FORM 49
[RULE 13.19]

Clerk's Stamp

COURT FILE NO.	2201-01016
COURT	COURT OF KING'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
APPLICANT	ROBUS SERVICES LLC
RESPONDENT	ROBUS RESOURCES INC.
DOCUMENT	**AFFIDAVIT**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**BENNETT JONES LLP** Barristers and Solicitors 4500, 855 – 2nd Street S.W. Calgary, Alberta T2P 4K7 Attention: Chris Simard / Chelsea Tolppanen Telephone No.: 403-298-4485/3083 Fax No.: 403-265-7219 Client File No.: 68320.6

AFFIDAVIT OF DEREK LYNN

Affirmed on December 7, 2022

I, Derek Lynn, of Calgary, Alberta, AFFIRM AND SAY THAT:

I. INTRODUCTION

1. I am the Manager, Divestments and Commercial, of Enerplus Corporation ("**Enerplus**" or the "**Applicant**"). As such, I have personal knowledge of the matters hereinafter deposed to, save where stated to be based on information and belief, in which case I verily believe the same to be true. I have been authorized to swear this affidavit on behalf of Enerplus.

2. Enerplus is an independent North American energy exploration and production company, headquartered in Calgary, Alberta.

III. BACKGROUND

3. In 2016, 2017 and 2019, Enerplus and Robus entered into a series of agreements and amendments, pursuant to which:

   (a) Enerplus sold a 99% beneficial working interest to Robus in approximately 140 oil and gas wells, along with certain associated facilities and pipelines (collectively, the "**Joarcam Assets**");

   (b) Enerplus retained a 1% beneficial working interest in the Joarcam Assets;

   (c) Enerplus remained as the registered legal owner of the Joarcam Assets;

   (d) Enerplus remained as the licensee of the Joarcam Assets, for purposes of the regulation of the Joarcam Assets by the Alberta Energy Regulator ("**AER**"); and

   (e) Enerplus was appointed as the operator (the "**Operator**") of the Joarcam Assets, pursuant to a November 17, 2017 Joint Operating Agreement (the "**Operating Agreement**"). Attached as **Exhibit "1"** to this Affidavit is a true copy of the Operating Agreement, along with the three industry-standard agreements that are incorporated by reference into the Operating Agreement: the CAPL 1990 Operating Procedure; the PASC 1996 Accounting Procedure ("**PASC 1996**"); and the CAPL 1993 Assignment Procedure.

4. I understand that the Joarcam Assets are Robus's only valuable assets (Robus also has a 100% interest in two wells, but their value relative to the much larger group of Joarcam Assets is minimal). Therefore, any recovery by Robus's creditors in this Receivership will depend on the Receiver being able to sell or otherwise monetize the Joarcam Assets.

5. In accordance with the Operating Agreement, specifically article 102 of PASC 1996, Enerplus bills Robus monthly for its proportionate share of the joint account with respect to the Joarcam Assets. Enerplus does this by issuing joint interest billing statements with respect to the Joarcam Assets ("**JIBs**") on or before the last day of each month, with respect to the preceding month. Pursuant to article 103 of PASC 1996, Robus is obligated to pay

all JIBs within 30 days of receipt. Enerplus issues the JIBs to Robus via an electronic software application known as "EnerLink".

6. Robus regularly failed or neglected to pay all JIBs issued to it prior to the Receivership. As of March 31, 2022, Robus owed Enerplus $1,275,881.56 for unpaid JIBs.

V. RECEIVERSHIP ORDER

7. On April 12, 2022 (the "**Filing Date**"), this Honourable Court issued an Order appointing Alvarez & Marsal Canada Inc. as Receiver of Robus (the "**Receiver**").

VI. AFFIRMATION OF THE OPERATING AGREEMENT BY THE RECEIVER

A. Introduction

8. I am advised by Enerplus's legal counsel and believe that, after the Filing Date, the Receiver could have elected to disclaim or terminate the Operating Agreement. The Receiver never did that. On the contrary, as explained in greater below, the Receiver has "stepped into the shoes" of Robus under the Operating Agreement, and has done the following things after the Filing Date:

   (a) used Robus's EnerLink account to receive the JIBs issued after the Filing Date and, in EnerLink, disputed charges in some of the JIBs, but accepted most of the JIBs without any dispute;

   (b) continued to accept the goods and services provided by Enerplus as Operator under the Operating Agreement;

   (c) specifically requested that Enerplus carry out its accounting functions as Operator under the Operating Agreement in a certain manner;

   (d) paid some (but not all) of the charges in the JIBs issued by Enerplus under the Operating Agreement after the Filing Date;

   (e) provided directions to Enerplus about the manner in which Enerplus should carry out certain field operations as Operator under the Operating Agreement; and

(f) requested that Enerplus carry out certain completion operations as Operator under the Operating Agreement.

B. Specific Communications and Actions

9. Since the Receiver was appointed, there have been numerous discussions between the Receiver, Enerplus and Robus Services LLC ("**Robus Services**"), who I understand is the secured creditor of Robus, and who is also funding the costs of the Receivership by lending funds to the Receiver. These communications have taken place between the parties' counsel, and directly, and have covered a wide variety of topics. Overall, the parties have worked together constructively and cooperatively. Below is a summary of some of the correspondence between the parties.

10. On May 2, 2022, the Receiver wrote a letter to Enerplus, in which it, among other things:

(a) set out its "position on go-forward production revenue and expenses and delivery of payment to the Receiver";

(b) set out its expectations about how Enerplus would "carry on accounting for transactions"; and

(c) provided its wire information "where Enerplus should deliver, in a timely manner, the Receiver's allocation of net receipts on a go-forward basis".

Attached as **Exhibit "2"** to this Affidavit is a true copy of the Receiver's May 2, 2022 letter.

11. After the Receiver sent that letter, Enerplus and Robus, along with their respective legal counsel, held a "without prejudice" meeting on May 6, 2022 to discuss certain accounting issues, and to review Enerplus's "without prejudice" forecast for the go-forward costs and revenues for the Joarcam Assets.

12. In May 2022, there was a leak in one of the pipelines comprising the Joarcam Assets, which Enerplus was required to respond to as Operator under the Operating Agreement, including

by reporting the incident to the AER and to the Receiver. On May 18, 2022, the Receiver's counsel wrote a letter to Enerplus's counsel in which the Receiver, among other things:

(a) provided direction to Enerplus as to the manner in which the Receiver expected Enerplus to remediate the spill, and manage the costs of that remediation;

(b) requested various information regarding the spill, including records "in accordance with the terms of the Joint Operating Agreement between Robus and Enerplus"; and

(c) stated:

> Finally, in accordance with the Joint Operating Agreement, the Receiver will require time to consider any significant remediation or repair/replacement work being considered by Enerplus and to approve the same before Enerplus undertakes such work.

Attached as **Exhibit "3"** to this Affidavit is a true copy of that May 18, 2022 letter.

13. Enerplus complied with the Receiver's directions set out in this letter. Among other things, Enerplus regularly reported to the Receiver on the results of the investigation into the spill, and the various remediation options. Enerplus and the Receiver agreed on the appropriate remediation plan to be undertaken by Enerplus as Operator, and Enerplus then carried out that plan.

14. On May 27, 2022, Enerplus's counsel wrote a letter to the Receiver's counsel. In that letter, Enerplus, among other things:

(a) as requested by the Receiver, Enerplus agreed to pro-rate all monthly and annual payments based on the Filing Date as a cut-off;

(b) provided to the Receiver a statement splitting the JIB for April 2022 into the pre-Receivership period of April 1 – April 11 and the post-Filing Date period from April 12 to April 30;

(c) asking for the Receiver's confirmation that the net amount owing by Robus for the period April 12 to April 30, and for any subsequent months in which Robus owed

a net amount to Enerplus under a JIB, would be paid within 30 days after the receipt of the relevant JIB; and

(d) stated:

> The Receiver is required to pay all post-receivership obligations on a current basis, and Enerplus is not required to advance credit to the Receiver with respect to post-receivership goods and services. In its sole and absolute discretion, Enerplus will consider requests by the Receiver, to extend the deadlines for the Receiver to pay any monthly amount owing.

Attached as **Exhibit "4"** to this Affidavit is a true copy of that May 27, 2022 letter.

15. I am advised by Enerplus's legal counsel and believe that the Receiver never definitively responded to Enerplus's confirmation that the Receiver would pay JIBs within 30 days of their issuance, but that the Receiver never contested Enerplus's assertion that the Receiver " is required to pay all post-receivership obligations on a current basis, and Enerplus is not required to advance credit to the Receiver with respect to post-receivership goods and services".

16. On June 10, 2022, the Receiver's legal counsel wrote a letter to Enerplus's legal counsel, in which the Receiver, among other things:

(a) acknowledged that the Joarcam Assets are "governed by" the Operating Agreement; and

(b) requested certain records related to the Joarcam Assets, pursuant to the Receivership Order and also clause 305 of the Operating Agreement. Clause 305 of the CAPL 1990 Operating Procedure is the provision in the Operating Agreement that entitles Robus, the non-operator, to request from Enerplus, the Operator, books and records related to the joint account.

Attached as **Exhibit "5"** to this Affidavit is a true copy of the Receiver's counsel's June 10, 2022 letter.

17. On June 27, 2022, the Receiver wrote a letter to Enerplus in which it advised that the Receiver's acceptance of JIBs on EnergyLink related to periods before the Filing Date should not be take as the Receiver's agreement to such JIBs, nor Enerplus's accounting methodology with respect thereto, and that the Receiver reserved all its rights to review and dispute JIBs. Attached as **Exhibit "6"** to this Affidavit is a true copy of that June 27, 2022 letter.

18. In June 2022, the Receiver asked Enerplus to identify wells within the Joarcam Assets whose production could be efficiently and economically increased by the Operator carrying out certain workover operations. Between mid-August and late September 2022, Enerplus, the Receiver and Robus Services conducted numerous written and oral communications, on a "without prejudice" basis, in which they discussed and negotiated the terms under which such operations would be conducted by Enerplus, as Operator under the Operating Agreement. The parties reached agreement on these matters on or about September 26, 2022. The essential terms of the parties' agreement were:

    (a) Enerplus agreed to carry out workover operations on 9 wells in the Joarcam Assets (the "**Workover Operation**");

    (b) the Receiver agreed to pre-pay Enerplus $104,621.22, the estimated costs of the Workovers Operation; and

    (c) the Receiver agreed to pay $375,000 (in three tranches of $125,000), representing some but not all of the amounts owed by the Receiver to Enerplus for JIBs issued after the Filing Date (specifically, portions of the JIBS relating to rentals and property taxes).

19. On or about September 26, 2022, Enerplus delivered nine authorities for expenditure ("**AFEs**") to the Receiver regarding the estimated costs of the Workover Operation, pursuant to the provisions of the Operating Agreement. Attached as **Exhibit "7"** to this Affidavit are true copies of those AFEs.

20. On October 14, 2022, the Receiver and Enerplus exchanged emails, concurrent with the Receiver wiring the first payment to Enerplus, in the amount of $229,621.22 (comprised

of $104,621.22 with respect to the AFEs, and $125,000 being the first instalment of the JIB payments). Attached as **Exhibit "8"** to this Affidavit are true copies of those October 14, 2022 emails.

21. Pursuant to the arrangement between the Receiver and Enerplus described above, the Receiver has made the following payments to Enerplus:

(a) $229,621.22 on October 14, 2022;

(b) $125,000 on October 31, 2022; and

(c) $125,000 on November 30, 2022.

22. The Receiver has made no further payments on the post-Filing Date JIBs, and as of November 30, 2022, owed Enerplus $1,895,234.69 with respect thereto. Attached as **Exhibit "9"** to this Affidavit is a true copy of a summary of the post-Filing Date JIBs sent by Enerplus to the Receiver (including Robus's joint interest share of revenue and costs, and the allocation of the payments made by the Receiver to date). Pursuant to the Operating Agreement, Enerplus netted Robus's joint interest share of revenue as against Robus's joint interest share of costs in each post-Filing Date JIB. This monthly netting was reported to the Receiver, in the JIBs and the detailed summaries of the JIBs issued by Enerplus. The Receiver never objected to this monthly netting.

23. I believe that if Enerplus ceased providing goods and services as operator of the Joarcam Assets, the Receiver's ability to maximize the value of the Joarcam Assets for the benefit of Robus's creditors would be severely impacted.

24. Enerplus never agreed to lend money to the Receiver. However, as a result of the Receiver not paying the post-Filing Date JIB's, Enerplus has effectively become the involuntary funder of the Receiver, in the amount of approximately $1.895 million. This Receivership has been running for almost eight months, having commenced on April 12, 2022, and it is Enerplus's view that it must be concluded soon. It is not reasonable that Enerplus is being required to keep operating assets owned 99% by Robus, with no clear resolution in sight.

VI. CONCLUSION

25. I make this Affidavit in support of Enerplus' Application to have this Honourable Court grant the relief described in Enerplus's Application being served concurrently with this Affidavit, and for no other or improper purpose.

AFFIRMED BEFORE ME)
at City of Calgary, Alberta, this)
7th day of December, 2022.)
)
)
)
A Commissioner for Oaths)
in and for Alberta)
Chelsea S. Tolppanen)
Student-at-Law)
)
)
)

DEREK LYNN

THIS IS **EXHIBIT "1"** REFERRED TO IN THE AFFIDAVIT OF DEREK LYNN SWORN THE 7TH DAY OF DECEMBER, 2022.

Chelsea S. Tolppanen
Student-at-Law

JOINT OPERATING AGREEMENT

THIS AGREEMENT made as of the 17th day of November, 2017.

BETWEEN:

ENERPLUS CORPORATION, a body corporate, having an office in the City of Calgary, in the Province of Alberta (hereinafter referred to as "Enerplus")

- and -

ROBUS RESOURCES INC., a body corporate, having an office in the City of Calgary, in the Province of Alberta (hereinafter referred to as "Robus")

WHEREAS the Parties entered into a Purchase and Sale Agreement dated December 9, 2016, an Amending and Interim Period Agreement dated April 5, 2017, an Extension Agreement dated effective August 1, 2017 and a Second Extension Agreement dated effective September 29, 2017, and the Second Amending and Transfer Agreement dated effective the 17th day of November, 2017 (collectively the "**PSA**");

AND WHEREAS pursuant to the PSA, Enerplus transferred to Robus, *inter alia*, the Transferred Assets and retained unto itself the Retained Assets. The Parties have agreed that Enerplus shall continue to act as recognized Operator of the Transferred Assets and the Retained Assets, being the Assets in which Enerplus and Robus each hold a working interest (the Transferred Assets and the Retained Assets are together the "**Joint Lands**");

NOW THEREFORE in consideration of the premises and the mutual covenants and agreements hereinafter set forth, the Parties have agreed as follows:

ARTICLE 1
INTERPRETATION

1.1 Definitions

In this Agreement, the definitions contained in Clause 101 of the Operating Procedure are incorporated by reference, and in addition unless otherwise stated or the context otherwise requires, the following words and phrases, including any derivatives of them, have the following meanings:

(a) "Assets" shall have the meaning ascribed in the PSA;

(b) "Effective Date" means the 17th day of November, 2017;

(c) "Enerplus Abandonment Fund" means the amount of $900,000;

(d) "Field Employees" means the following current employee positions of Enerplus that pertain directly to the Assets: (i) 2 Field Operators for Joarcam Lake; (ii) 2 Field Operators for Joarcam South; (iii) Maintenance Coordinator; (iv) 1 Field Administrator; and (v) 1 Relief Operator, but specifically excluding the Lead Operator;

(e) "Lands" shall have the meaning ascribed in the PSA;

(f) "Liability Management Activities" means the management of environmental and abandonment and reclamation liabilities associated with LMA Wells includes, without

limitation, the satisfaction of all regulated abandonment and reclamation obligations pertaining to the LMA Wells;

(g) "LMA Wells" means any wells on the Lands that are not Statement of Concern Wells;

(h) "Operating Procedure" means the 1990 CAPL Operating Procedure and the 1996 PASC Accounting Procedure, incorporating the elections described in Schedule "A" attached hereto and the 1993 CAPL Assignment Procedure;

(i) "Party" means a party to this Agreement;

(j) "Retained Assets" shall have the meaning ascribed in the PSA;

(k) "Robus Field Representative" means an individual contracted to Robus to act as a dedicated field level liaison and to provide a direct line of communication between Robus and Enerplus;

(l) "Statement of Concern Wells" means those wells set forth and described in Schedule "C" attached hereto;

(m) "Termination Date" means the date on which all of the Joint Lands have been conveyed from Enerplus to Robus; and

(n) "Transferred Assets" shall have the meaning ascribed in the PSA.

1.2 Interpretation

(a) If any term or condition of this Agreement conflicts with a term or condition of the title documents, the term or condition of the title documents shall prevail.

(b) If any term or condition of the Operating Procedure conflicts with a term or condition of this Agreement, the term or condition of this Agreement shall prevail.

(c) The headings of the clauses of this Agreement are included for convenience of reference only and shall not affect the meaning or construction of this Agreement.

(d) Whenever the singular or masculine or neuter is used, the same shall be construed as meaning the plural or feminine or body politic or corporate or vice versa, as the context so permits.

(e) The terms and conditions of this Agreement express and constitute the entire agreement among the Parties hereto with respect to the operation of the Joint Lands and supersede all other agreements, representations, documents, writings and understandings among the Parties hereto relating to the operation of the Joint Lands, provided that in all instances where an accounting procedure is contained in a pre-existing operative agreement, that accounting procedure shall apply. Notwithstanding the foregoing, if the Parties are, as of the date hereof, parties to agreements that also govern the ownership and/or operations of the Joint Lands, the Parties will cooperate with each other to the extent necessary to facilitate compliance by the Parties, as applicable, with the obligations under such agreements.

1.3 Effective Date

This Agreement shall be effective on the Effective Date.

1.4 Schedules

The following Schedule is attached to and incorporated in this Agreement:

Schedule "A" – Operating Procedure Elections

Schedule "B" – Statement of Concern Wells

ARTICLE 2
OPERATIONS

2.1 Participating Interests

As of the Effective Date, as more particularly set forth in the PSA, each Party holds a working interest in and to the Joint Lands. Except as otherwise provided in this Agreement, the Parties hereto shall bear all costs and expenses paid or incurred under this Agreement and shall own, operate and develop the Joint Lands, appurtenances thereto, the production of petroleum substances therefrom, and revenues received in connection therewith in accordance with their respective participating interests.

2.2 Operating Procedure

(a) From and after the Effective Date, except as otherwise provided herein, the Operating Procedure shall govern all operations on or in respect of the Joint Lands.

(b) Enerplus is hereby appointed as Operator of the Joint Lands as of the Effective Date.

(c) Notwithstanding the appointment of Enerplus as Operator and anything contained in the Operating Procedure, Enerplus shall take direction from Robus in respect of management of the Joint Lands (and the conduct of any joint operation) and shall obtain Robus' prior written approval with respect to, without limitation, the following matters:

(i) all decisions to be made for the exploration, development, remediation and operation of the Joint Lands; and

(ii) for all AFEs prior to any work being commenced.

Robus shall have no liability for payment of any discretionary operating expenditure that exceeds $1500.00, if Enerplus did not obtain prior approval from Robus, except for any expenditure made by Enerplus pursuant to subsection 2.2(e).

(d) The Robus Field Representative and Robus' executive management shall have access, and be entitled to attend, all joint operations, meetings and discussions related to the Joint Lands or any of them and shall be entitled to receive copies of all correspondence received by Enerplus relating to the Joint Lands. If any operational issue or concern (of whatever kind or nature) is identified by Enerplus or brought to the attention of a senior operator (or higher level employee) of Enerplus, the Robus Field Representative and Robus' executive management shall be notified immediately.

(e) Nothing herein shall require Enerplus to perform or fail to perform any action or to address or resolve any operational issue: (i) as is required by the Regulations, or (ii) that Enerplus deems, acting in a commercially reasonable manner, is required in order to comply with Enerplus' internal corporate policies pertaining to the environment and health and safety, copies of which have been provided to Robus as of the date hereof. Provided that, in the case of any action taken (or not taken) by Enerplus pursuant to this subsection 2.2(e),

Robus shall be immediately notified by Enerplus of the details of the action so taken (or not taken).

(f) Notwithstanding any other provision in this Agreement, the Operating Procedure or the Accounting Procedure, Enerplus agrees that Robus shall be consulted in respect of any spending by Enerplus (including all operating costs) that would normally be approved by an Enerplus Lead Operator or above. Such restriction will not apply to expenses associated with the employment of Field Employees and the Lead Operator including base salary, overtime, call-out pay, bonus, savings plan, benefits (health/dental/extended health benefits/life insurance/AD&D/disability) and severance. Enerplus has the right to request a cash advance from Robus, which shall be paid within 10 days of request, in respect of any AFE or combination of AFEs when the expected monthly expenditure associated therewith is greater than $250,000.00.

(g) During the term of this Agreement, Enerplus may bill Robus for Robus' proportionate share of the annual property taxes associated with the Transferred Assets, in 3 advance equal installments in the months of May, June and July, by invoice issued to Robus not less than 30 days before such installment is due.

2.3 Exceptions to Operating Procedure

The following provisions of the Operating Procedure shall not apply:

202 Replacement of Operator

203 Challenge of Operator

205 Modification of Terms and Conditions by Operator

Article X Independent Operations

Furthermore, the Parties acknowledge and agree that the functions and activities performed by Robus pursuant to the Management Services Agreement are specifically excluded from the scope of this Agreement, the Operating Procedure, and the Accounting Procedure. With respect to the functions and activities set forth and described in the Management Services Agreement, to the extent of any inconsistency between the provisions of the Management Services Agreement, this Agreement, the Operating Procedure and the Accounting Procedure, the provisions of the Management Services Agreement shall prevail.

2.4 Enerplus Abandonment Fund

(a) Enerplus acknowledges and agrees that the Enerplus Abandonment Fund shall be utilized for the purpose of Liability Management Activities.

(b) Upon Robus completing the down-hole abandonment and commencing the surface reclamation stage of the first ten (10) Statement of Concern Wells, Robus may request, in writing, the payment by Enerplus of up to One Hundred and Fifty Thousand Dollars ($150,000) of the Enerplus Abandonment Fund amount, such amount to be used by Enerplus, at the direction of Robus, for Liability Management Activities ("**Abandonment Fund Payment**"). Upon receipt by Enerplus of a request for an Abandonment Fund Payment, Robus and Enerplus shall forthwith (and in any event within five (5) business days) meet in good faith to discuss Robus' plan for the utilization of such Abandonment Fund Payment, including specific details as to the Liability Management Activities that will be conducted and, as applicable, the LMA Wells that will be affected. For greater certainty, no Liability Management Activities and no funds associated with an

Abandonment Fund Payment (or the Enerplus Abandonment Fund amount) will be spent without the prior approval of Robus and the provisions of subclause 2.2(c) shall apply *mutatis mutandis* in relation thereto.

(c) Upon Robus completing the down-hole abandonment and commencing the surface reclamation stage of each additional ten (10) Statement of Concern Wells, Robus shall be entitled to make further requests for an Abandonment Fund Payment and the provisions of subsection 2.4(b) shall apply *mutatis mutandis* to such Abandonment Fund Payments until the full amount of the Enerplus Abandonment Fund is depleted.

(d) Enerplus shall not be required to make an Abandonment Fund Payment if Robus is in default of payment hereunder or under the Management Services Agreement dated as of the date hereof.

2.5 Contract Operators

Concurrent with the completion of the initial conveyance of the legal and beneficial interest in and to certain of the Transferred Assets and Retained Assets from Enerplus to Robus (the "**First Transfer**"), the Parties acknowledge and agree that: following the First Transfer, Robus may (but is not obligated to) elect to engage some or all of the Field Employees. Enerplus shall terminate and sever all of the Field Employees that Robus engages and all costs and liabilities associated with such terminations shall be for the sole account of Enerplus. The Parties acknowledge and confirm that section 12.16 of the PSA is not applicable to any Field Employees hired by Robus pursuant to this section 2.5. Enerplus will have sole discretion to involve Robus as appropriate in conversations with Field Employees (including, but not limited to, one-on-one and/or group discussions regarding day-to-day work, scheduling of shifts/overtime/on-call, short and longer term priorities, performance and safety).

2.6 Operator Overhead

Ninety-nine percent (99%) of any overhead amounts paid by a third-party to Enerplus, in its capacity as Operator of the Joint Lands, shall be for the account of Robus. Such amounts shall be paid directly to Robus by Enerplus or, alternatively, deducted from any other amounts that would be payable hereunder by Robus to Enerplus.

2.7 Covenants Running with the Land

The terms, covenants and conditions of this Agreement shall be covenants running with the Title documents and the Joint Lands for so long as this Agreement is in force and effect.

ARTICLE 3
GENERAL

3.1 Term

This Agreement shall terminate on the Termination Date. Notwithstanding termination of this Agreement, the Parties shall not be relieved from any obligations or liabilities accruing or arising prior to such termination.

3.2 Entire Agreement

(a) Other than the PSA and the Management Services Agreement which are collateral to this Agreement, this Agreement constitutes the entire agreement of the Parties relative to the subject matter of this Agreement.

(b) There are no oral or other representations or warranties connected with the subject matter of this Agreement other than as stated in this Agreement.

3.3 Governing Law and Attornment

This Agreement shall, in all respects, be subject to, construed and enforced in accordance with the Laws of the Province of Alberta. Subject to subsection 3.4, the Parties hereby irrevocably submit and attorn to the original and exclusive jurisdiction of the Courts of the Province of Alberta and all Courts of Appeal from them for all matters arising out of or in connection with this Agreement.

3.4 Dispute Resolution

In the event of any disagreement or dispute arising hereunder between the Parties, prior to invoking their respective rights pursuant to Article 2501 of the Operating Procedure, the Parties agree the matter will first be referred to a senior executive officer of each Party that has full authority to settle the issue under disagreement or dispute. If such disagreement or dispute is not finally settled and resolved by such senior executives within thirty (30) days of such referral, then either Party may refer the matter to the dispute resolution procedure set forth in Article 2501 of the Operating Procedure.

3.5 Further Assurances

The Parties shall, from time to time and at all times, at the request of the other and without further consideration, do all such further acts and execute and deliver all such further deeds and documents as shall be reasonably required in order to fully perform and carry out the terms of this Agreement.

3.6 Assignment and Enurement

Notwithstanding Clause 2401(A) of the Operating Procedure, neither Party shall assign its interest in this Agreement without the prior written consent of the other Party, which may be withheld at such Party's sole and unfettered discretion. Notwithstanding the foregoing, Robus may charge, encumber or otherwise assign this Agreement with written notice to, but without the consent of, Enerplus as security for indebtedness. This Agreement shall enure to the benefit of and be binding upon the respective administrators, trustees, receivers, successors and permitted assigns of the Parties hereto.

3.7 Waiver and Amendment

(a) No failure on the part of any Party in exercising any right or remedy under this Agreement shall operate as a waiver of any right or remedy, nor shall any single or partial exercise of any such right or remedy preclude any other or further exercise of that right or remedy or the exercise of any right or remedy in law or in equity or by statute or as otherwise conferred.

(b) No waiver of any provision of this Agreement, including, without limitation, this subclause, shall be effective unless evidenced by an instrument in writing dated subsequent to the date of this Agreement, and executed by duly authorized representatives of the Party making such waiver.

(c) This Agreement shall not be varied in its terms or amended by oral agreement or by representations or otherwise other than by an instrument in writing dated subsequent to the date of this Agreement, executed by duly authorized representatives of all Parties.

3.8 Communications

(a) Any notice, direction or other communication required or permitted to be given under this Agreement by one Party to the other shall be in writing and shall be given:

Enerplus - ENERPLUS CORPORATION
The Dome Tower
Suite 3000, 333 – 7 Avenue SW
Calgary, AB T2P 2Z1

Attention: Jeremy Krisloc
Email: JKrisloc@enerplus.com

Robus - ROBUS RESOURCES INC.
3700, 400 3rd Avenue SW
Calgary, AB T2P 4H2

Attention: Ernie Methot
Email: emethot@robusresourcesinc.ca

(b) Either of the Parties may from time to time change its address for communications by giving notice to the other Party in accordance with this communications clause.

(c) Any notice may be delivered by personal service upon a Party at its address for communications or by electronic transmission to the respective email address for notice of a Party.

(d) Notices are considered to have been received on the date of actual delivery, if delivered personally, by email or by local courier, within the business hours of the recipient; and on the next Business Day following the date of delivery, if not so delivered within the business hours of the recipient, or if given by overnight courier.

3.9 No Consequential Losses

No Party shall be liable to the other Party for any indirect or consequential losses or liabilities that may be suffered, sustained or incurred by the other Party as a result of the breach of any covenant under this Agreement.

3.10 Severability

If, and to the extent that, any court of competent jurisdiction determines that it is impossible to construe any provision of this Agreement and consequently holds that provision to be invalid, illegal or unenforceable, such holding shall in no way affect the validity of the other provisions of this Agreement, which shall remain in full force and effect.

3.11 Counterpart Execution

This Agreement may be executed by multiple counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same agreement. Delivery of an executed signature page to this Agreement by any party by electronic transmission will be as effective as delivery of a manually executed copy of the Agreement by such Party.

IN WITNESS WHEREOF the Parties hereto have executed this Agreement as of the day and year first above written.

ENERPLUS CORPORATION

Per: _____
Name: Dan Fitzgerald
Title: VP Business Development

Per: _____
Name: David A. McCoy
Title: Vice-President, General Counsel & Corporate Secretary

ROBUS RESOURCES INC.

Per: _____
Name: Ernie Methot
Title: President

THIS IS SCHEDULE "A" ATTACHED TO AND FORMING PART OF THE JOINT OPERATING AGREEMENT MADE AS OF NOVEMBER 17, 2017 BETWEEN ENERPLUS CORPORATION AND ROBUS RESOURCES INC.

1990 CAPL OPERATING PROCEDURE AND 1996 PASC ELECTIONS AND AMENDMENTS

CAPL 1990 OPERATING PROCEDURE

OPERATOR: Enerplus Corporation
Clause **311**: (Insurance): A ___ B **X**
Clause **604**: (Marketing Fee): A_____ B **X** (If "B" is selected the following shall apply)
(a) Petroleum **nil**
(b) Natural Gas **nil**
(c) Natural Gas Liquids **nil**
(d) Sulphur **nil**
Clause **903**: (Casing Point Election) - A ____ B **X**
Clause **2401**: (Disposition of Interest): A **X** B _____
Clause **2404**: (Recognition upon Assignment) - Superseded by Assignment Procedure.

1996 PASC ACCOUNTING PROCEDURE

Clause **105**: (Operating Advances) - proportionate share of **0%**
Clause **110**: (Approvals) - **1** or more Parties totalling **95%**
Clause **112**: (Expenditures Limitations) - **(a) $1500.00**
-(c) $1500.00
Subclause **202: ((b)** Non-Compulsory) - **10.0%**
Subclause **213: ((b)** Housing) - shall ____ **/shall not be chargeable**
Clause **216**: (Warehouse Handling) - **5%** of the costs of such Material
Clause **221**: (Allocation Options) - All alternatives are **"N/A"**

OVERHEAD

Subclause 302: (a) For Each Exploration Project:
1. **1%** of first **$50,000.00**
2. **1%** of next **$100,000.00**
3. **1%** of cost exceeding 1 and 2

(b) For Each Drilling Well:
1. **1%** of first **$50,000.00**
2. **1%** of next **$100,000.00**
3. **1%** of cost exceeding 1 and 2

(c) For Each Initial Construction Project:
1. **1%** of first **$50,000.00**
2. **1%** of next **$100,000.00**
3. **1%** of cost exceeding 1 and 2

(d) For Each Subsequent Construction Project
1. **1%** of first **$50,000.00**
2. **1%** of next **$100,000.00**
3. **1%** of cost exceeding 1 and 2

(e) For Operation and Maintenance:
1. **0%** of cost; and/or
2. **$0.00** per Producing Well per month.
3. A flat rate of **$10.00** per month.

Rates: Rates in Subclauses **302(e)(2)** and **302(e)(3)** shall ____ / **shall not** __x__ be adjusted as of the first day of July each year following the year in which the Agreement became effective.

Clause 406: (Dispositions) Price greater than **$1.00** requires approval.

THIS IS SCHEDULE "B" ATTACHED TO AND FORMING PART OF THE JOINT OPERATING AGREEMENT MADE AS OF NOVEMBER 17, 2017 BETWEEN ENERPLUS CORPORATION AND ROBUS RESOURCES INC.

STATEMENT OF CONCERN WELLS

See the attached two (2) pages.

Well License	UWI	Property	Transfer Unit
0004742	100/01-34-048-21W4/0	Unit 2	Statements of Concern
0127945	100/02-08-049-21W4/0	Unit 2	Statements of Concern
0107776	100/03-15-049-21W4/0	Gas Cap Unit	Statements of Concern
0005059	100/04-03-049-21W4/0	Unit 2	Statements of Concern
0274171	100/02-14-049-21W4/0	Unit 3	Statements of Concern
0093456	100/06-05-050-21W4/0	Gas Cap Unit	Statements of Concern
0008487	100/12-17-049-21W4/0	Unit 3	Statements of Concern
0004781	100/06-34-048-21W4/0	Unit 2	Statements of Concern
0108055	100/12-16-049-21W4/0	Unit 3	Statements of Concern
0107926	100/07-21-049-21W4/0	Gas Cap Unit	Statements of Concern
0216398	102/11-32-049-21W4/0	Unit 3	Statements of Concern
0207307	102/14-16-049-21W4/0	Unit 3	Statements of Concern
0004802	100/08-34-048-21W4/0	Unit 2	Statements of Concern
0115125	100/01-16-049-21W4/0	Unit 3	Statements of Concern
0005841	100/09-04-049-21W4/0	Unit 2	Statements of Concern
0006851	100/09-09-049-21W4/0	Unit 2	Statements of Concern
0003531	100/09-27-048-21W4/0	Unit 2	Statements of Concern
0307246	100/05-32-049-21W4/2	Unit 3	Statements of Concern
0114917	100/08-16-049-21W4/0	Unit 3	Statements of Concern
0108725	100/11-16-049-21W4/0	Unit 3	Statements of Concern
0113637	100/12-32-049-21W4/0	Unit 3	Statements of Concern
0242366	100/14-29-049-21W4/0	Unit 3	Statements of Concern
0115378	100/15-16-049-21W4/0	Unit 3	Statements of Concern
0243284	100/16-16-049-21W4/0	Unit 3	Statements of Concern
0032539	100/10-32-049-21W4/0	Gas Cap Unit	Statements of Concern
0004391	100/10-34-048-21W4/0	Unit 2	Statements of Concern
0006076	100/11-03-049-21W4/0	Unit 2	Statements of Concern
0105969	100/04-16-049-21W4/0	Unit 3	Statements of Concern
0113012	100/02-16-049-21W4/0	Unit 3	Statements of Concern
0202465	100/03-32-049-21W4/0	Unit 3	Statements of Concern
0004014	100/11-26-048-21W4/0	Unit 2	Statements of Concern
0111446	100/04-17-049-21W4/0	Unit 3	Statements of Concern
0004324	100/11-34-048-21W4/0	Unit 2	Statements of Concern
0005806	100/12-03-049-21W4/0	Unit 2	Statements of Concern
0007223	100/12-09-049-21W4/0	Unit 2	Statements of Concern
0108731	100/05-16-049-21W4/0	Unit 3	Statements of Concern
0110203	100/08-20-049-21W4/0	Unit 3	Statements of Concern
0003807	100/12-26-048-21W4/0	Unit 2	Statements of Concern
0115255	100/09-16-049-21W4/0	Unit 3	Statements of Concern
0113224	100/14-16-049-21W4/0	Unit 3	Statements of Concern
0110822	102/13-17-049-21W4/0	Unit 3	Statements of Concern
0003858	100/13-26-048-21W4/0	Unit 2	Statements of Concern
0007723	100/07-20-049-21W4/0	Unit 3	Statements of Concern
0007847	100/03-17-049-21W4/0	Unit 3	Statements of Concern
0007970	100/06-17-049-21W4/0	Unit 3	Statements of Concern
0004036	100/14-26-048-21W4/0	Unit 2	Statements of Concern

Well License	UWI	Property	Transfer Unit
0003776	100/14-27-048-21W4/0	Unit 2	Statements of Concern
0004325	100/14-34-048-21W4/0	Unit 2	Statements of Concern
0006214	100/15-04-049-21W4/0	Unit 2	Statements of Concern
0008239	100/11-17-049-21W4/0	Unit 3	Statements of Concern
0004390	100/15-34-048-21W4/0	Unit 2	Statements of Concern
0113827	100/16-09-049-21W4/0	Unit 2	Statements of Concern
0008022	100/14-17-049-21W4/0	Unit 3	Statements of Concern
0003583	100/16-27-048-21W4/0	Unit 2	Statements of Concern
0007895	100/02-20-049-21W4/0	Unit 3	Statements of Concern
0004486	100/16-34-048-21W4/0	Unit 2	Statements of Concern
0331491	102/02-08-049-21W4/0	Unit 2	Statements of Concern
0279620	102/07-35-048-21W4/0	Unit 2	Statements of Concern
0115928	102/11-09-049-21W4/0	Unit 2	Statements of Concern
0108724	100/06-16-049-21W4/0	Unit 3	Statements of Concern
0205950	102/14-09-049-21W4/0	Unit 2	Statements of Concern

OPERATING PROCEDURE

ANNOTATED

CANADIAN ASSOCIATION OF PETROLEUM LANDMEN

1990

INDEX

The explanatory notes reflect the observations of the authors and other commentators on the intention and scope of the provisions of the Operating Procedure. They have been included only to assist the user in understanding the document, and are not intended to have any legal effect on the interpretation of the provisions of the document.

Heading: The Operating Procedure would be attached to a head agreement. That agreement, as a minimum, would describe the "joint lands," state the "working interests" and designate the "operator." It would also include any special provisions negotiated by the parties pertaining to such matters as an area of mutual interest, lease selections and, if applicable, the failure to participate in work programs required to maintain any special title documents (i.e., permits) in good standing.

Subclause 101(a): Note the references to the regulations and the restoration of the wellsite. Abandonment obligations do not cease with the mere physical plugging of a well.

Subclause 101(c): i) Note the exclusion pertaining to security assignments.

ii) Some companies are forming partnerships comprised solely of corporations which are affiliates, for tax and other business reasons. The inclusion of the last proviso ensures that the partnership would be regarded as an affiliate of each partner and its other affiliates. If the partnership is comprised of other entities, it is probably preferable to include in the head agreement a definition of affiliate which is tailored to the specific fact situation.

Subclause 101(e): i) The nature of the financial authority granted by an approved AFE is considered in the notes on Subclause 301(c). However, it should be noted that the operation described in the AFE is a condition of the approval. While the operator, of course, does have some latitude to deviate from the described operation, this discretion is limited and would probably apply to only minor changes or those which are dictated by necessity during the conduct of the operation. It is undoubtedly the more prudent practice for the operator to obtain the consent of the other parties before making other changes. Otherwise, there is a risk that a party could successfully argue that its previous election was void because the election did not pertain to the operation which was conducted. See, for example, Passburg Petroleums v. San Antonio Explorations Ltd. and D. W. Axford & Associates Ltd., [1988] 2 W.W.R. 645 (Alta. Q.B.). Although the court briefly considered the overrun issue and the Renaissance case (See the notes on 301(c)) in the context of the 1981 CAPL Operating Procedure, this case turned on the fact that the operator drilled a directionally drilled well after obtaining the approval of the parties to drill what they reasonably believed to be a conventional well. On the facts, the court determined that the parties did not agree to participate in the directionally drilled well.

ii) An AFE must include sufficient detail to enable a party to appreciate the nature and scope of the operation and the estimated costs of its various phases. If a party is not provided with the information it reasonably requires to make an informed decision or the provided information is misleading, the issuing party faces the risk that a party's election could be voidable. That being the case, it is the better practice to provide all material information which could reasonably be anticipated to influence a party's decision.

iii) Note the requirement to specify the proposed coordinates of a well. This alerts the parties to the possibility that the well might be subject to a production penalty under the regulations if the well is being drilled outside a prescribed target area. If the parties had used joint seismic to mature the prospect, it also enables the parties to tie the location to their seismic data, preferably through an additional reference to the applicable shot-point.

OPERATING PROCEDURE

Attached to and forming part of the Agreement dated the day of A.D. 19

BETWEEN/AMONG:

ARTICLE I

INTERPRETATION

101 DEFINITIONS – In this Operating Procedure, the following words and phrases shall have the following respective meanings, namely:

(a) "abandonment" means the proper plugging and abandoning of a well in compliance with the Regulations and the restoration of the well site to the satisfaction of any governmental body having jurisdiction with respect thereto and to the reasonable satisfaction of the owner or occupier of the surface.

(b) "Accounting Procedure" means the schedule entitled Accounting Procedure attached hereto and made a part of this Operating Procedure.

(c) "Affiliate" means, with respect to the relationship between corporations, that one of them is controlled by the other or that both of them are controlled by the same person, corporation or body politic; and for this purpose a corporation shall be deemed to be controlled by those persons, corporations or bodies politic who own or effectively control, other than by way of security only, sufficient voting shares of the corporation (whether directly through the ownership of shares of the corporation or indirectly through the ownership of shares of another corporation which owns shares of the corporation) to elect the majority of its board of directors, provided that a partnership which is a party and which is comprised solely of corporations which are Affiliates, as described above, shall be deemed to be an Affiliate of each such corporation and its other Affiliates.

(d) "Agreement" means the agreement to which this Operating Procedure is attached and made a part.

(e) "Authority for Expenditure" or "AFE" means a written statement of an operation proposed to be conducted pursuant to this Operating Procedure, which statement shall include:

(i) the type, purpose and location of such operation, in sufficient detail to enable a party to understand the nature, scope and sequence of such operation, the proposed time frame over which such operation will be conducted and, if such operation is the drilling or deepening of a well, the projected total depth thereof, the proposed surface coordinates of the well and, if they will differ materially from the surface coordinates of the well, the proposed bottomhole coordinates therefor; and

(ii) the proposing party's estimate of the anticipated costs of such operation, which estimate shall be in sufficient detail to enable a party to identify, in summary form, the anticipated costs of the various identifiable segments of such operation, including, if applicable, those costs which relate to drilling, completing and equipping a well.

(f) "casing point" means that point in time when a well has been drilled to total depth, the authorized logs and tests have been run and a decision must be made by the Joint-Operators whether to set production casing and attempt to complete the well.

Subclause 101(g): i) The question of whether there is production in commercial quantities or "paying quantities" (Subclause 101(x)) does not lend itself to a precise determination, largely because of the references to "anticipated" throughout the definitions. Although less than an ideal result, there are so many speculative parameters associated with the determination that it is not feasible to replace the reference with the far more onerous "probable" reference. It is implicit, though, that there must be a reasonable basis for an objective determination that an item is anticipated, as in the case at hand.

ii) Note the references to processing and transportation. It is difficult to argue that there has been a discovery in commercial quantities if the well cannot be placed on production for five years because of a shortage of suitable facilities or a waiting list for transportation service.

iii) Note the reference to burdens payable for the joint account. This ensures that the parties are on an equal footing for the determination. Otherwise, a well could be a discovery in commercial quantities for only some of the parties.

Subclause 101(j): i) Note the proviso at the end of the definition. If the joint lands only include rights to the base of the Cardium and the sole productive interval within two miles is the Nisku, the well is an exploratory well, not a development well.

Although well information from offsetting producing wells will often reduce the risk of testing a shallower (but non-producing) horizons, that will not always be the case. The well information from an offsetting deep well, in fact, will often demonstrate that there is an extremely high risk in testing a shallow objective.

While many shallow tests will evaluate exploratory objectives, it is similarly inappropriate to eliminate the deeming mechanism entirely because of the possibility that data from the offsetting well has significantly reduced the risk. The elimination of the deeming mechanism with respect to the shallower horizons would also create serious problems with respect to the dual well case (Clause 1005), since the exploratory portion of the well could overlie the development portion.

The proviso is a compromise. It attempts to minimize the arbitrariness of the distance test by limiting the examination of productive intervals in offsetting wells to horizons and substances which are also included in the joint lands. This mechanism ensures that a party cannot use the shallower exploratory designation when it has the right to exploit the deeper development horizon.

ii) Since the status of a well as a development or exploratory well must be clear at the time of the issuance of an operation notice, the distance is measured between the coordinates of the existing well and the anticipated coordinates of the proposed well where they penetrate the productive horizon.

Although the coordinates of the proposed well could change during the drilling of the well, it is important to distinguish between the case in which the deviation is beyond the operator's control and that where it is not. If the operator intentionally moved the location, the elections of the parties would likely be voidable. (See the comments on Clause 1007.)

Subclause 101(k): Note the reference to "the construction of such roadways as are reasonably necessary to gain access to the site of the well." The operator has the general obligation to conduct an operation in accordance with good oilfield practice. Part of that obligation is the requirement to conduct an operation in a cost effective manner. The approval of an AFE respecting a well arguably does not provide an operator with authority to build a road which largely duplicates an existing road or a road which greatly exceeds the specifications which are reasonably appropriate in the circumstances.

Subclause 101(s): This definition is applicable to the sale of a party's share of production pursuant to Article VI, where that party does not take its share of production in kind and dispose of the same. It is designed to ensure that such a party does not receive an unreasonable price for production sold on its behalf.

The party selling such production arguably has a fiduciary obligation to the non-taking party with respect to the sale. However, the onus is on the non-taking party to demonstrate that the sale price was unreasonable having regard to market conditions at the time of the sale.

This mechanism ensures that the party so disposing of production is not required to investigate each opportunity to sell production in an attempt to obtain the highest price available in the marketplace.

(g) "commercial quantities" means, with respect to a well, the anticipated output of petroleum substances from that well which would reasonably warrant drilling another well in the same area to the formation indicated to be productive by that well, having regard to anticipated drilling costs, completion costs, equipping costs and operating costs, the kind and quality of petroleum substances indicated, the anticipated availability of facilities for treating and processing such petroleum substances and the anticipated cost of such services, the anticipated availability of markets for such petroleum substances, the anticipated availability of transportation service for the delivery of such production to market and the anticipated cost of such service, the royalties and other burdens payable for the joint account with respect thereto, the probable life of the well and the anticipated price to be received for the petroleum substances as and when sold.

(h) "completion" means the installation in, on, or with respect to a well of all such production casing, tubing and wellhead equipment and all such other equipment and material necessary for the permanent preparation of the well for the taking of petroleum substances therefrom up to and including the outlet valve on the wellhead and includes, as necessary, the perforating, stimulating, treating, fracing and swabbing of the well and the conduct of such production tests with respect to such well as are reasonably required to establish the initial producibility of the well.

(i) "completion costs" means the costs of completing a well.

(j) "development well" means a well, insofar as the geological zones penetrated in the drilling thereof (or proposed to be penetrated, as provided in the AFE therefor or the operation notice relating thereto) are stratigraphically above the base of the deepest geological zone in which an existing well within 3.2 kilometres thereof (as measured from the coordinates where the other well penetrated, and the proposed well is anticipated to penetrate, the top of such geological zone) is or has been capable of production of petroleum substances in commercial quantities, provided that only geological zones and individual petroleum substances included in the joint lands in the spacing unit for such proposed well shall be considered when making such determination.

(k) "drilling costs" means all moneys expended (exclusive of completion costs and equipping costs) with respect to the drilling of a well, including, without restricting the generality of the foregoing, the cost of obtaining surface access to and for the site of the well, the preparation of the site of such well, the construction of such roadways as are reasonably necessary to gain access to the site of the well, the installation of all surface and intermediate casing respecting the well, the logging, coring and testing of the well and, in the event the well is not completed, but is abandoned, the cost of such abandonment.

(l) "equipping" means the installation of such equipment as is required to produce petroleum substances from a completed well, including, without restricting the generality of the foregoing, a pump (or other artificial lift equipment), the installation of the flow lines and production tankage serving the well and, if necessary, a heater, dehydrator or other wellsite facility for the initial treatment of petroleum substances produced from the well to prepare such production for transportation to market, but specifically excludes any such equipment, installation or facility that is (or is intended to be) a production facility.

(m) "equipping costs" means the costs of equipping a well.

(n) "exploratory well" means a well, insofar as it is not a development well.

(o) "for the joint account" means for the benefit, interest, ownership, risk, cost, expense and obligation of the parties in proportion to their respective working interests.

(p) "joint lands" means those lands and interests therein which have been made subject hereto by the Agreement, or so much thereof which remains subject hereto and, except where the context otherwise requires, shall include the petroleum substances within, upon or under those lands and interests, insofar as those lands and interests are subject to the title documents.

(q) "joint operation" means an operation conducted hereunder for the joint account.

(r) "Joint-Operator" means a party having a working interest in the joint lands, including the Operator if it has a working interest in the joint lands.

(s) "market price" means the price at which petroleum substances are to be sold pursuant to Article VI where a party does not take its share of petroleum substances in kind and separately dispose of the same, which price is not unreasonable, having regard to market conditions applicable to similar production in arm's length transactions at the time of such disposition, including, without restricting the generality of the foregoing, such factors as the volumes available, the kind and quality of petroleum substances to be sold, the effective date of the sale, the term of the sale agreement, the point of sale of the petroleum substances and the type of transportation service available for the delivery of the petroleum substances to be sold.

Subclause 101(u): Clause 1004 enables a proposing party to operate an independent operation in which the operator elects to participate. The rationale for this provision is explained in the comment respecting that Clause.

Subclause 101(w): Participating interest has been redefined, so that it relates to a party's share of the cost of an operation, rather than to its interest in the lands. If an operation is conducted for the joint account, the participating interest and working interest of a party would be identical.

Subclause 101(x): See the comments respecting Subclause 101(g).

Subclause 101(z): i) A production facility is basically a minor facility owned exclusively by all or some of the parties which is intended to serve the joint lands, where the parties have decided against the preparation of a separate CO&O agreement. If those conditions are not met, the facility is beyond the scope of the Operating Procedure. (See also the commentary on Article XIV.)

ii) Remember that the definition excludes refineries, cryrogenic gas plants, acid gas or sulphur recovery facilities and sulphur forming, loading and remelting facilities.

iii) Note that the production facility does not have to be held by the parties in the percentages of their working interests in the joint lands. A production facility may be constructed as an independent operation pursuant to Clause 1021 or expanded as an independent operation pursuant to Clause 1022.

iv) Remember that a facility which is initially constructed and operated as a production facility might cease to be a production facility.

If the parties subsequently enter into a CO&O agreement respecting a facility, it will no longer be a production facility for the purposes of the Operating Procedure. Even if the parties intend to enter into a separate CO&O agreement, the Operating Procedure at least ensures the parties that the facility will be covered by a document until the CO&O agreement is finalized.

The facility may also cease to be a production facility if it is subsequently used significantly with respect to outside substances. (See Clause 1408.)

(t) "operating costs" means all moneys expended (exclusive of drilling costs, completion costs and equipping costs) to operate a well for the recovery of petroleum substances, as more particularly set forth in the Accounting Procedure and, where applicable, all moneys expended to operate a production facility hereunder.

(u) "Operator" means the party appointed by the Joint-Operators to conduct operations hereunder for the joint account, except as provided in Clause 1004.

(v) "party" means a person, corporation, partnership or body politic bound by this Operating Procedure.

(w) "participating interest" means the percentage share of the costs of an operation conducted hereunder (or any respective segment thereof) which a party has agreed to pay or is required to pay pursuant to this Operating Procedure.

(x) "paying quantities" means:

(i) in the case of a well which has been drilled, but not completed and equipped: the anticipated output from the well of that quantity of petroleum substances which would reasonably warrant incurring the completion costs and equipping costs of the well, considering the anticipated completion costs, equipping costs and operating costs associated therewith, the kind and quality of petroleum substances indicated, the anticipated availability of facilities for treating and processing such petroleum substances and the anticipated cost of such services, the anticipated availability of markets for such petroleum substances, the anticipated availability of transportation service for the delivery of such production to market and the anticipated cost of such service, the royalties and other burdens payable for the joint account with respect to such production, the probable life of the well and the anticipated price to be received for the petroleum substances produced therefrom as and when sold; or

(ii) in the case of a well completed for the taking of production: the output from the well of that quantity of petroleum substances which would reasonably warrant the taking of production from the well, considering the same factors as in paragraph (i) of this Subclause, except completion costs.

(y) "petroleum substances" means petroleum, natural gas and every other mineral or substance, or any of them, in which an interest in or the right to explore for is granted or acquired under the title documents.

(z) "production facility" means, subject to Article XIII and Clauses 1021, 1022 and 1408, any facility serving (or intended to serve) more than one (1) well (including, without restricting the generality of the foregoing, any battery, separator, compressor station, gas processing plant, gathering system, pipeline, production storage facility or warehouse), which is:

(i) constructed or installed for the joint account;

(ii) owned exclusively by the parties in accordance with their respective working interests;

(iii) initially intended to be utilized exclusively with respect to the production, treatment, storage or transmission of petroleum substances;

(iv) not used for fractionation of petroleum substances, sulphur extraction or separation of liquids by refrigeration; and

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

and includes all real and personal property of every kind, nature and description directly associated therewith, excluding petroleum substances, the joint lands and the Operator's owned or leased equipment.

(aa) "proportionate share" means, with respect to a party, a percentage share equal to that party's working interest.

(bb) "Regulations" means all statutes, laws, rules, orders and regulations in effect from time to time and made by governments or governmental boards or agencies having jurisdiction over the joint lands and over the operations to be conducted thereon.

Subclause 101(cc): i) Note the addition of the reference to the producing zone at the end of (ii).

There has been a general assumption that the normal Alberta spacing unit respecting a gas well is 640 acres in all zones in which the parties jointly hold the section. Since the parties are free to drill and produce a Viking gas well on the same section as is located a Nisku gas well, it is clear that a production spacing unit has both an areal and stratigraphic component.

Given the reference in the traditional definition to the three dimensional "area allocated to the well pursuant to the regulations for the purpose of producing petroleum substances," the definition was certainly accurate as it stood, but the subtlety of the definition may not have been appreciated by most users.

ii) Remember that a spacing unit is not a static concept. A reduced spacing order subsequently issued under the regulations will change the spacing unit under the Operating Procedure as well.

Subclause 103(c): i) This clarifies the timing problems inherent in the use of such terms as "within" or "at least" when referring to a specific number of days, and is based on the comparable provision in the Alberta Rules of Court.

ii) Clause 103 of the 1988 PASC Accounting Procedure states that if the due date of a joint account billing falls on a weekend or a statutory holiday, the payment will be due on the preceding business day.

Clause 105: The inclusion of this provision ensures that terms such as "abandon," "abandoning" and "abandonment" can be used in the context of the simple definition of "abandonment."

Clause 107: The working interests of the parties and the allocation of legal responsibility provided in the Operating Procedure (i.e., Article IV) shall continue to apply among the parties, notwithstanding the registered interests in the documents of title and regulatory provisions respecting legal responsibility for activities conducted hereunder.

If the registered interests in the title documents do not correspond to the working interests (as is often the case), the traditional conflicts provision literally states that the working interests of the parties are the registered interests in the title documents because of the inconsistency between the title documents and the Operating Procedure.

The liability reference is included because of the degree to which the title documents and the regulations require the lessee or well licencee to assume legal responsibility for losses. Although that allocation of responsibility may be in the public interest, it is clear that the provisions of the Operating Procedure allocating legal responsibility among the parties should continue to govern the relationship of the parties with respect to the apportionment of responsibility for the loss among the parties.

(cc) "spacing unit" means:

(i) with respect to a well which has not been completed for the production of petroleum substances: the area allocated by the Regulations for the drilling of that well, provided that in the absence of such allocation or a specific designation in the Agreement, the spacing unit for the well shall be deemed to be the quarter-section, unit or similar geographical area which includes the bottomhole co-ordinates of the well; and

(ii) in every other case: the area allocated to the well pursuant to the Regulations for the purpose of producing petroleum substances in each zone from which such petroleum substances are to be produced.

(dd) "spud" means, with respect to a well, that a drilling rig of adequate capacity to drill that well to the total depth projected in the AFE therefor is rigged-up on location and that a drilling bit has penetrated the surface therefrom.

(ee) "title documents" means the documents of title by virtue of which the parties are entitled to drill for, win, take or remove petroleum substances underlying the joint lands, and all renewals, extensions or continuations thereof or further documents of title issued pursuant thereto.

