larger scale Earning Agreements.
Def'n of Title Documents	(i) Significant editing. (ii) Added annotation about an "in lieu thereof" replacement title document dispute in <u>CNRL v. Jensen</u> .	(i) Enhance clarity for users. (ii) Add context for users.
Def'n of Volume Recovery	Added a definition very similar to the volumetric Alternate that had been included in the definition of Payout in the 1997 document. Expanded annotations. Consequential changes in the document.	Separated the traditional cost recovery and volumetric approaches because of the tendency to try to equate them, rather than in looking at them as different ways to allow a Farmee to obtain a disproportionate share of production on a temporary basis.  The expanded annotations offer greater context for this potential approach to allowing a Farmee to obtain a higher initial share of production volumes.
Clause 1.02- Incorporation Of Provisions From 2015 CAPL Operating Procedure	(i) Modified references from the 1990 CAPL Operating Procedure to the 2015 CAPL Operating Procedure, with a significant expansion of the list of provisions incorporated by reference.  (ii) Inclusion of an annotation about the potential structure of the Agreement if the Farmor will be operating the applicable earning Operations.  (iii) Modified the definition of Horizontal Well, so that each Horizontal Leg of a multi-pronged Horizontal Well would be an individual Royalty Well for the purposes of Article 5.00 (but not for purposes of an Article 6.00 conversion or a Payout calculation). Associated annotation with a consequential annotation on Clause 5.01.	(i) Alignment with 2015 CAPL Operating Procedure standards and inclusion of updated functionality. The 2015 document is a modest update. It is primarily focused on adding supporting, non-contentious functionality for "long reach" Hz wells and enabling provisions to support any transaction specific provisions negotiated in due course for pad development and multiple well drilling programs. It also includes a number of other relatively minor adjustments to reflect miscellaneous learnings from the 2007 document.  (ii) Greater context about a possible alternative transaction structure.  (iii) Clarity for users.

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	<ul style="list-style-type: none"> <li>(iv) Annotation alerting users to the change associated with use of the Operating Procedure definition of Market Price.</li> <li>(v) Inclusion of Operating Procedure HSE Clause (Clause 3.05).</li> <li>(vi) Expanded annotation about control of well and comprehensive general liabilities insurance policies.</li> <li>(vii) Added an annotation about the Force Majeure Article.</li> <li>(viii) Included an addition to Subclause 17.01 to address the sharing of royalty incentives and the capital base to be used for any profitability based royalties. Associated annotation.</li> <li>(ix) Added an annotation about the handling of grouping/ validation rights in Subclause 17.01B.</li> <li>(x) Modified the reference in former Clause 18.03 to Clause 18.01 in this document to make the additional sentence optional. Associated modification to the annotation.</li> <li>(xi) Modified the incorporated Clause 18.03 to clarify the proprietary interests in information for the purposes of this Clause. A Farmor with a convertible Working Interest will, for example, be regarded as having a Working Interest equal to its post conversion Working Interest.</li> </ul>	<ul style="list-style-type: none"> <li>(iv) Provide context for users about the rationale for the change and the importance of the issue.</li> <li>(v) Reflects the importance of HSE to companies, our industry and the jurisdictions in which we work.</li> <li>(vi) Provide users with greater context about the importance of this issue and a potential modification if a larger company argues that it duplicates existing general corporate coverage it holds.</li> <li>(vii) Increase user awareness that Force Majeure is linked to an inability to perform, not a choice to avoid inconvenient performance.</li> <li>(viii) Clarifies that a Farmor with a Working Interest after the farmout is treated as if it had participated in the applicable Earning Well operations for these purposes.</li> <li>(ix) Provide context for users.</li> <li>(x) Increase user awareness about a subtle issue that might otherwise be missed. The inclusion of an election requires users with a non-convertible ORR structure to choose if the confidentiality obligation applies solely to the Farmor.</li> <li>(xi) Clarification.</li> </ul>
Clause 1.03- Multiple Farmor Parties	Some finetuning.	Clarification.
Clause 1.04- Multiple Farmee Parties	<ul style="list-style-type: none"> <li>(i) Added an annotation about the reference to joint and several liability in Paragraph (a).</li> <li>(ii) Expanded annotation to note the liability regime between the Farmee representative and the other Farmee Parties.</li> <li>(iii) Added a cross-reference to Paragraph 1.04(a) in Paragraph 1.04(c).</li> <li>(iv) Added Paragraph (e) and an associated annotation.</li> </ul>	<ul style="list-style-type: none"> <li>(i) Provide context for users.</li> <li>(ii) Context for users.</li> <li>(iii) Clarification for users.</li> <li>(iv) Provide a safeguard for Farmee Parties that do not create a separate agreement between them to govern the earning activities conducted by them and the real possibility that they could disagree on the conduct of a testing program.</li> </ul>
Clause 1.05- Modifications To	Updated the Clause.	Align more closely to the corresponding provision in the Operating Procedure.

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CAPL Document Form		
Clause 2.01- Farmee's Right To Review Title	Added a new Clause addressing the Farmee's right to conduct a title review. Associated annotations, including one that notes that it is common for purchasers of even a small value property to do a title review and that Farmees making a large earning expenditure typically do not.	Addresses expressly a topic that has traditionally been ignored. Alert Farmees that they should consider conducting a title review more frequently.
Clause 2.02- Farmor Makes No Warranty To Title	<ul style="list-style-type: none"> <li>(i) Modified the Clause to include references to Encumbrances, ROFRs and facilities commitments listed in Schedule "A".</li> <li>(ii) Modified annotation to note need to address dedicated lands sales contracts and facilities commitments.</li> <li>(iii) Added an annotation about the importance of an accurate description of an Encumbrance.</li> <li>(iv) Added annotation about the creation of an ORR under a farmout relating to only the Farmor's interest in lands governed under a different JOA with other parties. Added a reference to the handling of a penalty election in the <u>Mesa v. Amoco</u> case that addressed a different form of agreement.</li> <li>(v) Added a phrase addressing the Farmor's responsibility to assume a corresponding share of Encumbrances (i.e., Schedule "A" recognized burdens) insofar as it converts from an ORR to a Working Interest under Article 6.00 or any other provision of the document.</li> <li>(vi) An annotation has been included about transactions that exclude producing wells in the target zone being pursued by the Farmee and the "common ownership" requirement under the Regulations.</li> </ul>	<ul style="list-style-type: none"> <li>(i) Provide greater context for users.</li> <li>(ii) Increase awareness about facilities commitments and dedicated lands sales contracts.</li> <li>(iii) Provide greater context for users about the presentation of an ORR pertaining to less than a 100% Working Interest.</li> <li>(iv) Increase awareness to users that the Farmee in this situation that is novated into the existing JOA does not have an ORR that qualifies for the exception in Clause 15.02 of the Operating Procedure.</li> <li>(v) To state expressly what is inherent in the document.</li> <li>(vi) Provide greater context for users.</li> </ul>
Clause 2.03- Maintaining Title-Earning Phase	<ul style="list-style-type: none"> <li>(i) Reinforced that the Farmor is required to maintain Farmout Lands in good standing under Subclause 13.01A. Recognition that Farmor's Pre-Earning Working Interest could be adversely impacted due to non-participation decisions in response to third party Operation Notices served under Existing Agreements, as contemplated in Clause 10.02. Annotation that Subclause 3.10B of Operating Procedure also applies to supplement the more general obligation.</li> <li>(ii) Expanded the annotation to remind users that older forms of freehold leases might not include a compensatory royalty provision.</li> <li>(iii) Modified Subclause 2.03A to be clear</li> </ul>	<ul style="list-style-type: none"> <li>(i) Provide context for users.</li> <li>(ii) Provide context for users.</li> <li>(iii) Clarification for users.</li> </ul>



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	<p>that this Subclause does not preclude the Farmor from proceeding with a <i>bona fide</i> financing that impacts any Working Interest being retained by it after earning.</p> <p>(iv) Expanded annotation on Subclause 2.03B to note that the Parties might choose to modify the definition of Payout if there are known security payments for Farmout Lands included in a BPO/APO earning structure.</p>	<p>(iv) This would be consistent with the logic for the special handling of compensatory royalties in a Payout account.</p>
Clause 2.04- Obligations Under Existing Agreements And Other Agreements	Added a new Clause to address notice requirements for the contemplated disposition under any applicable Existing Agreements with third parties, any other agreement (e.g., royalty agreement) and any particular Title Document. Associated annotations. Includes a Subclause that execution of the Agreement by a Farmor is a consent/a waiver of its ROFR respecting acquisition of the applicable Working Interest by Farmee for the applicable Earning Well.	Remind Parties to comply with required notice and ROFR requirements. Reiterate to Parties the “duty of good faith” that applies to ROFRs at law. Addresses the impact of the execution of the Agreement by a Farmor Party on any required consent/ROFR waiver.
Article 3.00-Test Well (General)	<p>(i) Reworked the entire Article extensively with respect to presentation, content and language.</p> <p>(ii) Added annotations about the potential inclusion of a provision in the Head Agreement securing performance of Test Well obligations, the reasons for not including that type of provision in the document and the potential remedies available to Farmor in the absence of this type of provision.</p>	<p>(i) Provide users with the breadth and depth of coverage they require. Increase clarity for users based on learnings about the initial 1997 form, particularly in the context of an increased frequency of “straight up” earning structures, multi-target projects, Horizontal Wells and larger scale earning agreements.</p> <p>(ii) Provide context for users and reinforce to them that this is something they would need to address in the Head Agreement on a customized basis if they saw a need to include this type of obligation.</p>
Clause 3.01- Farmee’s Test Well Obligations	<p>(i) Updated the sample Head Agreement drilling obligation Clause referenced in the annotations.</p> <p>(ii) Replaced the Target Area reference with more generic language. Associated annotation, including a reference to the <u>Nycan</u> case.</p> <p>(iii) Included a statement in Subclause 3.01A that nothing in the Agreement provides the Farmee with the right to use the Farmor’s surface rights without agreement of the Farmor.</p> <p>(iv) Modified the Commencement reference to include qualifications if: (a) the Farmee has been diligently proceeding, but will miss the Spud date because of rig/services availability, surface access or delays in receipt of required regulatory approvals; or (b) Force Majeure</p>	<p>(i) Provide greater context for users.</p> <p>(ii) Provide greater context for users.</p> <p>(iii) To be clear about expectations and to reflect the complexities associated with ownership of well pads by diverse interest groups.</p> <p>(iv) The typical proviso included in Head Agreements is deficient in three ways. Firstly, it does not expressly state that the Farmee may only rely on that proviso if it had been proceeding diligently. Secondly, the qualification on performance typically does not include any notification requirement to alert the</p>

