C91042

COURT FILE NUMBER	~~2401~~ - 2401 13217
COURT	COURT OF KING'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
APPLICANTS	**GREENFIRE RESOURCES OPERATING CORPORATION**
RESPONDENT	**VICEROY CANADIAN RESOURCES CORP.**
DOCUMENT	**AFFIDAVIT**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**OSLER, HOSKIN & HARCOURT LLP** Barristers & Solicitors Brookfield Place, Suite 2700 225 6 Ave SW Calgary, AB T2P 1N2 Solicitors: Randal Van de Mosselaer / Stephanie Clark Telephone: (403) 260-7000 / 7034 Facsimile: (403) 260-7024 Email: RVandemosselaer@osler.com /sclark@osler.com File Number: 1241968

AFFIDAVIT OF ROBERT LOGAN

Sworn/Affirmed on September 6, 2024

I, Robert Logan MPBE, P. Eng, P.E., of the City of Calgary, in the Province of Alberta, SWEAR/AFFIRM AND SAY THAT:

1. I am the President and Chief Executive Officer for the Applicant, Greenfire Resources Operating Corporation ("**Greenfire**"). I have a Bachelor of Science in Petroleum Engineering from the University of Alberta, a Masters degree in Petroleum Business Engineering from the Delft University of Technology in the Netherlands, and I am a Professional Engineer and a member of the Association of Professional Engineers and Geoscientists of Alberta. As such, I have personal knowledge of the matters referred to in this Affidavit, except where such matters are stated to be based on belief, in which case I believe them to be true.

The Parties

2. Greenfire is a corporation duly incorporated under the laws of Alberta with its registered office in Calgary. A corporate search for Greenfire is attached hereto as **Exhibit "A"**.

3. The Respondent, Viceroy Canadian Resources Corp. ("**Viceroy**") is a corporation duly incorporated under the laws of the Province of Alberta with a registered office in Calgary. A corporate search for Viceroy is attached hereto as **Exhibit "B"**.

The Farm-In Agreement

4. Viceroy is a party to the Amended and Restated Farm-In and Participation Agreement, effective as of January 31, 2019 and amended and restated as of June 19, 2020 (the "**Farm-In Agreement**") governing the ownership and operation of a steam assisted gravity drainage plant and facility located approximately 45 km north of Fort McMurray (the "**Fort McKay SAGD Project**"). The original counterparty to the Farm-In Agreement (and the former Operator of the Fort McKay SAGD Project) was Everest Canadian Resources Corp. ("**Everest**"). A copy of the Farm-In Agreement is attached hereto as **Exhibit "C"**.

5. The Farm-In Agreement provides, among other things:

    a. that Viceroy has a 5% working interest, and Everest had a 95% working interest, in the Fort McKay SAGD Project, which includes a SAGD plant (the "**Plant**");

    b. that Everest was the Operator (as defined in the Farm-In Agreement) of the joint lands and the Plant; and

    c. that Viceroy is obligated to pay its proportionate share of the costs and expenses incurred for the operations relating to the joint lands and the Plant.

6. The Farm-In Agreement incorporates the 2007 CAPL Operating Procedures (the "**CAPL Operating Procedures**"), as amended by Schedule "B" of the Farm-In Agreement. The standard form 2007 CAPL Operating Procedures is attached hereto as **Exhibit "D"**.

7. The Farm-In Agreement also incorporates the 1996 PASC Accounting Procedures, as amended by Schedule "B" of the Farm-In Agreement. The standard form 1996 PASC Accounting Procedures is hereto attached as **Exhibit "E"**.

8. The CAPL Operating Procedures, at section 5.05(A), grants the Operator of the Fort McKay SAGD Project and the Plant an Operator's lien (the "**Operator's Lien**") over the Fort McKay SAGD Project and the Plant:

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

The Everest Receivership and Purchase by Greenfire

9. Pursuant to an Order of the Honourable Justice B. B. Johnston of the Court of King's Bench of Alberta, Judicial District of Calgary (the "**Court**") dated April 5, 2023, PricewaterhouseCoopers Inc. LIT was appointed receiver and manager (the "**Receiver**") of the undertakings, property and assets of Everest (the "**Receivership Order**"). A copy of the Receivership Order is attached hereto as **Exhibit "F"**.

10. On February 24, 2024 Greenfire (as Purchaser) and the Receiver (as Vendor) entered into a Purchase and Sale Agreement (the "**PSA**") pursuant to which Greenfire agreed to purchase and the Receiver agreed to sell Everest's interest in the Assets (as that term is defined in the PSA), which included Everest's interests in the Fort McKay SAGD Project, the Plant, and the Farm-In Agreement.

11. Pursuant to an Order of the Court dated March 27, 2024, the Court approved the PSA (the "**Sale Approval Order**"). The transaction contemplated by the PSA closed on or about April 19, 2024, at which time Greenfire acquired a 95% working interest in the Fort McKay SAGD Project (including the Plant), and became a successor in interest to Everest's rights under the Farm-In Agreement, including by becoming Operator. A copy of the Sale

Approval Order is attached hereto as **Exhibit "G"**. A copy of the filed Receiver's Certificate contemplated by the Sale Approval Order is attached hereto as **Exhibit "H"**.

12. On May 23, 2024, Greenfire registered its Operator's Lien as against Viceroy's interests in the Fort McKay SAGD Project and related assets in the Personal Property Registry of Alberta. A copy of a Personal Property Registry search confirming the registration of the Operator's Lien is attached hereto as **Exhibit "I"**.

13. On August 13, 2024, Greenfire amended its registration of the Operator's Lien in the Personal Property Registry. A copy of a Personal Property Registry search confirming the amendment of the Operator's Lien is attached hereto as **Exhibit "J"**.

Amounts owing by Viceroy to Greenfire

14. On January 24, 2024, the Receiver delivered a letter to Viceroy demanding payment of amounts then outstanding by Viceroy to Everest under the Farm-In Agreement (the "**January 24 Letter**"). The Receiver estimated that, as of April 5, 2023 (the date the Receiver was appointed), Viceroy owed Everest at least the sum of $102,269,87. A copy of the January 24 Letter is attached hereto as **Exhibit "K"**.

15. Following the closing of the transaction under the PSA, on April 25, 2024, Greenfire's counsel, Osler, Hoskin & Harcourt LLP ("**Osler**"), delivered a letter to Viceroy demanding payment of additional amounts outstanding by Viceroy to Greenfire under the Farm-In Agreement (the "**April 25 Letter**"). Osler also provided notice to Viceroy that the amount outstanding by Viceroy to Greenfire had by then increased to $794,075.06 (the "**Outstanding Amounts**"), that the letter constituted a notice of default pursuant to the CAPL Operating Procedures, and that Greenfire intended to take steps to enforce its Operator's Lien. A copy of the April 25 Letter is attached hereto as **Exhibit "L"**.

16. Viceroy did not respond to the April 25 Letter.

17. On June 4, 2024, Osler delivered another letter to Viceroy demanding payment of the Outstanding Amounts under the Farm-In Agreement and providing a Notice of Intention to Enforce Security in accordance with section 244 of the *Bankruptcy and Insolvency Act (Canada)*, thereby giving notice to Viceroy of Greenfire's intention to take steps to enforce

its Operator's Lien (the "**June 4 Letter**"). A copy of the June 4 Letter is attached hereto as **Exhibit "M"**.

18. Viceroy did not respond to the June 4 Letter.

19. On June 18, 2024, Osler delivered another letter to Viceroy (the "**June 18 Letter**") providing notice pursuant to section 62 of the *Personal Property Security Act*, RSA 2000, c P-7 ("**PPSA**") that Greenfire proposed to take the collateral secured by the Operator's Lien (namely, Viceroy's 5% interest in the Fort McKay SAGD Project and the Plant) in satisfaction of the Outstanding Amounts, if Viceroy did not provide a written notice of objection pursuant to section 62(2) of the PPSA within 15 days of the date of the June 18 Letter. A copy of the June 18 Letter is attached hereto as **Exhibit "N"**.

20. On June 21, 2024, Qiping Men, a director of Viceroy, delivered an email to Osler objecting, pursuant to section 62(2) of the PPSA, to Greenfire's proposal to take Viceroy's interest in the Plant in satisfaction of the Outstanding Amount (the "**June 21 Email**"). A copy of the June 21 Email is attached hereto as **Exhibit "O"**.

21. Qiping Men also claimed that Viceroy had not received copies of April 25 Letter, the June 4 Letter, or the June 18 Letter, even though each of those letters was delivered to Viceroy's registered office as disclosed in the corporate registry search attached at Exhibit "B" hereto.

22. The joint lands and Plant continue to accrue joint operating expenses, and the Outstanding Amount will continue to increase. A statement of accounts showing the current Outstanding Amount owing by Viceroy to Greenfire (updated to the date of this Affidavit) is attached as **Exhibit "P"**.

23. On June 26, 2024 Qiping Men advised Greenfire (through its counsel) that Viceroy intended to exercise its right to audit the Outstanding Amounts. On July 4, 2024 Greenfire's counsel responded by email (the "**July 4 Email**") confirming Viceroy's right to conduct an audit, inquiring who would be conducting the audit so that the necessary documents could be provided to the auditor, proposing a schedule for the audit, and pointing out that under the terms of the Farm-In Agreement the commencement of the audit does not relieve Viceroy from making payment of the Outstanding Amounts. A copy of this email exchange is attached hereto as **Exhibit "Q"**.

24. Neither Qiping Men nor anyone else from Viceroy responded to the July 4 Email, and accordingly Greenfire's counsel followed up with an email on July 9, 2024. On July 10, 2024 Qiping Men responded by email saying: " ... please send us the related calculations with supporting documents for auditing. Before we receive necessary information, we can not agree any schedules." A copy of this email exchange is attached hereto as **Exhibit "R"**.

25. On July 15, 2024 Greenfire sent Qiping Men an email (the "**July 15 Email**") containing a link to all joint interest billing documentation as he had requested, and repeated the requests and proposed schedule contained in the July 4 Email. Neither Qiping Men nor anyone else from Viceroy responded to the July 15 Email, and accordingly on August 1, 2024 Greenfire followed up with Qiping Men. On that same day Qiping Men replied by email again asking for "supporting documents", and saying that "Before we have those necessary information, we can not go to next step for audit." Given that the documents had been provided in the July 15 Email, on that same day Greenfire responded saying that: "You have been supplied all backup as requested through the JIBs for both past and current charges. With respect to the historical items, if there is something specific that you disagree with let you know through specific audit queries." A copy of this email exchange (the "**August 1 Exchange**") is attached hereto as **Exhibit "S"**.

26. On August 2, 2024, Greenfire's counsel wrote to Qiping Men further to the August 1 Exchange saying:

> Further to the exchange below, given that Greenfire provided all requested back up documents in the link in Tony's July 15 email (below) if you believe you are missing anything please advise immediately with specific reference to what you believe to be missing.
>
> In addition, we note that you have not provided the information requested in the points set out in Tony's July 15 email. Please provide that information immediately and confirm the schedule for completing the audit as set out in Tony's July 15 email.

27. As of the date of this Affidavit there has been no further response from Qiping Men or Viceroy to the July 15 Email or the August 1 Exchange.

The Plant

28. The Plant which forms part of the Fort McKay SAGD Project, and in which Viceroy holds a 5% interest, is entirely above ground, and consists of tanks, pipe rack modules, pump

buildings, and other equipment skids. The Plant is a modular plant which is designed and intended to be movable and transferable to different sites.

29. The equipment that comprises the Plant sits on piles. Some equipment, such as some of the tanks, are not affixed to the land other than by their own weight.

30. Other equipment, such as some of the pipe rack modules, have some degree of attachment in that they are secured to the pile flange with bolts, but they are only secured by bolts so that this component of the Plant can be better utilized and so as to reduce vibration or movement from thermal expansion. The pipe rack modules can be unbolted and removed with minimal effort, and they can be unbolted and removed without damaging the equipment or the lands.

31. Other Plant equipment, such as the pump buildings, are secured to the piles by welding, but this attachment is only to reduce vibrations and so that this component of the Plant can be better utilized. The pump buildings can be removed from the piles with minimal effort and without damaging the equipment or the lands.

32. The only purpose of the Plant is to facilitate the removal and processing of the oil at the Fork McKay SAGD Project. The Plant equipment is designed and intended to remain on the land only as long as the Fork McKay SAGD Project is producing oil. The design of the Plant, and its installation on the lands, is intended to be temporary, and the oil reservoirs have a finite life span. The Plant (and plants of this type) are intended to be moved or sold piecemeal for use on different projects and on multiple sites. Equipment of the type which comprises the Plant is routinely removed from sites and relocated or sold.

33. For example, a SAGD plant designed by the same firm and having a very similar design to the Plant, and which was owned and operated by Total Energy, was shut down in 2014 and sold to Cenovus. Cenovus then moved all of the plant and equipment from Total's Joslyn Creek SAGD site to Cenovus' site. This SAGD plant, like the Plant and other plants like it, was designed to be mobile, and was intended to be moved to different locations. An article discussing the relocation of this SAGD plant is attached hereto as **Exhibit "T"**.

34. Prior to Greenfire's purchase of the Fort McKay SAGD Project, I was aware that the Orphan Well Association (which was managing the Plant at the time) intended to sell the Plant buildings piecemeal, if Greenfire had not purchased it.

Enforcement of the Operator's Lien and Sales Process

35. In light of the foregoing, it is my understanding based on my experience in the industry that the Plant (and the various component pieces of equipment which comprise the Plant) is a chattel.

36. It is my understanding that Greenfire, as the Operator of the Fort McKay SAGD Project, holds an Operator's Lien over the Plant.

37. It is my further understanding that in light of Viceroy's objection pursuant to section 62(2) of the PPSA in the June 21 Email, the PPSA requires that Greenfire (being the secured party) dispose of the collateral (being Viceroy's interest in the Plant) in accordance with the provisions of section 60 of the PPSA, that is: (a) by private sale, or (b) by public sale, including public auction or closed tender, and (c) as a whole or in commercial units or parts.

38. Although Greenfire holds an Operator's Lien over the Plant, Greenfire is also interested in being a potential bidder for the collateral, namely, Viceroy's interest in the Plant. In light of Greenfire's interest in being a bidder and a prospective purchaser of Viceroy's interest in the Plant, it would be inappropriate for Greenfire to be responsible for running the sale process to dispose of the collateral in accordance with section 60 of the PPSA. Accordingly, I believe it would be just and convenient and appropriate that this Court appoint a limited Receiver over Viceroy's interest in the Plant so that this Court's Officer could be responsible for running a sales process for Viceroy's interest in the Plant in a fair and transparent manner, under the supervision of the Court, and to ensure that such sales process does not have any actual or apparent conflict.

39. Alvarez & Marsal Canada Inc. is experience and skilled in acting in such capacity, and has consented to act as Receiver of Viceroy's interest the Plant. Attached hereto as **Exhibit "U"** is a copy of the Consent to Act executed by Alvarez & Marsal Canada Inc.

SWORN/AFFIRMED BEFORE ME at
Calgary, Alberta this 6th day of September,
2024.

Commissioner for Oaths in and for the
Province of Alberta

Mackenzie Cardinal
Student-at-Law

ROBERT LOGAN

This is Exhibit "A" to the Affidavit of
mc √(Robert Logan)√
~~Brianne Harris~~ sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

Government of Alberta ■

Corporation/Non-Profit Search

Corporate Registration System

Date of Search: 2024/08/13
Time of Search: 02:49 PM

Service Request Number: 42732625
Customer Reference Number: 05660404-EDD3_5_4558005

Corporate Access Number: 2025746435
Business Number: 702715475
Legal Entity Name: GREENFIRE RESOURCES OPERATING CORPORATION

Legal Entity Status: Active
Alberta Corporation Type: Named Alberta Corporation
Method of Registration: Amalgamation
Registration Date: 2024/01/01 YYYY/MM/DD

Registered Office:
Street: 2400, 525 - 8TH AVENUE S.W.
City: CALGARY
Province: ALBERTA
Postal Code: T2P1G1

Records Address:
Street: 2400, 525 - 8TH AVENUE S.W.
City: CALGARY
Province: ALBERTA
Postal Code: T2P1G1

Email Address: CORES@BDPLAW.COM

Primary Agent for Service:

Last Name	First Name	Middle Name	Firm Name	Street	City	Province	Postal Code	Email
ALGAR	RYAN		BURNET, DUCKWORTH & PALMER LLP	2400, 525 - 8 AVENUE SW	CALGARY	ALBERTA	T2P1G1	CORES@BDPLAW.COM

Directors:

Last Name: KRALJIC
First Name: TONY
Street/Box Number: 205 5 AVE SW #1900
City: CALGARY

Province: ALBERTA
Postal Code: T2P2V7

Last Name: LOGAN
First Name: ROBERT
Street/Box Number: 205 5 AVE SW #1900
City: CALGARY
Province: ALBERTA
Postal Code: T2P2V7

Details From Current Articles:

The information in this legal entity table supersedes equivalent electronic attachments

Share Structure: SEE SCHEDULE "A" ATTACHED HERETO
Share Transfers Restrictions: NONE
Min Number Of Directors: 1
Max Number Of Directors: 11
Business Restricted To: NONE
Business Restricted From: NONE
Other Provisions: SEE SCHEDULE "B" ATTACHED HERETO

Other Information:

Amalgamation Predecessors:

Corporate Access Number	Legal Entity Name
2025487378	GREENFIRE RESOURCES INC.
2023753086	GREENFIRE RESOURCES OPERATING CORPORATION

Filing History:

List Date (YYYY/MM/DD)	Type of Filing
2024/01/01	Amalgamate Alberta Corporation
2024/06/06	Update Business Number Legal Entity

Attachments:

Attachment Type	Microfilm Bar Code	Date Recorded (YYYY/MM/DD)
Statutory Declaration	10000307135643668	2024/01/01
Share Structure	ELECTRONIC	2024/01/01
Other Rules or Provisions	ELECTRONIC	2024/01/01

Shares in Series	ELECTRONIC	2024/01/01

The Registrar of Corporations certifies that, as of the date of this search, the above information is an accurate reproduction of data contained in the official public records of Corporate Registry.

This is Exhibit "B" to the Affidavit of
~~Brianne Harris~~ (Robert Logan) sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

Government of Alberta ■

Corporation/Non-Profit Search
Corporate Registration System

Date of Search: 2024/06/21
Time of Search: 08:29 AM
Search provided by: OSLER, HOSKIN & HARCOURT LLP
Service Request Number: 42398730
Customer Reference Number: 0085444-2381

Corporate Access Number: 2020835159
Business Number: 781777511
Legal Entity Name: VICEROY CANADIAN RESOURCES CORP.

Legal Entity Status: Active
Alberta Corporation Type: Named Alberta Corporation
Registration Date: 2017/11/30 YYYY/MM/DD
Date of Last Status Change: 2020/03/16 YYYY/MM/DD

Registered Office:
Street: 2080-222 3 AVE SW
City: CALGARY
Province: ALBERTA
Postal Code: T2P0B4

Records Address:
Street: 2080, 222 3 AVE SW
City: CALGARY
Province: ALBERTA
Postal Code: T2P0B4

Email Address: MEN8566@YAHOO.CA

Primary Agent for Service:

Last Name	First Name	Middle Name	Firm Name	Street	City	Province	Postal Code	Email
MEN	QIPING			121 SILVERADO RANCH MANOR SW	CALGARY	ALBERTA	T2X0M6	MEN8566@YAHOO.CA

Directors:

Last Name: MEN
First Name: QIPING
Street/Box Number: 121 SILVERADO RANCH MANOR SW
City: CALGARY
Province: ALBERTA
Postal Code: T2X0M6

Last Name: SONG
First Name: ZHEFEI
Street/Box Number: 1624 HOWAT CRESCENT
City: MISSISSAUGA
Province: ONTARIO
Postal Code: L5J4G5

Last Name: SUN
First Name: HUIGANG
Street/Box Number: 1922 - 44TH AVENUE W.
City: VANCOUVER
Province: BRITISH COLUMBIA
Postal Code: V6M2E7

Voting Shareholders:

Legal Entity Name: PINGYUAN RESOURCES CORP.
Corporate Access Number: 2021059312
Street: 1002 804 3 AVE SW
City: CALGARY
Province: ALBERTA
Postal Code: T2P0G9
Percent Of Voting Shares: 48

Last Name: SONG
First Name: ZHEFEI
Street: 1624 HOWAT CRES
City: MISSISSAUGA
Province: ONTARIO
Postal Code: L5J4G5
Percent Of Voting Shares: 4

Last Name: SUN
First Name: HUIGANG
Street: 1922 - 44TH AVENUE W.
City: VANCOUVER
Province: BRITISH COLUMBIA

Postal Code: V6M2E7
Percent Of Voting Shares: 48

Details From Current Articles:

The information in this legal entity table supersedes equivalent electronic attachments

Share Structure: SEE ATTACHED SCHEDULE "A"
Share Transfers Restrictions: SEE ATTACHED SCHEDULE "B"
Min Number Of Directors: 1
Max Number Of Directors: 5
Business Restricted To: NONE
Business Restricted From: NONE
Other Provisions: SEE ATTACHED SCHEDULE "C"

Other Information:

Last Annual Return Filed:

File Year	Date Filed (YYYY/MM/DD)
2023	2023/12/04

Filing History:

List Date (YYYY/MM/DD)	Type of Filing
2017/11/30	Incorporate Alberta Corporation
2018/07/27	Change Director / Shareholder
2019/09/09	Change Address
2020/01/02	Status Changed to Start for Failure to File Annual Returns
2020/02/23	Update BN
2023/12/04	Enter Annual Returns for Alberta and Extra-Provincial Corp.

Attachments:

Attachment Type	Microfilm Bar Code	Date Recorded (YYYY/MM/DD)
Share Structure	ELECTRONIC	2017/11/30
Restrictions on Share Transfers	ELECTRONIC	2017/11/30
Other Rules or Provisions	ELECTRONIC	2017/11/30

The Registrar of Corporations certifies that, as of the date of this search, the above information is an accurate reproduction of data contained in the official public records of Corporate Registry.

This is Exhibit "C" to the Affidavit of
mc ✓ (Robert Logan) ✓
~~Brianne Harris~~ sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

AMENDED AND RESTATED
FARM-IN AND PARTICIPATION AGREEMENT

THIS AMENDED AND RESTATED FARM-IN AND PARTICIPATION AGREEMENT is made effective as of the 31st day of January, 2019, as amended and restated as of the 19th day of June 2020,

BETWEEN:

VICEROY CANADIAN RESOURCES CORP., a body corporate, having offices at the City of Calgary, in the Province of Alberta (hereinafter referred to as "**Viceroy**")

- and -

EVEREST CANADIAN RESOURCES CORP., a body corporate, having offices at the City of Calgary, in the Province of Alberta (hereinafter referred to as "**Everest**")

WHEREAS immediately prior to January 31, 2019, Viceroy was the holder (legal and beneficial owner) of one hundred percent (100%) of the undivided interests in the title documents, joint lands, leases and facilities as more particularly set forth and described in Schedule "A" hereto and made a part hereof (hereinafter referred to as the "**Joint Lands**" and "**Title Documents**");

AND WHEREAS on January 31, 2019, the Parties entered into a farm-in and participation agreement (the "**Original Agreement**"), pursuant to which the Parties agreed that Everest may earn undivided Working Interests in the Joint Lands and Facilities from Viceroy by providing funds for the development of the Joint Lands and Facilities;

AND WHEREAS pursuant to and in accordance with the Original Agreement, Everest earned an undivided ninety-five percent (95%) Working Interest, leaving Viceroy (legally and beneficially) owning the remaining five percent (5%) Working Interest;

AND WHEREAS pursuant to the royalty agreement (the "**Royalty Agreement**") made on the date hereof between Everest and Burgess Energy Holdings, L.L.C. (the "**Royalty Owner**"), Everest assigned and transferred to the Royalty Owner an undivided interest in and to the Bitumen (as such term is defined in the Royalty Agreement) within, upon or under the Joint Lands equal to the Royalty Share of Bitumen (as such term is defined in the Royalty Agreement) (the "**Royalty**") in exchange for the Aggregate Consideration (as such term is defined in the Royalty Agreement) which Everest is obligated to use, *inter alia*, for the maintenance and development of the Joint Lands;

AND WHEREAS Viceroy, for good and valuable consideration (including, without limitation, having regard to the economic benefit associated with the further development and production of the Joint Lands and Facilities), the receipt and sufficiency of which is hereby acknowledged, and knowing that Everest and the Royalty Owner will be relying upon the following, has agreed to: (i) accept the Royalty and the Lien as interests in land, being accepted "Encumbrances" under this Agreement that run with the Joint Lands and Title Documents and survive, with priority over, and are otherwise unaffected by, any and all provisions, rights or remedies under this Agreement or otherwise under the Regulations related to deletions of lands, penalties, security for payment, default remedies, non-participation in operations, surrender, forced sales (forfeiture) of interest, buy-out rights, assignments, transfers and conveyances of Working Interests: and

(ii) waive (to the benefit of Everest and the Royalty Owner) any and all rights, obligations and remedies, as applicable, that Viceroy may otherwise have had in connection with the foregoing provisions;

AND WHEREAS, in connection with the foregoing, the Parties wish to amend and restate the Original Agreement in its entirety on the terms set forth herein to: (a) govern their relationship as relates to their Working Interest and to acknowledge and confirm their Working Interest ownership; (b) provide for the continued maintenance, exploration, operation and development of the Joint Lands and Title Documents; and (c) make certain other amendments to the Original Agreement in accordance with the terms and provisions of this Agreement (which amends and restates the Original Agreement in its entirety).