(ff) "working interest" means the percentage of undivided interest held by a party in a production facility or the joint lands, or the respective zones, portions, parcels or parts thereof, which percentage is as provided in the Agreement or is as modified subsequently pursuant to the provisions hereof.

102 HEADINGS – Article headings and any other headings or captions or indices hereto shall not be used in any way in construing or interpreting any provision hereof.

103 REFERENCES – Unless otherwise expressly stated:

(a) the references "hereunder", "herein" and "hereof" refer to the provisions of this Operating Procedure, and references to Articles, Clauses, Subclauses or paragraphs herein refer to Articles, Clauses, Subclauses or paragraphs of this Operating Procedure;

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

(c) any reference to days herein is a reference to calendar days, and where the phrase "within" or "at least" is used with reference to a specific number of days herein, the day of receipt of the relevant notice or the day of the relevant event, as the case may be, shall be excluded in determining the relevant time period. However, in the event the time for doing any act expires on a Saturday, Sunday or statutory holiday in either the Province of Alberta or Canada, the time for doing such act shall be extended to the next normal business day, except as prescribed in the Accounting Procedure with respect to the payment of billings.

104 OPTIONAL AND ALTERNATE PROVISIONS – Where alternate or optional provisions are provided for herein and the parties have failed to designate which alternate shall apply or whether a respective optional provision shall be included, the first alternate provision in each such case shall apply as if the parties had designated the same, and the remaining optional provision shall be deemed not to form a part hereof.

105 DERIVATIVES – Where a term is defined herein, a derivative of that term shall have a corresponding meaning unless the context otherwise requires.

106 USE OF CANADIAN FUNDS – All references to "dollars" or "$" herein shall mean lawful currency of Canada, and all payments and receipts shall be made and recorded in lawful currency of Canada.

107 CONFLICTS – If any provision contained in the Agreement conflicts with a provision herein, the provision in the Agreement shall prevail, and if a provision herein conflicts with a provision in an exhibit or schedule attached hereto, the provision herein shall prevail. In the event of a conflict between any provision in the Agreement or this Operating Procedure and the Regulations or the title documents, the Regulations or the title documents, as the case may be, shall govern, except that: (i) the working interests shall prevail if there is a difference between the working interests and the registered interests in the title documents; and (ii) the allocation of responsibility for losses as provided herein (including, without restricting the generality of the foregoing, Article IV hereof) shall govern the relationship of the parties. If there is a conflict as provided above, the Agreement or this Operating Procedure, as the case may be, shall be modified accordingly to the extent necessary to resolve such conflict, and, as so modified, shall continue in full force and effect.

Paragraph 202(a)(i): i) Notwithstanding the clear wording of provisions such as this paragraph, there is a major difficulty in attempting to enforce such a provision. As evidenced by the case of Norcen Energy Resources Limited and Prairie Oil Royalties Company, Ltd. v. Oakwood Petroleums Ltd. (1988), 92 A.R. 81 (Alta. Q.B.), courts may be willing to protect an insolvent operator from the imposition of such a provision, even though that party had quite willingly accepted the provision at the time it executed the document.

The case pertained to an interpretation of Section 11 of The Companies' Creditors Arrangement Act. This act is similar in intent to the concept of "Chapter 11" protection in American law, in that its purpose is to attempt to allow an insolvent company to continue as a going concern in the hope that it will be able to overcome its major financial difficulties or make an arrangement with its creditors.

Norcen was not a creditor of Oakwood in the case, and the court interpreted Section 11 as giving it the authority to affect the contractual relations between the insolvent party and a non-creditor. It granted a temporary stay which prevented Norcen from assuming operatorship pursuant to Clause 202 of the 1981 document, even though the court recognized that Oakwood had been insolvent for some time. The case was not appealed. This protection from the application of Clause 202, however, would not apply where the operator is making a proposal to creditors under The Bankruptcy Act. See Tri-Star Resources Ltd. v. J.C. Int. Petroleum Ltd., [1987] 2W.W.R.141 (Alta. Q.B.).

The document differs from the 1981 document, in that it includes a waiver of relief provision (Clause 2807), through which a party waives certain rights it may have at law or under the regulations. However, it is questionable whether that provision would apply to this problem.

ii) The court also determined in the Norcen case that insolvency was to be given its normal meaning in the interpretation of the 1981 CAPL provision. Oakwood had attempted to argue that it was commercially solvent with respect to day-to-day matters relating to the specific agreement and that the Operating Procedure provisions contemplated only commercial insolvency. Paragraph (i) has been amended to reflect the court's interpretation of the intention of the previous provision. However, a party would require a great deal of information about the operator's business affairs if the issue of the operator's insolvency were to be considered by a court, and would be unlikely to receive any significant cooperation from the operator prior to the commencement of an action. It would therefore be difficult to determine both whether or when insolvency had occurred.

iii) Note the reference to the appointment of a receiver. Following the appointment of a receiver, the lender will generally provide the funds required to ensure that the debts are then paid as they become due, such that the onus on the non-operators to prove insolvency would be more difficult.

iv) There may be circumstances in which the other parties would waive the immediate removal of the operator.

Paragraph 202(b)(i): i) This paragraph is much stronger than the generally accepted Clause 203 challenge mechanism, since it enables the non-operators to remove an operator against its will. Given the significant costs potentially associated with the removal of an operator during the development phase, the potential for the disruption to operations and the business considerations associated with such a removal, the most practical impact of this provision is to reinforce the operator's accountability to the owners for its performance. Although quite different from the traditional challenge mechanism, it should be remembered that the use of a voting procedure/no cause challenge mechanism is used in conventional unit agreements, the CAPL Frontier Operating Procedure and U.K. joint operating agreements. One might argue that this provision should provide the operator with the right to attempt to rectify its perceived defaults or shortcomings. However, the problem with that suggestion would be the difficulty one would have in trying to quantify what would usually be a qualitative problem, so that one could determine whether the operator had satisfied the performance standard.

ii) A non-operator holding at least a 66% working interest has the right to assume operatorship by notice to the other parties. This reflects the fact that it is paying at least 66% of the cost of joint operations.

Paragraph 202(b)(ii): The operator is required not only to commence rectifying the default, but also to continue diligently to remedy the default.

Clause 203: i) By limiting a challenge to an offer to conduct joint operations on "more favourable" terms and conditions than the operator, the challenger faces a serious, if not insurmountable, obstacle. Since one is unable to quantify qualitative changes, the provision seems limited to financial terms. However, how can a challenger give any more than its best cost estimate when the costs of exploration are a function of such factors as weather conditions, exploration success (testing costs), mechanical difficulties, the demand for equipment and inflation? A challenge on the basis of terms and conditions, therefore, might in practice only be the right to challenge on the basis of overhead rates. Moreover, a challenge on the basis of financial terms and conditions ignores the consideration that the basis of a challenge may be the operator's technical, rather than cost performance.

ARTICLE II

APPOINTMENT AND REPLACEMENT OF OPERATOR

201 ASSUMPTION OF DUTIES OF OPERATOR – The Operator named in the Agreement, or any succeeding Operator appointed hereunder, shall assume the duties and obligations of the Operator hereunder and shall have all the rights of the Operator hereunder.

202 REPLACEMENT OF OPERATOR –

(a) The Operator shall be replaced immediately and another Operator appointed forthwith pursuant to Clause 206 upon notice to such effect being served by any party to the other parties if:

(i) the Operator becomes bankrupt or insolvent, commits or suffers any act of bankruptcy or insolvency, is placed in receivership, seeks debtor relief protection under applicable legislation (including, without restricting the generality of the foregoing, the Bankruptcy Act of Canada and the Companies' Creditors Arrangement Act of Canada) or permits any judgement to be registered against its working interest, and without restricting the generality of the foregoing, an Operator shall be deemed insolvent for the purposes of this Clause if it is unable to pay its debts as they fall due in the usual course of business or if it does not have sufficient assets to satisfy its cumulative liabilities in full; or

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

(b) The Operator shall be replaced and another Operator appointed pursuant to Clause 206 if:

(i) the Joint-Operators agree, by the affirmative vote, by notice to the other parties, of two (2) or more Joint-Operators representing a majority of the working interests, to replace the Operator, provided that a single Joint-Operator holding more than a sixty-six percent (66%) working interest in the joint lands shall have the right, by notice to the other parties, to replace the Operator and to become Operator at the time prescribed by Subclause 206(d), unless it would then be subject to replacement pursuant to paragraph 202(a)(i); or

(ii) the Operator defaults in its duties or obligations or any of them hereunder and, within thirty (30) days after written notice from a majority in working interest of the Joint-Operators, excluding the Operator, specifying the default and requiring the Operator to remedy the same, it does not commence to rectify the default and thereafter diligently continue to remedy the default.

203 CHALLENGE OF OPERATOR – At any time after an Operator has been Operator for at least two (2) years, any Joint-Operator, other than the Operator, may give notice ("the challenge notice") to the other parties that it is ready, able and willing to conduct operations for the joint account on more favourable terms and conditions. The challenge notice shall contain sufficient detail to enable the receiving parties to evaluate the nature of the challenge notice and to measure the effect the revised terms and conditions would have on joint operations. The Operator shall, within sixty (60) days after receipt of the challenge notice, advise the Joint-Operators either that:

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

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

Failure by the Operator to advise the Joint-Operators of its election within such sixty (60) day period shall be deemed to be an election by the Operator to resign. If the Operator resigns, a new Operator shall be appointed pursuant to Clause 206, whereupon such new Operator shall operate on the terms and conditions set out in the challenge notice. If no other Joint-Operator is prepared to act as Operator on the terms and conditions set out in the challenge notice, the Joint-Operator giving the challenge notice shall become the new Operator and shall thereafter conduct operations pursuant to the undertakings made by it in the challenge notice. Any costs in excess of those set out in the challenge notice shall be for the new Operator's sole account. Notwithstanding Clause 204, the new Operator shall not resign from the position of Operator until it has acted as Operator for a period of at least two (2) years. A Joint-Operator may not issue a challenge notice or become Operator pursuant thereto if, at the time of issuing the challenge notice or the time it would become Operator pursuant thereto, it would be subject to replacement as Operator pursuant to Subclause 202(a) if it were Operator at that time.

Although the mechanism may be useful in some circumstances, in that it at least enables a party to file a "complaint," paragraph 202(b)(i) provides the non-operators with far greater protection in practice.

ii) Note that the challenge could take almost six months to effect if the relevant events were to occur at the latest times provided in the document.

iii) If the concern of the non-operators is the operator's reluctance to proceed with a work program, the non-operators could consider assuming a more active role through the utilization of Article X.

Clause 206: i) Ignoring the challenge scenario, a new operator shall be appointed pursuant to Clause 206 in the event that the operator resigns or is to be replaced.

Generally, no party may be appointed as operator unless it has given its written consent to the appointment. However, if the parties are unable to appoint a successor operator, the non-operator having the greatest working interest shall serve as operator pro tem.

Under no circumstances, though, shall a provision of the Clause serve to reappoint as the successor operator a party which had been replaced as operator pursuant to the provisions of Clause 202 without the consent of the parties.

ii) Note the proviso at the end of the first sentence of (a). This has been included for consistency with the proviso in paragraph 202(b)(i).

Clause 207: The outgoing operator remains responsible for the unsatisfied duties and obligations which had accrued to it.

Clause 208: The Clause merely specifies that the audit shall be conducted at a certain time. The provisions of the Accounting Procedure otherwise apply to the audit, including the resolution of discrepancies disclosed by the audit.

204 RESIGNATION OF OPERATOR – Subject to Subclause 202(a) and Clauses 203 and 205, the Operator may resign as Operator on giving each of the Joint-Operators ninety (90) days' notice of its intention to do so.

205 MODIFICATION OF TERMS AND CONDITIONS BY OPERATOR – At any time after an Operator has been the Operator for a continuous period of two (2) years, it may give notice ("the Operator's notice") to the other parties of the revised terms and conditions on which it is prepared to continue to conduct joint operations. Within sixty (60) days of receipt of the Operator's notice, each Joint-Operator shall advise the Operator whether it agrees to the Operator continuing as Operator and conducting joint operations on the terms and conditions contained in the Operator's notice, provided that failure by a Joint-Operator to respond within such period shall be deemed to be agreement by that party to the terms and conditions in the Operator's notice. If any Joint-Operator does not so agree, it shall give notice ("counter proposal") to the other parties of the terms and conditions upon which it would conduct joint operations. Any such counter proposal shall be deemed to be a challenge of Operator and shall be subject to all of the terms and conditions of Clause 203, as though such counter proposal was "the challenge notice" provided therein, except that in determining the merits of the counter proposal, it shall be compared to the terms and conditions contained in the Operator's notice, rather than to the existing operating terms and conditions.

206 APPOINTMENT OF NEW OPERATOR –

(a) If an Operator resigns or is to be replaced, a successor Operator shall be appointed by the affirmative vote (by notice to the other parties) of two (2) or more parties representing a majority of the working interests in the joint lands, provided that a single Joint-Operator holding more than a sixty-six percent (66%) working interest in the joint lands shall have the right, by notice to the other parties, to become the Operator hereunder, unless it would then be subject to replacement pursuant to paragraph 202(a)(i). If there are only two (2) Joint-Operators and the Operator that resigned or is to be replaced is one of the Joint-Operators, the other Joint-Operator shall have the right to become the Operator.

(b) No party shall be appointed as Operator hereunder unless it has given its written consent to the appointment. However, if the parties fail to appoint a successor Operator or if any appointed Operator fails to carry out its duties hereunder, the party having the greatest working interest shall act as Operator pro tem, with the right, should a similar situation re-occur after a new Operator has been appointed, to require the party having the next greatest working interest to act as Operator pro tem and so on as the occasion demands.

(c) No provision of this Article shall be construed to re-appoint as next-succeeding Operator an Operator who had been replaced under Clause 202, except with the unanimous consent of the parties.

(d) Except as provided in Subclause 202(a), every replacement of Operator shall take effect at eight o'clock in the morning (0800 hours) on the first (lst) day of the calendar month following the determination to replace the Operator pursuant to Subclause 202(b) or such other date as may be prescribed pursuant to Clause 203 or 204, as the case may be, notwithstanding anything contained herein.

207 TRANSFER OF PROPERTY ON CHANGE OF OPERATOR – At the effective date of the resignation or replacement of an Operator as provided in this Article II, the Operator being replaced shall deliver to the successor Operator possession of:

(a) the wells being drilled or operated by the Operator hereunder, except any wells in respect of which the succeeding Operator is not entitled to information, which shall be operated by a party determined pursuant to Clause 1004 until the successor Operator becomes entitled to such information;

(b) all production facilities, other facilities and funds held for the joint account, together with all production, if any, which has not been delivered in kind;

(c) copies of books of account and records kept for the joint account or pertaining to wells delivered hereunder; and

(d) all documents, agreements and other papers relating to property transferred hereunder.

Upon compliance with such obligation, the outgoing Operator shall be released and discharged from, and the successor Operator shall assume, all duties and obligations of the Operator, except those unsatisfied duties and obligations of the outgoing Operator which had accrued prior to the effective date of the change of Operator, for which the outgoing Operator shall continue to remain liable.

208 AUDIT OF ACCOUNTS ON CHANGE OF OPERATOR – Within ninety (90) days after the successor Operator commences to act as Operator, the parties shall cause an audit to be made of the books of account and records kept for the joint account and may cause an inventory of controllable material to be taken. The cost of the audit and inventory shall be a charge for the joint account.

Clause 209: i) This Clause addresses the assignment of operatorship, so that the rights of the non-operators are clear. As there would be no anticipated impact on joint operations with respect to a transfer from ABC Ltd. to its affiliate, ABC Resources Inc., operatorship may be assigned to an affiliate when the working interest is also being assigned. If the non-operators were sufficiently troubled with the operator's performance, they presumably would have used their other rights to remove the operator. If there is a concern that the affiliate is a "shell company," the parties can easily replace it pursuant to paragraph 202(b)(i) in cases in which the non-operators hold a majority in interest, and they will have immediate access to Clause 203 in all cases.

ii) Suppose ABC Ltd. assigns to ABC Resources Inc. Since ABC Resources Inc. is a distinct entity from ABC Ltd. and a new operator, the two year periods in Clauses 203 and 204 would begin to run from the effective date of the change of operatorship in the absence of the last sentence.

Subclause 301(a): One of the fundamental differences between the conventional CAPL Operating Procedure and the CAPL Frontier Operating Procedure is the creation of the management committee and the assignment of certain responsibilities thereto in the frontier document.

Ignoring the independent operations mechanism and, of course, the expenditure approval process, the role of the non-operators in setting exploration strategy superficially seems minimal under the provisions of the conventional CAPL Operating Procedure. (Subclause 301(a) includes a simple duty to consult, and Clause 504 gives a non-operator the right to require the operator to provide the non-operators with a forecast of the anticipated operations to be conducted for the joint account over the succeeding three to twelve-month period.) However, it is not feasible to include a management committee provision in the document. A typical operator will be operating a multitude of blocks with varying partners, interests, tenures, prospectivity, maturity and activity. It would not be reasonable to impose a management committee procedure on an operator with respect to each block it operates because of the resultant administrative burden. Moreover, the mechanism would not be workable in many instances anyway because of the likelihood that one party would hold more than a 50% interest or that there would only be two interest holders.

It is important to recall that the independent operations provision and the expenditure approval process included in the document in fact provide the non-operators with significant control respecting the exploration of the joint lands.

Subclause 301(b): i) The $25 000 discretionary authority is included in order to enable an operator to make those minor capital expenditures which, in the course of normal day-to-day operations, are required to maintain production, such as the replacement of a minor piece of wellsite equipment. It is not intended to provide the operator with the authority to conduct exploration operations or geological studies.

ii) Note that there is no specific requirement for the operator to submit an itemized report of such discretionary expenditures to the parties, other than insofar as such information is normally required pursuant to Clause 102 of the Accounting Procedure. The only review mechanism as such would be in the case where a non-operator were so concerned by the operator's tendency to make such expenditures that it convened a meeting of the parties to discuss the matter.

iii) The operator may make additional expenditures without the approval of the joint operators if required by the regulations or if reasonably considered necessary by the operator for the protection of life or property. In such event, the operator is required to advise the non-operators of the nature of that requirement or event and the anticipated expenditure associated therewith.

Subclause 301(c): In the absence of a specific provision in an agreement, has a party which has agreed to participate in an operation by approving the applicable AFE elected to pay its proportionate share of the cost of that operation or is its participation conditional on the actual cost of such operation corresponding to the estimate? Intuitively, operational necessity leads one to the conclusion that the cost estimate included in an AFE is merely the operator's best estimate of the cost of conducting an operation. How could it be otherwise when costs are subject to modification because of such factors as mechanical difficulties, the presence of hydrocarbons and weather? Moreover, one of the consequences of the contrary view would be that a participant had committed to paying the estimated cost if actual costs were lower!

As evidenced by American jurisprudence and the leading Canadian case of Renaissance Resources Ltd. v. Metalore Resources Ltd., [1984] 4 W.W.R. 430 (Alta. Q.B.), affirmed, [1985] 4.W.W.R.673 (Alta. C.A.), the general legal rule is that the approval of an AFE constitutes the authority of a party for the operator to conduct the operation described in the AFE, notwithstanding that the actual cost may differ from the operator's estimate. The one major qualification to that general statement is that a party might be entitled to some relief if the operator had been fraudulent or grossly negligent in the preparation of its cost estimate or the operator realized that actual costs would differ significantly from its cost estimate in the period between the issuance of the AFE and the commencement of the operation.

It seems likely, though, that some parties will deviate from the principle in this Subclause with respect to drilling operations in the foothills. Given the potential magnitude of cost overruns in that operating environment, a pure "commitment to the operation" mechanism could have a serious financial impact on a party in practice.

Clause 303: The usual result of a reference to an operator as an independent contractor would be to require the operator to assume full legal responsibility for its own negligence. This general legal principle is overridden by the provisions of the document respecting liability and indemnity (Article IV).

209 ASSIGNMENT OF OPERATORSHIP – In the event the Operator wishes its assignee to replace it as Operator after having disposed of all or a portion of its working interest in the joint lands and any production facilities to such assignee pursuant to Article XXIV, such assignee shall have the right to become Operator if it is an Affiliate of the Operator or, if it is not an Affiliate of the Operator, if the parties agree that it shall become Operator pursuant to Clause 206. Should an assignee which is an Affiliate of the Operator become the Operator pursuant to this Clause, the two (2) year time periods described in Clauses 203 and 205 shall be calculated as if the assignment had not occurred and the audit prescribed pursuant to Clause 208 shall not be required.

ARTICLE III

FUNCTION AND DUTIES OF OPERATOR

301 CONTROL AND MANAGEMENT OF OPERATIONS –

(a) The Operator shall consult with the Joint-Operators from time to time with respect to decisions to be made for the exploration, development and operation of the joint lands and the construction, installation and operation of any production facilities, and the Operator shall keep the Joint-Operators informed with respect to operations planned or conducted for the joint account. Subject to the provisions hereof, the Operator is hereby delegated the management of the exploration, development and operation of the joint lands and the construction, installation and operation of any production facilities for the joint account on behalf of the Joint-Operators.

(b) The Operator shall be entitled to make or commit to such expenditures for the joint account as it considers necessary and prudent in order to conduct a good and workmanlike operation on the joint lands for the joint account. However, the Operator shall not make or commit to an expenditure for the joint account for any single operation, the total estimated cost of which is in excess of twenty-five thousand ($25 000) dollars, without an approved Authority for Expenditure from the Joint-Operators, unless the expenditure is reasonably considered by the Operator to be necessary by reason of an event endangering life or property or is required by the Regulations and failure to make such expenditure could result in the prosecution of the Operator thereunder. If the Operator is required to make such an expenditure, it shall promptly advise the Joint-Operators of the nature of such event or requirement and the expenditure anticipated to be associated therewith.

(c) Approval of an Authority for Expenditure by a party shall constitute that party's approval of all expenditures necessary to conduct the operation described therein, subject to the provisions of Article IX. However, if the Operator incurs or expects to incur expenditures with respect to a joint operation which would exceed by more than ten percent (10%) the total amount estimated in the AFE therefor, the Operator thereupon shall, for informational purposes only, forthwith advise the Joint-Operators of such overexpenditure, the Operator's explanation therefor and the Operator's revised estimate of the cost of such operation. The Operator thereafter shall provide estimates of current and cumulative costs incurred for the joint account with respect to such operation. Such estimates shall be provided on a daily basis where practical, but in any event at intervals of not greater than ten (10) days until the operation is completed.

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

303 INDEPENDENT STATUS OF OPERATOR – The Operator is an independent contractor in its operations hereunder. The Operator shall supply or cause to be supplied all material, labor and services necessary for the exploration, development and operation of the joint lands and the operation of any production facilities for the joint account. The Operator shall determine the number of employees respecting its operations, their selection, their hours of labour and their compensation. All employees and contractors used in its operations hereunder shall be the employees and contractors of the Operator.

304 PROPER PRACTICES IN OPERATIONS – The Operator shall conduct all joint operations diligently, in a good and workmanlike manner, in accordance with good oilfield practice and the Regulations.

305 BOOKS, RECORDS AND ACCOUNTS – The Operator shall, with respect to all joint operations, keep and maintain true and correct books, records and accounts with respect to the development and progress made, drilling done, the conduct of other operations, the production of petroleum substances and the disposition thereof in the manner prescribed herein and in the Accounting Procedure. The Operator shall, upon request of a Joint-Operator, make available in Alberta and there permit each Joint-Operator during normal business hours to inspect such books, records and accounts and to make extracts or copies therefrom and thereof, and to audit the Operator's books, records and accounts as provided in the Accounting Procedure. However, a Joint-Operator shall not have the rights granted under this Clause with respect to a well while not entitled to information with respect to that well.

Clause 305: i) Although the provision does not specifically refer to microfiche, microfilm and other electronic records, the phrase "books, records and accounts" is broad enough to include records in those forms. Since auditors would have access to the records in whichever form they are maintained, it is inappropriate to specify an operator's record keeping procedures in the document.

ii) See Clause 501, which requires the operator to maintain records respecting operations conducted hereunder separately from those kept by it respecting other operations, in accordance with good oilfield practice.

Subclause 309(a): Note that the duty to maintain the title documents does not require or permit the operator to drill a well or conduct any operation.

Subclause 309(b): The operator is obligated to consult with the other parties with respect to any continuation or grouping applications it proposes to make in order to maintain any of the title documents in good standing and such other matters as offset requirements. It is also required to provide copies of related correspondence to the non-operators in a timely manner.

The provision is a recognition of the fact that the operator has a duty to consult with the non-operators with respect to all material matters which pertain to the maintenance of the title documents.

Subclause 309(c): i) This simple lease selection mechanism is designed for the situation in which the interests in the affected lands are uniform.

Although suitable for a case in which a farmee has earned all of the licence lands for drilling a well which validated less than an entire licence, it will often be desirable to include a lease selection provision in the head agreement, so that the provision in the head agreement overrides this Subclause.

A farmor would likely want to include a special provision if a lease selection is required to be made during the earning phase, as could be the case if sufficient work had previously been conducted to enable the parties to make a lease selection on a portion of the licence lands.

In addition, a special provision would be required if a farmee had both earned and validated less than the entire title document, since the process would be much more complicated. This is especially the case with respect to British Columbia and Saskatchewan permits, where the earned lands may comprise only a small portion of the permit lands.

As the provision also assumes that the interests of the parties would be consistent throughout the licence, modifications would be required if there were different farmors in distinct portions of the licence or if farmor interests varied.

ii) Note the reference to "selection units," as prescribed by the regulations. Basically, lease selections in Alberta at this time are required to be in whole sections (where available). However, individual spacing units may be selected if the lease earning well is a petroleum discovery (See 11(5) and 11(6) of the P&NG Agreements Regulation).

Subclause 309(d): i) If sufficient work has been conducted with respect to a licence or permit to convert only a portion of the lands contained therein to lease, there is a problem determining whether a well is a title preserving well and the applicable preserved lands for the purpose of Clause 1010, unless the lands to be retained for the joint account are designated prior to the issuance of the operation notice.

In the event a party were concerned that the lands it regarded as prospective would be returned to the Crown unless an additional well were drilled, it would cause the parties to designate their lease selection at an early date for the purposes only of crystallizing the positions of the parties with respect to Clause 1010. If the lands regarded as prospective by that party were to be retained, the penalty in Clause 1007 would apply to a well thereon. If, on the other hand, they were not to be retained, the penalty in Clause 1010 would apply to a well thereon.

ii) Since the lease selection would not be made to the Crown until the date required by the regulations, the parties retain the flexibility of changing their selection at a later date should they so agree.

306 PROTECTION FROM LIENS – The Operator shall pay, or cause to be paid, as and when they become due and payable all accounts of contractors and claims for wages and salaries for services rendered or performed and for materials supplied with respect to the joint lands, any joint operations and any production facilities. The Operator shall keep the joint lands and any production facilities free from liens and encumbrances resulting therefrom, unless there be a bona fide dispute with respect thereto.

307 JOINT-OPERATOR'S RIGHTS OF ACCESS – Except as otherwise provided herein, the Operator shall permit each Joint-Operator or its duly authorized representative, at that Joint-Operator's sole risk, cost and expense, full and free access at all reasonable times to inspect and observe all production facilities and all joint operations being conducted upon the joint lands and to the records on location of current operations being conducted thereon.

308 SURFACE RIGHTS – The Operator shall acquire and maintain for the joint account all necessary surface rights respecting joint operations.

309 MAINTENANCE OF TITLE DOCUMENTS –

(a) Except as otherwise provided herein or in the Agreement, the Operator shall, on behalf of the parties and for the joint account, comply with all the terms and conditions of the title documents including: (i) the payment of rentals; (ii) the payment of any encumbrances agreed to be borne for the joint account; and (iii) the performance of all things necessary to maintain the title documents in good standing and in full force and effect. However, nothing in this Clause shall be construed to require or permit the Operator to drill a well or conduct any joint operation without the approval of the Joint-Operators, if their approval of an Authority of Expenditure with respect thereto is required pursuant to Clause 301.

(b) The Operator shall consult with the parties in a timely manner with respect to any applications it proposes to make under the Regulations to maintain any of the title documents in good standing, including, without restricting the generality of the foregoing, continuation and grouping applications and any other material decisions which are required to be made to maintain any of the title documents in good standing. The Operator shall provide the parties in a timely manner with copies of material correspondence pertaining to the maintenance of the title documents.

(c) If the joint lands are subject to a particular title document whereby the parties may select some (but not all) of such joint lands for the joint account in a successor title document as a result of work or operations which have been conducted (in this Clause called a "lease selection"), the following shall apply to the lease selection:

(i) the parties having a working interest in such title document shall consult, at least ten (10) days prior to the date upon which the lease selection is required, to attempt to agree on the lease selection; and

(ii) insofar as the parties are unable to agree on the joint lands to be included in the lease selection, the Operator shall determine the required number of minimum size geographic units prescribed by the Regulations with respect to a lease selection ("selection units") to complete the lease selection. This number shall be multiplied by each party's working interest, to determine the number of selection units which each party may select to complete the lease selection, with rounding of such number up or down to the nearest whole integer in the event such calculation would entitle a party to a selection of a partial selection unit. Each party shall be entitled to select for inclusion in leases, on a selection unit by selection unit basis, that number of selection units determined by such calculation, with the order of such selections to be determined by lot.

Following the conclusion of the lease selection process, the Operator shall submit the application for leases on behalf of the parties in such manner and at such time as are prescribed by the Regulations.

(d) If the joint lands are subject to a particular title document pursuant to which the parties may make a lease selection, a party may, at any time not earlier than one (1) year before the latest date such lease selection may be made pursuant to that title document, require the parties to select, for the purposes of Clause 1010 only, the lands which will be retained for the joint account in the manner prescribed in the Agreement or Subclause (c) of this Clause, as the case may be. The parties thereupon shall make such lease selection within ten (10) days of the receipt of such notice, as if such lease selection was required at such time. Unless otherwise agreed by the parties, such lease selection shall be binding on the parties for the purposes of determining whether a well is a title preserving well or portions of the lands are preserved lands, as those terms are defined in Clause 1010.

310 PRODUCTION STATEMENTS AND REPORTS – The Operator shall provide each Joint-Operator, before the twenty-fifth (25th) day of each month, with a statement showing production, inventories, sales and deliveries in kind to the parties of petroleum substances during the preceding month. The Operator shall also make all reports relating to joint operations

Clause 311:

Alternate A: i) Policies must be maintained with reputable insurance companies.

ii) Since the policies are maintained "for the benefit of the parties and their respective affiliates, directors, officers, servants, consultants, agents and employees," it is the better practice for the operator to have the policies endorsed to add these persons with respect to the specific work, so as to ensure that all of those involved with the operation will have the protection of the policies.

iii) Note the reference to "agents." It is unlikely that a contractor would be regarded as an agent at law. To further minimize the possibility, a specific reference to "contractors" has been added to portions of Article IV and Clause 1017.

iv) Note that a "not less than" reference is not used in the paragraphs describing the policies. The inclusion of this reference would have provided the operator with total discretion with respect to the selection of the additional coverage to be charged to the joint account.

v) Note that the Alternate does not include a self-insurance option, whereby the operator may charge to the joint account an amount commensurate with that for which that insurance would have otherwise been obtained in the marketplace. The main reason for not including the mechanism is that applicable statutes state that only a licenced insurer is permitted to charge an insurance premium. In addition, the appropriateness of such a mechanism would depend on the particular fact situation. The non-operators would consider their past dealings with the operator and their perceptions respecting the operator's continued financial viability. They would also require a mechanism whereby the option could be terminated, to address their concerns respecting a change in operator or a change in the operator's financial position.

Alternate B: i) Except for policies required to be maintained pursuant to the regulations and the special allocations of legal responsibility pursuant to Article IV, each party is responsible for losses applicable to its working interest.

ii) Notwithstanding the general statement in the contract that each party is to be responsible for the losses or claims applicable to its interest, the provision may not be effective against third party litigants. A court is not obligated by the provisions of the contract. Unless the court apportions legal responsibility among defendants, a successful plaintiff can enforce its judgment jointly against those defendants which were held responsible for its loss.

Conditions: Remember that the conditions in Subclause(a)-(g) apply to both Alternates A and B.

Subclause 311(a): Without the reference to deductibles, the operator could maintain the required coverage, but include deductibles which were so large that the coverage would provide only minimal protection.

Subclause 311(b): i) The operator is required to advise the other parties in the event that the specified policies or coverages are, in the operator's reasonable opinion, unavailable or available only at an unreasonable cost. If this is the case, the parties may wish to redetermine the policies and coverages to be maintained for the joint account.

ii) Insurance policies contain items, conditions or exclusions which limit the risks covered by the policy or the circumstances under which the insurer would be obligated to pay. These provisions should be reasonable, and the operator is required to obtain the consent of the parties if it proposes to make such a change after the policy has been acquired.

as required by the Regulations and shall, upon request of a Joint-Operator, provide it with a copy of each such report filed by the Operator with any governmental agency.

311 INSURANCE – The Operator shall comply with the requirements of all Unemployment Insurance, Workers' Compensation and Occupational Health and Safety legislation and all similar Regulations with respect to workers employed in joint operations. Without in any way limiting the obligations or liabilities of the Operator, the Operator shall also comply with the provisions of ALTERNATE _____ below (Specify A or B: the ALTERNATE not specified is deemed to be deleted from this Operating Procedure):

ALTERNATE - A:

The Operator shall, prior to the commencement of joint operations, hold or cause to be held with a reputable insurance company or companies, and thereafter maintain or cause to be maintained for the joint account and benefit of the parties and their respective Affiliates, directors, officers, servants, consultants, agents and employees, the insurance hereinafter set forth and any other insurance which is specifically required to comply with the Regulations. The insurance required pursuant to this Subclause shall apply to each separate claim and shall be as follows:

(i) Automobile Liability Insurance covering all motor vehicles or snowcraft and all terrain vehicles, owned or non-owned, operated or licenced by the Operator and used in joint operations (insofar only as they are used in joint operations), with an inclusive bodily injury, death and property damage limit of one million dollars ($1 000 000) per accident;

(ii) Comprehensive General Liability Insurance with an inclusive bodily injury, death, and property damage limit of one million dollars ($1 000 000) per occurrence, and, without restricting the generality of the provisions of this paragraph, such coverage shall include, but not be limited to, Employer's, Employer's Contingent Liability, Contractual Liability, Contractor's Protective Liability, Products and Completed Operations Liability; and

(iii) Aircraft Liability Insurance covering all aircraft, owned or non-owned, operated or licenced by the Operator and used in joint operations (insofar only as they are used in joint operations), with an inclusive bodily injury, death and property damage limit of five million dollars ($5 000 000) per occurrence.

- OR -

ALTERNATE - B:

The Operator shall, prior to the commencement of joint operations, hold or cause to be held with a reputable insurance company or companies, and thereafter maintain or cause to be maintained for the joint account and benefit of the parties and their respective Affiliates, directors, officers, servants, consultants, agents and employees, only that insurance as is specifically required to comply with the Regulations. It is the intention of the parties that, except as provided in the previous sentence and in Article IV, the cost of any accident, loss or any claim of or liability to third parties or to each other for bodily injury, death or property damage arising out of any operation conducted hereunder shall be borne individually by the parties participating in the operation, proportionate to their respective participating interests in the operation.

The following conditions shall be applicable to the ALTERNATE which is specified:

(a) The amount of the deductible specified for each accident or occurrence in any insurance policy maintained for the joint account shall not exceed the amount set forth in Clause 301 without the prior approval of the Joint-Operators.

(b) In the event that the policies which the Operator is required to obtain or maintain for the joint account are, in the Operator's reasonable opinion, unavailable or available only at an unreasonable cost, the Operator shall promptly notify the other Joint-Operators, in order that the parties may redetermine the policies which shall be held for the joint account. Subject to the provisions of this Clause, policies obtained for the joint account pursuant to this Clause may contain terms, conditions or exclusions affecting or limiting the risks covered thereby or the circumstances under which the insurer may be required to indemnify or compensate the parties thereunder, provided that such terms, conditions or exclusions are, in the Operator's reasonable opinion, the best available from the marketplace on reasonable terms and ordinary or appropriate. However, the Operator shall obtain the prior consent of the parties with respect to any such change which is made after the relevant policy or policy renewal has been acquired for the joint account.

Subclause 311(c): Payments made by the operator with respect to losses or claims arising out of joint operations are to be charged initially to the joint account if the payment has been authorized by the applicable insurers or is otherwise authorized under the Operating Procedure.

There are two points to note about this provision.

Firstly, it is inappropriate to authorize the operator to settle claims in advance of obtaining insurance proceeds or a settlement agreement from the insurer, unless the claim will not be covered by insurance or falls within the deductible limits thereof. This action could preclude payment by the insurer if the insurer had not been given proper notice of a potential claim prior to the operator's settlement or if it did not agree with the terms of that settlement.

Secondly, losses are initially assumed to be for the joint account. Insofar as it is determined that they are not to be borne for the joint account pursuant to Article IV, the accounts of the parties will be adjusted at the time of that determination, which is likely to be significantly after the payments have been made. Without that reference, it is likely that there would be a dispute as to the timing of the adjustment.

The operator shall attempt to process such claims diligently, and it shall promptly credit the joint account the amount it ultimately recovers from its insurer(s).

Subclause 311(d): i) Note the reference to primary coverage and exposure to a deductible. As many non-operators will carry insurance, this reference is included to ensure that the insurers of the specific coverage maintained for the joint account will be prevented from claiming that other coverage may be available to share the loss.

If a non-operator carries separate coverage to reduce its exposure to a deductible, it should ensure that its policy is structured so that it applies only for the deductible portion of the loss and does not duplicate the joint account coverage above the deductible amount.

ii) Note that the policies are to survive the default or bankruptcy of the insured for claims arising out of an event prior to the default or bankruptcy. The insurer should not be able to deny claims, for example, simply because the insured may no longer be a legal entity.

Subclause 311(e): Note the responsibility of a party to ensure that the policies maintained by it pursuant to this Subclause include waivers of subrogation.

Once a claim settlement is made by an insurer, it has the right to attempt to recover from the third parties who have contributed to the loss, a concept referred to as subrogation. By placing a waiver of subrogation in the policy, the insurer agrees in advance not to take action against the beneficiaries of the waiver, namely the parties and their respective affiliates, directors, officers, servants, consultants, agents and employees. Unless that class is otherwise protected under the policy (i.e., by being named insureds), members of the class which contribute to the loss are at risk without the waiver. The waiver was not included with respect to the policies maintained for the joint account because liability insurance policies do not allow for waivers of subrogation.

Subclause 311(g): Operators should not take the responsibilities prescribed by this Subclause lightly. In the event that contractors or subcontractors cause a loss in circumstances in which their insurance coverage is inadequate and they do not have the financial resources to withstand the loss, the responsibility for the loss may ultimately rest with the parties. Also, note the responsibility of the operator to ensure that policies to be maintained pursuant to this Subclause include waivers of subrogation.

Clause 401: i) Note the notwithstanding reference at the beginning of the provision. Clause 303 states that the operator is an independent contractor, and Clause 304 imposes a general obligation on the operator to conduct operations in accordance with good oil field practice. In the absence of this reference, it is possible that the overall standards prescribed by Clauses 303 and 304 could possibly override Clause 401, which basically limits the operator's general liability to gross negligence or willful misconduct. This is because the loss may be one which is not addressed by the specific standard of legal responsibility in Clause 401, such that it may be open to argue that the general standard was intended to prevail.

Note that the notwithstanding reference is limited to Clauses 303 and 304. A general notwithstanding reference, in effect, would require the non-operators to prove that a loss pertaining to the operator's breach of the contract was due to the operator's gross negligence or wilful misconduct.

ii) Note the reference "whether contractual or tortious." If the reference to contractual liability is not included, there is a possibility that a court may interpret the provision to apply solely to tortious liability. See Dominion Bridge Company Limited v. Toronto General Insurance Company (1963), 45 W.W.R. 125 (S.C.C.) and Can. Indemnity Co. v. Andrews and George Co., [1953] 1 S.C.R.19 (S.C.C.).

iii) Note the reference "whether negligent or otherwise." There is a significant risk that an operator would remain solely responsible for its own negligence unless this exclusion is included. As a general rule, one has to contract out of responsibility for one's own negligence specifically. In the absence of this reference, one can only argue that the special gross negligence provisions imply that losses applicable to simple negligence should be borne for the joint account.

(c) If the Operator makes any payments with respect to any losses, damages, claims or liabilities arising out of joint operations which are covered by insurance policies maintained for the joint account hereunder with the approval of the insurers thereof or if the Operator makes any payments authorized hereunder with respect to any other losses, damages, claims or liabilities arising out of such operations, such payments shall be a charge for the joint account. However, the Operator shall diligently attempt to process its claims under such policies with respect to such losses, damages, claims or liabilities, and shall promptly credit the joint account the amount it ultimately recovers under such policies. Insofar as such charge is one which is not to be borne for the joint account pursuant to Article IV, the Operator shall adjust the accounts of the parties accordingly at such time as it is determined that the charge is not to be borne for the joint account.

(d) The Operator shall use reasonable efforts to ensure that each insurance policy maintained for the joint account pursuant to this Clause includes: a provision that coverage is primary to any other coverage carried by the parties (other than coverage maintained by a party to reduce its exposure to a deductible), a provision that such policy shall survive the default or bankruptcy of the insured for claims arising out of an event before such default or bankruptcy and a provision that the insurer shall provide the Operator with sixty (60) days' written notice of cancellation of such policy.

(e) Each party shall be responsible for insuring its own interest in the joint lands and any production facilities with respect to physical damage to property, loss of income, Operator's Extra Expense, Pollution Liability and any insurance other than that referred to in the Alternate specified in this Clause. Each party shall ensure that each policy maintained by it for its own account hereunder shall contain waivers of all rights, by subrogation or otherwise, against the other parties and their respective Affiliates, directors, officers, servants, consultants, agents and employees.

(f) The Operator shall provide each Joint-Operator with written notice of damages or losses incurred hereunder as soon as practicable after the damage or loss has been discovered. The Operator shall provide the Joint-Operators with such assistance and materials as is required to substantiate such damages or losses for the purposes of the Joint-Operators' insurance coverages.

(g) The Operator shall, with respect to joint operations, use every reasonable effort to have its contractors and sub-contractors:

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

(ii) carry such insurance in such amounts as the Operator deems necessary, provided that such insurance policies shall include waivers of all rights, by subrogation or otherwise, against the parties and their respective Affiliates, directors, officers, servants, consultants, agents and employees.

312 TAXES – Except as otherwise provided herein or in the Agreement, the Operator shall initially pay, for the joint account, all taxes with respect to property held for the joint account, provided that nothing herein contained shall require or permit the Operator to pay for the joint account income taxes, mineral taxes, or any other taxes, assessments or levies based on reserves, on a unit of production or on the value thereof unless required to do so by the Regulations. The Operator shall promptly provide each applicable Joint-Operator with copies of all tax notices or assessments received by it respecting property held for the joint account and for which payment is not the responsibility of the Operator.

ARTICLE IV

INDEMNITY AND LIABILITY OF OPERATOR

401 LIMIT OF LEGAL RESPONSIBILITY – Notwithstanding Clauses 303 and 304, the Operator, its Affiliates, directors, officers, servants, consultants, agents and employees shall not be liable to the other Joint-Operators, or any of them, for any loss, expense, injury, death or damage, whether contractual or tortious, suffered or incurred by the Joint-Operators resulting from or in any way attributable to or arising out of any act or omission, whether negligent or otherwise, of the Operator or its Affiliates, directors, officers, servants, consultants, agents, contractors or employees in conducting or carrying out joint operations, except:

(a) when and to the extent that such loss, expense, injury, death or damage relates to a risk against which the Operator is required to carry insurance for the joint account, as provided in Clause 311, and is within the limits of such required insurance (insofar as such limits exceed the deductible applicable thereto), provided that if the Operator had maintained the required insurance covering such loss, expense, injury, death or damage, the Operator shall be released from the responsibility and indemnity otherwise imposed by this Clause to the extent that the insurer thereunder is financially unable to pay all or any portion of a valid claim with respect to such loss, expense, injury,

iv) Note the distinct treatment between liability and indemnity. If the distinction between the two is blurred, the parties face the risk that the provision could be held to be solely an obligation to indemnify. In such event, the non-operators would not be able to rely on the clause to provide them with a remedy with respect to direct damage to their property. See Mobil Oil Canada, Ltd. v. Beta Well Service Ltd. (1974), 43 D.L.R. (3rd) 745 (Alta. S.C., App. Div).

v) Note the interrelationship in (a) between the requirement to carry insurance for the joint account and Subclause (a). Assume that the operator failed to carry the required insurance and a loss of $1 MM occurred which would have been covered by that insurance. In the absence of Subclause (a), that loss could arguably be borne for the joint account unless the non-operators could prove that the failure to carry insurance was due to the gross negligence or wilful misconduct of the operator. The inclusion of Subclause (a) ensures that the operator is directly responsible for the failure to carry required insurance.

vi) Note the reference to the deductible in Subclause (a). Suppose that the operator failed to carry the required $1 MM insurance policy and that a loss of $1 MM occurred which would have been covered thereby. As the policy would have included a deductible, the amount of the deductible would still have been borne for the joint account, such that the operator's responsibility would be $1 MM, less the deductible amount.

vii) Most recent judicial considerations of the concept of gross negligence have been in automobile cases, where an injured non-paying passenger had to demonstrate that the driver's conduct was grossly negligent in order to be successful in a suit against the driver. Since the driver's insurance would generally cover a successful claim by the injured passenger, courts have tended to minimize the distinction between simple and gross negligence in those cases in order to find for the passenger. It is unclear how a court will interpret the term in an oil and gas context.

viii) Note the "when and to the extent" reference at the beginning of Subclause (b). This ensures that a loss which is due to the operator's gross negligence or wilful misconduct and other causes can be apportioned to the applicable causes. It also enables the operator to raise the issue of contributory negligence.

ix) The exclusion of liability respecting the loss or delay of production is relatively new to North American agreements, and has been included in the CAPL Frontier Operating Procedure. However, the concept has received significant support in Europe, where proponents argue that the magnitude of a potential loss of this type is such that the assumption of operatorship would not be viable without such an exemption. The most obvious loss resulting from this type of damage, of course, would be a loss of profits.

x) One issue which may arise in the future is the appropriateness of a general exception for consequential or indirect damages. The value of such a general provision is questionable, though. The normal common law rules of remoteness and foreseeability would apply in the absence of such a provision anyway, such that one cannot argue that the operator would necessarily assume legal responsibility for those losses without this protection. In very simple terms, insofar as the operator owes a duty of care to the non-operators, it would be necessary for the non-operators to demonstrate: (i) that the operator's actions caused their loss; ii) that the loss was reasonably foreseeable in relation to the action; iii) the degree of their damages; and iv) that the conduct was in fact "grossly negligent." Notwithstanding that the general exception for consequential or indirect damages has not been included, the inclusion of the loss of profits exemption addresses the major aspect of the concern.

xi) There has also been some discussion that there also should be a general exception for exemplary and punitive damages, in light of a disturbing trend in some recent U.S. cases to award them primarily to attempt to deter the conduct causing the loss.

Exemplary and punitive damages are similar under Canadian law, in that, notwithstanding those U.S. decisions, they are designed to "penalize" a defendant, where the defendant's conduct towards the plaintiff and those owed a duty of care has been so high-handed, oppressive or willfully reckless that the court determines that the plaintiff should recover damages over and above those required to compensate the plaintiff for its loss.

The inclusion of such heads of damages within an exclusion, in essence, would literally provide an operator with a licence to conduct its affairs in such a manner.

Clause 402: i) The case of Greenwood Shopping Plaza Ltd. v. Beattie et al (1980), 111 D.L.R. (3rd) 257 (S.C.C.) held that a person who is not a party to a contract can neither sue nor rely upon it to protect himself from liability, except in case of agency or trust. That being the case, there is a likelihood that the obligation to indemnify not only the operator, but also its affiliates, directors, officers, servants, consultants, agents and employees would not be effective. Nevertheless, the provision accurately reflects the intention of the parties and does not place the operator in a worse position than that in which it would be in the absence of the reference.

ii) The inclusion of the reference to directors and officers is included solely because of the tendency of recent suits in the United States to cast a wider liability net. Consultants are included because of the common practice of many companies to hire temporary consultants rather than increase the number of employees.

iii) Remember that the operator is also a joint-operator. The indemnification obligation is not borne solely by the non-operators.

Subclause 503(a): i) The provision reflects two of the operator's concerns - security of payment by the non-operators and the acquisition of the resources to conduct the operation on an ongoing basis.

death or damage or such insurer is determined by a court of competent jurisdiction not to be required to make payment with respect to such loss, expense, injury, death or damage under such policy of insurance; and

(b) when and to the extent that such loss, expense, injury, death or damage is a direct result of, or is directly attributable to, the gross negligence or wilful misconduct of the Operator or its Affiliates, directors, officers, servants, consultants, agents, contractors or employees, provided that an act or omission of the Operator or its Affiliates, directors, officers, servants, consultants, agents, contractors or employees shall be deemed not to be gross negligence or wilful misconduct, insofar as such act or omission was done or was omitted to be done in accordance with the instructions of or with the concurrence of the Joint-Operators.

To the extent that the conditions in Subclauses (a) or (b) of this Clause apply (but subject to the exceptions provided therein), the Operator shall be solely liable for such loss, expense, injury, death or damage and, in addition, shall indemnify and save harmless each other Joint-Operator and its Affiliates, directors, officers, servants, consultants, agents and employees from and against the same and also from and against all actions, causes of action, suits, claims and demands by any person or persons whomsoever in respect of any such loss, expense, injury, death or damage, and any costs and expenses relating thereto. However, in no event shall the responsibility of the Operator prescribed by this Clause extend to losses suffered by the Joint-Operators respecting the loss or delay of production from the joint lands, including, without restricting the generality of the foregoing, loss of profits or other consequential or indirect losses applicable to such loss or delay of production.

402 INDEMNIFICATION OF OPERATOR – Except as otherwise provided in Clause 401, the Joint-Operators hereby indemnify and save harmless the Operator, its Affiliates, directors, officers, servants, consultants, agents and employees from and against any and all actions, causes of action, suits, claims, demands, costs, losses and expenses resulting from loss, injury, death or damage respecting any person, which may be brought against or incurred or suffered by the Operator, its Affiliates, directors, officers, servants, consultants, agents or employees or which the Operator, its Affiliates, directors, officers, servants, consultants, agents or employees may sustain, pay or incur by reason of, or which may be attributable to or arise out of, any act or omission of the Operator or its Affiliates, directors, officers, servants, consultants, agents, contractors or employees in conducting joint operations. All such liabilities shall be for the joint account and shall be borne by the Joint-Operators in the proportions of their respective working interests.

ARTICLE V

COSTS AND EXPENSES

501 ACCOUNTING PROCEDURE AS BASIS – The Accounting Procedure shall be the basis for all charges and credits for the joint account, except to the extent that the Accounting Procedure may be in conflict with the provisions herein or in the Agreement. The accounting and financial records maintained by the Operator with respect to the operations conducted by it hereunder shall be maintained separately from those kept by it with respect to operations which are not conducted hereunder, in accordance with established industry accounting practice.

502 OPERATOR TO PAY AND RECOVER FROM PARTIES – Subject to the provisions of Clause 503, the Operator shall initially advance and pay all costs and expenses incurred for the joint account. The Operator shall charge to each Joint-Operator its proportionate share of such costs and expenses, and each respective Joint-Operator shall pay the same to the Operator within thirty (30) days after receipt of the Operator's statement thereof.

503 ADVANCE OF COSTS –

(a) Upon approval of an Authority for Expenditure by a Joint-Operator, the Operator may, by notice, require that individual Joint-Operator to secure payment of its proportionate share of all costs to be incurred for the joint account pursuant to such AFE in a manner satisfactory to the Operator. If the payment is to be secured by an irrevocable standby letter of credit, it shall be established in favour of the Operator by that Joint-Operator with a Canadian chartered bank with respect to that Joint-Operator's proportionate share of the costs and expenses which are anticipated to be incurred pursuant to such AFE. In the event a letter of credit is so established, the Operator may draw on the letter of credit in the same manner and at the same time intervals as provided with respect to amounts to be paid by that Joint-Operator pursuant to such AFE.

(b) The Operator may, by notice to the Joint-Operators, require each Joint-Operator to advance its proportionate share of all costs to be incurred for the joint account, subject to Subclause (a) of this Clause. If the Operator so elects to cash call the Joint-Operators, it shall, not earlier than thirty (30) days prior to the first (1st) day of a calendar month, submit to each Joint-Operator an itemized written estimate of the costs which are expected to be paid by the Operator for the joint account hereunder in that calendar month, together with a request for payment by each Joint-Operator of its proportionate share thereof, insofar as such amount is not secured by Subclause (a) of this Clause. A Joint-Operator shall pay its share of such cash call to the Operator (or otherwise secure payment thereof

The Subclause entitles the operator to require an individual party to secure payment of its share of the costs of the operation in a manner satisfactory to the operator. The parties might do this by establishing an irrevocable letter of credit in favour of the operator by that party with respect to its share of costs. On occasion, an operator may convene a meeting of the parties to discuss how a well will be financed before issuing the AFE.

Amounts obtained by the operator pursuant to this Subclause or Subclause (b) would be subject to the general trust imposed by Clause 507.

ii) Remember that Clause 901 states that approval of a drilling AFE is not the approval of a completion program.

Subclause 503(b): Remember that Clause 503 applies to capital advances of costs. It does not apply to operating expenses, which are covered by Clause 105 of the 1988 PASC Accounting Procedure.

Subclause 503(c): The adjustment mechanism is substantially the same as that contained in Clause 104 of the PASC 1988 Accounting Procedure. The related billing would be provided to the non-operators in the month next following the month to which the advance pertained, as provided in Clause 102 of the 1988 PASC Accounting Procedure.

Clause 504: i) This Clause gives a non-operator the right to require the operator to provide the non-operators with a forecast of the anticipated operations to be conducted for the joint account over the succeeding three to twelve-month period. This provision is seldom used in practice, though. A prudent operator would tend to discuss the delineation/development of a promising discovery on a technical level with its co-venturers anyway in the absence of the Clause, and a non-operator would be unlikely to request a forecast respecting an inactive area. However, it is a provision which non-operators may consider utilizing if an operator is not advising them of its recommendations for the delineation/development of a discovery.

ii) The forecast is for informational purposes. This is consistent with the general practice in unit agreements and the CAPL Frontier Operating Procedure.

Clause 505: i) The operator's lien provision is included to attempt to secure payment of a non-operator's share of costs and expenses by placing a claim or charge on that party's interest in the joint property. Note that the lien applies to all costs and expenses incurred for the joint account, not only costs incurred in conducting joint operations.

ii) The lien under the 1981 provision probably arose when the expenditure was made, rather than as of the date of the agreement. Given that a defaulting party has probably created liens, floating charges or other security in favour of its creditors, it is imperative that one try to provide the operator with the earliest possible claim. Therefore, the Subclause has been structured so that the operator's claim arises when the Operating Procedure becomes effective, rather than as the expenditures are made.

The Canada Petroleum Resources Act and comparable legislation resulting from the Newfoundland and Nova Scotia "Accords" expressly provide the operator with certain advantages in enforcement as regards frontier properties, in recognition of the fact that lenders should realize that an operating agreement will probably exist under which the operator would almost certainly have a lien. This differs from the conventional situation under the Alberta Mines and Minerals Act, for example, which provides only that an operator's lien may not be the subject of a security notice, such that the actual priority of the operator's lien will be determined by the common law rules on priorities. That being the case, it is likely that the wording in the provision would not be effective against lenders with registered security notices, notwithstanding that those lenders are aware of the probability that an operating procedure is in effect.

Subclause 505(b): The rights in this provision are premised on the existence of a default. A prudent operator should not resort to the remedies where the parties are disputing an accounting practice or the adequacy of invoice information. In such event, it may be attractive to deposit the disputed amount into a trust account until resolution of the dispute. Interest thereon would accrue for the benefit of the successful party.