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	applies. <i>Mutatis mutandis</i> application of elements of CAPL Operating Procedure Force Majeure Article to address aspects, such as a notification requirement if the Farmee is having any such difficulties and a duty to provide periodic updates. Introduced a Paragraph providing the Farmor with a right to obtain a transfer of the applicable well licence and surface rights relating solely to the well if the Farmee will not be proceeding with the well, provided that the Farmor is eligible to accept that transfer under the Regulations. Associated annotation.	Farmor promptly if the Farmee determines that it may not be able to Spud the Test Well by the required date and the basis for that belief. Thirdly, the traditional provision does not suitably address requirements for rectification and periodic notification of the status of the problems and progress made in addressing them.
	(v) Modified Subclause 14.01A to extend the protections granted by that Clause against termination of the Agreement from only Force Majeure to include the other delays permitted under Subclause 3.01B. Associated annotation on Subclause 3.01B.	(v) Provide a more appropriate outcome in the document. Increase user awareness about Subclause 14.01A.
	(vi) Rewrote the Farmee's obligations relating to the Test Well (Subclause 3.01C in this document), with consequential changes in the remainder of Clause 3.01. Associated annotation.	(vi) Provide users with greater clarity about the interrelationship between the "Complete, Cap or Abandon" reference, the obligation to evaluate the Test Well to the Farmor's reasonable satisfaction and testing requirements.
	(vii) Introduced Paragraph 3.01C(b) to preclude a Farmee from using the Test Well to drill more than 15m below the Farmout Lands or to test/produce any formation not included in the Farmout Lands except: (a) as otherwise authorized in the Agreement or by the Parties; or (b) the Farmee has been permitted to Abandon the Test Well under the Abandonment Article (7.00). Associated annotation, including an identification of some things for the Farmor to consider if a dual use is proposed and an overview of the <u>Xerex</u> case.	(vii) Reinforce to Parties the need to be clear about their respective expectations if the Farmee is trying to earn by drilling through the Farmout Lands as part of its larger drilling program. The onus is ultimately on the Parties to include the required transaction specific supplemental content in the Head Agreement.
	(viii) Modified Paragraph 3.01C(c) to expand the traditional reference that Test Well costs are at the Farmee's sole cost, risk and expense to provide greater flexibility. This includes the participation situation (Farmor or other third parties) and the possibility that the Farmor could assume some indemnification and liability obligations under the Agreement if the Farmor were the Operator of the Test Well. Associated annotation.	(viii) Enhance the functionality of the Subclause.
	(ix) Modified Paragraph 3.01D(a) to be clear that the obligation to proceed with an Abandonment under Article	(ix) An unsuccessful Completion is different than a successful Completion. The difference in outcomes has traditionally

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	<p>7.00 applies if the Farmee's reasonable evaluation indicates that the Test Well does not warrant a Production Test or if it conducts a Production Test/Completion only to discover that the Test Well is not capable of production in Paying Quantities. For this purpose, a Completion attempt is not regarded as being successful if the Earning Well is proposed for Abandonment without having produced for at least 60 days, notwithstanding any other application of the Operating Procedure to that well. Associated annotation.</p> <p>(x) Included an "Unless otherwise provided" reference at the beginning of Paragraph 3.01D(a) that contemplates that the Farmee may have another use for a well that it does not propose to Complete in the Farmout Lands. (Associated modification to Clause 7.01.) Associated annotations.</p> <p>(xi) Introduced a new optional Paragraph D(b) to address the expectations for the evaluation of a Horizontal Well. The Farmee will proceed to conduct one continuous, <i>bona fide</i> Completion attempt in the target formation, unless Petroleum Substances are not reasonably anticipated to be present in Paying Quantities in a Horizontal Well. Any subsequent Completion or Recompletion will not be a condition of earning, and will be governed by any applicable Operating Procedure. Associated annotations.</p> <p>(xii) Qualified the 1997 obligation to test each formation encountered in the Test Well that appears to be prospective of production in Paying Quantities. Introduced an optional Paragraph 3.01D(d) that provides the Parties with the ability to prescribe the results (negotiated number of production days or produced volume) following which the Farmee no longer has the obligation to conduct any further tests of a well to which optional Paragraph 3.01D(b) does not apply at its own expense. Associated annotations, including a reference to the <u>Solara</u> case.</p> <p>(xiii) Inclusion of an annotation about the major potential perceived differences</p>	<p>not been addressed clearly in the context of the obligations under Article 7.00.</p> <p>(x) Enhance the functionality of the Subclause and to reinforce to the Parties the need to consider this type of issue on a customized basis in the Head Agreement.</p> <p>(xi) Optional Paragraph 3.01D(b) enables Parties to differentiate between the well evaluation obligations for a Horizontal Well relative to other wells. The overriding expectation is that a Horizontal Well is drilled to be Completed, unless it is it apparent that the well will not be a producer. This differentiation reflects the differing expectations for the two types of wells, while also offering clarity about the extent of the evaluation obligation for a Horizontal Well. Paragraph 3.01D(c) will apply to all other wells if optional Paragraph D(b) is selected, and will apply to all wells if that optional Paragraph is not selected.</p> <p>(xii) Address a gap in the 1997 document, as it did not consider fully the issues with "straight up" transaction structures in multi-target areas. Allow users flexibility to negotiate the outcome they regard as appropriate for their own transaction.</p> <p>(xiii) Provide greater context for users about something that could become a</p>

Provision	Modification	Rationale For Change
	<p>in what constitutes Paying Quantities and the concerns that large Farmees may have about being requested to evaluate formations which, from the Farmee's perspective, have marginal prospectivity.</p> <p>Identified in the annotation some negotiated alternatives that might be considered at the time the Agreement is negotiated.</p> <p>Also modified Clause 15.01, so that a dispute in Paying Quantities could be resolved under that Clause (an ultimate reference to arbitration if a Party chooses to escalate the issue).</p> <p>(xiv) Modified Subclause 3.01 so that the potential deferral of the Completion applied to all wells, not just those that were predominantly prospective of production of natural gas.</p> <p>(xv) Replaced "economic market" type references in Paragraphs E(b) and (d) with a linkage to Paying Quantities.</p> <p>(xvi) Modified Paragraph 3.01E(e) to differentiate between a successful and unsuccessful Completion.</p> <p>(xvii) Annotation that users need to be careful when preparing earning letters if the deferral mechanism in Subclause 3.01E applies.</p>	<p>significant issue any time a large Farmee is farming in on a company with different investment criteria.</p> <p>(xiv) To reflect the need for greater operational flexibility, gas conservation requirements and more complex production infrastructure.</p> <p>(xv) Offers greater clarity for users.</p> <p>(xvi) Clarification for users.</p> <p>(xvii) A reminder for users.</p>
Clause 3.02-Substitute Well	<p>Expanded the Clause significantly to provide greater clarity about such matters as situations in which continued drilling is "commercially impracticable", the election mechanism for the substitute well, an increase of the commencement period to 90 days after Abandonment rig release or takeover by Farmor, as applicable, and the release of Farmee from the drilling obligation if it chooses not to drill the additional well. Significant expansion of the annotations.</p>	<p>To reflect learnings about the deficiencies in the traditional provision that became apparent when users had to rely on the provision in one instance.</p>
Clause 3.03-Test Well Earning	<p>(i) Expanded the annotation about the structure of the transaction and the sample Head Agreement Clause, particularly with respect to the potential handling of Equipping in a "straight up" transaction structure. The annotations include a reminder to users that additional customization is required for a transaction in which earning excludes production from existing wells in the earned formations or in which the Farmee is earning only an interest in production from an Earning Well without any corresponding Working Interest in the associated mineral rights.</p>	<p>(i) Provide greater context for users.</p>

Provision	Modification	Rationale For Change
	<p>(ii) Added a phrase at the end of Subclause A to be clear that production accruing to the Farmor from the Test Well begins to accrue to it as of the drilling rig release date. Associated annotation.</p> <p>(iii) Added an annotation about the situation in which the Farmee retains the obligation to Equip an Earning Well as a condition subsequent.</p> <p>(iv) Inclusion of an annotation about a very different type of earning structure that might be appropriate for certain large scale unconventional projects. This would basically see the Farmee earn in a large area after conducting the initial prescribed work program, subject to a carried Working Interest to the Farmor for some specified financial amount/credit.</p> <p>(v) Inclusion of a new Subclause B that is designed to include a range of trust style obligations sufficient to eliminate the need for separate trust agreements in circumstances in which the Farmee's earned Working Interest will not be registered (i.e., limited stratigraphic interest).</p> <p>(vi) Inclusion of a new Subclause C that recognizes that there will be some situations in which a Farmor retaining Reserved Formations will choose to transfer the legal, registered interest to the Farmee and be the beneficiary of a trust with Farmee for the Farmor's retained beneficial interest. This sees a <i>mutatis mutandis</i> application of the Subclause 3.03B trust mechanism. Associated annotation.</p> <p>(vii) Added an optional Subclause D under which Parties may elect to prohibit Capping from conditional earning. Associated annotation.</p>	<p>(ii) Clarification for users, so that it is transparent that the production benefits of an ORR or Working Interest each begin to accrue to the Farmor as of the effective date of earning.</p> <p>(iii) Provide greater context for users.</p> <p>(iv) Alert users to another potential transaction structure that may be appropriate in some circumstances.</p> <p>(v) Include sufficient protection to minimize the number of trust agreements, with resultant streamlining of associated administrative processes.</p> <p>(vi) Provide additional functionality for users for a reasonably foreseeable circumstance.</p> <p>(vii) Alert users of the need to be aware of this issue when there is existing regional infrastructure or a near-term risk of competitive drainage. Including this optional Subclause enhances the functionality of the document.</p>
Clause 3.04-Deferred Test Well Obligations	<p>(i) Expanded annotation about the timing of the delivery of transfers when waiting on a reclamation certificate.</p> <p>(ii) Added a sentence reinforcing that execution of documentation evidencing earning does not alter the Farmee's responsibilities for any outstanding obligations under Subclause 3.04A or Clause 11.01 for the applicable Earning Well.</p>	<p>(i) Provide context for users.</p> <p>(ii) Offers greater clarity for users.</p>
Clause 3.05-Equipping And Production Of Test Well	<p>(i) Replaced "economic market" type references in Subclauses A and B with a linkage to Paying Quantities.</p> <p>(ii) Shifted former Subclause 3.04B</p>	<p>(i) Offers greater clarity for users.</p> <p>(ii) Increase the visibility of the provision.</p>