NOW THEREFORE THIS AGREEMENT WITNESSES that, in consideration of the premises, and of the mutual covenants and agreements contained herein, the Parties hereto agree as follows:

1.00 DEFINITIONS

1.1 In this Agreement, unless otherwise defined below, all words and phrases shall have the meanings given in Clause 1.01 of the Operating Procedure, and in addition:

(a) "**Agreement**" means this Amended and Restated Farm-in and Participation Agreement, including Schedule "A", "B" and "C" attached hereto;

(b) "**Assignment Procedure**" means the 1993 CAPL Assignment Procedure, incorporated by reference herein;

(c) "**Effective Date**" means February 1, 2019, being the date on which Everest made and earned, respectively, the Initial Contribution and Everest Working Interest;

(d) "**Encumbrances**" means those royalties (including any lessor royalties under the Title Documents), overriding royalties, production payments, net profits interests or other charges of a similar nature applying against the Joint Lands, or the production or proceeds of production of Petroleum Substances therefrom, that are described as "Encumbrances" in Schedule "A" attached hereto or as otherwise described herein and, for certainty, includes the Royalty and the Lien;

(e) "**Facilities**" means the facilities listed in Schedule "A" attached hereto, and any facilities which may from time to time remain or become subject to this Agreement;

(f) "**Joint Lands**" means the lands as listed in Schedule "A" attached hereto, and includes the Petroleum Substances within, upon or under such lands insofar as the same are held pursuant to the Title Documents and any other lands which may become subject to this Agreement;

(g) "**Joint Wells**" means the well(s) listed in Schedule "A" attached hereto, and any other wells which may become subject to this Agreement;

(h) "**Lien**" has the meaning given to that term in the Royalty Agreement;

(i) "**Operating Procedure**" means the standard form 2007 CAPL Operating Procedure, together with the standard form 1996 PASC Accounting Procedure, each of which is adopted and incorporated into this Agreement by reference, including the revisions and

elections described within the summary pages contained within Schedule "B" attached hereto and any amendments thereto resulting from the terms and conditions herein;

(j) "**Operator**" means the Party appointed as such office pursuant to Clause 4.2 herein;

(k) "**Original Agreement**" has the meaning given to that term in the recitals;

(l) "**Royalty Agreement**" has the meaning given to that term in the recitals;

(m) "**Royalty Owner**" has the meaning given to that term in the recitals;

(n) "**Title Documents**" means the documents of title (or any of them) through which the Parties hold their Working Interests in the Joint Lands, and any documents issued or derived therefrom, including all amendments, renewals, extensions, continuations or replacements (whether by operation of the applicable document, the Regulations, this Agreement or other agreement of the Parties) thereof, PROVIDED HOWEVER that any new leases that are obtained by a Party after the expiry of a Title Document are not to be considered Title Documents unless the Parties hereto mutually agree to the inclusion of such new leases as Title Documents hereto; and

(o) "**Working Interests**" means the working interests of each Party in and to the Title Documents, the Joint Lands, and Joint Wells subject to the Encumbrances, as provided for and set forth in Clause 5.00 hereto.

2.00 SCHEDULES

2.1 The following Schedules are attached to and form part of this Agreement:

(a) Schedule "A", which sets forth and describes the Title Documents, the Joint Lands, the Working Interests, Encumbrances, Facilities and the Joint Well(s);

(b) Schedule "B", which lists the revisions and elections of the Parties in respect of the Operating Procedure and the addresses for service of the Parties; and

(c) Schedule "C", which illustrates what the respective Working Interests of the Parties would be based on incremental capital contributions by Everest of One Million dollars ($1,000.000.00).

3.00 INITIAL CONTRIBUTION AND EFFECTIVE DATE

3.1 The Parties acknowledge that on or about February 1, 2019, Everest made an initial contribution of the sum of Sixty Three Thousand Two Hundred and Ninety One Dollars and Fourteen Cents ($63,291.14) into the Joint Account under the Operating Procedure, the receipt and sufficiency of which was acknowledged by Viceroy pursuant to the Original Agreement, in order to earn an undivided One Percent (1%) Working Interest in and to the Joint Lands, Title Documents and Facilities (the "**Initial Contribution and Everest Working Interest**").

3.2 The Original Agreement was effective as of the 31st day of January, 2019, and this Agreement shall be effective as of the 31st day of January, 2019, and shall in all respects be interpreted as if executed and delivered by the Parties on that date, as amended and restated on the terms and conditions set out herein as of the 19th day of June 2020.

4.00 OPERATING PROCEDURE AND OPERATOR

4.1 The Operating Procedure, including any amendments, modifications or supplements thereto pursuant to this Agreement or otherwise, came into effect as of the date of the Initial Contribution and Everest Working Interest and has since and shall continue to:

(a) govern the relationship and the respective rights and obligations of the Parties with respect to the matters set forth therein; and

(b) govern all Operations conducted on the Joint Lands pursuant to the Title Documents in respect of exploration, development and the production of Petroleum Substances and other related matters described therein.

4.2 The Parties appoint Everest as the Operator, and Everest accepts such appointment as Operator effective the Effective Date as result of the Initial Contribution and Everest Working Interest and agrees to assume the duties, obligations and rights of the Operator under the Operating Procedure.

5.00 EARNED WORKING INTERESTS

5.1 In addition to the Initial Contribution and Everest Working Interest, Everest shall earn an undivided 0.0000158333333% Working Interest in the Joint Lands, Title Documents and Facilities for every dollar it contributes to the development and production of the Joint Lands and Facilities, to a maximum of $6,000,000.00, inclusive of the Initial Contribution and Everest Working Interest; provided that, once Everest has contributed a minimum of $4,000,000.00, inclusive of the Initial Contribution and Everest Working Interest, and the Joint Lands yield production volumes of Two Thousand (2,000) barrels of oil per day equivalent, for a continuous period of at least Twenty One (21) days, Everest shall have earned an undivided 95% Working Interest in the Joint Lands, Title Documents and Facilities.

5.2 The Parties shall bear all costs and expenses paid or incurred under or relating to this Agreement and shall own the Joint Lands and Title Documents, any wells thereon, the Facilities and information obtained therefrom, any equipment pertaining thereto and any Petroleum Substances produced therefrom in accordance with their respective Working Interest from time to time.

5.3 For clarity, Schedule “C” illustrates the Parties’ respective working interests based on each capital contribution of One Million ($1,000.000.00) Dollars by Everest, but notwithstanding the foregoing, Everest may contribute sums in any amount.

5.4 After the Effective Date, Everest shall provide a monthly accounting and earning letter to Viceroy setting out the amounts it has contributed and the undivided Working Interests earned in any given month by such expenditure and Viceroy shall within two days acknowledge such earning. Failure by Viceroy to acknowledge the earning by Everest within the two day period will be deemed an acknowledgement of earning by Viceroy.

5.5 The Parties hereby acknowledge and agree that, as of the date hereof, Everest has earned an undivided ninety-five percent (95%) Working Interest and Viceroy (legally and beneficially) owns the remaining five percent (5%) Working Interest; with such undivided ninety-five percent (95%) Working Interest having been earned by Everest (and therefor deemed conveyed by Viceroy) free and clear of any and all encumbrances (other than the Encumbrances) created by, through or under Viceroy.

6.00 TITLE AND ENCUMBRANCES

6.1 As of the Effective Date, Viceroy does not warrant title to its Working Interest in the Title Documents or Joint Lands; however, it confirms that:

(a) it is not aware of any act or omission whereby it is (or would be) in default under the terms of the Regulations or the Title Documents and that, prior to the execution of the Agreement, it has not received, or otherwise become aware of, any notice of default in respect of any of the Joint Lands that has not been remedied or that has not been addressed specifically in this Agreement; and

(b) it has the authority to enter into this Agreement.

6.2 Other than the Royalty and the Lien, which Viceroy hereby accepts as interests in land, being accepted "Encumbrances" under this Agreement (generally, and specifically with respect to Clause 15.02 Operating Procedure) and otherwise, that run with the Joint Lands and Title Documents, no Party will do, or cause to be done, anything to encumber the Joint Lands which:

(a) adversely and materially affects the Working Interest of any other Party; or

(b) results in the Title Documents becoming subject to termination or forfeiture.

6.3 If the interest of any Party in the Joint Lands and Title Documents is now subject to or may hereafter become subject to any encumbrance other than the Encumbrances (including the Royalty and the Lien and those set out in Schedule "A"), such encumbrance (hereinafter called the "**Subsequent Encumbrance**") shall be borne entirely by the Party whose interest is or becomes so encumbered. Any such Subsequent Encumbrance hereafter made or granted by a Party shall be expressly made subject to the rights of the other parties hereto. In no event shall a Party acquiring an interest in the Joint Lands and the Title Documents by virtue of the Operation of any provision of this Agreement or of the Operating Procedure be required to assume any part of such Subsequent Encumbrance, and the Party which has so encumbered its interests shall extinguish such encumbrances at its own cost and expense, prior to assignment to another Party, and, at all times indemnify and hold the other Parties harmless in respect thereof. For greater certainty:

(a) for all intents and purposes of this Agreement, each of the Royalty and the Lien shall not be considered "Subsequent Encumbrances"; and

(b) the Royalty and the Lien survive, with priority over, and are otherwise unaffected by, any and all provisions, rights or remedies under this Agreement related to deletions of lands, penalties, security for payment, default remedies, non-participation in operations, surrender, forced sales (forfeiture) of interest, buy-out rights, assignments, transfers and conveyances of Working Interests, including, without limitation, with respect to Clause 6.2 and this Clause 6.3 of the body of this Agreement, and Clauses 5.05(A), 5.05(B), 10.07, 10.10, 11.03(B), 12.02(A) or 15.01 of the Operating Procedure; and Viceroy hereby waives (to the benefit of Everest and the Royalty Owner) any and all rights, obligations and remedies, as applicable, it may otherwise have had in connection with the foregoing provisions.

7.00 GOODS AND SERVICES TAX

7.1 Effective as of the Effective Date, the Parties to this Agreement hereby elect jointly to have the Operator or any successor to the initial Operator, account for Goods and Services Tax ("**GST**") in the course of any joint venture activity attributable to the electing participants and parties to this Agreement pursuant to subsection 273(1) of the Excise Tax Act.

7.2 For the purposes of subsection 273(1) of the Excise Tax Act, this Agreement covers any marketing arrangements between the Operator and the other parties, wherein the Operator agrees to market product on behalf of such other parties.

7.3 Should any Party elect to take its product share in kind, such Party will be responsible for remitting all GST, and for filing all returns in connection therewith, in respect to the product share taken in kind by it. Otherwise, the Parties agree to be bound by such election throughout the term of this Agreement.

8.00 ASSIGNMENT PROCEDURE

8.1 Notwithstanding Clause 2.02 of the Assignment Procedure, no provisions of the Assignment Procedure shall be construed so as to make the assignee responsible for any obligation or liability which had arisen or accrued prior to the Transfer Date (as defined in the Assignment Procedure).

9.00 MISCELLANEOUS

9.1 The headings of the Clauses of this Agreement are for reference only and shall not be used in interpreting any provision herein.

9.2 The terms and conditions of this Agreement express and constitute the entire Agreement among the Parties with respect to the Joint Lands and the Title Documents, insofar as they pertain to the Joint Lands and supersedes any previous agreements (including the Original Agreement) or understandings with respect thereto.

9.3 The Parties hereby acknowledge that this Agreement may not be terminated, amended, or otherwise modified without the prior written consent of the Royalty Owner, such consent not to be unreasonably withheld.

{Remainder of the page intentionally left blank}

10.00 COUNTERPART

10.1 This Agreement may be executed in counterpart; and all executed counterparts shall be taken together as constituting one Agreement.

IN WITNESS WHEREOF the Parties have executed this Agreement as of the 19th day of June 2020.

VICEROY CANADIAN RESOURCES CORP.

By: _____
Name: QIPING MEN
Title: CEO

By: _____
Name: zhefei (BILL) song
Title: CFO

EVEREST CANADIAN RESOURCES CORP.

By: _____
Name: zhefei (BILL) song
Title: Director & COO

By: _____
Name: QIPING MEN
Title: Director & CEO

This is a counterpart execution page to an Amended and Restated Farm-in and Participation Agreement dated the 19th day of June, 2020 between Viceroy Canadian Resources Corp., and Everest Canadian Resources Corp.

SCHEDULE "A"

Attached to and forming a part of an Amended and Restated Farm-in and Participation Agreement dated the 19th day of June, 2020 between Viceroy Canadian Resources Corp. and Everest Canadian Resources Corp.

See attached.

EVEREST CANADIAN RESOURCES CORP.

Mineral Property Report

Generated by Administrator on June 10, 2020 at 4:32:15 pm

Selection

Admin Company:	EVEREST CANADIAN RESOURCES CORP.
Category:	
Country:	
Province:	
Division:	
Area(s):	
Active / Inactive:	Active
Status Types:	
Lease Types:	
Acreage Status:	
Expiry Period:	

EVEREST CANADIAN RESOURCES CORP.

Mineral Property Report

Print Options

Acres / Hectares:	Hectares		
Working Interest DOI:	Yes		
Other DOI:	No		
Related Contracts:	Yes	**Related Units:**	Yes
Royalty Information:	Yes	**Expand:**	No
Well Information:	Yes		
Remarks:	No		
Acreage:	Producing / Non Producing Developed / Undeveloped Proven / Unproven		

Sort Options

Division:	No
Category:	No
Province:	No
Area:	No
Location:	Yes

CS*EXPLORER Version: 8.0019

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type / Int Type / Operator / Payor	Lessor Type / Lse No/Name / Payor			Exposure Gross / Net	Oper.Cont. / Doi Partner(s)	ROFR *	DOI Code *	Lease Description / Rights Held
M0299	OS	CR	**Eff:**	May 31, 2007	6,912.000	C0208 A Yes		WI	Area : HANGINGSTONE WEST
Sub: A	WI		**Exp:**	May 30, 2022	6,912.000	VICEROY		5.00000000	TWP 85 RGE 11 W4M 31
ACTIVE	7407050715		**Ext:**	INFOBUL	0.000	EVEREST		95.00000000	TWP 86 RGE 11 W4M 06, 07, 08,
	EVEREST		**Ext:**	May 31, 2025					18, 19
100.00000000	EVEREST					Total Rental: 24192.00			TWP 85 RGE 12 W4M 34, 35, 36
									TWP 86 RGE 12 W4M 01, 02, 03,

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	6,912.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	6,912.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

10, 11, 12, 13, 14, 15, 22, 23,
24
TWP 86 RGE 12 W4M 25, 26, 27,
34, 35, 36

ALL OILSANDS BELOW TOP VIKING
TO BASE WOODBEND

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales	
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000	% of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

---------- Related Contracts ----------

C0208 A	JOA	Jan 01, 2009

-------- Well U.W.I.	Status/Type --------
1AA/10-31-085-11-W4/00	DRLD & ABD/CO
1AA/12-34-085-12-W4/00	DRLD & ABD/CO
1AA/10-35-085-12-W4/00	DRLD & ABD/CO
1AA/08-07-086-11-W4/00	DRLD & ABD/CO
1AA/11-18-086-11-W4/00	DRLD & ABD/CO
1AB/10-01-086-12-W4/00	DRLD & ABD/CO
1AA/12-01-086-12-W4/00	DRLD & ABD/CO
1AA/10-02-086-12-W4/00	DRLD & ABD/CO
1AA/16-02-086-12-W4/00	DRLD & ABD/CO
1AA/07-10-086-12-W4/00	DRLD & ABD/CO
1AB/03-11-086-12-W4/00	DRLD & ABD/CO
1AA/08-11-086-12-W4/00	DRLD & ABD/CO
1AA/09-11-086-12-W4/00	DRLD & ABD/CO
1AA/14-11-086-12-W4/00	DRLD & ABD/CO
1AA/12-14-086-12-W4/00	DRLD & ABD/CO
1AA/13-14-086-12-W4/00	DRLD & ABD/CO
1AA/09-15-086-12-W4/00	DRLD & ABD/CO
1AA/11-15-086-12-W4/00	DRLD & ABD/CO
1AA/10-22-086-12-W4/00	DRLD & ABD/CO
1AA/14-23-086-12-W4/00	DRLD & ABD/CO
1AA/12-24-086-12-W4/00	DRLD & ABD/CO
1AA/06-25-086-12-W4/00	DRLD & ABD/CO

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type / Lessor Type / Int Type / Lse No/Name / Operator / Payor			Exposure / Gross / Net	Oper.Cont. / Doi Partner(s)	ROFR *	DOI Code *	Lease Description / Rights Held
(cont'd)								
M0299	A							1AA/06-35-086-12-W4/00 DRLD & ABD/CO
M0300	OS	CR	**Eff:** May 31, 2007	5,120.000	C0208 A	Yes	WI	Area : HANGINGSTONE WEST
Sub: A	WI		**Exp:** May 30, 2022	5,120.000	VICEROY		5.00000000	TWP 85 RGE 12 W4M 32, 33
ACTIVE	7407050716		**Ext:** INFOBUL	0.000	EVEREST		95.00000000	TWP 86 RGE 12 W4M 04, 05, 06,
	EVEREST		**Ext:** May 31, 2025					07, 08, 09, 16, 17, 18, 19, 20,
100.00000000	EVEREST				Total Rental: 17920.00			21
								TWP 86 RGE 12 W4M 28, 29, 30,

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	5,120.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	5,120.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

31, 32, 33

ALL OILSANDS BELOW TOP VIKING TO BASE WOODBEND

Royalty / Encumbrances

---------- Related Contracts ----------
C0208 A JOA Jan 01, 2009

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales	**-------- Well U.W.I.**	**Status/Type --------**
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD	1AA/11-33-085-12-W4/00	DRLD & ABD/CO
Roy Percent:					1AA/10-16-086-12-W4/00	DRLD & ABD/CO
Deduction: STANDARD					1AB/08-33-086-12-W4/00	DRLD & ABD/CO
Gas: Royalty:		**Min Pay:**		**Prod/Sales:**		
S/S OIL: Min:	**Max:**	**Div:**		**Prod/Sales:**		
Other Percent:		**Min:**		**Prod/Sales:**		

M0298	OS	CR	**Eff:** May 17, 2007	4,864.000	C0208 A	Yes	WI	Area : HANGINGSTONE WEST
Sub: A	WI		**Exp:** May 16, 2022	4,864.000	VICEROY		5.00000000	TWP 85 RGE 13 W4M 28, 29, 30,
ACTIVE	7407050470		**Ext:** INFOBUL	0.000	EVEREST		95.00000000	31, 32, 33, 34
	EVEREST		**Ext:** May 17, 2025					TWP 86 RGE 13 W4M 01, 02, 03,
100.00000000	EVEREST				Total Rental: 17024.00			04, 05, 06, 07, 08, 09, 10, 11,
								12

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	4,864.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	4,864.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

ALL OILSANDS BELOW TOP VIKING TO BASE WOODBEND

---------- Related Contracts ----------
C0208 A JOA Jan 01, 2009

Royalty / Encumbrances

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type / Int Type / Operator / Payor	Lessor Type / Lse No/Name /	Exposure Gross / Net	Oper.Cont. / Doi Partner(s)	ROFR *	DOI Code *	Lease Description / Rights Held

(cont'd)

Royalty Type | **Product Type** | **Sliding Scale** | **Convertible** | **% of Prod/Sales**

CROWN SLIDING SCALE ROYALTY | ALL PRODUCTS | Y | N | 100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD

M0298 A

Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

M0288 OS CR **Eff:** Mar 08, 2007 2,016.000 C0204 A Yes WI
Sub: A WI **Exp:** Mar 07, 2022 2,016.000 VICEROY 5.00000000
ACTIVE 7407030047 **Ext:** INFOBUL 0.000 EVEREST 95.00000000
EVEREST **Ext:** Mar 08, 2025
100.00000000 EVEREST Total Rental: 7056.00

Area : ANZAC
TWP 87 RGE 5 W4M N 18, 19, N 20,SW 20, N 28, L528, L628
TWP 87 RGE 5 W4M 29, 30, 31, 32, 33
ALL OILSANDS BELOW TOP VIKING TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	2,016.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	2,016.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

---------- Related Contracts ----------
C0204 A JOA Jan 01, 2009

-------- Well U.W.I. Status/Type --------
1AA/02-31-087-05-W4/00 DRLD & ABD/CO

Royalty / Encumbrances

Royalty Type | **Product Type** | **Sliding Scale** | **Convertible** | **% of Prod/Sales**

CROWN SLIDING SCALE ROYALTY | ALL PRODUCTS | Y | N | 100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD

Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

M0287 OS CR **Eff:** Mar 08, 2007 720.000 C0204 A Yes WI
Sub: A WI **Exp:** Mar 07, 2022 720.000 VICEROY 5.00000000
ACTIVE 7407030048 **Ext:** INFOBUL 0.000 EVEREST 95.00000000
EVEREST **Ext:** Mar 08, 2025
100.00000000 EVEREST Total Rental: 2520.00

Area : ANZAC
TWP 87 RGE 6 W4M SEC 1, 2, 3
ALL OILSANDS BELOW TOP VIKING TO BASE WOODBEND

---------- Related Contracts ----------

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type / Int Type / Operator / Payor	Lessor Type / Lse No/Name	Exposure / Gross / Net	Oper.Cont. / Doi Partner(s)	ROFR *	DOI Code *	Lease Description / Rights Held

(cont'd)

M0287
Sub: A

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	720.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	720.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

C0204 A JOA Jan 01, 2009

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

M0321 OS CR **Eff:** Mar 08, 2007 1,648.050 WI
Sub: A WI **Exp:** Mar 07, 2022 1,648.050 VICEROY 5.00000000
ACTIVE 7407030050 **Ext:** INFOBUL 0.000 EVEREST 95.00000000
EVEREST **Ext:** Mar 08, 2025
100.00000000 EVEREST Total Rental: 5768.18

Area : ANZAC
TWP 87 RGE 06 W4M 25, N & SE
26, 27L9, L15, L16, SW 28, L1, L2, L7, L11, L12, L13, SW
32, L1, L2, L7, L11, L12, 33L8, L9, L14, L15, L16, 34, 35, 36

ALL OILSANDS BELOW TOP VIKING
TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	1,648.050	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	1,648.050	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

-------- Well U.W.I.	Status/Type --------
1AA/05-36-087-06-W4/00	DRLD & ABD/CO
1AA/16-36-087-06-W4/00	DRLD & ABD/CO

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min:

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type Lessor Type / Int Type / Lse No/Name / Operator / Payor				Exposure Gross / Net	Oper.Cont. ROFR / Doi Partner(s)		DOI Code * *	Lease Description / Rights Held
(cont'd)									
		Other Percent:			Max:		Div: Min:	Prod/Sales: Prod/Sales:	
M0322	OS	CR	**Eff:**	Aug 09, 2007	512.000			WI	Area : ANZAC
Sub: A	WI		**Exp:**	Aug 08, 2022	512.000	VICEROY		5.00000000	TWP 88 RGE 05 W4M N & SW 02, 11, NW 12
ACTIVE	7407080265		**Ext:**	INFOBUL	0.000	EVEREST		95.00000000	
	EVEREST		**Ext:**	Aug 09, 2025					ALL OILSANDS BELOW TOP VIKING
100.00000000	EVEREST					Total Rental:	1792.00		TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	512.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	512.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

File Number / File Status / Mineral Int	Lse Type Lessor Type / Int Type / Lse No/Name / Operator / Payor				Exposure Gross / Net	Oper.Cont. ROFR / Doi Partner(s)		DOI Code * *	Lease Description / Rights Held
M0319	OS	CR	**Eff:**	Jul 26, 2007	1,216.000			WI	Area : ANZAC
Sub: A	WI		**Exp:**	Jul 25, 2022	1,216.000	VICEROY		5.00000000	TWP 88 RGE 05 W4M 03, 10, 15, 22
ACTIVE	7407070550		**Ext:**	INFOBUL	0.000	EVEREST		95.00000000	TWP 87 RGE 05 W4M N & SW 34
	EVEREST		**Ext:**	Jul 26, 2025					
100.00000000	EVEREST					Total Rental:	4256.00		ALL OILSANDS BELOW TOP VIKING TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	1,216.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	1,216.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

Royalty / Encumbrances

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type / Int Type / Operator	Lessor Type / Lse No/Name / Payor	Exposure Gross / Net	Oper.Cont. / Doi Partner(s)	ROFR *	DOI Code *	Lease Description / Rights Held

(cont'd)

Royalty Type | **Product Type** | **Sliding Scale** | **Convertible** | **% of Prod/Sales**

CROWN SLIDING SCALE ROYALTY | ALL PRODUCTS | Y | N | 100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD

M0319 A

Gas: Royalty: | **Min Pay:** | **Prod/Sales:**
S/S OIL: Min: | **Max:** | **Div:** | **Prod/Sales:**
Other Percent: | **Min:** | **Prod/Sales:**