Paragraph 505(b)(i): Interest should accrue whether or not the operator has given the non-operator prior notice of its intention to charge interest. The inclusion of the "regardless" phrase should eliminate the risk that prior notice is required, as was held in Renaissance Resources Ltd. v. Metalore Resources Ltd., [1984] 4 W.R.R. 430 (Alta. Q.B.), affirmed, [1985] 4 W.W.R. 673 (Alta. C.A.).

Paragraph 505(b)(ii): The most obvious use of the suspension of rights would be to withhold the information from joint operations. Despite the broadness of the remedy, the suspension of other privileges should be considered very carefully in each individual case. A denial of a party's right to participate in a well, for example, might not be effective at law.

Paragraph 505(b)(iii): i) While traditionally not found in agreements, this remedy is basically the codification of a party's common law right. Notwithstanding this general statement, there are certain common law restrictions on set-off which are beyond the scope of these notes. If one planned to appropriate funds using set-off as a basis, legal advice should be obtained.

as provided in Subclause (a) above) on or before the twentieth (20th) day after its receipt of such estimate or by the fifteenth (15th) day of the calendar month to which such estimate relates, whichever is the later.

(c) The Operator shall adjust each monthly billing to reflect advances received from a Joint-Operator hereunder. Costs in excess of the advances requested hereunder shall be billed and paid by the Joint-Operators pursuant to the Accounting Procedure. Amounts advanced by the Joint-Operators in excess of actual costs shall be refunded by the Operator with the related billing for the month in which the advance was paid. Any such excess amounts not refunded shall, at the option of each Joint-Operator, bear interest (payable by the Operator for the account of that Joint-Operator) on the same basis as is provided in paragraph 505(b)(i).

504 FORECAST OF OPERATIONS – The Operator shall, from time to time at the request of a Joint-Operator, provide the Joint-Operators with a written forecast outlining all operations which it proposes to conduct for the joint account during the forecast period (which shall be not less than three (3) months and not more than twelve (12) months), together with the estimated costs thereof. Such forecasts are for informational purposes only and shall not commit the parties to make the expenditures described therein.

505 OPERATOR'S LIEN –

(a) Effective from the date of the Agreement, the Operator shall have a lien and charge, which is first and prior to any other lien, charge, mortgage or other security interest, with respect to the interest of each Joint-Operator in the joint lands, the wells and equipment thereon, the petroleum substances produced therefrom and any production facilities, to secure payment of such Joint-Operator's proportionate share of the costs and expenses incurred by the Operator for the joint account.

(b) If a Joint-Operator fails to pay or advance any of the costs or expenses incurred for the joint account which are to be paid or advanced by it within the time period prescribed by the Accounting Procedure or Clause 502 or 503, as the case may be, the Operator may, without limiting the Operator's other rights as contained in this Operating Procedure or otherwise held at law or in equity:

(i) charge such Joint-Operator compound interest, as computed monthly, with respect to such unpaid amount from the day such payment is due until the day it is paid, at the rate of two percent (2%) per annum higher than the rate designated as the prevailing prime rate for Canadian commercial loans by the principal Canadian chartered bank used by the Operator, regardless of whether the Operator has notified such party in advance of its intention to charge interest with respect to such unpaid amount;

(ii) withhold from such Joint-Operator any further information and privileges with respect to operations conducted hereunder, which information and privileges shall be conveyed or restored, as the case may be, to such Joint-Operator upon such default being fully rectified;

(iii) set-off against the amount unpaid by such defaulting Joint-Operator, any sums due or accruing to such Joint-Operator from the Operator pursuant to this Operating Procedure or any other agreement between the Operator and such Joint-Operator, whether executed before or after the effective date of the Agreement;

(iv) maintain an action or actions for such unpaid amounts and interest thereon on a continuing basis as such amounts are payable, but not paid by such defaulting Joint-Operator, as if the obligation to pay such amounts and the interest thereon were liquidated demands due and payable on the relevant date such amounts were due to be paid, without any right or resort of such Joint-Operator to set-off or counter-claim;

(v) treat the default as an immediate and automatic assignment to the Operator of the proceeds of the sale of such Joint-Operator's share of petroleum substances produced hereunder. Service of a copy of this Operating Procedure upon a purchaser of such petroleum substances from such Joint-Operator, together with written notice from the Operator, shall constitute a written irrevocable direction by the Joint-Operator to any such purchaser to pay to the Operator the proceeds from any such sale up to the amount owed to the Operator by such Joint-Operator hereunder (including any accrued interest with respect thereto), and such purchaser is authorized by such Joint-Operator to rely upon the statement of the Operator as to the amount so owed to it by such Joint-Operator; and

(vi) enforce the lien referred to in Subclause (a) of this Clause by taking possession of or using free of charge all or any part of the interest of the defaulting Joint-Operator in the joint lands, in all or any part of the production therefrom and equipment thereon or in any production facilities and all rights, powers and privileges of such Joint-Operator in connection with such interest until such default is

ii) One question which may arise is whether the seizure of funds accruing to the defaulting party pursuant to another agreement would place the operator in default under that other agreement. Since the right of set-off is a common law right anyway and this paragraph states that the timing of the execution of that other document is irrelevant to that right, it is doubtful that this would be the case. However, the implications of the exercise of this right should be considered in each individual case.

Paragraph 505(b)(iv): While traditionally not found in agreements, this remedy provides the operator with certain legal procedural advantages because the nature of the claim would be in debt. In essence, it provides a short cut, in that the operator may be able to avoid having to prove that the work was done and the costs incurred, and could simply assert that the amount is a debt to be collected.

Paragraph 505(b)(vi): i) Note the duty on the operator to attempt to sell the seized property on reasonable terms, having due regard to the potential for the recovery of excess funds for the defaulting party. Otherwise, the operator has no incentive to attempt to sell the property for greater than the amount owed to it by the defaulting party.

ii) Note that a sale is without prejudice to the operator's claim for any amount still owing after the sale.

iii) It is likely that a defaulting party's interest would be pledged as security to lenders, such that the price to be paid by potential purchasers would probably be heavily discounted. A sale would be further complicated if the defaulting party's interest were subject to a gas sales contract.

iv) It is probably advantageous for the operator to have obtained the approval of the other parties to the use of this provision because of the possibility that there may be litigation associated with the exercise of this exceptional remedy.

Subclause 505(b) - Proviso: Note the difference between the less harsh remedies of interest and the withholding of information and the more draconian self-help remedy of the seizure of property. The latter remedy is only available when the default has continued for at least 30 days following the issuance of a default notice.

This variation ensures that the operator cannot immediately resort to the harsher remedies before pursuing other avenues. However, the 30 day period was chosen to ensure that the operator would have access to the exceptional remedies before the default imposed a serious hardship on the operator.

Subclause 505(c): This provision is included because of the provisions of The Interest Act and comparable provincial legislation. In effect, such legislation operates to merge a judgment of principal and interest. Notwithstanding this provision and Clause 2807, there is a significant probability that it may not be effective, though.

Subclause 505(d): Subject to audit rights, the operator's records shall constitute prima facie proof of the existence of any financial default.

Subclause 505(e): If the operator is the defaulting party, the non-operators may appoint a party to act as their representative to exercise the remedies otherwise available to the operator in the event of default, pending the appointment of a new operator.

Clause 506: i) Note that the operator has the right to use this mechanism after a party has been in default three months.

ii) The non-operators are required to reimburse the operator its out of pocket costs associated with the default. They are not required to reimburse the operator interest which has accrued on the unpaid principal at the time the operator utilizes the mechanism.

iii) This provision would extend to losses incurred for the joint account pursuant to Article IV, since those losses would pertain to joint operations. In the event the parties were held liable to a third person for a loss suffered by that person as a result of a joint operation, the parties would be jointly responsible for the loss unless the court had apportioned responsibility among the defendants in its judgment. It would be a rather odd result if the operator were required to contribute the share of an insolvent party without a corresponding right to have the remaining parties share that burden.

Clause 507: Some commentators had argued that agreements should require operators to hold funds in distinct trust accounts because of the view that creditors could otherwise seize funds held for the joint account in the event of an operator's insolvency.

However, the Alberta Court of Appeal decided in Bank of Nova Scotia v. Societe General (Canada) et al., [1988] 4 W.W.R. 232 (Alta. C.A.) (sometimes referred to as the Sorrel decision) that there is a trust relationship imposed when the conventional commingling clause of the 1981 CAPL Operating Procedure is used, since the intention that the operator acts for the benefit of the non-operators pervaded the entire document. The provision has been expanded to reflect that decision.

The case, though, addressed a fact situation in which the lender was not the same institution as that with which the funds were deposited. Usually, funds would be on deposit with the lender, such that the typical lender may have rights of set-off which may prevail over the claims of the non-operators unless the lender knew or ought to have known that the funds were held in trust for the joint-operators.

fully rectified. Notwithstanding the provisions of Clauses 601 and 2401, the Operator may sell and dispose of any interest, production, equipment or production facility of which it has so taken possession, either in whole or in part or in separate parcels, at public auction or by private tender at a time and on whatever terms it shall arrange, having first given at least ten (10) days' prior written notice to such Joint-Operator of the time and place of the sale, provided that the Operator may only sell such interest, production, equipment or production facility to such person or persons for such price and on such conditions as the Operator determines are reasonable, having due regard, inter alia, to the possible recovery of funds for such Joint-Operator in excess of the amount owed by it hereunder. Such sale or other realization shall be without prejudice to the Operator's claim for deficiency and shall be free from any right of redemption on the part of such Joint-Operator (which right is hereby waived and released), and such Joint-Operator also waives all formalities prescribed by custom or by law with respect to such sale or other realization. The proceeds of the sale shall be first applied by the Operator in payment of any amount required to be paid by the defaulting Joint-Operator and not paid by it hereunder (including any accrued interest with respect thereto), and any balance remaining shall be paid to the defaulting Joint Operator after deducting reasonable costs of the sale. Any sale made as aforesaid shall be a perpetual bar both at law and in equity against the defaulting Joint-Operator and its assigns and against all other persons claiming an interest in such property or any portion thereof sold as aforesaid by, from, through or under the defaulting Joint-Operator or its assigns.

However, the Operator may not exercise the rights granted in paragraphs (iii) - (vi) of this Subclause with respect to such default until at least thirty (30) days following the issuance of a notice to such Joint-Operator specifying such default and requiring the same to remedied.

(c) The obligation to pay interest at the rate specified in Subclause (b) with respect to a default is to apply until such default is rectified and shall not merge into a judgement for principal and interest, or either of them. The parties waive the application of any Regulations to the contrary, insofar as such waiver is permitted by the Regulations.

(d) Books and records kept by the Operator for the joint account shall constitute prima facie proof of the existence of any financial default hereunder, subject, however, to the rights of inspection and audit provided for elsewhere in this Operating Procedure.

(e) If the Operator is the party which defaults in paying its share of any cost or expense incurred for the joint account, the other parties may appoint a party as representative ad hoc of those parties, pending the appointment of a new Operator pursuant to Article II. Such party thereupon shall be entitled to exercise any of the rights and remedies otherwise available to the Operator pursuant to this Operating Procedure, mutatis mutandis, in order to rectify such default.

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

(i) as its numerator – the working interest of such Joint-Operator; and

(ii) as its denominator – the aggregate working interests of all parties except the defaulting Joint-Operator.

Thereupon, each such contributor shall be proportionately subrogated to the Operator's rights pursuant to Clause 505 and to the interest thereafter payable thereunder on the unrecovered portion of its contribution.

507 COMMINGLING OF FUNDS – The Operator may commingle with its own funds the moneys which it receives from or for the account of the Joint-Operators pursuant to this Operating Procedure. Notwithstanding that moneys of a Joint-Operator have been commingled with the Operator's funds, the moneys of a Joint-Operator advanced or paid to the Operator, whether for the conduct of operations hereunder or as proceeds from the sale of production under this Operating Procedure, shall be deemed to be trust moneys, and shall be applied only to their intended use and shall in no way be deemed to be funds belonging to the Operator, other than in its capacity as the Joint-Operators' trustee.

Since the scope of that decision is still unclear, prudent non-operators should continue to monitor their non-operated properties for indications that an operator may have serious financial difficulties. It may be attractive to consider replacing such an operator pursuant to Clause 202 or 203. In the alternative, it may be desirable to use the leverage provided by those provisions to require the operator to set up a separate trust account for the project or to hold joint account monies at a bank to which the operator is not indebted.

Clause 601: i) Each party has the right to take its share of production in kind at the "first point of measurement." In essence, this is the point at which royalties are calculated under the title documents/regulations. It is not feasible to take production in kind before that point.

ii) The provision is silent on the acquisition of transportation service. This is an issue which the parties would wish to discuss when considering the development of a gas prospect.

iii) Remember that each party also remains responsible for the costs and expenses applicable to the substances produced in association with the petroleum substances, such as associated water.

iv) A party shall provide the operator with such information respecting its marketing arrangements as the operator reasonably requires to fulfill its obligations to transfer possession of production.

Subclause 602(a): i) If a party fails to take in kind, the operator has the right to dispose of that production. Without that right or the negotiation of a separate production balancing arrangement (as is contemplated by the AAPL Operating Procedure), the well would have to be shut-in.

The traditional clause had provided that production so marketed by the operator on behalf of another party was to be sold "at the same price which the Operator receives for its own share of the production" or purchased "for its own account at the field price prevailing in the area."

The provision had seemed satisfactory in the 1970's and the early 1980's, when markets were readily available for gas production and prices were regulated. The problems with the provision quickly became apparent, though, when there was a surplus of available gas and a large variation in gas prices following deregulation. A non-operator without a long term full price contract which took in kind was usually forced to sell into the heavily discounted industrial market. An operator with a long term full price contract, therefore, faced the risk that a non-operator without such a contract would prefer to have the operator market its production, rather than sell into the industrial market. Assuming that the operator were meeting its deliverability requirements, the former provision could require the operator to displace its own production to sell a non-operator's share of production under its contract. In the alternative, the operator could purchase the non-operator's production at "the field price prevailing in the area," whatever that meant at a time when prices for similar production varied drastically!

The Clause attempts to balance the needs of the operator and the non-operators. The operator requires the protection that it is never required to displace its share of production to accommodate a non-operator, and wants to be compensated for the extra expenses it is forced to incur by marketing another party's share of production. A non-operator must be protected from unreasonable long term contracts or non-arm's length arrangements.

The Subclause has been structured so that the operator may: (i) sell the non-operator's production under its own contract for the same price it receives; (ii) sell that production under another arm's length transaction for a "market price" (as defined in Subclause 101(s), or (iii) buy the production for a "market price."

ii) Note that (a)(i) does not require the operator to sell the non-taking party's share of production under the operator's contract. It only has to sell at the same price as in that contract.

iii) Note that there are no restrictions on the references to processing and transportation expenses in (a)(i) and (ii). The inclusion of a provision allowing the taking party to charge the expenses on the same basis as is provided in the regulations would often provide the taking parties with an additional reward. Notwithstanding that the document is silent on the magnitude of the deduction, there are duties imposed on a taking party at law to ensure that it does not abuse the authority to make those deductions.

iv) One issue which arises under (a)(iii) is the possibility that the operator may sell production at a higher price than the "market price." Remember, though, that paragraph (a)(iii) does not entitle the selling party to net out direct processing and transportation expenses applicable to the production or to charge a marketing fee, as is done in paragraphs (a)(i) and (a)(ii). That being the case, there would only by an incentive to purchase production for resale under (a)(iii) if the price at which the production would be sold would be significantly greater than the "market price." Of course, it would be difficult for an operator to argue that the proposed "market price" was, in fact, "the market price" if the production could easily be sold on the spot market at a significantly higher price. The most probable resale case, then, would be the situation in which the operator has excess capacity under a long term contract which it is unwilling to share.

Subclause 602(b): i) Purchases under paragraph 602(a)(iii) may not exceed one month, unless the applicable contract entered into by the operator with an affiliate is terminable at any time on notice of not greater than one month. If the operator proposes to sell production under 602(a)(i) or (ii) for contracts which either exceed one month or are not terminable at any time on notice of not greater than one month:

a) The operator is required to notify the non-operator of the intention, together with a summary of the material terms;

ARTICLE VI

OWNERSHIP AND DISPOSITION OF PRODUCTION

601 EACH PARTY TO OWN AND TAKE ITS SHARE – Each party shall own its proportionate share of the petroleum substances produced from wells operated for the joint account. The Operator shall measure and deliver into the possession of each party, as and when produced at the first point of measurement, the proportionate share of petroleum substances owned by that party, exclusive of production which has been unavoidably lost and production which may be used by the Operator in producing operations respecting the joint lands. Each party shall, at its own expense, have the right to take in kind and separately dispose of its proportionate share of such production. Each Joint-Operator shall provide the Operator with such information respecting such Joint-Operator's arrangements for the disposition of its share of production as the Operator may reasonably require to fulfil its obligations hereunder.

602 PARTIES NOT TAKING IN KIND –

(a) Notwithstanding Clause 601, to the extent that a Joint-Operator does not take in kind and separately dispose of its share of production hereunder or advises the Operator that it will not be fulfilling that obligation, the Operator shall have the authority, but not the obligation, to dispose of such portion of the non-taking party's share of production, as the agent of the non-taking party, pursuant to any of the following options:

(i) the Operator may sell such production at the same price which the Operator receives from a third party under an arm's length sale contract for its own share of production, and account to the non-taking party for the proceeds of the sale applicable to the production sold on its behalf, less all direct processing and transportation expenses pertaining thereto and the applicable marketing fee prescribed by Clause 604; or

(ii) the Operator may sell such production at a market price to a third party in an arm's length transaction, and account to the non-taking party for the proceeds of the sale, less all direct processing and transportation expenses pertaining to such production and the applicable marketing fee prescribed by Clause 604; or

(iii) the Operator may purchase such production for the Operator's own account (or the account of an Affiliate) at a market price.

Insofar as the Operator disposes of all or a portion of a non-taking party's share of production pursuant to this Subclause, the Operator shall advise that party of the option pursuant to which the Operator disposed of that party's production within one (1) month of the commencement of that disposition.

(b) The Operator may not purchase production pursuant to paragraph (a)(iii) of this Clause under any arrangement which has a term exceeding one (1) month, unless such arrangement is terminable at any time on not greater than one (1) month's notice by the non-taking party to the Operator without an early termination penalty or other cost. If, pursuant to paragraph (a)(i) or (ii) of this Clause, the Operator proposes to enter into a sales contract which either has a term greater than one (1) month or is not so terminable at any time on notice of one (1) month or less, the following shall apply:

(i) the Operator shall notify the non-taking party of such intention and provide it with a summary of the terms of the proposed contract in sufficient detail to enable the non-taking party to determine whether it wishes that portion of its share of production not being taken in kind and separately disposed of by it sold pursuant to the proposed contract;

(ii) the non-taking party shall notify the Operator within ten (10) days of the receipt of the Operator's notice whether it consents to having such production sold under such contract, provided that failure of the non-taking party to notify the Operator of its position within such period shall be deemed to be the consent of the non-taking party to the sale of such production pursuant to such contract;

(iii) if the non-taking party consents to having such production sold under such contract pursuant to the preceding paragraph, the Operator shall sell such production under such contract. If the non-taking party does not consent to having such production sold pursuant to such contract pursuant to the preceding paragraph, the non-taking party shall state in its notice whether it intends to commence taking such production in kind and separately disposing of the same, and, if so, it shall promptly supply the Operator with the information required by it pursuant to Clause 601; and

b) The non-operator shall elect, within 10 days of the receipt of that notice, whether it wishes its production sold under that contract; and

c) If the non-operator does not consent to the contract, it shall advise the operator whether it intends to take in kind or whether it wishes the operator to continue to market the production under short term arrangements in Subclause (a).

ii) Note paragraph (iv), whereby the non-taking party can continue to require the operator to sell its production under short term arrangements in the event it is not prepared to consent to a contract. If that party believes that it can obtain a preferable contract in the next several months, it may be unwilling to enter into the operator's proposed contract.

iii) The one month restriction may pose problems with respect to the disposition of LPG's. There would likely be some difficulty selling the product on the spot market, and LPG contracts generally have a one year - evergreen term, with a window to cancel at the end of a year upon 60 days' notice. LPG contracts also usually relate to supply sources, such as gas plants, rather than individual wells. Given the limited spot market for LPG's and the nature of LPG contracts, it is likely that a party which does not intend to take its share of LPG's in kind for a sustained period would in practice negotiate a suitable arrangement with the operator in the context of the particular fact situation.

iv) Note the 10 day response period in (b)(ii). Attractive short term contracts are probably only available for a limited period of time. A significantly longer election period could result in the loss of a contract.

Subclause 602(c): If the non-operator subsequently wishes to take its production in kind, the election will generally be effective at the end of the contract. If, though, the contract is terminable, the election will be effective at the date the agreement is terminated, provided the operator has received the election at least 15 days before any specific date upon which it may terminate the arrangement.

Clause 603: i) This provision addresses the possibilities that the operator may be the non-taking party and that the operator may only take its own share of production in kind where at least one other party is not taking its share of production in kind. (Remember that Clause 601 provides the operator with the right, but not the obligation, to market a non-taking party's share of production.) The operator shall provide the other parties with the information they require to exercise their rights under the Clause. These rights shall be shared by the parties in proportion to their working interests, unless otherwise agreed by them.

ii) Suppose A (operator) and B have not been taking in kind and that C has been selling their share of production pursuant to Clauses 602 and 603. A now begins to take in kind. Who will market B's production if B continues to fail to take in kind? If B's share of production is being sold pursuant to a Clause 602 contract, C would remain responsible for the production until the termination of that contract. At that point, and assuming B did not then begin to take in kind, A would have the right to sell it under Clause 602, and B would have the right to sell it under Clause 603 if A did not.

Clause 604: i) The operator may charge the non-operator a marketing fee with respect to production being sold under the arm's length arrangements in paragraphs 602(a)(i) and (ii). If the parties determine that they would prefer to market through the operator because of the operator's access to gas markets, they are certainly free to tailor an arrangement to their fact situation and waive the fee with respect to such dispositions.

ii) Note that the marketing fee is not based on the ultimate sale price. It is either based on the "value" of the product at the wellhead or a specified fee. Although easier to calculate than a wellhead based fee, it is important to remember that a fee based on the gross sale price could be significantly greater, depending on the ultimate point of sale and the degree to which the product had been enhanced.

The reference "calculated at the wellhead" in the Clause does not refer to the substances calculated at the wellhead. The substances cannot be calculated until the first point of measurement, which will often be after the processing of raw gas.

Instead, the provision refers to the value of the substance at the wellhead. This is determined by subtracting from the sale price all of the costs and expenses associated with product enhancement, such as transportation and processing.

iii) While Alternate A may be attractive for its simplicity, Alternate B enables the parties to tailor the fee to their particular fact situation.

iv) The marketing fee was chosen in lieu of charging the parties the actual cost of marketing. The fixed fee was attractive because of its simplicity and certainty. Given the subjectivity inherent in the allocation of overhead, it would be very difficult both to quantify and audit actual marketing costs.

v) Note that the terms petroleum, natural gas, etc., have not been defined. Both the terms and the definitions vary from jurisdiction to jurisdiction.

(iv) if the non-taking party does not consent to having such production sold under such contract pursuant to this Subclause and does not proceed to take such production in kind and separately dispose of the same, the Operator may dispose of such production pursuant to Subclause (a) of this Clause.

No contract described in this Subclause, however, shall have a term exceeding one (1) year without the consent of the non-taking party, unless that contract may be terminated by the Operator at any time on not greater than one (1) year's notice to the applicable purchaser.

(c) If a non-taking party proposes to commence to exercise its right to take in kind and separately dispose of its share of production hereunder, it shall give notice of such intention to the Operator and shall promptly supply the Operator with the information required by it pursuant to Clause 601. Such notice shall be effective either at the end of the term of any sale agreement pursuant to which such production is being sold by the Operator or at the date such agreement is terminated, if terminable by the Operator at an earlier date. However, such notice shall not be effective with respect to an agreement which is terminable by the Operator, unless the Operator has received such notice at least fifteen (15) days prior to any specified date upon which the Operator is required to serve notice to the applicable purchaser to terminate such agreement.

603 OPERATOR NOT TAKING IN KIND – To the extent that the Operator either is the party who does not take in kind and separately dispose of its proportionate share of production or the Operator does not intend to dispose of production not being taken in kind by another Joint-Operator pursuant to Clause 602, the Operator shall advise the other Joint-Operators, in a timely manner, of the information required by them to exercise their rights pursuant to this Clause 603. In such event, the Joint-Operators, or any one or more of them, shall have the same rights and obligations, mutatis mutandis, with respect to such share of production as the Operator has with respect to a Joint-Operator's share of production under Clause 602. Insofar as the provisions of this Clause are applicable and the Operator requires instructions respecting production and marketing to give effect to this Clause and, if applicable, Clause 602, the Operator shall follow the instructions which are given by the parties marketing production on behalf of the Operator and, if applicable, any other party hereunder. Two or more Joint-Operators exercising their rights under this Clause shall do so in proportion to their working interests, and shall attempt to coordinate their plans for the disposition of such production in such a manner that the instructions to be provided to the Operator with respect to such production shall be consistent. For so long as the Operator continues to be a non-taking party, it shall advise the other parties periodically when and how it proposes to take in kind and separately dispose of its share of production pursuant to Clause 601. If the Operator commences to take its share of production in kind and separately dispose of the same, the Operator thereupon shall have the right to sell a non-taking party's share of production pursuant to Clause 601 following the termination of any contract entered into on behalf of such non-taking party in accordance with Clauses 602 and 603.

604 MARKETING FEE – To the extent that a party fails to take in kind and dispose of all or a portion of its share of production and such production is disposed of either by the Operator pursuant to paragraph 602(a)(i) or (ii) or by another Joint-Operator pursuant to Clause 603, other than by way of a transaction described in paragraph 602(a)(iii), the party so marketing such production shall be entitled to charge the non-taking party the marketing fee in ALTERNATE ____ below (Specify A or B), namely:

ALTERNATE - A:

The party so marketing such production on behalf of a non-taking party may charge that party a marketing fee equal to 2.5% of the sale price of such production, calculated at the wellhead.

- OR -

ALTERNATE - B:

The party so marketing such production on behalf of a non-taking party may charge that party a marketing fee which is either a percentage of the sale price of such production, calculated at the wellhead, or a specified fee, being (specify one option for each item):

(a) in the case of petroleum, _____% or $ _____/m^3;

(b) in the case of natural gas, _____% or $ _____/10^3m^3;

(c) in the case of natural gas liquids and substances other than petroleum and natural gas (but not including sulphur), _____% or $ _____/m^3; and

(d) in the case of sulphur, _____% or $ _____/t.

Clause 605: i) A party marketing another party's share of production pursuant to this Article may pay the royalties attributable thereto directly to the lessor, in which event those royalties would be deducted from the amount remitted to the non-taking party.

ii) Remember that the operator is required to provide production statements to the parties pursuant to Clause 310, to assist them with the calculation of their royalties.

Clause 606: i) The disposing party shall pay the non-taking party its share of net proceeds within 10 days of its receipt. If it fails to do so, the provisions of Subclause 505(b) shall apply, mutatis mutandis, such that the non-taking party will be able to charge interest and have access to the other default remedies. Since the direct processing and transportation costs may not be known at the time of the distribution of proceeds, the disposing party may invoice the non-taking party for those costs after the fact. In such event, the disposing party also has access to the remedies in Subclause 505(b) to secure payment of those expenses.

ii) Production rates fluctuate daily. Remember that accounts are adjusted once per month.

Clause 607: A non-taking party has the right to audit the disposing party's records with respect to sales under Article VI. However, the disposing party shall not be required to provide the auditors with any access to any contract described in paragraph 602(a)(i). Those contracts contain proprietary information which a party is not required to disclose to auditors.

Clause 608: A party selling production is often required to provide a title warranty with respect to production being sold by it. As it is not feasible for a disposing party and a non-taking party to enter into a side agreement in each instance, this general indemnification provision has been included.

Subclause 701(a): i) A non-operator will occasionally object to the operator's AFE and insist that it can conduct the operation at a lower cost. In some cases, it may be attractive to negotiate a turn-key arrangement whereby that non-operator conducts the operation. However, it is not feasible to include such a provision in the Operating Procedure because of the degree to which the decision to negotiate such a mechanism would depend on such factors as the timing of the operation and the perception of the non-operator's financial viability and technical expertise.

ii) An AFE will be void unless it is approved by all of the parties within 45 days of its submission to the joint-operators. This ensures a party that it is not bound by an AFE for a prolonged period while waiting for other non-operators to respond to the AFE.

iii) The operator shall advise the parties of the status of the AFE as soon as the position of the parties is clear.

Subclause 701(b): Assuming that all of the parties approve the AFE, a sunset provision is required to ensure that the parties are not bound indefinitely by the AFE. This Subclause provides that the AFE is void if the operation is not commenced within the later of 120 days following the issuance of the AFE or 45 days following the estimated date of commencement specified therein, subject to the qualification that the operation must be commenced within 180 days of the issuance of the AFE in any event.

While the vast majority of operations will be commenced within 120 days of the issuance of the AFE, the reference to the anticipated date of commencement is useful when a well is being drilled in a winter access only area, environmental approvals are required (i.e., sour gas wells) or the operation is the construction or installation of a production facility.

605 PAYMENT OF LESSOR'S ROYALTY – Each party shall pay or cause to be paid the Lessor's royalty and all other payments required pursuant to the title documents which are attributable to its proportionate share of the production of petroleum substances hereunder. However, the party disposing of a non-taking party's share of production pursuant to Clause 602 or 603 may pay the royalty attributable to that share of petroleum substances directly to the Lessor on behalf of the non-taking party, in which case the amount so paid shall be deducted from amounts owing to the non-taking party pursuant to Clause 606.

606 DISTRIBUTION OF PROCEEDS – Subject to the foregoing provisions of this Article, a party that disposes of another party's share of production pursuant to Clause 602 or 603 shall forthwith pay the proceeds of such sale, less all direct processing and transportation expenses pertaining to such production (if known at such time) and any applicable marketing fee prescribed by Clause 604, to the party on whose behalf such production was sold, and shall include with such payment a statement showing the manner in which the amount was calculated. If the disposing party does not pay such amount within ten (10) days following its receipt or, if not previously deducted from the proceeds of such sale hereunder, the non-taking party does not pay the direct processing and transportation expenses applicable to such production within thirty (30) days of being invoiced therefor by the disposing party, the provisions of Subclause 505(b) shall apply, mutatis mutandis, between the non-taking party and the disposing party with respect to such outstanding amounts. Proceeds of sale of a party's share of production pursuant to Clause 602 or 603 and the applicable marketing fee prescribed by Clause 604 shall be determined by reference to the volume of production taken by each party in a month.

607 AUDIT BY NON-TAKING PARTY – To the extent only that a party sells all or a portion of the share of production of a party which does not take in kind and separately dispose of the same hereunder, the audit provisions of the Accounting Procedure shall apply, mutatis mutandis, with respect to such sale between the party who sold such production and the party on whose behalf such production was sold, provided that the party who sold such production shall not be required to provide the auditors with access to any contract described in paragraph 602(a)(i).

608 DISPOSING PARTY TO BE INDEMNIFIED – In the event a party does not take in kind and separately dispose of its share of production and another party disposes of such production on behalf of the non-taking party pursuant to this Article, the non-taking party shall indemnify the disposing party with respect to any injury, loss or damage which the disposing party may suffer with respect to such sale by virtue of defects in the non-taking party's title to such production.

ARTICLE VII

OPERATOR'S DUTIES RE CONDUCTING JOINT OPERATIONS

701 PRE-COMMENCEMENT REQUIREMENTS – If the Operator proposes to conduct a joint operation, the following conditions shall apply:

(a) The Operator shall submit an Authority for Expenditure for such operation to each Joint-Operator for its approval, if required by Clause 301. Such Authority for Expenditure shall be void unless it has been approved by all of the Joint-Operators within forty-five (45) days of being submitted to them by the Operator. The Operator shall promptly advise the Joint-Operators whether such Authority for Expenditure has been approved by all of the Joint-Operators.

(b) An Authority for Expenditure which was approved by the parties shall be void if the operation to which it relates is not commenced within the later of one hundred and twenty (120) days following the date the Authority for Expenditure was submitted to the other parties by the Operator or forty-five (45) days following the anticipated date of commencement specified therein with respect to such operation, as the case may be, provided that in no event shall such operation be commenced later than one hundred and eighty (180) days following the submission of such Authority for Expenditure to the parties by the Operator.

(c) Submission or approval of an Authority for Expenditure shall not preclude any party from giving an operation notice under Clause 1002 with respect to the operation proposed in the AFE. However, approval of the Authority for Expenditure by all parties before expiration of the response period provided in Clause 1002 with respect to that operation notice shall nullify such operation notice.

(d) If the operation is the drilling of a well for the joint account, the Operator shall submit to each Joint-Operator at least forty-eight (48) hours prior to the commencement of the well:

(i) written notice of intention to spud such well;

Paragraph 701(d)(iii): The operator's proposed program should be provided to the non-operators at the earliest opportunity, so that the parties would have an adequate opportunity to resolve any differences they may have with respect to the program.

While it would be preferable to require an operator to forward the proposed program with the AFE (or at least a week before commencement), industry experience indicates that operators would be unlikely to comply with the obligation unless specifically requested to do so by the non-operators.

Notwithstanding the fact that the program is generally provided to the non-operators close to the time the well is spudded, most objections would tend to be with respect to the proposed logging and coring program, such that there is usually an adequate opportunity to resolve any differences without disruption to the operation. While these objections tend to be resolved fairly easily in practice, there is admittedly a problem if the parties are unable to negotiate an acceptable arrangement after the commencement of the well.

However, there may be circumstances in which the drilling program may address major issues which are fundamental to the operation (i.e., special treatment of formations). In such circumstances, it is the better practice to discuss those issues before the approval of the AFE.

This treatment of the proposed program differs significantly from that prescribed by Clause 902 with respect to the completion program because of the increased probability that there would be differences of opinion on major components of the completion program.

Clause 704: Remember that the completion approval is obtained pursuant to Article IX or Clause 1002 (re-entry and completion under Clause 1008).

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

(iii) a copy of the proposed program of drilling, coring, logging, testing and casing the well, and, subject to Article IX, a Joint-Operator shall be deemed to have approved the program, unless it notifies the Operator to the contrary within seven (7) days of receipt of such program.

702 DRILLING INFORMATION AND PRIVILEGES OF JOINT-OPERATORS – During the drilling of a well for the joint account, the Operator shall provide to each Joint-Operator:

(a) immediate notice of the spud date of the well;

(b) the surface elevation of the well;

(c) daily drilling and geological reports;

(d) access to the Operator's set of samples of the cuttings of formations penetrated and a complete sample description, or, if specifically requested by a Joint-Operator, a complete set of samples of the cuttings of the formations penetrated for its own retention;

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

(f) immediate advice of any porous zones with showings of petroleum substances encountered and the proposed tests, if any, to be run on those porous zones;

(g) a reasonable opportunity for each Joint-Operator to have a representative present to witness and observe any tests conducted pursuant to Subclause (f) of this Clause;

(h) access to each well, including derrick floor privileges as set forth in Clause 307; and

(i) estimates of current and cumulative costs incurred for the joint account.

703 LOGGING AND TESTING INFORMATION TO JOINT-OPERATORS – Upon a well being drilled for the joint account reaching total depth (or during the drilling of the well, if any such operations are to be conducted prior to the well reaching its projected total depth), the Operator shall:

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

(b) make such further tests as are warranted in the circumstances, of any porous zones with showings of petroleum substances encountered or indicated by any survey and provide each Joint-Operator with a reasonable opportunity to have a representative present to witness and observe any such tests;

(c) take representative mud samples and drillstem test fluid samples in order to obtain accurate resistivity, mud filtrate and formation water readings and supply each Joint-Operator with the information pertaining thereto in a timely manner;

(d) supply each Joint-Operator, in a timely manner, with copies of the drillstem test and service report on each drillstem test run, including copies of pressure charts; and

(e) run all log surveys agreed upon among the Joint-Operators, supply each Joint-Operator, in a timely manner, with copies of each log so run and provide each Joint-Operator with a reasonable opportunity to have a representative present to witness and observe any such surveys.

704 WELL COMPLETION AND PRODUCTION INFORMATION TO JOINT-OPERATORS – During any completion operation conducted for the joint account, the Operator shall:

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

(i) a summary of the casing program;

(ii) the location and density of perforations;

(iii) details of formation treatment and stimulation;

Clause 706: The operator shall supply all prescribed data in accordance with established industry standards. If a party requires data in an unusual format, the operator might determine that it is prepared to accommodate the request only if that party agrees to reimburse the operator for the additional expense it would incur as a result.

Clause 707: This is an enabling provision. A party may conduct additional testing programs in a well at its sole cost, risk and expense, provided hole conditions are, in the operator's opinion, satisfactory. Remember that the liability and indemnification provisions of Clause 1017 apply to a testing program conducted pursuant to this Clause.

Clause 708: The previous provisions pertain to wells drilled for the joint account. If an operation is not conducted for the joint account, the provisions of this Article shall apply, mutatis mutandis, to the participating parties.

Clause 801: i) Provisions such as this Clause are often used in farmout agreements, and many parties will continue to address the issue in the head agreement. This Clause is included in the Operating Procedure because of the possibility that the parties may forget to address the issue in the head agreement.

ii) The Clause states that a party which has an encumbered interest shall free the interest from that burden when the interest is surrendered, forfeited or subject to a production penalty. If it fails to free the interest from that burden, it shall indemnify the parties for any resultant losses they may suffer.

The only way that it can free the interest from the burden, of course, is to structure the contract creating the encumbrance in a manner which enables it to do this. It is imperative, therefore, that a company which encumbers its interest attempts to structure its arrangement so that it does not have an adverse impact on its co-venturers in the event they subsequently acquire the interest through the application of the surrender or penalty provisions of the document.

Clause 802: i) The purpose of this Clause is not to encourage the creation or recognition of encumbrances. It is to distinguish between encumbrances which the parties believe warrant special treatment under the Operating Procedure and those which they believe do not. Remember that encumbrances which are not created in the agreement only fall within the scope of Clause 802 if the parties voluntarily agree to provide them with the special status in the agreement. Many parties will not wish to become involved in a contract which does not apply to its interest. Those parties, therefore, will presumably be extremely reluctant to accept any special treatment for encumbrances which are not created in the agreement.

ii) Encumbrances which are not borne for the joint account may be created under the provisions of the head agreement, such as a farmor's ORR, or may be acknowledged as being legitimate therein. If an encumbrance not borne for the joint account

(iv) results of back pressure tests;

(v) daily completion reports; and

(vi) estimates of current and cumulative costs incurred for the joint account; and

(b) promptly provide each Joint-Operator with all relevant information pertaining to any formation tests and production tests conducted on the well and daily advice as to the nature, rate and amount of petroleum substances and other fluids produced from the well.

705 WELL INFORMATION SUBSEQUENT TO COMPLETION – Subsequent to the completion of any well completed for the joint account, the Operator shall supply to each Joint-Operator:

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

(b) copies of any petroleum, natural gas, water or other substance analyses made with respect to the well, provided that if the Operator does not make analyses of water and petroleum substances, representative samples of water and petroleum substances (other than natural gas) recovered from each test shall be supplied;

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

(d) written notice of the commencement of production of any of the petroleum substances from the well; and

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

706 DATA SUPPLIED IN ACCORDANCE WITH ESTABLISHED STANDARDS – The Operator shall supply all data to be provided to the Joint-Operators hereunder in accordance with established industry standards.

707 ADDITIONAL TESTING BY LESS THAN ALL JOINT-OPERATORS – After giving written notice to each of the other Joint-Operators of its intention to do so, any Joint-Operator may, at its sole risk and expense (including rig costs), conduct such other or additional tests of its choosing in a well to which it is entitled to have access hereunder, unless the Operator advises such Joint-Operator that, in the Operator's opinion, the hole is not in satisfactory condition for that purpose. Subject always to Article IX and Clauses 1017 and 1801, the Joint-Operator so conducting any such tests shall retain all rights thereto and shall not be required to make the results thereof available to any other Joint-Operator pursuant to this Operating Procedure.

708 APPLICATION OF ARTICLE VII WHEN OPERATION CONDUCTED BY LESS THAN ALL PARTIES – If an operation hereunder is not conducted for the joint account, the provisions of this Article VII shall apply, mutatis mutandis, among those parties participating therein.

ARTICLE VIII

ENCUMBRANCES

801 RESPONSIBILITY FOR ADDITIONAL ENCUMBRANCES – If the working interest of a party is or becomes encumbered by any royalty, overriding royalty, production payment or other charge of a similar nature, other than the royalties payable to the grantor of the title documents and any charge to be borne for the joint account pursuant to either the Agreement or the agreement of the parties, such party shall be solely responsible for such additional encumbrance. In the event of any surrender, forfeiture or production penalty provided for in this Operating Procedure, such surrendered, forfeited or affected interest shall be freed of any such additional encumbrance caused, suffered or created by or through such party (or its predecessor in interest) at the sole cost and expense of such party, and such party shall indemnify the other parties for any losses they may suffer as a result of the failure of such party to fulfill the obligation to remove such additional encumbrance.

802 EXCEPTION TO CLAUSE 801 – Notwithstanding the preceding Clause (but subject to the provisions of the Agreement), the obligation to remove an additional encumbrance and to indemnify the other parties with respect thereto shall not apply, insofar as such additional encumbrance is created pursuant to the provisions of the Agreement or is specifically acknowledged therein to be a charge applicable to a party's working interest which shall continue to apply to such working interest following the application of the surrender, forfeiture or production penalty provisions hereof to such working interest.

is one which the parties agree should attach to the interest, that encumbrance should be an exception to the general rule in Clause 801. See also Subclause 1007(b).

iii) The user should check the head agreement in all cases to see whether there was any special treatment of the encumbrance. Although an encumbrance may be created pursuant to the head agreement, it is important to remember that the head agreement may include special provisions overriding this Clause.

iv) An exception against non-arm's length encumbrances has not been included. The parties would most reluctantly agree to accept a non-arm's length encumbrance which would run with the interest under Clause 802. However, the inclusion of a specific exception for non-arm's length encumbrances could operate to extinguish a legitimate encumbrance which is subsequently purchased by a joint-operator.

Clause 901: The testing program described in the initial AFE is really only the operator's predicted testing program in the event that certain assumptions are accurate. The inconvenience of consultation with the non-operators does not outweigh the right of the non-operators to determine the appropriate evaluation of their interests.

Subclause 902(a): The operator shall promptly supply the non-operators with the logging and testing data required by them to determine whether they wish to attempt to complete the well.

Subclause 902(b): i) Each non-operator shall elect whether to participate in the completion attempt within 24 hours after the receipt of the pertinent data and program information.

ii) A party which elects to participate in the completion attempt shall be deemed to have approved the operator's proposed program unless it otherwise advises the parties in the election period.

If the operator proposes to alter its proposed program materially as a result of such an objection, all of the parties may re-elect whether to participate in the operation, since the operation differs materially from that to which the election pertained. The operator would likely convene a meeting of the parties if there were a significant difference of opinion among the parties to attempt to resolve the issue.

iii) A party may elect only to participate in the setting of production casing and the suspension of the well. (Remember that this is a limitation on the operation and not a monetary limit.) If one or more of the other parties proceed to conduct the completion attempt at that time, a penalty prescribed by Alternate 903A with respect to that party would be based only on that portion of the costs not assumed by it.

Subclause 902(c): Clause 304 requires the operator to conduct operations "diligently." Suppose that the operator obtains approval for a completion attempt, and proceeds only to set production casing, with the intention of conducting the remainder of the operation at an indefinite date. To what degree can the operator rely on the original approvals of the parties to participate in the operation?

In some instances, Clause 304 may allow the parties to claim that the operator is required to obtain additional approvals, particularly if the AFE included a statement as to the intended completion date and there was no reasonable technical justification for the delay.

If the operator had stated in the AFE that the completion attempt was to be conducted within a specified period following the setting of production casing, the non-operators might also attempt to argue that a material deviation from that representation voided their approval of that portion of the AFE. (See the reference to the Axford case in the notes on 101(e).)

It is not appropriate to include an arbitrary termination mechanism, however, because of the multitude of potential fact situations.

Subclause 902(d): The operator's proposed program may be the setting of production casing and the suspension of the well, so that the well may be re-entered at some later date for the conduct of an unspecified completion program. Approval of that program by the parties does not empower the operator to re-enter the well at a later date to attempt to complete the well for the account of those parties without obtaining additional approvals pursuant to Article X. (See Clause 1008.)

Clause 903: A non-participating party is subject to a production penalty under A and a forfeiture under B. The magnitude of the production penalty under A will depend on the classification of the zone(s) as being in a development well or an exploratory well.

ARTICLE IX

CASING POINT ELECTION

901 AGREEMENT TO DRILL NOT AUTHORITY TO COMPLETE – Agreement by the parties to drill or deepen a well for the joint account shall not be deemed to include agreement by any Joint-Operator to participate in the setting of production casing, the attempted completion of the well or any completion program set forth in the Authority for Expenditure submitted pursuant to Subclause 701(a).

902 ELECTION BY JOINT-OPERATORS RE CASING AND COMPLETION –

(a) The Operator shall immediately notify the Joint-Operators when a well being drilled for the joint account has been drilled to the authorized total depth and the logs and tests conducted pursuant to Article VII have been run. The Operator shall also notify the Joint-Operators at such time of the Operator's proposed program for completing the well and forthwith provide an AFE therefor.

(b) Subject to Subclause 1002(c), each Joint-Operator shall have a period of twenty-four (24) hours after both the logs and results of the tests in which it participated and the Operator's proposed completion program respecting the well have been made available to it, to inform the Operator whether it wishes to participate in the setting of production casing and a completion attempt. Failure to reply to the notice from the Operator within such period shall be deemed to be an election by a party to participate in such completion attempt. If a party which elects to participate in the completion attempt fails to object to the Operator's proposed completion program by notice to the Joint-Operators within such period, that party shall be deemed to concur with that program. If the Operator proposes to alter the proposed completion program materially as a result of a party's objection to the Operator's proposed program, the Operator shall immediately notify all parties, and each party shall have the right for twelve (12) hours following the receipt of such notice to re-elect to participate in such completion attempt. Notwithstanding the foregoing portion of this Subclause, if Alternate 903A applies and a party's objection to the Operator's proposed completion program is that such party wishes to limit its participation in such operation to the setting of production casing and the suspension of the well, that party may so limit its participation in such operation. In such event, the cost recovery prescribed by Alternate 903A with respect to such party's limited participation shall apply only to that portion of the costs of such completion attempt not assumed by such party, if one or more of the other parties proceed to conduct such completion attempt at such time.

(c) If one or more Joint-Operators elect to participate in the completion attempt, the participating parties shall proceed to run production casing and attempt to complete the well for the taking of petroleum substances. If none of the Joint-Operators elect to participate in the completion attempt, the Operator shall abandon the well.

(d) Notwithstanding the foregoing Subclauses of this Clause and Clause 903, in the event the Operator's proposed program pursuant to this Clause is the setting of production casing in the well and the suspension of the well, so that the well may be re-entered at some unspecified later date for the conduct of an unspecified completion program, the approval of a Joint-Operator to participate in such program shall not constitute the approval of that Joint-Operator to participate in the attempted completion of such well at such time as it may be conducted, and Clause 1008 shall apply to such subsequent re-entry and completion attempt.

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

ALTERNATE - A:

The setting of production casing and the completion attempt shall be considered an independent operation under the provisions of Article X (including the provisions of Clause 1009 if the well is abandoned before the penalty in Clause 1007 is recovered), as if the independent operation were with respect to a development well or an exploratory well, as the case may be, provided that the drilling costs of the well shall not be considered when calculating the amount recoverable pursuant to paragraph 1007(a)(iv).

- OR -

Clause 904: If the well is abandoned within six months of the casing point election, the well would be abandoned for the joint account of the parties which had participated in the drilling of the well, subject to qualifications respecting additional costs resulting from the completion attempt and the application of the proceeds from salvagable material to the penalty account.

If the well is subsequently abandoned prior to the recovery of the penalty, it shall be abandoned for the account of the parties which participated in the setting of production casing/completion. If it is abandoned after the recovery of the penalty, it shall be abandoned by the parties having interests in the well at that time.

Clause 905: A completion attempt by less than all of the parties is really just a special type of independent operation. Without this Clause, users might not remember that the principles in such provisions as 1013, 1017, 1018 and 1019 apply to Article IX.

Article X - General: The paramount policy goal of any operating procedure is to encourage the joint evaluation of the lands subject thereto.

Despite the inherent desirability of that goal, it is important to place it in practical perspective. The exploratory strategies of the joint-operators will often differ with respect to the nature or timing of an exploration program. In practice, those differences will usually be resolved through negotiation. However, there will be instances in which a compromise cannot be negotiated. An operating procedure, therefore, must include some mechanism for the resolution of these differences - an independent operations provision.

The fact that the exploratory strategies of the joint operators may differ is not inconsistent with the underlying policy goal of encouraging joint operations. The independent operations provision of a document, therefore, should not include penalties for non-participation which are chosen so that an independent operation will not be a practical alternative. Rather, one must be resigned to the fact that the joint-operators will probably have different exploratory philosophies from time to time, and structure the agreement accordingly, to neither encourage nor discourage an independent operation where those differences cannot be resolved through negotiation.

Subclause 1002(a): i) Although a party may issue an operation notice without prior advice to its co-venturers, it is expected that a proposing party would generally discuss the intention to issue the notice prior to the issuance of the notice.

This practice has three major direct benefits. Firstly, it encourages an interchange of ideas among the interest holders, which would likely be attractive unless a party is pursuing its individual agenda with respect to a regional play. Secondly, it enables the proposing party to gauge the degree of support for the operation prior to the issuance of the notice and the allocation of its resources to the operation. Thirdly, it provides the other parties with additional time to obtain funding or a farmee.

ii) The operation notice should include all information which would reasonably be expected to be material to a party's decision to participate in the operation. Remember that the proposed location of a well must be specified in detail. (See 101(e).)

iii) Note that the proposing party is required to state the application of Clause 1010 in the notice. Some operation notices simply refer to a well as being a development well or an exploratory well, even though the applicable penalty is actually found in Clause 1010. That practice could be misleading.

ALTERNATE - B:

Each party not participating in the setting of production casing and the completion attempt shall assign to the parties that paid such non-participating party's share of such costs, all of the assignor's interest in the spacing unit of the well, insofar only as it relates to the zone in which the well is so completed, subject to Clause 1015. The assignees shall forthwith pay to the assignors the latter's share of the estimated salvage value of the material and equipment placed in or on the well prior to commencement of the completion attempt.

904 ABANDONMENT OF WELL – If one or more, but not all, of the parties elect to set production casing and attempt to complete the well pursuant to Clause 903 and the participating parties in such completion attempt then propose to abandon the well within six (6) months of the expiry of the twenty-four (24) hour period provided in Clause 902, they shall so notify the non-participating parties. Such abandonment shall be for the joint account, except that:

(a) the participating parties in the completion attempt shall bear all extra costs of the abandonment incurred by reason of the completion attempt; and

(b) income received by the participating parties from the sale of petroleum substances produced from the well within such six (6) month period and any amounts received from the sale of salvable material and equipment shall firstly be applied to abate costs incurred by those parties in the completion attempt, and the excess, if any, shall be a credit for the joint account.

If the well is not abandoned within such six (6) month period, the participating parties in the setting of production casing and, if applicable, the completion attempt shall be solely responsible for the costs of abandoning the well, subject, if applicable, to the reacquisition of participation in the well by a non-participating party pursuant to Clause 1007 or 1008, as the case may be.

905 PROVISIONS OF ARTICLE X TO APPLY – The provisions of Article X shall apply, mutatis mutandis, to operations conducted pursuant to this Article by one or more, but not all, of the parties, except to the extent that those provisions would conflict with those contained in this Article IX.

ARTICLE X

INDEPENDENT OPERATIONS

1001 DEFINITIONS – In this Article, the following words and phrases shall have the following respective meanings, namely:

(a) "independent operation" means an operation to be conducted hereunder by less than all of the parties.

(b) "non-participating party" means a party which does not participate in an independent operation.

(c) "operation notice" means a notice of intention to conduct an independent operation.

(d) "participating party" means a party which participates in an independent operation.

(e) "proposing party" means the party or parties which issue an operation notice.

(f) "receiving party" means a party which receives an operation notice.

1002 PROPOSAL OF INDEPENDENT OPERATION –

(a) The parties normally shall consult with respect to decisions to be made for the exploration, development and operation of the joint lands. Whether or not such consultation has occurred or has been requested, a party may at any time become a proposing party and give to the other parties an operation notice for an operation on or with respect to the joint lands or the construction or installation of a production facility, including therein or therewith:

(i) the nature of the operation;

(ii) the proposed location of the operation;

(iii) the anticipated time of commencement and estimated duration of the operation;

iv) Clause 301 does not require a response to an AFE within any specific time. That being the case, it is the better practice for an operator to propose a joint operation in the context of an operation notice where time is of the essence.

Subclause 1002(b): i) Although a receiving party's election is effective if made solely to the proposing party, it is the better practice to send a copy of the notice to the other receiving parties.

ii) The general reply period to an operation notice is within 30 days of its receipt, but there are two exceptions to that general rule.

Firstly, the response period is reduced to 15 days if the operation notice pertains to a well and it states that lands within 1.6 kilometres of the proposed well are to be offered for sale by the Crown within 60 days of the receipt of the notice.

Secondly, the response period will only be 48 hours if the proposed operation is a deepening, plugging back, whipstocking, re-entry and completion, recompletion or reworking and the rig to be used in that operation is then at the location of that operation. This special election reflects the view that time is of the essence when a party determines that it wishes to propose such an operation while the rig is on location. It is not intended to allow a party to determine that it wishes to conduct the operation, to move the rig to the location at its leisure and then to issue the 48 hour notice to its surprised co-venturers. It would have been possible to eliminate this possibility by providing that the rig would be deemed not to be on location for this purpose if it had been moved there solely to conduct the operation. However, this would ignore the likelihood that the proposing party decides to conduct the operation when a rig near the well location becomes available on short notice.

iii) There are two alternative views on the responsibility for costs incurred during the 48 hour election period. The first is that standby costs incurred during that period are for the joint account, since the receiving parties should buy the time to make their decision. The alternative position, which is included in the provision, is that the proposing party and the participants (if any) are responsible for all costs and expenses incurred as a consequence of the issuance of the operation notice. The latter provides the proposing party with the incentive to advise the other parties of its plans promptly.

Subclause 1002(c): i) Assume that the working interests in the joint lands are A1%, B24%, C25% and D50%. B issues an operation notice respecting an exploratory well, and A is willing to participate for a 2% interest.

Under the traditional provision (such as former Clause 1015), A is required to participate either to the extent of its working interest (1%) or to the extent of all available interest (4% if C and D elect not to participate). This Subclause provides much greater flexibility, since a party may elect to participate for its working interest, its proportionate share of all available interest or its proportionate share of all available interest with a limit on the maximum percentage of participating interest.

If even one party elects to assume its proportionate share of available costs, the interests will be fully subscribed. If there is an unassumed percentage of participation after the process, the participating parties shall attempt to allocate the unassumed interest within a prescribed time or the notice shall be void.

ii) Assuming that the interests are fully subscribed, what are the respective legal rights of the parties if the proposing party unilaterally determines that it no longer wishes to conduct the operation? If the proposing party can enforce the election of a receiving party to participate in the operation, the receiving parties may have legal recourse if the proposing party did not proceed to conduct the operation, unless the consent of the other participating parties were obtained or the force majeure provisions were applicable. A proposing party should consider this risk carefully before issuing an operation notice respecting a well which it is not confident it will drill.

Subclause 1002(e): i) While a party may be a proposing party with respect to an unlimited number of operation notices at any particular time, suitable protection has been included for the receiving parties.

Firstly, an operation notice may not be with respect to more than one well. This assures the parties that they will not be requested to commit to a long term exploratory strategy or an all or nothing package.

Secondly, the receiving parties are not required to respond to a proposing party's operation notice respecting a well unless and until each other operation notice served by that proposing party hereunder with respect to a well within 3.2 kilometres of the proposed well: (a) has expired; (b) has been withdrawn; or (c) is no longer in effect because the operation has been conducted. If (c) applies, a receiving party may also delay its response until it receives any well information to which it is entitled under Clauses 1018 and 1019, basically well information respecting all wells on the joint lands where Clause 1010 does not apply.

ii) The mechanism whereby a receiving party may delay its response respecting additional operation notices has limited application where a different party is the proposing party with respect to the second operation notice. If, for example, A, B and C are the joint-operators with respect to a three section block and A and B each issue an operation notice for a well on the lands, the notices are processed independently, subject to Clauses 1018 and 1019, because each party, as an owner, has an equal right to propose its own independent exploration program.