Provision	Modification	Rationale For Change
	<p>relating to the timing of Equipping to Clause 3.05.</p> <p>(iii) Modified Clause 15.01 so that disputes about the existence of an ability to produce in Paying Quantities under this Clause could ultimately be resolved under Clause 15.01. Statement that nothing in this Clause provides any unilateral authority for an Operator to shut in production that is governed by the Operating Procedure. Associated annotation.</p>	<p>(iii) Would be inconsistent to use Clause 15.01 only for disputes about an ability to produce in Paying Quantities under Subclause 3.01E. Reinforcement for Parties to discuss any issue on its merits. The reference to the Operating Procedure was included to be clear that this Clause does not purport to give any rights that are not otherwise available under the Operating Procedure.</p>
Clause 4.01- Test Well Provisions Apply To Option Wells	<p>(i) Modified the provision to recognize that the Head Agreement might provide that there are some different outcomes for the Option Well. Expansion of the annotation.</p> <p>(ii) Modified the sample Clause in the annotations.</p> <p>(iii) Added a sample definition of "Block" in the annotation.</p> <p>(iv) Added annotation about the possibility of including a minimum distance requirement between Earning Well locations.</p> <p>(v) Added an annotation about a potential structure for shale transactions in which an Earning Well is drilled on Farmout Lands that have already been earned in order to earn a Working Interest in other selected lands.</p>	<p>(i) Reminds users that they always remain free to negotiate different earning outcomes for all or some of the Option Wells. The change also provides users with greater flexibility.</p> <p>(ii) Reflect learnings from use of the 1997 document.</p> <p>(iii) Offer a sample provision for users.</p> <p>(iv) Identify something for consideration of Farmors in certain conventional exploration type prospect areas.</p> <p>(v) Recognizes that it may be mutually attractive to concentrate the drilling of Earning Wells under a shale transaction in a pilot area to optimize project evaluation on a localized basis.</p>
Clause 5.01- Quantification Of Overriding Royalty	<p>(i) Added an "interest in land" reference at the beginning of Clause 5.01.</p> <p>(ii) Added additional references in several of the provisions that the calculation excludes basic sediment, water and other impurities.</p> <p>(iii) Modified the annotation about the ORR as an interest in land to explain the difference between a "reserved" and "granted" ORR and to review the evolution of the case law on the issue, including <u>Dynex</u>, and the manner in which the document has attempted to optimize the Royalty Owner's status on the issue.</p> <p>(iv) Added an annotation about the potential impact of changing the divisor in the Alternate A(a)(2) sliding scale calculation.</p> <p>(v) Added an annotation about potential modifications to the typical 5% and 15% limits used in the Alternate A(a)(2) sliding scale calculation.</p> <p>(vi) Modified annotation respecting calculation for multi-zone wells to remind users that each Horizontal Leg</p>	<p>(i) To reinforce the intention that a "reserved ORR" is an interest in land in the context of legal developments.</p> <p>(ii) Greater clarity for users and for consistency with the previous reference in Alternate 5.01A(a)(2).</p> <p>(iii) Provide greater context for users.</p> <p>(iv) Provide users with insights about a potential modification that might be considered for transactions.</p> <p>(v) Provide users with insights about a potential modification that might be considered for transactions.</p> <p>(vi) Context for users on what could be a subtle point.</p>

Provision	Modification	Rationale For Change
	<p>of a multi-pronged Horizontal Well is regarded as a separate Royalty Well.</p> <p>(vii) Added an annotation illustrating why the ORR calculation is always on a 100% Working Interest, with a subsequent prorate to the Farmor's actual Working Interest.</p> <p>(viii) Expanded the annotation on the "no deductions" Alternate A(b)(2) election.</p> <p>(ix) Added a Subclause 5.01C to address the use of hydrocarbons in fracture stimulation programs. The recovery of injected substances is not to be regarded as production in ORR calculations. Associated annotation.</p> <p>(x) Added a Subclause 5.01D to address the possible use of the Royalty Lands for a storage facility. The ORR would not accrue to other hydrocarbon substances injected into the Royalty Lands for that purpose. Associated annotation.</p>	<p>(vii) Provide context for users about the calculation to try to minimize the likelihood of calculation errors.</p> <p>(viii) Help users understand how use of this Alternate can offer very similar outcomes relative to the typical customized "no deductions" ORR some Farmors include in their Head Agreements. (Non-take in kind case.)</p> <p>(ix) Provide context for users on an emerging technology. The handling is ultimately similar to the handling of enrichment expenses under Subclause 5.05D.</p> <p>(x) Provides clarity if there were a storage project including any of the Royalty Lands at some point.</p>
<p>Clause 5.02- Effect Of Pooling Or Unitization On Calculation</p>	<p>(i) Modified Subclause 5.02A so that, subject to the Clause 5.03 royalty allocation provision for certain Hz wells, the Farmee has the right to pool without requiring the consent of the Farmor if the basis for the pooling is not unreasonable <u>and</u> it is on not less than an acreage basis. Associated annotation, including a reference to the <u>Mesa</u> case.</p> <p>(ii) Subject to the Clause 5.03 royalty allocation provision for certain Hz wells, added criteria for which a Royalty Owner may withhold its consent to a proposed pooling, unit or other combination under Subclause 5.02B. Added requirement that a Royalty Owner withholding consent must do so within a prescribed period and must include in its notice the basis for the withholding of its consent to the proposed transaction. Associated annotation.</p> <p>(iii) Expanded an annotation about the calculation if a unit well on a tract of Royalty Lands is producing at a higher or lower rate than the volume allocated to that tract under the unit.</p> <p>(iv) Added an annotation about the interrelationship between the Farmout &amp; Royalty Procedure and a unit in the context of several cases.</p>	<p>(i) Added the "is not unreasonable" requirement because of the <u>Mesa</u> v. <u>Amoco</u> case.</p> <p>(ii) Address user expectation for the consent process. Based on the consent process in Alternate 24.01A of the Operating Procedure.</p> <p>(iii) Context for users that the allocated volumes are the relevant volumes if the unit is authorized.</p> <p>(iv) Increase awareness for users.</p>

Provision	Modification	Rationale For Change
<p>Clause 5.03- Royalty Allocation Methodology For Certain Horizontal Wells</p>	<p>Added a Clause to address the circumstance in which a Royalty Well drilled as a Horizontal Well straddles Royalty Lands and other lands. In essence, production from this "Royalty Allocation Well" will be allocated based on an "Allocation Ratio".</p> <p>There are two Alternates that may be selected for the Allocation Ratio.</p> <p>Alternate 1 is based on the relative lengths of the horizontal portion of the well between the Royalty Lands and the other lands, as shown on the "As Drilled Survey". The concept is similar to the handling in the 2014 CAPL Freehold Lease, although the concept is presented in much greater detail in this document.</p> <p>Alternate 2, on the other hand, aligns to the approach in the Regulations in the jurisdiction in which the Royalty Lands are located when an allocation of production between Crown and freehold lands is required for the purposes of determining the production volumes on which the Crown royalty will be based.</p> <p>A further allocation may be required under Clause 5.02 if a pooling or unitization applies to Royalty Lands included in the traditional Spacing Unit(s) for the applicable Royalty Allocation Well.</p> <p>Associated annotations and consequential changes.</p>	<p>To address an increasingly common circumstance, so that it does not need to be addressed on a custom basis each time the situation arises. This Clause also offers a platform that can be used to address the issue under older agreements.</p> <p>Alternate 1 is well aligned with the approach to the issue currently used by Alberta in its Production Allocation Unit Agreements. Alternate 2 was largely included because of the cigar shaped area approach currently used by Saskatchewan for Horizontal Wells and the allocation of volumes for lessor royalties that involve the Crown (versus allocations of contractually created ORRs).</p> <p>Notwithstanding that Alternate 2 was included primarily because of the Saskatchewan approach to royalty allocations involving Crown royalties, it does not follow from this that Alternate 2 must be used when the Royalty Lands are in Saskatchewan. The ORR is created under the Agreement, such that the regulatory process only applies to the ORR if the Parties choose to use that process to be consistent with the allocation methodology for lessor royalty allocations involving the Crown.</p>
<p>Clause 5.04- Royalty Owner's Rights To Take Overriding Royalty In Kind</p>	<p>(i) Expanded annotation to illustrate how a take in kind election is effected.</p> <p>(ii) Added an annotation contrasting the take in kind election process in this document with the traditional pre-Farmout &amp; Royalty Procedure take in kind election process.</p> <p>(iii) Made major modifications to Paragraphs 5.04C(c) and (d). The Farmor might bear its proportionate share of costs through the First Point of Measurement for removal and disposal of basic sediment, water and other impurities, subject to a qualification for frac water. This is done by linking the handling under this Paragraph to an election made under Subclause 5.05A. Associated expansion of the annotation. (See also Subclause 5.05A and the related annotations.)</p> <p>(iv) Addition of Paragraph 5.04C(f). It states that the Farmor does not</p>	<p>(i) Provide greater context for users.</p> <p>(ii) Provide greater context for users about the evolution of marketing processes under earning agreements.</p> <p>(iii) Recognizes that there will be circumstances in which the magnitude of the costs for the removal and disposal of basic sediment, water and other impurities are such that the Parties agree that the Farmor's ORR volumes should bear a proportionate share of these charges. This offers greater flexibility to the Parties, and allows them to address the issue without having to make their own custom modifications.</p> <p>(iv) Clarification for users. The rationale for the suggested handling is apparent</p>



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	<p>assume any responsibility for lessor royalty or the Encumbrances because of an election to take in kind. Unless otherwise provided in the Agreement, the Royalty Payor retains responsibility for Encumbrances in all circumstances. Associated annotation.</p> <p>(v) Updates to the annotation about the use of the Market Price as the basis for the determination of proceeds if the Farmor does not take in kind.</p> <p>(vi) Added an annotation on Subclause 5.04D reminding users that a marketing fee only applies under Subclause 5.04F if a Farmor that had elected to take in kind fails to do so. Unless otherwise specifically agreed by the Parties, there is no marketing fee if the Farmee is marketing the ORR share of production volumes on behalf of the Farmor without any take in kind election by the Farmor.</p> <p>(vii) Modified Subclause 5.04E so that the Royalty Payor may revoke a notice to take in kind if the Royalty Owner does not comply with its election for a period of greater than 45 consecutive days. Associated annotation.</p> <p>(viii) Added Subclause 5.04F. This allows the Royalty Payor to charge a marketing fee to a Royalty Owner that elects to take in kind and then fails to do so. The construction is similar to the marketing fee prescribed by Clause 6.04 of the Operating Procedure, but a higher rate is used. Associated annotation, including a reference that a significantly higher rate may be more appropriate for more remote areas for which infrastructure access is more complicated.</p>	<p>when one realizes that the responsibility for lessor royalties and Encumbrances should not be any different than in the case in which the Farmor chooses not to take in kind. The "Unless otherwise" qualification reflects the possibility that the Parties might choose to structure their Agreement so that the Royalty Owner retains responsibility for certain Encumbrances out of its ORR share of volumes/revenues.</p> <p>(v) Increase awareness for users.</p> <p>(vi) Provide context for users.</p> <p>(vii) Mitigate the negative impact of a Royalty Owner's failure to take in kind.</p> <p>(viii) Mitigate the negative impact of a Royalty Owner's failure to take in kind. The higher rate is designed to reinforce to Royalty Owners that the decision to take in kind should only be made if they are serious about performance.</p>
Clause 5.05- Royalty Payor's Allowed Deductions	<p>(i) Added an annotation about the <u>Resman</u>, <u>Amerada</u> and <u>Acanthus</u> cases and their potential application to older forms of agreement.</p> <p>(ii) Added annotation about special issues the Parties may wish to consider if an EOR scheme is contemplated.</p> <p>(iii) Modified Subclause 5.05A to provide two Alternates to address the costs of removal and disposal of basic sediment, water and other impurities through the Royalty Determination Point. Alternate 1 reflects the</p>	<p>(i) Provide greater context for users.</p> <p>(ii) To provide greater context for users about a circumstance that may require special handling in their Agreement.</p> <p>(iii) Alternate 5.05A(1) continues to reflect the traditional practice that will be followed for most operating areas. Alternate 5.05A(2) has been included because of the likelihood that there will be circumstances in which the</p>