M0320 OS CR **Eff:** Mar 08, 2007 2,304.000 WI
Sub: A WI **Exp:** Mar 07, 2022 2,304.000 VICEROY 5.00000000
ACTIVE 7407030051 **Ext:** INFOBUL 0.000 EVEREST 95.00000000
EVEREST **Ext:** Mar 08, 2025
100.00000000 EVEREST Total Rental: 8064.00

Area : ANZAC
TWP 88 RGE 05 W4M 04, 05, 06,
07, 08, 09, 16, 17, 18

ALL OILSANDS BELOW TOP VIKING
TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	2,304.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	2,304.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

-------- Well U.W.I.	Status/Type --------
1AA/06-04-088-05-W4/00	DRLD & ABD/CO
1AA/06-06-088-05-W4/00	DRLD & ABD/CO
1AA/16-16-088-05-W4/00	DRLD & ABD/CO
1AA/06-17-088-05-W4/00	DRLD & ABD/CO
1AA/16-17-088-05-W4/00	DRLD & ABD/CO
1AA/06-18-088-05-W4/00	DRLD & ABD/CO
1AA/16-18-088-05-W4/00	DRLD & ABD/CO

Royalty / Encumbrances

Royalty Type | **Product Type** | **Sliding Scale** | **Convertible** | **% of Prod/Sales**

CROWN SLIDING SCALE ROYALTY | ALL PRODUCTS | Y | N | 100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD

Gas: Royalty: | **Min Pay:** | **Prod/Sales:**
S/S OIL: Min: | **Max:** | **Div:** | **Prod/Sales:**
Other Percent: | **Min:** | **Prod/Sales:**

M0323 OS CR **Eff:** Aug 09, 2007 1,024.000 WI
Sub: A WI **Exp:** Aug 08, 2022 1,024.000 VICEROY 5.00000000
ACTIVE 7407080266 **Ext:** INFOBUL 0.000 EVEREST 95.00000000
EVEREST **Ext:** Aug 09, 2025
100.00000000 EVEREST Total Rental: 3584.00

Area : ANZAC
TWP 88 RGE 05 W4M 13, 14, 23, 24

ALL OILSANDS BELOW TOP VIKING
TO BASE WOODBEND

Status	Hectares	Net	Hectares	Net

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type / Int Type / Operator / Payor	Lessor Type / Lse No/Name		Exposure Gross / Net	Oper.Cont. / Doi Partner(s)	ROFR *	DOI Code *	Lease Description / Rights Held
(cont'd)								
M0323								
Sub: A	NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	1,024.000	0.000	
	UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	1,024.000	0.000	
		Prov:	0.000	0.000	**NProv:**	0.000	0.000	

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

M0310	OS	CR	**Eff:**	Jul 26, 2007	768.000	C0204 A Yes	WI		Area : ANZAC
Sub: A	WI		**Exp:**	Jul 25, 2022	768.000	VICEROY	5.00000000		TWP 88 RGE 05 W4M 19, 20 21
ACTIVE	7407070551		**Ext:**	INFOBUL	0.000	EVEREST	95.00000000		
	EVEREST		**Ext:**	Jul 26, 2025					ALL OILSANDS BELOW TOP VIKING
100.00000000	EVEREST					Total Rental: 2688.00			TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	768.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	768.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

---------- Related Contracts ----------
C0204 A JOA Jan 01, 2009

-------- Well U.W.I.	Status/Type --------
1AA/09-19-088-05-W4/00	DRLD & ABD/CO
1AA/05-20-088-05-W4/00	DRLD & ABD/CO
1AA/03-21-088-05-W4/00	DRLD & ABD/CO

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type / Lessor Type / Int Type / Lse No/Name / Operator / Payor				Exposure Gross / Net	Oper.Cont. / Doi Partner(s)	ROFR *	DOI Code *	Lease Description / Rights Held
(cont'd)									
M0311	OS	CR	**Eff:**	Aug 09, 2007	512.000	C0204 A	Yes	WI	Area : ANZAC
Sub: A	WI		**Exp:**	Aug 08, 2022	512.000	VICEROY		5.00000000	TWP 88 RGE 05 W4M 25, 26
ACTIVE	7407080267		**Ext:**	INFOBUL	0.000	EVEREST		95.00000000	
	EVEREST		**Ext:**	Aug 09, 2025					ALL OILSANDS BELOW TOP VIKING
100.00000000	EVEREST					Total Rental:	1792.00		TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net	Related Contracts		
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	512.000	0.000	C0204 A	JOA	Jan 01, 2009
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	512.000	0.000			
	Prov:	0.000	0.000	**NProv:**	0.000	0.000			

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

File Number / File Status / Mineral Int	Lse Type / Lessor Type / Int Type / Lse No/Name / Operator / Payor				Exposure Gross / Net	Oper.Cont. / Doi Partner(s)	ROFR *	DOI Code *	Lease Description / Rights Held
M0314	OS	CR	**Eff:**	Aug 09, 2007	256.000	C0204 A	Yes	WI	Area : ANZAC
Sub: A	WI		**Exp:**	Aug 08, 2022	256.000	VICEROY		5.00000000	TWP 88 RGE 05 W4M 27
ACTIVE	7407080268		**Ext:**	INFOBUL	0.000	EVEREST		95.00000000	
	EVEREST		**Ext:**	Aug 09, 2025					ALL OILSANDS BELOW TOP VIKING
100.00000000	EVEREST					Total Rental:	896.00		TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net	Related Contracts		
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	256.000	0.000	C0204 A	JOA	Jan 01, 2009
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	256.000	0.000	C0219 A	P&S	Oct 11, 2017 (I)
	Prov:	0.000	0.000	**NProv:**	0.000	0.000			

Royalty / Encumbrances

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type Lessor Type / Int Type / Lse No/Name / Operator / Payor	Exposure Gross / Net	Oper.Cont. ROFR / Doi Partner(s)	DOI Code * *	Lease Description / Rights Held

(cont'd)

Royalty Type | **Product Type** | **Sliding Scale** | **Convertible** | **% of Prod/Sales**

CROWN SLIDING SCALE ROYALTY | ALL PRODUCTS | Y | N | 100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD

M0314 A

Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

M0313 OS CR **Eff:** Aug 09, 2007 768.000 C0204 A Yes WI
Sub: A WI **Exp:** Aug 08, 2022 768.000 VICEROY 5.00000000
ACTIVE 7407080269 **Ext:** INFOBUL 0.000 EVEREST 95.00000000
EVEREST **Ext:** Aug 09, 2025
100.00000000 EVEREST Total Rental: 2688.00

Area : ANZAC
TWP 88 RGE 05 W4M 34, 35, 36

ALL OILSANDS BELOW TOP VIKING
TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	768.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	768.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

---------- Related Contracts ----------
C0204 A JOA Jan 01, 2009

Royalty / Encumbrances

Royalty Type | **Product Type** | **Sliding Scale** | **Convertible** | **% of Prod/Sales**

CROWN SLIDING SCALE ROYALTY | ALL PRODUCTS | Y | N | 100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD

Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

M0286 OS CR **Eff:** Mar 08, 2007 1,024.000 C0204 A Yes WI
Sub: A WI **Exp:** Mar 07, 2022 1,024.000 VICEROY 5.00000000
ACTIVE 7407030052 **Ext:** INFOBUL 0.000 EVEREST 95.00000000
EVEREST **Ext:** Mar 08, 2025
100.00000000 EVEREST Total Rental: 3584.00

Area : ANZAC
TWP 88 RGE 6 W4M SEC 1, 2, 12, 13

ALL OILSANDS BELOW TOP VIKING
TO BASE WOODBEND

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number | **Lse Type** | **Lessor Type** | **Exposure** | **Oper.Cont.** | **ROFR** | **DOI Code**
File Status | **Int Type / Lse No/Name** | **Gross**
Mineral Int | **Operator / Payor** | **Net** | **Doi Partner(s)** | * | * | **Lease Description / Rights Held**

(cont'd)

M0286
Sub: A

Status		**Hectares**	**Net**		**Hectares**	**Net**
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	1,024.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	1,024.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

---------- Related Contracts ----------
C0204 A JOA Jan 01, 2009

-------- Well U.W.I. -------- Status/Type --------
1AA/02-01-088-06-W4/00 DRLD & ABD/CO
1AA/12-01-088-06-W4/00 DRLD & ABD/CO
1AA/02-12-088-06-W4/00 DRLD & ABD/CO

Royalty / Encumbrances

Royalty Type	**Product Type**	**Sliding Scale**	**Convertible**	**% of Prod/Sales**
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

M0305 OS CR **Eff:** Jul 12, 2007 527.970 C0204 A Yes WI
Sub: A WI **Exp:** Jul 11, 2022 527.970 VICEROY 5.00000000
ACTIVE 7407070266 **Ext:** INFOBUL 0.000 EVEREST 95.00000000
EVEREST **Ext:** Jul 12, 2025
100.00000000 EVEREST Total Rental: 1847.90

Area : ANZAC
TWP 88 RGE 06 W4M NE 05, L8, W 06, L2, L7, L10, 07, L4, L9 L15, L16, N & SE 08, L6
ALL OILSANDS BELOW TOP VIKING TO BASE WOODBEND

Status		**Hectares**	**Net**		**Hectares**	**Net**
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	527.970	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	527.970	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

---------- Related Contracts ----------
C0204 A JOA Jan 01, 2009

Royalty / Encumbrances

Royalty Type	**Product Type**	**Sliding Scale**	**Convertible**	**% of Prod/Sales**
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min:

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type Lessor Type / Int Type / Lse No/Name / Operator / Payor			Exposure Gross / Net	Oper.Cont. ROFR / Doi Partner(s)	*	DOI Code *	Lease Description / Rights Held
(cont'd)								
			Max:		**Div:**		**Prod/Sales:**	
	Other Percent:				**Min:**		**Prod/Sales:**	

M0309	OS	CR	**Eff:** Jul 12, 2007	768.000	C0204 A Yes		WI	Area : ANZAC
Sub: A	WI		**Exp:** Jul 11, 2022	768.000	VICEROY		5.00000000	TWP 88 RGE 06 W4M 22, 23, 24
ACTIVE	7407070267		**Ext:** INFOBUL	0.000	EVEREST		95.00000000	
	EVEREST		**Ext:** Jul 12, 2025					ALL OILSANDS BELOW TOP VIKING
100.00000000	EVEREST				Total Rental: 2688.00			TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net	Related Contracts
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	768.000	0.000	C0204 A JOA Jan 01, 2009
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	768.000	0.000	
	Prov:	0.000	0.000	**NProv:**	0.000	0.000	**Well U.W.I.** **Status/Type**
							1AA/01-23-088-06-W4/00 DRLD & ABD/CO

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

M0316	OS	CR	**Eff:** Sep 20, 2007	160.000	C0204 A Yes		WI	Area : ANZAC
Sub: A	WI		**Exp:** Sep 19, 2022	160.000	VICEROY		5.00000000	TWP 88 RGE 07 W4M S 12, L11, L12
ACTIVE	7407090381		**Ext:** INFOBUL	0.000	EVEREST		95.00000000	
	EVEREST		**Ext:** Sep 20, 2025					ALL OILSANDS BELOW TOP VIKING
100.00000000	EVEREST				Total Rental: 560.00			TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net	Related Contracts
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	160.000	0.000	C0204 A JOA Jan 01, 2009
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	160.000	0.000	
	Prov:	0.000	0.000	**NProv:**	0.000	0.000	

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type Lessor Type / Int Type / Lse No/Name / Operator / Payor	Exposure Gross / Net	Oper.Cont. ROFR / Doi Partner(s)	DOI Code * *	Lease Description / Rights Held
(cont'd)					
M0316 A					

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

M0315	OS	CR	**Eff:**	Sep 20, 2007	256.000	C0204 A Yes		WI	Area : ANZAC
Sub: A	WI		**Exp:**	Sep 19, 2022	256.000	VICEROY		5.00000000	TWP 88 RGE 07 W4M 24
ACTIVE	7407090383		**Ext:**	INFOBUL	0.000	EVEREST		95.00000000	
	EVEREST		**Ext:**	Sep 20, 2025					ALL OILSANDS BELOW TOP VIKING
100.00000000	EVEREST					Total Rental:	896.00		TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net	Related Contracts		
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	256.000	0.000	C0204 A	JOA	Jan 01, 2009
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	256.000	0.000	C0219 A	P&S	Oct 11, 2017 (I)
	Prov:	0.000	0.000	**NProv:**	0.000	0.000			

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

M0303	OS	CR	**Eff:**	Jul 12, 2007	768.000		WI	Area : MCKAY RIVER

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type Lessor Type / Int Type / Lse No/Name / Operator / Payor			Exposure Gross / Net	Oper.Cont. ROFR / Doi Partner(s)		DOI Code * *	Lease Description / Rights Held
(cont'd)								
M0303								
Sub: A	WI	**Exp:**	Jul 11, 2022	768.000	VICEROY		5.00000000	TWP 89 RGE 13 W4M 23, 26, 27
ACTIVE	7407070282	**Ext:**	INFOBUL	0.000	EVEREST		95.00000000	
	EVEREST	**Ext:**	Jul 12, 2025					ALL OILSANDS BELOW TOP VIKING
100.00000000	EVEREST				Total Rental:	2688.00		TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	768.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	768.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

M0290	OS	CR	**Eff:**	May 03, 2007	1,280.000		WI	Area : MCKAY RIVER
Sub: A	WI		**Exp:**	May 02, 2022	1,280.000	VICEROY	5.00000000	TWP 89 RGE 14 W4M 31
ACTIVE	7407050211		**Ext:**	INFOBUL	0.000	EVEREST	95.00000000	TWP 89 RGE 15 W4M 33, 34, 35,
	EVEREST		**Ext:**	May 03, 2025				36
100.00000000	EVEREST					Total Rental:	4480.00	ALL OILSANDS BELOW TOP VIKING
								TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	1,280.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	1,280.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

-------- Well U.W.I.	Status/Type --------
1AA/10-31-089-14-W4/00	DRLD & ABD/CO
1AB/05-34-089-15-W4/00	DRLD & ABD/CO

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type / Int Type / Operator / Payor	Lessor Type / Lse No/Name	Exposure / Gross / Net	Oper.Cont. / Doi Partner(s)	ROFR *	DOI Code *	Lease Description / Rights Held
(cont'd)							
		CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD	
		Roy Percent:					
		Deduction: STANDARD					
M0290	A	**Gas: Royalty:**		**Min Pay:**		**Prod/Sales:**	
		S/S OIL: Min:	**Max:**	**Div:**		**Prod/Sales:**	
		Other Percent:		**Min:**		**Prod/Sales:**	

M0296	OS	CR	**Eff:**	May 03, 2007	1,792.000			WI	Area : MCKAY RIVER
Sub: A	WI		**Exp:**	May 02, 2022	1,792.000	VICEROY		5.00000000	TWP 90 RGE 13 W4M 15, 21, 22,
ACTIVE	7407050213		**Ext:**	INFOBUL	0.000	EVEREST		95.00000000	27, 28, 33, 34
	EVEREST		**Ext:**	May 03, 2025					
100.00000000	EVEREST					Total Rental:	6272.00		ALL OILSANDS BELOW TOP VIKING TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	1,792.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	1,792.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

-------- Well U.W.I. **Status/Type --------**
1AA/09-33-090-13-W4/00 DRLD & ABD/CO

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD
Roy Percent:				
Deduction: STANDARD				
Gas: Royalty:		**Min Pay:**		**Prod/Sales:**
S/S OIL: Min:	**Max:**	**Div:**		**Prod/Sales:**
Other Percent:		**Min:**		**Prod/Sales:**

M0297	OS	CR	**Eff:**	May 03, 2007	1,024.000			WI	Area : MCKAY RIVER
Sub: A	WI		**Exp:**	May 02, 2022	1,024.000	VICEROY		5.00000000	TWP 90 RGE 14 W4M 06, 07, 18
ACTIVE	7407050214		**Ext:**	INFOBUL	0.000	EVEREST		95.00000000	TWP 90 RGE 15 W4M 13
	EVEREST		**Ext:**	May 03, 2025					
100.00000000	EVEREST					Total Rental:	3584.00		ALL OILSANDS BELOW TOP VIKING TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	1,024.000	0.000

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type / Int Type / Operator	Lessor Type / Lse No/Name / Payor		Exposure / Gross / Net	Oper.Cont. / Doi Partner(s)	ROFR *	DOI Code *	Lease Description / Rights Held
(cont'd)								
M0297								
Sub: A		UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	1,024.000 0.000	-------- **Well U.W.I.** -------- **Status/Type** --------
			Prov:	0.000	0.000	**NProv:**	0.000 0.000	1AA/06-07-090-14-W4/00 DRLD & ABD/CO
								1AA/09-07-090-14-W4/00 DRLD & ABD/CO
								1AA/14-07-090-14-W4/00 DRLD & ABD/CO
								1AA/01-18-090-14-W4/00 DRLD & ABD/CO
								1AA/06-18-090-14-W4/00 DRLD & ABD/CO
								1AA/09-18-090-14-W4/00 DRLD & ABD/CO
								1AA/11-18-090-14-W4/00 DRLD & ABD/CO
								1AA/05-13-090-15-W4/00 DRLD & ABD/CO
								1AA/06-13-090-15-W4/00 DRLD & ABD/CO
								1AA/09-13-090-15-W4/00 DRLD & ABD/CO
								1AA/11-13-090-15-W4/00 DRLD & ABD/CO

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

M0295	OS	CR	**Eff:**	May 03, 2007	1,280.000		WI	Area : MCKAY RIVER
Sub: A	WI		**Exp:**	May 02, 2022	1,280.000	VICEROY	5.00000000	TWP 90 RGE 15 W4M 01, 02, 11,
ACTIVE	7407050215		**Ext:**	INFOBUL	0.000	EVEREST	95.00000000	12, 14
	EVEREST		**Ext:**	May 03, 2025				
100.00000000	EVEREST					Total Rental:	4480.00	ALL OILSANDS BELOW TOP VIKING TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net	
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	1,280.000	0.000	
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	1,280.000	0.000	-------- **Well U.W.I.** -------- **Status/Type** --------
	Prov:	0.000	0.000	**NProv:**	0.000	0.000	1AA/06-12-090-15-W4/00 DRLD & ABD/CO
							1AA/16-12-090-15-W4/00 DRLD & ABD/CO
							1AA/07-14-090-15-W4/00 DRLD & ABD/CO

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type / Lessor Type / Int Type / Lse No/Name / Operator / Payor		Exposure Gross / Net	Oper.Cont. / Doi Partner(s)	ROFR *	DOI Code *	Lease Description / Rights Held
M0291	OS CR	**Eff:** May 03, 2007	1,024.000			WI	Area : MCKAY RIVER
Sub: A	WI	**Exp:** May 02, 2022	1,024.000	VICEROY		5.00000000	TWP 90 RGE 15 W4M 03, 04, 10,
ACTIVE	7407050216	**Ext:** INFOBUL	0.000	EVEREST		95.00000000	15
	EVEREST	**Ext:** May 03, 2025					
100.00000000	EVEREST			Total Rental: 3584.00			ALL OILSANDS BELOW TOP VIKING TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	1,024.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	1,024.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

File Number / File Status / Mineral Int	Lse Type / Lessor Type / Int Type / Lse No/Name / Operator / Payor		Exposure Gross / Net	Oper.Cont. / Doi Partner(s)	ROFR *	DOI Code *	Lease Description / Rights Held
M0292	OS CR	**Eff:** May 03, 2007	1,280.000			WI	Area : MCKAY RIVER
Sub: A	WI	**Exp:** May 02, 2022	1,280.000	VICEROY		5.00000000	TWP 91 RGE 13 W4M 03, 04, 05,
ACTIVE	7407050220	**Ext:** INFOBUL	0.000	EVEREST		95.00000000	08, 09
	EVEREST	**Ext:** May 03, 2025					
100.00000000	EVEREST			Total Rental: 4480.00			ALL OILSANDS BELOW TOP VIKING TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	1,280.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	1,280.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

-------- Well U.W.I.	Status/Type --------
1AA/10-03-091-13-W4/00	DRLD & ABD/CO
1AA/08-04-091-13-W4/00	DRLD & ABD/CO
1AA/03-09-091-13-W4/00	DRLD & ABD/CO
1AA/12-09-091-13-W4/00	DRLD & ABD/CO

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type / Int Type / Operator	Lessor Type / Lse No/Name / Payor			Exposure Gross / Net	Oper.Cont. / Doi Partner(s)	ROFR *	DOI Code *	Lease Description / Rights Held
(cont'd)									
		Roy Percent:							
		Deduction:	STANDARD						
M0292	A	**Gas: Royalty:**				**Min Pay:**		**Prod/Sales:**	
		S/S OIL: Min:			**Max:**	**Div:**		**Prod/Sales:**	
		Other Percent:				**Min:**		**Prod/Sales:**	
M0302	OS	CR	**Eff:**	Jul 12, 2007	768.000			WI	Area : MCKAY RIVER
Sub: A	WI		**Exp:**	Jul 11, 2022	768.000	VICEROY		5.00000000	TWP 91 RGE 13 W4M 06, 07
ACTIVE	7407070292		**Ext:**	INFOBUL	0.000	EVEREST		95.00000000	TWP 91 RGE 14 W4M 12
	EVEREST		**Ext:**	Jul 12, 2025					ALL OILSANDS BELOW TOP VIKING
100.00000000	EVEREST					Total Rental:	2688.00		TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	768.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	768.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:								
Deduction:	STANDARD							
Gas: Royalty:				**Min Pay:**		**Prod/Sales:**		
S/S OIL: Min:			**Max:**	**Div:**		**Prod/Sales:**		
Other Percent:				**Min:**		**Prod/Sales:**		
M0293	OS	CR	**Eff:**	May 03, 2007	1,536.000		WI	Area : MCKAY RIVER
Sub: A	WI		**Exp:**	May 02, 2022	1,536.000	VICEROY	5.00000000	TWP 91 RGE 13 W4M 18, 19, 20,
ACTIVE	7407050221		**Ext:**	INFOBUL	0.000	EVEREST	95.00000000	30
	EVEREST		**Ext:**	May 03, 2025				TWP 91 RGE 14 W4M 13, 24
100.00000000	EVEREST					Total Rental:	5376.00	
								ALL OILSANDS BELOW TOP VIKING
								TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	1,536.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	1,536.000	0.000

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type / Int Type / Operator	Lessor Type / Lse No/Name / Payor	Exposure / Gross / Net	Oper.Cont. / Doi Partner(s)	ROFR *	DOI Code *	Lease Description / Rights Held

(cont'd)

M0293
Sub: A

Prov:	0.000	0.000	**NProv:**	0.000	0.000

-------- Well U.W.I.	Status/Type --------
1AA/07-20-091-13-W4/00	DRLD & ABD/CO
1AA/09-24-091-14-W4/00	DRLD & ABD/CO

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

M0289 OS CR **Eff:** Mar 22, 2007 2,176.000 WI
Sub: A WI **Exp:** Mar 21, 2022 2,176.000 VICEROY 5.00000000
ACTIVE 7407030888 **Ext:** INFOBUL 0.000 EVEREST 95.00000000
EVEREST **Ext:** Mar 22, 2025
100.00000000 EVEREST Total Rental: 7616.00

Area : MCKAY RIVER
TWP 91 RGE 14 W4M SEC 7, 8, 9, 10, 15, 16, 17, 18
TWP 91 RGE 15 W4M E 12
ALL OILSANDS BELOW TOP VIKING TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	2,176.000	0.000
DEVELOPED	**Dev:**	2,176.000	0.000	**Undev:**	0.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

-------- Well U.W.I.	Status/Type --------
1AA/09-13-086-12-W4/00	DRLD & ABD/CO
1AA/04-14-086-12-W4/00	DRLD & ABD/CO
1AA/01-07-091-14-W4/00	DRLD & ABD/CO
1AA/04-07-091-14-W4/00	DRLD & ABD/CO
1AA/05-07-091-14-W4/00	DRLD & ABD/CO
1AA/07-07-091-14-W4/00	DRLD & ABD/CO
1AA/08-07-091-14-W4/00	DRLD & ABD/CO
1AA/10-07-091-14-W4/00	DRLD & ABD/CO
1AA/11-07-091-14-W4/00	DRLD & ABD/CO
1AB/12-07-091-14-W4/00	DRLD & ABD/CO
1AA/14-07-091-14-W4/00	DRLD & ABD/CO
1AA/15-07-091-14-W4/00	DRLD & ABD/CO
1AA/01-08-091-14-W4/00	DRLD & ABD/CO
1AA/06-08-091-14-W4/00	DRLD & ABD/CO