Unfortunately, one cannot differentiate in the document between cases in which joint-operators are genuinely proposing independent programs and those in which they may agree on a common course of action and use different proposing parties solely to alter the rights of the passive party. The latter course may be tempting where the more aggressive explorers believe it is inappropriate for the passive party to elect to participate in the second well after having evaluated the results of

(iv) the classification, if applicable, of the operation as a development well or exploratory well and the application of Clause 1010 thereto, if any; and

(v) an Authority for Expenditure, provided that an Authority for Expenditure otherwise submitted hereunder shall not in itself be construed as an operation notice unless it is specifically part of an operation notice served pursuant to this Article X.

(b) A receiving party shall be deemed to have elected not to participate in the operation proposed in an operation notice unless, within thirty (30) days after receipt of such operation notice, that receiving party has given notice to the proposing party that it elects to participate in the operation. However, if the operation notice states that the operation is to be conducted for the purpose of evaluating lands specified therein which either have been offered for public tender by a governmental authority or which it is known will be so offered within sixty (60) days after receipt of the operation notice, such thirty (30) day period shall be reduced to fifteen (15) days, provided that no operation shall be considered as being conducted for such evaluation if none of the lands proposed to be evaluated are within 1.6 kilometres of the location of the proposed well. Notwithstanding the foregoing portion of this Subclause, if the operation notice pertains to a proposed deepening, plugging back, whipstocking, re-entry and completion of a suspended well, recompletion or reworking pursuant to Clause 1008, the drilling or service rig to be used in such operation is then at the location thereof and the operation notice states that such rig is so located, such thirty (30) or fifteen (15) day response period shall be reduced to forty-eight (48) hours, during which period all incremental expenses accruing as a consequence of the issuance of such operation notice, including, without restricting the generality of the foregoing, standby time, shall be for the account of the proposing party and, if conducted, the other participating parties.

(c) The participating parties shall have the right to participate in the independent operation in the proportions that their respective working interests bear one to the other, and a participating party which does not elect to limit its participation in such operation shall be deemed to have elected to participate to the extent of its working interest, increased by its proportionate share of the unassumed percentage of participation respecting such operation. A proposing party, in the operation notice, and a receiving party, in its response thereto, may elect to participate in the independent operation only to the extent of its working interest or only to the extent of its working interest increased by its proportionate share of the unassumed percentage of participation respecting such operation, with a limitation as to the maximum amount of such increased participation such party is prepared to accept. If there remains an unassumed percentage of participation respecting such operation following those elections, the proposing party shall be deemed to have withdrawn the operation notice, unless the participating parties otherwise agree to assume such unassumed percentage of participation within five (5) days of the completion of such process if the response period applicable to the operation notice is greater than forty-eight (48) hours and within twelve (12) hours of the completion of such process if the response period applicable to the operation notice is forty-eight (48) hours or less.

(d) Once the applicable response period prescribed by Subclause (b) above has expired or upon receipt of the responses of all of the receiving parties to the operation notice, whichever first occurs, the proposing party shall forthwith give notice to the parties specifying how the costs, risks and benefits of the operation will be shared hereunder.

(e) A party may become a proposing party with respect to more than one operation at any given time, and may serve as many operation notices as it so wishes and proceed to conduct operations pursuant thereto. However, no single operation notice shall relate to more than one well, and the receiving parties shall not be required to respond to an operation notice pertaining to a well unless and until each operation notice previously served by that proposing party respecting a well located within 3.2 kilometres of the proposed well has expired, been withdrawn or the operation proposed thereunder has been completed and the information therefrom has been provided to the receiving parties, to the extent required by Clauses 1018 and 1019. If a party serves more than one (1) operation notice at one time, it shall, subject to the foregoing provisions of this Subclause, state the order in which the operation notices are deemed to be received by the receiving parties, provided that if it fails to specify the order, the operation notices shall be deemed to be received in accordance with Clause 2201.

1003 TIME FOR COMMENCING THE OPERATION – The proposing party may begin the operation without waiting for the applicable response period prescribed by Clause 1002 to lapse, provided that the proposing party shall not be obligated to supply any information with respect thereto to a receiving party until such time as it elects to participate in such operation. However, the proposing party shall not commence the operation more than ninety (90) days after the operation notice is deemed to be received by the receiving parties, unless the operation is the construction or installation of a production facility, in which case the operation shall not be commenced more than one hundred and fifty (150) days following such receipt. In the event the operation is not commenced within the applicable period, such operation notice thereupon shall be void, unless and to the extent that the receiving parties consent to the delay of the commencement of the operation. If the operation notice lapses in such manner, the proposing party may serve a new operation notice for the operation within or after the expiration of such period.

the first well. However, it is important to recall that the parties had agreed at the time they accepted the Operating Procedure that the only penalty attributable to an independent well is a production penalty in the spacing unit thereof, subject to 903B and 1010.

Clause 1003: The longer period has been included with respect to production facilities because of the logistical difficulties in obtaining approvals, designing the facility, ordering materials and commencing construction.

Clause 1004: i) The traditionally accepted Clause provided that the operator would conduct the operation if it elected to participate in the operation. However, the operator may have planned to allocate its personnel to other projects. Moreover, the operator may not be able to conduct the operation under the timing and cost constraints proposed in the notice.

To ensure that a proposing party remains accountable with respect to operations it proposes, the Clause has been structured so that the proposing party would conduct the operation unless the parties otherwise agree or that party would be disqualified by Subclause 202(a). If the operator is a participating party, but not the proposing party, it will succeed the proposing party as operator upon the completion of the operation or that particular phase thereof as the proposing party and the operator may agree.

Remember that the non-operators may not want the operator to conduct the operation anyway if they have confidence that the proposing party can conduct the operation properly for the cost set forth in the AFE and they doubt that the operator could conduct the operation for the same cost. That being the case, the provision was not structured to provide the operator with the option to conduct the operation.

Notwithstanding the general provision, there will likely be instances in which the operator would probably conduct the operation. If there were safety or other technical concerns respecting the proposing party's ability to conduct the operation (i.e., sour gas well), the other parties would attempt to negotiate an alternative arrangement. Similarly, if the rig is on location, the operation is the setting of casing or the deepening of a well and the operator is not prepared to participate, it is probable that the participants would want the operator to conduct the operation on their behalf because of the desire for technical continuity and the difficulty in transferring contracts. However, this mechanism is not included in the document because of the need to address the issue in the context of the particular fact situation.

ii) Remember that the proposing party is the operator by virtue of this Clause, Subclause 101(a) and Clause 1014. It will have all of the rights and obligations of the operator if the operation is conducted for the joint account or as an independent operation.

Subclause 1005(a): i) A well may be in part a development well and in part an exploratory well. In such circumstances, it is generally accepted that a party should be able to limit its participation in the well to that portion which is a development well. A suggestion might be made that the mechanism should be extended to allow a party to limit its participation in an exploratory well to the V formation when the well is intended to evaluate the Z formation. The practical implications of such an extension, however, are worrisome. Moreover, the suggestion ignores the rationale for the inclusion of the separate status election mechanism - that it would be unfair to deny a party the right to participate in the exploitation/evaluation of a discovery because it was not prepared to participate in unrelated exploratory drilling.

ii) Note the reference to specialized equipment or casing. If, for example, special equipment or casing is required because of the possibility that sour gas might be encountered in the exploratory portion of the well, those costs would have no bearing to the development portion of the well.

Subclause 1005(c): i) Suppose that paragraph (ii) applies and that the drilling and completion costs of the well were borne as follows:

	Development Portion ($300 M)	Exploratory Portion ($300 M)
A	50% ($150 M)	100% ($300 M)
B	50% ($150 M)	- (0)

As regards only A and B:

i) the $300 M reimbursement to A and B (actual $150 M cash to B) is treated as an operating cost in paragraph 1007(a)(ii), such that A would be entitled to recover B's share of that amount from B's share of production without a penalty applicable thereto under paragraph 1007(a)(iv); and

ii) the cost base under Clause 1007(a)(iv) to B for not participating in the exploratory portion of the well excludes the cost of the development well - a $300 M reduction.

Since C was a non-participating party with respect to the entire well, C's penalty would continue to be based on the development and exploratory penalties applicable to the respective portions of the well, such that the adjustment has no impact on C.

ii) Remember that there is nothing to prevent a party from drilling a twin well to exploit the "development" zone during the period the penalty is being recovered with respect to the "exploratory" spacing unit."

1004 OPERATOR FOR INDEPENDENT OPERATIONS – Notwithstanding anything to the contrary contained in this Operating Procedure, the proposing party shall be the Operator with respect to any operation proposed as an independent operation, unless the parties otherwise agree or the proposing party would be disqualified from serving as Operator pursuant to Subclause 202(a). If the Operator is a participating party, but not the proposing party, with respect to a well proposed as an independent operation, the Operator shall succeed the proposing party as Operator with respect to such operation at the completion of such operation or, if agreed by the proposing party and the Operator, at the completion of a particular phase of the operation.

1005 SEPARATE ELECTION WHERE WELL STATUS DIVIDED –

(a) If the proposed independent operation is the drilling of a well which would be in part a development well and in part an exploratory well, the proposing party shall identify the respective portions of the well in the operation notice. The proposing party shall also estimate the costs separately for each portion of the well in the operation notice. For the purposes of such allocation of costs, the costs of the development well shall only be those costs which would be anticipated to be incurred if the well were being drilled and, if applicable, completed as a development well only, and all additional costs anticipated to be incurred as a consequence of the well also being drilled as an exploratory well (including, without restricting the generality of the foregoing, the utilization of any special equipment or casing to enable the well to be drilled to such depth) shall be allocated to that portion of the well which will be an exploratory well.

(b) Each receiving party electing to participate in a well described in the preceding Subclause shall elect to participate to the extent only that it is a development well or to the extent that it is both a development well and an exploratory well. However, a party which elects to participate in such well without specifying the extent of its participation shall be deemed to have elected to participate in the entire well.

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

(i) If the well is capable of producing petroleum substances in paying quantities from at least one (1) zone in each of the development well and the exploratory well portions of the well and such petroleum substances can be produced simultaneously from all such zones through the well, the Operator for the participating parties in the deepest producing zone shall operate the well. It shall apportion the operating costs of the well to each zone on an equitable basis, and deliver to the Operator for the participating parties in each productive zone the total share of production from such zone. Each such Operator shall account for such production to the respective participating parties in accordance with Clause 1007, as if a separate operation had been conducted with respect to each producing zone.

(ii) Notwithstanding anything to the contrary contained in paragraph (i) of this Subclause, if the well is capable of producing petroleum substances in paying quantities from at least one (1) zone in each of the development well and the exploratory well portions of the well, but such petroleum substances cannot be produced simultaneously from all such zones through the well, the participating parties in the exploratory well portion of the well shall have the pre-emptive right to complete the exploratory well portion of the well. However, if those participating parties exercise such pre-emptive right, they shall promptly reimburse the participating parties in the development well portion of the well all costs incurred by them in drilling and, if applicable, completing the well as a development well. Thereafter, the well shall be deemed to be a single operation, ab initio, involving the drilling of an exploratory well only and conducted by the participating parties in the exploratory well portion of the well pursuant to this Article X. However, for the purposes of the application of Clause 1007 between the participating parties in the exploratory well portion of the well and the participating parties in the development well portion of the well, the costs so reimbursed to the latter shall be deemed to be operating costs and included as a charge under paragraph 1007(a)(ii), and the amount prescribed by paragraph 1007(a)(iv) with respect to those parties shall exclude the costs of drilling and, if applicable, completing the well as a development well.

1006 ABANDONMENT OF INDEPENDENT WELL – If an independent operation is the drilling of a well and the well is not capable of production of petroleum substances in paying quantities, the participating parties shall abandon the well in a timely manner.

1007 PENALTY WHERE INDEPENDENT WELL RESULTS IN PRODUCTION – If an independent operation proposed in an operation notice is the drilling of a well, the following shall apply with respect thereto:

(a) If such well is completed for the production of petroleum substances from one or more zones, the

Clause 1006: This provision pertains to an initial abandonment. Clause 1009 applies to wells which are initially completed, but abandoned before the recovery of the penalty.

Clause 1007: i) Note the reference to the independent operation proposed in the operation notice and the penalty applicable to such well. Suppose that the drilling program was not conducted in accordance with the independent operation notice. Would the non-participating party be subject to a penalty?

Given that an operation may differ from that described in an operation notice in costs, timing and location/depth and that the differences may be material or of little consequence, the answer would depend on the type and degree of the deviation. As a general rule, immaterial differences in timing or costs should not affect the penalty because of their dependency on external factors. Similarly, a material difference in costs would probably not affect the penalty if the original cost estimate had been reasonable in the circumstances and the participating parties had no reason to revise the estimate prior to the commencement of the operation. Where, on the other hand, the participating parties have (or should have) knowledge of developments which would materially alter the costs or timing of the independent operation, the validity of the operation notice might be jeopardized if those changes might have influenced the non-participating parties to elect to participate in that operation. Similar considerations apply to such technical factors as location and depth.

If the operation is, in essence, a different operation from that proposed, there is probably a duty on the participating parties at law to advise the non-participating parties of such a change promptly and to allow them the opportunity to re-elect to participate in the operation, even if it has already been commenced. The rationale for that position is simply that the parties should be in the same position as that in which they would have been had the operation been so proposed initially.

This, of course, also raises an interesting question respecting the obligations of the proposing party to the other participating parties in the event the penalty was not effective.

Note that this issue is also relevant to joint operations. See, for example, Passburg Petroleums v. San Antonio Explorations Ltd. and D. W. Axford & Associates Ltd., [1988] 2 W.W.R. 645 (Alta. Q.B.).

ii) Note the reference "which are paid" in (a)(i). The participating parties are not entitled to charge phantom royalties during a royalty holiday.

iii) Suppose that a well drilled pursuant to 1005 was not productive in the development well portion, but was successfully completed in the exploratory well portion, and that the drilling and completion costs of the well were borne as follows:

	Development Portion ($300 M)	Exploratory Portion ($300 M)
A	50% ($150 M)	100% ($300 M)
B	50% ($150 M)	0
C	0	0

Between A and C, the cost base for (a)(iv) would be $600 M, and between A and B, it would be $300 000.

iv) A non-participating party would elect to obtain its interest in the well following the recovery of the penalty if it believed that the benefit of re-acquiring its share of production would be greater than the potential abandonment costs or accrued environmental liabilities.

Subclause 1007(b): i) Remember that this Subclause only applies to those encumbrances which the parties agree flow with the interest in accordance with Clause 802. The Subclause will not apply to the typical Clause 801 encumbrance, such that the issue will have to be resolved by the non-participant and the encumbrance holder in all cases where Clause 802 does not apply.

ii) Suppose that the Operating Procedure is attached to a farmout agreement under which A and B farmed out to C and D and that A has elected to be in a non-convertible 15% ORR under the Agreement, such that the interests are as follows: A-ORR (as calculated on 50% of production - net 7.5%); B-25%; C-37.5% (25% subject to A's ORR); and D-37.5% (25% subject to A's ORR). If B proposes a well, C elects to participate for only its working interest and D elects not to participate, what is the treatment of A's ORR under Clause 1007?

A's ORR was not an encumbrance borne for the joint account, such that the previous provision clearly stated that it had no impact whatsoever. This, of course, would be of concern to both A and D, since D had an obligation to pay an ORR to A on the production applicable to the interest acquired from A by D.

This result does not occur under 1007(b) with respect to encumbrances recognized under 802. Among the participating parties and the non-participating party whose interest is encumbered by a Clause 802 burden, the ORR will be taken into account under paragraph 1007(a)(i) by adding 150% of the amount so paid into the amount to be recovered thereunder. This additional amount is designed to compensate the participating parties for the delay of penalty payout caused as a result of the inclusion of this amount.

Subclause 1007(d): Any cash contribution received by the participating parties for the disclosure of well information pursuant to Clause 1802 shall be applied against the amount in (a)(iv) to reduce the penalty cost base.

participating parties shall be entitled to retain possession of the well and all production from such zones through the well until the gross proceeds (calculated at the wellhead) from the sale of such production equals the aggregate of:

(i) one hundred percent (100%) of the Lessor's royalty and any overriding royalties or other encumbrances thereon which otherwise would have been borne for the joint account which are paid with respect to such production, subject to Subclause 1007(b);

(ii) one hundred percent (100%) of the operating costs applicable to the well;

(iii) two hundred percent (200%) of the equipping costs of the well; and

(iv) a multiple of the drilling costs and completion costs of the well as a development well or an exploratory well, as the case may be, being _____% with respect to a development well and _____% with respect to an exploratory well, provided that if such well was in part a development well and in part an exploratory well and such well was completed for production only as an exploratory well, all of the drilling costs and completion costs of such well shall be deemed to have been incurred solely with respect to an exploratory well, except that, subject to paragraph 1005(c)(ii), the costs of drilling and, if applicable, attempting to complete the well as a development well shall be excluded for the purposes only of determining the amount prescribed by this paragraph with respect to a party which was only a participating party with respect to the development well portion of the well.

The Operator for the participating parties shall notify the non-participating parties upon recovery of the proceeds prescribed by paragraphs (i) to (iv) of this Subclause not later than thirty (30) days following such recovery. Subject to Subclause l02l(b), each non-participating party shall have thirty (30) days following receipt of such notice within which to elect to accept or refuse participation in the well, the applicable zones and the production therefrom, provided that failure of a non-participating party to make an election within such period shall be deemed to be an election to accept such participation to the extent of its working interest in the spacing unit of the well. Subject to Clause 1015, if a non-participating party refuses participation as above provided, it shall be deemed to have forfeited its right of participation in and to the well and to the spacing unit of the well, insofar only as it relates to the applicable zones and the production therefrom, to the participating parties therein. If a non-participating party elects to accept participation in the well, the applicable zones and the production therefrom as above provided, its participation shall be equal to its working interest, and shall be effective as of the time when the gross proceeds of production from the well equalled the aggregate of the amounts prescribed by paragraphs (i), (ii), (iii) and (iv) of this Subclause, whereupon the accounts of the parties shall be adjusted accordingly. Thereafter, the well shall be held for the account of the parties then participating therein, and shall be operated by the Operator if it is one of the parties so participating, or an Operator appointed pursuant to Clause 1004 if the Operator has elected to forfeit its interest in the well.

(b) Notwithstanding the preceding Subclause, in the event the working interest of one or more of the parties is encumbered by an encumbrance not borne for the joint account which falls within the exception in Clause 802, the following shall apply to such additional encumbrance for the purposes of the calculation in Paragraph 1007(a)(i):

(i) if a participating party's working interest is encumbered by such an additional encumbrance, amounts paid by that participating party with respect to the application of such additional encumbrance to the production from the relevant well shall not be included in paragraph 1007(a)(i), subject to paragraph (ii) of this Subclause; and

(ii) if a non-participating party's working interest is encumbered by such an additional encumbrance, the participating parties shall make the required payments with respect to the application of such additional encumbrance to the production from the relevant well. As between only that non-participating party and those participating parties receiving the assignment of the production attributable to that non-participating party's working interest pursuant to this Clause, one hundred and fifty percent (150%) of the amounts so paid on behalf of that non-participating party shall be included in paragraph (a)(i).

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

(d) If any cash contributions are received by the participating parties pursuant to Clause 1802 with respect to the release of information respecting a well drilled as an independent operation, the contribution shall be credited to paragraph (a)(iv) of this Clause to reduce the cost thereof for the calculation of the penalty relating thereto.

Subclause 1007(e): Incentives accruing under the regulations do not affect the calculation under Subclause 1007(a), provided that the participating parties are not entitled to charge phantom royalties under paragraph 1007(a)(i) during a royalty holiday.

Subclause 1008(b): This Subclause raises an interesting question respecting the case in which a deepening is proposed with respect to a well which was not drilled for the joint account.

Few would dispute the principle that a non-participating party should be permitted to participate in an independent deepening. However, the mechanism whereby that party may elect to participate in the deepening may be contentious.

There are three major alternatives. The first is that the party may only participate if it pays its share of the up-hole cost of the well. The second is that the party has no direct responsibility for the up-hole costs, as it has already contributed a penalty in support of the well. The third is a compromise whereby the parties negotiate the responsibility of a non-participating party for up-hole costs.

However, the subsequent participation of a non-participating party in the deepening would not relieve such party from the penalty applicable to its non-participation with respect to the up-hole portion of the well.

Subclause 1008(d): i) This provision is analogous to Clause 904.

ii) Assume that A, B and C hold working interests in the joint lands. A and B elect to participate in the drilling of a well, and have suspended the well. A subsequently conducts a re-entry and completion, but elects within six months of that operation to abandon. After salvage of the equipment placed by it on the well, A turns the well and formation back to A and B for abandonment and salvage of their equipment. Assuming that C is still in a penalty position, Clause 1015 states that the Clause 1007 penalty shall cease to apply to C's interest.

iii) Amounts reimbursed by the participating parties to the non-participating parties are included in the 1007 calculation as operating costs under paragraph (a)(ii).

Clause 1010 - General: i) Note that the Clause only addresses wells which preserve title. If the lands are in Saskatchewan or British Columbia and the joint lands, for example, include a permit (or may include a permit by virtue of an area of mutual interest), the parties should include an additional provision in their head agreement to address the possibility that other work could enable some of the parties to satisfy the work requirements necessary to maintain portions of the permit lands in good standing/make a lease selection. Given that there is no generally accepted provision on this issue at this time and the possibility that the permit lands might not be held in uniform interests, it is preferable for the parties to tailor their provision to their particular fact situation.

ii) Although the Clause is broad enough to apply to offset obligations in the simple "drill or drop case," the provision does not address the case in which the parties can delay that decision through the payment of compensatory royalties. The parties will have to resolve that issue through negotiation in the context of their particular fact situation.

Subclause 1010(a): i) The preserved lands are any lands or zones thereof which would be forfeited pursuant to the relevant title document(s) in the event the operation were not conducted. There are several important points to remember about the provision. Firstly, a well can be a title preserving well with respect to several title documents simultaneously. Secondly, some zones may be able to be continued without the title preserving well, such that a production penalty would apply to those zones, instead of the forfeiture. Thirdly, the title preserving well does not have to be located on preserved lands - a step-out well on continued lands can cause the continuation of offsetting lands. Fourthly, remember that there would only actually be preserved lands/common preserved lands if the work, in fact, enabled the parties to retain the lands, such that a D&A well on a lease is of little or no value.

(e) Notwithstanding anything to the contrary contained in this Article, no cash payments, incentives, grants, credits, waivers, exemptions, abatements or other benefits received by (or available to) the participating parties pursuant to the Regulations with respect to an independent operation shall be taken into account when calculating any of the items set forth in paragraphs (a)(i) to (iv) inclusive of this Clause, provided that this Subclause shall not entitle the participating parties to include in the amounts to be recovered under paragraph 1007(a)(i) any amount which is not paid by the participating parties.

1008 INDEPENDENT DEEPENING, PLUGGING BACK, WHIPSTOCKING, RE-ENTRY AND COMPLETION, RECOMPLETION, REWORKING OR EQUIPPING –

(a) No operation notice for a deepening, plugging back, whipstocking, recompletion or reworking operation may be given with respect to a well producing or capable of producing petroleum substances in paying quantities. No operation notice may be given for a deepening of a well below its authorized total depth if one or more parties propose to attempt to complete the well at or above that depth pursuant to Article IX, unless and until either those parties no longer propose to attempt such completion or such completion has been conducted without resulting in the production of petroleum substances in paying quantities.

(b) A non-participating party with respect to a well may not propose any operation in the well unless and until (and only to the extent that) it has regained the right to share in production from the well.

(c) If an independent operation is a deepening, plugging back, whipstocking, re-entry and completion of a suspended well, recompletion, reworking or equipping operation which results in the production of petroleum substances in paying quantities from one or more zones, the provisions of Subclauses 1007 (a), (b), (c), (d) and (e) shall apply, mutatis mutandis, to such formations, the production therefrom, the operation and the recovery of costs of the operation (including the penalty provided therein), to the extent that such operation and production relates to the well as a development well or an exploratory well, as the case may be.

(d) If an independent operation is a deepening, plugging back, whipstocking, re-entry and completion of a suspended well, recompletion, reworking or equipping operation and within six (6) months of receipt of the operation notice by the receiving parties, the participating parties elect to terminate the operation or propose to abandon the well, they shall so notify the non-participating parties. Effective as of the date of issuance of that notice, the participating parties shall be deemed to have returned the well and the zones to the parties that held participating interests therein at the time such operation was proposed, and all further operations with respect thereto, including abandonment, shall, subject to Clause 904, be deemed to be proposed for the account of the parties then holding participating interests therein, except that:

(i) the salvable materials and equipment placed in and on the well by the participating parties shall be salvaged by and for the account of the participating parties; and

(ii) the participating parties shall bear all extra costs of abandonment incurred by reason of the operation.

If the participating parties do not propose termination of the operation or abandonment of the well within such six (6) month period, they shall forthwith thereafter pay to each non-participating party, its proportionate share of the net salvage value of the materials and equipment located in and on the well at the time the operation notice was received by the non-participating parties. The amounts so paid to those non-participating parties shall be deemed to be operating costs and included as a charge under paragraph 1007(a)(ii). Thereafter, a non-participating party shall have no legal responsibility with respect to the well, including the abandonment thereof, unless and until (and only to the extent that) it has resumed participation in the well and the production therefrom.

1009 WHERE WELL ABANDONED BEFORE PENALTY RECOVERED –

(a) If an independent operation is the drilling of a well and the well is to be abandoned before the gross proceeds of production therefrom equal the aggregate of the amounts prescribed by paragraphs 1007(a)(i) to (iv) inclusive, the participating parties shall abandon the well, record as a credit to the well the net salvage value of the materials and equipment recoverable from the well, as if such amount were proceeds from production, and report that credit in the monthly statement provided for in Clause 1013. If the gross proceeds from production from the well then exceed the aggregate of paragraphs 1007(a)(i) to (iv) inclusive, the excess amount shall be a credit for the joint account.

(b) Subject to Subclause (d) of Clause 1008, if an independent operation is the deepening, plugging back, whipstocking, re-entry and completion, recompletion, reworking or equipping of a well pursuant to Clause 1008 and the well is to be abandoned before the gross proceeds of production received therefrom by the participating parties after commencement of the operation equal the aggregate of the costs and penalties to be recovered by the participating parties pursuant to Subclause 1008(c), the participating parties shall abandon the well, record as a credit

ii) Assume that the applicable title document were a licence, that a well which validated less than the entire licence had been drilled and that a party was considering the issuance of an operation notice to ensure that its priority lands would be retained after the expiry of the licence. That party should request an early lease selection pursuant to Subclause 309(d) and determine whether it wished to issue the operation notice after the parties make their land retention selection thereunder.

iii) A well drilled on preserved lands may be a title preserving well with respect to additional lands. A subsequent title preserving well can also be a title preserving well, insofar as the lands to be preserved by that well do not duplicate those preserved by an earlier title preserving well. This is relevant both areally and stratigraphically. If the subsequent title preserving well is a deep test, it may cause the continuation of rights deeper than those preserved by the title preserving well.

iv) Note the reference to completion or recompletion. A title preserving well is not limited to the drilling of a well, but also includes a completion or recompletion of an existing well. A drilled well, though, is not required to be completed or recompleted if land retention is a function of activity (i.e., Alberta licence).

v) Paragraph (iii) does not specify the date by which a title preserving well must be commenced. This allows the parties to tailor the provision to their particular fact situation, having regard to such factors as surface accessibility and required regulatory approvals in environmentally sensitive areas.

Subclause 1010(b): i) Subject to the qualifications in Subclauses 1010(c) and (d), a non-participating party with respect to a title preserving well shall forfeit:

a) 100% of its working interest in the well and its spacing unit at the completion of the operation, insofar only as the well and rights pertain to the preserved lands; and

b) 100% of its remaining working interest in the balance of the preserved lands at the date they otherwise would have been forfeited to the grantor of the applicable title document.

If certain shallow rights were not included in the preserved lands, the production penalty prescribed by 903, 1007 or 1008 would apply to the well and its spacing unit as regards those zones.

ii) Note that the participating parties know the type of penalty they will receive in the title preserving well spacing unit at the time they conduct the operation, assuming the well proceeds to preserve lands. The 1981 document provided that a non-participating party only forfeited its interest in that spacing unit if it did not participate in a similar well, such that the participating parties did not know the form of penalty at the time they elected to participate in the well.

iii) Note the reference to "remaining working interest" in (b)(ii). Paragraphs 1010(c)(i) and (ii) operate to reduce the interest to be forfeited to the participants in the title preserving well.

Subclause 1010(c): i) This Subclause reflects a major change in perspective from the comparable provision included in the 1974 and 1981 documents with respect to the similar well mechanism. Although a significant improvement to the comparable 1981 provision, remember that this provision poses a problem where the parties cannot agree on the technical merits of the location and proceed to drill simultaneous wells during the title preserving period, particularly with respect to an unvalidated licence. In that case, it is advantageous for the parties to attempt to negotiate a result which will be appropriate in their particular fact situation.

ii) The following shall apply to a subsequent title preserving well:

a) A non-participating party with respect to the title preserving well which participates in the subsequent title preserving well will not be required to forfeit its working interest in any common preserved lands pursuant to paragraph (b)(ii). (It could still forfeit an interest, though, in the spacing unit for the title preserving well pursuant to paragraph (b)(i));

b) Assuming that the subsequent title preserving well is located on a spacing unit of preserved lands, a non-participating party with respect to the subsequent title preserving well which was also a non-participating party with respect to the title preserving well shall forfeit its working interest in the spacing unit of the subsequent title preserving well to the participating parties therein, rather than to the participating parties in the title preserving well, insofar as the spacing unit pertains to common preserved lands. Either paragraph (b)(ii) or Subclause (d) would apply to its remaining interest in the balance of the lands preserved by the title preserving well; and

c) A non-participating party in the subsequent title preserving well which was a participating party in the title preserving well would generally only be subject to a production penalty respecting the subsequent title preserving well. However, it would be subject to the forfeiture in paragraph (b)(ii) if the well preserved lands in addition to those preserved by the initial title preserving well, since the subsequent title preserving well is also a title preserving well with respect to a portion of the joint lands.

Subclause 1010(d): Paragraphs (b)(i), (c)(i) and (c)(ii) include special rules which are applicable to the spacing units for the title preserving well and the subsequent title preserving well. This provision addresses the forfeiture of a non-participating party's interest in the remainder of the common preserved lands.

That interest is allocated equally to the title preserving well and the applicable subsequent title well(s). It is then apportioned among the participating parties in the respective wells pursuant to Clause 1016.

to the well the net salvage value of the materials and equipment recoverable from the well, as if such amount were proceeds from production, and report that credit in the monthly statement provided for in Clause 1013. If the gross proceeds of production from the well then exceed the aggregate of the amounts chargeable to the well pursuant to Clause 1008, the excess amount shall be a credit for the joint account.

1010 EXCEPTION TO CLAUSE 1007 WHERE WELL PRESERVES TITLE –

(a) In this Clause, the following terms shall have the meanings hereby assigned to them, namely:

(i) "common preserved lands" means that portion of the preserved lands with respect to which a subsequent title preserving well would have been a title preserving well had the title preserving well not been drilled, completed or recompleted.

(ii) "preserved lands" means any joint lands which would have been forfeited pursuant to a particular title document had a title preserving well not been drilled, completed or recompleted at the time and in the manner prescribed herein, subject to the designation of preserved lands pursuant to Subclause 309(d).

(iii) "subsequent title preserving well" means a well which is drilled, completed or recompleted hereunder at such time and in such manner that such well would have been a title preserving well with respect to all or a portion of the preserved lands had the title preserving well not been drilled, completed or recompleted.

(iv) "title preserving well" means a well which is drilled, completed or recompleted hereunder, where the failure to conduct such operation would result in the forfeiture of all or a portion of the joint lands contained in a title document and such operation is to be commenced not earlier than _____ days prior to the date such forfeiture would occur pursuant to such title document.

(b) Notwithstanding Clauses 903, 1007 and 1008, a non-participating party with respect to a title preserving well shall forfeit:

(i) upon completion of such operation, one hundred percent (100%) of its working interest in such well and the spacing unit for such well to the participating parties in the title preserving well, insofar only as such spacing unit pertains to the preserved lands; and

(ii) at the date the preserved lands otherwise would have been forfeited pursuant to the relevant title document, one hundred percent (100%) of its remaining working interest in the balance of the applicable preserved lands to the participating parties in the title preserving well, subject to Subclauses (c) and (d) of this Clause.

(c) The following shall apply with respect to a subsequent title preserving well:

(i) a non-participating party with respect to the title preserving well which participates in the subsequent title preserving well shall not forfeit its working interest in any common preserved lands pursuant to paragraph (b)(ii) of this Clause;

(ii) a non-participating party with respect to the title preserving well which is also a non-participating party with respect to the subsequent title preserving well shall, if the subsequent title preserving well is located on a spacing unit of preserved lands, forfeit one hundred percent (100%) of its working interest in the subsequent title preserving well and the common preserved lands included in the spacing unit for such well to the participating parties in the subsequent title preserving well, rather than to the participating parties in such title preserving well pursuant to paragraph (b)(ii) or Subclause (d) of this Clause; and

(iii) a participating party in the title preserving well which is a non-participating party with respect to the subsequent title preserving well shall be subject to the production penalty prescribed by Clause 903, 1007 or 1008 with respect to the subsequent title preserving well and the spacing unit for such well, provided that if the subsequent title preserving well preserves lands in addition to those preserved by the title preserving well, that party shall be subject to the forfeiture of one hundred percent (100%) of its working interest in such additional preserved lands pursuant to paragraph (b)(ii) of this Clause.

(d) Subject at all times to paragraphs (b)(i), (c)(i) and (c)(ii) of this Clause, the working interest to be forfeited by a party in any common preserved lands shall be allocated equally to the title preserving well and the applicable

Subclause 1010(e): One problem with any title preserving well mechanism is the determination of the lands which are preserved by a title preserving well. Ideally, the parties would attempt to obtain a predetermination from the applicable regulatory agency to ascertain preserved lands. However, this determination will probably be achieved through the negotiation of the parties in many cases because of timing problems or the reluctance of regulatory agencies to make a predetermination. In practice, the reference to arbitration will generally only serve as an impetus towards more timely and reasonable negotiations than might otherwise be the case.

Clause 1011: i) Is a party which proposes to conduct a geophysical program over the joint lands under any obligation to the other parties to provide them with the opportunity to participate in that operation?

Clause 1011 permits a party to conduct that operation without having first advised the other joint-operators of its intention to conduct the operation. The only right of a non-participating party to obtain the basic data derived from that operation is the right to purchase it at a penalty percentage if it had initially been offered the opportunity to participate in the operation.

That position is admittedly in conflict with the underlying policy goal of encouraging joint operations, particularly where the exploration program is primarily conducted on the joint lands. However, the justification for the inclusion of that provision in conventional agreements is not theoretical, but practical. Industry experience has indicated that the obligation is not generally appropriate in those agreements. The exploration program so conducted on the joint lands could be a portion of a larger regional program. In the alternative, it may be intended to evaluate formations which are not held jointly.

ii) The types and formats of the data supplied to a non-participating party shall correspond to industry data sales practices.

Clause 1012: Note that the Clause does not include an allocation of capital costs or a fee pertaining to the utilization of capital. The inclusion of a capital component would delay payout, even though there would be an immediate benefit (income) to the non-participating parties.

Subclause 1013(a): The operator of an independent well shall supply the parties with monthly statements showing the status of the penalty recovery under the applicable production penalty provision (903, 1007, 1008, 1021 or 1022) once the non-participating party is entitled to information from the operation pursuant to Clause 1018.

Subclause 1013(b): If the costs prescribed by the applicable production penalty provision (903, 1007, 1008, 1021 or 1022) have been recovered and notice of that recovery either is not issued to the non-participating parties or is issued later than it should have been, a non-participating party is entitled to interest on the funds to which it would have been entitled had it elected to resume participation in the well at the time the notice should have been issued.

There is, of course, little likelihood that this provision would apply if monthly statements were, in fact, being issued pursuant to Subclause 1013(a). The most practical impact of the Subclause will be to ensure that there is an incentive for operators to comply with that Subclause.

Clause 1014: This ensures that such provisions as Articles IV - VII and Clauses 304 and 311 apply, mutatis mutandis, to an independent operation.

Clause 1015: The production penalties in the document are designed to reward success and not failure. If a penalty well is abandoned in a formation before recovery of the prescribed penalty, the non-participating parties reacquire their full rights in that formation, provided that they never assume any costs or risks associated with that abandonment.

Except for 903B, this provision is tied to production penalties, and has no application to wells in which a party forfeits its interest pursuant to Clause 1010.

subsequent title preserving well, to be then apportioned among the respective participating parties pursuant to Clause 1016.

(e) In the event of a dispute as to the classification of a well as a title preserving well or the determination of either the preserved lands or the common preserved lands, a party may, by notice to the other parties, refer the matter to arbitration under the provisions of the Arbitration Act or Ordinance of the province, state or territory where the joint lands are situated not later than forty-five (45) days after the date at which the preserved lands otherwise would have been forfeited pursuant to the applicable title document. The parties to such dispute thereupon shall diligently attempt to complete such arbitration in a timely manner.

1011 INDEPENDENT GEOLOGICAL OR GEOPHYSICAL OPERATION – Nothing in this Operating Procedure shall be interpreted to preclude a party from conducting a geological or geophysical operation on or with respect to the joint lands for its own account, provided that such operation shall not interfere with other joint operations. The parties not participating in such operation shall not be entitled to any information or data with respect thereto, unless such operation was the subject of an operation notice. In such event, any non-participating party may, prior to the end of the calendar year following the calendar year in which such operation was completed, pay to the participating parties two hundred percent (200%) of what its share of the cost of such operation would have been had the operation been conducted for the joint account. If a non-participating party makes that payment, it shall be entitled to a copy of all basic data obtained from the operation for its own use, but it shall not obtain any trading rights respecting that data or any interpretations of such data made by or for the participating parties, or any of them. The types and formats of data supplied to a non-participating party hereunder shall be consistent with established industry practice in data sales.

1012 USE OF BATTERY AND OTHER EQUIPMENT FOR INDEPENDENT WELL – To the extent that capacity is available with respect to production facilities operated for the joint account, the participating parties in an independent operation shall be permitted to make use of and to share them in the same manner as if the operation had been conducted for the joint account, provided that a reasonable allocation of operating costs is made with respect to such sharing of such production facilities. However, to the extent that such production facilities are not adequate to accommodate both the independent operation and wells operated for the joint account, the latter shall have priority with respect to the utilization of such production facilities.

1013 ACCOUNTS AND AUDIT DURING PENALTY RECOVERY –

(a) Subject to Clauses 305 and 1018, the Operator for an independent operation shall supply all parties with a monthly statement showing the status of the recovery of costs and penalties pursuant to this Article during the period of recovery of such costs and penalties. The provisions of the Accounting Procedure relating to the audit of accounts shall apply, mutatis mutandis, to the audit of accounts with respect to such recovery of costs and penalties by the participating parties.

(b) If it is determined that the recovery of the costs and penalties prescribed by this Article with respect to an independent operation has occurred and that the participating parties either have not issued the non-participating parties notice of such recovery or have issued the notice to the non-participating parties later than thirty (30) days following such recovery, each non-participating party shall have the right to elect, within thirty (30) days following receipt of such notice or the discovery by it that such notice had not been issued, to obtain participation in such operation in the manner provided in this Article, effective as of the date of such recovery. The accounts of the parties shall retroactively be adjusted accordingly if one or more of the non-participating parties elect to obtain participation in the well. If a non-participating party retroactively obtains participation in such operation and amounts are owing to the non-participating party as a result of such election, the non-participating party may charge the participating parties which assumed its share of costs of such operation interest on the amount so owing on the same basis as is provided in paragraph 505(b)(i).

1014 PARTICIPANT'S RIGHTS AND DUTIES RE INDEPENDENT OPERATIONS – Subject to the provisions of this Article, the provisions of this Operating Procedure relating to the rights, duties and obligations of the Operator and the Joint-Operators (including the provisions of Article IX) shall apply, mutatis mutandis, among the participating parties with respect to the conduct of the independent operation and, if applicable, to the operation of any well during the prescribed recovery of costs and penalties with respect thereto.

1015 REVERSION OF ZONE UPON ABANDONMENT – If a geological zone or the right to production therefrom was (or is to be) assigned to the participating parties by the non-participating parties as a result of an independent operation respecting a well and such well is subsequently abandoned in such zone, each non-participating party shall reacquire the interest so assigned (or to be assigned) by it with respect to such zone, effective at the completion of such abandonment, provided that in no event shall the non-participating parties assume any responsibility for the costs or risks associated with such abandonment. However, nothing in this Clause shall apply to any assignment of a working interest by a non-participating party pursuant to Clause 1010.

Clause 1016: Suppose A, B and C hold respective working interests of 50%, 25% and 25%. A elects not to participate in an exploratory well, B elects to participate only to the extent of its working interest and C elects to assume A's entire share of costs.

As C has assumed A's entire share of costs, the benefits associated with A's penalty (whether production penalty or forfeiture pursuant to 1010) should obviously accrue solely to C. However, in the absence of the first sentence, the benefit of the penalty would be divided between B and C in the proportions of their participating interests by virtue of the second sentence, such that B would obtain 25% of the benefit without assuming any portion of the penalty expenses!

Clause 1017: i) This provision addresses both liability and indemnification. It also applies to operations conducted by less than all of the parties pursuant to Clause 707 and Article IX.

ii) As a general statement, the participating parties are responsible for losses suffered by the non-participating parties, to the extent they are caused by the actions or omissions of the participating parties. There are circumstances, though, in which it would be arguable that a non-participating party had contributed to the loss by its actions or omissions. Suppose, for example, that a party had participated in the drilling of a sour gas objective, but elected not to participate in the completion. Should it share any responsibility for the loss it suffers as a result of the completion: i) if it had voiced safety concerns; or ii) if it elected not to participate in the completion because it did not regard the objective as sufficiently prospective? Unfortunately, there is no simple test which can be included in the Operating Procedure.

Clause 1020: Since the participating parties could also be negotiating tract factors/pooled interests with respect to other lands in which they have an interest, they may only unitize or pool a well subject to a production penalty with the consent of the non-participating parties, which consent may not be unreasonably withheld.

Some of the issues to be considered by the non-participating parties with respect to a pooling would be the allocation of production, clarification of the impact of the arrangement on the penalty calculation, the material provisions of a pooling agreement (i.e., cross-conveyance or no cross-conveyance, the pooled substances and zones, the treatment of encumbrances, restrictions on alienation and elections under the Operating Procedure).

Clause 1021: i) Where the construction of a minor production facility is proposed under the 1981 Operating Procedure and less than all of the parties holding interests in the wells which would utilize such facility choose to participate in such operation, the non-participating parties are left with the option of either taking their production to some other facility or negotiating a processing/transportation arrangement with the facility owners (if sufficient capacity in the facility is available.)

Clause 1021 is intended both to expand the options for the non-participating parties, as well as to provide the parties proposing to construct a facility with the opportunity to achieve greater participation and use of the facility. However, these provisions do not require that all production facilities must be subject to an independent operations notice or constructed for the joint account.

The preamble to Clause 1021 and Subclause 1021(a) are enabling provisions, which allow any joint-operator to place a proposal to construct a production facility before the other joint-operators through an operation notice. Parties receiving such a notice have the option of: (i) participating; (ii) electing not to participate and taking their production in kind; or (iii) electing not to participate and paying a penalty out of their production handled at the facility. (Although not specified in the document, the parties would generally have a fourth option in practice, as noted above - to negotiate a fee to use the facility.)

1016 BENEFITS AND BURDENS TO BE SHARED – Any resultant assignment of production or forfeiture of any interest in the joint lands by a non-participating party pursuant to this Article shall be allocated among the participating parties in the proportions in which those parties have borne that share of the cost of the independent operation which would have been applicable to the non-participating party had the operation been conducted for the joint account. Except as provided in the preceding sentence, the benefits and burdens relating to an independent operation shall be shared by the participating parties in the proportions of their participating interests therein.

1017 INDEMNIFICATION OF NON-PARTICIPATING PARTIES – The participating parties in an independent operation shall:

(a) be liable to the non-participating parties with respect thereto for any losses, costs, damages and expenses whatsoever (whether contractual or tortious) which those non-participating parties suffer, sustain, pay or incur; and

(b) in addition, indemnify and hold harmless those non-participating parties and their Affiliates, directors, officers, servants, consultants, agents and employees against all actions, causes of action, proceedings, claims, demands, losses, costs, damages and expenses whatsoever which may be brought against or suffered by those non-participating parties, their Affiliates, directors, officers, servants, consultants, agents and employees or which they may sustain, pay or incur;

insofar as they are a direct result of or directly attributable to any act or omission (whether negligent or otherwise) of the participating parties or their Affiliates, directors, officers, servants, consultants, agents, employees, independent contractors, licencees or invitees with respect to such independent operation.

1018 NON-PARTICIPATING PARTY DENIED INFORMATION – If an independent operation is the drilling of a well or is conducted on a well which has been drilled, the following shall apply with respect thereto:

(a) if the independent operation is the drilling of a well, a non-participating party shall not be entitled to access to the wellsite or any information with respect to the well, including monthly statements and audit privileges as provided in Clause 1013, until the earlier of the date it becomes a participating party or ninety (90) days after the date of the release of the drilling rig used to drill the well; or

(b) if the independent operation is conducted on a well which has been drilled, a non-participating party shall not be entitled to access to the wellsite or any information with respect such operation, including monthly statements and audit privileges as provided in Clause 1013, until the earlier of the date it becomes a participating party or one hundred and twenty (120) days after the date the operation notice is deemed to be received by it.

Once a non-participating party is entitled to access to the wellsite and such information, such party shall be provided with the rights and information to which it is entitled in a timely manner. However, if a non-participating party is required to make an assignment of such well pursuant to Clause 1010 with respect to such independent operation, such party shall not be entitled to access to the wellsite or any information with respect to the well pursuant to this Operating Procedure at any time.

1019 NO JOINT OPERATIONS UNTIL INFORMATION RELEASED – If the participating parties are temporarily withholding well information from a non-participating party pursuant to Clause 1018, no participating party shall propose or conduct any operation pertaining to a well on the joint lands within 3.2 kilometres of such well (except regular production and maintenance operations on producing wells) until it has released such information to the non-participating party.

1020 POOLING OR UNITIZATION PRIOR TO RECOVERY – If an independent operation is the drilling of a well (or is conducted with respect to a well which has been drilled) to which the forfeiture in Clause 1010 does not apply, the participating parties may include the well and its spacing unit in a pooling agreement or unit with the consent of the non-participating parties, which consent shall not be unreasonably withheld. If the well and the spacing unit are included in a pooling agreement or unit, the participating parties shall retain the production allocated to the spacing unit until they have recovered all costs and penalties to which they are entitled pursuant to this Article X. The credits and debits accruing to the participating parties under a pooling or unit agreement with respect to any adjustment of investment for well costs paid and equipment supplied by them shall be allocated to the payout account of the well by the participating parties in accordance with the principles in Clauses 1007 and 1008, and shall be recorded in the monthly statement referred to in Clause 1013.

1021 NON-PARTICIPATION IN INSTALLATION OF PRODUCTION FACILITY – The parties normally shall consult with respect to the construction, acquisition or installation of production facilities and attempt to negotiate either an individual agreement respecting the construction, acquisition or installation of a production facility or the fee to be charged to a party which wishes to utilize such production facility, but does not wish to participate in such construction, acquisition or installation. Whether or not such consultation has occurred or been requested, a party may at any time become a proposing party and give to the other parties an operation notice respecting a production facility.

A party which receives an operation notice respecting the construction, acquisition or installation of a production facility shall,

Any penalty will usually be paid out of production from wells located on the joint lands and tied into the facility. However, the participating parties and the non-participating parties subject to the penalty may agree to apply against the penalty, any revenue from the sale of any other production which such non-participating parties may (with the consent of the participating parties) bring into the facility. Upon payout of the penalty, the non-participating parties which were subject to the penalty have a further election whereby they may choose to reject or accept participation in the facility, with rejection amounting to the forfeiture of the rejecting party's interest in the facility.

The overriding principle is that the construction of a production facility should be permitted, provided that no party is forced to participate in the facility, either directly, by paying its share of the cost in cash, or indirectly, through a cost recovery mechanism.

ii) Remember the parameters of the definition of production facility when using this Clause. Only operations which would result in a facility satisfying the tests in the definition of production facility fall within the scope of this Clause. A party which receives a notice for an operation which does not satisfy those tests can object to the notice.

Subclause 1021(a): A non-participating party which had elected to incur the penalty might elect not to obtain an interest in the facility after recovery of the penalty attributable to its interest because of its belief that reclamation costs would exceed the value of the facility to it. The election to accept participation in the well and in the facility are distinct elections. If it accepted participation in the wells, but refused participation in the facility, it would have to negotiate a fee if it wished to use the facility for its share of production from the joint lands.

Subclause 1021(b): This Subclause addresses the possibility that a non-participating party may already be subject to a production penalty on one or more of the relevant wells.

Subclause 1021(c): This Subclause states that Subclauses 1007(b) - (e) shall apply, mutatis mutandis, to Clause 1021.

Subclause 1021(d): i) This Subclause provides the necessary mechanism to deal with the situation in which a non-participating party electing to take its production in kind fails to do so.

ii) Remember that the provisions of Article VI also apply to the extent that such a non-participating party does not take in kind.

pursuant to Clause 1002, elect: to participate in such proposed operation; not to participate in such operation, but to take in kind, before the inlet of such proposed production facility, its share of any petroleum substances which would otherwise utilize such production facility for production, processing, treatment, storage or transmission; or not to participate in such operation and to incur a penalty with respect to such operation on the basis provided in this Clause. Failure of a party to make an election with respect to such operation notice within the period prescribed by Clause 1002 shall be deemed to be an election by such party not to participate in such operation and to take in kind, before the inlet of such proposed production facility, its share of any petroleum substances which would otherwise utilize such production facility.

If a production facility is constructed, acquired or installed as an independent operation, the following shall apply between the participating parties and those non-participating parties which did not elect to take in kind, before the inlet of such production facility, their share of petroleum substances which otherwise would utilize such production facility:

(a) If the wells on the joint lands to which such operation pertains are held for the joint account, the participating parties shall be entitled to retain possession of the production facility and all production from such wells which would utilize such production facility (and a non-participating party's share of any other hydrocarbon substances as that party and the participating parties may otherwise agree), excluding any such production owned or attributable to any party which has elected not to participate in such operation, but to take in kind such share of such production at the inlet of such production facility, until the gross proceeds (calculated at the wellhead) from the sale of such production equals the aggregate of:

(i) one hundred percent (100%) of the Lessor's royalty and any overriding royalties or other encumbrances thereon which otherwise would have been borne for the joint account which are paid with respect to such production, subject to Subclause (c) of this Clause;

(ii) one hundred percent (100%) of the operating costs incurred with respect to such production facility and its utilization for the production, processing, treatment, storage or transmission of petroleum substances; and

(iii) two hundred percent (200%) of the cost of the acquisition, construction and installation of such production facility.

The Operator for the participating parties shall notify those non-participating parties subject to the penalty upon recovery of the proceeds prescribed by paragraphs (i), (ii) and (iii) of this Subclause (a), not later than thirty (30) days following such recovery. Each such non-participating party shall have thirty (30) days following receipt of such notice within which to elect to accept or refuse participation in the production facility, provided that failure of such a non-participating party to make an election within such period shall be deemed to be an election to accept participation in such production facility. If such a non-participating party refuses participation as above provided, it thereby shall be deemed to have forfeited its right of participation in and to the production facility, and may thereafter only use such production facility with respect to its share of production from the joint lands for such fee as may be agreed from time to time with the parties which own such production facility, and failing agreement, in accordance with Subclause (d) of this Clause. If such a non-participating party elects to accept participation in the production facility, its participation in the production facility shall be equal to its working interest, and shall be effective as of the time the proceeds prescribed by paragraphs (i), (ii) and (iii) above have been recovered, whereupon the accounts of the participating parties and those non-participating parties so acquiring an interest in the production facility shall be adjusted accordingly. Thereafter, the production facility shall be held for the account of the parties participating therein, and shall be operated under the provisions of this Operating Procedure by the Operator if it is one of the parties so participating or by an Operator appointed pursuant to Clause 1004 if the Operator does not have a working interest in the production facility.

(b) Insofar as Clause 1007 applies to a well to which such operation pertains prior to the recovery of the amounts prescribed by Subclause 1007(a), Subclause (a) of this Clause shall apply immediately following the recovery of the amounts prescribed by Subclause 1007(a), such that a non-participating party with respect to the well may not resume participation in such well until the recovery of the additional amounts prescribed by Subclause (a) of this Clause.

(c) Except to the extent modified in this Clause, Subclauses 1007(b), (c), (d) and (e) shall apply, mutatis mutandis, to this Clause.

(d) To the extent that a party which elected to take in kind, before the inlet of such production facility, its share of petroleum substances which would otherwise utilize such production facility, does not take such petroleum substances in kind, the parties owning such production facility may, on behalf of such party, produce, process, treat, store or transmit that share of petroleum substances so delivered to such production facility. In such event (but subject always to any individual agreement negotiated by the parties owning such production facility and such other party respecting the utilization of such production facility), the parties owning such production facility shall, in addition

Clause 1022: This Clause facilitates the application of the principles in Clause 1021 to situations involving the expansion of an existing production facility, subject to Clause 1408. Where such a situation occurs, a party only has the option to participate or to be subject to the penalty (with no further election after payout of the penalty).

This mechanism deviates from the principles which would apply to a significant facility under a formal facility agreement. A facility agreement does not force a non-participating owner to participate in an expansion or to pay for it indirectly through a penalty recovery.

When considering this principle, it is important to remember that the Operating Procedure is only intended to apply to a minor facility for which the parties do not prepare a formal facility agreement. The application of a penalty to minor expansions of such a facility allows the facility to continue to be governed by the Operating Procedure. However, if parties find this objectionable, they are certainly free to try to negotiate an alternative in the context of the fact situation, to prepare a separate facility agreement or to delete this portion of the provision and modify 1408 to exclude any facility under expansion if less than all parties agree to the expansion.

Subclause 1101(a): Note the last sentence of (a). In effect, it allows a party to change its election any time prior to the expiry of the reply period. This could place an additional administrative burden on the operator if it calculated the revised interests prior to the expiry of the response period. However, the provision does not pose a problem in practice. In fact, it is likely to minimize the burden on an operator because the most likely utilization of the provision would be the case in which the party which proposed the surrender reversed its position after seeing that its co-venturers elected to retain their interests.

Clause 1102: Remember that a production facility may be a profit centre as regards outside substances. If that is the case, a party would generally wish to retain its interest in the facility.

to any marketing fee applicable pursuant to Article VI, be entitled to charge such other party a fee sufficient to cover the cost of producing, processing, treating, storing or transmitting, as the case may be, such other party's share of petroleum substances so utilizing such production facility, which fee shall also include a reasonable rate of return on capital investment in accordance with the principles in Clause 1404.

1022 NON-PARTICIPATION IN EXPANSION OF PRODUCTION FACILITY – Subject to Clause 1408, the provisions of Clause 1021 shall apply, mutatis mutandis, to an expansion of or an addition to an existing production facility, except that:

(a) Participation in such operation shall be limited to those parties holding a working interest in such production facility at the time such operation is proposed;

(b) A party holding a working interest in a production facility which receives an operation notice respecting such operation shall elect either to participate in such operation or to be subject to the recovery of the costs associated with such operation on the basis provided in Subclause 1021(a);

(c) A party holding a working interest in a production facility which is a non-participating party with respect to such operation shall acquire its working interest in the portion of the production facility resulting from such operation following the recovery of costs prescribed in Clause 1021; and

(d) If such operation is to be conducted prior to the recovery of costs prescribed by Subclause 1021(a) with respect to the construction or installation of such production facility, the costs of such operation shall be added to the costs to be recovered pursuant to that Subclause with respect to those non-participating parties subject to such cost recovery, provided that the proceeds of production to be applied against such costs shall be applied firstly to the penalty prescribed by Clause 1021 with respect to the construction, acquisition or installation of such production facility.