Provision	Modification	Rationale For Change
	<p>traditional approach under which all of those charges are borne solely by the Royalty Payor/Farmee. Alternate 2 requires the Royalty Owner/Farmor to bear its volumetric share of those charges, with an exception for the handling of frac water before, during and after a fracing program (i.e., the "cleanup period"). Associated annotation.</p> <p>(iv) Added an additional paragraph at the end of Subclause 5.05A. It addresses the interrelationship between this Subclause and the ability to include costs incurred by the Farmee under this Subclause in a Payout account for the applicable Earning Well. Associated annotation.</p> <p>(v) Modified Subclause 5.05B to refer to any additional costs required to meet pipeline specifications and for any secondary water removal, storage and handling costs after the First Point of Measurement.</p> <p>(vi) Modified Subclause 5.05C so that any limits on deductions applied to both Subclause 5.05B and any application of Alternate 5.05A(2). Associated annotation.</p> <p>(vii) Expanded annotation to remind users that the Alternates in Subclause 5.05C limit the blanket authority under Subclause 5.05B to take deductions—none of the Alternates allow the Royalty Payor to take deductions for costs that were not actually incurred and otherwise eligible for deduction under Subclause B.</p> <p>Also identified to users that the selection of "none of 1, 2 or 3" is not an election to have no deductions, but an election not to have any limitations on the deductions otherwise permitted under Subclause 5.05B.</p> <p>(viii) Modified Subclause 5.05C to include a proviso that the applicable deductions may not exceed the lowest amount prescribed by the selected Alternates. Associated annotations.</p> <p>(ix) Expanded the annotations to add context about the manner in which the use of the Alternates has evolved over time and an example of how the Alternates could apply in combination.</p> <p>(x) Addition of Alternate 3 (prescribed dollar cap on deductions) and</p>	<p>magnitude of these charges is such that the traditional approach would impose a major burden on the Royalty Payor. Other for the handling of frac water, the second Alternate offers a similar outcome as under Paragraph 4.01(a) of the CAPL Royalty Procedure (Version 1.0). The interrelationship with Paragraph 5.04C(b) also allows Parties to address this issue without the need for custom amendments—a deficiency in the 1997 document.</p> <p>(iv) Provide greater clarity for users. Some users didn't understand that the retention of responsibility for these charges by the Farmee did not mean that those charges would not be included in the Payout account as charges for the applicable Earning Well.</p> <p>(v) To reflect some of the evolving technology associated with shale operations respecting "stabilizers" and residual water removal, storage and handling.</p> <p>(vi) To reflect the addition of greater flexibility for the handling of certain charges incurred through the First Point of Measurement.</p> <p>(vii) Greater clarity for users about the interrelationship between Subclauses 5.05B and C.</p> <p>(viii) Greater clarity for users about the interrelationship between the Alternates.</p> <p>(ix) Provide context for users.</p> <p>(x) Experiences during periods of high natural gas prices saw more than the</p>

Provision	Modification	Rationale For Change
	<p>associated annotation.</p> <p>(xi) Added an annotation showing the impact of modifying the percentage cap on deductions under Alternate 2 from the traditional 50% limit.</p> <p>(xii) Added an annotation reminding users that Subclause 5.05C can also be used to benefit the Royalty Payor in negotiations.</p> <p>(xiii) Added an annotation explaining why a full "no deductions" Alternative was not added to the list of Alternates in Subclause 5.05C.</p> <p>(xiv) Added annotation reminding users that the deductions regime in the Farmout &amp; Royalty Procedure could be inconsistent with the deductions permitted/available under the Title Documents.</p> <p>(xv) Added an annotation on Subclause 5.05D explaining more fully the rationale for the handling of production enrichment expenses on the basis set forth in the document.</p>	<p>expected latitude in charging Facility Fees against the Farmor's share of those proceeds.</p> <p>(xi) Provide greater context for users.</p> <p>(xii) Remind users that caps on deductions can be used by a Farmee owning regional facilities as an item to differentiate itself from competition in its negotiations. This is another reinforcement for Land personnel to speak with JV personnel about the vision for the handling of production and possible infrastructure synergies that should be considered in structuring a transaction.</p> <p>(xiii) Alternate 5.01A(b)(2) already provides that outcome to the outlet of a plant. Transportation costs after the outlet of the plant are handled as an adjustment to Market Price (rather than as a cost deduction), so any customized provision would need to be structured to modify that definition and to override the handling in the document for product enhancement costs under Subclause 5.05D. The latter is particularly problematic, as a Royalty Payor has incurred expenses to add hydrocarbons from outside the Royalty Lands into the volumes produced from the applicable well to enhance the marketability of the product, yet would receive no credit for those expenses.</p> <p>(xiv) Provide greater context for users.</p> <p>(xv) Provide greater context for users.</p>
Clause 5.06-Monthly Accounting To Royalty Owner	<p>(i) Expanded Subclause 5.06A to include a general commingling right similar to what is included in Clause 5.07 of the Operating Procedure.</p> <p>(ii) Modified the handling for the situation in which a purchaser of production fails to pay so that it is more closely aligned to the outcome in Subclause 6.06A of the Operating Procedure. Associated annotation.</p> <p>(iii) Modified the duty to provide reports to the Royalty Owner insofar as the</p>	<p>(i) Align the Subclause more closely to the Operating Procedure obligation.</p> <p>(ii) To align the handling more closely to the Operating Procedure outcome.</p> <p>(iii) Reduce the administrative burden on the Farmee when reports are available</p>

Provision	Modification	Rationale For Change
	Royalty Owner has independent access to them under the Regulations.	under the Regulations.
Clause 5.07- Royalty Owner's Lien	<ul style="list-style-type: none"> <li>(i) Added a phrase that the ORR is a charge against the applicable Working Interest of the Royalty Payor.</li> <li>(ii) Added a last sentence that the lien established under this Clause does not preclude a Party from entering into any <i>bona fide</i> financing that requires a pledge or the granting of security.</li> </ul>	<ul style="list-style-type: none"> <li>(i) To reinforce the interest in land objective.</li> <li>(ii) A clarification that is aligned with the corresponding provision of the Operating Procedure.</li> </ul>
Clause 5.08- Royalty Wells To Be Produced Equitably	<ul style="list-style-type: none"> <li>(i) Modified the Clause to apply the Clause 15.01 dispute resolution process to a dispute about the Royalty Payor's efforts in producing a Royalty Well equitably relative to its offsetting wells in the same pool. Associated annotation and consequential modification to Clause 15.01.</li> <li>(ii) Added annotations about the inclusion by some Farmers of provisions requiring the reversion of unproductive rights at a fixed date or a drilling density requirement if there is offsetting drilling and production activity.</li> </ul>	<ul style="list-style-type: none"> <li>(i) Provide greater protection for Royalty Owners. The reference to the dispute resolution mechanism and a potential reference to arbitration thereunder encourage the Parties to resolve any dispute without proceeding to arbitration.</li> <li>(ii) Alert users of potential variations that might be considered on a customized basis in a particular transaction.</li> </ul>
Clause 5.09- Royalty Owner's Rights Upon Surrender	Added an annotation about cases respecting non-compliance with surrender obligations to a Royalty Owner and potential limitations issues of which to be aware.	Provide greater context for users.
Clause 5.10- Audits Of Overriding Royalty And Payout Account	<ul style="list-style-type: none"> <li>(i) Clarified that audits are to be conducted in accordance with the standard form 2011 PASC Accounting Procedure and, insofar as not in conflict with the Accounting Procedure, the then most current PASC Joint Venture Audit Protocol. Associated annotation.</li> <li>(ii) Simplified Subclause 5.01B to link adjustment processes to the standard form 2011 PASC Accounting Procedure. Associated annotation.</li> <li>(iii) Added annotation about some relevant cases about limitations implications.</li> </ul>	<ul style="list-style-type: none"> <li>(i) Clarification for users.</li> <li>(ii) To link adjustment processes to more modern standards.</li> <li>(iii) Provide context for users.</li> </ul>
Article 6.00- Conversion Of Overriding Royalty (General)	<ul style="list-style-type: none"> <li>(i) Added annotations about the potential selection of a conversion structure versus a "straight up" deal, particularly in the context of the vision for the handling of production through infrastructure.</li> <li>(ii) Added an annotation about the potential benefits to a Farmee of using ownership in existing infrastructure to offer a transaction structure more favourable than its perceived competition for a transaction/as a tradeoff for more favourable earning terms (without violating any obligations it may have to co-owners</li> </ul>	<ul style="list-style-type: none"> <li>(i) Provide greater context of issues that users must consider. It is imperative that users consider the infrastructure implications associated with the contemplated structure of the transaction.</li> <li>(ii) Reinforce to users the importance of considering infrastructure issues when structuring a transaction.</li> </ul>

Provision	Modification	Rationale For Change
	<p>of the infrastructure). This could be done with more aggressive caps on deductions, adding controls on Facility Fees included in a Payout account, etc.</p> <p>(iii) Added an annotation about the possibility of using different conversion rights for the Test Well and one or more of the other Option Wells relative to later Option Wells.</p>	<p>(iii) Remind users of the risk-reward equation and the flexibility to modify the reward as the program risk changes.</p>
Clause 6.01- Payout Accounts And Statements	<p>(i) Removed the GAAP reference.</p> <p>(ii) Added an annotation reminding Parties that have centralized their accounting function outside of Canada that they may have to make a custom change to the introduction to Subclause A. This would preferably be done in a way that minimizes the inconvenience to the Farmor.</p> <p>(iii) Rewrote the proviso in Paragraph 6.01A(c).</p> <p>(iv) Added Paragraph 6.01A(d) and an associated annotation about the circumstance in which the Farmee disposes of its interest in a well subject to a Payout.</p> <p>(v) Incorporated Subclauses 10.15B-E of the Operating Procedure by reference in a new Subclause 6.01B.</p> <p>(vi) Added an annotation about the expectations for “targeted compliance”.</p>	<p>(i) To reflect PASC feedback.</p> <p>(ii) Add context for users.</p> <p>(iii) Much clearer statement of the concept. Alignment with the corresponding proviso in Clause 10.15 of the Operating Procedure.</p> <p>(iv) Because of problems when a Working Interest subject to a conversion right is included in a divestiture.</p> <p>(v) Addition of related processes. Alignment with the comparable Clause in the Operating Procedure.</p> <p>(vi) Reinforce to users that compliance should be focused on wells of significance rather than introducing a lot of incremental work into the system for wells that, realistically, will never attain Payout.</p>
Clause 6.02- Conversion Election Upon Abandonment Or Takeover	<p>(i) Modified to add new Subclause B with consequential changes throughout the Clause. This Subclause applies if the Earning Well proposed to be Abandoned was initially Completed for production in Paying Quantities for a total duration of at least 60 days. (Article 7.00 otherwise applies to the Abandonment of an Earning Well in conjunction with the related conversion process in Subclause 6.02E.) Associated annotations.</p> <p>(ii) Modified Subclause 6.02E to clarify interrelationship between 6.02E and Article 7.00. Associated annotations.</p>	<p>(i) Address a gap in the 1997 document. Provide context and greater clarity for users.</p> <p>(ii) Increase internal alignment within the document. Provide greater clarity for users.</p>
Clause 6.03- Election For Conversion At ORR Conversion Date	<p>(i) Added a deeming outcome if a Farmor fails to make the conversion election by the prescribed date. Associated annotation.</p> <p>(ii) Modified the last sentence of Subclause 6.03C to provide that the proceeds during the cash adjustment</p>	<p>(i) Clarification for users. The outcome reflects the expectation if there were a failure to elect.</p> <p>(ii) Protections for the Farmor that clarify the Parties' expectations.</p>