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type / Int Type / Operator / Payor	Lessor Type / Lse No/Name	Exposure Gross / Net	Oper.Cont. / Doi Partner(s)	ROFR *	DOI Code *	Lease Description / Rights Held	
(cont'd)								
M0289	A						1AA/08-08-091-14-W4/00	DRLD & ABD/CO
							1AA/10-08-091-14-W4/00	DRLD & ABD/CO
							1AA/13-08-091-14-W4/00	DRLD & ABD/CO
							1AA/14-08-091-14-W4/00	DRLD & ABD/CO
							1AA/16-08-091-14-W4/00	DRLD & ABD/CO
							1AA/01-09-091-14-W4/00	RECLAIMED/COR
							1AA/02-09-091-14-W4/00	RECLAIMED/COR
							1AA/03-09-091-14-W4/00	DRLD & ABD/CO
							1AA/04-09-091-14-W4/00	DRLD & ABD/CO
							1AA/05-09-091-14-W4/00	DRLD & ABD/CO
							1AA/06-09-091-14-W4/00	DRLD & ABD/CO
							1AA/07-09-091-14-W4/00	DRLD & ABD/CO
							1AA/08-09-091-14-W4/00	DRLD & ABD/CO
							1AA/09-09-091-14-W4/00	DRLD & ABD/CO
							1AA/10-09-091-14-W4/00	DRLD & ABD/CO
							1AA/11-09-091-14-W4/00	DRLD & ABD/CO
							1AA/13-09-091-14-W4/00	DRLD & ABD/CO
							1AA/14-09-091-14-W4/00	DRLD & ABD/CO
							1AA/15-09-091-14-W4/00	DRLD & ABD/CO
							1AA/16-09-091-14-W4/00	DRLD & ABD/CO
							1AA/05-10-091-14-W4/00	DRLD & ABD/CO
							1AA/08-10-091-14-W4/00	DRLD & ABD/CO
							1AA/13-10-091-14-W4/00	RECLAIMED/COR
							1AA/01-16-091-14-W4/00	D&A/COREHOLE
							1AA/03-16-091-14-W4/00	DRLD & ABD/CO
							1AA/04-16-091-14-W4/00	DRLD & ABD/CO
							1AA/05-16-091-14-W4/00	DRLD & ABD/CO
							1AA/06-16-091-14-W4/00	DRLD & ABD/CO
							1AA/08-16-091-14-W4/00	DRLD & ABD/CO
							1AA/10-16-091-14-W4/00	DRLD & ABD/CO
							1AA/11-16-091-14-W4/00	DRLD & ABD/CO
							1AA/12-16-091-14-W4/00	DRLD & ABD/CO
							1AA/13-16-091-14-W4/00	RECLAIMED/COR
							1AA/15-16-091-14-W4/00	DRLD & ABD/CO
							1AA/16-16-091-14-W4/00	RECLAIMED/COR
							1AA/01-17-091-14-W4/00	DRLD & ABD/CO
							1AA/03-17-091-14-W4/00	DRLD & ABD/CO
							1AB/04-17-091-14-W4/00	ABA/OIL

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type / Int Type / Operator / Payor	Lessor Type / Lse No/Name	Exposure Gross / Net	Oper.Cont. / Doi Partner(s)	ROFR *	DOI Code *	Lease Description / Rights Held	
(cont'd)								
M0289	A						1AA/04-17-091-14-W4/00	DRLD & ABD/CO
							1AA/05-17-091-14-W4/00	DRLD & ABD/CO
							1AB/05-17-091-14-W4/00	ABA/OIL
							1AA/06-17-091-14-W4/00	DRLD & ABD/CO
							1AA/10-17-091-14-W4/00	DRLD & ABD/CO
							1AA/12-17-091-14-W4/00	DRLD & ABD/CO
							1AA/13-17-091-14-W4/00	DRLD & ABD/CO
							1AA/14-17-091-14-W4/00	DRLD & ABD/CO
							1AA/01-18-091-14-W4/00	DRLD & ABD/CO
							1AB/01-18-091-14-W4/00	D&C/OIL
							100/02-18-091-14-W4/00	D&C/UNKNOWN
							1AA/02-18-091-14-W4/00	DRLD & ABD/CO
							1AA/03-18-091-14-W4/00	DRLD & ABD/CO
							1AA/04-18-091-14-W4/00	DRLD & ABD/CO
							100/04-18-091-14-W4/00	D&C/UNKNOWN
							100/05-18-091-14-W4/00	D&C/UNKNOWN
							1AA/05-18-091-14-W4/00	DRLD & ABD/CO
							1AA/06-18-091-14-W4/00	DRLD & ABD/CO
							100/07-18-091-14-W4/00	D&C/OBS
							1AA/08-18-091-14-W4/00	DRLD & ABD/CO
							1AA/09-18-091-14-W4/00	DRLD & ABD/CO
							110/10-18-091-14-W4/00	D&C/UNKNOWN
							109/10-18-091-14-W4/00	D&C/UNKNOWN
							107/10-18-091-14-W4/00	D&C/UNKNOWN
							105/10-18-091-14-W4/00	D&C/UNKNOWN
							1AA/10-18-091-14-W4/00	DRLD & ABD/CO
							103/10-18-091-14-W4/00	D&C/UNKNOWN
							102/10-18-091-14-W4/00	D&C/UNKNOWN
							100/10-18-091-14-W4/00	D&C/UNKNOWN
							111/10-18-091-14-W4/00	LOC/OBS
							106/10-18-091-14-W4/00	D&C/UNKNOWN
							104/10-18-091-14-W4/00	D&C/UNKNOWN
							108/10-18-091-14-W4/00	D&C/UNKNOWN
							105/11-18-091-14-W4/00	D&C/UNKNOWN
							103/11-18-091-14-W4/00	DRLD & ABD/UN
							102/11-18-091-14-W4/00	D&C/UNKNOWN
							100/11-18-091-14-W4/00	D&C/UNKNOWN
							104/11-18-091-14-W4/00	D&C/UNKNOWN

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type Lessor Type / Int Type / Lse No/Name / Operator / Payor	Exposure / Gross / Net	Oper.Cont. ROFR / Doi Partner(s)	DOI Code * *	Lease Description / Rights Held
(cont'd)					
M0289	A				108/11-18-091-14-W4/00 D&C/UNKNOWN
					107/11-18-091-14-W4/00 D&C/UNKNOWN
					106/11-18-091-14-W4/00 D&C/UNKNOWN
					109/12-18-091-14-W4/00 D&C/UNKNOWN
					108/12-18-091-14-W4/00 D&C/UNKNOWN
					107/12-18-091-14-W4/00 D&C/UNKNOWN
					106/12-18-091-14-W4/00 D&C/UNKNOWN
					105/12-18-091-14-W4/00 D&C/UNKNOWN
					104/12-18-091-14-W4/00 D&C/UNKNOWN
					103/12-18-091-14-W4/00 D&C/UNKNOWN
					102/12-18-091-14-W4/00 D&C/UNKNOWN
					100/12-18-091-14-W4/00 D&C/UNKNOWN
					1AA/13-18-091-14-W4/00 DRLD & ABD/CO
					1AA/14-18-091-14-W4/00 DRLD & ABD/CO
					100/16-18-091-14-W4/00 LOC/OBS
					1AA/16-18-091-14-W4/00 DRLD & ABD/CO
					1AA/15-18-091-14-W4/00 DRLD & ABD/CO
					1AA/02-12-091-15-W4/00 DRLD & ABD/CO
					1AA/06-12-091-15-W4/00 DRLD & ABD/CO
					1AA/08-12-091-15-W4/00 DRLD & ABD/CO
					1AA/09-12-091-15-W4/00 DRLD & ABD/CO
					1AA/10-12-091-15-W4/00 DRLD & ABD/CO
					1AA/16-12-091-15-W4/00 DRLD & ABD/CO
					1AA/13-07-091-14-W4/00 DRLD & ABD/CO
					1AA/02-16-091-14-W4/00 DRLD & ABD/CO
					1AA/11-18-091-14-W4/00 DRLD & ABD/CO
M0312	OS CR	**Eff:** Aug 09, 2007	512.000		WI	Area : MCKAY RIVER
Sub: A	WI	**Exp:** Aug 08, 2022	512.000	VICEROY	5.00000000	TWP 91 RGE 14 W4M 21, 22
ACTIVE	7407080270	**Ext:** INFOBUL	0.000	EVEREST	95.00000000	
	EVEREST	**Ext:** Aug 09, 2025				ALL OILSANDS BELOW TOP VIKING
100.00000000	EVEREST			Total Rental: 1792.00		TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	512.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	512.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

-------- Well U.W.I.	Status/Type --------
1AA/04-21-091-14-W4/00	DRLD & ABD/CO
1AA/11-21-091-14-W4/00	DRLD & ABD/CO
1AA/13-21-091-14-W4/00	DRLD & ABD/CO

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type Lessor Type / Int Type / Lse No/Name / Operator / Payor	Exposure Gross / Net	Oper.Cont. ROFR / Doi Partner(s)	DOI Code * *	Lease Description / Rights Held
(cont'd)					
M0312 A					1AA/16-21-091-14-W4/00 DRLD & ABD/CO 1AA/05-22-091-14-W4/00 ABA/OIL 1AA/10-22-091-14-W4/00 ABA/OIL

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

M0294	OS	CR	**Eff:**	May 03, 2007	1,536.000			WI	Area : MCKAY RIVER
Sub: A	WI		**Exp:**	May 02, 2022	1,536.000	VICEROY		5.00000000	TWP 91 RGE 14 W4M 25, 26, 27,
ACTIVE	7407050222		**Ext:**	INFOBUL	0.000	EVEREST		95.00000000	34, 35, 36
	EVEREST		**Ext:**	May 03, 2025					
100.00000000	EVEREST					Total Rental:	5376.00		ALL OILSANDS BELOW TOP VIKING TO BASE WOODBEND

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	1,536.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	1,536.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

-------- Well U.W.I.	Status/Type --------
1AA/01-27-091-14-W4/00	ABA/COREHOLE
1AA/05-27-091-14-W4/00	DRLD & ABD/CO
1AA/13-27-091-14-W4/00	ABA/COREHOLE
1AA/16-27-091-14-W4/00	ABA/COREHOLE
1AA/05-34-091-14-W4/00	ABA/OIL
1AA/13-34-091-14-W4/00	ABA/OIL
1AA/09-35-091-14-W4/00	ABA/OIL
1AA/12-35-091-14-W4/00	ABA/OIL

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

M0289	OS	CR	**Eff:**	Mar 22, 2007	128.000			WI	Area : MCKAY RIVER
Sub: B	WI		**Exp:**	Mar 21, 2022	128.000	VICEROY		5.00000000	TWP 91 RGE 15 W4M W 12
ACTIVE	7407030888		**Ext:**	INFOBUL	0.000	EVEREST		95.00000000	ALL OILSANDS BELOW TOP VIKING

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type Lessor Type / Int Type / Lse No/Name / Operator / Payor	Exposure / Gross / Net	Oper.Cont. ROFR / Doi Partner(s)	DOI Code * *	Lease Description / Rights Held
(cont'd)					
M0289					
Sub: B	EVEREST **Ext:** Mar 22, 2025				TO BASE WOODBEND
100.00000000	EVEREST		Total Rental: 448.00		

Status		Hectares	Net		Hectares	Net
NON PRODUCING	**Prod:**	0.000	0.000	**NProd:**	128.000	0.000
UNDEVELOPED	**Dev:**	0.000	0.000	**Undev:**	128.000	0.000
	Prov:	0.000	0.000	**NProv:**	0.000	0.000

Royalty / Encumbrances

Royalty Type	Product Type	Sliding Scale	Convertible	% of Prod/Sales
CROWN SLIDING SCALE ROYALTY	ALL PRODUCTS	Y	N	100.00000000 % of PROD

Roy Percent:
Deduction: STANDARD
Gas: Royalty: **Min Pay:** **Prod/Sales:**
S/S OIL: Min: **Max:** **Div:** **Prod/Sales:**
Other Percent: **Min:** **Prod/Sales:**

EVEREST CANADIAN RESOURCES CORP.
Mineral Property Report

File Number / File Status / Mineral Int	Lse Type / Int Type / Operator / Payor	Lessor Type / Lse No/Name /	Exposure Gross / Net	Oper.Cont. / Doi Partner(s)	ROFR *	DOI Code *	Lease Description / Rights Held

Report Total:	**Total Gross:**	46,480.020	**Total Net:**	0.000				
	Prod Gross:	0.000	**Prod Net:**	0.000	**NProd Gross:**	46,480.020	**NProd Net:**	0.000
	Dev Gross:	2,176.000	**Dev Net:**	0.000	**Undev Gross :**	44,304.020	**Undev Net :**	0.000
	Prov Gross:	0.000	**Prov Net:**	0.000	**NProv Gross:**	0.000	**NProv Net:**	0.000

**** End of Report ****

Property Plant and Equipment

Item

- The McKay Facility, an oil processing facility with capacity to process 12,000 bbl/day of oil and 37,400 bbl/day steam, including water treatment plant, oil processing and treatment facilities, glycol heating and cooling systems, three 5MW Taurus 60 gas turbine generators, three heat recovery steam generation units (HRSG), high capacity boilers, distillation systems and Evap towers, softwater system, office building with control centre, warm and cold warehouses, tank farm, truck loading/unloading stations, well pads and modular buildings, testing group separators and water source wells, high grade access and gas tie
- Six existing SAGD well pairs In the McMurray Formation
- One horizontal Wabiskaw observation well on Pad 1
- STP's interest in undeveloped acreage, including Anzac, Hangingstone, and South McKay property
- STP's interest in all subsurface data
- Road Use- 33% participating interest in the McKay-West road
- Road Use- 14% participating interest in West Service road
- Rolling stock, including vehicles and bobcat
- All inventory stored on site at the McKay Facility
- Books, records and operational data
- Core samples

Well Licences

Licence No.	Surface Location
W 0416027	07-18-091-14W4
W 0426195	02-18-091-14W4
W 0427191	04-18-091-14W4
W 0427192	05-18-091-14W4
W 0427193	10-18-091-14W4
W 0427194	12-18-091-14W4
W 0431566	15-07-091-14W4
W 0431567	15-07-091-14W4
W 0431568	15-07-091-14W4
W 0431569	15-07-091-14W4
W 0431570	15-07-091-14W4
W 0431571	15-07-091-14W4
W 0431593	14-07-091-14W4
W 0431594	13-07-091-14W4
W 0431595	13-07-091-14W4
W 0431596	13-07-091-14W4
W 0431597	13-07-091-14W4
W 0431598	13-07-091-14W4
W 0431601	14-07-091-14W4
W 0431602	13-07-091-14W4
W 0431603	13-07-091-14W4
W 0431604	13-07-091-14W4
W 0431605	13-07-091-14W4
W 0431606	13-07-091-14W4
W 0431632	15-07-091-14W4
W 0431633	15-07-091-14W4
W 0431634	15-07-091-14W4
W 0431635	15-07-091-14W4
W 0431636	15-07-091-14W4
W 0431637	15-07-091-14W4
W 0433876	15-07-091-14W4
W 0454464	10-18-091-14W4
W 0455181	16-18-091-14W4

Pipeline Licences

Licence Number	From Location	To Location	Line Number
P 52898	08-08-091-14W4	09-07-091-14W4	1
P 52898	16-08-091-14W4	16-08-091-14W4	2
P 52925	14-28-090-13W4	09-07-091-14W4	1
P 53200	10-07-091-14W4	15-07-091-14W4	2
P 53200	09-07-091-14W4	14-07-091-14W4	1
P 53375	10-07-091-14W4	15-07-091-14W4	1
P 53375	10-07-091-14W4	14-07-091-14W4	2
P 53380	09-07-091-14W4	10-07-091-14W4	1
P 53455	15-07-091-14W4	10-07-091-14W4	1
P 53455	14-07-091-14W4	10-07-091-14W4	2
P 53456	10-07-091-14W4	09-07-091-14W4	1
P 53456	15-07-091-14W4	10-07-091-14W4	1
P 53457	14-07-091-14W4	10-07-091-14W4	2
P 53457	10-07-091-14W4	09-07-091-14W4	3

Facility Licences

Licence No.	Surface Location
42660	00/10-07-091-14W4
42685	00/15-07-091-14W4
42686	00/14-07-091-14W4

List of Abandoned, Not Reclaimed Licences

Licence No.	Surface Location
W 0389811	09-33-090-13W4
W 0389813	06-07-090-14W4
W 0389814	06-18-090-14W4
W 0389818	11-13-090-15W4
W 0389820	10-03-091-13W4
W 0389821	08-04-091-13W4
W 0389822	03-09-091-13W4
W 0389823	12-09-091-13W4
W 0389824	07-20-091-13W4
W 0389825	07-07-091-14W4
W 0389826	13-07-091-14W4
W 0389827	15-07-091-14W4
W 0389828	06-08-091-14W4
W 0389829	08-08-091-14W4
W 0389830	16-08-091-14W4
W 0389831	06-16-091-14W4
W 0389832	04-17-091-14W4
W 0389833	05-18-091-14W4
W 0389834	09-18-091-14W4
W 0389835	09-24-091-14W4
W 0389836	06-12-091-15W4
W 0390651	16-36-087-06W4
W 0390653	16-16-088-05W4
W 0390654	06-17-088-05W4
W 0390655	16-17-088-05W4
W 0390656	06-18-088-05W4
W 0390657	16-18-088-05W4
W 0391044	03-21-088-05W4
W 0391047	02-01-088-06W4

Licence No.	Surface Location
W 0391049	12-01-088-06W4
W 0391051	02-12-088-06W4
W 0391054	01-23-088-06W4
W 0391078	02-31-087-05W4
W 0391083	09-19-088-05W4
W 0391084	05-20-088-05W4
W 0391270	06-04-088-05W4
W 0391272	06-06-088-05W4
W 0391769	11-33-085-12W4
W 0391770	11-18-086-11W4
W 0391771	12-34-085-12W4
W 0391775	10-16-086-12W4
W 0391787	06-35-086-12W4
W 0391789	10-31-085-11W4
W 0391790	10-35-085-12W4
W 0391791	08-07-086-11W4
W 0391793	12-01-086-12W4
W 0391859	10-02-086-12W4
W 0391861	07-10-086-12W4
W 0391862	12-14-086-12W4
W 0391866	10-22-086-12W4
W 0391867	14-23-086-12W4
W 0391869	12-24-086-12W4
W 0391870	06-25-086-12W4
W 0391871	09-13-086-12W4
W 0392051	08-11-086-12W4
W 0392830	06-17-091-14W4
W 0393502	02-18-091-14W4
W 0393503	15-18-091-14W4
W 0393504	11-18-091-14W4
W 0393505	13-08-091-14W4
W 0393506	11-16-091-14W4
W 0393507	10-07-091-14W4
W 0393508	08-07-091-14W4
W 0394342	07-09-091-14W4
W 0394343	05-13-090-15W4
W 0394344	06-13-090-15W4
W 0394345	14-07-090-14W4
W 0405573	14-07-091-14W4
W 0405574	04-09-091-14W4
W 0405575	13-09-091-14W4
W 0405576	15-09-091-14W4
W 0405577	05-10-091-14W4
W 0405578	05-16-091-14W4
W 0405579	08-16-091-14W4
W 0405580	15-16-091-14W4
W 0405581	05-17-091-14W4
W 0405582	10-17-091-14W4
W 0405583	12-17-091-14W4
W 0405584	13-17-091-14W4
W 0405585	01-18-091-14W4
W 0405586	03-18-091-14W4
W 0405587	06-18-091-14W4
W 0405588	08-18-091-14W4

Licence No.	Surface Location
W 0405589	10-18-091-14W4
W 0405590	13-18-091-14W4
W 0408140	04-18-091-14W4
W 0408804	14-17-091-14W4
W 0409360	05-07-091-14W4
W 0415387	09-15-086-12W4
W 0415388	04-14-086-12W4
W 0415462	14-11-086-12W4
W 0415463	03-11-086-12W4
W 0415559	16-18-091-14W4
W 0415560	14-08-091-14W4
W 0415565	14-18-091-14W4
W 0415566	03-17-091-14W4
W 0415648	09-13-090-15W4
W 0415649	07-14-090-15W4
W 0415650	06-12-090-15W4
W 0415746	01-18-090-14W4
W 0415747	11-18-090-14W4
W 0415789	05-34-089-15W4
W 0415790	10-31-089-14W4
W 0415808	10-01-086-12W4
W 0415809	16-02-086-12W4
W 0415820	13-14-086-12W4
W 0415821	09-11-086-12W4
W 0416003	08-12-091-15W4
W 0417895	11-15-086-12W4
W 0417896	08-33-086-12W4
W 0418092	02-12-091-15W4
W 0418094	09-12-091-15W4
W 0418095	10-12-091-15W4
W 0418096	16-12-091-15W4
W 0418382	09-07-090-14W4
W 0418383	09-18-090-14W4
W 0418391	16-12-090-15W4
W 0418467	11-21-091-14W4
W 0426194	01-18-091-14W4
W 0427678	01-09-091-14W4
W 0427679	03-09-091-14W4
W 0427680	10-09-091-14W4
W 0427681	11-09-091-14W4
W 0427682	14-09-091-14W4
W 0427683	16-09-091-14W4
W 0427684	04-16-091-14W4
W 0427685	02-16-091-14W4
W 0427686	03-16-091-14W4
W 0427687	10-16-091-14W4
W 0427765	04-07-091-14W4
W 0427767	12-07-091-14W4

SCHEDULE "B"

Attached to and forming a part of an Amended and Restated Farm-in and Participation Agreement dated the 19th day of June, 2020 between Viceroy Canadian Resources Corp. and Everest Canadian Resources Corp.

2007 CAPL OPERATING PROCEDURE – Rates, Elections and Revisions

OPERATOR: EVEREST

CLAUSE 1.01: "Market Price": WILL NOT APPLY

CLAUSE 1.01: "Production Facility" WILL APPLY

CLAUSE 3.11 C: INSURANCE: ALTERNATE B

CLAUSE 7.01 (B): PRE-COMMENCEMENT: AMENDED: 120 days changed to 90 days

CLAUSE 10.02G: RECEIVING PARTY MAY NOT DEFER RESPONSE

WILL APPLY

CLAUSE 10.03 B: COMMENCEMENT: AMENDED: 120 days changed to 90 days

CLAUSE 10.04 A: OPERATOR FOR INDEPENDENT OPERATION: ALTERNATE B

CLAUSE 10.07: PENALTY WHERE INDEPENDENT WELL RESULTS IN PRODUCTION:

DEVELOPMENT WELLS 400%
EXPLORATORY WELLS 500%

CLAUSE 10.10 A: EXCEPTION TO CLAUSE 10.07 WHERE WELL PRESERVES TITLE:

180 DAYS

CLAUSE 21.00: DISPUTE RESOLUTION WILL APPLY

CLAUSE 21.03 J: ARBITRATION PROCEEDINGS WILL APPLY

CLAUSE 22.02: ADDRESS FOR SERVICE

Viceroy Canadian Resources Corp.
510, 634 - 6th Avenue SW
Calgary, Alberta T2P 0S4

Attention: Land Manager

Everest Canadian Resources Corp.
510, 634 - 6th Avenue SW
Calgary, Alberta T2P 0S4

Attention: Land Manager

CLAUSE 24.01: RIGHT TO ASSIGN, SELL OR DISPOSE: ALTERNATE A

CLAUSE 24.02.F: EXCEPTION FOR ALL EARNING AGREEMENTS: WILL APPLY

1996 PASC Accounting Procedure – Rates, Elections and Revisions

Clause 105: Operating Fund 10 %

Clause 110: Approvals 2 or more parties totalling 65 %

Clause 112(a): Expenditure Limitations excess of $500,000.00
(c) excess of $500,000.00

Clause 202(b): Employee Benefits 25 %

Clause 213(b): Housing Shall _____ /Shall not X .

Clause 216: Warehouse Handling 5.00 %

Clause 221: Allocation Options: N/A

Clause 302:

(a) For each Exploration Project:
(1) 5 % of the first $50,000 plus
(2) 3 % of the next $100,000 plus
(3) 1 % of cost exceeding the sum of (1) and (2)

(b) For each Drilling Well:
(1) 3 % of the first $ 50,000 plus
(2) 2 % of the next $100,000 plus
(3) 1 % of cost exceeding the sum of (1) and (2)

(c) For initial Construction Project:
(1) 5 % of the first $ 50,000 plus
(2) 3 % of the next $100,000 plus
(3) 1 % of cost exceeding the sum of (1) and (2)

(d) For each subsequent Construction Project:
(1) 5 % of the first $ 50,000 plus
(2) 3 % of the next $100,000 plus
(3) 1 % of cost exceeding the sum of (1) and (2)

(e) For Operations and Maintenance:
(1) _____% of the cost of operation and maintenance of Joint Property; and
(2) $250.00 per Producing Well per month
(3) _____ flat rate per month

Clause 302(e) (2) and (3): Will not be adjusted annually

Clause 406: Dispositions $100,000.00

SCHEDULE "C"

Attached to and forming a part of an Amended and Restated Farm-in and Participation Agreement dated the 19th day of June, 2020 between Viceroy Canadian Resources Corp., and Everest Canadian Resources Corp.

Working Interest Calculations based on increments of One Million ($1,000,000.00) Dollars up to a maximum of Six Million ($6,000,000.00) Dollars*

Everest Contribution	Everest WI	Viceroy WI
$1,000,000.00	15.8333%	79.1667%
$2,000,000.00	31.6666%	63.3334%
$3,000,000.00	47.4999%	47.5001%
$4,000,000.00	63.3332%	31.6668%
$5,000,000.00	79.1665%	15.8335%
$6,000,000.00	95%	05%

*If the Joint Lands yield production volumes of Two Thousand (2,000) barrels of oil per day equivalent, for a continuous period of Twenty-One (21) days before Everest expends the full Six Million Dollars ($6,000,000.00), Everest will earn or acquire on the expiry of the Twenty-One Day period an undivided Ninety Five Percent (95%) Working Interest.