ARTICLE XI

SURRENDER AND QUIT CLAIM OF JOINT LANDS

1101 INITIATION OF SURRENDER PROPOSAL AND QUIT CLAIM OF INTERESTS –

(a) Not later than sixty (60) days before a rental date or other obligation date with respect to the joint lands affected (except an obligation to pay royalty or a drilling obligation not being enforced under the title documents), a party who proposes that some or all of the joint lands be surrendered to the grantor under the applicable title documents shall give notice to such effect to the other parties, subject to Subclause (b) of this Clause. Not later than thirty (30) days before the next ensuing rental date or other obligation date under the respective title documents included in the surrender notice, the parties receiving the notice shall each give notice to all other parties stating whether or not they wish to join in the proposed surrender. Failure to respond to such notice shall be deemed to be an election not to join in the surrender. Any party giving notice of the proposed surrender or giving notice of its intention to join in the proposed surrender may, by notice to the other parties, revoke its notice of intention to surrender at any time up to, but not later than, thirty (30) days before the next ensuing rental date or other obligation date under the respective title documents.

(b) Notwithstanding the preceding Subclause, the joint lands proposed for surrender must be of such dimensions that the grantor of the title documents to which such lands are subject would be obligated to accept the surrender pursuant to the title documents, and a party may not propose the surrender of a portion of the joint lands while an obligation exists with respect to such lands which cannot be avoided by the surrender or quit claim of those lands to the grantor of the title documents to which they are subject.

1102 SURRENDER BY ALL PARTIES – Subject always to the provisions of Articles IX and X, if all parties join in a surrender under Clause 1101, the Operator shall proceed forthwith to salvage for the joint account all salvable material, equipment upon the lands to be surrendered, and, if applicable, any production facilities serving solely wells located upon the lands to be surrendered. The parties shall promptly execute and deliver to the Operator all documents necessary to effect the surrender, which documentation shall be prepared by the Operator. The Operator shall thereafter deliver all such documents to the grantor of the applicable title documents in order to effect the surrender properly.

1103 SURRENDER BY LESS THAN ALL PARTIES – If less than all parties join in the surrender, the parties not joining in the surrender shall (unless the Operator is one of them) promptly appoint an Operator pro tem for the parties retaining the applicable lands and interests. Such Operator shall be responsible for taking the necessary steps to ensure payment of rentals or the meeting of any other obligation to maintain such lands and interests in good standing for the benefit of the retaining parties.

Subclause 1104(a): i) Note that the surrender is effective on the day before the obligation date. The contractual rights of the parties, of course, would have crystallized 30 days before this date.

ii) Unless otherwise agreed by the retaining parties, the assignment shall be in proportion to their working interests.

iii) Within 30 days of the assignment, the assignors' share of the estimated net salvage value of the material and equipment on the surrendered lands, less their share of the abandonment costs of any wells on those lands shall be determined. The accounts of the parties shall be adjusted accordingly within 30 days of this determination, provided that the parties owed an amount shall have access to the remedies in Subclause 505(b) if the accounts have not been adjusted at that time.

Remember that this calculation would require the surrendering parties to pay an amount to the retaining parties if the estimated abandonment costs exceeded the estimated net salvage value of the assigned material and equipment. This is included to minimize the possibility that a party would surrender to attempt to avoid abandonment costs.

Subclause 1104(b): Note that a surrendering party is not released from obligations which had accrued prior to the surrender (including environmental liabilities) and its obligation to maintain information confidential. However, this obligation shall not extend to the obligation to abandon any well on the lands so assigned, since the estimated abandonment cost (including reclamation costs associated therewith) was taken into account under Subclause 1104(a) at the time the accounts of the parties were adjusted.

Clause 1105: Assume that D, E and F acquire a licence and that D surrenders its interest in half of the licence. E and F would have no obligation to drill a well to validate the licence. However, unless they subsequently surrendered the interest in the manner prescribed by the regulations, E and F would retain the responsibility to pay land maintenance costs applicable to the surrendered lands, such as rentals, to maintain the licence in good standing.

Clause 1201: Unless otherwise agreed by the non-abandoning parties, the assignment shall be in proportion to their working interests.

Clause 1202: i) Within 30 days of the transfer, the transferors' estimated net salvage value of the material and equipment respecting the well, less their share of the abandonment costs of the well shall be determined. The accounts of the parties shall be adjusted accordingly within 30 days of this determination, provided that the parties owed an amount shall have access to the remedies in Subclause 505(b) if the accounts have not been adjusted at that time.

Remember that this calculation would require the transferors to pay an amount to the retaining parties if the estimated abandonment costs exceeded the estimated net salvage material of the assigned material and equipment.

ii) Subject to Clause 1203, the non-abandoning parties assume all obligations accruing with respect to the well following the takeover.

1104 ASSIGNMENT OF SURRENDERED INTEREST –

(a) Effective as of 2400 hours on the day before the rental or other obligation referred to in Clause 1101 is required to be paid or met with respect to a title document included in the surrender notice, the parties which elected to surrender shall assign all of their interest in the joint lands and interests which were the subject of the proposed surrender notice to the retaining parties, in proportion to the retaining parties' working interests in the joint lands or in such proportions as the retaining parties may otherwise agree. Within thirty (30) days after receipt of the assignment, the parties shall determine, in accordance with the Accounting Procedure, the assignors' pre-surrender working interest share of the net salvage value of the recoverable material and equipment on the lands so assigned less the assignors' pre-surrender working interest share of the estimated cost of abandoning each well on the lands so assigned. The accounts of the parties shall be adjusted accordingly within thirty (30) days of such determination, and the provisions of Subclause 505(b) shall apply, mutatis mutandis, in the event the parties have not adjusted their accounts by such time.

(b) Upon the assignment described in the preceding Subclause, a party which so assigned its interest with respect to the applicable portion of the joint lands shall be released from all obligations thereafter accruing with respect to such lands. Such release shall not apply to any obligation which had accrued, and any environmental damage which had occurred, with respect to those lands or production facilities prior to such assignment, provided that such obligation shall not extend to the obligation to abandon any well on such lands.

1105 RETAINING PARTIES TO MEET OBLIGATIONS – In accepting the interests of the surrendering parties, the retaining parties shall be deemed to have covenanted to satisfy the obligation which prompted the surrender proposal if: (i) the obligation could have been avoided had all parties joined in the proposed surrender; and (ii) failure to satisfy the obligation would prejudice the title of the parties in any other portion of the joint lands. However, this covenant shall not require the retaining parties to conduct any operation on or with respect to such surrendered lands in order to maintain them in good standing.

1106 FAILURE TO SURRENDER AS AGREED – Where all of the parties have agreed to effect surrender pursuant to this Article (and whether or not some or all of them have taken any action by way of release or assignment pursuant to an intention to join in the surrender), the lands and interests which are the subject of the surrender notice shall be deemed to be held for the joint account until the surrender has been irrevocably effected, including the termination of any right to reinstate any title document, so that all of the parties shall receive or have the right to participate in any benefits which might accrue during the period before the surrender is irrevocably effected. If, however, any party to whom any interest is conveyed or released for the purpose of effecting the surrender does not duly proceed with the surrender and thereby causes any further obligation to arise, that party shall be solely responsible for meeting the obligation and shall indemnify the other parties for any losses they may suffer with respect thereto.

ARTICLE XII

ABANDONMENT OF WELLS

1201 PROCEDURE FOR ABANDONMENT – If a party proposes to abandon a well on the joint lands (except at casing point, when Article IX shall apply), it shall give notice of the proposed abandonment to the other parties. Within thirty (30) days of receipt of the notice, each of the other parties shall elect, by notice to the other parties, whether it wishes to take over the well. Failure by a party to respond to such notice shall be deemed to an election by that party to take over, or participate in the takeover, of the well. Subject to Clauses 1015 and 1202, the parties taking over the well shall be entitled to an assignment, without consideration or warranty, of the abandoning parties' working interests in the well and in the spacing unit of the well, insofar as it relates to the producing zone of the well. All such assignments shall be proportionate to the non-abandoning parties' respective working interests each to the other prior to any such takeover or assignment, unless the non-abandoning parties agree to a different allocation of the assigned working interests. If all parties elect to join in the abandonment, the well shall be abandoned for the joint account.

1202 ASSIGNMENT OF EQUIPMENT AND SURFACE RIGHTS – If less than all parties elect to abandon a well under Clause 1201, the abandoning parties shall, without warranty, promptly transfer to the other parties the materials and equipment serving solely the well. Within thirty (30) days of such transfer, the parties shall determine, in accordance with the Accounting Procedure, the abandoning parties' working interest share of the net salvage value of such materials and equipment, less the abandoning parties' working interest share of the estimated cost of abandoning the well. The accounts of the parties shall be adjusted accordingly within thirty (30) days of such determination, and the provisions of Subclause 505(b) shall apply, mutatis mutandis, in the event the parties have not adjusted their accounts by such time. The abandoning parties shall also transfer to the other parties, without warranty or consideration, the surface rights appurtenant to the well. The parties receiving the assignment thereupon shall be responsible for all obligations accruing with respect to such well following such takeover, subject to Clause 1203.

Clause 1203: The forfeiture is a function of success. If the well is subsequently abandoned in a zone, the interests shall revert to the original interest holders.

Note, though, that the reversion does not affect either the ownership of the well or the responsibility for the abandonment of the well.

Clause 1301: i) One of the more confusing aspects of the document to grasp is its application to the heterogeneous ownership case.

In essence, the provision states that if, pursuant to a provision of the document, any portion of the joint lands ceases to be held by the parties in the same percentages as their working interests in the balance of the joint lands or by less than all of the parties, that portion of the lands shall be held by the applicable interest holders as if they are parties to a separate Operating Procedure having the same terms, except for the relevant modification to the interests/parties. Thereafter, those lands would no longer be subject to the Operating Procedure.

ii) This provision also applies, mutatis mutandis, to a production facility, assuming that it is not governed by a separate CO&O agreement.

Article XIV (General): Production facilities of any significance, in terms of capital investment, capacity, risk or complexity, should be governed by individual facilities agreements. However, there will always be a class of minor facilities which do not justify both the time and expense involved in creating specific agreements to govern them, such that it is a common practice for parties to construct, own and operate a minor production facility in the absence of a formal agreement specifically intended to cover such activities. Usually, the applicable parties will attempt to extend the terms of the operating procedure governing the lands served by such facility to administer their relationship regarding the facility.

Article XIV has been included in order to provide certain basic terms essential to the construction, ownership and operation of such minor facilities. Situations which demand more extensive terms than those provided herein, should be dealt with by the preparation of a facilities agreement for the production facility in question.

In the interest of simplicity and in order to recognize actual operating practice with respect to existing facilities which are very minor, the provisions of this Article have been limited to items of universal application to minor facilities. Unfortunately, the provisions of the Article deviate from the "norm" found in formal facility agreements in some instances, in order to reflect operational reality respecting minor facilities.

For example, facility owners are not charged a capital fee for using surplus capacity in the Article, simply because of the administrative burden that this would place on the operator with respect to a minor facility.

Given that this provision will seldom apply to significant facilities in practice, it is not feasible to address all of the issues normally included in CO&O agreements. Parties which feel uncomfortable with this arrangement should prepare a separate facility agreement in each case.

Clause 1401: This provision establishes the basis of ownership for production facilities, and is subject to Clause 1021, the independent facility provision.

Clause 1402: The commitment to deliver is necessary to ensure that the efficient operation of any production facility is not unfairly prejudiced by the refusal of a joint-operator to utilize such facility to produce, process, treat, store or transmit that joint-operator's share of production from the joint lands, and is subject to Clause 1021.

Clause 1403: This provision prescribes the rights of each joint-operator to utilize any production facility with respect to primary capacity, surplus capacity and priority of use. Although production facilities, by definition, are initially intended to be used exclusively for the production, processing, transmission, etc., of petroleum substances produced from the joint lands, it is recognized as a principle of ownership in any facility, that a facility owner may use his capacity and any available surplus capacity to handle hydrocarbons owned by such owner, regardless of the source of such production. However, the handling of petroleum substances produced from the joint lands takes priority at all times. In order to simplify the adminstration of these minor facilities, no capital fee would be charged to any joint operator utilizing surplus capacity, since the resulting fees would generally not justify the administrative expense if the fee were charged.

1203 REVERSION OF ZONES UPON SUBSEQUENT ABANDONMENT – If the parties that took over a well subsequently cease to maintain the well as a producer of petroleum substances from a zone which was assigned to them pursuant to Clause 1202, each of those parties shall re-assign to the applicable assignor all of the interest assigned to it by the assignor in that zone. Such interest thereupon shall be vested again in the assignor and included in the joint lands. However, nothing in this Clause shall be construed to affect the ownership of the well and the materials and equipment appurtenant thereto, as determined pursuant to Clauses 1201 and 1202, and the responsibility for the abandonment of the well, which shall be retained by the parties that took over the well.

ARTICLE XIII

OPERATION OF LANDS SEGREGATED FROM JOINT LANDS

1301 OPERATING PROCEDURE TO APPLY – Where by reason of the operation of any provision hereof any portion of the joint lands ceases to be owned by the parties in the same percentages of interest as their working interests or ceases to be owned by all of the parties, the parties acquiring the different percentages of interest in such lands shall thereafter hold the same as if they are parties to a separate Operating Procedure, the terms of which are identical to the terms hereof, having regard only to the different ownership and percentages of ownership interest in those lands, and such portion of the joint lands shall cease to be "joint lands" hereunder. The parties holding working interests in the lands which cease to be joint lands under this Clause shall appoint one of them to be the initial Operator under the separate Operating Procedure, in accordance with the provisions of Article II thereof. This Clause shall apply, mutatis mutandis, to a production facility.

ARTICLE XIV

OPERATION OF JOINT PRODUCTION FACILITIES

1401 OWNERSHIP OF PRODUCTION FACILITIES – Subject to Clauses 1021 and 1022, each Joint-Operator owns an undivided interest equal to its working interest in each production facility.

1402 COMMITMENT TO DELIVER – Each Joint-Operator shall, subject to Clauses 1021 and 1022, utilize each production facility to produce, process, treat, store or transmit, as the case may be, its share of the petroleum substances produced from the joint lands.

1403 USE OF PRODUCTION FACILITIES – Each production facility shall be used primarily for the production, processing, treatment, storage or transmission, as the case may be, of petroleum substances produced from the joint lands. If surplus capacity in any production facility is available at any time, any Joint-Operator may use all or a portion of such surplus capacity to produce, process, treat, store or transmit, as the case may be, other hydrocarbon substances which are produced from lands other than the joint lands (in this Article called "outside substances") and are owned by it, provided that:

(a) such outside substances are at all times and in all ways (including the manner and timing of the production and delivery thereof to such production facility) compatible with the design, nature and operation of such production facility and the petroleum substances produced from the joint lands (including the manner and timing of the production and delivery thereof to such production facility); and

(b) the production, processing, treatment, storage or transmission, as the case may be, of petroleum substances produced from the joint lands shall at all times take precedence respecting the use of such production facility, and to the extent that all or a portion of such surplus capacity is required for such purpose, the delivery of such outside substances shall be curtailed or shall cease, as required.

In the event that there is competition for surplus capacity, such surplus capacity shall be prorated to the Joint-Operators desiring to use the same, based on the percentage that each such Joint-Operator's interest in the production facility to which such surplus capacity relates, bears to the total combined interest in such production facility of all of the Joint-Operators seeking to utilize such surplus capacity. If a Joint-Operator is eligible to use more surplus capacity than such Joint-Operator desires to utilize pursuant to such calculation, such Joint-Operator shall be allocated only the desired capacity, whereupon such capacity shall be subtracted from the total surplus capacity available. The remaining surplus capacity shall then be prorated in such manner to the other Joint-Operators desiring to use the same, until all of the surplus capacity has been allocated.

Clause 1404: i) Although significant third party usage of production facilities should not occur, some custom processing/transmission of outside substances is expected during the life of any facility. Clause 1404 provides a foundation for this type of arrangement. This ensures that all of the facility owners agree to the arrangement, and share in the resultant benefits. The principles in this Clause reflect those most commonly found in industry CO&O agreements.

ii) To simplify the administration of these minor facilities, the capital portion of any fee received for the custom processing/transmission of outside substances will be allocated among the facility owners in accordance with their ownership interests (as opposed to allocating such fees based on the portion of the surplus capacity contributed by each owner to handle such outside substance).

While this deviates from industry practice with respect to significant facilities under CO&O agreements, it is a generally accepted method of allocating such fees with respect to minor facilities.

iii) If there is significant third party usage of the facility, a separate CO&O agreement might be prepared.

Clause 1405: This provision sets out the basis for allocating costs and expenses incurred in the operation of any production facility, and reflects standard industry practice.

Clause 1406: This provision provides the basis for allocating products generated from the processing or treatment of hydrocarbon substances utilizing a production facility.

Clause 1407: This provision reflects standard industry practice respecting the allocation of shrinkage, production losses and facility fuel in minor facilities.

Clause 1408: This provision facilitates the evolution of minor facilities into more significant facilities as a result of facility expansion. In recognition of the potential change in the nature of such a facility as a result of such an expansion, this Clause, together with the definition of the term "production facility", provides for the exclusion of the facility from the jurisdiction of this Operating Procedure when that change occurs.

Note, however, that the Clause does not allow the provisions of the Operating Procedure to "bridge" any gap which may occur if a separate CO&O agreement is not in place on the date that construction relating to any significant expansion commences. That being the case, concerned parties should ensure that the commencement of the facility coincides with the completion of the CO&O agreement.

1404 THIRD PARTY CUSTOM USAGE – A production facility may only be utilized with respect to the production, processing, treatment, storage or transmission of outside substances owned by a third party with the approval of all of the Joint-Operators having an interest in such production facility. Any such arrangement to allow a third party to utilize a production facility shall be entered into by the Operator on behalf of all of the Joint-Operators having an interest in such production facility, on terms and conditions similar to those outlined in Clause 1403. All third party outside substances so produced, processed, treated, stored or transmitted shall be subject to a fee as agreed upon by such Joint-Operators. Such fee shall be composed of:

(a) a capital recovery component, so as to provide the Joint-Operators with a reasonable rate of return on their capital investment; and

(b) an operating cost component, which shall be calculated and assessed in accordance with the provisions of Clause 1405 on the same basis that the Joint-Operators bear and pay operating costs with respect to the applicable production facility.

The capital recovery component of all fees received from a third party under any such arrangement shall be allocated to and distributed among the Joint-Operators in accordance with their interests in such production facility. The operating cost component of any such fees shall be applied against the operating costs for the production facility.

1405 ALLOCATION OF COSTS – Each Joint-Operator shall reimburse the Operator for a portion of the operating costs incurred with respect to any production facility. This reimbursement shall either be in that proportion which the volume of petroleum substances and outside substances delivered to such production facility by or on behalf of such Joint-Operator bears to the total volume of all petroleum substances and outside substances delivered to such production facility or on such other basis as the Operator, with the approval of the parties pursuant to the Accounting Procedure, may determine is appropriate. Notwithstanding the foregoing sentence, to the extent that there is a significant variation in the composition of the various streams of petroleum substances and outside substances being delivered to such production facility, the Operator shall advise the other Joint-Operators, who shall meet with the Operator to attempt to determine an equitable method of allocating the operating costs incurred with respect to such production facility. Subject to Clauses 1021 and 1022, each Joint-Operator having an interest in a production facility shall bear a share of the capital costs subsequently incurred respecting such production facility, equal to its interest in such production facility. Notwithstanding anything to the contrary contained herein, the Operator shall be entitled to deny any outside substances entry into any production facility, if the Operator, in its sole discretion, believes that the cost to process, treat, store or transport such outside substances, as the case may be, would be significantly higher than the average cost to process, treat, store or transport the petroleum substances.

1406 ALLOCATION OF PRODUCTS – Subject to Clauses 1021 and 1022, each Joint-Operator shall be entitled to and allocated a share of any products produced from the processing or treatment of petroleum substances or outside substances at any production facility, when produced from such production facility, in that proportion which the volume of petroleum substances and outside substances delivered to such production facility by or on behalf of such Joint-Operator bears to the total volume of all petroleum substances and outside substances delivered to such production facility. Notwithstanding the foregoing sentence, if there is a significant variation in the composition of the various streams of petroleum substances and outside substances being delivered to such production facility at any time, the Operator shall advise the other Joint-Operators, who shall meet with the Operator to attempt to determine an equitable method of allocating the products produced from such production facility.

1407 ALLOCATION OF LOSSES AND SHRINKAGE – The Operator shall have the right to flare any petroleum substances, outside substances or any product obtained from the processing or treatment thereof, at any time and from time to time, at its sole discretion, in the event of an emergency or operational problem. With respect to any production facility, each Joint-Operator utilizing such production facility shall bear a share of any losses or gains actually incurred with respect to petroleum substances, outside substances or any products obtained from the processing or treatment thereof, due to evaporation, leakage, spills, flaring, handling, measurement or use as facility fuel, in that proportion which the volume of petroleum substances and outside substances delivered to such production facility by or on behalf of such Joint-Operator bears to the total volume of all petroleum substances and outside substances delivered to such production facility. Notwithstanding the foregoing sentence, if the Operator is able to identify the actual owner of any such gain or loss, such owner shall bear such loss or share such gain in proportion to its ownership thereof.

1408 EXPANSION OF PRODUCTION FACILITIES – If any proposed expansion of or addition to a production facility would result in such production facility no longer being used primarily for the production, processing, treatment, storage or transmission, as the case may be, of petroleum substances produced from the joint lands, such proposal shall not be subject to the provisions hereof. Upon the commencement of any construction relating to such proposal, such production facility shall cease to be a production facility and shall no longer be subject to the provisions hereof, provided that nothing contained herein shall affect the application of such provisions to the period during which such facility had been held as a production facility hereunder.

Clause 1409: If the owners of a minor facility cannot resolve a dispute respecting: (a) third party facility usage; (b) the allocation of operating costs; or (c) product allocation, the matter can be referred to arbitration.

Clause 1501: i) Notwithstanding the wording of this Clause, the provision arguably applies to the relationship of the parties as regards third parties, rather than to the actual relationship of the co-venturers.

Consider this provision in the context of Clause 506 respecting the reimbursement of the operator. In the event a party defaulted in its obligation to pay its working interest share of costs incurred for the joint account, that provision ensures that the burden is shared by the non-defaulting parties until (and to the extent that) the operator can utilize its remedies to recover the unpaid amount. Otherwise, the operator would always have to bear that burden alone.

ii) The provision may not be effective against third party litigants anyway. A court is not obligated by the provisions of the contract. Unless the court apportions legal responsibility among defendants, a successful plaintiff can enforce its judgment jointly against those defendants which were held responsible for its loss.

Clause 1601: Note that this definition does not apply to events which a party could have prevented with the exercise of reasonable diligence at a reasonable cost.

Assume, for example, that a party which intended to drill a well in a critical sour gas area chose to delay its applications to regulatory authorities. Should that party be able to rely on the force majeure provision if the well is not commenced at the required time because of a delay in attempting to obtain regulatory approval?

Clause 1602: A force majeure suspends the performance of the affected obligations not only for the period that it prevents the performance of the obligation, but also for such additional time as the party may reasonably require to commence to fulfill those obligations. The party cannot practically be expected to begin fulfilling its obligations the moment the force majeure is remedied. This is apparent when one considers that equipment and personnel may have to be mobilized on short notice.

Clause 1701: Only incentives which accrue to the operation (such as the former EDAP's or DIC's) are shared by the participants in this Clause. Incentives which accrue to the participants individually, such as the former APIP's and CEDIP's, are not shared.

1409 REFERENCE TO ARBITRATION – If there is a dispute between or among the parties with respect to: (i) the approval of a facility usage fee for a production facility pursuant to either Clause 1021 or 1404; (ii) the allocation of operating costs pursuant to Clause 1405; or (iii) the allocation of products utilizing a production facility, a party may, by notice to the other parties, cause the matter to be referred to arbitration under the provisions of the Arbitration Act or Ordinance of the province, state or territory where the production facility is located.

ARTICLE XV

RELATIONSHIP OF PARTIES

1501 PARTIES TENANTS IN COMMON – The rights, duties, obligations and liabilities of the parties hereunder shall be separate and not joint or collective, nor joint and several, it being the express purpose and intention of the parties that their interests in the joint lands and in the wells, equipment, production facilities and property thereon held for the joint account shall be held as tenants in common, subject to the modification of the incidents thereof that are provided in this Operating Procedure. Nothing contained herein shall be construed as creating a partnership, joint venture or association of any kind or as imposing upon any party, any partnership duty, obligation or liability to any other party.

ARTICLE XVI

FORCE MAJEURE

1601 DEFINITION OF FORCE MAJEURE – For the purposes of this Article, "force majeure" means an occurrence beyond the reasonable control of the party claiming suspension of an obligation hereunder, which has not been caused by such party's negligence and which such party was unable to prevent or provide against by the exercise of reasonable diligence at a reasonable cost and includes, without limiting the generality of the foregoing, an act of God, war, revolution, insurrection, blockage, riot, strike, a lockout or other industrial disturbance, fire, lightning, unusually severe weather, storms, floods, explosion, accident, shortage of labour or materials or government restraint, action, delay or inaction.

1602 SUSPENSION OF OBLIGATIONS DUE TO FORCE MAJEURE – If any party is prevented by force majeure from fulfilling any obligation hereunder, the obligations of the party, insofar only as its obligations are affected by the force majeure, shall be suspended while the force majeure continues to prevent the performance of such obligation and for that time thereafter as that party may reasonably require to commence to fulfill such obligation. A party prevented from fulfilling any obligation by force majeure shall promptly give the other parties notice of the force majeure and the affected obligations, including reasonably full particulars in respect thereof.

1603 OBLIGATION TO REMEDY – The party claiming suspension of an obligation as aforesaid shall promptly remedy the cause and effect of the applicable force majeure, insofar as it is reasonably able so to do, and such party shall promptly give the other parties notice when the force majeure ceases to prevent the performance of the applicable obligation. However, the terms of settlement of any strike, lockout or other industrial disturbance shall be wholly in the discretion of such party, notwithstanding Clause 1601, and that party shall not be required to accede to the demands of its opponents in any strike, lockout or industrial disturbance solely to remedy promptly the force majeure thereby constituted.

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

ARTICLE XVII

INCENTIVES

1701 INCENTIVES TO BE SHARED – Any drilling or other well incentives, geophysical incentive credits or grouping rights which accrue collectively to the parties under the Regulations with respect to any operation conducted on the joint lands shall be shared by the parties which participate in such operation, in proportion to their participating interests therein.

Clause 1801: i) The inclusion of a provision whereby a party may use information for its own benefit is included to eliminate any possible argument of constructive trust if a party uses joint information to acquire adjacent lands for its own account when there is no express area of mutual interest obligation. There would only be a slight chance that the doctrine of constructive trust would be imposed in such circumstances when the agreement is among knowledgeable parties. However, the reference may be relevant insofar as one or more of the parties has little expertise, such as a party which is a pension fund.

ii) The references to securities laws, consultants, bankers, transferees and scout check merely reflect the fact that information is released to these persons in practice.

iii) A publicly traded company is generally required to disclose all material information to the public in a timely manner. The obligation is typified by the TSE requirement to file a report to the Commission whenever there is a material change, being "a change in the business, operations or capital of the issuer that would reasonably be expected to have a significant effect on the market price or value of any of the securities of the issuer and includes a decision to implement such a change made by the Board of Directors of the issuer or by senior management of the issuer who believe that confirmation of the decision by the Board of Directors is probable."

Every reporting issuer must file quarterly interim financial statements and comparative financial statements annually.

A junior capital pool listed on the Alberta Stock Exchange must also issue a notice when it enters into a "major transaction."

iv) It is not feasible to require an Affiliate to enter into a separate confidentiality agreement with respect to each disclosure of information to it. However, the party disclosing the information to the affiliate remains liable for any losses suffered by the parties as a result of the affiliate's disclosure of confidential information.

v) Basically, a member of scout check is required to disclose general drilling data, such as depth and status. A member, though, may minimize the disclosed information by requesting tight hole status, and it may request a two week extension 30 days after rig release of a confidential well by providing a reasonable excuse (i.e., land sale). Additional extensions may be applied for. Failure to disclose the required information after the last extension could result in a one week suspension or, in special circumstances, a one year suspension.

vi) The disclosure of general information, such as total depth or status, does not enable one to argue that well data is not confidential because that particular information is in the public domain.

Clause 1802: i) This provision addresses the release of confidential information to third parties for consideration. The party which wishes to release the information is obligated to obtain the consent of the other parties having a proprietary interest in the information and to share the consideration for the disclosure with them.

As third party contributions to operations would generally be in the context of bottomhole contributions or drilling options, the inclusion of this Clause allowed the deletion of Subclause 1701(a) and Clause 1702 of the 1981 document.

ii) Note that participants in an independent operation maintain all proprietary rights to that information, notwithstanding that a non-participant may have been supplied with that information. However, the disclosure of the information by the participating parties can affect the penalty account. (See 1007(d).)

Clause 1803: A party which surrenders or forfeits its entire interest is not relieved of its obligations to maintain information confidential until it is in the public domain.

This differs from the traditional provision, which tied confidentiality to the term of the Operating Procedure. Assuming that A and B held lands and that A surrendered its entire interest to B, that type of provision released A from any obligation to maintain information confidential.

Clause 1901: A party does not become a delinquent party if it only fails to settle its accounts hereunder. The operator already has legal remedies available to it to address that problem under Article V.

ARTICLE XVIII

CONFIDENTIAL INFORMATION

1801 CONFIDENTIALITY REQUIREMENT - Each party entitled to information obtained hereunder or pursuant to the Agreement may use such information for its sole benefit. However, the parties shall take such measures with respect to operations and internal security as are appropriate in the circumstances to keep confidential from third persons all such information, except information which the parties have expressly agreed among themselves to release and information disclosed by a party:

(a) when and to the extent required by the Regulations and securities laws applicable to such party, provided that such party shall invoke any confidentiality protection permitted by such Regulations and securities laws;

(b) to an Affiliate, provided that such party shall be deemed to have required such Affiliate to maintain the confidential status of the disclosed information in accordance with this Article XVIII, that such Affiliate shall be deemed to have accepted such obligation and that such party shall be liable for any loss suffered by the parties, or any of them, because of the failure of such Affiliate to maintain such information confidential;

(c) to a third person to which such party has been permitted to assign a portion of its interest hereunder, provided that a binding covenant is obtained from such third person prior to disclosure which provides, inter alia, that none of such information shall be disclosed by it to any other third person;

(d) to the technical, financial or other professional consultants of such party which require such information to provide their services to such party or to a bank or other financial institution from which such party is attempting to obtain financing, provided that a binding covenant is obtained from such consultant or financier, as the case may be, prior to such disclosure, which provides, inter alia, that none of such information shall be disclosed by it to any other third person or used for any purposes other than advising such party or providing financing to such party, as the case may be; and

(e) as and when required to any recognized association within the petroleum industry, of which such party is a member, that engages in the exchange of factual information relating to the type of operations conducted pursuant to this Agreement, unless and to the extent that the information pertains to a well drilled hereunder which a party had requested to be given tight hole status, provided that such party shall invoke any confidentiality protection permitted by such association with respect to such disclosed information.

However, the confidentiality obligation in this Clause shall not extend to information to the extent it is in the public domain, provided that specific items of information shall not be considered to be in the public domain merely because more general information is in the public domain.

1802 DISCLOSURE OF INFORMATION FOR CONSIDERATION - Notwithstanding Clause 1801, a party which proposes to disclose information obtained hereunder or pursuant to the Agreement for cash, in exchange for other information or for other consideration shall notify each other party having a proprietary interest in such information of the details of such proposed transaction. Within fifteen (15) days following receipt of such notice, each of those parties shall, by notice, advise the party which proposes to make such disclosure whether it approves of such disclosure on the terms specified in such notice, provided that failure of a party to respond within such period shall be deemed to be the approval of such party to the disclosure of such information on such terms. Unless the party which proposes to disclose such information obtains such approvals from all of those other parties, the proposed disclosure of such information shall be prohibited. In the event such approvals are obtained, the consideration to be received for such disclosure shall be shared by the applicable parties in the proportions of their proprietary interests in such information.

1803 CONFIDENTIALITY REQUIREMENT TO CONTINUE - Notwithstanding the foregoing provisions of this Article, any party which otherwise ceases to be bound by the provisions of this Operating Procedure shall nevertheless remain bound by the provisions of this Article with respect to information obtained hereunder or pursuant to the Agreement until and to the extent that such information is in the public domain.

ARTICLE XIX

DELINQUENT PARTY

1901 CLASSIFICATION AS DELINQUENT PARTY -- If a party changes its address and does not provide the other parties with notice of its changed address for service and subsequently cannot readily be located, or if any party becomes inactive

Clause 1902: The option of paying funds into court was not included. The operator requires the right to deduct that party's share of costs incurred for the joint account in a simple and timely manner. In the event other amounts were owing, the operator would presumably exercise its rights under Clause 505.

Clause 1904: The operator can also use its rights under Article V to secure satisfaction of obligations.

Clause 2001: Note the reference to actual or anticipated breaches. A prudent party would try to obtain a waiver before the breach, not after the fact.

or is struck off the corporate register or otherwise consistently refuses or neglects to answer communications addressed to it at its address for service, the Operator may send notice, by registered mail to that party at its last address for service hereunder, advising such party that it shall thereafter be considered a delinquent party within the meaning of this Article.

1902 EFFECT OF CLASSIFICATION AS DELINQUENT PARTY – From the fifteenth (15th) day after the Operator has forwarded the notice described in Clause 1901, the delinquent party shall thereafter:

(a) not be entitled to any further notices or communications from the Operator or any other party with respect to any matter hereunder, including information from operations;

(b) be deemed to have elected not to participate in any operation thereafter proposed to be conducted for the joint account; and

(c) be deemed to have elected to join, proportionate to its working interest, with the Operator in the joint lands affected, in all farmouts, assignments, surrenders and abandonments proposed and effected hereunder by the Operator for its own account, and any such dispositions effected by the Operator, or by any of the parties at the direction of the Operator, shall be binding on the delinquent party.

However, the proceeds of the sale of the delinquent party's share of petroleum substances and any other funds accruing to the working interest of the delinquent party shall be retained in trust by the Operator for the account and benefit of the delinquent party, after deducting the delinquent party's proportionate share of operating costs and all other relevant costs and expenses incurred for the joint account and any marketing fee applicable to the delinquent party's share of such petroleum substances pursuant to Article VI.

1903 RESTORATION OF STATUS – If a delinquent party subsequently communicates with the Operator, pays all amounts owing by it hereunder, satisfies all of its other obligations hereunder and undertakes in writing to comply from that time with the provisions of this Operating Procedure, such party's rights and obligations hereunder shall be restored to it, provided that such party shall be deemed to have ratified all actions taken pursuant to this Article, including, without restricting the generality of the foregoing, any elections or transactions made on its behalf pursuant to Clause 1902.

1904 LIEN NOT AFFECTED – Nothing in this Article shall derogate from the enforcement of the lien of the Operator and the other parties pursuant to Clauses 505 and 506.

ARTICLE XX

WAIVER

2001 WAIVER MUST BE IN WRITING – No waiver by any party of any breach (whether actual or anticipated) of any of the covenants, provisos, conditions, restrictions or stipulations herein contained shall take effect or be binding upon that party unless the same is expressed in writing under the authority of that party. Any waiver so given shall extend only to the particular breach so waived and shall not limit or affect any rights with respect to any other or future breach.

ARTICLE XXI

FURTHER ASSURANCES

2101 PARTIES TO SUPPLY – Each party shall from time to time and at all times do all such further acts and execute and deliver all further deeds and documents as may be reasonably required in order fully to perform and carry out the terms of this Operating Procedure.

Clause 2201: i) Subclause (a) in effect provides that a notice may be personally served on a party during its normal business hours on any normal working day. Should a party be closed on a particular day by its own choice (i.e., a third Friday off), the party will still be deemed to have received the notice on that day, assuming there is a representative of the party to receive the notice.

Otherwise, the parties could have different response dates.

Even though a "golden Friday" has no impact on the deemed receipt of a notice, it is the better practice for a party issuing an important notice to consider the work schedules of other parties when serving the notice.

ii) Subclause (b) does not require the addressee to acknowledge receipt for that notice to be effective. It is sufficient if the party forwarding the notice can demonstrate that it was sent. The party serving the notice should not be required to assume the risk that the addressee's personnel do not handle the notice properly or that its equipment is not functioning properly. Otherwise, that party would never know whether its notice was effective. In the unlikely event that there is actually a problem with receipt of notice, the business considerations are such that the matter would be resolved to the satisfaction of the addressee once the problem is brought to the attention of the other parties. The onus, however, is on the addressee to satisfy the other parties of the legitimacy of its request.

iii) A notice shall be served pursuant to Subclause (a) or (b) if the applicable notice period is 48 hours or less, provided that a telephone notice may be used with respect to the 24 hour casing point election, to reflect typical industry practice.

ARTICLE XXII

NOTICE

2201 SERVICE OF NOTICE – Whether or not so stipulated herein, all notices, communications and statements (herein called "notices") required or permitted hereunder shall be in writing, subject to the provisions of this Clause. Any notice to be given hereunder shall be deemed to be served properly if served in any of the following modes:

(a) personally, by delivering the notice to the party on whom it is to be served at that party's address for service. Personally served notices shall be deemed received by the addressee when actually delivered as aforesaid, if such delivery is during normal business hours, on any day other than a Saturday, Sunday or statutory holiday. If a notice is not delivered during the addressee's normal business hours, such notice shall be deemed to have been received by such party at the commencement of the day next following the date of delivery, other than a Saturday, Sunday or statutory holiday; or

(b) by telecopier or telex (or by any other like method by which a written and recorded message may be sent) directed to the party on whom it is to be served at that party's address for service. A notice so served shall be deemed received by the respective addressees thereof: (i) when actually received by them, if received within the normal business hours on any day other than a Saturday, Sunday or statutory holiday; or (ii) at the commencement of the next ensuing business day following transmission thereof if such notice is not received during such normal business hours; or

(c) by mailing it first class (air mail if to or from a location outside of Canada) registered post, postage prepaid, directed to the party on whom it is to be served at that party's address for service. Notices so served shall be deemed to be received by the addressees at noon, local time, on the earlier of the actual date of receipt or the fourth (4th) day (excluding Saturdays, Sundays and statutory holidays) following the mailing thereof. However, if postal service is interrupted or operating with unusual or imminent delay, notice shall not be served by such means during such interruption or period of delay.

However, where this Operating Procedure provides for a notice period of forty-eight (48) hours or less, the applicable notice shall be given in accordance with Subclause (a) or (b) of this Clause, provided that notices of twenty-four (24) hours or less under Article IX may be made by telephone and shall be deemed to be received at the conclusion of the conversation if: the telephone conversation is between representatives of the parties who are specifically authorized to accept such notice; such representatives are officially on duty at the time of such conversation; and such telephone conversation and notice are then confirmed pursuant to Subclause (a) or (b) of this Clause.

2202 ADDRESSES FOR NOTICES – The address for service of notices hereunder of each of the parties shall be as follows:

Alternate 2401A: i) The 20 day deemed consent mechanism ensures that the disposition will be reviewed in a timely manner.

ii) The last sentence states that it is reasonable for a party to withhold its consent if it reasonably believes that the disposition would be likely to affect its interest adversely. Usually, this would apply to a reasonable concern respecting the financial capability of the proposed assignee to fulfill obligations arising out of the Operating Procedure.

The sentence reflects the legal test which would be applied under the 1981 provision had the issue of the withholding of consent been litigated. While it could be excluded without any significant impact on the scope of the provision, it has been included only to reinforce to the disposing party's non-legal personnel the obligation of the disposing party to be responsible in the selection of its assignees.

Should a party elect to proceed with a disposition following the refusal of consent, a party which refused its consent to the disposition would possibly have a remedy for breach of contract. It would have to prove the resultant loss suffered by it, though, to be awarded more than nominal damages.

iii) The decision to withhold consent should be made very carefully. That party could be held liable for damages if the party which proposed to make the transaction commenced an action after the termination of the transaction and a court held that the refusal to grant consent was unreasonable. Courts tend to regard this type of covenant as being mostly for the protection of the disposing party - that another party shall not refuse its consent unreasonably. See, for example, Cudmore v. Petro-Canada Inc., [1986] 4.W.W.R. 38 (B.C.S.C.).

Alternate 2401B: i) Note that a party which does not comply with this provision faces the risk that a court could order specific performance. See, for example, Canadian Long Island Petroleums Ltd. et al. v. Irving Industries (Irving Wire Products Division) Ltd. et al, [1974] 6 W.W.R. 385 (S.C.C.), affirming, [1973] 5 W.W.R. 99 (Alta. S.C., App. Div.).

Since that decision, Alberta has amended The Law of Property Act to address a first right of refusal. Subsection 59.1(1) provides that a first right of refusal is an equitable interest in land and may be registered under that Act (application limited to freehold). The common law cases on priority now apply to registrable first rights of refusal.

Subclause 2401B(a): A disposing party which is confident that its purchase and sale agreement will not be amended in any material fashion may wish to provide the offerees with a copy of the purchase and sale agreement for certainty. Since the disposing party would not want to negotiate a new agreement with an offeree, this would ensure that the offerees are aware of all material terms and also that the resultant agreement would be finalized quickly.

Subclause 2401B(b): There is no reason for a disposing party to make the effort to include its estimate of an equivalent cash value unless at least one offeree might have an interest in exercising its rights.

Subclause 2401B(c): i) Note that the party which requests the cash value of consideration to be determined by arbitration assumes the risk that the arbitrated value will be higher than that proposed by the disposing party. If the provision stated that the arbitrated value could never exceed that proposed by the disposing party, there would be an incentive for an offeree to refer the matter to arbitration when the disposing party's estimate had been reasonable.

ii) Another option would be to have the disputing party assign its value and then provide that the arbitrator may choose only one of the two alternative values. Although the simplicity of the mechanism has an inherent attractiveness, there are two problems associated with such a mechanism. Firstly, the possibility of an adverse arbitration award might result in disposing parties assigning overly conservative cash values to the relevant interest, such that they may be offering the interest at less than fair market value. Secondly, such a mechanism might, in fact, encourage the use of arbitration. If a receiving party's only potential loss is the cost of an unsuccessful arbitration, some parties may gamble that they could acquire the interest for significantly less than its value.

The fact that the arbitrator is free to award the costs of the arbitration should be sufficient to deter frivolous references to arbitration in most cases. (See, for example, Section 9 of Schedule 2 of the Alberta Arbitration Act.) If costs were to be shared equally, regardless of the reasonableness of the respective positions, there would be no deterrent to a party which wished to pursue an unreasonable position.

Subclause 2401B(d): i) Note that the basic election period has been increased from 20 days to 30 days. A party receiving a notice is required to conduct a complex evaluation very quickly, often with little or no advance warning, such that the 20 day period would not be practicable in many cases. While this increased election period, of course, will not be attractive to a disposing party in a particular instance, the disposing party is in the best position to determine the timing of notices being given. Moreover, presuming that the parties have elected to use Alternate B because of their desire to include a real first right of refusal, the change ensures that the mechanism is effective in practice.

ii) Note that the offerees have no obligation to respond until 15 days following the receipt of the arbitrated value, if applicable. If the obligation were not suspended pending a determination by arbitration, a disposing party may not have the incentive to provide a reasonable estimate of the cash value of the consideration.

One might attempt to argue that the 15 day election period following the determination of the arbitrated value is too short. However, this ignores the fact that the offeree which disputes the value would have conducted a detailed evaluation to support its position in the arbitration.

2203 RIGHT TO CHANGE ADDRESS – Any party may change its address for service by notice to the other parties, and such changed address for service thereafter shall be effective for all purposes of this Operating Procedure.

ARTICLE XXIII

NO PARTITION

2301 WAIVER OF PARTITION OR SALE – No party shall exercise any right to apply for any partition of the joint lands or any production facility or sale thereof in lieu of partition.

ARTICLE XXIV

DISPOSITION OF INTERESTS

2401 RIGHT TO ASSIGN, SELL OR DISPOSE – Other than as required and allowed one party to another elsewhere in this Operating Procedure and subject to Clause 2402, a party shall not dispose of any of its working interest, whether by assignment, sale, trade, lease, sublease, farmout or otherwise, without first complying with the provisions of ALTERNATE ____ below (Specify A or B):

ALTERNATE - A:

The party wishing to make the disposition shall, by notice, advise the other parties of its intention to make the disposition, including in such notice a description of the working interest proposed to be disposed and the identity of the proposed assignee, and request their written consent to such disposition, which consent shall not be unreasonably withheld. Failure of a party to reply to the request for consent within twenty (20) days of its receipt shall be deemed to be the consent of such party to such disposition. It shall be reasonable for a party to withhold its consent to a disposition hereunder if it reasonably believes that the disposition would be likely to have a material adverse effect on it, its working interest or operations to be conducted hereunder, including, without limiting the generality of all or any part of the foregoing, a reasonable belief that the proposed assignee does not have the financial capability to meet prospective obligations arising out of this Operating Procedure.

ALTERNATE - B:

(a) The party wishing to make the disposition (in this Article called "the disposing party") shall, by notice, advise each other party (in this Article called an "offeree") of its intention to make the disposition, including in such notice a description of the working interest proposed to be disposed, the identity of the proposed assignee, the price or other consideration for which the disposing party is prepared to make such disposition, the proposed effective date and closing date of the transaction and any other information respecting the transaction which the disposing party reasonably believes would be material to the exercise of the offerees' rights hereunder (such notice in this Article called "the disposition notice").

(b) In the event the consideration described in the disposition notice cannot be matched in kind and the disposition notice does not include the disposing party's bona fide estimate of the value, in cash, of such consideration, an offeree may, within seven (7) days of the receipt by the offerees of the disposition notice, request the disposing party to provide such estimate to the offerees, whereupon the disposing party shall provide such estimate in a timely manner and the election period provided herein to the offerees shall be suspended until such estimate is received by the offerees.

(c) In the event of a dispute as to the reasonableness of an estimate of the cash value of the consideration described in the disposition notice or provided pursuant to Subclause (b), as the case may be, the matter shall be referred to arbitration under the provisions of the Arbitration Act or Ordinance of the province, state or territory where the joint lands are situated within seven (7) days of the receipt of such estimate. The disposing party and the applicable offeree shall thereupon diligently attempt to complete such arbitration in a timely manner. The equivalent cash consideration determined in such arbitration shall thereupon be deemed to be the sale price for the working interest described in the disposition notice.

(d) Within the later of: i) thirty (30) days from the receipt of the disposition notice, as modified by any suspension pursuant to Subclause (b) of this Alternate B; or ii), if applicable, fifteen (15) days from receipt of notice of the arbitrated value determined pursuant to the preceding Subclause, an offeree may give notice to the disposing party that it elects to purchase the working interest described in the disposition notice for the applicable price (in

iii) An election by an offeree to purchase the interest creates a binding contractual obligation, such that both the offeree and the disposing party are bound. Although not stated, this would be subject to the normal due diligence requirements, so as to ensure that the interest actually available for purchase corresponds to that represented by the disposing party.

Subclause 2401B(e): Note the reference to the reasonable belief that a disposition to a third party would not affect the interest holders adversely. Without such a reference, the disposing party would be free to dispose of the interest to a third person which may not have satisfied the criteria at the end of Alternate A. An offeree should never be forced to pay above what it believes a property is worth solely in order to avoid an unsuitable partner which it could have refused had the lower standard in A been chosen.

Subclause 2402(a): Note that the Subclause applies to both financial and non-monetary obligations. A party, for example, may be obligated to deliver production at some future date.

Subclause 2402(d): This Subclause only applies in cases in which the interest being disposed of in the joint lands represents a very small part of a large transaction.

Assume that A holds a 20% interest in a 1 500 ha block (300 net ha) and it is selling its interests in 25 000 ha in which it holds an average interest of 25%, including the interest in the joint lands. The total net hectares being disposed of pursuant to the transaction would be 6 250 (25 000 X 25%). The net hectares of the joint lands would be 4.8% of the total net hectares in the transaction (300 ÷ 6 250), such that the transaction would fall within the exception.

this Article called a "notice of acceptance"). A notice of acceptance shall create a binding contractual obligation upon the disposing party to sell, and upon an offeree giving a notice of acceptance to purchase, for the applicable price, all of the working interest included in such disposition notice on the terms and conditions set forth in the disposition notice. However, if more than one offeree gives a notice of acceptance, each such offeree shall purchase the working interest to which such notice of acceptance pertains in the proportion its working interest bears to the total working interest of such offerees.

(e) In the event that the working interest described in the disposition notice is not disposed of to one or more of the offerees pursuant to the preceding Subclause, the disposition to the proposed assignee shall be subject to the consent of the offerees. Such consent shall not be unreasonably withheld, and it shall be reasonable for an offeree to withhold its consent to the disposition if it reasonably believes that the disposition would be likely to have a material adverse effect on it, its working interest or operations to be conducted hereunder, including, without limiting the generality of all or any part of the foregoing, a reasonable belief that the proposed assignee does not have the financial capability to meet prospective obligations arising out of this Operating Procedure. However, an offeree shall be deemed to have consented to the disposition to the proposed assignee, unless, within the time period prescribed in Subclause (d), the offeree advises the other parties, by notice, that it is not prepared to consent to such disposition.

(f) If the working interest described in the disposition notice is not disposed of to one or more of the offerees pursuant to Subclause (d), the disposing party may, subject to obtaining the consents prescribed by the preceding Subclause, dispose of such working interest at any time within one hundred and fifty (150) days from the issuance of such disposition notice, provided that such disposition is not on terms that are more favourable to such purchaser than those offered in the disposition notice.

(g) Following a disposition herein or one hundred and fifty (150) days following the issuance of a disposition notice from which a disposition did not result, as the case may be, the provisions of this Alternate shall once again apply to the working interest described in the disposition notice.

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

(a) An assignment made by way of security for the assignor's present or future indebtedness, or liabilities (whether contingent, direct or indirect and whether financial or otherwise), the issuance of the bonds or debentures of a corporation, or the performance of the obligations of the assignor as a guarantor under a guarantee, provided that in the event the security is enforced by sale or foreclosure, Clause 2401 shall apply.

(b) A disposition to an Affiliate of the assignor, or in consequence of a merger or amalgamation of the assignor with another corporation or pursuant to an assignment, sale or disposition made by a party of its entire working interest to a corporation in return for shares in that corporation or to a registered partnership in return for an interest in that partnership.

(c) A disposition made by the assignor of all, or substantially all, or of an undivided interest in all or substantially all, of its petroleum and natural gas rights in the province, state or territory where the joint lands are situated, and for the purposes of this Subclause, "substantially all" means a percentage of ninety percent (90%) or more of the net hectares held by such party in that province, state or territory.

(d) A disposition by a party in which the net hectares being disposed of by that party in the joint lands represent less than five percent (5%) of the total net hectares being disposed of by that party pursuant to that disposition.

However, a party making such a disposition pursuant to Subclause (b), (c) or (d) of this Clause shall advise the other parties of such disposition in a timely manner.

2403 MULTIPLE ASSIGNMENT NOT TO INCREASE COSTS – If any assignment of working interest is made to multiple assignees so as to increase the expenses or duties of the Operator, the Operator may require the assignees (and the assignor if it retains a working interest) to appoint one of their number as representing all of them for the purposes of this Operating Procedure, unless arrangements satisfactory to the Operator are made to compensate the Operator for the increased expenses or duties.

2404 RECOGNITION UPON ASSIGNMENT – Other than as required and allowed one party to another elsewhere in this Operating Procedure, a party which proposes that an assignment of a working interest, or a corresponding interest in the Agreement and this Operating Procedure, shall be effective against the parties who are not parties to the assignment (in this Clause called the "other parties") shall first comply with the provisions of ALTERNATE _____ below (Specify A or B):

Alternate 2404A: This Alternate reflects the traditional manner of effecting novations with respect to the other parties.

Alternate 2404B: One of the consequences of the large number of corporate reorganizations and industry rationalization programs has been a multitude of novation agreements which have not been executed by the other parties.

This Alternate enables the assignor and assignee to effect a novation more simply where the assignor had complied with its other obligations under Clause 2401, if any.

The difference from Alternate A is that the other parties shall be deemed to have executed the novation agreement provided to them by the assignor, unless, within 90 days of its receipt, at least one of the other parties advises the parties that it is not prepared to execute that agreement and the reasonable objections it has to that agreement. (In practice, these objections would generally tend to be with respect to the identification of the parties or the description of the agreement or lands.)

These are several major points to note about this mechanism.

Firstly, the Alternate reflects the view that the benefit of effecting transactions in a timely manner outweighs any uncertainty caused by not having all of the parties execute the novation agreement. This view is premised on the determination that the primary reason for the backlog in the processing of novation agreements by other parties is attributable to the novations being assigned a low priority, not a multitude of objections to the document.

Secondly, the deeming mechanism places some minor, but critical, additional administrative duties on the parties. The assignor is required to provide the parties with a notice respecting the status of the processing of the agreement. Upon receipt of that notice, the other parties should ensure that a copy of the notice is placed with that agreement in its records if the deeming mechanism applies to a party's execution, so that the risk of personnel subsequently missing the notice during a title review is minimized.

Thirdly, there is a duty on the part of an objecting party to advise the parties of its reasonable objections to the document at the time it gives notice of its objections. (A prudent objecting party would probably send the notice by double registered mail and must send a copy to all parties.) There are no guidelines as to what objections would be considered to be reasonable, such that it will usually be the subject of negotiation where the objection is something more substantive than "not having the opportunity to review the document" within the 90 day period.

Fourthly, the deeming mechanism would also apply to revised documents issued pursuant to this Alternate.

Finally, the inclusion of this Alternate may require some minor modifications to the format of the typical novation agreement. A counterpart execution clause, for example, would need to contemplate the deemed execution mechanism.

Common Conditions: The Alternates and Subclauses (a) and (b) reflect some of the major components of novation agreements-the assumption of obligations by the assignee with respect to the assigned interest, the effective date of the assignment (Subclause (a)) and the trust arrangement on which the other parties may rely until the agreement becomes effective pursuant to the Clause (Subclause (b)). That agreement would also include other provisions, such as the responsibility for obligations accruing prior to the effective date of the assignment and any discharge of the assignor.

Clause 2501: i) The Clause does not prevent a party from commencing an action against another party, such as a suit alleging the gross negligence or wilful misconduct of the operator.

ii) One dispute resolution mechanism which is gaining popularity is professional mediation. In essence, the mediator acts as a conciliator, to encourage the parties to focus on the nature of the issue and possible solutions which are preferable to the parties than litigation. Since the mediator has no authority to determine the outcome of the dispute (unlike arbitration), the parties have nothing to lose by attempting to resolve the dispute through mediation. When compared to litigation, the three major advantages of mediation are cost, timing and the limited scope for damage to long term business relationships.

iii) Arbitration may also be preferable to litigation because of the lower cost, the prompt resolution of the dispute and the ability to select an arbitrator who has professional expertise in the area to which the dispute pertains.

ALTERNATE - A:

The assignment of a working interest or a corresponding interest in the Agreement and this Operating Procedure shall only be effective against the other parties if:

(i) notice of the assignment has been served on each of the other parties in accordance with Clause 2401, if applicable; and

(ii) the assignor and assignee have entered into an agreement with the other parties, which is acceptable to the other parties, to ensure the assumption of and compliance with the obligations of the assignor by the assignee with respect to the interest assigned to the assignee.

- OR -

ALTERNATE - B:

The assignment of a working interest or a corresponding interest in the Agreement and this Operating Procedure shall only be effective against the other parties if:

(i) notice of the assignment has been served on each of the other parties in accordance with Clause 2401, if applicable; and

(ii) the assignor and the assignee have entered into an agreement with the other parties, to ensure the assumption of and compliance with the obligations of the assignor by the assignee with respect to the interest assigned to the assignee, provided that the other parties shall be deemed to have executed that agreement, unless, within ninety (90) days of the receipt of that agreement, one (1) or more of the other parties have advised the parties, by notice, that they are not prepared to execute that agreement and the reasonable objections they have to that agreement.