Provision	Modification	Rationale For Change
	period will be based on a Market Price and will not be adjusted for any marketing fee because of a failure to its Working Interest share of volumes in kind under the Operating Procedure. Associated annotation.	
Clause 6.04- Operations After Conversion	<p>(i) Clear statement that the Clause is subject to any application of Clause 6.06.</p> <p>(ii) Subclause 6.04A and the related annotations are clearer that any conversion described in that Subclause only sees the Farmor assuming its converted Working Interest share of responsibility for Abandonment and Environmental Liabilities associated with the well if the Farmee does not retain responsibility for the well under Clauses 3.04 and 6.02.</p> <p>(iii) Added an annotation about the possibility of using different conversion rights for the Test Well and one or more of the other Option Wells relative to later Option Wells.</p> <p>(iv) Expanded the annotation about facilities to note that Clause 902 of the PJVA CO&amp;O Operating Procedure allows an assignment of a facility resulting from a conversion as being a ROFR exempt disposition.</p> <p>(v) Expansion of Subclause 6.04C.</p>	<p>(i) Reminds users of the possibility that the conversion might not apply to all P&amp;NG rights originally subject to the BPO/APO structure for the Earning Well if there have been any intervening Clause 6.06 wells that have altered the original Spacing Unit for that Earning Well.</p> <p>(ii) Clarification for users.</p> <p>(iii) Remind users of the risk-reward equation and the flexibility to modify the reward as the program risk changes.</p> <p>(iv) Provide context for users.</p> <p>(v) Increase clarity for users.</p>
Clause 6.05- Late Notice Of Payout	<p>(i) Added an annotation noting that industry's reluctance to charge interest actually rewards Parties for non-compliance.</p> <p>(ii) Applied Subclause 6.03C, so that the sale proceeds for the adjustment period will be calculated using a Market Price, and will not be adjusted for any marketing fee because of a failure to take its Working Interest share of volumes in kind under the Operating Procedure.</p>	<p>(i) Increase awareness of the issue.</p> <p>(ii) Improved outcome that is consistent with the other handling in the document.</p>
Clause 6.06- Additional Well On Spacing Unit Before Conversion Election	<p>(i) Added an annotation about the potential handling of this issue in agreements that did not include the CAPL Farmout &amp; Royalty Procedure.</p> <p>(ii) Added an annotation that there may be instances in a two Party Agreement in which the Parties might, in practice, streamline the election process contemplated in this Clause if it were apparent that the Farmor had no interest in participating in any</p>	<p>(i) Increase awareness of users about using this Clause as a platform for a potential resolution if the issue arose under their agreement.</p> <p>(ii) Provide context for users.</p>

Provision	Modification	Rationale For Change
	<p>particular additional well.</p> <p>(iii) Modified to be clearer that the right to propose an additional well under this Clause is not granted to the Farmor. Associated annotations.</p> <p>(iv) Expanded annotation to explain why the obligation to respond should not be contingent on receipt of a Payout statement for the applicable Earning Well.</p> <p>(v) Modified period for response to an Operation Notice under the Clause from 30 days to the applicable period prescribed by the Operating Procedure. (This applies to both Subclauses 6.06B and D.) Modified annotation.</p> <p>(vi) Modified to be clearer that a Farmor that elects to participate in the applicable additional well may participate for a Participating Interest greater than its Working Interest under Subclause 10.02 of the Operating Procedure. (This applies to both Subclauses 6.06B and D.) Modified annotation.</p> <p>(vii) Modified Paragraph 6.06B(b) to be clearer that the ORR applies to the Farmor's original Working Interest, not the post-conversion Working Interest. (See also Paragraph 6.06D(c).) Associated annotation.</p> <p>(viii) Added a new Subclause 6.06D to address the situation in which the additional well is intended to produce from the same formation as is already producing in an Earning Well (i.e., potential increased drilling density/holding scenario).</p> <p>A Farmor presented with an additional well in that circumstance may elect:</p> <p>(a) to participate at its after conversion Working Interest, plus any additional Participating Interest accruing to it under the election process in Clause 10.02 of the Operating Procedure;</p> <p>(b) not to participate as to its after conversion Working Interest share of costs and be subject to the consequence of non-participation prescribed by the Operating Procedure; or</p> <p>(c) to lock into a non-convertible</p>	<p>(iii) Provide context for users.</p> <p>(iv) Provide context for users.</p> <p>(v) While the election period will be 30 days in most cases, it could, for example, be 15 days if the "Crown sale" exception applied under Subclause 10.02B. It could also be a longer period if the 3.2km election deferral mechanism in Subclause 10.02F of the Operating Procedure applied to the particular well.</p> <p>(vi) Clarification for users.</p> <p>(vii) Some users did not understand that an election to forego a participation right and lock into a non-convertible ORR was basically a waiver of conversion rights for the additional well.</p> <p>(viii) To address an issue that has been arising with increasing frequency which was not addressed in the 1997 document. The outcome is consistent with the "common ownership" requirement in the Alberta holding regulation.</p>

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	<p>ORR, but it can only make this election by forgoing its outstanding right of conversion on the applicable Earning Well and its Spacing Unit.</p> <p>There is additional content for the circumstance in which more than one additional well is drilled on the Earning Well Spacing Unit under this Subclause.</p> <p>As is the case under Subclause 6.06B, the elections under Paragraphs D(a) and (b) do not affect the status of that Farmor's conversion right at Payout of the Earning Well. A number of consequential changes throughout the Clause.</p> <p>Associated annotations throughout the Clause, including a reference to the "common ownership" requirement under the <i>Alberta Oil And Gas Conservation Rules</i>.</p> <p>(ix) Modified the Commencement period for the additional well to 120 days after issuance of the notice, or such longer period as may be prescribed for that well under the Operating Procedure. Associated annotation.</p>	<p>(ix) Consistency with the Commencement periods in the Operating Procedure. Recognition that there may be instances in which the Parties modify the timing for Commencement under the CAPL Operating Procedure to be greater than 120 days in more remote areas or areas in which the licencing and surface access acquisition process is known to be a long one.</p>
<p>Clause 7.01- Farmor's Right To Take Over Earning Well</p>	<p>(i) Added a qualification that the well was not Completed for production in Paying Quantities or was being Abandoned before producing for a total duration of at least 60 days. Corresponding modifications to Clause 6.02 to cover the spectrum of potential outcomes. Consequential changes and associated annotations.</p> <p>(ii) Expanded the annotation on Subclause 7.01C to explain the rationale for a 24 hour election and the circumstances in which a longer period might be negotiated.</p> <p>(iii) Paragraph 7.01D(a) has been modified to recognize that a Farmee that has another use for the well that it is permitted to Abandon may satisfy its obligations for the well by Abandoning the relevant portion of the well, if any.</p> <p>(iv) Paragraph 7.01D(b) has been modified so that the Farmee's obligation to conduct additional tests on behalf of the Farmor is contingent</p>	<p>(i) Address deficiency in 1997 document for wells subject to an Article 6.00 conversion that were initially Completed and then subsequently Abandoned before the Operating Procedure applied. Aligned with Paragraphs 3.01D(a), 6.02A(a), 7.01A(c) and 7.01A(d).</p> <p>(ii) Provide greater context for users.</p> <p>(iii) Provide greater flexibility.</p> <p>(iv) Reflects the importance of HSE issues.</p>



Provision	Modification	Rationale For Change
	on the condition of the wellbore being suitable for that purpose.	
	(v) Modified Paragraph 7.01D(b) to allow the Farmee to secure payment from the Farmor for the cost of the tests it conducts at the request of the Farmor. Associated annotation.	(v) Recognizes that there will be circumstances in which the Farmee is concerned about the Farmor's ability to fund the cost of any such test in a timely manner.
	(vi) Modified Paragraph 7.01D(b) to clarify the elections that are available to a Farmor after the conduct of the tests contemplated in this Paragraph. The Farmor may only conduct a further series of tests on the well with the Farmee's consent.	(vi) Greater clarity for users. Address in a way that reflects user expectations, given the potential financial exposure to the Farmee.
	(vii) Paragraph 7.01D(c) has been modified to be clearer that the Farmor's intended use for the well is not limited to formations included in the Farmout Lands. Associated annotation.	(vii) Greater clarity for users. Some users did not understand that this was already the outcome under the 1997 document. There were no restrictions on the Farmor's subsequent use of the well included in Clause 7.01, and Clause 7.03 expressly contemplated that the Farmor might be conducting activities in the Reserved Formations.
	(viii) Modified Paragraph 7.01D(c) to be clear that a Farmor Party that wants to take over the well for activities in the Farmout Lands has priority over other Farmor Parties that want to conduct additional tests. Related annotation.	(viii) Addresses the priority of rights. This structure mitigates the potential for problems under Clause 7.04 in the circumstance in which a Farmor Party did not require additional test information to proceed with a Completion. This structure also provides a foundation for negotiation by the Farmor Parties if one or more wanted to move directly to a Completion of formation X and any other Farmor Parties wanted to obtain additional testing information first.
	(ix) Added a Subparagraph D(c)(ii) to address the application of Article 7.00 to a Royalty Allocation Well. Associated annotation.	(ix) Align Article 7.00 to the inclusion of the Clause 5.03 Royalty Allocation Well process.
	(x) Added an annotation to remind a Farmee that it would need to negotiate any special pre-emptive right for itself if it wished to use the well for its own uphole rights for example.	(x) Provide greater context for users.
	(xi) Added a requirement in Subclause 7.01D that a Farmor may only take over a well under this Clause if it is eligible to accept a transfer of the well licence under the Regulations. Associated annotation.	(xi) Alignment with the requirements in Subclause 12.02A of the Operating Procedure. This reflects the restrictions being imposed by regulatory authorities on the transfers of well licences.
	(xii) Subclause 7.01E has been modified to be clear that the assignment of the well is on an "as is, where is" basis. Associated annotation.	(xii) Reflects the expectations of the Parties. Consistent with the handling in Subclause 12.02A of the Operating Procedure.
	(xiii) Modified Subclause 7.01F and the related annotations to differentiate more clearly between the circumstances in which the Farmor	(xiii) Enhanced clarity for users.