This is Exhibit "D" to the Affidavit of
me ✓ (Robert Logan) ✓
~~Brianne Harris~~ sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

TABLE OF CONTENTS

OPERATING PROCEDURE

Attached to the Head Agreement dated _____, between _____

1.00 DEFINITIONS AND INTERPRETATION

1.01 Definitions

In this Operating Procedure:

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

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

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

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

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

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

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

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

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

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

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

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

"Casing Point" means, subject to Clause **8.03** for a Horizontal Well and any specific commitments in an approved drilling AFE, the time when: (i) a well has been drilled to total depth; (ii) the authorized logs and wireline or drillstem tests have been conducted thereon; and (iii) a decision must be made under Article **9.00** to set casing for production or to Abandon that well.

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

"Commercial Quantities" means the anticipated output of hydrocarbon substances from a well that would reasonably warrant drilling another well hereunder to the formation indicated to be productive by that well, considering: (i) the anticipated associated Drilling Costs, Completion Costs, Equipping Costs and Operating Costs; (ii) the kind and quality of hydrocarbon substances indicated to be present by that well; (iii) the anticipated availability of facilities for treating, processing, transporting or otherwise handling those hydrocarbon substances and any associated water, sediment and other impurities, as well as the anticipated cost of that use; (iv) the anticipated availability of markets for that production; (v) the lessor royalties and other burdens payable for the Joint Account for that production; (vi) the probable life of that well; and (vii) the

anticipated price to be received for that production when sold.

"Completion" means the installation in or on a well, up to and including the outlet valve of the wellhead, of all production casing, tubing, equipment and material necessary (other than a pump or other artificial lift equipment) for the ongoing recovery of Petroleum Substances. Completion includes the perforation, stimulation, treating, acidizing, fracing and swabbing of that well and the production tests reasonably required to establish its initial producibility.

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

"Deepen" means the drilling of a well to a formation or depth deeper than: (i) the target formation or estimated equivalent depth identified in the AFE or Operation Notice therefor; or (ii) the deepest formation or depth to which it was previously drilled. A Deepening also includes the extension of any Horizontal Wellbore or any Horizontal Leg beyond the length authorized in Clause **8.02** or otherwise hereunder or the drilling of an additional Horizontal Wellbore or Horizontal Leg.

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

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

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

(c) if either the pre-existing well or the proposed well is a Horizontal Well, the measurement in this definition will be between the nearest points of each well in the applicable formation, and the entirety of each such Horizontal Well, including every Horizontal Wellbore or Horizontal Leg thereof, will be considered a single well for this purpose.

"Drilling Costs" means the costs incurred (other than Completion Costs and Equipping Costs) for drilling a well, including those for: (i) acquiring approvals required under the Regulations and required surface access (including community and stakeholder consultation under Clause **3.09**); (ii) preparation of the well site; (iii) construction or use of such roads as are reasonably necessary for access to the well site; (iv) installation of surface and intermediate casing; (v) the logging, coring and wireline or drillstem testing programs; (vi) any insurance policies acquired for the Joint Account specifically for that well; (vii) Abandonment, if Commenced within 12 months after drilling rig release and subject to any allocation of costs under Clause **9.04** and Subclauses **10.06E** and **10.08E** between the Parties that participated in drilling the well and the Parties that participated in additional Operations; and (viii) the items described above for a Deepening or Sidetracking, as applicable.

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

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

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

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

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

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

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

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

the scope of this definition, insofar as the costs were included in the Drilling Costs or Completion Costs for the well.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Horizontal Leg" has the meaning prescribed by Clause **8.01**.

"Horizontal Well" has the meaning prescribed by Clause **8.01**.

"Horizontal Wellbore" has the meaning prescribed by Clause **8.01**.

"HSE" means health, safety and the environment.

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

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

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

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

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

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

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

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

This optional sentence will ___/will not ___ (Specify) apply: *Notwithstanding the preceding portion of this definition, a Party making a determination of Market Price for a particular type of Petroleum Substance may, for ease of administration, use as a basis for that calculation the weighted average sale price received by it in the applicable period for physical deliveries of substantially all of its own production sale volumes produced in the applicable jurisdiction, including deliveries under arm's length sales agreements with terms exceeding 31 days.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) constructed or installed for the Joint Account;

(b) owned exclusively by the Parties;

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

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

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

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

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

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

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

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

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

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

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

"Spacing Unit" means:

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

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

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

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

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

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

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

1.02 References And Interpretation

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

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

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

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

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

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

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

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

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

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

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

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

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

B. *Parties Participate Equally In Preparation*-This Agreement will be interpreted as if each Party participated equally in

its preparation. Any legal rule of construction that would cause this Agreement to be construed against the Party that assumed primary responsibility for drafting it because of that role will not apply to this Agreement.

1.03 Optional And Alternate Provisions

If the Parties have not made an election required hereunder for an optional or alternate provision, that optional provision or the first such alternate provision will apply as if it had been designated.

1.04 Conflicts

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

B. *Severance And Enforceability*-The applicable provisions (or portions thereof) of this Agreement will be deemed to be severed from this Agreement to the extent necessary to resolve a conflict, insofar as: (i) the conflict is not within the exceptions in the last sentence of Subclause **1.04A**; or (ii) any provision of this Agreement is judicially determined to be unenforceable. Any such severed provision will be of no further force and effect, provided that the Parties will mutually attempt in good faith to negotiate a replacement provision that will secure the purposes of the original provision in a legally valid manner. As so modified, this Agreement will remain in full force and effect.

1.05 No Partnership Or Fiduciary Relationship

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

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

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

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

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

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

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

1.06 Governing Law

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

1.07 Extension Under Alberta Limitations Act

Subject to the dispute resolution processes in Article **21.00**, the Parties agree that the 2 year period for seeking a remedial order under section 3(1)(a) of the *Limitations Act* (Alberta), as amended, for any claim (as defined in that Act) arising in connection with this Agreement is extended to:

(a) for claims disclosed by an audit, 2 years after expiry of the time this Agreement permitted it to be performed; or

(b) for all other claims, 4 years.

1.08 Time Of Essence

Time is of the essence in this Agreement.

1.09 No Amendment Except In Writing

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

1.10 Waiver

No waiver by any Party of any application or breach (whether actual or anticipated) of any provision of this Agreement will be effective, unless that waiver is expressed in writing under that Party's authority. Any waiver so given will extend only to the particular application or breach to which it pertains, and will not limit or affect any rights respecting any future application of that provision or any other or future breach, whether of a like or different character. A Party that fails to take any steps in respect of a breach or non-fulfillment of any provision of this Agreement by another Party will not be regarded as having waived its rights with respect to that matter, except insofar as this Agreement expressly provides that its rights are extinguished with respect to that matter because of its failure to exercise those rights by a specified time.

1.11 Supersedes Previous Agreements

Insofar as the Head Agreement or any other Schedule becomes ineffective by its own terms, this Operating Procedure supersedes the Head Agreement and such other Schedule. Except for the Title Documents and as otherwise provided in this Agreement or this Clause, this Agreement supersedes all other oral or written agreements, representations and understandings of the Parties about the matters and property governed hereunder, and expresses all of the terms agreed upon by them with respect thereto. Insofar as two or more (but fewer than all) Parties agree in writing, an earlier agreement will continue to apply between them, provided that it will not derogate from their obligations under this Agreement.

1.12 Limitation On Right Of Acquisition

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

1.13 No U.S. Tax Partnership

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

1.14 Term

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

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

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

obligations with respect to the applicable matter under the Regulations.

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

1.15 Modifications To CAPL Document Form

This Operating Procedure is in the 2007 form of CAPL Operating Procedure published by the Canadian Association of Petroleum Landmen. It has been modified only by the completion of the blanks and elections required herein and by those other changes specifically identified herein, in the Head Agreement or in a Schedule of elections and amendments to this Operating Procedure. Each modification hereof that has not been specifically identified in this manner will be deemed to be ineffective, and the 2007 CAPL Operating Procedure will apply as if that modification had not been made.

2.00 APPOINTMENT AND REPLACEMENT OF OPERATOR

2.01 Assumption Of Duties Of Operator

The Party appointed as Operator in the Head Agreement and any successor appointed or deemed appointed hereunder will assume the rights, duties and obligations of the Operator hereunder.

2.02 Replacement Of Operator

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

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

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

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

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

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

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

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

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

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

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

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

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

Subclause **2.02A**; or (ii) is then subject to a *bona fide* notice of default under Clause **5.05**;

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

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

2.03 Challenge Of Operator

A. *Challenge Notice*-At any time after a Party has been the Operator for a continuous period of at least 2 years, any Non-Operator may give notice (the "Challenge Notice") to the other Parties that it is prepared to conduct Joint Operations on more favourable terms and conditions. It will include in the Challenge Notice sufficient detail to enable the other Parties to evaluate the nature of the Challenge Notice and the effect the revised terms and conditions would have on Joint Operations. Within 60 days after receipt of the Challenge Notice, the Operator will notify the Parties if it is prepared to operate on the terms and conditions set out therein. If it is, it will promptly proceed to do so, and Subclause **2.03B** will apply to it, *mutatis mutandis*. If it is not, it will resign as Operator effective not later than 45 days after that 60 day period. The Operator will be deemed to resign if it fails to deliver such a notice within that 60 day period.

B. *Successor Operates Under Challenge Notice*-If the Operator resigns under Subclause **2.03A**, a successor will be appointed under Clause **2.06**, provided that the Party that served the Challenge Notice will become the new Operator if no other Party is prepared to operate on the terms and conditions set out therein. The new Operator will conduct Joint Operations on the basis set forth in the Challenge Notice. Any costs in excess of those set out therein in the 2 year period after becoming the Operator will be for its sole account. Notwithstanding Clause **2.04** (but subject to Clause **2.09**), the new Operator may not resign until it has acted as Operator for at least 2 years.

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

2.04 Resignation Of Operator

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

2.05 Modification Of Terms And Conditions By Operator

A Party that has been the Operator for a continuous period of 2 years may give notice ("Operator's Notice") to the Non-Operators of the revised terms and conditions on which it would continue as Operator, provided that an Operator operating under a previous Operator's Notice may not serve another Operator's Notice until the previous one has been effective for at least 2 years. Within 60 days after receipt of the Operator's Notice, each Non-Operator will notify the Operator if it agrees to the Operator operating under those revised terms and conditions. A Non-Operator that fails to respond within that period will be deemed to agree to those revised terms and conditions. A Non-Operator that does not agree must give notice ("Counter-Proposal") to the other Parties of the terms and conditions upon which it would serve as the Operator. Any such Counter-Proposal will be deemed to be a challenge of the Operator. Clause **2.03** will apply, *mutatis mutandis*, as if it were a Challenge Notice, except that the Counter-Proposal will be compared to the terms and conditions proposed in the Operator's Notice. If no Party serves a Counter-Proposal, the Operator will thereafter operate under the Operator's Notice, with any excess costs for its sole account. Notwithstanding Clause **2.04** (but subject to Clause **2.09**), it may not resign until it has operated for at least 2 years under any Operator's Notice that becomes effective.

2.06 Appointment Of New Operator

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.07 Transfer Of Property On Change Of Operator

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

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

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

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

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

The outgoing Operator will continue to: (i) remain responsible for any unsatisfied obligations that accrued to it before the effective time of its replacement or resignation; and (ii) retain its rights for any amounts owing to it under this Agreement that

accrued before that time. Except as provided in this Clause, it otherwise will be released from (and the successor Operator will assume) all of the Operator's duties and obligations as of that time.

2.08 Audit Of Account On Change Of Operator

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

2.09 Assignment Of Operatorship

Clause **2.06** will apply to the appointment of a successor Operator if the Operator wishes an assignee that is not its Affiliate to succeed it as Operator after its disposition of a Working Interest to that assignee under Article **24.00**. An assignee that is the Operator's Affiliate will become the Operator when that assignment becomes effective hereunder (without need for the Operator to issue a specific notice to that effect) if it has acquired all or substantially all of the Operator's Working Interest in the affected Joint Lands, unless it is disqualified by Subclause **2.06B**. If the Operator's Affiliate succeeds it as Operator, the 2 year time periods described in Clauses **2.03** and **2.05** due to a challenge or modification of terms will be calculated as if that assignment did not occur.

3.00 FUNCTION AND DUTIES OF OPERATOR

3.01 Control And Management Of Joint Operations

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

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

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

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

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

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

3.02 Operator As Party

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

3.03 Independent Status Of Operator And Contracting

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

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

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

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

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

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

3.04 Proper Practices In Joint Operations

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

3.05 Health, Safety And The Environment

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

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

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

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

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

C. *Periodic HSE Inspections*-The Operator will have its personnel inspect producing wells and Production Facilities held for the Joint Account at least annually with respect to HSE matters, provided that such inspection will be

conducted at such earlier date as may be reasonably required to assess any HSE incident. The Operator will cause a HSE audit to be conducted for the Joint Account at such frequency as the Operator reasonably determines is appropriate having regard to the nature of the Joint Property, using such criteria and qualified personnel as it reasonably determines are appropriate.

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

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

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

3.06 Protection From Liens

The Operator will pay (or cause to be paid) all costs for goods and services supplied with respect to the Joint Lands, any Joint Operations and any other Joint Property as those costs become due. Except for the Operator's lien, the potential remedies for financial default provided in Clause **5.05** and undetermined or inchoate liens permitted or created under the Regulations, the Operator will keep the Joint Lands and the other Joint Property free from liens and encumbrances associated with payment of those costs and all other liens and encumbrances associated with payment of any taxes levied under the Regulations for the Joint Account, unless there is a *bona fide* dispute about any such payment. Insofar as there is such a *bona fide* dispute, the Operator will proceed in good faith and with reasonable diligence to resolve that dispute, and will take such other lawful and prudent steps as are reasonably appropriate to protect the Joint Property from seizure.

3.07 Records And Accounts

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

3.08 Non-Operator's Rights Of Access

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

3.09 Surface Rights And Regulatory Licences

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

3.10 Maintenance Of Title Documents

A. *Title Administrator Maintains*-Except as otherwise provided in this Agreement, each Party is responsible for paying

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

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

C. *Required Land Selection*-If the Parties may select for retention some (but not all) of the Joint Lands subject to a Title Document because of: (i) Joint Operations that have been conducted; or (ii) a requirement under a Title Document to relinquish to its grantor any of the Joint Lands subject thereto, the Parties will attempt to maximize the Joint Lands to be retained by them. The following will apply to that land selection, subject to any restrictions on selection under the Title Document or the Regulations:

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

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

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

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

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

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

D. *Land Selection For Subclause 3.10C And Clause 10.10*-If the Joint Lands are subject to a Title Document to which Subclause **3.10C** applies, a Party may, at any time not earlier than 6 months before the latest date the land selection may be made, require the Parties to select, for only the purpose of the Clause **10.10** title preservation process, those Joint Lands to be retained hereunder on the same basis as provided in that Subclause. The Parties will make that land selection within 10 days after receipt of that notice. Unless otherwise agreed, that land selection will be binding on them in determining if a well is a "Title Preserving Well" or if any Joint Lands are "Preserved Lands", as those terms are defined in Clause **10.10**.

E. *Optional Extension*-Insofar as any payments other than annual rentals (such as continuation fees, extension fees, penalty payments or compensatory royalties) must be paid to the grantor of a Title Document by a prescribed date to maintain all or a portion of the Joint Lands subject to that Title Document in good standing thereafter, the Title Administrator will, not later than 15 Business Days before that date, notify the other Parties of the affected Joint Lands and its recommendation for this right. Each other Party will notify the other Parties if it agrees with that recommendation within 7 Business Days after its receipt. A Party that fails to respond to that notice within that period will be deemed to concur with that recommendation. Insofar as some (but fewer than all) Parties exercise that right, a Party that does not pay its Working Interest share of that amount will forfeit its entire Working Interest in the Joint Lands that would otherwise revert to that grantor, as of the date those Joint Lands otherwise would have reverted to the grantor. The Parties retaining their Working Interests will pay the amounts applicable to that forfeited Working Interest (and acquire it) proportionate to their respective Working Interests in the applicable Joint Lands, or

in such other proportions as they may agree. Clause **11.03** respecting a surrender by fewer than all Parties otherwise applies, *mutatis mutandis*, to any such forfeiture, including the retention of certain obligations by the forfeiting Party under Subclause **11.03C**.

3.11 Insurance

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

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

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

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

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

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

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

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

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

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

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

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

(d) The Operator will use reasonable efforts to ensure that each insurance policy maintained for the Joint Account under this Clause includes a provision that: (i) coverage is primary to any other coverage carried by the Parties (other than any maintained by a Party to reduce its exposure to a deductible); (ii) the policy

will survive the default, insolvency or bankruptcy of the insured for claims arising out of an event before that default, insolvency or bankruptcy; (iii) the insurer will endeavour to provide the Operator with 30 days' written notice of cancellation of, or a material change to that policy; and (iv) waives all rights of the insurer, by subrogation or otherwise, against the Parties and their respective directors, officers and employees.

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

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

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

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

(b) carry insurance policies in such amounts as the Operator deems necessary, provided that those policies must include waivers of all rights, by subrogation or otherwise, against the Parties and their respective directors, officers and employees.

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

3.12 Production Statements And Reports

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

3.13 Taxes

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

3.14 Measurement

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

4.00 LIABILITY AND INDEMNIFICATION OBLIGATIONS

4.01 Indemnification Of Operator

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

4.02 Limit Of Operator's Legal Responsibility

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

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

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

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

Insofar as Paragraph **4.02(a)**, **(b)** or **(c)** apply to impose obligations on the Operator for certain Losses and Liabilities, the Operator will, subject to Clause **4.04**, be solely liable for them and, in addition, indemnify and save harmless each Non-Operator and its Affiliates, directors, officers and employees from and against those Losses and Liabilities. However, all such Losses and Liabilities will initially be for the Joint Account until the Operator's responsibility therefor is finally determined, at which time it will promptly effect any required adjustment of accounts.

4.03 Provisions Apply To Non-Operators

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

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

4.04 No Responsibility For Extraordinary Damages

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

5.00 JOINT COSTS AND EXPENSES

5.01 Application Of Accounting Procedure

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

5.02 Operator To Pay And Recover From Parties

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

5.03 Advance Of Expenditures

A. *Advance Request*-The Operator may, by notice to the Non-Operators, require each of them to advance its Working Interest share of the costs the Operator reasonably expects to pay for the Joint Account under an approved AFE in

a particular calendar month, provided that the Operator may not make that request earlier than the first day of the calendar month preceding the month for which the advance is requested. Subject to Subclauses **5.03B** and **C**, each Non-Operator will pay its share thereof to the Operator on or before the later of: (i) 20 days after its receipt of the Operator's itemized written estimate of those costs and request for payment; and (ii) the 15th day of the month to which that estimate relates.

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

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

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

(b) a Non-Operator that does not believe that this request is reasonable will notify the Operator of its objection, and those Parties will resolve the matter under the dispute resolution process in Article **21.00**;

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

(d) a Non-Operator requested to secure payment under this Subclause may not dispute the request under this Subclause and Article **21.00** if that Non-Operator: (i) has been placed into bankruptcy or receivership; (ii) is then subject to debtor relief protection under the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada) or similar Regulations; or (iii) has been served a *bona fide* notice of default under Subclause **5.05B** during the preceding 6 months; and

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

5.04 Forecast Of Operations

The Operator will, in a timely manner after a Non-Operator's request, consult with the Non-Operators to create a written forecast outlining all anticipated Joint Operations during the next 12 month period and their estimated costs. Any such forecast is for informational purposes only. It does not commit any Party to propose or conduct any Operation described therein or restrict any Party from issuing an Operation Notice therefor.

5.05 Operator's Lien And Default Remedies

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

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

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

(b) withhold from that Non-Operator any further information and rights with respect to Joint Operations, which information and rights will be supplied or restored to it promptly after the default is fully rectified, provided that this does not permit the Operator to: (i) incur any expenditure for the Joint Account that requires

approval under Subclause **3.01B**; (ii) deny the right of that Non-Operator to issue or receive any notice served hereunder; or (iii) deny that Non-Operator's rights hereunder with respect to any such notice;

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

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

(e) treat the default as an immediate and automatic assignment to the Operator of that Non-Operator's share of produced Petroleum Substances and the right to dispose of them on its behalf at a Market Price on whatever terms the Operator can arrange, acting reasonably, after having given at least 5 Business Days' prior notice to that Non-Operator of the specific intention to use this remedy. The Operator will apply the proceeds from any such disposition to the amount owed by that Non-Operator hereunder, including accrued interest. The Operator will thereafter acquire the proceeds from any such disposition for that Non-Operator's account until such time as it resumes responsibility for disposing its share of those Petroleum Substances. Insofar as the Operator has acted within the authorities granted to it in this Paragraph, that Non-Operator will indemnify the Operator for any Losses and Liabilities suffered by the Operator because of defects in that Non-Operator's title to those Petroleum Substances, including any contractual obligations to deliver any of those Petroleum Substances to a third party;

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

  (i) that Non-Operator may avoid the consequence in this Paragraph by paying the amount owed by it for that Joint Operation, including accrued interest, within 5 Business Days after being notified by the Operator of the application of this remedy to its participation in that Joint Operation;

  (ii) within 5 Business Days after being notified by the Operator of the application of this remedy to that defaulting Non-Operator's unpaid share of costs of that Joint Operation, each other Non-Operator may elect if it will assume any share of that defaulting Non-Operator's share of costs therein on the same basis as under Subclause **10.02C**, *mutatis mutandis*, provided that: (1) the Operator will be deemed to have elected thereunder to assume its proportionate share of all available interest on a *pro rata* basis without any limitation thereunder; and (2) a Non-Operator that does not respond to the Operator's notice during that period will be deemed to elect not to assume any portion of that defaulting Non-Operator's share of costs;

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

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

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

(g) provided that the Operator obtains any required court order confirming a disposition under this Paragraph before it is completed, enforce the lien referred to in Subclause **5.05A** on the following basis:

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

  (ii) subject to Paragraph **5.05B(f)** and the other Subparagraphs of this Paragraph (but notwithstanding Clauses **6.01** and **24.01** respecting the handling of production and dispositions respectively), by disposing of any Working Interest of which it has taken possession in whole, in

part or in separate parcels, at public auction or by private tender on whatever terms it may arrange, having given at least 10 Business Days' prior notice to that Non-Operator of the time and place of that disposition;

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

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

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

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

Any such disposition will be a perpetual bar at law and in equity against that Non-Operator and its assigns and against all other persons claiming an interest through it in that disposed Working Interest. The Operator will deliver to that Non-Operator all transfers, assignments and other conveyance documents required to effect that disposition. That Non-Operator will execute and return them to the Operator within 5 Business Days after their receipt. It hereby authorizes the Operator to act as its attorney for their execution without further authorization at the time if it does not execute and return them to the Operator within that period, and it agrees to ratify all lawful actions taken on its behalf by the Operator as its attorney.

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

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

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

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

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

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

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

5.06 Reimbursement Of Operator

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

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

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

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

5.07 Commingling Of Funds

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

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

6.00 OWNERSHIP AND DISPOSITION OF PRODUCTION

6.01 Each Party Owns And Takes Its Share Of Production

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

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

Not JT Acct.

6.02 Parties Not Taking In Kind

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

(1)

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

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

(b) the Non-Taking Party will notify the Operator, within 5 Business Days after its receipt of that notice (or by such later time as the Operator may prescribe in its notice), if it consents to the sale of its share of production thereunder, provided that it will be deemed to refuse its consent to that sale if it fails to deliver notice to the Operator within that period;

(c) if that Non-Taking Party consents to that sale, the Operator will sell that production under that sales

contract. If it does not consent to that sale, it will state in its notice if it intends to commence taking that production in kind and separately disposing of it, and, if so, it will promptly supply the Operator with the information required by the Operator under Clause **6.01**; and

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

C. *Non-Taking Party Commences To Take In Kind*-A Non-Taking Party that intends to exercise its right to take in kind and separately dispose of its share of production under this Article will notify the Operator of that intention and promptly supply the information required by the Operator under Clause **6.01**. That notice will be effective at the end of the term of any sales contract or purchase agreement under which that production is being handled by the Operator under this Clause, or at the date that sales contract is terminated, if terminable by the Operator at an earlier date. If that sales contract is terminable by the Operator, that Non-Taking Party must serve its notice at least 7 Business Days before any specified date on which the Operator is required to serve notice of termination to the applicable purchaser thereunder.