The assignor shall forthwith give notice to the parties respecting the status of that agreement upon the earliest of: execution of that agreement by the other parties; the receipt of notices of one or more of the other parties that they are not prepared to execute that agreement; or the expiry of such ninety (90) day period, as the case may be.

The following conditions shall be applicable to the ALTERNATE which is specified:

(a) Subject to Subclause (b) of this Clause, if an assignment is effected in the manner prescribed in this Clause, the assignment shall be effective against the other parties at the time specified in the agreement provided to the other parties pursuant to the Alternate specified in this Clause.

(b) Until the agreement provided to the other parties pursuant to the Alternate specified in this Clause has been executed, or, if applicable, deemed to have been executed by the other parties, the assignor shall continue to remain liable to the other parties for performance of the obligations applicable to the assigned interest under the Agreement and this Operating Procedure. The other parties may also rely on the assignor as being trustee for and authorized agent of the assignee in all matters relating to the assigned interest during such period.

(c) This Clause 2404 shall in no event operate to affect or impede an assignment described in Subclause 2402(a).

ARTICLE XXV

LITIGATION

2501 CONDUCT OF LITIGATION – Litigation with respect to the title documents, the joint lands or any joint operation shall be conducted for the joint account on behalf of all parties, unless and to the extent that such litigation is among the parties. Each party shall notify the other parties of any process served upon it, or of any process it intends to serve, in any action involving the title documents, the joint lands or any joint operation. The parties then shall decide whether an action for the joint account shall be handled by the solicitors of the parties or by joint counsel mutually selected by the parties. However, nothing contained in this Clause shall preclude a party from also acting on its own (and at its own expense) if, in its opinion, it considers such action advisable or necessary to protect its particular interest hereunder, provided that a party so acting on its own behalf shall not pursue a course of action contrary to litigation then being conducted for the joint account.

Clause 2601: This provision is structured broadly enough to be used with respect to both jurisdictions with perpetuities legislation, such as Alberta, and other jurisdictions in which the conventional principles of common law apply.

Clause 2701: All filings pursuant to this Clause are at the sole expense of those parties subject to the Code.

Clause 2803: i) An amendment is not effective unless it is executed by the parties.

ii) A notice of a changed address for service pursuant to Clause 2203 is an exception to the general rule.

Clause 2807: This Clause is included to minimize the possibility that a party could successfully turn to a court for relief in the event that a provision were being utilized to its detriment. A court has limited jurisdiction to provide a party with relief against forfeiture, notwithstanding the clear wording of an agreement. (See, for example, Sec. 10 of the Alberta Judicature Act.)

ARTICLE XXVI

PERPETUITIES

2601 LIMITATION ON RIGHT OF ACQUISITION – Notwithstanding anything to the contrary contained herein, the right of any party to acquire any interest in the joint lands hereunder shall not extend beyond the period prescribed by the applicable perpetutities Regulations or, in the absence of such Regulations, twenty-one (21) years after the lifetime of the last survivor of the lawful descendants now living of Her Majesty Queen Elizabeth II.

ARTICLE XXVII

UNITED STATES TAXES

2701 UNITED STATES TAXES – If for purposes of the United States Internal Revenue Code of 1986, as amended, ("the Code") this Operating Procedure or the relationship established thereby constitutes a partnership as defined in Section 761(a) of the Code, each of the parties who are entitled under such Section to elect, hereby elects to have such partnership excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Code, or such portion thereof as the Secretary of the Treasury of the United States, or his delegate, shall permit by election to be excluded therefrom. The Operator is authorized to execute such election on behalf of the parties who are entitled to make such election and to file the election with the proper United States government office or agency. The Operator is further authorized and directed to execute and file such additional and further evidence of such election as may be required, all at the expense solely of those parties subject to the Code. However, if the Operator is not subject to the Code with respect to the joint lands, the obligations of the Operator under this Clause shall be fulfilled by the party who is subject to the said Code with respect to the joint lands and who, among those parties subject to the Code, holds the greatest working interest.

ARTICLE XXVIII

MISCELLANEOUS

2801 SUPERSEDES PREVIOUS AGREEMENTS – Except for the Agreement (other than to the extent that the Agreement by its terms becomes ineffective when this Operating Procedure is made effective), this Operating Procedure supersedes all other agreements, documents, writings and verbal understandings among the parties relating to the joint lands and any production facilities, and expresses all of the terms and conditions agreed upon by the parties with respect to the joint lands and any production facilities.

2802 TIME OF ESSENCE – Time shall be of the essence in this Operating Procedure.

2803 NO AMENDMENT EXCEPT IN WRITING – Except as otherwise provided in this Operating Procedure, no amendment or variation of the provisions of this Operating Procedure shall be binding upon any party unless and until it is evidenced in writing executed by the parties.

2804 BINDS SUCCESSORS AND ASSIGNS – Subject to the provisions of Article XXIV, this Operating Procedure shall enure to the benefit of and shall bind the parties, their respective successors and assigns and the heirs, executors, administrators and assigns of natural persons who are or become parties.

2805 LAWS OF JURISDICTION TO APPLY – This Operating Procedure shall for all purposes be construed and interpreted according to the laws of the jurisdiction within which the joint lands are situated and the laws of Canada applicable therein. The courts having jurisdiction with respect to matters relating to this Operating Procedure shall be the courts of that jurisdiction.

2806 USE OF NAME – Each party agrees that it will not use, suffer or permit to be used, directly or indirectly, the name of any other party for the purpose of, or in connection with, the financing, in whole or in part, of any operation hereunder, in connection with the offering for sale of shares of stock or any other securities or for the formation or promotion of any business enterprise, without, in each instance, first obtaining the written consent of that other party.

2807 WAIVER OF RELIEF – The parties acknowledge that any default, forfeiture or assignment provisions contained in this Operating Procedure are, in view of the risks inherent in the exploration for petroleum substances, reasonable and equitable. Each party waives any and all rights which it may have at law, in equity or by the Regulations, against default, forfeiture or penalty if such provisions are invoked.

Clause 2901: i) Remember that confidentiality obligations continue pursuant to Clause 1803.

ii) Note the proviso that the provisions relating to audit, liability, indemnity, disposal and salvage of material and enforcement on default continue for six years after the date the Operating Procedure otherwise terminates.

This is particularly relevant with respect to liabilities which were only contingent at the date of termination, especially in light of the increased sensitivity to environmental issues.

ARTICLE XXIX

TERM

2901 TO CONTINUE DURING ANY JOINT OWNERSHIP – Subject to Clause 1803, this Operating Procedure shall terminate when no portion of the joint lands and no production facility is owned jointly by two or more parties or at that later date upon which, joint ownership continuing, all title documents have terminated, all wells on the joint lands have been abandoned, all equipment relating thereto salvaged and a final settlement of accounts has been made among the parties, provided that those provisions relating to audit, liability, indemnity, disposal and salvage of material and enforcement on default shall survive for six (6) years thereafter.

PASC
PASC ACCOUNTING PROCEDURE

Recommended by the Petroleum Accountants Society of Canada

EXHIBIT " "

Attached to and a part of _____

_____

_____

ARTICLE I - GENERAL PROVISIONS

101. *Definitions*

In this Accounting Procedure the following words and phrases shall have the following respective meanings, namely:

(a) **"Administrative Services"** means support services such as accounting, purchasing, clerical, secretarial, and administrative whether On-Site or not.

(b) **"Affiliate"** means, with respect to the relationship between corporations, that one of them is controlled by the other or that both of them are controlled by the same person, corporation or body politic; and for this purpose a corporation shall be deemed to be controlled by those persons, corporations or bodies politic who own or effectively control, other than by way of security only, sufficient voting shares of the corporation (whether directly through the ownership of shares of the corporation or indirectly through the ownership of shares of another corporation which owns shares of the corporation) to elect the majority of its board of directors, provided that a partnership which is a party and which is comprised solely of corporations which are Affiliates, as described above, shall be deemed to be an Affiliate of each such corporation and its other Affiliates.

(c) **"Agreement"** means the Agreement to which this Accounting Procedure is attached.

(d) **"Alliance"** means a contractual arrangement whereby a third party provides services to the Operator and which involves the sharing of employees and/or office spaces.

(e) "**Completion**" means the installation in, on, or with respect to a well of all such production casing, tubing and wellhead equipment and all such other equipment and material necessary for the permanent preparation of the well for the taking of petroleum substances therefrom up to and including the outlet valve on the wellhead and includes, as necessary, the perforating, stimulating, treating, fracturing and swabbing of the well and the conduct of such production tests with respect to such well as are reasonably required to establish the initial production of the well.

(f) "**Construction Project**" means construction, abandonment and reclamation of facilities or installation activity undertaken for the Joint Account, including each subsequent addition thereto or alteration thereof and Equipping wells but does not include Drilling. For purposes of Clause 302 of this Accounting Procedure, each addition or alteration hereunder will be considered as a separate Construction Project except that multiple projects of a similar nature being constructed under a single program will be consolidated as a single Construction Project. Replacement of Material in kind should be considered Operations and Maintenance unless the Owners agree otherwise.

(g) "**Controllable Material**" means Material which at the time is so classified in the Controllable Material Price Catalogue as most recently recommended by the Petroleum Accountants Society of Canada.

(h) "**Drilling**" means all activities with respect to the drilling of a well, including surface access and the construction of roads to and from the site of the well, preparation of the site of the well, the installation of all surface and intermediate casing respecting the well, logging, coring, capping, deepening, abandoning, reclaiming, plugging back, sidetracking, re-drilling, production testing of a well or the converting of a well to a source, injection, observation or producing well and including stratigraphic tests, and includes Completion but does not include Equipping, routine clean-out and pump or rod pulling operations which are Operations and Maintenance. Without limiting the generality of the foregoing this also includes environmental or socioeconomic studies required by governmental authorities as a prerequisite to the issuance of approval for the drilling of such well.

(i) "**Equipping**" means the installation of such equipment as is required to produce petroleum substances from a completed well, including, without restricting the generality of the foregoing, a pump (or other artificial lift equipment), the installation of the flow lines and production tankage serving the well and, if necessary, a heater, dehydrator or other wellsite facility for the initial treatment of petroleum substances produced from the well to prepare such production for transportation to market, but specifically excludes any such equipment, installation, or facility that is (or is intended to be) a production facility.

(j) "Exploration" means geological, geophysical and geochemical examinations and other investigations relating to geology, and any related environmental studies, other than Drilling, for the purpose of defining field limits or defining development well locations, conducted pursuant to the terms of the Agreement.

(k) "Initial Construction" means construction conducted to place the Joint Property on stream to the date of initial operations.

(l) "Joint Account" means the account showing, in Canadian funds, the charges paid and credits received as a result of Joint Operations and which are to be shared by the Owners in accordance with the terms of the Agreement.

(m) "Joint Operations" means Exploration, Drilling, Completion, Equipping, Construction Projects, and Operations and Maintenance activities conducted pursuant to the terms of the Agreement.

(n) "Joint Property" means all property subject to the Agreement.

(o) "Material" means equipment or supplies acquired for use in the conduct of Joint Operations, which shall be classified as follows:

(1) Condition "A" means that which is new;
(2) Condition "B" means that which has been used but is suitable for its original function without reconditioning;
(3) Condition "C" means that which has been used and would be suitable for its original function after reconditioning or that which cannot be reconditioned for, but has a limited service in, its original function;
(4) Condition "D" means that which is not suitable for its original function but is usable for another function;
(5) Condition "E" means that which is junk.

(p) "New Price" means the current price of Condition"A" Material at the nearest reputable supply store where such Material is available or at the nearest receiving point to which such Material could be delivered, whichever is closer to the Joint Property. Tubular goods fifty and eight tenths millimetres (50.8 mm) or two inches (2 inches) in diameter and over shall be priced on a carload basis. Costs of special services to tubular goods, including transportation for that service, shall be included when determining the New Price. Any cash discount that may be allowed by a dealer shall not be deducted in determining the New Price.

(q) "Non-Operator" means an Owner or a Party to the Agreement other than the Operator.

(r) "**Operations and Maintenance**" means activities and Material required to directly operate, repair, and maintain wells and facilities on the Joint Property.

(s) "**Operator**" means the Owner or Party designated pursuant to the Agreement to conduct Joint Operations.

(t) "**On-Site**" means within the legal boundaries of the Joint Property or in the Production Office or in the general vicinity of the Joint Property when in direct conduct of Joint Operations.

(u) "**Owner**" or "**Party**" means a person, partnership, corporation or other entity who is bound by the Agreement.

(v) "**Production Engineering**" means facilities and operations engineering support for Operations and Maintenance. This includes the following activities:

(1) facilities engineering which includes evaluation, optimization, testing, and if required, modifications to wellsite facilities, pipelines, production satellites, oil treating facilities, gas treating facilities, production storage and custody transfer facilities, gas and natural gas liquid injection facilities, produced water handling and injection facilities, fresh water supply and handling facilities, gas compression facilities, controls and data acquisition, loss prevention, utilities, corrosion control and classification, environmental protection, quality control and assurance, operational problem resolution and process optimization and maintenance planning.

(2) operations engineering which includes preparation of expense recompletion programs, remedial workover and stimulation programs (acidizing, fracturing, slick line and wireline programs, coiled tubing, snubbing, nitrogen and carbon dioxide programs); preparation of well control and safety programs; design and optimization of artificial lift systems (dynamometer and fluid level analysis, well bore gradient and interpretation, water analysis, pressure, volume, temperature data, open and cased hole logs, absolute open flow data and the like required to evaluate well performance and workover candidate); and optimization of downhole completion assemblies excluding reservoir performance optimization but including tubing force analysis and packer design, wellhead design, sand control equipment and procedures, downhole equipment for quality assurance and quality control as well as metallurgical design for critical service, selection of workover candidate to rectify mechanical problems, design and implementation of field bottom hole pressure survey and interpretation of pressure data, and interpretation of data required for optimization of downhole completion assemblies.

(w) "**Production Office**" means an office or a portion of an office, the primary function of which is to directly serve the daily Operations and Maintenance.

(x) **"Professional Consulting Services"** means the services of a professional individual or firm employed to provide professional advice for the benefit of Joint Operations.

(y) **"Supervision"** means the supervision of employees and/or contract labour directly employed On-Site in the conduct of Joint Operations.

(z) **"Technical Services"** means the services providing specific engineering, geological or other professional skills such as, but not limited to those performed by engineers, geologists, geophysicists, technologists, environmentalists, safety specialists, and surface landmen required to handle specific operating conditions and problems for the benefit of Joint Operations which are not Production Engineering or Administrative Services.

(aa) **"Warehouse"** means a building, pipe yard and/or storage point where idle equipment is stored.

102. *Statement and Billings*

The Operator shall bill each Non-Operator on or before the last day of each month for its proportionate share of the Joint Account for the preceding month. Such bills shall be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized in accordance with the Joint Interest Billing Exchange Chart of Accounts as most recently recommended by the Petroleum Accountants Society of Canada classifications, as a minimum.

In the event that production revenue settlement statements are submitted by the Operator, sufficient volumetric, pricing, and revenue information by product, production month and year shall be provided to enable each Non-Operator to correctly calculate and record its income and pay its obligations attached thereto.

103. *Payments by Non-Operators*

Unless otherwise provided in the Agreement, each Non-Operator shall pay all bills as rendered pursuant to Clause 102 of this Accounting Procedure within thirty (30) days of receipt thereof. When the due date falls on a weekend or a statutory holiday, the payment will be due on the preceding business day.

104. *Capital Advances*

Unless otherwise provided in the Agreement, the Operator may require each Non-Operator to advance its proportionate share of the estimated costs to be paid in the succeeding month for approved capital projects for Joint Operations. If the Operator so elects, it shall, not earlier than thirty (30) days prior to the first day of each month,

submit to each Non-Operator a reasonably detailed estimate of the costs proposed to be paid for the Joint Account in that month, with a request for payment by each Non-Operator of its proportionate share thereof. Each Non-Operator shall pay the Operator its proportionate share of the costs so estimated on or before the fifteenth (15th) day of the month for which the advance is requested or twenty (20) days after receipt of such estimate, whichever is later.

The Operator shall adjust each monthly billing to reflect advances received from the Non-Operator. Expenditures in excess of the advances shall be billed to and paid by each Non-Operator pursuant to Clause 103 of this Accounting Procedure. Amounts advanced by each Non-Operator in excess of actual costs shall be refunded by the Operator with the related billing for the month in which the advance was paid. Any such excess amounts not refunded will, at each Non-Operator's option, bear interest, payable by the Operator for the account of each Non-Operator, at the rate specified pursuant to Clause 106 of this Accounting Procedure from the day the billing is rendered pursuant to Clause 102 of this Accounting Procedure.

105. *Operating Fund*

Unless otherwise provided in the Agreement, the Operator may require each Non-Operator to advance for an operating fund its proportionate share of _____ percent (_____%) of an approved forecast of expenditures for Operations and Maintenance for a year. The amount of this operating fund shall be increased or decreased annually in accordance with the current year's approved forecast of expenditures for Operations and Maintenance. This adjustment shall be done within ninety (90) days after the end of the previous year or when the current year's forecast is approved, whichever is later. Each Non-Operator shall remit such advance thirty (30) days after receipt of request for payment. After the establishment of the operating fund, each Non-Operator shall remit its share of actual costs in accordance with each month's billing, thus maintaining the operating fund intact.

106. *Unpaid Accounts*

Unless otherwise provided for in the Agreement, if payment of any bills or requests for advances is not made within the time stipulated in this Accounting Procedure, the unpaid amount may, at the Operator's option, bear interest payable by the Non-Operator and compounded monthly, for the account of the Operator at the rate of two percent (2%) per annum higher than the average prime rate charged by the principal Canadian Chartered bank used by the Operator, regardless of whether the Operator has notified such Non-Operator in advance of its intention to charge interest with respect to such unpaid amount, for the period in which such interest is payable.

107. *Adjustment and Right to Protest/Question Bills*

(a) A Non-Operator shall not withhold payment of any portion of a bill presented by the Operator due to protest or question related to such a bill unless there is a significant item under dispute and the Operator agrees to the Non-Operator withholding payment for the disputed item. Questions by the Non-Operator related to bills shall be responded to by the Operator within fourteen (14) days of receipt of the Non-Operator's query. In the event the Operator agrees that the questioned charges require adjustment, such adjustment shall be made by the Operator within thirty (30) days after such agreement to the adjustment. Notwithstanding the foregoing provisions, the Operator shall not unreasonably deny the Non-Operator's request to withhold payment for significant disputed charges which require adjustment and for which written notice has been received.

(b) Subject to Subclause 107(c) hereof, payment of any bills or requests for advances shall not prejudice the right of the Non-Operator to protest or question the correctness thereof; provided however, all bills and statements rendered to the Non-Operator during any calendar year shall be presumed to be true and correct after the later of twenty-six (26) months following the end of such calendar year or any approved extensions pursuant to Subclause 108(b) of this Accounting Procedure, unless before the end of the said twenty-six (26) months the Non-Operator takes written exception thereto and makes claim on the Operator for an adjustment.

(c) If within the period referred to in Subclause 107(b) hereof, the Non-Operator or the Operator establishes that an error in the books, accounts and records relating to Joint Operations existing in the said period also existed previous to the period, the Operator shall make the required adjustments retroactively either to the inception of the error or in a manner as approved by the Owners. The provisions of this Subclause are neither intended to extend the Non-Operator's audit rights to access books and records beyond the twenty-four (24) month audit limitation pursuant to Subclause 108(a) of this Accounting Procedure; nor is it intended that the Non-Operator request such an adjustment without being able to adequately support the request. The adjustments shall be subject to the Non-Operator's right to audit.

(d) The provisions of this Clause shall not prevent adjustments resulting from physical inventory of Controllable Material pursuant to Article V of this Accounting Procedure.

108. *Audits*

(a) The Operator's books, accounts, and records relating to Joint Operations for a calendar year may be audited within twenty-four (24) months next following the end of the calendar year. In the event of a payout situation, the twenty-four (24) month period for expenditures commences with receipt of any payout statement. Where two or more Non-Operators desire to conduct an audit, they shall make every reasonable effort to conduct an audit by a joint committee which shall be appointed by the Non-Operators. The Non-Operators shall select a chairman and set the rates of remuneration and expenses, and provided that approvals are obtained from a Majority Interest of the Non-Operators, the costs of such audit shall be borne by all Owners, excluding the Operator and its Affiliates. For purposes of this Subclause, a "Majority Interest" means two (2) or more Non-Operators having interests totalling more than fifty percent (50%) of the remaining interest in the Joint Property after the exclusion of the interests of the Operator and its Affiliates. Nothing, however, shall prevent a Non-Operator from conducting an audit at its sole cost, provided notification has been given to the Operator and other Non-Operators. Each audit shall be conducted so as to cause a minimum of inconvenience to the Operator.

(b) Any claims of discrepancies disclosed by such audit shall be made in writing to the Operator by the chairman of the audit committee within two (2) months of the completion of the field work unless the Operator has consented to a reasonable time extension, which consent shall not be unreasonably withheld.

(c) The Operator shall respond in writing to any claims of discrepancies within six (6) months of receipt of such claims. If the Operator is unable to respond to the claims during the said six (6) month period, an adjustment to the Joint Account for the full amount of the unanswered queries shall be processed unless a request for a time extension supported by a clear work plan and a definite date for resolution is submitted and agreed upon, which approval shall not be unreasonably withheld. If the Operator does not agree with the claim, then the Operator shall include with its response a detailed and relevant explanation. If the Operator agrees with a claim, then adjustment shall be made by the Operator within thirty (30) days of such agreement. Evidence of such adjustment shall accompany the Operator's response. If adjustment cannot be made within a thirty (30) day period, the response shall include an explanation and an anticipated date for adjustment.

(d) The status of all claims of discrepancies issued by the audit committee shall be reported to the Owners within twelve (12) months of the date the claims were issued. Claims reported as unresolved shall be submitted forthwith by the Operator to the Owners for resolution in accordance with the provisions of the Agreement for resolution of disputes. All necessary adjustments resulting from the Owners' resolution shall be reported by the Operator to the audit

committee and adjustments processed within thirty (30) days of the date of resolution.

(e) With approval by the Owners, the cost of audits of contract services shall be for the Joint Account. To the extent that the Operator performs and charges the Joint Account for such audits, it is agreed that the Operator's auditor's working papers and findings will be available for inspection and inquiry by the Non-Operators.

109. *Control of Assets*

(a) The Operator shall maintain records of Controllable Material to identify potential loss or underutilization of Controllable Material, and to provide adequate control and tracking of Controllable Material movements.

(b) The Operator shall maintain records of all Controllable Material stored at joint stock locations.

110. *Approvals*

Where approval by the Owners is required in this Accounting Procedure, approval by the Owners pursuant to Clause ____ of the Agreement shall be binding on all the Owners. In the absence of provisions in the Agreement, approval shall be obtained by the Operator in writing from _____ or more Owners having interests in the Joint Property totalling _____ percent (____%) or more. Each Owner shall, by notice, cast its vote with the Operator fifteen (15) days from receipt of request for approval and an Owner who does not vote on any matter shall be deemed conclusively to have voted affirmatively.

111. *Rates and Limitations*

All rates and limitations set forth in this Accounting Procedure may be amended from time to time pursuant to Clause 110 of this Accounting Procedure.

112. *Expenditure Limitations*

Unless otherwise specified in the Agreement, the Operator shall make or incur the following expenditures for the Joint Account in addition to operating expenditures allowed by an approved forecast, without approval by the Owners:

(a) Expenditures including capital expenditures for any single undertaking, the total estimated cost of which is not in excess of _____ dollars ($_____).

(b) Expenditures which the Operator deems necessary in emergencies to protect lives or property, but if the Operator makes any such expenditure in excess of the limit specified pursuant to Subclause 112(a) hereof, it shall promptly advise the Owners.

(c) Expenditures for full settlement of each damage claim resulting or arising from Joint Operations not in excess of _____ dollars ($_____).

(d) Expenditures which it deems necessary to remedy a violation of an environmental regulation or law, but if the Operator makes any such expenditures in excess of the limit specified pursuant to Subclause 112(a) hereof, it shall promptly advise the Owners.

113. *Value Added Tax*

For refundable value added, goods and services or sales taxes, the Operator is authorized to make all elections and file all forms or documents required to administer such taxes on behalf of the Joint Account, including any documents which are required to deem all purchases of goods and services to be purchases of the Operator, and all recoveries to be recoveries of the Operator.

114. *Interpretation*

The Explanatory Text for the 1996 PASC Accounting Procedure (Explanatory Text) forms part of and is incorporated into the 1996 PASC Accounting Procedure (Accounting Procedure) and shall assist in the interpretation of the Accounting Procedure. In the event of a conflict between the provisions of the Explanatory Text and the Accounting Procedure, the Accounting Procedure shall prevail.

ARTICLE II - DIRECT CHARGES

The Operator shall charge the Joint Account with the cost of the following items:

201. *Labour*

(a)(1) Salaries and wages of the Operator's employees located On-Site in the conduct of Joint Operations, including Supervision, Technical Services, or Production Engineering but excluding Administrative Services.

(2) Salaries and wages of the Operator's employees engaged in On-Site Administrative Services in support of Joint Operations, with approval by the Owners.

(3) Salaries and wages of the Operator's employees working in a contractor's or supplier's main or field offices and travelling to contractor's offices or suppliers' plants for inspection and expediting of design and Materials during Initial Construction and subsequent additions or alterations to the Joint Property.

(4) Salaries and wages of the Operator's employees chargeable pursuant to Subclause 201(a)(1) hereof, receiving familiarization training On-Site prior to startup of production facilities.

(5) Salaries and wages of the Operator's employees engaged in Technical Services who are either temporarily or permanently assigned to and directly employed off-site of the Joint Property with approval by the Owners.

(6) Salaries and wages of the Operator's employees engaged in Production Engineering located off-site in direct support of Joint Operations.

(b) Charges for employees chargeable pursuant to Subclause 201(a) hereof, shall be limited to that portion of the salaries and wages attributable to and actually devoted to Joint Operations and supported by approved time sheets or an equitable allocation. Charges for off-site work shall be supported by a time sheet detailing work performed.

(c) Salaries and wages of the Operator's employees who are chargeable pursuant to Subclause 201(a) hereof, and are working through secondment or otherwise part of an Alliance shall be charged at actual cost.

(d) Earned or compensatory time off relating to the above wage or salary categories.

(e) Holiday, vacation, sickness, and disability benefits and other customary allowances paid to employees whose salaries and wages are for the Joint Account. Costs pursuant to this Subclause, may be charged by a percentage assessment on the amount of salaries and wages chargeable to the Joint Account. The rate shall be based on the Operator's cost experience from either the preceding year's actual cost experience or the current year's cost.

(f) For the purpose of charging the cost of the Operator's employees engaged in Technical Services pursuant to Clause 201 hereof, the Operator may use a per diem rate based on actual cost.

202. *Employee Benefits*

Employee benefits based on a percentage assessment applied to the amount of salaries and wages charged to the Joint Account. The percentage assessment shall be based on the Operator's actual cost experience, from either the preceding year's actual cost experience or the current year's cost. Such rates shall exclude the Operator's cost of administering such plans. In determining actual cost experience, any dividends or refunds received which are applicable to insurance or annuity policies shall be used to reduce the cost of such policies.

(a) Compulsory - Payments made by the Operator pursuant to assessments imposed by government authority such as Unemployment Insurance, Workers Compensation, Canada Pension, or other payments of like nature that are applicable to the Operator's salaries and wages charged to the Joint Account.

(b) Non-Compulsory - Established benefit plans which are made available to all employees on a regular basis. Such benefit plans may include employees' group life insurance, hospitalization, medical, dental, company pension, retirement (excluding early retirement and severance incentives), stock purchase, savings, bonus, and other benefit plans of a like nature. The cost of such plans may be borne entirely by the Operator or jointly by the Operator and the employees; however, only the Operator's share of these costs is chargeable to the Joint Account. The Operator shall charge the actual cost of such plans but not to exceed _____ percent (_____%) of the cost of labour charged pursuant to Clause 201 of this Accounting Procedure calculated on an annualized basis.

Bonuses given to selected employees and other special benefits available only to executives, certain employees, or groups on a selective basis shall be excluded from the employee benefits calculation and shall not be chargeable to the Joint Account.

203. *Travel and Moving*

(a) Personnel transfers and personal expenses for the required initial staffing of the Joint Property, required staff increases, and subsequent replacements where such replacements are beyond the control of the Operator. Such costs shall include transportation of employee, spouse, and dependents, and their personal and household effects, and all other relocation costs in accordance with the Operator's normal reimbursement policy. Personnel transfers for normal staff rotation, corporate reorganization, and training assignments shall not be charged to the Joint Account.

(b) Travel and personal expenses to and from and within the Joint Property as well as to and from other locations other than the Joint Property on behalf of Joint Operations for those employees whose salaries and wages are chargeable to the Joint Account.

204. *Automotive*

The Operator's owned or leased automotive equipment used in Joint Operations, including depreciation and interest on the depreciated investment pursuant to Subclause 207(e) or 207(f) of this Accounting Procedure. Costs shall be charged on a kilometre, hourly, or other equitable basis based on the Operator's cost experience, or as otherwise agreed by the Owners, pursuant to Clause 221 of this Accounting Procedure.

205. *Engineering and/or Design*

(a) Engineering and/or design work for Drilling, Completion, Equipping and Construction Projects which have had prior approval by the Owners with engineering and/or design costs clearly identified separate from other costs on the approval document, or engineering and/or design work within the Operator's authority pursuant to Clause 112 of this Accounting Procedure, whether provided by the Operator's employees or contract services as follows:

(1) For work provided by the Operator's employees at cost, which shall mean salaries chargeable pursuant to Subclause 201(a), 201(b) and 201 (c) of this Accounting Procedure, benefits and travel expenses only, plus the cost of computerized equipment used in the engineering and/or design application at rates calculated pursuant to Subclauses 207(e) or 207(f) of this Accounting Procedure.

(2) For work provided by contract services, at the invoiced cost paid by the Operator.

(3) On a basis other than at cost, provided that such basis is clearly identified and explained on the cost estimate submitted for approval by the Owners.

(b) The total amount charged pursuant to Subclause 205(a) hereof shall not exceed the following limits unless otherwise approved by the Owners:

(1) For projects requiring approval by the Owners pursuant to Subclause 112(a) of this Accounting Procedure, the amount stated for engineering and/or design in the approved project estimate plus two thousand dollars ($2,000) or ten percent (10%), whichever is greater.

(2) For projects within the Operator's approval authority pursuant to Subclause 112(a) of this Accounting Procedure, ten percent (10%) of the total project costs.

206. *Material*

Material purchased or furnished by the Operator for use in Joint Operations pursuant to Article IV of this Accounting Procedure.

207. *Services*

(a) Services, equipment and utilities required for Joint Operations incurred pursuant to contracts entered into by the Operator, as follows:

(1) Equipment and utilities provided On-Site.

(2) Technical Services and Production Engineering performed On-Site and related off-site services specifically related to work performed On-Site.

(3) Production Engineering provided off-site.

(4) Technical Services performed off-site, except those pursuant to Subclause 207(a)(2) hereof, only with approval by the Owners.

(5) Professional Consulting Services with approval by the Owners.

(6) Chart integration services.

(7) Charges for any services provided pursuant to this Subclause 207(a) through an Alliance shall not include any charges for the Operator's own seconded employees, nor any administrative or overhead charges on the Operator's employees.

(b) Use of the Operator's or its Affiliates' owned or leased facilities and equipment required for Joint Operations, as follows:

(1) Chart integration performed by the Operator. The Operator's charges shall not exceed commercial rates.

(2) Use of the Operator's or its Affiliates' laboratory facilities for the performance of testing and analysis required for Joint Operations at rates based on usage and actual costs. The rates used for laboratory services performed by the Operator and Affiliates shall not exceed those currently available from outside service laboratories unless approved by the Owners.

(3) Use of the Operator's or its Affiliates' owned or leased facilities and equipment other than that pursuant to Subclauses 207(b)(1) or 207(b)(2) hereof. The Operator's charges shall be pursuant to Subclauses 207(e) or 207(f) hereof.

(c) Maintaining and operating a Production Office. When additional operations or activities are served by the Production Office, the cost of maintaining and operating the Production Office shall be allocated among all operations or activities served, on an equitable basis or as otherwise agreed to by the Owners, pursuant to Clause 221 of this Accounting Procedure. Costs of other offices only with approval by the Owners.

(d) Maintaining and operating an On-Site warehouse that is part of the Joint Property. When additional operations or activities are served by the On-Site warehouse, the cost of maintaining and operating the On-Site warehouse shall be allocated among all operations or activities served, on an equitable basis or as otherwise agreed to by the Owners pursuant to Clause 216 of this Accounting Procedure.

(e) The Operator's charges pursuant to Subclauses 207(b)(3), 207(c) or 207(d), hereof may include actual operating costs, depreciation and interest on the depreciated investment. The annual interest rate on investment shall not exceed the prime bank rate of the principal Canadian Chartered bank used by the Operator plus one percent (1%), determined at the beginning of each calendar year.

(f) In lieu of the calculation of charges provided for in Subclause 207(e) hereof, the Operator's charges pursuant to Subclause 207(b)(3) hereof may be at commercial rates available in the immediate area, less twenty percent (20%).

208. *Damages and Losses*

Repair or replacement of Joint Property made necessary by, but not limited to, damages or losses incurred by fire, flood, storm, theft, accident, or any other cause for which the Operator is not liable. The Operator shall notify each Non-Operator in writing of damages or losses incurred as soon as practicable after the damage or loss has been discovered. Proceeds arising from a claim with respect to damages or losses from any insurance carried by the Operator for the Joint Account shall be credited to the Joint Account when received by the Operator.

209. *Surface and Subsurface Rights*

(a) Acquisition or renewal of surface rights and periodic rentals and related legal services for title work.

(b) Acquisition of subsurface rights and related bonus costs, lease, license or permit deposits, rentals, renewal or extension fees, royalties, and other similar payments required to maintain the interest of the Owners in the Joint Property.

210. *Taxes*

All taxes paid by the Operator for the Joint Account. Taxes shall not include income taxes or taxes of a similar nature.

211. *Insurance*

(a) Premiums paid for insurance as required by the Agreement to be carried for Joint Operations.

(b) Any deductible or uninsured loss under any policy of insurance required to be carried by the Operator for Joint Operations.

(c) That portion of any claim in excess of limits of insurance coverage required to be carried by the Operator for Joint Operations.

212. *Communication*

(a) Communication equipment including microwave facilities, cellular telephones, mobile radios, walkie-talkies, satellite dishes, ancillary equipment, and tie-lines directly serving the Joint Property and outgoing communication charges incurred by the Operator directly from the Joint Property. Rental or ownership and any other related costs of operating transmitter/receiver equipment in vehicles, or Production Offices, either as a direct charge, or when operations in addition to the Joint Property are served by this equipment, allocated among all such operations on an equitable basis, or as otherwise agreed to by the Owners, pursuant to Clause 221 of this Accounting Procedure.

(b) Other communication services and data transmission services other than those pursuant to Clause 214 of this Accounting Procedure, as approved by the Owners.

213. *Camp and Housing*

(a) Camp
Operation and maintenance of all necessary camp facilities for, and boarding of, employees whose salaries and wages are for the Joint Account provided that the charges for the Operator's owned or leased facilities shall be

commensurate with the costs of ownership, leasing and operation thereof, including depreciation and interest on depreciated investment, less any revenue therefrom. The annual interest rate on investment shall not exceed the prime bank rate of the principal bank in Canada used by the Operator plus one percent (1%) determined at the beginning of each year. When operations in addition to Joint Operations are served by these facilities, the charge for such facilities shall be apportioned among all such operations on an equitable basis, or as otherwise agreed to by the Owners, pursuant to Clause 221 of this Accounting Procedure.

(b) Housing

The cost of housing On-Site employees employed directly in the conduct of Joint Operations shall _____/shall not _____ be chargeable. The charge to the Joint Account shall not exceed rental rates of moderate accommodation in the area and shall be reduced by actual or deemed rental revenues. This charge may be calculated using the cost of ownership, leasing and operation thereof, including depreciation and interest on the depreciated value less any revenue therefrom, pursuant to Subclause 213(a) hereof.

214. *Computerized Measurement and Control*

(a) Automated measurement, field and facilities data capture and/or control systems owned or leased by the Operator, including employee costs for maintenance and operation of the control system and related computer facilities serving Joint Operations. Such costs shall be allocated to each operation and application served on an equitable basis, or as otherwise agreed to by the Owners, pursuant to Clause 221 of this Accounting Procedure.

(b) On-Site and off-site computer usage other than that pursuant to Subclause 214(a) hereof and Clause 205 of this Accounting Procedure, as approved by the Owners.

215. *Ecological and Environmental*

(a) Ecological and environmental requirements resulting from operation of the Joint Property, whether statutory, regulatory, or pursuant to industry association recommendations or the Operator's documented corporate policy relating to the ecology or environment resulting from operation of the Joint Property.

(b) All costs other than those specified in Subclause 215(a) hereof require approval by the Owners.

216. *Warehouse Handling*

A warehouse handling fee for Material delivered from the Operator's Warehouse or an Alliance's Warehouse, if such Material is not currently or normally stored at the Joint Property Warehouse, on a percentage assessment basis of _____ percent (_____%) of the cost of such Material.

For the purposes of this Clause, the cost of Material shall be determined pursuant to Clause 402 of this Accounting Procedure.

217. *Recruitment, Training, and Safety*

(a) Recruitment, induction and training for initial staffing, expansion of the Joint Property and replacement of employees resulting from circumstances beyond the control of the Operator.

(b) Training the Operator's employees chargeable pursuant to Subclause 201(a)(1) of this Accounting Procedure with respect to operational, environmental and safety matters for the primary benefit of Joint Operations, including off-site technical training courses for new On-Site equipment or processes. Developmental technical training or personal development or management courses, such as team building, performance coaching, or interpersonal skills shall not be charged to the Joint Account.

(c) Safety articles such as, but not limited to, safety clothing, safety boots, safety glasses, and safety kits required in the operation of the Joint Property, as required by government regulations, industry association recommendations, or the Operator's documented corporate policy for the Operator's employees chargeable pursuant to Subclause 201(a)(1) of this Accounting Procedure.

(d) Safety awards and dinners, the primary function of which is the recognition and promotion of safety practices and concepts in the operation of the Joint Property for employees and contract labor chargeable pursuant to Subclauses 201(a)(1), 207(a) and 207(b) of this Accounting Procedure. Costs of safety dinners shall be limited to food and meeting room only. The cost of safety awards shall be reasonable.

(e) Preparing, implementing, and maintaining site-specific emergency procedures and safety manuals required for direct support of the Joint Property.

218. *Litigation and Claims*

Subject to the provisions of the Agreement, handling, investigating and settling litigation, discharging of liens, payment of judgements, and settlement of claims incurred by the Operator, whether through its own personnel or through third

parties, in or resulting from Joint Operations. Charges for services of the Operator's legal staff or fees or expenses of outside legal counsel shall be subject to prior approval by the Owners.

219. *Abandonment and Reclamation*

(a) Abandonment and reclamation of the Joint Property, including those costs required under statutory regulations to restore the location to its natural state.

(b) Upon abandonment and reclamation of the Joint Property, all payments made by the Operator for termination, early retirement, severance, or other similar type settlements made to the Operator's field employees engaged in Operations and Maintenance and chargeable pursuant to Subclause 201(a)(1) of this Accounting Procedure who cannot reasonably be relocated within the Operator's other operations. Each employee's settlement costs shall be charged to the Joint Account in proportion to that employee's service at the Joint Property compared to that employee's total service with the Operator or Operator's predecessor, unless otherwise agreed to by the Owners. Where more than one property is abandoned, such settlement costs must be equitably allocated among them.

220. *Other Costs*

Any other expenditure for which provision is not otherwise made within the Agreement nor this Accounting Procedure and is incurred by the Operator in the conduct of Joint Operations with the approval by the Owners.

221. *Allocation Options*

Notwithstanding anything to the contrary contained in this Article II, when operations in addition to the Joint Property are served, the Operator shall use an equitable allocation of the actual costs as the basis for charges to the Joint Account, except for the following fixed or percentage allocations which shall be in lieu of actual cost allocations.

CLAUSE	COST	OPTIONS FOR CHARGING JOINT ACCOUNT			
		Fixed $/ Month			
		Subject to 302 (e)	Not subject to 302 (e)	Percentage of Direct Cost	Other (Specify) (Well /mcf/BBL)
204	Automotive				
207(c)	Production Office				
212	Communications				
213(a)	Camp				
214	Measurement and Controls				

ARTICLE III - OVERHEAD

301. *General*

Notwithstanding anything to the contrary contained in this Article III, it is specifically understood that any cash payments, incentives, grants, credits, waivers, exemptions, abatements, or other benefits received by or available to the Operator from any governmental source pursuant to regulations with respect to Joint Operations and for the Joint Account, shall not be taken into account when calculating any of the items pursuant to Clause 302 of this Accounting Procedure.

In this Article III:

(a) "Cost" means total expenditures pursuant to Article II of this Accounting Procedure, excluding those expenses pursuant to Subclause 209(b) and Clause 218 of this Accounting Procedure, and salvage credits for Material retired, the

value of injected substances purchased for enhanced recovery, custom processing revenues and charges and any additional exclusions as approved by the Owners.

(b) **"Overhead"** means all costs to the Operator other than those costs pursuant to Article II of this Accounting Procedure.

(c) **"Producing Well"** means a well for the Joint Account that in a calendar month:

(1) is equipped for and is capable of producing crude oil; or

(2) is connected to a permanent gas sales outlet, source or injection system; or

(3) is used as a disposal well;

provided that: a well that is Drilling during the entire month or is permanently shut-in and awaiting abandonment shall not be considered a Producing Well; a well completed in more than one zone for segregated production shall be considered a separate Producing Well for each such zone; an injection, source or disposal well shall be active during at least one day of the month; and a temporarily shut-in oil or gas well shall not be charged for Overhead longer than three (3) consecutive months after being shut-in.

302. *Overhead Rates*

The Operator shall charge the Joint Account for Overhead at the following rates:

(a) For each Exploration project _____ percent (___%) of Cost.

OR

(1) _____ percent (___%) of the first _____ dollars ($_____) of Cost plus
(2) _____ percent (___%) of the next _____ dollars ($_____) of Cost plus
(3) _____ percent (___%) of Cost exceeding the sum of (1) and (2)

(b) For the Drilling of a well _____ percent (___%) of Cost.

OR

(1) _____ percent (___%) of the first _____ dollars ($_____) of Cost plus
(2) _____ percent (___%) of the next _____ dollars ($_____) of Cost plus
(3) _____ percent (___%) of Cost exceeding the sum of (1) and (2)

(c) For Initial Construction _____ percent (_____%) of Cost.

OR

(1) _____ percent (___%) of the first _____ dollars ($_____) of Cost plus
(2) _____ percent (___%) of the next _____ dollars ($_____) of Cost plus
(3) _____ percent (___%) of Cost exceeding the sum of (1) and (2)

(d) For each subsequent Construction Project _____percent (____%) of Cost.

OR

(1) _____ percent (_____%) of the first _____ dollars ($_____) of Cost plus
(2) _____ percent (_____%) of the next _____ dollars ($_____) of Cost plus
(3) _____ percent (_____%) of Cost exceeding the sum of (1) and (2)

(e) For Operations and Maintenance:

(1) _____ percent (_____%) of Cost; and/or
(2) _____ dollars ($_____) per Producing Well per month; or
(3) A flat rate of _____ dollars ($_____) per month.

The rates in Subclauses 302(e)(2) and 302(e)(3) hereof shall _____/shall not _____ be adjusted as of the first day of July each year following the year in which the Agreement became effective. The adjustment will be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly wages and salaries of the Canadian Petroleum and Natural Gas Industry for the last calendar year compared with the calendar year next preceding such last calendar year as reported by Statistics Canada. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment rounded to the nearest dollar. Notwithstanding the provisions hereof, these rates may be adjusted from time to time upon approval by the Owners pursuant to Clause 110 of this Accounting Procedure.

ARTICLE IV - PRICING OF JOINT MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

The Operator shall make proper and timely charges and credits for all Material movements affecting the Joint Operations.

401. *Purchases*

(a) Material purchased shall be charged at the price paid by the Operator including duty and/or sales tax thereon and after deduction of all discounts and rebates received. Where Material is found to be defective or is returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

(b) The Operator shall, whenever practical, purchase Material for delivery to the Joint Property; provided that only such Material as may be required for the conduct of Joint Operations shall be purchased and transported to the Joint Property.

402. *Material Movements*

Material movements to and from the Joint Property (for disposals see Clause 406 of this Accounting Procedure) shall be priced on the following basis, unless otherwise approved by the Owners. When the use of the Material is temporary and the reduced value as provided is not justified, then such material shall be valued on a basis commensurate with its usage on the Joint Property.

(a) New Material (Condition A):
Condition A Material at the New Price.

(b) Good used Material (Condition B):
(1) Condition B Material at seventy-five percent (75%) of New Price, or
(2) Fair market value.

(c) Material requiring conditioning (Condition C):
(1) Condition C Material at fifty percent (50%) of New Price, or
(2) Fair market value.

(d) Other used Material (Conditions D and E):
(1) Condition D Material (damaged) at fair market value.
(2) Condition E Material at salvage value.

Fair market value is deemed to be the selling price that would result when a buyer and a seller agree upon the price of an item giving due consideration for like goods in the marketplace at the time of sale and considering applicable expenses to inspect, repair, refurbish, dismantle and/or move such equipment or Material. Fair market value shall be based on the selling price or replacement cost of the equipment as obtained from current supplier published prices, current Controllable Material Price Catalogue as most recently recommended by the Petroleum Accountants Society of Canada, or as a quotation from a supplier. For audit purposes, documentation must be available to support the use of fair market value.

403. *Transportation of Material*

The Operator may, for transporting Material, charge the cost of transportation to or from the Joint Property provided that the charge for transporting Material furnished by the Operator shall not exceed the estimated costs of transporting such Material from the closer of the nearest reputable supply store or railway receiving point. Transportation costs incurred in transferring Material from the Joint Property to other operations where a change of ownership occurs shall not be charged to the Joint Account except with approval by the Owners.

404. *Warranty of Material Furnished by the Operator*

There shall be no obligation on the part of the Operator to warrant Material beyond the dealer's or manufacturer's warranty.

405. *Premium Prices*

Whenever the specifically required Material is not readily obtainable at published or listed prices because of national emergencies, strikes, or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property.

406. *Dispositions*

The Operator shall make timely disposition of idle and/or surplus Material, either through sale to the Non-Operators or sale to other parties. The Operator may purchase, but shall be under no obligation to purchase, the interest of the Non-Operator's surplus Material. All sales of Material, regardless of Condition, the proceeds from disposition of which is greater than _____ dollars ($_____) shall be subject to approval by the Owners. All other disposals of Material shall be at the discretion of the Operator excepting sale to the Operator or its affiliates. Exceptions shall be priced pursuant to Clause 402 of this Accounting Procedure unless prior approval by the Owners is obtained.

ARTICLE V - INVENTORIES

501. *Inventories*

(a) Inventories of Controllable Material shall be taken by the Operator as approved by the Owners.

(b) The Operator shall conduct an inventory of stock maintained in a warehouse which is part of Joint Operations on an annual basis or as otherwise approved by the Owners.

502. *Notice of Inventories*

Written notice of the Operator's intention to conduct an inventory pursuant to Subclause 501(a) of this Accounting Procedure shall be given to each Non-Operator at least sixty (60) days prior to commencing such inventory, during which time each Non-Operator may elect to be represented. The Operator may limit the number of representatives of each Non-Operator for such purpose. Failure of an Owner to be represented at an inventory shall bind such Owner to accept the inventory taken by the Operator.

503. *Reconciliation of Inventory*

A reconciliation of the physical inventory with the Joint Account records shall be made by the Operator and approved by the Owners conducting the physical inventory. The Operator shall submit a list of overages and shortages to all Non-Operators and shall make adjustments to the Joint Account records to reflect the physical inventory.

504. *Inventory Expense*

The costs of conducting inventories pursuant to Clause 501 of this Accounting Procedure shall be charged to the Joint Account. Costs shall be based on the per diem rates for joint interest audits as most recently recommended by the Petroleum Accountants Society of Canada.

505. *Special Inventories*

Each Non-Operator shall have the right at any time to request in writing the taking of a special inventory of Controllable Material which shall be commenced within sixty (60) days of the Operator's receipt of the written notice. Such Non-Operator giving notice shall be entitled to be represented at the taking of the special inventory. All expenses incurred by the Operator in conducting the special inventory shall be borne by the requesting Non-Operator.

506. *Construction Inventories*

The Operator shall conduct an inventory and perform a reconciliation pursuant to Clause 503 of this Accounting Procedure for any major new facilities no later than twelve (12) months after completion of construction and the expense shall be for the Joint Account. In the event of undue delays, the Operator may request approval by the Owners of an extension.

PASC
PASC ACCOUNTING PROCEDURE
EXPLANATORY TEXT

Recommended by the Petroleum Accountants Society of Canada

ADDENDUM " "

Attached to and a part of Exhibit " " of _____

_____

_____

Table I is a quick reference guide which classifies categories of expense as Overhead or directly chargeable with or without approval by the Owners.

ARTICLE I

101. *Definitions*

Definitions are only required for terms not already defined in the Agreement. The terms Month, Day, and Year are not used as defined terms in the Accounting Procedure but may be defined in the Agreement or addressed by a general provision.

(a) Administrative Services

The intent of including this definition is to make sure that the parties to the Agreement are aware that the Operator receives compensation for these services through the collection of Overhead pursuant to Clause 301. It is at the Operator's discretion whether these services are performed On-Site or not. It is also the intention that any items not specifically covered by Article II of this Accounting Procedure or approved as a stand-alone item would fall under Administrative Services. These items would then require approval pursuant to Clause 220 to be charged to the Joint Account. The services listed in the definition are only examples of the types of services which are included under this Clause and the intent is not to limit the services to those listed in the definition.

(b) Affiliates

No comments are necessary.

(c) Agreement
No comments are necessary.

(d) Alliance
Some operators in the industry have established arm's-length contractual arrangements with third party contractors in which the Operator's employee is in the contractor's office (or vice-versa). For example, the Operator may have an engineering alliance in which an engineering firm provides most of the engineering for specific projects, however the Operator may have some employees located in the contractor's office. Cost savings occur because the Operator does not have to carry a large staff for special projects. The engineering firm, by having alliances with other companies, is able to provide a flexible workforce.

(e) Completion
The Overhead associated with Completion should be considered as part of the initial Drilling costs only if the physical completion operations commence within twelve (12) months following the date of rig release from drilling operations. Completion operations commenced after this time period should be considered a separate project.

(f) Construction Project
No comments are necessary.

(g) Controllable Material
No comments are necessary.

(h) Drilling
Subsequent to the initial Drilling and Completion of a well, a rig and crew is often used to carry out a variety of downhole work which may be considered Drilling or Operations and Maintenance. This distinction is difficult to pre-determine as it is somewhat dependant on the magnitude of the work involved. The following is a list of activities which generally require a rig and crew but which are typical of Operations and Maintenance activities.

(1) Sucker rod repairs and/or replacement (with the same quality/type of rod);

(2) Pulling of bottom hole pump for repairs;

(3) Tubing and bottom hole equipment repairs and/or partial replacement (with the same quality/type);

(4) Hot oiling or wireline work for downhole dewaxing;

(5) Wireline work to switch sliding sleeves, bottom hole chokes, etc.;

(6) Solvent, acid washes, or scale removal required to remove well bore restrictions;

(7) Bailing and swabbing;

(8) Maintenance and replacement of downhole sand control material and equipment including well bore clean out of existing zone.

Abandonment operations undertaken after a well has produced for any period of time beyond the initial test production period should be considered a separate Drilling project for Overhead purposes. The Overhead associated with abandoning an unproductive well should be considered as part of the initial Drilling costs only if the physical abandonment operations commence within twelve (12) months following the date of rig release from Drilling operations. Abandonment operations commenced after this time period should be considered a separate project.

(i) Equipping

For purposes of this definition a "production facility" shall mean any facility serving (or intended to serve) more than one (1) well (including, without restricting the generality of the foregoing, any battery, separator, compressor station, gas processing plant, gathering system, pipeline, production storage facility or warehouse), which is:

(1) constructed or installed for the joint account;

(2) owned exclusively by the parties in accordance with their respective working interests;

(3) initially intended to be utilized exclusively with respect to the production, treatment, storage or transmission of petroleum substances;

(4) not used for fractionation of petroleum substances, sulphur extraction or separation of liquids by refrigeration; and

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

and includes all real and personal property of every kind, nature and description directly associated therewith, excluding petroleum substances, the joint lands and the Operator's owned or leased equipment

(j) Exploration

No comments are necessary.

(k) Initial Construction
No comments are necessary.

(l) Joint Account
No comments are necessary.

(m) Joint Operations
No comments are necessary.

(n) Joint Property
No comments are necessary.

(o) Material
No comments are necessary.

(p) New Price
No comments are necessary.

(q) Non-Operator
No comments are necessary.

(r) Operations and Maintenance
No comments are necessary.

(s) Operator
No comments are necessary.

(t) On-Site
On-Site refers not only to the legal area of the Joint lands and facilities included in the Joint Property, but the whole area of routine operations as follows:

(1) Field employees who operate the wells and facilities are considered On-Site while they are in the Production Office where they are based. When a central Production Office serves several properties, the field operators from all the properties are deemed to be On-Site while performing their duties in the office. Field employees, supervisors, and employees providing Technical Services are considered On-Site while travelling back and forth from the wells and facilities and the Production Office.

(2) The routine operation of the fields and facilities does require some travel outside of the immediate boundaries of the Joint Property or the Production Office. Examples include emergency evacuation or notification of residents in the area, investigation of odour problems, or

meetings with other operators within a complex (such as a field operator meeting the gas plant operator on an operating problem). In the case of meetings, the On-Site test is that the employee is on call and able to respond promptly to any problem or requirement within the Joint Operation.

(u) Owner or Party

No comments are necessary.

(v) Production Engineering

The following provides a list of engineering activities and tasks, which, if within the Operator's authority or specifically approved and performed in direct support of Operations and Maintenance, should be charged directly to the Joint Account. Any undertaking by the Operator's employees for the benefit of the Joint Account performing Production Engineering activities are chargeable pursuant to Clauses 201 or 207 regardless of their title, level or location.

Any work which is directed towards longer term operations such as work normally performed by geologists, petro-physicists and reservoir engineers falls within the provisions of Engineering and Design pursuant to Clause 205. This also applies to work resulting in a capital or expense AFE which should be charged to such AFE following approval by the Owners.

For clarity, the tasks which are chargeable as Production Engineering activities have been segregated into facilities and operations engineering as follows:

(A) Facilities Engineering

Evaluation, optimization, testing and if required, modification of the following:

(1) Wellsite facilities (heaters, dehydrators, measurement devices, and other similar equipment)

(2) Pipelines (production, injection, and other similar pipelines)

(3) Production satellites (headers, pig facilities, test systems, group separation, measurement, pumping, and other similar equipment)

(4) Oil treating facilities (gas separation, dewatering, desanding)

(5) Gas treating (dehydration, sweetening, liquids extraction, fractionation, sulphur production)

(6) Products storage and custody transfer (oil, C5+, LPG, sulphur, gas)

(7) Produced water handling and injection (compatibility testing, storage, oil removal, treating, filtration, pumping)

(8) Gas and natural gas liquid injection facilities and associated well bores.

(9) Fresh water supply and handling (dams, wells, storage, filtration, treating, pumping)

(10) Gas compression (reciprocating, centrifugal, rotary vane, etc., including drivers)

(11) Controls and data acquisition (pneumatic, PLC [program logic control], SCADA [supervisory control and data acquisition], DCS [distributed control system], and other similar operations)

(12) Loss prevention (PSV's [pressure safety valves], ESD [emergency shut down], block and bleed, gas detection, fire detection and control, and other similar operations)

(13) Utilities (electrical, compressed air, cooling and potable water, sewer and drain, flares, steam generation and distribution)

(14) Corrosion control and de-gasification (chemicals, materials selection, and other similar operations)

(15) Environmental protection (site specific compliance monitoring and control, permit renewal applications, and other similar operations)

(16) Quality control/assurance (standards for fabricating and maintaining, shop inspections, and other similar operations)

(17) Operational problem resolution and process optimization (including simulations)

(18) Maintenance planning (turnaround scheduling, inspections, and other similar operations)

(B) Operations Engineering

(1) Preparation of expensed recompletion programs, remedial workover and stimulation programs including:

(a) Acidizing, fracturing, remedial cementing, and other similar operations

(b) Slick line and wireline programs

(c) Coiled tubing, snubbing, nitrogen, and CO_2 programs

(2) Preparation of well control and safety programs.