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	does not choose to take over the Earning Well proposed for Abandonment and those in which it takes over the well.	
Clause 7.02- Well May Be Abandoned For Account Of Farmee	<p>(i) The calculation of the Abandonment costs for which the Farmee would be responsible if the Farmor proceeded with Abandonment within the prescribed window is linked to the <i>bona fide</i> estimated costs that would have been incurred by the Farmee at the relevant time. Modification to the annotations.</p> <p>(ii) Modified the Clause to be clear that the adjustment in the Farmee's favour for the net salvage value of its material and equipment is not reduced by the costs of Abandonment being assumed by the Farmor for that Earning Well. Modification to the annotation.</p> <p>(iii) Added annotation noting that the cash adjustment under this Clause might be to either the Farmor or the Farmee.</p>	<p>(i) Greater clarity for users.</p> <p>(ii) Greater clarity for users.</p> <p>(iii) Provide greater context for users.</p>
Clause 7.03- Effect On Farmee's Working Interest In Certain Production	<p>(i) Added an annotation to help users understand that the assignment of the wellbore, the associated equipment and the applicable surface rights is handled under Clause 7.01.</p> <p>(ii) Updated the Clause to address the impact, if any, on the production from the Earning Well that is applicable to the Farmee's Working Interest in the applicable Spacing Unit of the Farmout Lands. This is in contrast to the traditional forfeiture of a Working Interest in the successfully Completed formation of the Farmout Lands in the applicable Spacing Unit. Consequential changes throughout the Clause and elsewhere in the document. Associated annotations.</p> <p>(iii) Modified to be clearer that the Farmor may conduct activities in the Reserved Formations on a well taken over by it.</p> <p>(iv) Modified the annotation to help users understand that an unsuccessful Completion by the Farmor in a formation of the Farmout Lands does not impact the Farmee in that formation.</p> <p>(v) Added a new Subclause 7.03C. It is based on Clause 12.03 of the Operating Procedure. A Farmee that assigns a Working Interest in the applicable formation will have the right to reacquire an interest in the well and to participate in certain other activities subsequently proposed to be conducted by the Farmor in the</p>	<p>(i) Provide greater context for users.</p> <p>(ii) Align handling to the approach in the Article 12.00 of the Operating Procedure. Linkage to production volumes applicable to the Farmee's Working Interest in the Earning Well provides a cause and effect outcome between the activity and the well, while preserving the Farmee's rights for other Operations in the well or other wells on the same Spacing Unit.</p> <p>(iii) Improved clarity.</p> <p>(iv) Provide greater context for users.</p> <p>(v) Clarify the Farmee's potential participation rights for certain subsequent activities (e.g., plugging back, Deepening (including any horizontal activity)). Analogous to the handling in Clause 12.03 of the Operating Procedure.</p>

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	Farmout Lands, with an associated adjustment of accounts. Annotations on this Clause and Clause 7.02.	
Clause 7.04- Operating Procedure Applies Among Farmor Parties	<p>(i) Added a reference and associated annotation to address the priority outcome prescribed by Paragraph 7.01D(c) if a Farmor Party elected to take over the well in circumstances in which one or more Farmor Parties wanted to conduct additional tests.</p> <p>(ii) Updated the references to the CAPL Operating Procedure and the PASC Accounting Procedure to the current versions of those documents. Prescribed the cost recoveries that would apply.</p>	<p>(i) This handling mitigates the potential for unintended consequences under Clause 7.04 in the circumstances in which a Farmor Party is prepared to participate in a Completion without the need for additional tests.</p> <p>(ii) Inclusion of more modern industry standard documents. Greater clarity for users facing this situation.</p>
Clause 7.05- Abandonment Obligation For Other Royalty Wells	<p>(i) Modified the Clause to include two Alternates. Alternate 1 reflects the 1997 approach that provided rights only if there were a live Article 6.00 conversion right on the block that includes the applicable Royalty Well. Alternate 2 provides the Farmor with takeover rights for all Royalty Wells. Associated annotations, including an annotation noting the narrow application of Alternate 1 as written in the document.</p> <p>It can only apply to an Agreement in which Article 6.00 applies and, even then, only during the period in which an election right is retained for the Earning Well on the applicable Farmout Lands (i.e., a Clause 6.06 additional well). That Alternate has no application to a transaction structured to include a non-convertible ORR.</p> <p>(ii) Added a sentence at the end that clarifies that Subclause 7.01A does not apply to any Royalty Well to which this Clause applies.</p>	<p>(i) Reflects the fact that many Farmors routinely amended this Clause to provide the Farmor with takeover rights for all Royalty Wells. This was particularly the case if they retained Reserved Formations. The change simplifies the ability to achieve this outcome, and allows Parties that require that amendment to do so in a consistent manner. Additional context for users.</p> <p>(ii) Clarification for users.</p>
Article 8.00-Area Of Mutual Interest	Expanded annotations to include a reference to the <u>GATX</u> and <u>Chase Manhattan Bank v. Sunoma</u> decisions and the implied duty of good faith recognized for rights of first refusal and the potential similarities to the Area of Mutual Interest obligation.	Increase awareness of legal responsibilities.
Clause 8.01- Scope Of Area Of Mutual Interest Obligation	<p>(i) Expanded the list of items that the Parties are expected to address for the particular transaction in the Head Agreement.</p> <p>(ii) Added a general reference that all references to acquisitions of Mutual Interest Lands in the Article include any right to acquire an interest therein. Associated annotation.</p> <p>(iii) Included a general qualification that all</p>	<p>(i) Provide greater context for users when structuring their Head Agreement.</p> <p>(ii) Clarification that reflects the expectations of the Parties.</p> <p>(iii) Clarification that reflects the</p>

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	of the exceptions apply to legal or beneficial interests acquired on a <i>bona fide</i> basis by a Party or its Affiliate. Associated annotation.	expectations of the Parties and the probable legal outcome if a Party attempted to use an artificial structure to avoid its obligations under the Article.
	(iv) Qualified the introduction of Subclause 8.01C to be clear that the exceptions in this Subclause apply to the Head Agreement definition of Mutual Interest Lands, except insofar as that definition or the Head Agreement otherwise specifically overrides this Subclause.	(iv) To mitigate the potential for an unintended outcome because of a very literal interpretation of the conflicts provision of the Agreement.
	(v) Included additional exceptions for: (a) a unit approved under the Regulations or a pooling required to complete a Spacing Unit in order to drill or produce a particular well; (b) the Farmor's acquisition of additional rights from another third party holder in unearned Farmout Lands in which the Farmee's right to earn has ended; (c) a transaction in which the Farmor swaps formations in which the Farmee no longer has the right to earn for corresponding formations in other lands within the AMI boundary; (d) a transaction in which the Farmor increases its interest in a former parcel of Mutual Interest Lands in which the Farmee chose not to exercise its AMI rights under this Article; and (e) a net hectares test comparable to Paragraphs 24.02(d) and (e) of the Operating Procedure. Associated annotations, including a reference to <u>Luscar</u> and <u>Hunt v. Shell</u> in the context of poolings, units and "exploration poolings".	(v) Reflect industry's general expectations for issues that had not been considered when the Article was originally created. Reflect the overall policy expectation that the AMI obligation should not interfere with certain larger scale, <i>bona fide</i> transactions. Reflect legal developments.
	(vi) Modified the sample Head Agreement AMI Clause included in the annotations.	(vi) Provide greater context for users about issues they should consider when creating the Clause they use in the Head Agreement.
	(vii) Expanded the annotations to remind Parties to be cautious about creating an AMI with a long term. They should consider potential termination mechanisms in the Head Agreement if the Farmee chooses to terminate its right to continue the drilling program.	(vii) Provide greater context for users about issues they should consider when creating the Clause they use in the Head Agreement.
	(viii) Added an annotation reminding Parties that they need to consider in the Head Agreement any stratigraphic aspects of their AMI obligation. Included an additional annotation that identified one potential way to address the issue.	(viii) Provide greater context for users about issues they should consider when creating the Clause they use in the Head Agreement.
	(ix) Added an annotation reminding Parties that they may want to exclude certain other acquisitions from the	(ix) Provide greater context for users about issues they should consider when creating the Clause they use in the

Provision	Modification	Rationale For Change
	<p>scope of the provision. One example would be the acquisition of an additional interest by the Farmor in a parcel that had been excluded from the AMI obligation. This type of exception would normally be structured so that the Farmee would be subject to the AMI obligation for any acquisition of an interest it makes in the excluded parcel.</p> <p>(x) Added a new Subclause 8.01D to preserve participation rights on the same basis as provided in Clause 8.03 for circumstances in which the Farmee/Operator has not delivered information material to the bid in breach of its obligations for delivery of information under the Agreement. Associated annotation.</p>	<p>Head Agreement.</p> <p>(x) To address an issue that is distinct from the situation contemplated in optional Subclause 8.04D and to create a clear consequence if there is failure to deliver information to which a Party is entitled.</p>
Clause 8.02- Crown Mutual Interest Lands	<p>(i) Added a reference to the contemplated consultation being in good faith.</p> <p>(ii) Increased the time period for the reimbursement from 24 hours to within three Business Days after notice of the acquisition and receipt of the associated invoice. Associated annotation.</p> <p>(iii) Added annotation about the risks if a paper trail is not maintained on the file that shows that the non-acquiring Parties were offered the opportunity to participate in the applicable acquisition of Mutual Interest Lands and declined to participate. Reference to the <u>Luscar</u> case.</p> <p>(iv) Modified Subclause C to remind users of the acquiring Party's right under Clause 14.02 to terminate an election to participate in an acquisition of Mutual Interest Lands if the electing Party fails to pay the amount owing within 15 Business Days after being notified of the intention to apply that remedy.</p>	<p>(i) Clarification that reflects the expectations of the Parties.</p> <p>(ii) Reflect internal logistics and internal controls requirements. The Parties would presumably modify the timing for any particular sale if the bidding level for the parcel was extremely high.</p> <p>(iii) Greater context for users.</p> <p>(iv) Remind users that this remedy exists.</p>
Clause 8.03- Notice Of Acquisition Of Mutual Interest Lands	<p>(i) Added a general reference to the Clause being subject to the other rights and obligations in the Article if the acquisition is not exempted under Clause 8.01.</p> <p>(ii) Added a new Paragraph (c) to address the situation in which the Parties agree on a bidding level and a Party acquires a parcel of Mutual Interest Lands after bidding at a different level than the agreed amount.</p> <p>(iii) Modified the time within which to give notice of an acquisition from five days to seven Business Days. Annotation</p>	<p>(i) Clarification.</p> <p>(ii) Address user expectations if that situation were to arise.</p> <p>(iii) Provide incremental flexibility for recipients, given that the acquiring Party is in control of when it chooses to serve</p>

Provision	Modification	Rationale For Change
	<p>about the timing of the notice.</p> <p>(iv) Added a new Subclause 8.03B to address the circumstance in which the consideration for the acquisition is an allocated value or a cash equivalent value because the consideration cannot be matched in kind. The Subclause is based on Paragraphs 24.01B(c) and (e) of the Operating Procedure. Associated annotation.</p>	<p>the notice.</p> <p>(iv) Address a gap in the traditional industry provision by applying the same methodology as has been included in the CAPL ROFR provision.</p>
Clause 8.04- Right To Acquire Mutual Interest Lands	<p>(i) Rewrote Subclause A.</p> <p>(ii) Rewrote as a new Subclause B the participation options available to a receiving Party that wishes to participate in the acquisition. Structured the provision so that the acquiring Party is deemed to elect to take its proportionate share of all available interest without any limitation. Modified the annotation.</p> <p>(iii) Added an annotation reminding users that there may be circumstances in which a Party with financial constraints may prefer to have the flexibility to elect to participate for less than its AMI entitlement.</p> <p>(iv) Added an annotation on Subclause 8.04C to remind users of the acquiring Party's right under Clause 14.02 to terminate an election to participate in an acquisition of Mutual Interest Lands if the electing Party fails to pay the amount owing within 15 Business Days after being notified of the intention to apply that remedy.</p> <p>(v) Modified the period within which to pay for the acquisition from within seven days after notice of the respective shares and an invoice for the related share of costs to within seven Business Days of that notice and invoice.</p> <p>(vi) The Farmor's election deferral right (Subclause 8.04D) in this document has been made optional. If selected, it has also been qualified so that it does not apply if the delay is attributable to Force Majeure or other delays permitted under Subclause 3.01B. Associated annotations, including a context for the difference between the new Subclause 8.01D and Subclause 8.04D.</p>	<p>(i) Clearer presentation of the election process. Consequential change resulting from the inclusion of the equivalent cash value provision (Subclause 8.03B).</p> <p>(ii) Alignment with the participation options available to a Participating Party in an Independent Operation under Subclause 10.02C of the Operating Procedure.</p> <p>(iii) Provide context for users.</p> <p>(iv) Remind users of the existence of that remedy.</p> <p>(v) Clarified that the time period is linked to the receipt of notice of the Parties' respective shares after the elections and the related invoice.</p> <p>(vi) Has been changed to an optional Subclause with the additional qualification for Force Majeure and other permitted Subclause 3.01B delays because of the greatly increased likelihood that a Farmee's Operations are now delayed for reasons beyond its control (equipment shortages, consultation requirements and other delays in receipt of required approvals). This Subclause needs to be reviewed in the context of each transaction.</p>