6.03 Operator Does Not Take In Kind

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

6.04 Marketing Fee

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

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

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

6.05 Payment Of Lessor's Royalty

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

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

6.06 Distribution Of Proceeds To Non-Taking Party

A. *Payment To Non-Taking Party*-Subject to the preceding provisions of this Article, a Party that disposes of a Non-Taking Party's share of production under Clause **6.02** or **6.03** will hold those sale proceeds on behalf of that Non-Taking Party on the same basis as provided in Clause **5.07**. However, that disposing Party will be deemed to have received proceeds for that share of production if the applicable purchaser fails to pay for it, unless that disposing Party can reasonably demonstrate that: (i) such production was specifically sold under that particular contract; and (ii) the disposing Party has made reasonable efforts to collect the applicable amount owing from that purchaser. It will pay the Non-Taking Party those sale proceeds, less those deductions and fees prescribed by this Article, not later than the 25th day of the second month after the production month. Upon request of a Non-Taking Party, it will provide the Non-Taking Party in a timely manner with a statement that shows in reasonable detail the manner in

which that amount was calculated. If actual production data is not available at such time, it may calculate those sale proceeds based on its reasonable estimate of the applicable production volumes, provided that this amount will be identified as an estimate in that statement. It will apply any positive or negative adjustments for a prior payment period to the sale proceeds accruing to a Non-Taking Party for the next production month, and will identify any such adjustment in reasonable detail in the applicable statement.

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

C. *Amounts Calculated Monthly*-A disposing Party will calculate the proceeds of sale of a Non-Taking Party's share of production under Clause **6.02** or **6.03** and the applicable marketing fee prescribed by Clause **6.04** once each month having regard to the volume of production taken by each Party in the entire production month.

6.07 Audit By Non-Taking Party

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

6.08 Disposing Party To Be Indemnified

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

7.00 OPERATOR'S DUTIES IN CONDUCTING JOINT OPERATIONS

7.01 Pre-Commencement Requirements

If the Operator proposes to conduct a Joint Operation, the following conditions will apply:

(a) The Operator will submit an AFE therefor to each Non-Operator for approval, if required by Clause **3.01**. That AFE will be void unless each Non-Operator has returned an approved copy thereof to the Operator within 30 days after its receipt. The Operator will promptly notify the Non-Operators if that AFE has been approved by all of them;

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

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

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

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

(ii) a copy of the proposed program for drilling, coring, logging, testing and casing that well, and, subject to the Casing Point election in Article **9.00**, a Non-Operator will be deemed to have approved the program, unless it otherwise notifies the Operator within 7 days after its receipt.

7.02 Drilling Information And Privileges Of Non-Operators

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

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

(b) the Kelly Bushing elevation;

(c) daily drilling and geological reports;

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

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

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

(g) a reasonable opportunity for each Non-Operator to have a representative present to observe any tests conducted under Paragraph **7.02(f)**, subject to Clause **3.08** respecting access to a well site;

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

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

7.03 Logging And Testing Information To Non-Operators

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

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

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

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

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

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

7.04 Well Completion And Production Information To Non-Operators

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

7.05 Well Information Subsequent To Completion

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

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

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

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

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

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

7.06 Data Supplied In Accordance With Established Standards

The Operator will supply all data under this Article in accordance with established industry standards.

7.07 Additional Testing By Fewer Than All Parties

Any Party may, at its sole risk and expense (including rig costs), conduct such other or additional tests of its choosing in the Joint Lands with respect to a well drilled hereunder in which it is participating after giving notice to each other Party of its

intention to do so and offering them the opportunity to participate therein on the same basis as contemplated in Clause **10.02**. However, it may not conduct any such test if the Operator reasonably determines that the wellbore is not in satisfactory condition for that purpose and gives notice to that effect to that Party, including therein the basis for that determination. Subject to that participation right, the Casing Point election in Article **9.00**, the conduct of additional Operations in a well under Clause **10.08** and the confidentiality obligations in Article **18.00**, a Party conducting any such test will retain all rights thereto, and it is not required to provide information therefrom to any other Party. The liability and indemnification obligations in Clause **10.18** will apply, *mutatis mutandis*, as if that additional testing program were an Independent Operation.

8.00 HORIZONTAL WELLS

8.01 Definitions - Article 8.00

In this Article **8.00**:

"Horizontal Leg" means any single wellbore downhole from the point of kickoff from a Vertical Stratigraphic Wellbore if a portion of that wellbore is drilled with an inclination of at least 80 degrees into a formation.

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

"Horizontal Wellbore" means any single wellbore not consisting of one or more Horizontal Legs, where a portion of that wellbore is drilled with an inclination of at least 80 degrees into a formation.

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

8.02 AFE Or Operation Notice For A Horizontal Well

A. *Operation May Vary From AFE Or Operation Notice*-Notwithstanding the definition of AFE, an AFE or an Operation Notice for a Horizontal Well may include a range of potential Operations, including a Vertical Stratigraphic Wellbore and one or more Horizontal Legs of various lengths kicking off from that Vertical Stratigraphic Wellbore. However, no such AFE or Operation Notice may include as its primary target more than one formation. Subject to the limitations on variation contemplated in Subclause **8.02B** because of the situations encountered as that Horizontal Well is drilled, no such AFE or Operation Notice will be invalid because the Operation eventually conducted varies from the Operation proposed therein because of the length, direction or eventual bottomhole coordinates of one or more of the proposed Horizontal Wellbores or Horizontal Legs.

B. *Limitation On Variance*-Notwithstanding Subclause **8.02A**, the Operator of a Horizontal Well may not vary it from the description in the associated AFE or Operation Notice by: (i) drilling a different number of Horizontal Wellbores or Horizontal Legs than the number identified therein; or (ii) intentionally varying (other than as required to address drilling difficulties) the length or direction of any single Horizontal Wellbore or Horizontal Leg so that the bottom hole coordinates thereof are not within a radius of 75 metres of the bottom hole coordinates presented therefor in the associated AFE or Operation Notice (or such greater radius as may be agreed with respect to the particular AFE or Operation Notice). An approved AFE or Operation Notice for a Horizontal Well will not apply insofar as Operations are conducted in breach of this Subclause, and any such Operations must be conducted pursuant to further approvals of the Parties or under a separate Operation Notice, as applicable.

8.03 Well Evaluation And Kickoff Of Vertical Stratigraphic Wellbore

A. *Horizontal Wellbores*-Article **9.00** will not apply to the drilling of a Horizontal Wellbore. The Parties will evaluate that well on such basis as has been previously agreed by them.

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

9.00 CASING POINT ELECTION

9.01 Agreement To Drill Not Authority To Complete

Subject to Article **8.00** for Horizontal Wells and any specific commitment in any other drilling AFE to set casing as required by the Regulations or as otherwise integral to the drilling of the well to its proposed depth, agreement to drill, in whole or in part, a well for the Joint Account is not a Party's agreement to participate in: (i) the setting of casing for production; (ii) the further attempted Completion of that well; or (iii) any Completion program described in the drilling AFE. All such additional expenditures for setting casing and the Completion of that well are subject to approval on the basis prescribed by this Article.

9.02 Election By Parties Re Casing And Completion

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

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

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

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

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

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

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

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

9.03 Consequences If Fewer Than All Parties Participate

This Clause applies if fewer than all Parties set casing for production and further attempt to Complete a well that is Completed for production of Petroleum Substances under this Clause. That Operation will be considered an Independent Operation under Article **10.00**, as if it were for a Development Well or an Exploratory Well, as applicable, subject to any potential forfeiture under Clause **10.10** insofar as the well is a "Title Preserving Well" (as defined in Clause **10.10**). However, the Drilling Costs and any costs of casing assumed under Subclause **9.02B** by a Party will not be included in any cost recovery applicable to that Party under Paragraph **10.07A(e)**.

9.04 Abandonment Of Well After Completion Attempt

This Clause applies if fewer than all Parties that participated in drilling a well conduct further Operations under Clause **9.02**. The Parties that participated in those Operations will notify the drilling Parties that did not participate in those Operations of any later intention to Abandon that well. The Parties will Abandon that well for the Joint Account if the wellbore is Abandoned within 6 months after expiry of the election period in Subclause **9.02B**, except that:

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

(b) Subclause **10.09B** will apply, *mutatis mutandis*, to: (i) income received from the sale of Petroleum Substances produced from that well within that 6 month period; (ii) any amounts received from the sale of salvable material and equipment pertaining to that well; and (iii) subject to Paragraph **9.04(a)**, the costs of Abandonment of that well.

The Parties participating in an Operation conducted under this Article will be solely responsible for the costs of Abandoning that well if that wellbore is not Abandoned within that 6 month period, subject to any reacquisition of participation in that well by a Non-Participating Party under Clause **10.07** or **10.08**.

9.05 Provisions Of Article 10.00 To Apply

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

10.00 INDEPENDENT OPERATIONS

10.01 Definitions - Article 10.00

In this Article:

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

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

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

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

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

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

(iii) its anticipated Commencement and estimated duration;

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

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

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

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

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

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

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

10.02 Proposal Of Independent Operation And Responses

A. *Operation Notice May Be Issued*-Subject to the other provisions of this Article, a Party may, at any time, issue an Operation Notice to the other Parties for an Operation: (i) on or with respect to the Joint Lands; or (ii) for the construction, acquisition, installation, modification or expansion of a Production Facility. A Party may serve an Operation Notice for a well (and the provisions of this Clause will apply to it) during the period in which a holding or other amendment to the Spacing Unit or drilling density is required to produce that well from a formation that is already productive in another well, provided that: (i) the required application has been submitted under the Regulations; and (ii) the application has not then been rejected thereunder. The Operation Notice and all elections thereunder will be void if that application has been rejected under the Regulations prior to expiry of the response period to that Operation Notice.

B. *Response Period*-Subject to the last Paragraph of this Subclause and the additional election rights for a Production Facility under Subclause **10.13B**, a Receiving Party is deemed to have elected not to participate in an Independent Operation unless, within 30 days after its receipt of the associated Operation Notice, it has notified the Proposing Party that it elects to participate therein. However, that 30 day response period will be reduced to:

(a) 15 days after receipt of that Operation Notice if it is for a well and it states that the proposed Operation is being conducted to evaluate lands specified therein being offered for public tender by a regulatory

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

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

(c) 7 Business Days after receipt of that Operation Notice if the Operation Notice is for an Operation under Subclause **10.06C** and: (i) the Operation Notice complies with the requirements in Paragraphs **10.06C(a)-(d)**; (ii) the drilling or service rig to be used is then on location for prior work on that well; and (iii) that Operation Notice states that such rig is so located. All incremental expenses accruing during that 7 Business Day period because of issuance of that Operation Notice, including standby time, will be for the account of the Participating Parties if that Operation is Commenced, but only for the account of the Proposing Party if that Operation is not Commenced. Those incremental expenses will be included in the costs of the additional Operation hereunder.

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

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

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

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

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

D. *Interests Initially Not Fully Subscribed*-The Proposing Party will notify the Participating Parties as soon as practicable (but not later than 5 Business Days after expiry of the response date for the Operation Notice in any event) if they have not fully assumed the Participating Interests in an Independent Operation after the elections in Subclause **10.02C**. The Operation Notice will be deemed to be withdrawn if the remaining Participating Interests are not otherwise assumed within 5 Business Days after the Proposing Party provides that notification. However, each of those 5 Business Day periods will be reduced to 12 hours if the response period for the Operation Notice was 48 hours or less.

E. *Notification Of Outcome*-If fewer than all Receiving Parties elect to participate in the proposed Independent Operation, the Proposing Party will notify the other Parties within 5 Business Days after completion of the election process in Subclauses **10.02C** and **D** how the costs, risks and benefits of that Independent Operation will be shared or advising them that it is withdrawn under Subclause **10.02D**. The Operator of an Independent Operation will, for informational purposes only, issue an AFE updating the Participating Interests on request of a Participating Party.

F. *Limitations On Operation Notice*-A Party may be a Proposing Party for more than one Operation Notice at any given time, but an Operation Notice may not relate to more than one well or more than one Production Facility, or any combination thereof. A Party that serves more than one Operation Notice at a time will state the order in which they are deemed to be received by the Receiving Parties, subject to this Subclause. They will be deemed to be received in accordance with Clause **22.01** (and then by order of anticipated Commencement date if that Clause would deem

the same date of receipt) if the Proposing Party fails to state that order. However, subject to any application of the last sentence of this Subclause, Subclause **10.02G** or, for the Deepening or Sidetracking of an Independent Well, Subclause **10.08C**, the Receiving Parties will be deemed not to have then received an Operation Notice served by a particular Proposing Party (or its Affiliate) for a drilling or Completion Operation respecting a well if any well on the Joint Lands located within 3.2 kilometres of the well to which the new Operation Notice pertains (as measured from the respective bottom hole coordinates of the wells):

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

(b) is then the subject of any other Operation Notice issued by that Proposing Party for a drilling or Completion Operation which has not then been approved for the Joint Account.

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

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

*A Receiving Party may not defer its response to an Operation Notice under Subclause **10.02F** for the drilling or Completion of a well if the well's bona fide projected total vertical depth is less than _____ metres subsurface.*

10.03 Time For Commencing Operation

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

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

10.04 Operator For Independent Operation

A. *Party Conducting Operation*-Alternate ___ (Specify (a) or (b)) will apply in this Subclause.

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

Alternate (b) (Operator Has Option To Conduct)
*Notwithstanding anything to the contrary herein, the Proposing Party will be the Operator of an Independent Operation, unless: (i) it is in default under Clause **5.05**; (ii) it would be disqualified from being the Operator therefor under Subclause **2.02A**; or (iii) the Operator is a Participating Party therein that exercises its right under this Alternate to conduct it. An Operator that is a Participating Party (but not the Proposing Party) may elect to become the Operator for that Operation in its notice to participate, in which case it will conduct it in substantial compliance with the Operation Notice. If the Proposing Party Commences the Operation under Clause **10.03** before the Operator's election to take over the conduct of the Operation, it will cooperate with the Operator in effecting the transfer, including the transfer of any applicable licences or approvals under the Regulations and any associated surface rights, provided that the Proposing Party will not be obligated to transfer any contract for goods or services*

*that does not pertain exclusively to that Operation. Notwithstanding the selection of this Alternate, an Operator that exercises its right to conduct a particular Operation and then fails to Commence it by the time prescribed by Clause **10.03** may not exercise its rights under this Alternate if that Operation or a substantially similar Operation is proposed in a subsequent Operation Notice within 365 days after issuance of the original Operation Notice.*

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

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

10.05 Separate Election Where Well Status Divided

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

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

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

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

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

10.06 Wells Serving Joint Lands And Other Lands

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

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

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

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

(c) the Participating Parties will reduce the Drilling Costs and Completion Costs included under Paragraph

10.07A(e) in the cost recovery for that Independent Well on the same basis as under Subclause **10.06C**, regardless of whether that Participating Party successfully Completes the well in any such other formation;

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

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

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

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

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

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

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

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

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

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

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

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

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

The Parties will be deemed to agree to the calculation of Drilling Costs under Subparagraph **10.06C(b)(i)** unless a Party objects to it, by notice to the Proposing Party, within 10 Business Days after receipt of the Operation Notice, provided that this period will be 5 Business Days if a 7 Business Day response period applies to it under Paragraph **10.02B(c)**. A Party serving a notice of objection must include in its notice the basis for its objection and a proposed alternate calculation in reasonable detail. Insofar as the Parties are unable to agree on the handling of such an objection, they will resolve it under Article **21.00**. This will defer the response period for the Operation Notice until the later of expiry of the response period prescribed by Subclause **10.02B** or 5 Business Days after the determination under Article **21.00**.

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

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

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

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

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

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

E. *Abandonment Of Well Serving Joint Lands And Other Lands*-Any well to which Subclause **10.06C** applies will be held for the account of the Participating Parties in the Operation, subject to: (i) a Party's responsibility for any misrepresentation under the first sentence of Subclause **10.06D**; (ii) any application of a cost recovery mechanism prescribed by this Article; (iii) the Proposing Party's responsibility for Abandoning a portion of the well under Subparagraph **10.06C(b)(v)**; and (iv) any other agreement between the applicable Parties for use of the well. Subject to the preceding sentence, those Participating Parties will assume responsibility for all Abandonment obligations and Environmental Liabilities that accrued with respect to the well and all other obligations thereafter accruing with respect to that well, provided that the Abandonment costs for the Abandonment of the wellbore within 6 months after expiry of the response period for the applicable Operation Notice will be allocated between its respective portions on the same basis as the Drilling Costs were allocated under Subclause **10.06C**, except that the Participating Parties will assume all extra Abandonment costs resulting from the conduct of that Operation.

F. *Well Acquired For Use In Joint Lands*-Notwithstanding any other provision of this Clause, the following will apply if a Party makes a *bona fide* arm's length acquisition of a well not subject to this Agreement which it then proposes to use exclusively for an Independent Operation for one or more formations included in the Joint Lands:

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

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

(c) a Participating Party therein will pay its Participating Interest share of that cost to that other Party within 21

Business Days after the later of: (i) expiry of the response period for that Operation Notice; or (ii) execution of the agreement under which the well is acquired, and the default remedies in Clause **5.05** will apply, *mutatis mutandis*, if it has not paid that amount within that period; and

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

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

10.07 Penalty If Independent Well Results In Production

A. *Cost Recovery For Independent Well*-This Subclause is subject to Clause **10.06** for wells that have been used for lands other than the Joint Lands, Clause **10.08** for Operations on an existing well on the Joint Lands and Clause **10.10** for wells that preserve title. The Participating Parties will retain possession of an Independent Well Completed or Recompleted for the production of Petroleum Substances from one or more formations of the Joint Lands under the associated Operation Notice and all production from those formations through that well (including any such formation in which they subsequently Complete or Recomplete that well) until the gross proceeds from the sale of that production equal the total of:

(a) 100% of the lessor's royalty and 100% of any overriding royalties, freehold mineral taxes or other encumbrances borne for the Joint Account that are paid with respect to that production, subject to any application of Subclause **10.07F** to certain encumbrances not borne for the Joint Account;

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

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

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

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

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

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

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

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

(c) any outstanding amount of the cost recovery associated with the costs of the original Exploratory Well portion of the well under Paragraph **10.07A(e)** will be waived if that portion of the well is Abandoned for the

conduct of a Completion or Recompletion in a formation to which that reimbursement pertained.

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

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

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

E. *Participation In Well Not Accepted*-A Non-Participating Party that does not accept participation in an Independent Well under Subclause **10.07C** will forfeit to the Participating Parties its right of participation therein and its right to Petroleum Substances produced from its Spacing Unit, insofar only as that Spacing Unit relates to production through that wellbore from the formations of the Joint Lands in which that well is then Completed or Recompleted. Except as provided in the preceding sentence for produced Petroleum Substances, that Non-Participating Party does not forfeit its Working Interest in the Joint Lands comprising that Spacing Unit or its right to recover Petroleum Substances from that formation in a different location in that Spacing Unit through the use, in whole or in part, of a different wellbore.

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

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

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

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

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

10.08 Operations On An Existing Well

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

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

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

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

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

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

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

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

C. *Deepening Or Sidetracking*-The following will apply to an Operation Notice for a Deepening or Sidetracking of an Independent Well for which there is then at least one Non-Participating Party:

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

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

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

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

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

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

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

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

E. *Plugging Of Wellbore Within Six Months*-This Subclause applies between the Participating Parties in a Deepening, Sidetracking, re-entry and Completion of a Suspended well, Recompletion or Reworking conducted as an Independent Operation under this Clause **10.08** or Clause **10.10** and any Non-Participating Party therein that initially participated in drilling that well. The Operator of that Independent Operation will serve notice to each such Non-Participating Party if the Participating Parties do not conduct that Operation or propose to Abandon that well. The Participating Parties will be deemed to have returned that well to the Parties that held Participating Interests therein (or their respective successors in interest) when that additional Independent Operation was proposed, effective as of the date of issuance of that notice, if the Operator serves that notice within 6 months after expiry of the response period for the Operation Notice for that Independent Operation. Subject to Clause **9.04** for a wellbore Abandoned thereunder, all further Operations with respect to that well after that notice, including Abandonment, will be proposed for the account of the Parties then holding Participating Interests therein, except that:

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

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

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

If those Participating Parties do not serve that notice within that 6 month period, they will promptly pay to each such Non-Participating Party (or its successor in interest) its proportionate Participating Interest share of the net salvage value of the materials and equipment respecting that well, calculated as of the date the Operation Notice for the additional Independent Operation was served. Subject to any application of the dispute resolution process in Article **21.00**, the Parties will adjust accounts accordingly. The default remedies in Clause **5.05** will apply, *mutatis mutandis*, if they have not adjusted accounts within 30 days after that determination. The Participating Parties will include the amounts paid to those Non-Participating Parties in any cost recovery for that well as Operating Costs under Paragraph **10.07A(b)**. Thereafter, such a Non-Participating Party has no responsibility for that well, including its Abandonment, except insofar as it resumes participation in the well and the production therefrom.

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

(a) to participate in that Equipping;

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

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

Insofar as a Party that elected under Paragraph **10.08F(b)** does not take its share of Petroleum Substances in kind, the Participating Parties in that Equipping may, on its behalf, produce, process, treat, store, transport or otherwise handle that production using the equipment to which such Equipping pertains. They may charge that other Party a fee for that use on the same basis as charged to a third party under Clause **14.04**, including a reasonable rate of return on capital investment. That fee is in addition to any marketing fee under Clause **6.04**.

10.09 Abandonment Of Independent Well

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

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

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

10.10 Wells That Preserve Title

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

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

"Preserved Lands" means any areal and stratigraphic rights included in the Joint Lands that would have reverted to the grantor of the applicable Title Document(s) if there were no Title Preserving Well, subject to any designation of Preserved Lands under Subclause **3.10D**.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10.11 Independent Geological Or Geophysical Operation

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

10.12 Use Of Production Facility For Independent Well

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

10.13 Non-Participation In Installation Of Production Facility

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

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

(a) to participate in the Operation;

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

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

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

A Receiving Party that fails to make an election for that Operation Notice within that period will be deemed to elect under Paragraph **10.13B(b)**, provided that it will be deemed to elect under Paragraph **10.13B(d)** if the nature of the Production Facility is that it is not feasible to take its production in kind without using the Production Facility. Notwithstanding the preceding portion of this Subclause and the response period for an Operation Notice prescribed by Subclause **10.02B**, a Receiving Party that determines that the Production Facility proposed in an Operation Notice does not satisfy the requirements in the definition of Production Facility may, within 10 Business Days after its receipt of that Operation Notice, notify the other Parties of that objection in sufficient detail to enable them to understand its basis. The Parties will refer the matter for resolution under Article **21.00** after receipt of any such notice. The last day of the response period for that Operation Notice will then be the later of: (i) the expiry of the original 30 day response period prescribed by Subclause **10.02B**; or (ii) 10 days after confirmation under Article **21.00** that the proposed Production Facility satisfies those requirements. That Operation Notice will be void if the determination under Article **21.00** is that the proposed Production Facility does not satisfy those requirements. A Party that fails to serve such a notice of objection within that 10 Business Day period may not issue a notice of objection under this Subclause.

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

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

(a) 100% of the lessor's royalty and any overriding royalties, freehold mineral taxes or other encumbrances thereon otherwise borne for the Joint Account that are paid with respect to that production, subject to any application of Subclause **10.07F**;

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

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

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

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

E. *Right To Pay Cash* Amount-Notwithstanding any other provision of this Clause, a Non-Participating Party with

respect to a Production Facility may, at any time, become a Participating Party therein on the following basis:

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

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

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

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

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

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

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

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

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

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

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

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

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

10.14 Non-Participation In Expansion Of Production Facility

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

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

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

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

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

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

10.15 Accounts And Audits During Penalty Recovery

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

(a) within 6 months after the drilling rig release of an Independent Well or completion of the Independent Operation, as applicable, for the initial statement;

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

(c) every 6 months for an Independent Well producing Petroleum Substances or a Production Facility, provided that the Operator will issue that statement on a monthly basis for any such Independent Well or Production Facility if the outstanding capital amount under the cost recovery is less than 6 times the net proceeds applied to that capital amount in the preceding month.

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

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

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

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

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

such an audit, they will conduct it simultaneously.

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

10.16 Rights And Duties Of Participating Parties

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

10.17 Benefits And Obligations To Be Shared

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

10.18 Indemnification Of Non-Participating Parties

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

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

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

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

10.19 Non-Participating Party Denied Information

A Non-Participating Party with respect to an Independent Well will not initially be entitled to access to the well site or any information therefrom, including the information prescribed by Article **7.00** and Clause **10.15**. Subject to any withholding of information from it under Paragraph **5.05B(b)** because of its default, it is entitled to access to that well site and the delivery of that information at the earlier of the date it becomes a Participating Party in that well or that date prescribed for the delivery of the applicable information by Paragraph **(a)** or **(b)** of this Clause. Those dates are:

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

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

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

10.20 Pooling Or Unitization Prior To Cost Recovery

The Participating Parties in an Independent Well to which a cost recovery applies hereunder may include that well and its Spacing Unit in a pooling or unit agreement with the Non-Participating Parties' consent, which consent may not be unreasonably withheld or delayed. They will retain the production allocated to that Spacing Unit thereunder until the

prescribed cost recovery has been attained. They will adjust the costs incurred by them in the cost recovery account for that well for any credits and debits accruing to them under that pooling or unit agreement for any adjustment of investment for wells and equipment. They will identify any such adjustment in the statements issued under Clause **10.15**.

11.00 SURRENDER OF JOINT LANDS

11.01 Surrender Notice And Reply

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

11.02 Surrender By All Parties

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

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

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

11.03 Surrender By Fewer Than All Parties

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

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

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

D. *Retaining Parties' Obligation*-The non-surrendering Parties will satisfy the obligation that prompted the surrender notice if: (i) it could have been avoided by the proposed surrender; and (ii) failure to satisfy it would prejudice the

Parties' title in any other Joint Lands. However, this Subclause will not require the non-surrendering Parties to conduct any Operation to maintain the surrendered Joint Lands in good standing under that Title Document.