(3) Design and optimization of artificial lift systems including:

(a) Dynamometer and fluid level analyses

(b) Well bore gradient and interpretation of IPR (inflow performance relationship), water analysis, PVT (pressure volume temperature) data, open and cased hole logs, AOF (absolute open flow) data, etc., as required to evaluate well performance and workover candidate selection.

(4) Optimization, excluding reservoir performance, of downhole completion assemblies (packers, nipples, sleeves, SSV's [subsurface safety valves], expansion joints, and other similar equipment). This includes:

(a) Tubing force analysis and packer design.

(b) Wellhead design.

(c) Sand control equipment and procedures.

(d) Downhole equipment QA/QC (quality assurance/quality control) and metallurgical design for critical service.

(e) Selection of workover candidates to rectify mechanical problems.

(f) Design and implementation of field bottom hole pressure surveys and interpretation of pressure data.

(g) Interpretation of data required for optimization of downhole completion assemblies.

(w) <u>Production Office</u>

The intent of this definition is to not be restrictive as to the physical locations of such offices, but rather to define the functions served by these offices.

The Production Office is the office or portion of offices where the field employees and supervisors chargeable pursuant to Subclause 201(a)(1) report

to work on a daily basis. The direct operation of the wells and facilities is managed, supervised and controlled from here. The PRIMARY function is the routine operation of the fields and facilities, and Production Engineering is usually done here, in whole or in part. The primary function test is based on the activity in the office, and applies for all operations served by that office. Only those costs specifically attributable to Joint Operations, excluding Overhead, are chargeable to the Joint Account; accordingly, the cost of an office should be equitably distributed amongst all operations served and also to the Operator for Overhead activities performed at the office.

It is feasible, although rare, that a Joint Operation could require more than one Production Office. An example would be a very long pool with difficult access and two focal points which could have two field offices.

It is also possible that an office building may be split between a legitimate Production Office section and a district or, in the case of a small operator, even a head office (which is not chargeable). The test remains the PRIMARY function. In such cases, the Production Office section should be identifiable and be comparable with a free-standing Production Office.

(x) Professional Consulting Services

Individuals or firms that do contracted work may be called consultants, but by the nature of their services they are contractors. No Administrative Services should be considered Professional Consulting Services.

(y) Supervision

The intent of the definition is not to restrict the supervisory function to the first level of supervision. For large operations a first level supervisor may be On-Site on a continual basis with a second level supervisor assuming the responsibility for supervising several properties. In this situation, a portion of the cost of the second level supervisor would be chargeable to the Joint Account.

(z) Technical Services

It should be noted that secretarial or clerical functions required to support Technical Services are not intended to be included as part of the definition.

(aa) Warehouse

No comments are necessary.

102. *Statement and Billings*

Charges and credits need to be classified in accordance with the Petroleum Accountants Society of Canada/Joint Interest Billing Exchange (PASC/JIBE) Chart of Accounts to enable each Non-Operator to meet all regulatory as well as internal and

external reporting requirements. Companies who are not transmitting their billings electronically via the current Electronic Data Interchange Joint Interest Billings Exchange System (EDI/JIBE) adopted by the Canadian Petroleum Industry still need to comply with the classification standards set out in the PASC/JIBE Chart of Accounts.

The statement/billing should reconcile to any advances made.

If the Operator handles production revenue for the Joint Account, it is recommended that sufficient information relating to each Owner's sales be provided so the Non-Operators are able to calculate and pay obligations such as overriding royalties that are not normally handled by the Operator and to accurately record all revenue transactions.

103. *Payments by Non-Operators*

No comments are necessary.

104. *Capital Advances*

It is suggested that where the Non-Operator is cash called for amounts in excess of what could reasonably be expected to be a cash paid charge to the Joint Account for a particular month:

(i) the Operator should be asked for an explanation, and if applicable;
(ii) the Non-Operator and Operator negotiate the amount of the advance.

In any event, payment of the advance must be made by the original due date.

105. *Operating Fund*

The Operator normally advances funds through its accounts payable system to finance an operation and submits a billing to the Non-Operator for the recovery of such funds. Operating advances are allowed, based on an approved forecast, to provide working capital for the normal operating expenditures. Operating advances may be made for net billings but the Operator must adjust the amount of the advance to reflect the reduced timing difference between invoice payment and the billing to the Joint Account. The operating advance must not place the Operator in a more favourable financial position relative to the Non-Operator.

When a company disposes of its share (% Ownership) of the Joint Property during the year, that company should adjust the sales value of its ownership to include any

operating advance delivered to the Operator (see PASC "Acquisitions, Dispositions and Trader's Checklist" dated February 23, 1993). Hence, the Operator would remit the operating advance at the end of the year to the new Owner.

If the head document does not have provisions for approvals then approval of the forecast would be pursuant to Clause 110. The "forecast of expenditures" referred to in the Accounting Procedure may differ from any operational forecasts required pursuant to the Agreement.

106. *Unpaid Accounts*

Remittances should be made promptly by the Non-Operator in accordance with the terms of the Agreement. If such remittances are not made on a timely basis, interest should accrue monthly on the unpaid balance at the stipulated rate. The use of the wording "regardless ...." removes the need for written notice to be given before interest can begin to be calculated. The remedies are premised on the fact that a default did exist. Not paying an invoice is a default, but querying the validity of a charge is not a default and remedies are covered in Clause 107.

To encourage the enforcement of this provision, it is recommended that the Operator place a notation on his billings that the interest provision will be applied.

When the total monthly billing to a particular Non-Operator's account reflects a credit balance, the Operator's payment should accompany the billing to settle the account, except where inventory and/or ownership adjustments are involved. In these instances the Operator may effect distribution after collection of sufficient funds from the Non-Operators.

107. *Adjustment and Right to Protest/Question Bills*

The problems and resulting cost of accounting for adjusted payments is very significant; therefore, it is essential that the joint billing be paid as rendered unless agreement to the contrary is reached between the Operator and the Non-Operator.

The monthly Joint Account billing must be paid as rendered by the Operator, unless there is an agreement to short pay for items, such as incorrect working interest (division of interest) or unapproved expenditures. These two examples are not intended to limit the Non-Operator's rights to question doubtful charges, but are valid guidelines for short payment.

If any item on the Operator's statement is questionable, a request for an adjustment or an explanation of the item in question should be directed immediately to the Operator. All significant queries must be in writing with appropriate supporting

documentation. A request by the Non-Operator for an adjustment or explanation is not considered an audit request by the Non-Operator and shall not change the normal two-year formal audit limitation.

Subclause 107(c) recognizes the situations where either the Operator or the Non-Operator discovers that an error existed in the Joint Account for periods prior to the twenty-six month protest/questioning period described in Subclause 107(b). Recognizing that joint ventures are supposed to be a co-operative effort and that no Owner should either gain or lose from inadvertent errors, it is recommended that such errors be corrected back to the origin of the error. If the necessary records and information are not available for all prior periods, the parties should then negotiate the adjustment. The provisions of this Subclause are not intended to extend the Non-Operators' auditors' rights to access books and records beyond the twenty-four month audit limitation. Nor is it intended that a Non-Operator request such an adjustment without being able to adequately support the request. Supporting evidence must come from the current period and provide reasonable cause to support the argument that the situation existed in prior periods. The right to audit these types of adjustments is restricted to the support and backup for the adjustment(s) only.

108. *Audits*

Reference should be made to the PASC Joint Venture Audit Committee Bulletin No. 6, "Joint Venture Audit Protocol Guide." All audits of the Operator should be conducted in accordance with this bulletin.

It is recommended that the audit notification be issued at least three months prior to the commencement of the audit. A provision is included for the approval of audit costs by Non-Operators to be determined by a majority interest of the Non-Operators. Such vote would normally be accomplished by means of a mail ballot initiated by the Non-Operator wishing to conduct the audit. The Operator is not normally required to share in the cost of audits conducted by the Non-Operator.

The recommended time period for submission of audit claims or queries by the Non-Operator is within two months following completion of the audit field work at the Operator's office unless the Operator has consented to a reasonable time extension. The last day of field work is normally a date appearing on the mail ballot and/or the audit confirmation letter. The intent of the two month provision is to ensure queries are issued in a timely manner and to clearly establish that the definition of "field work" does not normally extend beyond the scheduled time at the Operator's premises. Audit queries should be sufficiently descriptive and contain the necessary backup to support the claim.

The intent of the six month time limitation from the date of filing for the Operator to answer the Non-Operator's audit claims is to prevent the Operator from ignoring such claims. The six month limitation is viewed as a maximum time for response except in extenuating circumstances. A response to an audit claim should be sufficiently descriptive and contain the necessary support and backup for adjustments processed or claims denied.

The intent of the provision for issuing the final audit report within twelve months of issuing claims of discrepancies is to promote timely reporting to the Non-Operator and to encourage the parties to settle such matters expeditiously.

If the agreement provides for an operating or management committee, this is the recommended vehicle to resolve audit matters. If no such committee exists, it is recommended the parties meet and negotiate a resolution. The agreement may also contain other provisions for settling disputes.

The intent is that for pay-out situations the audit is to be done within 24 months of receipt of any statement. By sending timely statements the Operator avoids audits that go back many years and the Non-Operator is getting timely data. The auditing provisions related to payout wells, net profits interests, and carried interests are governed by the applicable agreements. For a discussion of this topic, please refer to PASC Joint Interest Research Committee Bulletin No. 2.

109. *Control of Assets*

(a) The objective of this clause is to ensure that the Operator is effectively controlling and utilizing Material for the benefit of Joint Operations. The Operator should utilize whatever records or methods are necessary to properly process movements to and from the Joint Account.

(b) Records of Controllable and non-controllable Material shall be maintained by the Operator for the joint stock locations.

110. *Approvals*

This provision provides a basis for approvals of charges to the Joint Account in those instances where there are no approval provisions in the Agreement. (See preamble.)

111. *Rates and Limitations*

No comments are necessary. (See preamble.)

112. *Expenditure Limitations*

No comments are necessary. (See preamble.)

113. *Value Added Tax*

This Subclause allows the Operator to make all elections to handle Goods and Services Tax transactions for the Joint Account saving severe administrative problems for all the Owners.

114. *Interpretation*

No comments are necessary.

ARTICLE II - CHARGES

The Operator shall charge the Joint Account with the cost of the following items:

201. *Labour*

The Operator's labour costs applicable to the salaries and wages of personnel on the Operator's payroll whose time is chargeable directly to the Joint Account. Where more than one property is served, the distribution must be fair and equitable and reflect the historical distribution.

Salaries and wages may include a variable portion of employee remuneration where applicable, but excludes any corporate executive bonuses and traditional bonuses (ie. Christmas bonuses) which are not part of the Operator's compensation policy. Such programs must be formally documented policy of the Operator, and must be available to all employees on a "regular basis". The variable pay program may include reduction of employee's "base pay" and provision for "performance pay" dependent on personal, department or corporate performance. Such payments may be made annually or monthly, and may be based on the prior year's experience.

In most situations, as long as the number of employees charged to the Joint Account is constant, the total performance payments will be fair irrespective of transfers of employees. However, when the number of employees is increased or decreased

during the year, an allocation of the performance pay for the additional employees to reflect the number of months the new positions have been in place, or to reflect the number of months the discontinued positions were in place, may be required.

Actual costs may be charged on an as-paid, actual basis, or by a percentage assessment basis. The method used by the Operator to charge such payments to the Joint Account should be reasonable and clearly documented This allows the Operator to avoid extremely detailed accounting at the property level.

Following is an explanation of direct labour chargeable to the Joint Account:

(a)(1) Salaries and wages of the Operator's employees directly engaged in Joint Operations, Supervision, Technical Services, or Production Engineering who are On-Site (see definitions) handling day-to-day operations and problems. This includes travel time to or from the Joint Property in the conduct of Joint Operations.

Salaries of the Operator's employees engaged in Technical Services are chargeable pursuant to Clause 205 for capital project work within the Operator's approval authority.

Salaries and wages of the Operator's employees engaged in Administrative Services located On-Site are covered by Overhead and therefore not chargeable to the Joint Account except as provided for in Subclause 201 (a)(2).

(2) This Subclause provides flexibility for the Operator of a facility to request approval to direct charge specified On-Site Administrative costs, such as receptionist or secretarial services, which are excluded as an automatic charge pursuant to Subclause 201(a)(1), in situations where there is a benefit to all Owners to provide such services On-Site. In large plant facilities provision of such services can be cost effective as without such support technical and operating personnel may have to divert their attention to administrative details. It is expected that the mail ballot will detail the positions to be charged and provide the rationale for charging the Joint Account.

(3) Salaries and wages of the Operator's personnel chargeable pursuant to Subclause 201 (a)(1) working in a contractor's or supplier's main or field office and travelling to and from those offices while in the conduct of Joint Operations. These are normally employees providing Production Engineering or Technical Services whose primary function is to handle specific operating conditions or problems directly related to Joint Operations and may include visitations to suppliers and vendors, Material inspections, etc.

(4) Salaries and wages of the Operator's employees chargeable pursuant to Subclause 201(a)(1) while such employees are receiving familiarization training On-Site prior to initial start-up of operations.

(5) Salaries and wages of the Operator's employees providing Technical Services who are directly involved in the capital project work of Drilling, Completion, Equipping, and Construction Projects and have had prior approval by the Owners.

(6) Salaries and wages of the Operator's employees regardless of titles, level or location engaged in Production Engineering to provide site-specific support for the day to day Operations and Maintenance of the Joint Property. These employees perform the tasks outlined in this Explanatory Text for Production Engineering.

(b) Time sheets or some other appropriate written instrument must document and support time spent and work done on any particular job while in the conduct of Joint Operations and the charge should be based upon such time shown. In some instances, however, certain employees such as supervisors may directly service a number of properties, and it may not be practical nor equitable to use "time" alone as a basis for the charge. In these instances a fair and equitable allocation may be the only cost effective method of charging time. The allocation must be supported by time sheets or some other appropriate written documentation indicating that the employee was working on the various properties.

(c) This subclause is set out separately to make it clear that the salaries of the Operator's employees who are part of an Alliance working for the Joint Account are chargeable at actual cost (salaries plus benefits) and should not be charged as part of the Alliance firm's billing for labour (at its charge-out rates). Similarly all office and overhead costs associated with the Operator's employees are not chargeable to the Joint Account. (See Subclause 207(a)). If the Alliance firm is affiliated with the Operator the transaction should be treated as non arm's-length. The actual cost of the Operator's employees working in the Alliance will include salary only. Benefits are also chargeable pursuant to Clause 202.

(d) Earned or compensatory time off relating to the above categories. Such costs are charged on an actual cost basis to the Operator and thus the rate used to charge to the Joint Account must reflect not only the "earned" time off but also the actual time off taken.

(e) The Operator's cost of holiday, vacation, sickness, and disability benefits, and other customary allowances paid to employees whose salaries and wages are

for the Joint Account. Costs pursuant to this Subclause may be charged by a percentage assessment on the amount of salaries and wages chargeable to the Joint Account. The rate should be based on the Operator's cost experience. Customary allowances may include jury duty, military duty, or any other absence which is excused by the Operator's policy.

Unless an employee is regularly assigned to a particular property for the entire year, it is very difficult to make an equitable charge by the "when and as paid" basis. It is generally agreed that the "percentage assessment" provides a more equitable distribution of these costs. It is recommended that the "percentage assessment" be reviewed annually and that proper adjustments be made in the rate to provide, over a period of time, that actual costs are distributed to the properties served. This may require that any balance in the account be used in determining the new adjusted rate.

For the purpose of this subclause, the term "customary allowance" is not intended to cover expatriate tax protection.

(f) As with costs pursuant to Subclause 201(e) labour costs for employees who spend short periods working on projects chargeable to the Joint Account are often most equitably charged on a per diem basis. The per diem charges should be reviewed annually and adjusted to ensure that they reflect the Operator's actual cost of salaries and wages for each classification of employee. The rate may represent the average actual salary of a classification of employee (example: "Senior Engineer"), rather than an individual's personal salary due to confidentiality requirements and administrative ease. This clause is not intended to dictate the Operator's accounting systems. The per diem charge can reflect labour costs only, with benefits calculated in total on all labour charged to the Joint Account, or can include a component for the Clause 202 benefits - either method must ensure that benefits are only charged ONCE. (ie. care must be taken that benefits are not included in the labour charge and then charged again through a calculated benefits charge).

202. *Employee Benefits*

(a) Compulsory - As costs imposed by governmental authorities are limited, being based upon a maximum earned by each employee and the maximum may be different for each category of charge, the cost terminates at various times during the year for individual employees. Although it is acceptable to determine the average time for payout of each category and discontinue such charges at that period, this usually produces inequities in charges to the individual properties. This is particularly true if a property is discontinued in the early part of the year or begins operations in the latter part of the year. For this reason, it is recommended that a percentage be determined for twelve months to spread the costs over the entire year.

(b) Non-Compulsory - Employee benefits may be generally defined as the types of plans enumerated in this Subclause and other established plans, such as medical insurance for employees and dependants, accident and disability insurance which provides for the welfare of the Operator's employees, their families or beneficiaries, and which are made available to all employees of the Operator on an equitable basis.

Established plans are those made available to ALL employees on a REGULAR basis. Such plans may be established in accordance with and subject to collective bargaining agreements. Charges should be made to the Joint Account for benefit plans expense by "percentages assessment" on the amount of the salaries and wages.

The following types of costs (but not limited to) which are beneficial primarily to the Operator should be excluded from the employee benefit calculations:

- industrial nurse or doctor
- service awards
- employees' credit union
- company magazines and periodicals
- social functions
- dinners and seminars in preparation for retirements
- fitness programs and facilities
- mortgage assistance
- business travel plan
- group legal plans
- bus passes
- travel assistance
- parking
- tax protection on taxable benefits
- educational assistance

Christmas or other bonuses given to selected employees and other special benefits available only to executives, certain employees, or groups on a selective basis are to be excluded from the employee benefits calculations and cannot be directly charged to the Joint Account under any circumstances. These costs are intended to be part of Overhead.

There are considerable variations in the actual cost of benefit plans in various companies in the industry. Some of the factors causing these variations are number of employees, average age of employees, types of plans established, methods of funding (contributory or non-contributory, trustee or insured), and collective bargaining agreement requirements.

Since these wide variations exist, a percentage limitation may be established. The Operator should determine annually whether his costs equal or exceed the stipulated percentage of labour before continuing to make charges at that rate. The "percentage assessment" rate is applicable to the Operator's labour costs which are chargeable to the Joint Account but not applicable to Overhead charges or contract labour.

203. *Travel and Moving*

Travel and reimbursable personal expenses of those employees serving the Joint Property should be charged equitably and consistently with wages and salaries as provided in the labour clause. Transfers for normal staff rotation, corporate reorganization and training assignments are considered to be for the primary benefit of the Operator and therefore not chargeable to the Joint Account.

Personal expenses must be in accordance with the Operator's normal documented reimbursement policy and may include such costs as real estate fee and commissions, closing costs, compensation for loss on sale of home, legal fees, and carpeting and drapery expenses.

As there are no overall industry standards for reimbursement policy, the Non-Operators should understand the Operator's policy at the time of negotiating the Agreement.

204. *Automotive*

No comments are necessary.

205. *Engineering and/or Design*

(a) All engineering and/or design work in support of capital and operational projects, including studies, whether provided by the Operator's employees or contract services, must be charged at cost.

For capital or expense projects which require approval by the Owners, the engineering and/or design costs estimate must be shown separately on an approval document and must meet the following requirements:

(1) Approved detailed time sheets describing the work and location of the Operator's employees.

(2) Charges for engineering and/or design provided by contract services must be supported by invoices clearly showing the work, location, rates, etc. and must be duly approved by the Operator's authorized representatives.

(3) Examples of work being charged at rates other than the Operator's costs may be where the costs are based on a percentage of the total project or a flat rate. The basis of charging must be fully explained when requesting approval by the Owners. The Owners should also negotiate whether the percentage or flat rate is inclusive of benefits or whether there are to be specific exclusions.

Capital and expense projects within the Operator's approval authority must also meet the above requirements.

For expense projects that are wholly engineering in nature such as field development or feasibility studies, the engineering costs are chargeable to the Joint Account only with the approval by the Owners.

(b) (1) The intent of this Subclause 205(b)(1) is to allow a maximum variance between the estimated engineering and/or design costs shown on the AFE and the actual costs charged. Costs for engineering and/or design which exceed the maximum variance require additional approval by the Owners even though the total AFE may not be overexpended.

(2) The intent of this Subclause 205(b)(2) is to limit the amount of engineering and/or design charges to a project which is within the Operator's authority, to ten percent of the total cost of the project.

206. *Material*

For complete reference see Article IV.

207. *Services*

(a) The Operator may recover the cost of third party contract services pertaining to Joint Operations. This includes custom processing charges if on behalf of the Joint Account. The Agreement may contain a dollar limitation governing the requirement of obtaining the Non-Operator's approval before the Operator enters into certain types of third party contracts on behalf of Joint Operations. Contracts should provide for the auditing of the contractor's records in cases where payment for work is based on reimbursable time and/or materials. Provisions relating to the audit are detailed in accordance with Subclause 108(d).

If the Operator has entered into a long-term contract for services, such as drilling rigs, service rigs, etc., the Joint Account should not be charged for any resulting standby charges, unless timing, rig availability, or other factors are critical to Joint Operations.

Contracted services normally considered overhead shall not be charged to the Joint Account.

(1) No comments are necessary.

(2) Technical Services means services related to the mechanical, electrical, chemical, geological and/or geophysical technologies as defined in Clause 101. This Subclause 207(a)(2) allows direct charging of all Technical Services provided On-Site, and some limited off-site work which is specifically and directly in support of the work done On-Site. An example would be time spent by a contracted geologist in his office completing a report on a well site visit. Only the actual Technical Services are chargeable. Any contracted services, which if performed by the Operator would be considered overhead, are not chargeable.

(3) Contracted Production Engineering Services may be direct charged whether On-Site (pursuant to Subclause 207(a)(2)) or off-site. An extensive listing of examples of chargeable Production Engineering work is provided in this guide pursuant to Subclause 101(v).

(4) No off-site Technical Services may be charged without approval, by the Owners other than those covered pursuant to Subclause 207(a)(2) above.

(5) Only true Professional Consulting Services require approval by the Owners, not ordinary contract services. Professional consultants are accredited by professional associations, and may perform as consultants or contractors. Professional Consulting Services provide the Operator with reports giving advice, as described in Clause 101(x). The very same firm or professional may also be contracted to perform Engineering and Design work pursuant to Clause 205 or Technical Services pursuant to Clause 207 in which case they are working under the direction of the Operator doing work which could be done by the Operator's employees. Also, many private individuals in the business of doing technical, administrative or accounting work on contract, like to refer to themselves as "consultants", although this usage does not fall under the definition of Professional Consulting Services. If a consultant's report has been charged to the Joint Account, it must be made available to the Owners.

(6) No comments are necessary.

(7) If the Operator has entered into an Alliance, only costs related to the non-employees of the Operator are chargeable pursuant to this Subclause 207(a)(7). The salaries of the Operator's employees' who are physically on the site at the office of the Alliance firm are chargeable pursuant to the provisions of the labour clause (see Clause 201). Any overhead costs associated with the Operator's employees being in the offices of the Alliance firm are not chargeable and are solely for the Operator's account since these are administrative in nature and are recovered through the Operator's overhead recovery. Contracted services normally considered overhead shall not be charged to the Joint Account.

(b) In many instances, it is more practical for the Operator to use its owned or leased equipment and facilities for temporary, infrequent or minor needs as the Joint Operation needs may not justify the purchase of equipment for the Joint Account.

(1) Due to small dollar amounts and for administrative ease, chart reading should be charged at commercial rates, rather than using the formulas provided for in Subclauses 207(e) and 207(f).

(2) Chargeable services include, but are not limited to, oil, gas, and water analyses and tests. As with chart reading, the small per-service cost does not justify the use of the formulas provided for in Subclauses 207(e) and 207(f). Charges must not exceed those of available outside labs.

(3) This Subclause covers all other situations not covered above. The Operator may use the formula provided for in Subclause 207(e) to calculate the charge, or use 80% of commercial rates as provided for in Subclause 207(f).

(c) The cost of maintaining and operating a Production Office should be calculated using the formula provided for in Subclause 207(e), and allocated among all operations (eg. other oil and gas properties) and functions (eg. Overhead activity such as district office) on some equitable basis (eg. square footage or employee/well count etc.). The costs to be allocated include such things as:

- depreciation of capital cost
- interest as provided in Subclause 207(e)
- rent, if building not owned
- heat, light, power, water, telephone
- janitorial service and supplies
- maintenance
- furniture (capital or operating cost)
- office supplies
- office machines and personal computers (capital or operating)

The allocation formula should take into account:

- use by the various operations
- use by various functions (chargeable, non-chargeable)
- use for administrative and management purposes

A final percentage allocation should be determined to avoid excessive accounting for a myriad of chargeable and non-chargeable activities happening continuously. Thus x% of the total cost of the Production Office would be deemed to represent the actual cost of chargeable activities for the Joint Account.

(d) The cost of operating and maintaining an On-Site warehouse that is part of the Joint Property should be charged to the Joint Account.

(e) The intent is that the Operator should recover its costs of ownership but there should be no profit. The cost is calculated by including depreciation and interest on the depreciated investment as established but the total charge shall not exceed prevailing commercial rates. If there are no available commercial rates in the situation, then the limitation does not apply.

(f) The provision of allowing for use of 80% of commercial rates is meant to reduce the administration burden on the Operator of calculating the charge as provided for in Subclause 207(e), when commercial rates are readily available in the area. If such rates are not available, then this alternative does not apply.

208. *Damages and Losses*

The Agreement generally provides that the costs incurred for repairs or replacement of the Joint Property because of damage or loss shall be borne by the Joint Account. Damage or loss to the Joint Property for any cause is recognized as a Joint Account cost except to the extent of exceptions identified in the Agreement.

As soon as practicable, the Operator should notify the Non-Operators in writing of the damage or loss giving the time, cause, extent, and the estimated charge to the Joint Account. The Operator should also give immediate notice to the insurance carrier, if the property is covered by insurance, and protect the property from further damage.

If any equipment is destroyed or removed from the Joint Property, the Operator should furnish the Non-Operators enough information to enable them to make proper entries to their investment records.

209. *Surface and Subsurface Rights*

(a) Surface rights including all surface lease rentals and land necessary for installations and rights-of-way acquired for Joint Operations such as gathering lines, compressors, plants, wellsites, battery sites, flowlines, and roads. The term may vary depending on the particular lease but usually annual rental payments are required.

(b) Petroleum & Natural Gas (P&NG) Lease Rentals and royalties paid by the Operator for the Joint Account.

210. *Taxes*

No comments are necessary.

211. *Insurance*

The types and amounts of insurance agreed upon by the Owners are usually included in another schedule of the Agreement. Note that Worker's Compensation and Unemployment Insurance are chargeable pursuant to Clause 202.

212. *Communication*

For ease of administration and auditing, only outgoing communication costs from the Joint Property may be charged to the Joint Account. Incoming calls are deemed to be administrative in nature and are thus considered Overhead.

Equitable allocation of costs is site specific and dependent on the nature of the operation and duties of people On-Site. If any basis other than 50/50 (outgoing versus incoming calls) is used, the allocation procedure should be fully documented and available for audit.

Ancillary equipment could include computers dedicated to the phone system but would exclude any communication costs that have been corporately allocated.

213. *Camp and Housing*

(a) Camp
It is the intent of this Subclause to provide camp facilities for employees in remote areas chargeable to the Joint Account. Facilities that are used for more than one operation must be charged out in an equitable manner.

(b) Housing
It is the intent of this Subclause to allow the Joint Operation to pay for the cost of subsidizing housing in remote areas which require this incentive to attract and maintain a qualified workforce. The cost of maintaining the housing less the actual or deemed rent charged is chargeable to the Joint Account, if agreed to, and must be charged based on the activity of the resident of the house. Thus, if a house is vacant, it cannot be charged and if the employee works on a number of different projects, these costs must be shared equitably.

214. *Computerized Measurement and Control*

(a) Computerized measurement and control is the direct use of computers in assisting with oil and gas data gathering, surveillance, automation, and

supervisory control. In the event the computer equipment serves other purposes, it is recommended that the Operator get prior approval by the Owners of the allocation process in order to ease the administration and audit efforts.

(b) Computer systems (i.e., personal computers and mainframes) that are not used for measurement and control are not chargeable to the Joint Account unless prior approval by the Owners has been obtained. Examples are material maintenance, material transfers, service work order systems, gas plant allocations, invoice payment, electronic mail, expense statements, revenue accounting, etc. This exclusion extends to the systems personnel, hardware, software (i.e., local area networks - LAN's) as well as peripheral devices that may be required.

215. *Ecological and Environmental*

(a) The Operator must operate in compliance with government regulations. A code of environmental conduct published by an industry association such as Canadian Association of Petroleum Producers (CAPP), Small Explorers and Producers Association of Canada (SEPAC), or other organization may be adhered to and the costs should be borne by the Owners. If the Operator has a documented corporate environmental performance policy that goes beyond government agencies or industry association standards, it should be followed for all operations and the costs should be borne by all the Owners. The Owners are entitled to review the environmental policies that the Operator is using.

(b) Costs of related studies or discretionary ecological and environmental activities require approval by the Owners.

216. *Warehouse Handling*

The intent is to permit the Operator to recover that portion of the cost of his Warehouse operation pertaining to movement of material to the Joint Property, through use of a "percentage assessment." The percentage assessment, when initially established, should reflect the Operator's Warehouse and handling procedure to ensure that the Joint Property is charged only its proportionate share of actual costs. The rates used may be adjusted to account for changes in the Operator's warehouse handling operation. For example, the rate should take into consideration no cost Warehouse or no-cost storage space obtained from a supplier or contractor, or storage of supplies by a contractor for the Operator in the Operator's Warehouse facility or whether the Operator is incurring an inventory holding cost or providing the personnel to expedite.

Wherever possible Material should be sent directly from a vendor to the Joint Property and not processed through the Operator's Warehouse or other temporary

storage locations to collect fees for the purpose of creating a profit centre. This warehouse service should add value to the process of obtaining goods for the Joint Property. If Material is returned to the Operator's Warehouse and the Joint Account is credited for the value of the Material, any warehouse handling charge, from the original transfer, associated with the returned goods should not be credited to the Joint Account.

217. *Recruitment, Training ,and Safety*

(a) The Operator is expected to provide fully trained personnel for the operation of the Joint Property. The training required for rotating employees or growth assignments shall be at the Operator's sole expense. Recruitment costs include advertising and travel for interviews but exclude human resources department costs which are administrative in nature and thus recovered through Overhead.

(b) No comments are necessary.

(c) No comments are necessary.

(d) The costs of safety awards and safety dinners should be reasonable. Safety dinners should be PRIMARILY for the purpose of maintaining employee knowledge and commitment to safety programs and practices in field and plant operations. This term is not meant to include routine social events at which safety is a minor element. The cost of liquor or extra costs incurred because of the serving of liquor, such as transportation for employees, are not chargeable. It should be noted the purpose of a reasonable amount for safety awards and safety dinners (not meetings for other purposes) is in recognition of the increased focus on safety, and the resulting benefits to the Joint Account (i.e., reduced Workers Compensation Board (W.C.B.) costs, reduced absences, etc.) Extravagant awards such as expensive clothing or trips are not considered "reasonable" and therefore not chargeable to the Joint Account.

(e) General emergency manuals that are NOT site specific are not chargeable.

218. *Litigation and Claims*

Legal costs and expenses incurred in handling, investigating, and settling litigation, or claims arising by reason of Joint Operations or necessary to protect or recover the Joint Property including court costs, costs of investigating or procuring evidence, and amounts paid in settlement or satisfaction of any litigation or claim should be recognized as Joint Account costs.

With the exception of legal services for title work, no charge shall be made for the services of the Operator's legal staff working in the Operator's major administrative

offices or for fees or expenses of outside counsel. Such costs are considered to be covered by Overhead unless their direct charge to the Joint Account has received approval by the Owners. Legal services for title work is covered pursuant to Clause 209.

219. *Abandonment and Reclamation*

Field is intended to mean those employees who are permanently On-Site and involved in the daily operations and maintenance at the field level.

220. *Other Costs*

No comments are necessary.

221. *Allocation Options*

The intent of this clause is to provide flexibility to the Owners when dealing with charges which are administratively difficult to charge directly. The options within this Clause are a viable alternative.

ARTICLE III

301. *Overhead - General*

"Cost" is defined as those items of expenditure, described in Article II, that may be used as the basis in determining Overhead. This clause also indicates which costs are specifically excluded from the determination of Overhead. Processing fees are not allowed in the Overhead calculation.

The purpose of this definition is to provide the user with a reasonable base on which to calculate a percentage Overhead and eliminate or minimize the impact of large or unusual charges that, because of their variable nature, could distort the Operator's actual Overhead recovery since the administrative effort involved is not proportionate to the cost incurred. The costs of purchased fluids for injection schemes for enhanced recovery and custom processing costs, are excluded because these costs, when incurred, represent a significant cost for the joint property in proportion to the associated administrative effort. Custom processing, for the purposes of this definition, is meant to cover the full processing of an oil or gas stream in a facility which is not owned by the Owners of the Joint Property according to an arm's length contract, and is not meant to include minor or incidental handling of products or water.

It is recommended that all items of cost to be used in the base for percentage Overhead rates be considered at the time the Overhead method is agreed upon. If there are additional large or unusual charges that will be regularly incurred on the Joint Property, then the percentage Overhead rate for Operations and Maintenance may be negotiated at a lower-than-usual rate to provide for equitable recovery. An example of a large cost which is sometimes treated in this manner would be power for an electric compressor station.

The term "salvage credits," as used in this provision, means the amount credited to the Joint Account resulting from the disposal of any Material and equipment previously installed on the property and charged to the Joint Account. Unless such salvage credits are excluded from current costs and credits when computing the basis to which percentage Overhead rates are applied, the Operator would, in effect, be refunding compensation previously earned. Credits resulting from the return of any unused Material and equipment to a supplier or warehouse should not be considered as salvage credits but should be used to reduce the basis on which Overhead is applied.

302. *Overhead Rates*

It is common practice in the industry to negotiate an agreed rate to reimburse the Operator for Overhead costs applicable to the Joint Operation. Methods considered usually are a percentage rate base and/or a fixed rate per well or a flat rate for Operations and Maintenance.

Overhead - Percentage Rate Base

This method provides percentage recovery of Overhead on each dollar of cost incurred. Utilization of the percentage sliding scale recognizes that administrative effort does not increase proportionately to the dollars spent.

Percentage Overhead by type of operation, as defined, has become an acceptable method of Overhead recovery for Exploration, Drilling, Construction, and Operations and Maintenance. By establishing a stable and consistent cost base, percentage Overhead can be a fair and equitable method of Overhead recovery for well Operations and Maintenance and should be considered for its advantages in administration and for its protection against varying economic conditions.

Percentage Overhead by type of operation, as defined, is an acceptable method of overhead recovery for:

(a) each Exploration project
(b) the Drilling of a well (which includes Completion for wells which are completed within one year of drilling)

(c) each Construction project
(d) each subsequent Construction project
(e) Operations and Maintenance

Overhead - Fixed Rate Base

In addition to percentage rates, a fixed rate option for Operations and Maintenance, either on a well count or flat monthly fee basis, allows for flexibility in negotiations. Application of this rate to wells is provided by the definition of Producing Wells outlined in this option. Basic guidelines for temporarily shut-in oil and gas wells are that such wells should be:

(a) Capable of producing or retained in a shut-in status for future use,

(b) Mechanically equipped so they may be returned to production with reasonable equipment additions or changes,

(c) In such a condition that they can be returned to a producing status without performing a major repair or recompletion job,

(d) Shut-in for three months or less.

A negotiating option has also been included to provide for annual adjustment of the fixed rate to enable the Operator to administer rate revisions due to changes in industry wage costs. This is to eliminate the necessity to formally negotiate and execute frequent minor rate changes. The source of the amount of change will be Statistics Canada data and is calculated and published by PASC prior to July 1 each year.

It should be noted that when this Accounting Procedure is used as an exhibit to an existing agreement, this option clause should be changed by deleting the reference to "the Agreement" and replacing it with a reference to "this Accounting Procedure."

It should further be noted that in the event of a catastrophe the Owners may choose to negotiate a separate Overhead rate for those costs.

ARTICLE IV

401. *Purchases*

It is understood that the Operator will purchase Material only for immediate needs and accumulation of surplus Material should be avoided. The Operator should

process all current related credit adjustments in the same month as received by the Operator.

By virtue of the elections pursuant to Clause 113 of this Accounting Procedure, the purchase price does not include value added taxes.

402. *Material Movements*

Material may be supplied from the Operator's warehouse or other properties when direct purchase is impractical or uneconomical.

This section provides for a uniform schedule of pricing new and used Material moving to and from the Joint Account. If, however, this procedure results in inequities, it is recommended that the Operator contact the Non-Operators to determine an acceptable pricing basis. The intent of this clause is to allow for transfers to joint properties without any change in price.

(a) New Material (Condition A) shall be priced at New Price. Costs of special services to tubular goods such as, but not limited to, Hydril threading, plastic coating, doping, and wrapping shall be included when determining the applicable New Price including related transportation costs.

(b) Good Used Material (Condition B) in sound and serviceable condition shall be priced at seventy-five percent of New Price. The seventy-five percent credit is applicable provided necessary repairs have been made and charged to the Joint Account.

No charges shall be made for transporting Material from the Joint Property to other properties of the Operator except with approval by the Owners.

When the use of the Material is temporary and the reduced value as provided is not justified, then such Material shall be valued by a basis commensurate with its usage on the Joint Property.

(c)(1) Other Used Material (Condition C, D, and E) not suitable for use in its original function but suitable for use in some other capacity shall be priced on a basis commensurate with its use, e.g., Condition C casing or tubing used as Condition B line pipe: sucker rods used as barrel strands or fencing, etc.

(2) Junk Material (Condition E) is normally held by the Operator until a reasonable quantity is accumulated then sold for the Joint Account at the best price obtainable.

403. *Transportation of Material*

No comments are necessary.

404. *Warranty of Material Furnished by the Operator*

No comments are necessary.

405. *Premium Prices*

No comments are necessary.

406. *Dispositions*

No comments are necessary.

ARTICLE V

501. *Inventories*

(a) This subclause makes provision for the Owners to agree at what intervals a periodic inventory shall be conducted due to the varying needs and circumstances of each operation.

(b) It is intended that the Operator conduct annual inventories of warehouse stock, consumable goods, and warehouse Controllable Material at Joint Account expense unless the Owners approve otherwise.

502. *Notice of Inventories*

No comments are necessary.

503. *Reconciliation of Inventory*

It is impractical for the Non-Operators to spend lengthy periods of time at the Operator's office to reconcile and adjust an inventory. Therefore, the Operator shall be responsible to perform the reconciliation and make the necessary adjustments. The participating Non-Operators shall review and approve the reconciled inventory.

504. *Inventory Expense*

No comments are necessary.

505. *Special Inventories*

The cost of conducting inventories initiated by the Operator other than those approved by the Owners shall be borne by the Operator.

506. *Construction Inventories*

No comments are necessary.

TABLE 1
1996 PASC ACCOUNTING PROCEDURE SUMMARY GRID

Activity in Support of Joint Operations	Clause	Covered by Overhead	Direct Charge	Chargeable with Owner Approval	Comments
Abandonment & Reclamation	219(a)		X		
Severance Allowance	219(b)		X		Field employees only in proportion to time on Joint Property
Early Retirement	219(b)		X		
Automotive	204		X		Rates equitable basis
Compulsory Benefits	202(a)				Actual or percentage
Worker's Compensation			X		assessment
Unemployment Insurance			X		
Canada/Quebec Pension Plan			X		
Non-Compulsory Benefits	202(b)				% limitation
Available to ALL employees including			X		
Life Insurance			X		
Medical/dental/etc. insurance			X		
Company pension/retirement plans			X		
Savings plans			X		
Stock purchase			X		
Bonus			X		
NOT available to ALL employees	202(b)				NOT Chargeable
Bonuses to select employees		X			
Stock plans		X			
Management incentives		X			
Selective benefits		X			See list in Explanatory Text
Early retirement payments		X			Not Joint Account except as
Severance allowance		X			noted in Clause 219(b)
Camp	213(a)		X		Equitable allocation
Housing	213(b)	X	X		Election
Communication	212				
Equipment ownership/rental			X		Equitable basis
Outgoing calls			X		50/50 split suggested
Incoming calls		X			in place of other split
Other				X	
Computerized Measurement and control	214(a)				
Production/facilities data capture including employee costs			X		Equitable basis
Non measurement & control computer usage	214(b)			X	

TABLE 1
1996 PASC ACCOUNTING PROCEDURE SUMMARY GRID

Activity in Support of Joint Operations	Clause	Covered by Overhead	Direct Charge	Chargeable with Owner Approval	Comments
Contract services for Operations	207(a)		X		
Contract Technical Services	207(a)				
on-site and related off-site			X		
other off-site				X	
Contract Production Engineering-	207(a)				If duties listed in Explanatory
on-site or off-site			X		Text
Contract Professional Consulting	207(a)			X	
Operator's Laboratories	207(b)		X		Third party maximum or
Operator Owned Equipment	207(b)		X		formula applies.
Chart integration	207(a)		X		Commercial maximum
Utilities on-site	207(a)		X		
Contract Services Audit	108(e)			X	
Damages and Losses	208		X		Notice required
Insurance proceeds (credit)			X		
Ecological and Environmental	215(a)				
Statutory			X		
Regulatory			X		
Industry association recommendations			X		
Compliance with documented corporate policy			X		
Corporate policy development		X			
Other	215(b)			X	
Facilities Use					
Laboratory	207(b)		X		Commercial Maximum
Chart Integration	207(b)		X		Commercial Maximum
Other owned or leased equipment	207(b)		X		Clause 207(e) & (f) limiter on formula
Production Office	207(c)		X		Equitable basis and Clause 207(e) &
Offices other than Production Office	207(c)			X	(f) limiter on formula
GST	113				Subject to Election
Insurance Premiums	211(a)		X		
Employers Liability			X		
Automotive			X		
General Liability			X		
Insurance deductible	211(b)		X		
Uninsured loss			X		
Claims in excess of limit	211(c)		X		
Inventories Expense	504		X		
Special Inventories	505				Not for Joint Account.
Construction Inventories	506		X		

TABLE 1
1996 PASC ACCOUNTING PROCEDURE SUMMARY GRID

Activity in Support of Joint Operations	Clause	Covered by Overhead	Direct Charge	Chargeable with Owner Approval	Comments
Labour - Admin. (On-Site or Off-Site)	201 or				If separate approval has been
Supervision of administrative functions	201(a)(2)	X			obtained under Clause 201
Contracts administration (field)	or 207			X	(a)(2) for major facilities these
File administration		X			costs may be direct charges.
Systems administration		X			Except as per Clause 214
Budgets and budgeting administration		X			
Production data recording admin.		X			Except as per Clause 214
Human Resources support		X			
Travel and air administration		X			
Recruitment administration		X			
Compensation and payroll admin.		X			
Incentive programs admin.		X			
Insurance and property tax admin.		X			
Office services admin.		X			
Clerical		X			
Vehicles and vehicles admin.		X			
Drilling, Completions, Equipping, Construction admin.		X			
Major out of the ordinary Construction Project admin. done On-Site				X	
Daily plant balance admin. - On-Site			X		
Purchasing		X			
Warehouse Co-ordination			X		
Labour - Completion	201				See Clause 205 for conditions
Program design	or			X	Subject to Approved Compl. AFE
Wellsite supervision	207			X	Subject to Approved Compl. AFE
Personnel Administration		X			HR activities
Labour - Construction Project	201				See Clause 205 for conditions
Engineering & design	or			X	Owner approval required for
In contractors main or field office	207				projects above Clause 112
while in conduct of Joint Operations			X		expenditure limit
Preparing budgets		X			
Feasibility studies - wholly engineering				X	
Procurement and disposal		X			Administrative function
Labour - Drilling	201				See Clause 205 for conditions
Program design	or			X	Owner approved Drilling AFE
Wellsite supervision	207			X	Owner approved Drilling AFE
Personnel administration		X			HR activities
Labour - Equipping	201				See Clause 205 for conditions
Program design	or			X	Owner approved Equipping AFE
Wellsite supervision	207			X	Owner approved Equipping AFE
Personnel Administration		X			HR activities

TABLE 1
1996 PASC ACCOUNTING PROCEDURE SUMMARY GRID

Activity in Support of Joint Operations	Clause	Covered by Overhead	Direct Charge	Chargeable with Owner Approval	Comments
Labour - Operations & Maintenance	201				
Daily wells/facility operations	or				
On-Site of Joint Property	207		X		
Repair & maintaining wells & facilities			X		
Scheduling of production maintenance and turn-arounds including safe-work permits			X		
In contractor's main or field office while in conduct of Joint Operations			X		
Budget, AFE, Mail Ballot preparation		X			
Projects above Cl. 112 approval limit				X	
On site familiarization prior to start-up			X		
Labour-Other Technical Services	201				
Landman On-Site in conduct of Joint Operations	or 207		X		
Geologist/Geophysicist working on capital projects				X	
Technologist On-Site conducting studies & analysis in direct support of Operation & Maintenance & Production Eng. within approval limit			X		
Landman working off-site		X			
Technologist on routine government reporting		X			
Geological/Geophysical studies				X	
Technical Services for projects within expenditure limit and On-Site			X		
Technical Services - Off-Site				X	
Labour - Production Engineering	201				On or Off-site within the
Workovers	or		X		approval limit
Facility optimization	207		X		
Downhole equipment optimization			X		
Well control & safety programs			X		
Optimization of artificial lift systems			X		
Budget preparation		X			
Projects above Clause 112 expenditure limit				X	Include engineering cost on AFE
Supervision of Production Engineering					
On-Site			X		
Off-Site		X			
Field development study - wholly engineering				X	
On-site familiarization prior to start up			X		

TABLE 1
1996 PASC ACCOUNTING PROCEDURE SUMMARY GRID

Activity in Support of Joint Operations	Clause	Covered by Overhead	Direct Charge	Chargeable with Owner Approval	Comments
Labour - Reservoir Engineering	201				
Longer term studies	or			X	
Reservoir modeling	207			X	
Reservoir maintenance		X			
Reservoir withdrawal & injection balancing		X			
Budget preparation		X			
Other project work				X	Owner approval required
Labour - Supervision-Field/Facilities	201				
On-site supervision of field employees	or		X		
Supervision, not On-Site	207	X			
Conduct/control safe, reliable effective Operations and Maintenance while On-Site			X		
Personnel administration		X			Human Resources activities
Preparing budgets		X			
Information to upper management		X			
Litigation	218				
Legal personnel				X	
Handling litigation			X		
Judgements			X		
Settling Claims			X		
Material	401(a)		X		Includes discounts and rebates
New Material transfer (Condition A)	402(a)		X		
Good used material (Condition B)	402(b)		X		
Material requiring reconditioning transfer (Condition C)	402(c)		X		
Other used Material transfer	402(d)				
(Condition D)			X		
(Condition E)			X		
Premium prices	405		X		
Transportation of Material	403				
To Joint Property			X		
From Joint Property (credit)			X		
Disposition	406				
Proceeds less than limit			X		
Proceeds greater than limit				X	
Other Costs	220			X	

TABLE 1
1996 PASC ACCOUNTING PROCEDURE SUMMARY GRID

Activity in Support of Joint Operations	Clause	Covered by Overhead	Direct Charge	Chargeable with Owner Approval	Comments
Recruitment, training and safety	217 (a)				
Initial staffing recruitment/induction			X		
Expansion recruitment			X		
Circumstances beyond Operator's control			X		
Training	217(b)				
Initial staffing (familiarization training)			X		
Operations, environmental, safety			X		
Off-site technical for new equipment			X		
General technical, reservoir, process		X			
Personal development		X			
Supervisory practices, team building		X			
Quality improvement		X			
Interpersonal skills		X			
Performance coaching		X			
Safety articles required by regulations or corporate policy	217(c)		X		
Safety dinners (meal & room only)	217(d)		X		
Dinners which are not mainly safety	217(d)	X			
Safety dinners (alcohol & transport)	217(d)	X			
Site specific safety manuals	217(e)		X		
General safety manuals	217(e)	X			
Surface and sub-surface rights acquisition	209		X		While On-Site
Surface and sub-surface rights renewals			X		While On-Site
Periodic rental payments			X		As required to maintain Joint Prop.
Mineral lease payments			X		As required to maintain Joint Prop.
Land administrative functions		X			Administrative function
Related legal title work			X		
Taxes - property	210(a)		X		
Income Taxes					Not for Joint Account
Travel and moving	203(a)				To the Joint Property
Initial staffing			X		
Staff increase			X		
Replacement beyond Operator's control			X		
Staff rotation		X			
Corporate reorganization		X			
Training assignments		X			
Travel on behalf of Joint Operations	203(b)		X		
Warehouse handling fee	216		X		
Operating joint owned warehouse	207(d)		X		Allocated equitably

ASSIGNMENT PROCEDURE

Attached to and forming part of the Agreement dated the ____ day of *, A.D. 20*

BETWEEN: (AMONG)

*

- and -

*

ARTICLE 1
DEFINITIONS

1.1 In this Assignment Procedure, the following terms, when capitalized, shall have the meaning assigned to each below:

(a) "**Affiliate**" - for the purposes of this Assignment Procedure, means a corporation or partnership that is affiliated with the party in respect of which the expression is being applied, and, for the purpose of this definition a corporation or partnership is affiliated with another corporation or partnership if it directly or indirectly controls or is controlled by that other corporation or partnership, and for the purpose of determining whether a corporation or partnership is so controlled, it shall be deemed that:

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

(ii) a partnership is directly controlled by a corporation or other partnership if that corporation or partnership beneficially owns more than a 50% interest in the partnership;

(iii) a corporation or partnership is indirectly controlled by another corporation or partnership if control, as defined above, is exercised through one or more other corporations or partnerships.

Where two or more corporations or partnerships are affiliated at the same time with the same corporation or partnership, they shall be deemed to be Affiliates of each other.

(b) "**Agreement**" - means the agreement to which this Assignment Procedure is attached and made a part.

(c) "**Assigned Interest**" - means the interest in the Agreement which is the subject of an assignment and which is specified in a Notice of Assignment, but shall not include rights of the Assignor as operator.

(d) "**Assignee**" - means the entity named in a Notice of Assignment as the Assignee.

(e) "**Assignment and Novation Agreement**" - means an agreement by all parties to the Agreement and a party to whom an interest in the Agreement has been assigned where:

(i) the assignee assumes the duties and obligations of the assignor for the Assigned Interest; and

(ii) the assignor is released from its duties for the Assigned Interest; and

(iii) the assignee is substituted as a party to the Agreement in the place of the assignor to the extent of the Assigned Interest.

(f) "**Assignor**" - means the party to the Agreement named in a Notice of Assignment as the Assignor.

(g) "**Binding Date**" - means the first day of the second calendar month following the month in which the Notice of Assignment is served in accordance with Article 4 below.

(h) "**Notice of Assignment**" - means a notice in the form entitled Notice of Assignment attached hereto as Appendix "A".

(i) "**Third Party**" - means the parties to the Agreement who are not the Assignor.

(j) "**Transfer Date**" - means the effective date of the transfer of the Assigned Interest, as specified in the Notice of Assignment.

1.2 In this Assignment Procedure, when a numbered clause or Article is referred to, that clause or Article is of this Assignment Procedure.

ARTICLE 2
APPLICATION, CONDITIONS AND FORM OF NOTICE

2.1 (a) A Notice of Assignment issued in accordance with this Assignment Procedure shall be used in place of an Assignment and Novation Agreement for assignments where the Agreement:

(i) requires parties to use; or

(ii) entitles parties to request; or

(iii) is silent as to the right of any party to request;

an Assignment and Novation Agreement.

(b) The Notice of Assignment shall be in the form indicated in Appendix "A" and shall be executed by the Assignor and the Assignee.

2.2 If there is a conflict between the Assignment Procedure and the provisions of the Agreement, the Assignment Procedure shall prevail.

2.3 If the Agreement requires each Third Party's consent to an assignment but does not specify a time within which each Third Party shall respond or shall be deemed to have responded, then consent of each Third Party to an assignment shall be deemed if it fails to reply within 20 days of receipt of a written request for consent.

2.4 (a) If the Agreement is silent regarding rights of first refusal or consent from Third Party which relates to an Assigned Interest, then Assignor shall, by notice pursuant to Article 4:

(i) advise Third Party of:

- its intention to make the disposition;
- a description of the Assigned Interest; and
- the identity of the proposed Assignee, and

(ii) request Third Party's written consent to such disposition, which consent shall not be unreasonably withheld.

Consent of each Third Party shall be deemed if it fails to reply to Assignor within 20 days of receipt of the written request for consent.

(b) Clause 2.4(a) shall not apply in the following instances, namely:

(i) an assignment made by way of security for present or future indebtedness, or liabilities (whether contingent, direct or indirect and whether financial or otherwise), the issuance of the bonds or debentures of a corporation, or the performance of the obligations of a guarantor under a guarantee, provided that in the event the security is enforced by a sale or foreclosure, Clause 2.4(a) shall apply; or

(ii) an assignment to an Affiliate, or in consequence of a merger or amalgamation with another corporation or pursuant to an assignment made by a party of its entire interest in the Agreement to a corporation in return for shares in that corporation or to a registered partnership in return for an interest in that partnership; or

(iii) an assignment is required within the terms of the Agreement (such as, but not limited to, abandonment, forfeiture or surrender).

2.5 An assignment of an Assigned Interest shall (subject to Clause 2.6) be effective against Third Party on the Binding Date if:

(a) all prohibitions, limitations or conditions (such as, but not limited to, a right of first refusal or a requirement for prior consent from Third Party) applying to the Assigned Interest have been complied with and satisfied pursuant to the Agreement, or waived by Third Party, including, if applicable, compliance with Clauses 2.3 and 2.4; and

(b) following compliance with Clause 2.5(a), a Notice of Assignment is served on Third Party in accordance with Article 4.

2.6 (a) A Third Party who objects to the Notice of Assignment on the basis of a failure to comply with Clause 2.5 may, prior to the Binding Date, notify (pursuant to Article 4) Assignor and Third Party of its objections.

(b) If a notice of objection is served pursuant to Clause 2.6(a), the Notice of Assignment to which the notice of objection relates will be of no effect.

(c) If a Third Party does not object pursuant to Clause 2.6(a), the Notice of Assignment will be effective for purposes of Article 3, but each Third Party will retain all other rights or remedies arising as a consequence of the failure of Assignor to comply with Clause 2.5, including (without limitation), rights to seek damages for breach of the Agreement and rights to seek specific performance of a right of first refusal.

ARTICLE 3
ASSIGNMENT, ASSUMPTION AND DISCHARGE BY NOTICE

3.1 If a Notice of Assignment has become effective in accordance with Clauses 2.5 or 2.6, then Assignor, Assignee and Third Party shall have agreed that:

(a) Subject to Clause 3.1(d), Assignor and Assignee shall have acknowledged and represented that the Assignor has transferred, assigned and conveyed the Assigned Interest to Assignee as of the Transfer Date.

(b) Subject to Clause 3.1(d), Assignee shall replace Assignor as a party to the Agreement with respect to the Assigned Interest on and after the Transfer Date.

(c) Only insofar as Third Party is concerned, notwithstanding the terms and provisions in the "**Transfer Agreement**" referenced in the Notice of Assignment:

(i) Subject to Clause 3.1(d), Assignee shall assume and be bound by, observe and perform all terms, obligations and provisions in the Agreement with regard to the Assigned Interest at all times on or after the Transfer Date; and

(ii) Assignor shall retain and be entitled to all rights, benefits and privileges under the Agreement with respect to the Assigned Interest at all times prior to the Transfer Date; and

(iii) Subject to Clause 3.1(d), Assignee shall assume and be entitled to all rights, benefits and privileges under the Agreement with respect to the Assigned Interest at all times on and after the Transfer Date.