<b>Provision</b>	<b>Modification</b>	<b>Rationale For Change</b>
Clause 8.06- Encumbrances On Mutual Interest Lands	<p>(i) Rewrote the Clause to make the outcomes more transparent. Consequential modifications to the annotations.</p> <p>(ii) Added an annotation about occasional attempts by a Party to see recognition of an encumbrance not borne for the Joint Account (e.g., a geologist ORR) by creating a new JOA governing the acquired Mutual Interest Lands. A separate JOA is not required because of Clause 8.07, and this encumbrance remains as one subject to the general rule in Clause 15.01 of the Operating Procedure. This burden is never the responsibility of the other Parties in the event of any application of the Independent Operation, surrender or Abandonment provisions of the Operating Procedure.</p>	<p>(i) Greater clarity for users.</p> <p>(ii) Provide context for users.</p>
Clause 8.07- Application Of Operating Procedure	<p>(i) Added a reference that no specific inclusion agreement is required to apply the Operating Procedure to jointly acquired Mutual Interest Lands.</p> <p>(ii) Clarified that the Operator has the right to be Operator under any Operating Procedure pertaining to Mutual Interest Lands if it is an owner.</p>	<p>(i) Greater clarity for users.</p> <p>(ii) Clarification for users.</p>
Clause 8.08- Parties Not Required To Disclose Information	Modified the Clause by adding a reference that the confidentiality provisions of this Agreement will apply to any information disclosed by a Party under this Clause.	Reflect the expectations of the Parties.
Clause 9.01- Farmor's Well Information Requirements- Earning Wells	<p>(i) Modified the Clause to be clearer that, unless otherwise agreed by the Parties, the responsibility to provide drilling information and logs applies to all formations penetrated by the applicable Earning Well down to 15m below the Farmout Lands. The requirement to provide Completion and production information, on the other hand, only applies to formations included in the Farmout Lands. Associated annotation.</p> <p>(ii) Annotation about the care that should be taken in expressing the expectations for the types of data to be provided for shale projects.</p>	<p>(i) Greater clarity for users. Farmees drilling through shallower formations not included in the Farmout Lands had sometimes chosen to try to deny Farmors access to the drilling and logging information for the shallower formations.</p> <p>There was actually no limiting language in the 1997 document supporting that interpretation.</p> <p>No limitation of this type was included in the 1997 document because of the obligation to provide this information to regulatory authorities and the possibility that the Farmee was including the associated costs in a Payout account.</p> <p>(ii) An evolving area. Alignment on data expectations is critical to all Parties.</p>
Clause 9.02- General Conditions Applicable To	(i) Added a reference that the access rights under this Subclause were subject to application of Clause 3.08 of the Operating Procedure because	(i) Clarification for users.

Provision	Modification	Rationale For Change
Earning Well Information	<p>of the incorporation by reference of that provision in Clause 1.02.</p> <p>(ii) Deleted the traditional sentence from Subclause B requiring the Farmee to provide specific prior notice to the Farmor about the intention to commence a logging or testing program so that the Farmor could visit the site. Associated annotation added respecting the rationale for the change.</p> <p>(iii) Added annotation for Subclause B to remind Farmees to consider whether their intention is to prevent Farmors from obtaining any competitive intelligence about the Farmee's proprietary technology or procedures.</p>	<p>(ii) To reflect major changes in technology that allow information to be obtained very promptly and to align to the corresponding modification that had been made in the 2007 CAPL Operating Procedure. In practice, a Farmor that was interested in being on site for this work for a particular well would discuss the Farmee's schedule with the Farmee and visit the site using its general access right in Subclause B.</p> <p>(iii) To alert users to something that could be a sensitive issue in some circumstances. This is particularly the case for shale projects or other projects that potentially see large technology differences between the technical capacity of the Parties.</p>
Clause 9.03-Well Information To Royalty Owner	<p>(i) Modified Paragraph 9.03(b) to include two Alternates. Alternate (1) is similar to the 1997 Paragraph (b), which required the Farmee to provide well information for only Royalty Wells on a block with a live Article 6.00 conversion right. Alternate (2), as introduced in this document, requires the provision of well information for all Royalty Wells. A qualification respecting confidentiality requirements under any applicable Existing Agreement. Associated annotation.</p> <p>(ii) The ability to defer access if there is a pending Crown sale applies to both Alternates and has been updated to align more closely to the special 15 day Crown sale response period for Operation Notices under Paragraph 10.02B(a) of the Operating Procedure. Associated annotations, including one noting the need to consider potential modifications if an active freehold leasing program is contemplated.</p>	<p>(i) Reflects the fact that many Farmors routinely amended this Clause to require the Farmee to provide well information for all Royalty Wells. The change simplifies the ability to achieve this outcome, and allows Parties that require that amendment to do so in a consistent manner.</p> <p>The modification also addresses two aspects that are typically forgotten-the interrelationship to the confidentiality requirements between the Farmee and the applicable third parties to any Existing Agreement and the Crown sale deferral process (Subclause 9.03B in this document).</p> <p>(ii) The modifications made in the Operating Procedure provide a tighter stratigraphic linkage between the posted rights and the applicable Royalty Well.</p>
Article 10.00-Notices Under Existing Agreements	<p>Introduced a new Article that addresses the possibility that the Farmor may hold less than a 100% Working Interest in circumstances in which the other Working Interest owners are provided the opportunity to participate in Operations under an Existing Agreement.</p> <p>The Farmee will provide the Farmor with the information it requires to serve any such Operation Notice to third parties on the Farmee's behalf. Subject to any required</p>	<p>Address issues that are frequently ignored by the Parties when they negotiate their Head Agreement. Try to reflect industry's general expectations, while allowing Parties the flexibility to override the provisions with an alternative customized solution in the Head Agreement or at the time if they prefer.</p>



Provision	Modification	Rationale For Change
	<p>consultation, the Farmor will serve the required notices on behalf of the Farmee (Clause 10.01).</p> <p>Clause 10.02 addresses the process for handling any Operation Notice served by a third party under an Existing Agreement. The Parties will need to determine if their earning structure for any individual transaction has a level of complexity for which the handling prescribed by the Clause is inappropriate.</p> <p>Unless otherwise provided in the Head Agreement, any penalty suffered by one of those other Working Interest owners as a result of its election not to participate in the applicable Operation will accrue to the Farmee insofar as the Farmee incurred the costs applicable to that other Working Interest (Clause 10.03).</p> <p>Clause 10.04 addresses the possibility that at least one of the other Working Interest owners proceeds independently with a Completion if the Farmee and the Farmor are otherwise planning to proceed to Abandon an Earning Well.</p> <p>Associated annotations.</p>	
<p>Clause 11.01- Farmee's Responsibility</p>	<p>(i) The introduction has been modified. The Agreement may qualify the outcomes otherwise provided for in the Clause if the Farmor operates some of the earning activities on behalf of the Farmee. Associated annotation.</p> <p>(ii) Simplification of the liability and indemnification obligations because of the incorporation of the "Losses and Liabilities" definition of the Operating Procedure in Clause 1.02.</p> <p>(iii) Broadened the reference to the Party causing the loss to include the Farmee's Affiliates, directors, officers, employees, agents and contractors.</p> <p>(iv) Narrowed the Farmor's written instructions and approval reference. The Farmee only avoids responsibility for its actions if the applicable act, omission or failure to act was inherent in the Farmor's instructions or approval. Associated annotation.</p> <p>(v) Added annotation explaining why there is no Clause addressing Extraordinary Damages on the same basis as in Clause 4.04 of the CAPL Operating Procedure.</p>	<p>(i) Parties addressing the indemnification and liability issues associated with Farmor operated activities might forget to make a consequential modification to this Clause. The reference and the annotation also increase user awareness about the issue.</p> <p>(ii) Greater alignment with the handling in the Operating Procedure. Simplification of the presentation.</p> <p>(iii) Alignment with the handling in the Operating Procedure.</p> <p>(iv) Corrects a flaw in the traditional industry provision. Alignment with the qualification in the definition of Gross Negligence or Wilful Misconduct in the Operating Procedure.</p> <p>(v) Anticipates a probable question from users.</p>

Provision	Modification	Rationale For Change
Clause 11.02- Farmor's Responsibility	The introduction has been modified to recognize that the Agreement may qualify the outcomes otherwise provided for in the Clause if the Farmor operates some of the earning activities on behalf of the Farmee. Associated annotation.	Parties addressing the indemnification and liability issues associated with Farmor operated activities might forget to make a consequential modification to this Clause. The reference and the annotation also increase user awareness about the issue.
Clause 12.01- Incorporation Of Assignment Procedure	Updated the presentation of the provision. Expanded the annotations.	Aligned the provision with the presentation of the similar concepts in Subclauses 24.04A and B of the Operating Procedure.
Clause 12.02- Dispositions Of Royalty Lands	<ul style="list-style-type: none"> <li>(i) Added an additional sentence to reinforce that the process contemplated in this Clause applies only for the purpose of determining ROFR rights and obligations. It does not otherwise trigger a conversion right under Article 6.00. Associated annotation.</li> <li>(ii) Included an annotation about the <u>Two Forty Engineering</u> case and a dispute about an incorporation by reference of only Alternate 2401B in an old pre-CAPL farmout.</li> <li>(iii) Expansion of annotations to explain rationale and illustrate application. Includes some comments about the potential risk of a "generally accepted industry practice" type argument if the issue ever were to escalate under an older agreement that did not use the CAPL Farmout &amp; Royalty Procedure.</li> </ul>	<ul style="list-style-type: none"> <li>(i) Greater clarity for users.</li> <li>(ii) Provide greater context respecting the issue in older agreements.</li> <li>(iii) Greater clarity for users.</li> </ul>
Clause 13.01- Land Maintenance Charges During And After Earning Phase	<ul style="list-style-type: none"> <li>(i) Added a Subclause 13.01B to address the responsibility for maintenance of the Title Documents in good standing after earning. The Subclause also links the responsibility for compensatory royalties to the Working Interests in the applicable formation, except as otherwise provided in the Agreement. Associated annotations.</li> <li>(ii) Expanded annotations.</li> </ul>	<ul style="list-style-type: none"> <li>(i) Clarification that Clause 13.02 applies up to the first anniversary date after earning, at which point Subclause 13.01B applies.</li> <li>(ii) Provide greater context for users.</li> </ul>
Clause 13.02- Farmee To Reimburse Farmor For Charges During Earning Phase	<ul style="list-style-type: none"> <li>(i) Clarified application if there is security or compensatory royalties under Subclause 2.03B.</li> <li>(ii) Added Alternates 1 (no earning phase reimbursement) and 3 (as prescribed by the Head Agreement). Associated annotations.</li> </ul>	<ul style="list-style-type: none"> <li>(i) Greater clarity for users.</li> <li>(ii) Enhanced functionality for users. Alternate 1 recognizes that Parties might choose to ignore a reimbursement of land maintenance charges applicable to the earning period. Alternate 3 recognizes that the Parties might choose to use a traditional <i>per diem</i> rentals provision or another customized outcome in their Head Agreement.</li> </ul>
Clause 14.01- Farmor's Default Remedies	<ul style="list-style-type: none"> <li>(i) Added a reference in Subclause 14.01A that the termination for failure to Commence a required Operation does not require a notice from the Farmor.</li> <li>(ii) Added annotation about the potential</li> </ul>	<ul style="list-style-type: none"> <li>(i) Address explicitly what is inherent in the Subclause.</li> <li>(ii) Greater context for users about how this</li> </ul>