12.00 ABANDONMENT OF JOINT WELLS

12.01 Abandonment Procedure

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

12.02 Assignment Of Right To Produce, Equipment And Surface Rights

A. *Assignment By Abandoning Parties*-Subject to the revocation right in Clause **12.01** and any application of Article **15.00** to an encumbrance not borne for the Joint Account, if fewer than all Parties elect to Abandon a well under Clause **12.01**, the Abandoning Parties will, effective as of expiry of the 30 day period therein and without consideration or warranty (environmental or otherwise), be deemed to have assigned to the other Parties on an "as is, where is" basis the Abandoning Parties' Working Interests in: (i) that well; (ii) the surface rights and other Joint Property serving only that well; and (iii) the right to produce Petroleum Substances from the Spacing Unit of that well, insofar only as it relates to the formation in which that well has been Completed and the exploitation thereof through that wellbore. However, except as provided in the preceding sentence for produced Petroleum Substances, this assignment does not apply to the Abandoning Parties' Working Interests in the Joint Lands comprising that Spacing Unit or its right to recover Petroleum Substances from that formation in a different location in that Spacing Unit through the use, in whole or in part, of a different wellbore. All such assignments will be in proportion to the non-Abandoning Parties' respective Working Interests in that well before any such assignment, or in such other proportions as they may agree. The Parties not joining in the proposed Abandonment will, if the Operator is not one of them, promptly appoint an Operator for the well and applicable assets, provided that such Party is eligible under the Regulations to accept a transfer of the well licence for that well. Unless otherwise agreed by the Parties, each Party will be deemed to have elected to join in the Abandonment if no retaining Party is eligible to accept a transfer of the well licence therefor under the Regulations, in which case the Operator will proceed to Abandon that well for the Joint Account. The Parties will complete, in a timely manner, any documentation reasonably appropriate to reflect such an assignment.

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

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

12.03 Abandoning Parties' Rights Upon Subsequent Abandonment Of Formation

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

13.00 OPERATION OF SEGREGATED INTERESTS

13.01 Operating Procedure To Apply

A. *Deemed Separate Agreement*-If, due to operation of any provision of the Agreement (including Article **24.00**), the Joint Lands are not all owned by the Parties in the same percentages of Working Interests or by the same Parties, the Parties will hold each portion of the Joint Lands in which the Working Interests are common as if they are Parties to separate agreements, effective as of the date that the applicable change of interest becomes binding under Subclause **24.04A** or is otherwise effective under the Agreement. The terms of the Agreement (including this

Operating Procedure and, as applicable, the Head Agreement and any other Schedule) will apply, *mutatis mutandis*, to each such separate agreement and the affected lands, having regard only to the different ownership therein. Insofar as lands held under separate agreements are again held by the Parties in common Working Interests, those separate agreements will be treated as a single agreement for the applicable lands, effective as of the date that the applicable change of interest becomes binding under Subclause **24.04A** or is otherwise effective under the Agreement. This Clause will also apply, *mutatis mutandis*, to a Production Facility.

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

14.00 OPERATION OF JOINT PRODUCTION FACILITIES

14.01 Ownership Of Production Facilities

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

14.02 Article Ceases To Apply In Certain Circumstances

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

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

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

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

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

14.03 Use Of Production Facilities

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

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

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

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

14.04 Custom Usage

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

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

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

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

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

D. *Operator May Deny Entry*-Notwithstanding anything to the contrary herein, the Operator may deny any Outside Substances entry into a Production Facility if the Operator reasonably believes that the cost to process, treat, store, transport or otherwise handle them would significantly exceed the average cost for a similar handling of Petroleum Substances, unless those additional costs were taken into account when setting the fees to be charged for handling those Outside Substances.

14.05 Allocation Of Costs

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

14.06 Allocation Of Products

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

14.07 Allocation Of Losses And Shrinkage

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

14.08 Resolution Of Certain Disputes Under Article 14.00

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

15.00 ENCUMBRANCES

15.01 Responsibility For Additional Encumbrances

A Party will be solely responsible for the additional encumbrance if its Working Interest is or becomes encumbered by any

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

15.02 Certain Encumbrances Continue To Apply To Working Interest

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

16.00 FORCE MAJEURE

16.01 Suspension Of Obligations Due To Force Majeure

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

16.02 Obligation To Remedy Force Majeure

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

17.00 INCENTIVES

17.01 Sharing Of Certain Incentives And Benefits

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

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

18.00 CONFIDENTIALITY AND USE OF INFORMATION

18.01 Confidentiality Requirement

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

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

any confidentiality protection permitted by the Regulations;

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

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

(d) to a third party that is a *bona fide* prospective assignee of any of that Party's Working Interest (including for this purpose an agreement granting it the right to acquire a Working Interest for the conduct of certain operations) or a third party with which it is conducting *bona fide* negotiations directed towards a merger, amalgamation or sale of shares representing a majority ownership interest of that Party or any of its Affiliates, provided that any such disclosure of geophysical data is: (i) restricted to showing it at the offices of the disclosing Party or in its data room; and (ii) is not prohibited by any agreement under which it was acquired;

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

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

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

18.02 Proprietary Information Disclosed By A Party

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

18.03 Disclosure Of Information For Consideration

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

18.04 Interpretive Data

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

18.05 Confidentiality Requirement To Continue

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

18.06 Warranty Disclaimer Respecting Information Disclosures

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

19.00 PUBLIC ANNOUNCEMENTS

19.01 Parties To Discuss Public Announcements

A. *Party To Provide Draft*-Except to the extent provided in Subclauses **19.01B** and **C** or elsewhere in this Agreement, a Party proposing to make a public announcement or release under this Clause will provide the other Parties, by notice, with a draft of it for their comment not later than 2 Business Days before the proposed disclosure to the public. The proposed disclosure is subject to the Parties' prior approval, which approval may not be unreasonably withheld. A Party that fails to object to that disclosure, by notice to that Party within that period, will be deemed to approve it. A Party that issues such a notice will specify the nature of its objection in reasonable detail and any suggested modifications to the proposed public announcement or release.

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

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

20.00 LITIGATION

20.01 Conduct Of Litigation

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

21.00 DISPUTE RESOLUTION

This optional Article will ___/will not ___(Specify) apply herein, but if it does not apply, a Party may, by notice to the other affected Parties, refer any dispute identified in Paragraphs **21.03(d)-(i)** to arbitration for resolution under the *Arbitration Act* (Alberta). Those Parties will then use reasonable efforts to complete that arbitration in a timely manner.

21.01 Negotiation Of Disputes

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

B. *Request For Further Negotiations*-A Party that reasonably believes that the direct financial impact of a dispute on it exceeds $50,000.00 may, at any time during negotiations under Subclause **21.01A**, serve notice to each other Party to that dispute requesting it to designate a representative with knowledge and authority to discuss the outstanding issues for the conduct of further negotiations. That Party will include the name, position and phone number of its designated representative in that notice. It will also outline in reasonable detail therein: (i) the issues it

believes remain in dispute; (ii) the Parties to the dispute if fewer than all Parties; (iii) the basis for its belief that the direct financial impact of that dispute on it exceeds that amount; (iv) a synopsis of the status of the negotiations to date, including a summary of the Parties' perspectives on those issues; and (v) the steps it recommends to conduct negotiations under this Subclause. The Parties' designated representatives will meet within 15 Business Days after receipt of that notice (or within such other period as may be agreed), to consider those issues, unless a Party notifies the other applicable Parties, within 7 Business Days after its receipt of that notice, that it is not prepared to participate in those negotiations. If those negotiations proceed, the Parties' designated representatives will also consider the appropriateness of a further meeting to design a process for resolution of the dispute from a range of options that includes further negotiation, mediation, arbitration and litigation.

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

21.02 Referral To Mediation

A. *Notice Requesting Use Of Mediation*-Subject to a Party's right under Subclause **21.01C** to refer certain disputes directly to arbitration, a Party that reasonably believes that the direct financial impact of a dispute on it exceeds $50,000.00 may, by notice to the other applicable Parties at any time during the negotiations contemplated in Clause **21.01**, request them to attempt to resolve that dispute on a without prejudice basis through structured non-binding negotiations with the assistance of a mediator. That Party will provide sufficient detail in that notice to enable those other Parties to understand: (i) the issues that remain in dispute; (ii) the basis for its belief that the direct financial impact of that dispute exceeds that amount; and (iii) a synopsis of the status of negotiations to date, including a summary of the Parties' perspectives on those issues.

B. *Mediation Proceedings*-The applicable Parties will attempt to agree on the selection of a mediator within 7 Business Days after receipt of a notice requesting mediation, provided that a mediation will be deemed to be terminated if a Party notifies the other applicable Parties within that period that it is not prepared to proceed with mediation for that dispute. Unless otherwise agreed, the Parties to a dispute will commence any mediation within 15 Business Days after selection of the mediator. The mediation process will continue until: (i) the dispute is resolved; (ii) a Party notifies the other Parties that it terminates the mediation; or (iii) the mediator provides the applicable Parties with a written determination that the mediation is terminated because of an impasse in discussions, whichever first occurs. For the purposes of Clause **21.04**, any such termination of a mediation will be deemed to be effective on the date the applicable notice of termination is deemed to be received under Article **22.00**.

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

21.03 Arbitration Proceedings

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

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

(b) the determination of a Market Price;

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

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

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

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

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

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

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

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

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

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

21.04 Limitation Periods And Interim Relief

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

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

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

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

22.00 NOTICE

22.01 Service Of Notice

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

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

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

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

A notice must be given under Paragraph **22.01(a)** or **(b)** if the applicable notice period is 48 hours or less. Notices of 24 hours or less under Article **9.00** may be made by telephone, and will be deemed to be received at the conclusion of that conversation if that notice is then confirmed by notice served (and received) under Paragraph **22.01(a)** or **(b)** within 3 Business Days after that conversation.

22.02 Addresses For Service

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

A Party may change its address for service by notifying the other Parties, and each Party will notify the other Parties of any such changed address for service in a timely manner. Any such changed address for service will thereafter be effective for all purposes of this Agreement.

23.00 DELINQUENT PARTY

23.01 Classification As Delinquent Party

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

23.02 Effect Of Classification As Delinquent Party

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

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

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

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

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

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

23.03 Restoration Of Status

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

23.04 Operator's Lien Not Affected

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

24.00 DISPOSITION OF INTEREST

24.01 Right To Dispose

Subject to the Regulations and the exceptions in Clause **24.02**, and other than for a disposition by a Party to another Party by operation of another provision of this Agreement, a Party (the "Disposing Party") may not dispose of any of its Working Interest (or enter into an agreement that binds that Party to dispose any of its Working Interest), whether by sale, asset exchange, Earning Agreement, lease, sublease or otherwise, without first complying with Alternate __ below (Specify A or B).

For the purposes of this Clause and Clause **24.02**, a disposition will also be deemed to include execution of an Earning Agreement under which the right to earn a Working Interest for the conduct of certain operations is granted, even though it is uncertain if and when the disposition of that Working Interest will occur thereunder.

Alternate A (Consent Not To Be Unreasonably Withheld)

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

Alternate B (Right Of First Refusal)

(a) *A Disposing Party must comply with this Alternate **B** for any bona fide disposition it intends to make that is either effective prior to, or for which an agreement is completed prior to, _____ (insert date). It will comply with Alternate **24.01A** for any bona fide disposition for which both the effective date and the agreement date are after the date prescribed by this Paragraph.*

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

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

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

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

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

(e) *A Party that objects to the reasonableness of an estimate of the cash value of the consideration included in a Disposition Notice under Paragraph **24.01B(c)** must, within 7 Business Days after its receipt of that estimate, serve notice of that objection in sufficient detail to enable the Disposing Party to understand its basis. The Parties will refer the matter for resolution under Article **21.00** after receipt of any such notice. The equivalent cash value determined thereunder will be deemed to be the value for the Working Interest described in the Disposition Notice. A Party that fails to serve such a notice within that period will be precluded from challenging that estimate.*

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

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

(h) *The Disposing Party may dispose of the Working Interest described in the Disposition Notice to the proposed*

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

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

24.02 Exceptions To Clause 24.01

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

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

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

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

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

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

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

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

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

24.03 Multiple Assignment Not To Increase Costs

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

24.04 Incorporation Of CAPL Assignment Procedure

A. *Deemed To Apply*-The 1993 CAPL Assignment Procedure (or the most current replacement therefor then endorsed for use by the Canadian Association of Petroleum Landmen) is incorporated by reference into this Agreement using the addresses for service provided in this Agreement. It will be deemed to apply as if it was included as a Schedule. Subject to the permitted dispositions in Clause **24.02**, it applies to the recognition process for all dispositions made under this Article, but will not apply (and is not required) for other assignments between Parties by operation of another provision of this Agreement.

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

25.00 MISCELLANEOUS PROVISIONS

25.01 Parties To Supply Further Assurances

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

25.02 Waiver Of Partition Or Sale

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

25.03 Enurement

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

25.04 Use Of Name

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

25.05 Waiver Of Relief

The Parties acknowledge that:

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

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

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

25.06 Inconsistent Working Interests And Holdings

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

25.07 Conflict Of Interest

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

The explanatory notes reflect observations on the intention and scope of the provisions of the Operating Procedure. They have been included only to assist users in understanding the document, and are not intended to have any legal effect on the interpretation of the document. Although the Operating Procedure has been prepared as a service to industry, the onus is on users to ensure that the provisions of the document are appropriate for their circumstances. Users may wish to amend portions of the Operating Procedure to address their particular needs for a transaction, and some of the more likely situations in which this may be appropriate have been identified in the annotations on the provisions and in some general annotations in the Addendum at the end of the document.

Heading: The Operating Procedure will be attached to a Head Agreement. It will, as a minimum, describe the "Joint Lands," state the "Working Interests" and designate the "Operator." It will also include any special provisions negotiated by the Parties for such matters as an area of mutual interest (AMI) and failure to participate in Operations required to maintain certain Title Documents (e.g., B.C. permits) in good standing.

Abandonment: i) Note the references to the salvage of material, the Regulations, Production Facilities and the reclamation of the applicable surface location. Abandonment obligations do not cease with the plugging of a well or the removal of a Production Facility. Surface rights that require remediation work could survive the mineral rights until reclamation certificates are obtained. The Regulations may also require responsibility for Environmental Liabilities to continue after issuance of a reclamation certificate. (See also Clause **1.14** and the associated annotations.)

ii) The reference to Production Facilities is new to this document. It is unlikely that a Production Facility of significance would be Abandoned under this document, though. It is far more likely that such a facility would then be subject to a separate CO&O agreement, as Clause **14.02** prescribes a process whereby a Production Facility meeting certain requirements ceases to be subject to this document and requires a CO&O agreement.

Accounting Procedure: The Accounting Procedure is an attachment to the Operating Procedure, with the combined document being a Schedule.

AFE: i) The nature of the financial authority granted by an approved AFE is considered in the notes on Subclause **3.01C**. The Operation is a condition of the approval, but the Operator does have some latitude to deviate from the described Operation. This is limited, and would probably apply to only minor changes or those dictated by necessity during the Operation. The Operator should obtain consent of the other Parties before making any significant changes. Otherwise, there is a risk that a Party could successfully argue that its previous election was void or limited, as it did not pertain to the Operation that 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.), in which the Court briefly considered the overrun issue and the Renaissance case (See the notes on Subclause **3.01C**) in the context of the 1981 document. The Passburg case turned on the fact that the Operator drilled a directional well because of surface restrictions after obtaining approval to drill what the other parties reasonably believed to be a conventional vertical well. On the facts, the Court determined that there was no disclosure to the non-operators of the intention to drill directionally and that they did not agree to participate in a directionally drilled well, such that they were not responsible for the incremental costs. (See also Prairie Pacific Energy Corp. v. Scurry Rainbow Oil Ltd. (1994), 147A.R. 260 (Alta. Q.B.), in which the defendant presented an AFE for a recompletion program in a specific horizon under a pre-CAPL agreement and proceeded to conduct unauthorized perforations that were exploratory in nature, after which the well had water problems. The Court did not find the defendant liable for the water problems, but determined that the plaintiff was not required to pay for the cost of the operation.)

ii) An AFE must include sufficient detail for 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 supplied information is misleading, elections might be voidable. It is the better practice to provide all material information that is reasonably anticipated to influence the decision, recognizing that this would not extend to interpretations obtained for the issuing Party's account and any economic analyses.

iii) The reference "in whole or in part" for drilling recognizes that activities such as a Deepening or a Sidetracking are subsets of drilling. (See also the definitions of Drilling Costs, Deepening and Sidetracking.)

iv) The proposed coordinates of a well are to be specified. This alerts the Parties that the well might be subject to a production penalty under the Regulations if the well is being drilled outside a prescribed target area. It also ties the location to any joint seismic data, preferably by noting the applicable shot-point. It is the better practice to include a survey plan for a Horizontal Well and any other well with a material deviation, recognizing that Article **8.00** provides Operators with some flexibility to modify a Horizontal Well to reflect real time data.

v) Paragraph **(a)** requires the disclosure of downhole coordinates if there is expected to be a material difference from the surface coordinates. Intentionally changing the location so that the well attracts an off-target production penalty under the Regulations would be a good example of a situation that would meet that test. Otherwise, the materiality test is context dependent, based on the impact of the deviated location on the evaluation of the particular prospect. There are situations in which a relatively small difference in location could have a large impact on the evaluation of the play (e.g., a small reef play). It is not feasible to define a prescriptive materiality threshold.

vi) A reference to Completion and Equipping costs in a drilling AFE is subject to the Casing Point election and Independent Operations processes.

vii) Parties that anticipate significant Drilling Costs for pre-Spud activities such as environmental studies or community and stakeholder consultation will sometimes choose to address these costs in an interim AFE that will be integrated into the AFE for the well in due course. A Party that does not approve the interim AFE for these activities will see those costs included in the AFE for the well in due course. A Party that approved the interim AFE would reserve the right to elect not to participate in the remainder of the drilling activity once it is presented for approval. It would see its cost recovery based on the costs it did not contribute for the well, although clear internal communication would be required to ensure that the records were set up properly. There may be circumstances in which the costs and risks of these early stage activities are so significant that the Parties negotiate a specific provision in their Agreement or at the time to address this work. This would typically see a non-participant in the initial work having an obligation to pay some multiple of its share of those costs as a condition to its participation in the resultant well.

Affiliate: i) The definition in this version of the document is very similar to the definition in the 1993 CAPL Assignment Procedure.

ii) The partnership reference recognizes that some companies have created partnerships comprised only of corporations that are Affiliates, for tax and other business reasons. This ensures that the corporation acting as "managing partner" and its corporate Affiliates are regarded as Affiliates of the partnership and *vice versa*. If it is comprised of other entities, the definition might be modified for the specific situation.

iii) The trust references were added because of the emergence of royalty trusts in recent years.

Commenced: This definition brings greater certainty to such references as "commenced" or "commencement" for the purpose of this document (versus any application to a freehold lease held as a Title Document). This has often been a contentious issue, particularly for wells. "Commenced" is equated to Spudding for drilling a new well, as in Subclause 701(a) of the 1981 document. This is subject to Force Majeure, where this includes the inability to obtain licences or approvals required under the Regulations. Increasing the general Commencement period to 120 days under Clauses **7.01** and **10.03** largely mitigates any negative impact of this definition.

The Spud date will generally be appropriate for drilling because of the increase to the Commencement period. Surface access issues for some remote areas or areas expected to involve sensitive stakeholder consultation might warrant amendments. The onus is on users to recognize and address those exceptions or to address them at the time for any particular well. The simplest way to address a special circumstance is to extend the Commencement period by 60-120 days in Clauses **7.01** and **10.03**, but some Parties might choose to use the initiation of road or wellsite construction. Parties should consider identifying this issue in their precedent election sheet as a potential amendment, to mitigate the risk that it may be missed when preparing an agreement for a challenging operating area.

Commercial Quantities: i) Production in "Commercial Quantities" or "Paying Quantities" does not lend itself to a precise determination, largely because of the "anticipated" references throughout the definitions. It is implicit, though, that there must be a reasonable basis to determine that an item is anticipated. A dispute on either of these definitions can ultimately be resolved through arbitration under Clause **21.03**.

ii) The generic "hydrocarbon substances" reference covers the full spectrum of Petroleum Substances and Outside Substances. It is used because the well productive in Commercial Quantities is not necessarily on the Joint Lands. (See, for example, the definition of Development Well.)

iii) It might be difficult to argue that a discovery is in Commercial Quantities if the well cannot be produced for 5 years because of a shortage of facilities or a queue for transportation service. Special considerations could apply, though, to high-risk, high-reward Operations in remote areas.

v) 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.

Completion: See the annotations on "Equipping" for the rationale for the exclusion of artificial lift equipment.

Deepen: Clause **8.02** provides an Operator with some discretion to extend a Horizontal Well when warranted by results. Insofar as the Operator continues to drill within that authority or any other authority granted to it (i.e., AFE), the incremental drilling is not a Deepening.

Development Well: i) For context, the distances in the 1971, 1974, 1981 and 1990 documents were also 2 miles (3.2km).

ii) The status of a well as a Development or Exploratory Well is determined as of issuance of the applicable AFE or Operation Notice, so that outcomes are clear at the time of the election. This clarification has been introduced in this version of the document. The reference to an AFE is included because of the possibility that the triggering event could be a Casing Point election under Article **9.00**. The status of the well may change over time relative to the Participating Parties (i.e., Clause **10.08** Recompletion of an uphole formation).

Paragraph **(a)** is a new clarification in this document. A "tight hole" owned by some subset of the Parties is generally ignored for the determination, to reflect the incremental risk they incurred. This is subject to two qualifications. The "tight hole" is factored in if all Parties have access to the data under this Agreement or another agreement or if each Party not then having access to the information has access in due course under Clause **10.19**. The latter is included because that Party will generally be able to defer its election until after it receives that well information.

iii) The proviso in Paragraph **(b)** was introduced in a narrower form in the 1990 document because of the increased stratification of rights. If the Joint Lands under that document only include rights to the base of the Cardium and the only productive interval within 3.2km (2 miles) is the deeper Nisku, the well is an Exploratory Well thereunder. Similarly, if the productivity pertained to oil in the X formation when the Joint Lands only include natural gas, the condition would not be met. A Party could not use the shallower exploratory designation (e.g., Cardium) under the 1990 document if it had the right to exploit the deeper development horizon (e.g., Nisku) held as Joint Lands.

The qualification has been expanded in this document to link regional productivity to the formations being penetrated by the well in all circumstances. Using the same example as above, the Cardium well would be deemed to be a Development Well under the 1990 document if the Joint Lands included the Nisku. The same well would be an Exploratory Well under this document, as there is no regional productivity in the formations in which the well is being drilled. The definition of Spacing Unit would cause the well status to be modified accordingly if the Proposing Party were to propose to Deepen to the Nisku. The Receiving Parties would presumably also question the integrity of the Operation Notice if the Proposing Party presented the well as a Cardium well, but licenced it to the Nisku.

Well information from offsetting wells that are (or have been) producing in Commercial Quantities will often reduce the risk of testing a shallower (but non-producing) zone. That will not always be the case. Information from a deep well may confirm there is a high risk in testing a shallow objective. While many shallow tests will evaluate exploratory objectives, it is inappropriate to eliminate the deeming mechanism entirely because data from the offsetting well may significantly reduce the risk. The elimination of the deeming mechanism for the shallower horizons would also create serious problems for the dual well scenario (Clause **10.05**), as 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 formations and substances being evaluated by the well, while including protections against abuse.

iv) The existing well does not need to be producing in Commercial Quantities. It is sufficient if it is (or was) capable of it. (The reference for the pre-existing well is to hydrocarbons rather than Petroleum Substances, as the pre-existing well does not need to be subject to theTitle Documents.)

v) The distance is measured between the coordinates of the existing well and the anticipated coordinates of the proposed well where each penetrates the productive formation. Those for the new well could change during drilling for factors beyond the Operator's reasonable control (i.e., foothills drilling). If the Operator intentionally moved the location, though, the elections might be voidable. (See the annotations on Clause **10.07**.)

vi) The well classifications dictated by the distance test will often be inconsistent with the technically based "Lahee" definitions used by regulators and technical personnel, though. (See, for example, the well descriptions in EUB Guide 56.) The modifications in this document mitigate the problem somewhat for shallow exploratory targets. Technical personnel need to understand the potential Article **10.00** implications of alternative drilling locations when selecting their preferred drilling location, as the difference between the cost recovery associated with a Development Well and an Exploratory Well will typically be significant (usually at least 200%). Clause **10.05** also allows a well to be in part Development and in part Exploratory.

vii) The Parties might prefer to amend the well definitions from the distance test to the "Lahee" definitions in some circumstances. This is particularly the case for high-risk, high-reward areas or small reef plays. A 1.6km threshold, for example, may be preferred when working in an area in which the prospects might have a small areal extent, such as independent reefs.

viii) The definition provides the simplest method of determining if a Horizontal Well or a vertical well near a neighbouring Horizontal Well is a Development Well. The entirety of a Horizontal Well, including any and all legs thereof, is considered a single "well" for the purposes of this determination. The Parties should amend the Operating Procedure if they wish to use any other test for the determination of a "Development Well".