(d) In all matters relating to the Assigned Interest subsequent to the Transfer Date and prior to the Binding Date, Assignor acts as trustee for and duly authorized agent of Assignee, and Assignee, for the benefit of Third Party, ratifies, adopts and confirms all acts or omissions of the Assignor in such capacity as trustee and agent. Third Party agrees to recognize and accept Assignor as trustee and agent for Assignee.

(e) On and after the Transfer Date, Third Party:

(i) releases and discharges Assignor from the observance and performance of all terms and covenants of the Agreement and all obligations and liabilities which arise or occur on or after the Transfer Date under the Agreement with respect to the Assigned Interest; and

(ii) does not release and discharge Assignor from any obligation or liability which had arisen or accrued prior to the Transfer Date or which does not relate to the Assigned Interest.

(f) Subject to the terms and provisions of the "**Transfer Agreement**" referenced in the Notice of Assignment, Assignee on and after the Transfer Date:

(i) releases and discharges Assignor from the observance and performance of all terms and covenants of the Agreement and all obligations and liabilities which arise or occur on or after the Transfer Date under the Agreement with respect to the Assigned Interest; and

(ii) does not release and discharge Assignor from any obligation or liability which had arisen or accrued prior to the Transfer Date or which does not relate to the Assigned Interest.

(g) The address of Assignee for the purposes of the Agreement and the serving of notices under it shall be the address stated for Assignee in the Notice of Assignment.

(h) The Agreement shall continue in full force and effect from and after the Transfer Date with Assignee made a party thereto to the extent of the Assigned Interest, subject to Clause 3.1(d). The Agreement is amended as necessary to give effect to the Notice of Assignment and, as so amended, is ratified and confirmed by each party.

3.2 In no event shall errors, inaccuracies or misdescriptions in a Notice of Assignment have any effect on the Third Party or the interests of Third Party in the Agreement, even if Third Party has knowledge of an error, inaccuracy or misdescription.

3.3 Assignor and Assignee shall be solely responsible for any adjustment between themselves with respect to the Assigned Interest as to revenues, benefits, costs, obligations or indemnities which accrue prior to Binding Date.

ARTICLE 4
SERVICE OF NOTICES

4.1 All notices and Notices of Assignment (herein called "**notices**") required or permitted by the terms of this Assignment Procedure shall be in writing, subject to the provisions of this Article. This Article applies only to notices served pursuant to this Assignment Procedure. Any notice to be given under this Assignment Procedure shall be deemed to be served properly if served in any of the following modes:

(a) personally, by delivering the notice to the party on whom it is to be served at that party's address for service. Personally served notices shall be deemed received by the addressee when actually delivered as aforesaid, if such delivery is during normal business hours, on any day other than a Saturday, Sunday or statutory holiday. If a notice is not delivered during normal business hours, such notice shall be deemed to have been received by such party at the commencement of the day next following the date of delivery, other than a Saturday, Sunday or statutory holiday; or

(b) by telecopier or telex (or by any other like method by which a written and recorded message may be sent) directed to the party on whom it is to be served at that party's address for service (however, an original executed copy of a Notice of Assignment shall subsequently be provided to all addressees without delay). A notice so served shall be deemed received by the respective addressees: (i) when actually received by them, if received within the normal business hours on any day other than a Saturday, Sunday or statutory holiday; or (ii) at the commencement of the next ensuing business day following transmission thereof if such notice is not received during such normal business hours; or

(c) by mailing it first class (air mail if to or from a location outside of Canada) registered post, postage prepaid, directed to the party on whom it is to be served at that party's address for service. Notices so served shall be deemed to be received by the addressees at noon, local time, on the earlier of the actual date of receipt or the fourth (4th) day (excluding Saturdays, Sundays and statutory holidays) following mailing. However, if postal service is interrupted or operating with unusual or imminent delay, notice shall not be served by such means during such interruption or period of delay.

4.2 The addresses for service of a notice pursuant to this Assignment Procedure shall be as set out (and amended from time to time) in the Agreement.

APPENDIX "A"
TO THE 1993 CAPL ASSIGNMENT PROCEDURE)

NOTICE OF ASSIGNMENT

_____

_____

_____
(For reference only: general land description)

RECITALS:

A. by agreement ("**Transfer Agreement**") dated *, (full name of Assignor[s], as Assignor, transferred and conveyed effective * ("**Transfer Date**") an interest in property as more fully described below to (full name of Assignee[s]), as Assignee; and

B. Assignor and one or more parties ("**Third Party**") are subject to and bound by that certain * agreement dated *, made between, by or among * as may have been amended, affecting the land or property therein described ("**Master Agreement**"); and

C. in accordance with the terms and provisions of the Master Agreement, Assignor and Assignee intend to serve notice to Third Party to the Master Agreement of the transfer and conveyance as described in the Transfer Agreement.

NOW, THEREFORE, THIS NOTICE OF ASSIGNMENT WITNESSES THAT in consideration of the mutual advantages to the parties hereto, notice is hereby given, as follows:

1. Assignor (specify proportions if more than one Assignor):

   *

2. Assignee (specify proportions if more than one Assignee and include address for service of notice pursuant to Master Agreement):

   *

3. Current Third Party to Master Agreement:

   *

4. Assigned Interest: (Check A or B below):

   ____ A. Transfer Agreement covers *% of Assignor's entire undivided right, title and interest in the Master Agreement but shall not include rights of the Assignor as operator ("**Assigned Interest**"); OR

____ B. Transfer Agreement covers a portion of Assignor's right, title and interest in the Master Agreement but shall not include rights of the Assignor as operator ("**Assigned Interest**"). In the event Alternative B is checked , the following is the legal description of all lands and interests transferred and conveyed in the Transfer Agreement (attach schedule if more space is needed):

*

5. Subject to Clause 7 of this Notice of Assignment, Assignor and Assignee, in accordance with the terms of the Transfer Agreement, acknowledge that

(a) Assignor has transferred and conveyed the Assigned Interest to the Assignee as of the Transfer Date; and

(b) Assignee agrees to replace Assignor, on and after the Transfer Date, as a party to the Master Agreement with respect to the Assigned Interest; and

(c) Assignee agrees to be bound by and observe all terms, obligations and provisions in the Master Agreement with respect to the Assigned Interest on and after the Transfer Date.

6. Subject to the terms and provisions of the Transfer Agreement, Assignee on and after the Transfer Date:

(a) discharges and releases the Assignor from the observance and performance of all terms and covenants in the Master Agreement and any obligations and liabilities which arise or occur under the Master Agreement with respect to the Assigned Interest, and

(b) does not release and discharge the Assignor from any obligation or liability which had arisen or accrued prior to the Transfer Date or which does not relate to the Assigned Interest.

7. Assignee and Assignor agree that in all matters relating to the Master Agreement with respect to the Assigned Interest, subsequent to the Transfer Date and prior to the Binding Date, Assignor acts as trustee for and duly authorized agent of the Assignee and Assignee, for the benefit of the Third Party, ratifies, adopts and confirms all acts or omissions of the Assignor in such capacity as trustee and agent.

8. This Notice of Assignment shall become binding on all parties to the Master Agreement on the first day of the second calendar month following the month this notice is served on Third Party in accordance with the terms of the Master Agreement ("**Binding Date**"). In addition, Assignor and Assignee agree that they shall be solely responsible for any adjustment between themselves with respect to the Assigned Interest as to revenues, benefits, costs, obligations or indemnities which accrue prior to the Binding Date.

9. Assignor represents and certifies that this Notice of Assignment and its service are in compliance with all the terms and provisions of the Master Agreement.

IN WITNESS WHEREOF this Notice of Assignment has been duly executed by the Assignor and Assignee on the date indicated for each below:

Assignor		**Assignee**	
Per:	_____	Per:	_____
Per:	_____	Per:	_____
Date:	_____	Date:	_____

THIS IS **EXHIBIT "2"** REFERRED TO IN THE AFFIDAVIT OF DEREK LYNN SWORN THE 7TH DAY OF DECEMBER, 2022.

Chelsea S. Tolppanen
Student-at-Law

Alvarez & Marsal Canada Inc.
Bow Valley Square 4
Suite 1110, 250 - 6th Avenue SW
Calgary, Alberta T2P 3H7
Phone: +1 403 538 7555
Fax: +1 403 538 7551

May 2, 2022

Peter Straka
Senior Legal Counsel
Enerplus Corporation
Suite 3000, 333 - 7 Avenue SW | Calgary, AB | T2P 2Z1
pstraka@enerplus.com

Dear Mr. Straka:

RE: Receivership Accounting

As you are aware, on April 12, 2022, Alvarez & Marsal Canada Inc. ("**A&M**") was appointed as by the Court of Queen's Bench of Alberta as receiver and manager (the "**Receiver**") over all the assets of Robus Resources Inc. ("**Robus**"). The Receiver is following up from our virtual meeting that took placed on April 25, 2022, regarding our position on go-forward production revenue and expenses and delivery of payment to the Receiver. The net production receipts results from the majority interest Robus has on certain oil and gas assets with Enerplus Corporation ("**Enerplus**") and where Enerplus is the operator on record over such assets.

Paragraph 9 of the Receivership Order in this proceeding, pronounced April 12, 2022 (the "**Receivership Order**'), stays and suspends all rights and remedies of any person as against Robus Resources Inc., including all rights of set-off. As a result of the foregoing, any and all amounts owing that relate to the period prior to April 12, 2022 (the effective date of the Receivership Order) are stayed and suspended. In light of the foregoing, the Receiver expects that Enerplus will carry on accounting for transactions in the following manner:

<u>Annual Payments</u>

1. Annual payments on a calendar year are expected to be pro-rated at:
    - 101/365 applied to Robus Resources Inc.
    - 264/365 applied to Receiver of Robus
2. Annual payments not on a calendar year are expected to be pro-rated in the same manner (i.e. the days prior to April 12, 2022 are applied to Robus Resources Inc.).

Note: The Receiver expects to be informed of any financing or installment opportunities for annual payments.

<u>Monthly Payments</u>

1. Monthly payments on the calendar month for April are expected to be pro-rated at:
    - 11/30 applied to Robus Resources Inc.
    - 19/30 applied to Receiver of Robus
2. Monthly payments not on a calendar month (i.e. utilities) are expected to be pro-rated in the same manner. Utilities are to be allocated based on the range of dates within the details of the utility bill.

For payments that are payable other than monthly or annually, if the payments were owing or relating to obligations that were incurred prior to April 12, 2022, they are to be applied to Robus and not to the Receiver.

Please see attached the Receiver's banking (wire) information where Enerplus should deliver, in a timely manner, the Receiver's allocation of net receipts on a go-forward basis.

Should you require anything further, please contact Duncan MacRae at dmacrae@alvarezandmarsal.com.

Yours truly,

Alvarez & Marsal Canada Inc.,
in its capacity as Receiver of Robus Resources Inc.
and not it its personal or corporate capacity

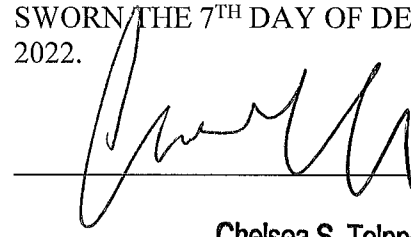
Orest Konowalchuk
Senior Vice President

cc: joliver@cassels.com
simardc@bennettjones.com

Wiring Funds to RBC in CAD Funds (Alvarez & Marsal Canada Inc., Receiver for Robus Resources Inc.)

Receiving Client's Name As shown on bank records	Alvarez & Marsal Canada Inc., Receiver for Robus Resources Inc.
Client's Full Address	Suite 1110, 250 - 6th Ave SW, Calgary AB T2P 3H7
Branch Transit Number	02319
Bank Number	003
Account Number	104 270 4
Swift Code	ROYCCAT2
Bank Name	Royal Bank of Canada
Bank Address	Bow Valley Square 3 255 5 Ave SW Calgary, AB T2P 3G6 Canada
Bank Phone Number	(403) 292-2048

THIS IS **EXHIBIT "3"** REFERRED TO IN THE AFFIDAVIT OF DEREK LYNN SWORN THE 7TH DAY OF DECEMBER, 2022.



Chelsea S. Tolppanen
Student-at-Law

Cassels

May 18, 2022

Via Email (simardc@bennettjones.com)

joliver@cassels.com
tel: +1 403 351 2921
fax: +1 403 648 1151
file # 57100-1

Bennett Jones LLP
#4500, 855 2 Street SW
Calgary, Alberta, T2P 4K7

Attention: Chris Simard

Dear Sir:

Re: Court File No.: 2201-01016 - *Robus Services LLC v. Robus Resources Inc.*

As you are aware, we are counsel to Alvarez & Marsal Canada Inc. ("**A&M**") in their capacity as receiver and manager (in such capacity, the "**Receiver**") of the assets of Robus Resources Inc. ("**Robus**"). We are writing with respect to a spill that the Receiver has been made aware of in the Joarcam area (the "**Spill**").

We understand from Mr. Straka that Enerplus:

(a) is performing some initial clean-up work and has reported the Spill to the Alberta Energy Regulator ("**AER**");

(b) will be doing an investigation into the Spill, which will include trying to determine the source of the Spill and the extent of any contamination resulting from the spill; and

(c) is estimating that the costs to remedy the Spill will be close to $1,000,000.

As funding is always limited in a receivership scenario, there are limited funds available to address the remediation costs associated with the Spill. While the Receiver is supportive of Enerplus taking such remediation steps as are necessary to meet the requirements set out by the AER, the Receiver also anticipates that Enerplus will conduct any and all remediation work in a cost effective and efficient manner and will not exceed any requirements established by the AER.

The Receiver is also requesting that Enerplus provide the Receiver with the following information in relation to the Spill, as it becomes available:

(a) information regarding whether Enerplus has an insurance policy that would cover the Spill and, if so, the deductible amount and limits under that policy;

(b) Enerplus' health and safety policies relating to the remediation of spills/contaminations of a similar nature to the Spill; and

(c) information relating to Enerplus' investigation of the Spill and the cause of the Spill as well as copies of Enerplus' internal reports and correspondence relating to the Spill (in accordance with the terms of the Joint Operating Agreement between Robus and Enerplus).

Finally, in accordance with the Joint Operating Agreement, the Receiver will require time to consider any significant remediation or repair/replacement work being considered by Enerplus and to approve the same before Enerplus undertakes such work. As such, please advise us of Enerplus' proposed course of action with respect to the Spill at your earliest convenience.

Yours truly,
Cassels Brock & Blackwell LLP

Jeffrey Oliver
JO/dm
LEGAL*55999304.2

THIS IS **EXHIBIT "4"** REFERRED TO IN THE AFFIDAVIT OF DEREK LYNN SWORN THE 7TH DAY OF DECEMBER, 2022.

Chelsea S. Tolppanen
Student-at-Law

Bennett Jones

Bennett Jones LLP
4500 Bankers Hall East, 855 - 2nd Street SW
Calgary, Alberta, Canada T2P 4K7
Tel: 403.298.3100 Fax: 403.265.7219

Chris Simard
Direct Line: 403.298.4485
e-mail: simardc@bennettjones.com
Our File No.: 68320.6

May 27, 2022

Via E-Mail

Mr. Jeffrey Oliver and Ms. Danielle Marechal
Cassels, Brock & Blackwell LLP
Suite 3810, Bankers Hall West
888 3rd Street SW
Calgary, AB T2P 5C5

Dear Mr. Oliver and Ms. Marechal:

Re: Robus Resources Inc. ("Robus"), in Receivership

As you know, we are counsel to Enerplus Corporation ("**Enerplus**"). We are writing further to the ongoing discussions between Enerplus and Alvarez & Marsal Canada Inc., the Receiver and Manager of Robus (the "**Receiver**"), regarding operations and accounting matters.

As requested by the Receiver, Enerplus has agreed that all annual and monthly payments will be prorated based on an April 12, 2022 cut-off date.

On May 6, 2022, Enerplus sent the Joint Interest Billing ("**JIB**") to the Receiver via EnergyLink for the April production month. Because that JIB was sent through EnergyLink, it reported all revenues and expenses for the entire month, without reflecting any prorating based on the April 12, 2022 cut-off date. Accordingly, Enerplus has prepared a detailed proration report, splitting the joint interest revenues and expenses into the pre- and post-receivership portions of the month of April, based on the April 12 cut-off date. That report is attached.

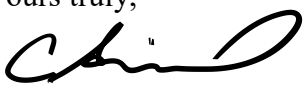
As you can see in the attached report, for the pre-receivership period from April 1 – April 11, 2022, Enerplus owes Robus $218,211.34. As Enerplus has been doing consistently for many months, and in accordance with the agreements between the parties, Enerplus has set-off that amount and applied it to the outstanding pre-receivership balance owed to it by Robus (the set-off of the April 1 – 11 net payable has reduced Enerplus's pre-receivership receivable balance from $1,275,881.56 to $1,057,670.22).

For the post-receivership period from April 12 – April 30, 2022, the Receiver owes Enerplus $63,163.54. Enerplus requires written confirmation from the Receiver that this amount will be paid within 30 days after receipt of the JIB, pursuant to clause 502 of the 1990 CAPL Operating Procedure attached to and forming part of the November 17, 2017 Joint Operating Agreement between Robus and Enerplus. Enerplus also requires written confirmation that, for any subsequent months in which

a net amount is owed by the Receiver to Enerplus, the Receiver will pay such amount within 30 days after receiving the JIBs.

The Receiver is required to pay all post-receivership obligations on a current basis, and Enerplus is not required to advance credit to the Receiver with respect to post-receivership goods and services. In its sole and absolute discretion, Enerplus will consider requests by the Receiver, to extend the deadlines for the Receiver to pay any monthly amount owing. We look forward to your timely written confirmations. Thank you very much.

Yours truly,



Chris Simard

CS:sh
cc: Client

THIS IS **EXHIBIT "5"** REFERRED TO IN THE AFFIDAVIT OF DEREK LYNN SWORN THE 7TH DAY OF DECEMBER, 2022.

Chelsea S. Tolppanen
Student-at-Law

Cassels

June 10, 2022

Via E-Mail: simardc@bennettjones.com

dmarechal@cassels.com
tel: +1 403 351 2922
fax: +1 403 648 1151
file # 57100-1

Bennett Jones LLP
#4500, 855 2 Street SW
Calgary, Alberta, T2P 4K7

Attention: Chris Simard

Dear Sir:

Re: ***Court File No.: 2201-01016***
Robus Services LLC v. Robus Resources Inc.

As you are aware, we are counsel to Alvarez & Marsal Canada Inc. in its capacity as receiver and manager (in such capacity, the "**Receiver**") of the assets of Robus Resources Inc. ("**Robus**").

The Receiver is currently in the process of performing a review of the Robus assets in anticipation of the potential sale of those assets. We understand that Enerplus Corporation ("**Enerplus**"), and not Robus, has copies of all of the mineral lease, surface lease, well and contract files relating to the petroleum and natural gas assets beneficially owned by Robus and governed by the Joint Operating Agreement (the "**JOA**") dated November 17, 2017 between Enerplus and Robus (collectively, the "**PNG Files**").

In accordance with paragraph 5 of the Receivership Order pronounced on April 12, 2022 and Clause 305 of the JOA, we are writing to request copies of, or access to, the PNG Files and for Enerplus to provide the Receiver with a current mineral property report for the assets related to the PNG Files by no later than June 20, 2022. We understand that Enerplus is currently conducting a sales process that would include the Enerplus' 1% interest in the assets to which the PNG Files related. As such, to the extent the PNG Files are available virtually through a data room, we would be please to access the PNG Files in this fashion.

Yours truly,

Cassels Brock & Blackwell LLP

Danielle Marechal

Danielle Marechal
Partner

DM

LEGAL*56178827.1

THIS IS **EXHIBIT "6"** REFERRED TO IN THE AFFIDAVIT OF DEREK LYNN SWORN THE 7TH DAY OF DECEMBER, 2022.

Chelsea S. Tolppanen
Student-at-Law

Alvarez & Marsal Canada Inc.
Bow Valley Square 4
Suite 1110, 250 - 6th Avenue SW
Calgary, Alberta T2P 3H7
Phone: +1 403 538 7555
Fax: +1 403 538 7551

June 27, 2022

Peter Straka
Senior Legal Counsel
Enerplus Corporation
Suite 3000, 333 - 7 Avenue SW | Calgary, AB | T2P 2Z1
pstraka@enerplus.com

Dear Mr. Straka:

RE: Pre-Receivership Accounting

As you are aware, on April 12, 2022, Alvarez & Marsal Canada Inc. ("**A&M**") was appointed as by the Court of Queen's Bench of Alberta as receiver and manager (the "**Receiver**") over all the assets of Robus Resources Inc. ("**Robus**").

The Receiver and their third-party contractors may be accepting joint-interest billings ("**JIBs**") between Robus and Enerplus Corporation ("**Enerplus**") on EnergyLink that relate to the period pre-receivership for the purposes of updating and maintaining Robus' accounting records as part of any sales process.

The acceptance of any pre-receivership JIBs for this purpose does not constitute agreement of the JIBs accepted on EnergyLink or any other JIBs issued by Enerplus, in whole or in part, including the accounting methodology used to calculate such JIBs. The Receiver reserves the right to dispute any JIBs at a later date, to conduct a fulsome review of any JIBs at a later date, and expressly reserves all rights, remedies and defenses available to the Receiver at law or in equity related thereto.

Should you require anything further, please contact Duncan MacRae at dmacrae@alvarezandmarsal.com.

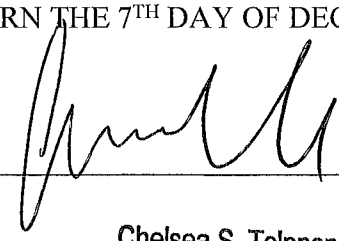
Yours truly,

Alvarez & Marsal Canada Inc.,
in its capacity as Receiver of Robus Resources Inc.
and not it its personal or corporate capacity

Orest Konowalchuk
Senior Vice President

cc: joliver@cassels.com
simardc@bennettjones.com

THIS IS **EXHIBIT** "7" REFERRED TO IN THE AFFIDAVIT OF DEREK LYNN SWORN THE 7TH DAY OF DECEMBER, 2022.



Chelsea S. Tolppanen
Student-at-Law

enerPLUS

AUTHORIZATION FOR EXPENDITURE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1 Printed Date: Sep 26, 2022

Well Name:	100/15-34-047-20W4 JOARCAM	**AFE Number:**	MW220027
Well:	100/15-34-047-20W4/00	**Cost Centre No.:**	W23063
AFE Type:	Maintenance - Well	**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Estimated Cost:	$12,566.00	**Budget Year:**	2022
		Team:	VALUE CREATION
		Project Number:	
Project Description:	Joarcam 100/15-34-47-20W4 Well Repair		

Justification:

The 100/15-34-047-20W4 well failed July 2022. It is suspected to have sand in the pump. Most recent production rates were: 0.58 m3/d oil, 0.49 e3m3/d gas, 3.26 m3/d water. Estimated cost to repair is $12,200 plus admin overhead for total $12,566.
Payout is estimated to be 1.2 months using a netback of $50/bbl.

PARTICIPANTS	WI (%)	ORIGINAL	SUPPLEMENT	TOTAL
ENERPLUS CORPORATION	1.000000%	$125.66		$125.66
ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA	99.000000%	$12,440.34		$12,440.34
TOTAL ESTIMATE:	100.00000%	$12,566.00		$12,566.00

Originator: Jeremy Krislock **Partner:** ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA

APPROVAL:

POSITION	NAME	DATE
Production Engineer - Value Creation	Jeremy Krislock	Sep 23, 2022

Per:

Name:

Title:

Date:

NOTICE TO WORKING INTEREST OWNERS: Costs on this form are estimates only. Working Interest Owners should not consider these estimates as establishing any limits on the monies which will be required to perform the proposed operation. In-house engineering and design is calculated as a fixed percentage of the AFE amount excluding overhead. In executing this AFE the parties hereto authorize the Operator, Enerplus Corporation, to file an election pursuant to subsection 273(1) of the Excise Tax Act and the parties here to agree to be bound by such election.

Contract# C015876 Mineral# M018497 Facility/Unit#

enerPLUS

COST ESTIMATE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well Name:	100/15-34-047-20W4 JOARCAM	**AFE Number:**	MW220027
Well:	100/15-34-047-20W4/00	**Cost Centre No.:**	W23063
AFE Type:		**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Tax Designation:		**Budget Year:**	2022
Estimated Cost:	$12,566.00	**Team:**	
		Project Number:	
Project Description:	Joarcam 100/15-34-47-20W4 Well Repair		

Account	Description	Gross Est. ($)
MAINTENANCE/WORKOVER EXPENSES - EX		
9810.230	TRANSPORTATION & HAULING	$1,000.00
9810.310	SERVICE RIG & CREW	$4,000.00
9810.431	SUCKER ROD & ACCESSORIES	$1,000.00
9810.434	BOTTOM HOLE PUMP	$4,000.00
9810.900	ADMINISTRATION & OVERHEAD (Maintenance OH321)	$366.00
9810.220	FLUID/CHEMICAL DISPOSAL	$1,000.00
9810.911	FIELD SUPERVISION	$1,200.00
	Sub-total	**$12,566.00**
	Grand Total	**$12,566.00**

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well List for AFE# MW220027

Well	Description	Surface Location
100/15-34-047-20W4/00		

enerPLUS

AUTHORIZATION FOR EXPENDITURE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1 Printed Date: Sep 26, 2022

Well Name:	100/09-27-047-20W4/00 JOARCAM	**AFE Number:**	MW220026
Well:	100/09-27-047-20W4/00	**Cost Centre No.:**	W22976
AFE Type:	Maintenance - Well	**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Estimated Cost:	$12,566.00	**Budget Year:**	2022
		Team:	VALUE CREATION
		Project Number:	
Project Description:	JOARCAM 9-27-47-20W4 Well Repair		

Justification:

100/09-27-47-20W4 failed April 2022. It is suspected to be a simple pump change. Most recent production rates were: 3.5 bbl/d oil, 0.6 BOE/d gas, 25 bbl/d water. Estimated cost is $12,566. Payout is estimated to be 2.0 months using $50/bbl netback.

PARTICIPANTS	WI (%)	ORIGINAL	SUPPLEMENT	TOTAL
ENERPLUS CORPORATION	1.000000%	$125.66		$125.66
ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA	99.000000%	$12,440.34		$12,440.34
TOTAL ESTIMATE:	100.00000%	$12,566.00		$12,566.00

Originator: Jeremy Krislock **Partner:** ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA

APPROVAL:

POSITION	NAME	DATE
Production Engineer - Value Creation	Jeremy Krislock	Sep 23, 2022

Per:

Name:

Title:

Date:

NOTICE TO WORKING INTEREST OWNERS: Costs on this form are estimates only. Working Interest Owners should not consider these estimates as establishing any limits on the monies which will be required to perform the proposed operation. In-house engineering and design is calculated as a fixed percentage of the AFE amount excluding overhead. In executing this AFE the parties hereto authorize the Operator, Enerplus Corporation, to file an election pursuant to subsection 273(1) of the Excise Tax Act and the parties here to agree to be bound by such election.

Contract# Mineral# Facility/Unit#

enerPLUS

COST ESTIMATE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well Name:	100/09-27-047-20W4/00 JOARCAM	**AFE Number:**	MW220026
Well:	100/09-27-047-20W4/00	**Cost Centre No.:**	W22976
AFE Type:		**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Tax Designation:	N/A	**Budget Year:**	2022
Estimated Cost:	$12,566.00	**Team:**	
		Project Number:	
Project Description:	JOARCAM 9-27-47-20W4 Well Repair		

Account	Description	Gross Est. ($)
MAINTENANCE/WORKOVER EXPENSES - EX		
9810.230	TRANSPORTATION & HAULING	$1,000.00
9810.431	SUCKER ROD & ACCESSORIES	$1,000.00
9810.220	FLUID/CHEMICAL DISPOSAL	$1,000.00
9810.911	FIELD SUPERVISION	$1,200.00
9810.310	SERVICE RIG & CREW	$4,000.00
9810.900	ADMINISTRATION & OVERHEAD (Maintenance OH321)	$366.00
9810.434	BOTTOM HOLE PUMP	$4,000.00
	Sub-total	**$12,566.00**
	Grand Total	**$12,566.00**

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well List for AFE# MW220026

Well	Description	Surface Location
100/09-27-047-20W4/00		

enerPLUS

AUTHORIZATION FOR EXPENDITURE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1 Printed Date: Sep 26, 2022

Well Name:	100/11-14-047-20W4 JOARCAM	**AFE Number:**	MW220025
Well:	100/11-14-047-20W4/00	**Cost Centre No.:**	W29259
AFE Type:	Maintenance - Well	**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Estimated Cost:	$12,566.00	**Budget Year:**	2022
		Team:	VALUE CREATION
		Project Number:	
Project Description:	Joarcam 100/11-14-47-20W4 Well Repair		

Justification:

The 100/11-14-047-20W4 well failed August 2022. It is suspected to be a simple pump change. Most recent production rates were: 3.7 bbl/d oil, 0.8 boe/d gas, 32 bbl/d water. Estimated cost to repair is $12,566. Payout is estimated to be 1.8 months.

PARTICIPANTS	WI (%)	ORIGINAL	SUPPLEMENT	TOTAL
ENERPLUS CORPORATION	1.000000%	$125.66		$125.66
ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA	99.000000%	$12,440.34		$12,440.34
TOTAL ESTIMATE:	100.00000%	$12,566.00		$12,566.00

Originator: Jeremy Krislock **Partner:** ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA

APPROVAL:

POSITION	NAME	DATE
Production Engineer - Value Creation	Jeremy Krislock	Sep 23, 2022

Per:

Name:

Title:

Date:

NOTICE TO WORKING INTEREST OWNERS: Costs on this form are estimates only. Working Interest Owners should not consider these estimates as establishing any limits on the monies which will be required to perform the proposed operation. In-house engineering and design is calculated as a fixed percentage of the AFE amount excluding overhead. In executing this AFE the parties hereto authorize the Operator, Enerplus Corporation, to file an election pursuant to subsection 273(1) of the Excise Tax Act and the parties here to agree to be bound by such election.

Contract# C016382 Mineral# M026228 Facility/Unit#

enerPLUS

COST ESTIMATE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well Name:	100/11-14-047-20W4 JOARCAM	**AFE Number:**	MW220025
Well:	100/11-14-047-20W4/00	**Cost Centre No.:**	W29259
AFE Type:		**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Tax Designation:		**Budget Year:**	2022
Estimated Cost:	$12,566.00	**Team:**	
		Project Number:	
Project Description:	Joarcam 100/11-14-47-20W4 Well Repair		

Account	Description	Gross Est. ($)
MAINTENANCE/WORKOVER EXPENSES - EX		
9810.310	SERVICE RIG & CREW	$4,000.00
9810.230	TRANSPORTATION & HAULING	$1,000.00
9810.431	SUCKER ROD & ACCESSORIES	$1,000.00
9810.434	BOTTOM HOLE PUMP	$4,000.00
9810.220	FLUID/CHEMICAL DISPOSAL	$1,000.00
9810.911	FIELD SUPERVISION	$1,200.00
9810.900	ADMINISTRATION & OVERHEAD (Maintenance OH321)	$366.00
	Sub-total	**$12,566.00**
	Grand Total	**$12,566.00**

enerPLUS

WELL LIST

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well List for AFE# MW220025

Well	Description	Surface Location
100/11-14-047-20W4/00		

enerPLUS

AUTHORIZATION FOR EXPENDITURE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1 Printed Date: Sep 26, 2022

Well Name:	100/03-01-050-22W4 JOARCAM	**AFE Number:**	MW220024
Well:	100/03-01-050-22W4/00	**Cost Centre No.:**	W19259
AFE Type:	Maintenance - Well	**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Estimated Cost:	$12,566.00	**Budget Year:**	2022
		Team:	VALUE CREATION
		Project Number:	
Project Description:	Joarcam 100/03-01-50-22W4 Well Repair		

Justification:

The 100/03-01-050-22W4 well failed July 2022. It is suspected to be a simple pump change. Most recent production rates were: 3.2 bbl/d oil, 1.2 BOE/d gas, 357 bbl/d water. Estimated cost to repair is $12,200 plus admin overhead for total $12,566.
Payout is estimated to be 2.3 months using a netback of $50/bbl.

PARTICIPANTS	WI (%)	ORIGINAL	SUPPLEMENT	TOTAL
ENERPLUS CORPORATION	1.000000%	$125.66		$125.66
ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA	99.000000%	$12,440.34		$12,440.34
TOTAL ESTIMATE:	100.00000%	$12,566.00		$12,566.00

Originator: Jeremy Krislock **Partner:** ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA

APPROVAL:

POSITION	NAME	DATE
Production Engineer - Value Creation	Jeremy Krislock	Sep 23, 2022

Per:

Name:

Title:

Date:

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Contract# C014310.2 Mineral# M021262.1 Facility/Unit#

enerPLUS

COST ESTIMATE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well Name:	100/03-01-050-22W4 JOARCAM	**AFE Number:**	MW220024
Well:	100/03-01-050-22W4/00	**Cost Centre No.:**	W19259
AFE Type:		**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Tax Designation:		**Budget Year:**	2022
Estimated Cost:	$12,566.00	**Team:**	
		Project Number:	
Project Description:	Joarcam 100/03-01-50-22W4 Well Repair		

Account	Description	Gross Est. ($)
MAINTENANCE/WORKOVER EXPENSES - EX		
9810.310	SERVICE RIG & CREW	$4,000.00
9810.220	FLUID/CHEMICAL DISPOSAL	$1,000.00
9810.911	FIELD SUPERVISION	$1,200.00
9810.900	ADMINISTRATION & OVERHEAD (Maintenance OH321)	$366.00
9810.431	SUCKER ROD & ACCESSORIES	$1,000.00
9810.230	TRANSPORTATION & HAULING	$1,000.00
9810.434	BOTTOM HOLE PUMP	$4,000.00
	Sub-total	**$12,566.00**
	Grand Total	**$12,566.00**

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well List for AFE# MW220024

Well	Description	Surface Location
100/03-01-050-22W4/00		

enerPLUS

AUTHORIZATION FOR EXPENDITURE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1 Printed Date: Sep 26, 2022

Well Name:	100/07-01-050-22W4 JOARCAM	**AFE Number:**	MW220023
Well:	100/07-01-050-22W4/00	**Cost Centre No.:**	W19263
AFE Type:	Maintenance - Well	**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Estimated Cost:	$12,566.00	**Budget Year:**	2022
		Team:	VALUE CREATION
		Project Number:	
Project Description:	Joarcam 100/07-01-50-22W4 Well Repair		

Justification:

The 100/07-01-050-22W4 well failed June 2022. It is suspected to be a broken rod. Most recent production rates were: 4.6 bbl/d oil, 0.9 BOE/d gas, 375 bbl/d water. Estimated cost to repair is $12,200 plus admin overhead for total $12,566.
Payout is estimated to be 1.7 months using a netback of $50/bbl.

PARTICIPANTS	WI (%)	ORIGINAL	SUPPLEMENT	TOTAL
ENERPLUS CORPORATION	1.000000%	$125.66		$125.66
ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA	99.000000%	$12,440.34		$12,440.34
TOTAL ESTIMATE:	100.00000%	$12,566.00		$12,566.00

Originator: Jeremy Krislock **Partner:** ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA

APPROVAL:

POSITION	NAME	DATE
Production Engineer - Value Creation	Jeremy Krislock	Sep 23, 2022

Per:

Name:

Title:

Date:

NOTICE TO WORKING INTEREST OWNERS: Costs on this form are estimates only. Working Interest Owners should not consider these estimates as establishing any limits on the monies which will be required to perform the proposed operation. In-house engineering and design is calculated as a fixed percentage of the AFE amount excluding overhead. In executing this AFE the parties hereto authorize the Operator, Enerplus Corporation, to file an election pursuant to subsection 273(1) of the Excise Tax Act and the parties here to agree to be bound by such election.

Contract# C014310.1 Mineral# M021259.1 Facility/Unit#

enerPLUS

COST ESTIMATE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well Name:	100/07-01-050-22W4 JOARCAM	**AFE Number:**	MW220023
Well:	100/07-01-050-22W4/00	**Cost Centre No.:**	W19263
AFE Type:		**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Tax Designation:		**Budget Year:**	2022
Estimated Cost:	$12,566.00	**Team:**	
		Project Number:	
Project Description:	Joarcam 100/07-01-50-22W4 Well Repair		

Account	Description	Gross Est. ($)
MAINTENANCE/WORKOVER EXPENSES - EX		
9810.431	SUCKER ROD & ACCESSORIES	$1,000.00
9810.434	BOTTOM HOLE PUMP	$4,000.00
9810.310	SERVICE RIG & CREW	$4,000.00
9810.220	FLUID/CHEMICAL DISPOSAL	$1,000.00
9810.911	FIELD SUPERVISION	$1,200.00
9810.900	ADMINISTRATION & OVERHEAD (Maintenance OH321)	$366.00
9810.230	TRANSPORTATION & HAULING	$1,000.00
	Sub-total	**$12,566.00**
	Grand Total	**$12,566.00**

enerPLUS

WELL LIST

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well List for AFE# MW220023

Well	Description	Surface Location
100/07-01-050-22W4/00		

enerPLUS

AUTHORIZATION FOR EXPENDITURE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1 Printed Date: Sep 26, 2022

Well Name:	100/16-12-050-22W4 JOARCAM	**AFE Number:**	MW220022
Well:	100/16-12-050-22W4/00	**Cost Centre No.:**	W16329
AFE Type:	Maintenance - Well	**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Estimated Cost:	$12,566.00	**Budget Year:**	2022
		Team:	VALUE CREATION
		Project Number:	
Project Description:	Joarcam 100/16-12-50-22W4 Well Repair		

Justification:

The 100/16-12-050-22W4 well failed April 2022. It is suspected to be a simple pump change. Most recent production rates were: 5 bbl/d oil, 1.5 BOE/d gas, 527 bbl/d water. Estimated cost to repair is $12,200 plus admin overhead for total $12,566.
Payout is estimated to be 1.5 months using a netback of $50/bbl.

PARTICIPANTS	WI (%)	ORIGINAL	SUPPLEMENT	TOTAL
ENERPLUS CORPORATION	1.000000%	$125.66		$125.66
ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA	99.000000%	$12,440.34		$12,440.34
TOTAL ESTIMATE:	100.00000%	$12,566.00		$12,566.00

Originator: Jeremy Krislock **Partner:** ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA

APPROVAL:

POSITION	NAME	DATE
Production Engineer - Value Creation	Jeremy Krislock	Sep 23, 2022

Per:

Name:

Title:

Date:

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Contract# C015876 Mineral# M018381 Facility/Unit#

enerPLUS

COST ESTIMATE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well Name:	100/16-12-050-22W4 JOARCAM	**AFE Number:**	MW220022
Well:	100/16-12-050-22W4/00	**Cost Centre No.:**	W16329
AFE Type:		**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Tax Designation:		**Budget Year:**	2022
Estimated Cost:	$12,566.00	**Team:**	
		Project Number:	
Project Description:	Joarcam 100/16-12-50-22W4 Well Repair		

Account	Description	Gross Est. ($)
MAINTENANCE/WORKOVER EXPENSES - EX		
9810.220	FLUID/CHEMICAL DISPOSAL	$1,000.00
9810.310	SERVICE RIG & CREW	$4,000.00
9810.911	FIELD SUPERVISION	$1,200.00
9810.900	ADMINISTRATION & OVERHEAD (Maintenance OH321)	$366.00
9810.431	SUCKER ROD & ACCESSORIES	$1,000.00
9810.434	BOTTOM HOLE PUMP	$4,000.00
9810.230	TRANSPORTATION & HAULING	$1,000.00
	Sub-total	**$12,566.00**
	Grand Total	**$12,566.00**

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well List for AFE# MW220022

Well	Description	Surface Location
100/16-12-050-22W4/00		

enerPLUS

AUTHORIZATION FOR EXPENDITURE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1 Printed Date: Sep 26, 2022

Well Name:	100/13-34-047-20W4 JOARCAM	**AFE Number:**	MW220001 R1
Well:	100/13-34-047-20W4/00	**Cost Centre No.:**	W22214
AFE Type:	Maintenance - Well	**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Estimated Cost:	$12,566.00	**Budget Year:**	2022
		Team:	VALUE CREATION
		Project Number:	2011000
Project Description:	Joarcam 100/13-34-47-20W4 Well Repair		

Justification:

The 100/13-34-047-20W4 well failed Nov.14, 2020. It passed its pressure test so it is expected to be a simple pump change. Most recent production rates were: 2.1 bbl/d oil, 0.2 boe/d gas, 77 bbl/d water.
Estimated cost to repair is $12,566. Payout is estimated to be 3.7 months.

PARTICIPANTS	WI (%)	ORIGINAL	SUPPLEMENT	TOTAL
ENERPLUS CORPORATION	1.000000%	$125.66		$125.66
ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA	99.000000%	$12,440.34		$12,440.34
TOTAL ESTIMATE:	100.00000%	$12,566.00		$12,566.00

Originator: Jeremy Krislock **Partner:** ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA

APPROVAL:

POSITION	NAME	DATE
Production Engineer - Value Creation	Jeremy Krislock	Sep 23, 2022

Per:

Name:

Title:

Date:

NOTICE TO WORKING INTEREST OWNERS: Costs on this form are estimates only. Working Interest Owners should not consider these estimates as establishing any limits on the monies which will be required to perform the proposed operation. In-house engineering and design is calculated as a fixed percentage of the AFE amount excluding overhead. In executing this AFE the parties hereto authorize the Operator, Enerplus Corporation, to file an election pursuant to subsection 273(1) of the Excise Tax Act and the parties here to agree to be bound by such election.

Contract# C015876.15 Mineral# M018497.1 Facility/Unit#

enerPLUS

COST ESTIMATE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well Name:	100/13-34-047-20W4 JOARCAM	**AFE Number:**	MW220001 R1
Well:	100/13-34-047-20W4/00	**Cost Centre No.:**	W22214
AFE Type:		**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Tax Designation:		**Budget Year:**	2022
Estimated Cost:	$12,566.00	**Team:**	
		Project Number:	2011000
Project Description:	Joarcam 100/13-34-47-20W4 Well Repair		

Account	Description		Gross Est. ($)
MAINTENANCE/WORKOVER EXPENSES - EX			
9810.310	SERVICE RIG & CREW		$4,000.00
9810.431	SUCKER ROD & ACCESSORIES		$1,000.00
9810.220	FLUID/CHEMICAL DISPOSAL		$1,000.00
9810.230	TRANSPORTATION & HAULING		$1,000.00
9810.434	BOTTOM HOLE PUMP		$4,000.00
9810.911	FIELD SUPERVISION		$1,200.00
9810.900	ADMINISTRATION & OVERHEAD (Maintenance OH321)		$366.00
		Sub-total	**$12,566.00**
		Grand Total	**$12,566.00**

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well List for AFE# MW220001 R1

Well	Description	Surface Location
100/13-34-047-20W4/00		

enerPLUS

AUTHORIZATION FOR EXPENDITURE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1 Printed Date: Sep 26, 2022

Well Name:	100/15-14-047-20W4 JOARCAM	**AFE Number:**	MW210026 R1
Well:	100/15-14-047-20W4/00	**Cost Centre No.:**	W28131
AFE Type:	Maintenance - Well	**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Estimated Cost:	$12,566.00	**Budget Year:**	2022
		Team:	VALUE CREATION
		Project Number:	2011000
Project Description:	Joarcam 100/15-14-47-20W4 Well Repair		

Justification:

The 100/15-14-047-20W4 well failed Nov.14, 2021. It is suspected to be a simple pump change. Most recent production rates were: 3.7 bbl/d oil, 0.8 boe/d gas, 27 bbl/d water. Estimated cost to repair is $12,566. Payout is estimated to be 1.8 months.

PARTICIPANTS	WI (%)	ORIGINAL	SUPPLEMENT	TOTAL
ENERPLUS CORPORATION	1.000000%	$125.66		$125.66
ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA	99.000000%	$12,440.34		$12,440.34
TOTAL ESTIMATE:	100.00000%	$12,566.00		$12,566.00

Originator: Jeremy Krislock **Partner:** ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA

APPROVAL:

POSITION	NAME	DATE
Production Engineer - Value Creation	Jeremy Krislock	Sep 23, 2022

Per:

Name:

Title:

Date:

NOTICE TO WORKING INTEREST OWNERS: Costs on this form are estimates only. Working Interest Owners should not consider these estimates as establishing any limits on the monies which will be required to perform the proposed operation. In-house engineering and design is calculated as a fixed percentage of the AFE amount excluding overhead. In executing this AFE the parties hereto authorize the Operator, Enerplus Corporation, to file an election pursuant to subsection 273(1) of the Excise Tax Act and the parties here to agree to be bound by such election.

Contract# C016382.4 Mineral# M026228.3 Facility/Unit#

enerPLUS

COST ESTIMATE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well Name:	100/15-14-047-20W4 JOARCAM	**AFE Number:**	MW210026 R1
Well:	100/15-14-047-20W4/00	**Cost Centre No.:**	W28131
AFE Type:		**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Tax Designation:		**Budget Year:**	2022
Estimated Cost:	$12,566.00	**Team:**	
		Project Number:	2011000
Project Description:	Joarcam 100/15-14-47-20W4 Well Repair		

Account	Description	Gross Est. ($)
MAINTENANCE/WORKOVER EXPENSES - EX		
9810.310	SERVICE RIG & CREW	$4,000.00
9810.220	FLUID/CHEMICAL DISPOSAL	$1,000.00
9810.434	BOTTOM HOLE PUMP	$4,000.00
9810.431	SUCKER ROD & ACCESSORIES	$1,000.00
9810.230	TRANSPORTATION & HAULING	$1,000.00
9810.900	ADMINISTRATION & OVERHEAD (Maintenance OH321)	$366.00
9810.911	FIELD SUPERVISION	$1,200.00
	Sub-total	**$12,566.00**
	Grand Total	**$12,566.00**

enerPLUS

WELL LIST

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well List for AFE# MW210026 R1

Well	Description	Surface Location
100/15-14-047-20W4/00		

enerPLUS

AUTHORIZATION FOR EXPENDITURE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1 Printed Date: Sep 26, 2022

Well Name:	100/06-24-050-22W4 JOARCAM	**AFE Number:**	MW220021
Well:	100/06-24-050-22W4/00	**Cost Centre No.:**	W16687
AFE Type:	Maintenance - Well	**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Estimated Cost:	$5,150.00	**Budget Year:**	2022
		Team:	VALUE CREATION
		Project Number:	
Project Description:	Joarcam 100/06-24-50-22W4 Well Repair		

Justification:

The 100/06-24-050-22W4 well failed March 2022. It just needs to have its polished rod replaced. Most recent production rates were: 4.5 bbl/d oil, 1.7 BOE/d gas, 208 bbl/d water. Estimated cost to repair is $5,000 plus admin overhead for total $5,150.
Payout is estimated to be 0.6 months using a netback of $50/bbl.

PARTICIPANTS	WI (%)	ORIGINAL	SUPPLEMENT	TOTAL
ENERPLUS CORPORATION	1.000000%	$51.50		$51.50
ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA	99.000000%	$5,098.50		$5,098.50
TOTAL ESTIMATE:	100.00000%	$5,150.00		$5,150.00

Originator: Jeremy Krislock **Partner:** ROBUS RESOURCES INC. IN RECEIVERSHIPC/O RECEIVER AND MANAGER ALVAREZ & MARSA

APPROVAL:

POSITION	NAME	DATE
Production Engineer - Value Creation	Jeremy Krislock	Sep 23, 2022

Per:

Name:

Title:

Date:

NOTICE TO WORKING INTEREST OWNERS: Costs on this form are estimates only. Working Interest Owners should not consider these estimates as establishing any limits on the monies which will be required to perform the proposed operation. In-house engineering and design is calculated as a fixed percentage of the AFE amount excluding overhead. In executing this AFE the parties hereto authorize the Operator, Enerplus Corporation, to file an election pursuant to subsection 273(1) of the Excise Tax Act and the parties here to agree to be bound by such election.

Contract# C015876 Mineral# M018330 Facility/Unit#

enerPLUS

COST ESTIMATE

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well Name:	100/06-24-050-22W4 JOARCAM	**AFE Number:**	MW220021
Well:	100/06-24-050-22W4/00	**Cost Centre No.:**	W16687
AFE Type:		**Classification:**	Expense
Area:	02J71 JOARCAM 1%	**Mail Ballot No.:**	
Operator:	ENERPLUS CORPORATION	**Start Date:**	Sep 15, 2022
Tax Designation:		**Budget Year:**	2022
Estimated Cost:	$5,150.00	**Team:**	
		Project Number:	
Project Description:	Joarcam 100/06-24-50-22W4 Well Repair		

Account	Description		Gross Est. ($)
MAINTENANCE/WORKOVER EXPENSES - EX			
9810.911	FIELD SUPERVISION		$500.00
9810.310	SERVICE RIG & CREW		$2,000.00
9810.431	SUCKER ROD & ACCESSORIES		$2,000.00
9810.900	ADMINISTRATION & OVERHEAD (Maintenance OH321)		$150.00
9810.230	TRANSPORTATION & HAULING		$500.00
		Sub-total	**$5,150.00**
		Grand Total	**$5,150.00**

enerPLUS

WELL LIST

3000, 333 - 7th Avenue S.W., Calgary, AB, T2P 2Z1

Printed Date: Sep 26, 2022

Well List for AFE# MW220021

Well	Description	Surface Location
100/06-24-050-22W4/00		

THIS IS **EXHIBIT "8"** REFERRED TO IN THE AFFIDAVIT OF DEREK LYNN SWORN THE 7TH DAY OF DECEMBER, 2022.

Chelsea S. Tolppanen
Student-at-Law

From:	Derek Lynn
To:	MacRae, Duncan
Cc:	Konowalchuk, Orest; John Hoffman; Caroline Ogston; Chris Simard; Heidi Hande
Subject:	RE: [EXT] Robus - Receiver Payment
Date:	Friday, October 14, 2022 11:02:21 AM

Duncan,

This is acceptable to Enerplus.

Please let us know when the wire has been initiated and we will let you know when we have received it.

Regards,

Derek

From: MacRae, Duncan <dmacrae@alvarezandmarsal.com>
Sent: October 14, 2022 7:26 AM
To: Derek Lynn <Dlynn@enerplus.com>
Cc: Konowalchuk, Orest <okonowalchuk@alvarezandmarsal.com>; John Hoffman <jhoffman@enerplus.com>; Caroline Ogston <COgston@enerplus.com>
Subject: RE: [EXT] Robus - Receiver Payment

Derek,

We are preparing to wire to Enerplus the amount of $229,621.22 (the "**Payment**"). Pursuant to Orest Konowalchuk's email to John Hoffman and Derek Lynn of Enerplus dated August 24, 2022, Chris Simard's response dated August 30, 2022 and subsequent discussions between the parties, prior to us initiating the payment to Enerplus we are requesting Enerplus to reply to us with the following written acknowledgment:

a) $125,000.00 of the Payment shall be recorded against the balance owing in rentals and property taxes as of July 31, 2022, which is $375,795.65;

b) $104,621.22 of the Payment shall be utilized solely to perform the work that is the subject of the AFEs referenced in Derek Lynn's email to Orest Konowalchuk and David Kittay dated September 26, 2022 for well workovers in the field, in particular relating to authorization for expenditures (MW210026, MW220001, MW220021, MW220022, MW220023, MW220024, MW220025, MW220026, and MW220027) (collectively, the "**Workovers**"). Enerplus shall forthwith initiate the Workovers upon the receipt of the Payment and shall diligently undertake the work related thereto.

c) Any unspent amounts are to be utilized for additional well workovers as directed by the Receiver or are to be returned to the Receiver. Any planned overspend should be brought to the attention of the Receiver before committed to.

d) The Payment is being advanced without prejudice to any other rights that either Robus Resources Inc. or Enerplus have pursuant to any contract as between them or at law, including the Joint Operating Agreement.

Upon our receipt of Enerplus' written acknowledgment of these conditions, we will initiate the Payment.

With respect to the Workovers, subject to their availability, our preference would be to utilize rod rig Amped Energy Services out of Sedgewick and utilize Enerplus consultant Dennis Wokowski (Wainwright) or Alan Letendre (Red Deer).

Thanks,
Duncan

Duncan MacRae, CPA, CA, CIRP, LIT
Director
Alvarez & Marsal Canada ULC
Suite 1110, 250 6th Avenue SW
Calgary, AB T2P 3H7
Direct: +1 403 538 7514
Mobile: +1 403 815 0297
AlvarezandMarsal.com
Follow and connect with A&M:
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Alvarez & Marsal employs CPAs but is not a licensed CPA firm

From: Derek Lynn <Dlynn@enerplus.com>
Sent: Thursday, October 13, 2022 10:06 AM
To: MacRae, Duncan <dmacrae@alvarezandmarsal.com>
Cc: Konowalchuk, Orest <okonowalchuk@alvarezandmarsal.com>; John Hoffman <jhoffman@enerplus.com>; Caroline Ogston <COgston@enerplus.com>
Subject: RE: [EXT] Robus - Receiver Payment

Duncan,

Please see attached for Enerplus' banking information.

Regards,

Derek
403.298.8858

From: MacRae, Duncan <dmacrae@alvarezandmarsal.com>
Sent: October 13, 2022 10:01 AM
To: Derek Lynn <Dlynn@enerplus.com>
Cc: Konowalchuk, Orest <okonowalchuk@alvarezandmarsal.com>; John Hoffman <jhoffman@enerplus.com>
Subject: [EXT] Robus - Receiver Payment

Derek,

In preparation for making payments to Enerplus, could you please provide wire instructions that we can use?

Thanks,
Duncan

Duncan MacRae, CPA, CA, CIRP, LIT
Director
Alvarez & Marsal Canada ULC
Suite 1110, 250 6th Avenue SW
Calgary, AB T2P 3H7
Direct: +1 403 538 7514
Mobile: +1 403 815 0297
AlvarezandMarsal.com
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THIS IS **EXHIBIT "9"** REFERRED TO IN THE AFFIDAVIT OF DEREK LYNN SWORN THE 7TH DAY OF DECEMBER, 2022.

Chelsea S. Tolppanen
Student-at-Law

Robus Resources Summary as of November 30, 2022

		Pre-stay balances	Post-Stay Balances	Oct 14 Payment Applied
April JIB	79444, 79445	*$ (207,786.43)*	$ 28,693.66	
April Rentals		*$ 21.26*	$ 34,469.88	
May JIB	79522, 79523	*$ 143,614.94*	$ 32,107.05	$ -
May Rentals		*$ -*	$ 34,065.40	$ (4,031.52)
June JIB	79598, 79599	*$ 130,498.76*	$ 621,902.59	$ (113,623.43)
June Rentals		*$ -*	$ 41,956.87	$ (1,288.50)
July JIB	79658, 79659	*$ 3,181.39*	$ 26,997.56	$ (3,703.80)
July Rentals		*$ -*	$ 11,706.76	$ (2,352.75)
August JIB	79718, 79719	*$ 3,276.67*	$ 67,482.86	
August Rentals		*$ -*	$ 16,067.06	
September JIB	79773, 79774	*$ (2,255.34)*	$ 712,782.43	
September Rentals		*$ -*	$ 39,532.53	
October JIB	79842, 79843	*$ 1,603.01*	$ 146,253.74	
October Rentals		*$ -*	$ 25,146.28	
November JIB*	79907, 79908	*$ -*	$ 75,999.59	
November Rentals		*$ -*	$ 105,070.43	
		$ 72,154.26	**$ 2,020,234.69**	**$ (125,000.00)**

Total AR Balance for Robus Receiver at November 30, 2022	**$ 1,895,234.69**

Oct 14 Payment Received	$ (229,621.22)
Property Tax & Rentals (applied as per above)	*$ (125,000.00)*
Pre-payment for workovers (nothing yet billed, not applied above)	*$ (104,621.22)*

** November JIB not yet analyzed for pre and post stay split or for workover changes that have been prepaid*