Provision	Modification	Rationale For Change
	<p>for a Farmee to initiate legal proceedings to preserve its rights if it believed that the Farmor did not have a basis under the Agreement to purport to exercise its rights under Subclause A.</p> <p>(iii) Added an annotation about the use of Subclause 14.01A relative to Subclause 14.01C in the context of the <u>EOG</u> case.</p> <p>(iv) Modified Subclause 14.01A so that, in addition to the Force Majeure exception, the Farmee would also have relief from the application of this default remedy if the broader delay in performance conditions in Subclause 3.01B were satisfied.</p> <p>(v) Modified Paragraph 14.01A(b) to clarify that the Farmor would not have a claim for failure to Commence a required Operation if the Operation were terminated by either Party under this Paragraph.</p> <p>(vi) Any assignment of surface rights contemplated under Paragraph 14.01A(c) will be at no cost to the Farmor, other than for its assumption of the associated Environmental Liabilities.</p> <p>(vii) Updated Subclause 14.01B to apply the corresponding provisions of the Operating Procedure.</p> <p>(viii) Added a requirement in Subclause 14.01C that any default notice must include sufficient detail to enable the Farmee to understand the basis for the allegation of default.</p> <p>(ix) Modified Subclause 14.01C to clarify the extent of the potential application of the provision to interests in the process of being earned for an Earning Well that was Spudded, the loss of the right to Spud further Earning Wells and the termination of any future obligation of the Farmor to the Farmee (but not the Farmee to the Farmor) under any AMI then in effect. Related annotation and additional annotation on <u>EOG</u> case.</p> <p>(x) Modified Subclause C to address the Farmee's right to challenge the validity of a default notice. Associated annotation.</p>	<p>would unfold in practice.</p> <p>(iii) Greater clarity for users.</p> <p>(iv) Reflect user expectations.</p> <p>(v) Greater clarity for users.</p> <p>(vi) Clarification for users.</p> <p>(vii) Reflects movement from the 1990 CAPL Operating Procedure in the remainder of the document.</p> <p>(viii) Reflect the Parties' expectations if the Subclause ever applied.</p> <p>(ix) Enhance clarity and provide greater context for users as a result of the <u>EOG</u> case.</p> <p>(x) To provide context for users.</p>
<p>Clause 14.02- Application Of Article To Other Financial Defaults</p>	<p>Included a notice requirement if the acquiring Party purported to terminate a defaulting Party's election to acquire an interest in an acquisition of Mutual Interest Lands because it failed to reimburse the prescribed amount by the required time. Expanded the</p>	<p>Reflect the Parties' expectations if the remedy ever applied.</p>

Provision	Modification	Rationale For Change
	annotation.	
Clause 15.01- Parties To Negotiate In Good Faith	<p>(i) Updated the provision to allow the Parties to elect if they will apply the optional Dispute Resolution provisions in Article 21.00 of the Operating Procedure on a <i>mutatis mutandis</i> basis. Associated annotation.</p> <p>(ii) Updated the list of items for which a Party has the right to initiate arbitration if there is a dispute. The most significant changes are: (a) any determination of whether there is production in Paying Quantities; (b) the extension of the availability of a market that would allow production in Paying Quantities into determinations under both Subclause 3.01E and 3.05A; (c) any dispute respecting the "Allocation Ratio" under Clause 5.03 respecting a "Royalty Allocation Well"; (d) if a Royalty Payor has used reasonable efforts under Clause 5.08 to produce a well in the same pool equitably with a Royalty Well; (e) a financial limit on the amount being claimed through arbitration with respect to an audit dispute; and (f) a potential dispute on a value for an acquisition of Mutual Interest Lands in circumstances in which the proposed value is an allocated value or a cash equivalent value where consideration cannot be matched in kind. Modified the related annotation.</p> <p>(iii) Added an annotation explaining the rationale for the inclusion of references to arbitration in the document.</p>	<p>(i) Provide greater flexibility to the Parties.</p> <p>(ii) Provides a platform to encourage the Parties to negotiate if there is a dispute about whether a well is capable of production in Paying Quantities.</p> <p>Recognizes that Subclause 3.05A might require the same issue to be determined as under the traditional Clause.</p> <p>Provide greater motivation for a Royalty Payor to address an inequitable production scenario involving its offsetting well and a Royalty Well.</p> <p>Reflect a desire of the Parties to avoid being forced into an arbitration (versus a litigation path) on larger scale audit disputes.</p> <p>Address a process gap in the traditional AMI Clause if there is an allocated or cash equivalent value presented to the Parties with the right to elect to acquire an interest in Mutual Interest Lands.</p> <p>(iii) The arbitration references are designed, firstly, to encourage the Party in the "power position" to negotiate more reasonably than it otherwise would if the only available dispute resolution vehicle were litigation and, secondly, to encourage the Parties to negotiate in a way that would see a resolution of the dispute through negotiations before facing the major uncertainty of an arbitrated outcome.</p> <p>In this regard, it is also important for users to recall that the items included in the list in Clause 15.01 are strategically much less critical than the potential determinations being made through arbitration for disputes respecting ROFR values (since the 1971 CAPL Operating Procedure), the Clause 10.10 title preserving well process (since the 1990 CAPL Operating Procedure) and most issues relating to "Production Facilities" within the scope of the CAPL Operating Procedure (since the 1990 CAPL</p>

Provision	Modification	Rationale For Change
	<p>(iv) Added an annotation about the rationale for the inclusion of a dispute about the definition of Paying Quantities in this document, but not in the Operating Procedure.</p> <p>(v) Added an annotation about the circumstances in which this Clause ceases to apply insofar as the Operating Procedure applies among the applicable Parties.</p>	<p>Operating Procedure). There has been no proliferation in the use of arbitration or any material issues due to the stated use of arbitration as the vehicle for dispute resolution.</p> <p>(iv) The determination of Paying Quantities in this document relates to Earning Wells, such that there is a time sensitive determination for what is likely a very modest number of wells.</p> <p>(v) Notwithstanding that the Operating Procedure may apply to all or some of the Parties, this Clause could still apply, for example, to: (i) disputes relating to an ORR or Payout account prior to the point of the Article 6.00 conversion; (ii) disputes relating to the ORR for any Farmor Party that did not convert to a Working Interest; and (iii) any dispute respecting an allocated AMI value under Subclause 8.03B.</p>
Clause 16.01- Farmor's Access To Reserved Formations	<p>(i) Broadened to address activities conducted on behalf of the Farmor.</p> <p>(ii) Expanded the scope to include testing activities.</p> <p>(iii) Added an annotation reminding users that Reserved Formations potentially see the application of the dual use well Clause of the Operating Procedure at some point (Clause 10.06).</p>	<p>(i) Reflect the Parties' expectations.</p> <p>(ii) Reflect the Parties' expectations.</p> <p>(iii) Provide context for users.</p>
Clause 16.02- Farmee's Activities And Reserved Formations	Introduced a new Clause to address the Farmee's obligations to the Farmor to minimize negative impact on the Reserved Formations. Associated annotations.	Basically creates a mirror obligation on the Farmee as exists on the Farmor under Clause 14.01 of the 1997 document. This reflects the fact that the Farmee's Operations can also impact the Farmor's ability to conduct its own activities in the Reserved Formations.
Clause 17.01- Joint Election For Goods And Services Tax	Added a generic parenthetical reference to reflect the possibility that the specific legislative reference could change.	Provide greater flexibility over time.
Clause 18.01- Application Of Farmout & Royalty Procedure	<p>(i) Added references to Clauses 18.02 and 18.04, with consequential expansion of the annotation.</p> <p>(ii) Modified Paragraph 18.01(b) to add a reference to Paragraph 3.01D(a). Associated annotation.</p>	<p>(i) Consequential change resulting from the inclusion of new Clauses.</p> <p>(ii) Modified because of the Farmee's residual obligation to Abandon an Earning Well that produces for a total duration of less than 60 days.</p>
Clause 18.02- Restriction On Additional Drilling	Added an optional Restriction On Additional Drilling Clause. A different version of the Clause had been presented in the annotations to the 1997 Article as a sample Clause for possible inclusion in the Head Agreement. Associated annotations, including a potential modification that might be considered for a large scale shale transaction.	Enhance functionality for users by including a Clause often included in the Head Agreement. Users can decide whether to elect to include the Clause or not. This reduces the likelihood that someone will forget to address the issue, increases the consistency in the provision when used and simplifies preparation of the Head Agreement.

<b>Provision</b>	<b>Modification</b>	<b>Rationale For Change</b>
Clause 18.03-Application Of Operating Procedure	Edited the sample Clause included in the annotations.	Provide greater context for users.
Clause 18.04-Title Administrator	Added a new Clause to address the possibility that a Party other than the Operator is designated as the Title Administrator with respect to the ongoing administration of all or some of the Title Documents under the Head Agreement. Associated annotations.	Increase awareness of the issue. Offer users greater functionality if this circumstance applies to them.
Addendum of Miscellaneous Annotations	<ul style="list-style-type: none"> <li>(i) Expanded the introduction to these annotations to alert users of the care that must be taken when considering custom modifications to the document.</li> <li>(ii) Expansion of content with respect to Participants and Re-entry Program transactions. Addition of annotations for shale and CBM activities.</li> </ul>	<ul style="list-style-type: none"> <li>(i) Remind users that the benefits of customization must be weighed against the associated cost.</li> <li>(ii) Provide greater guidance to users about the common circumstances under which custom modifications may be appropriate.</li> </ul>
Addendums of Election Sheet And Sample Agreements	Included a sample election sheet and sample agreements as a reference for users.	To assist users in understanding the changes in the document and to facilitate a transition to use in due course.