Drilling Costs: i) Operators place much more emphasis on community and stakeholder consultation than had been the case, largely because of regulatory requirements (e.g., Alberta's Directive-56 requirements) and evolving obligations for First Nations' traditional land areas and activities "north of 60". These costs can be significant, and are included in the cost of a project. (See also the definition of Equipping and Clause **3.09**.)

ii) Note the reference to roads. The Operator has a general obligation to conduct an Operation in accordance with good oilfield practice, such that it is to be conducted in a cost effective manner. An approved well AFE does not provide a blanket authorization to build a road that largely duplicates an existing road or a road that greatly exceeds the specifications that are reasonably appropriate in the circumstances.

iii) The handling of Abandonment costs is consistent with the PASC Accounting Procedure, subject to the special cost allocations under Clause **9.04** and Subclauses **10.06E** and **10.08E** between the Parties that participated in drilling the well and the Participating Parties in further Operations.

iv) Deepening and Sidetracking are subsets of the broader drilling reference.

Earning Agreement: i) This definition is used in Article **24.00**. The ROFR exemption in Paragraph **24.02(d)** generally applies if the net hectares of Joint Lands being disposed of under a transaction other than an Earning Agreement represent less than 10% of the total net hectares in the transaction. Paragraph **24.02(e)** is new in this document, and provides that the exemption threshold for a disposition under an Earning Agreement is 35%. This will see fewer ROFRs applying to farmout type arrangements. Optional Paragraph **24.02(f)** also provides Parties with the ability to exclude all Earning Agreements from the scope of a ROFR.

ii) A seismic review option is within the scope of this definition. Notwithstanding that there are several potential elections, the transaction is ultimately one in which the potential assignee has the option to acquire a Working Interest in return for a prescribed work program.

iii) A transaction is not an Earning Agreement if part of the consideration is cash (ignoring land rentals and seismic access fees) or an exchange of another property. This minimizes the potential to try to circumvent a ROFR by structuring A&D transactions with a minor farmout component.

Environmental Liabilities: This definition is new to this document, and reflects the increased emphasis on this area. It is largely mirrors the definition in the 2000 CAPL Property Transfer Procedure.

Equipping: i) The corresponding definitions in the 1974 and 1981 documents were similar in intention to this definition. However, it was not sufficiently clear if and how they would apply to equipment serving more than one well. The introduction of the Production Facility concept in the 1990 document has clarified the scope of the definition by linking it to equipment that serves a single Completed well.

ii) The scope of a particular Equipping Operation may be limited to a particular subset of the listed items. A tie-in, for example, is an Equipping, assuming it meets the other requirements in the definition.

.ii) A pump or other artificial lift equipment falls within the scope of Equipping, even if the equipment is in the well. The function of the equipment

should determine its classification, not its physical placement. The investment risk is also lower than the components of Completion.

iv) The inclusion of community and stakeholder consultation and the acquisition of required regulatory approvals and surface access reflects the increased complexity and costs associated with these matters in recent years.

Extraordinary Damages: i) This definition is generally consistent with the handling of this issue in modern international agreements (i.e., the definition of "Consequential Loss" in the 2002 AIPN Operating Agreement). The handling of this issue in the 1990 document was limited to a loss or delay in production and associated damages under Clause 401 of that document.

ii) It is tempting to assume that a Court would make such an award in the absence of this definition and Clause **4.04**. The case law on damages would apply, though. This includes limits, such as a "remoteness" test, on the range of damages that a Court could award for any such breach.

iii) The exception for breaches of Article **18.00** was included because an unqualified version of this definition would, in essence, eliminate all consequences for breach of the confidentiality obligations.

iv) Damages from loss of well control fall within the scope of the definition, and this addresses the area of greatest environmental risk in practice. An Operator also remains free to argue that other types of environmental loss fall within the more generic exclusion in (i) or that they are otherwise beyond the scope of the Court's ability to award damages because of legal principles respecting "causation", "foreseeability" and "remoteness". It may be appropriate to modify the provision to add Environmental Liabilities more generally, if the risks to an Operator make the assumption of the responsibilities unattractive. This could be the case in a frontier type high-risk, high-reward context. It might also be considered for a CO&O Agreement for a sour gas facility, given the low probability that any major gathering system or gas plant would be managed under this Agreement.

v) This definition must be read in conjunction with Clause **4.04**. The limitation in that Clause ultimately does not expose an injured Party to third party damage claims of this type that may be awarded by a Court. It precludes the injured Party from trying to recover these types of damages respecting its own interest. It does not eliminate the obligation of the Party causing the loss to indemnify the injured Party against third party claims suffered by it.

vi) Assume that the Operator has sole responsibility for a loss. How do the Parties determine what portion (if any) of a damage award is attributable to Extraordinary Damages and has to be netted out? The Parties to any lawsuit will have to be cognizant of this liability exclusion and ask a Court to differentiate between the different heads of damages in any award of damages. Practically, this will always be the case, as the Party defending the action will raise early and often the fact that there are excluded heads of liability. If there remains confusion about the constituents of a Court awarded damage claim, the Parties may avail themselves of the "advice and direction" mechanism under the Rules of Court whereby the judge might clarify the damage award. The Parties could also address this if they were resolving a claim through arbitration.

Facility Fees: (i) This definition is used only in the contexts of Clause **6.02** (costs in managing a Non-Taking Party's production) and the cost recovery processes in Clauses **10.07** and **10.13** for Independent Operations.

ii) Paragraph **(b)** is largely derived from Subclause **10.13I** and Clauses **14.04** and **14.08**. It avoids the negotiation of the details of a formula, such as JP-95 or JP-05, at the time the Agreement is negotiated. The Party is permitted to charge the fee that it would have been charged if it were not already an owner of the relevant facilities. Why include this sort of deduction? A Party can deduct processing fees paid to third parties under Paragraph **(a)**, which would probably be based on the "Jumping Pound" principles. It would be inconsistent to deny a Party a similar rate of return on owned facilities for handling a Non-Participating Party's volumes, especially since it may be foregoing third party processing revenues otherwise being paid by that Party to handle those volumes.

iii) The reference to operating cost and return on capital components is included to be clear that a capital component may be included in the fee.

iv) The JP-05 "methodology" reference in Subparagraph **(b)(iii)** is somewhat problematic because of its uncertainty. However, certainty on the calculation of the capital base would be required to be able to do this. This information is unlikely to be known at the time of the Agreement, and, in any event, is not provided under the JP-05 formula without detailed front end calculations. There may be circumstances, though, in which it is appropriate to negotiate a specific fee for use of a Party's facility in the context of a particular Independent Operation, such as *"a capital rate of _____/10^m^, plus the actual cost of operating experienced by the operator of the facility"*. Alignment of expectations in this area at the time of an Independent Operation through a separate agreement could prevent subsequent disputes on the issue, so Subparagraph **(b)(i)** has been included to encourage the Parties to complete specific agreements on this issue on an Operation or project basis.

Facility Usage: Facility Usage is the use of facilities not included within "Equipping Costs" or under Clauses **10.13** and **10.14** to increase the value of production of a Non-Taking Party or from Independent Wells (e.g., processing of gas) and to deliver it to market. It excludes any adjustments for transportation costs required to determine the Market Price, to avoid a double recovery. This definition is linked to the Facility Fees definition.

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 before that point.

Force Majeure: i) This definition is an "unable to prevent" type of provision, rather than "a failure to perform as a consequence" provision. (See the annotations on Clause **16.01** about Atcor Ltd. v. Continental Energy Marketing Ltd., [1994] A.J. No. 715 (Alta. Q.B.).)

ii) This definition does not apply to events that a Party could have prevented with the exercise of reasonable diligence at a cost that is not unreasonable. Assume, for example, that a Party that intended to drill a critical sour gas well near a populated area chose to delay its applications to regulators until 45 days prior to the anticipated Spud date. Should that Party be able to rely on the Force Majeure provision if the well is not Commenced at the required time because of the resultant delay in obtaining regulatory approval?

The qualification about a cost that is not "unreasonable" reflects the practical fact that most things are possible at a cost. A Party should not be required to incur expenditures that are unreasonable to protect against an unlimited range of possible (but remote) eventualities.

Gross Negligence or Wilful Misconduct: i) Many judicial considerations of the concept of "gross negligence" were in automobile cases in which an injured non-paying passenger had to demonstrate that the driver's conduct was "grossly negligent" ("gratuitous passenger cases"). As the driver's insurance would generally cover a successful claim, the distinction between simple and gross negligence may have been blurred in some of those cases in order to find for the passenger. As a result, Operators could have greater legal responsibility for their actions in the absence of this definition.

ii) This issue was considered in United Canso Oil & Gas Ltd. v. Washoe Northern, Inc. (1991), 121 A.R.1 (Alta. Q.B.) in the context of a non-CAPL oil and gas agreement that limited the responsibility of the "Managing Operator" to losses caused by its "gross negligence or wilful misconduct". The Court applied the reasoning in the "gratuitous passenger" case of McCulloch v. Murray, [1942] S.C.R. 141 (S.C.C.) to find gross negligence in the maintenance of the payout account. In essence, the Court found gross negligence to be "a very marked departure from the standards by which reasonable and competent companies in a like position... in charge of joint ventures or accounting should habitually govern themselves. This was a conscious indifference to the rights or welfare of United Canso and its predecessors."

iii) The definition is new in this document, but very similar to the definition in the 2002 AIPN Operating Procedure used for international agreements. The 2000 AAPL "Deep Water" Operating Procedure includes a narrower front end, but an additional qualification to except "errors of judgment and mistakes by the persons mentioned above while they are exercising, in good faith, any function, authority or discretion conferred upon them under this Agreement". This was not included because of the belief that the general language in the provision provides that protection already.

iv) The ability to use the instructions of the Parties as a shield should only exist if the act or omission constituting Gross Negligence or Wilful Misconduct was inherent in the instructions. Prudent instructions implemented in a manner that meets the Gross Negligence or Wilful Misconduct test should not allow an Operator to avoid sole liability.

v) International agreements typically qualify the Operator's liability provision so that Gross Negligence or Wilful Misconduct must be attributable to the Operator's "Senior Supervisory Personnel". Parties might consider the application of that principle in certain operating environments in which the magnitude of potential loss is very high (i.e., certain high cost, critical sour gas areas, frontier operations, etc.). While international agreements typically define this at a high level in the Operator's organization, Parties considering this concept might link it to first line supervision.

Horizontal Leg: Articles **8.00** and **10.00** for Horizontal Wells and Independent Operations have been constructed largely as self-contained modules.

As some of the definitions in Clauses **8.01** and **10.01** are used in other portions of the document, some terms have been defined as in this definition. This creates a definition in Clause **1.01**, but leaves the context for the term in Clause **8.01** or **10.01**.

Joint Account: The corresponding provision in earlier versions of the document had been "for the Joint Account".

Joint Lands: i) The Joint Lands include not only the lands held jointly at the effective date, but those additional rights that become subject to the Operating Procedure over time, such as AMI acquisitions. The Joint Lands are also limited to those of such rights that remain subject to the Title Documents at the relevant time, such that Joint Lands that revert to the lessor at expiry are no longer Joint Lands.

ii) The application of the segregation process under Article **13.00** has the effect of changing the characterization of certain jointly held rights from "Joint Lands" to lands held under a separate agreement, even though the rights continue to be held under the Title Documents.

Losses and Liabilities: i) This definition simplifies the liability and indemnification provisions in the document. (See Article **4.00** and Clause **10.18**.)

ii) Note the phrase "whether contractual or tortious." If the contractual liability reference is not included, a Court might interpret the provision to apply only to tortious liability, particularly for third party losses. See Dominion Bridge Company Limited v. Toronto General Insurance Company (1963), 45 W.W.R. 125 (S.C.C.) and Canadian Indemnity Insurance Co. v. Andrews & George Co., [1953] 1 S.C.R.19 (S.C.C.) in an insurance context.

iii) The reference "(including that Party or any other Party)" clarifies that Losses and Liabilities apply to both third party claims and losses suffered directly by the Parties. See the Clause **4.01** annotations on Erehwon Exploration Ltd. v. Northstar Energy Corp., [1994] A.J. No. 916 (Alta.Q.B.).

iv) In the absence of the qualification at the end of this provision, legal costs to be recovered by the indemnified Party would be limited to costs on a party-party basis, as prescribed by the Alberta Rules of Court. This would usually be far less than the actual costs paid by a Party.

v) The definition is subject to the general legal duty of an injured Party to mitigate its losses. This may include, in part, a duty to notify the other Parties of the losses so that corrective measures can be taken at the earliest opportunity.

Market Price: i) This definition applies to the sale of a share of production of a defaulting Party or Non-Taking Party under Article **5.00** or **6.00** and the sale proceeds included in a cost recovery under Article **10.00** for Independent Operations.

ii) There is a wide variation in pricing for natural gas due to major process changes in the marketing of natural gas since the early 1990s. The marketing of natural gas prior to that time had largely been under sales arrangements that were linked to specific lands and reserves, such that there was generally a paper trail for any disposition of natural gas from a specific well. The sales process was revolutionized in the early 1990s. Natural gas was increasingly sold under a portfolio of corporate supply arrangements through which the selling party was delivering a specific volume to its purchaser at a delivery point, with security for performance by the selling party being by corporate guarantee or warranty.

The nature of these arrangements is that sales volumes are typically independent of the lands from which production is obtained. Selling parties routinely buy and sell incremental natural gas on a short-term basis in the context of these sales obligations. The introduction and evolution of index based pricing in Alberta has also caused the natural gas sales market to be much more liquid than had previously been the case. These changes have also facilitated an active hedging market, in which some companies are routinely selling natural gas under physical and financial hedging arrangements. The net effect of these changes has been that new reserves based dedicated lands sales contracts are the exception, rather than the norm. There is a high potential for large variances in pricing, particularly during a period of price volatility.

The challenge in this marketing environment is to include pricing mechanisms that protect against notional, discretionary allocations of the least favourable marketing arrangements in a Party's portfolio, while not creating inappropriate outcomes for a Party disposing of gas volumes. There were two alternative approaches that could have been taken on this issue-(a) the inclusion of a detailed, prescriptive pricing mechanism that specified what the price is; or (b) a more general mechanism that focused on what the price is not, by including process controls to limit the ability to attempt to use a price that is unreasonable. After reviewing this issue in the context of a potential index pricing model and industry's feedback on it, the second approach was used.

This approach and the flexibility in the optional last sentence for a Party to use the weighted average sale price for its own sale volumes from the jurisdiction preserve the desired flexibility in the vast majority of cases, while addressing the problem of arbitrary pricing allocations.

iii) The onus is on an objecting Party to demonstrate that a sale price was unreasonable, having regard to market conditions at the time. This ensures that the selling Party is not required to investigate each sale opportunity to try to obtain the highest price available in the marketplace.

iv) The reference to transportation also addresses the volumetric adjustments forming part of the consideration for the transportation service from entry into the transportation system to the point of sale. These adjustments, for such items as fuel and measurement variance, effectively operate to reduce the volumes available for sale. The net effect is that the adjusted volume bears 100% of the cash component of the pipeline toll. This is distinct from the handling of transportation costs, if any, prior to the point of entry into the common carrier pipeline system. The transportation costs between the First Point of Measurement and that point of entry will often be handled under Facility Fees.

v) Parties are encouraged to negotiate a transaction specific marketing arrangement if gas volumes will be significant and the Non-Taking Party is anticipated to be in that situation for a sustained period. The use of an AECO pricing index may be particularly attractive for those arrangements.

Operating Costs: The definition in this document links the context more directly to operation and maintenance under the Accounting Procedure.

Operation: Geophysical programs can fall within the scope of the Operating Procedure, even if they are conducted to evaluate lands in addition to the Joint Lands. This ensures, for example, that the accounting and liability processes are in place for those programs.

Operator: i) Clause **10.04** can see a Proposing Party operate an Independent Operation in which the Operator elects to participate, even if all of the Parties participate in that Operation. The rationale for this provision is explained in the annotations for that Clause.

ii) There may be circumstances in which the areas of functional expertise are such that the Parties may agree that different Parties will conduct different types of Operations. This is something that those Parties would need to address specifically in their own agreement.

Participating Interest: The Participating Interest relates to a Party's share of the cost of an Operation, rather than to its interest in the Joint Lands or other Joint Property. A Party's Participating Interest and Working Interest would be the same for a Joint Operation.

Party: i) A farmor with an ORR would be party to the Head Agreement for the farmout, but would not be a Party under the Operating Procedure, except to the extent, if any, expressly provided for therein. The CAPL Farmout & Royalty Procedure, for example, provides a status to a farmor holding a convertible ORR for: (a) additional wells on lands subject to a payout; and (b) dispositions where a ROFR applies. (See Clauses 6.06 and 12.02 of the CAPL Farmout & Royalty Procedure.)

ii) The Parties may sometimes choose to have a Party's Affiliate or another third party serve as Operator, even though it does not hold a Working Interest. This is typically accommodated through the contract operating authority in Paragraph **2.02A(g)**. However, a custom amendment would be required if the vision were that an Operator without any Working Interest were to be a recognized Party under the Operating Procedure.

Paying Quantities: See the annotations on the definition of Commercial Quantities.

Petroleum Substances: Petroleum Substances are limited to the substances granted under the Title Documents. The term does not apply to hydrocarbon substances not held under the Title Documents, such that generic references are used in any context that involves other rights.

Production Facility: i) A Production Facility is basically a minor facility owned exclusively by all or some of the Parties which is intended and designed to serve exclusively the Joint Lands, where the Parties have decided against the preparation of a separate CO&O agreement. The facility is beyond the scope of the Operating Procedure if those conditions are not met. (See also the annotations on Article **14.00**.)

A facility initially intended to serve the Joint Lands, but designed with the intention of serving other lands, does not fall within the scope of the definition. Otherwise, a Party might attempt to argue that a pipeline initially serving only a joint well could be a Production Facility, even though it was obviously designed to handle much greater volumes of production. To include those facilities within the scope of the definition would be inconsistent with the stated objective of providing Parties with the flexibility to apply the Operating Procedure to minor facilities.

Parties are encouraged to use a Construction, Ownership and Operating Agreement using the applicable PJVA model for any facility of significance or for any Production Facility that subsequently handles material volumes of Outside Substances. The creation of the PJVA model CO&O Agreement has simplified the process of completing facility agreements significantly, such that this is much easier than had been the case when the Production Facility processes were introduced in the 1990 document. However, the provisions are still required because of the large number of minor, property specific facilities for which Parties determine that the effort to prepare and administer CO&O agreements is not warranted.

Clause **14.02** has been introduced in this document to create an outcome in which any Party can require a CO&O agreement using the most recent PJVA CO&O form in certain circumstances. This is mostly linked to use of the Production Facility for Outside Substances, where continued application of this document is regarded as inappropriate by any Party. This would typically be where fees or operating costs associated with the use for Outside Substances are significant. The Parties retain the ability not to trigger that process, though, as there will be many circumstances in which the use for Outside Substances is so immaterial that the continued application of this document to the Production Facility is not a concern.

ii) The corresponding provision of the 1990 CAPL Operating Procedure did not refer specifically to disposal and injection wells. As the identified list of facilities in that definition was not exhaustive, those wells could fall within the definition if the other conditions were satisfied. This outcome may not have been appreciated fully under the 1990 document. An injection well must be approved by all of the Parties to fall within the scope of the definition, though, because of the significant potential impact on the exploitation of the reservoir.

iii) The 1990 definition excluded refineries, cryrogenic gas plants, acid gas or sulphur recovery facilities and sulphur forming, loading and remelting facilities. Paragraph **(d)** of this document excludes gas plants entirely. The Paragaph recognizes that the complexities of those facilities are such that they should be covered under a CO&O agreement, and the completion of the 1996 and 1999 versions of the PJVA documents makes this much easier than was the case when the 1990 document was prepared. It also reflects the practical consideration that those facilities would typically be used for Outside Substances at some point. Excluding this Paragraph would extend the scope of the definition beyond the minor class of facilities for which the document provisions were designed.

iv) A Production Facility is not necessarily 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 under Clause **10.13** or expanded as an Independent Operation under Clause **10.14**.

v) A facility initially constructed and operated as a Production Facility might cease to be one. If the Parties later enter into a CO&O agreement for a facility, it will no longer be a Production Facility under 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 for Outside Substances. (See Clause **14.02**.)

vi) Optional Paragraph **(f)** is new to this document, and supplements the protections provided by Clause **14.02**. It recognizes that Parties working in a high cost area may also wish to have a financial control on the facilities to which the document could apply. Parties that select this Paragraph would tailor the threshold to their particular situation. The threshold is based on the reasonable estimated cost, rather than the final cost. Basing it on the final cost could compromise the proponent if actual costs were higher than the threshold.

Regulations: The reference to the Parties has been included to ensure that both applicable provincial and federal rules apply. Because of the division of powers between the two levels of government, the federal regime focuses on bodies, rather than properties.

Reworking: This is a non-routine stimulation of a well that is not a Completion or Recompletion, although the costs are treated as Completion Costs for the purposes of the Clause **10.07** cost recovery process. Normal operations and maintenance work is not a Reworking, and would be handled as Operating Costs if a cost recovery applied to the well.

Sidetracking: i) Sidetracking is used in two contexts by technical personnel. One context is directional drilling conducted to bypass an obstruction in the hole or otherwise to overcome problems such as collapsed casing. The second is additional drilling conducted to relocate the bottom hole location of a well to a more prospective location, and the latter may also involve a plugging back of the original wellbore to a kick off point. For the purposes of this document, the term excludes a deviation to straighten the hole, to drill around an obstruction or to overcome mechanical difficulties. By implication, any such activity is *prima facie* within the scope of the approved Operation.

ii) There is a tendency to use "sidetrack" and "whipstock" interchangeably. A "whipstock" is an inclined wedge placed in a wellbore to force a drill bit to start drilling in a different direction.

Spacing Unit: i) Note the introduction of the stratigraphic component to Paragraph **(a)**. The Spacing Unit for a well being drilled to the Cardium includes jointly held rights in the applicable area to the base of the Cardium, but does not include the deeper rights. This modification should be read in conjunction with Paragraph **(b)** of the definition of Development Well and the associated annotations.

ii) Note the reference to the producing zone at the end of Paragraph **(b)**, which was added for greater clarity in the 1990 document. There had been a general assumption that the normal Alberta spacing unit for a gas well is 640 acres in all zones in which the Parties jointly hold the section. As the Parties are free to drill and produce a Viking gas well on the same section as 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 under the Regulations for the purpose of producing Petroleum Substances," the definition was certainly accurate as it stood in the 1981 CAPL Operating Procedure. However, the subtlety of the definition may not have been appreciated by some users.

The corresponding definition in the CAPL Farmout & Royalty Procedure provides a different result that reflects the traditional assumption about the stratigraphic component of a spacing unit for an earning well. The earned spacing unit thereunder for a gas well would be all earned formations in the section to reflect the earning outcome. However, other provisions of the document address the situation in which a second well is proposed on a "spacing unit" with an earning well prior to the application of the Operating Procedure to that "spacing unit" (i.e., before "Payout"). (See Clause 6.06 of the CAPL Farmout & Royalty Procedure and the associated annotations.)

iii) A Spacing Unit is not a static concept. A subsequent reduced spacing order will also change the Spacing Unit under the Operating Procedure. Users also need to recall that a reduced spacing order is not the same as a permitted increase in drilling density.

iv) No particular provisos or modifications to the definition of "Spacing Unit" were included for Horizontal Wells. The definition works in its current form for key provisions such as Articles **10.00** and **12.00** for Independent Operations and Abandonment. It is also expected that the Regulations will use varying definitions across jurisdictions, such that a simple "one size fits all" definition would create confusion if it conflicted with the applicable regulatory regime in place at the relevant time. If a specific definition is required, the Parties should agree on the Spacing Unit for any particular Operation for which the general definition is inadequate or amend the Agreement to address their circumstances.

v) Holdings have limited direct impact on a well to which a cost recovery applies under Article **9.00** or **10.00**, as the cost recovery applies only to the Non-Participating Party's share of production from the applicable well. A Participating Party must be aware, though, that the creation of a holding could increase the drilling density and see a reduction in the reserves to be drained by the well subject to the cost recovery.

vi) The Spacing Unit concept is an evolving one in areas of the north. Parties using the document for an area for which there is no Spacing Unit as such may need to clarify their expectations on a custom basis in their own agreement.

Title Administrator: This definition and the corresponding changes to Clause **3.10** reflect the fact that the Operator's obligations may not extend to the maintenance of all Title Documents. This should cause Parties to consider this issue more carefully, and to address their expectations explicitly. A Non-Operator that has the land administration responsibility has corresponding rights and duties. (See also the annotations on Clause **3.10**.)

This issue is complicated if a third party is the administrator of the Title Documents (e.g., farmor with a non-convertible ORR). The Parties should address their expectations on this issue clearly in their Head Agreement where appropriate. If, for example, a farmor with a Working Interest will retain the responsibility, it may be mutually beneficial for the farmor and the Working Interest owners to be clear that the applicable farmor has the same obligations and rights as the Title Administrator under the Operating Procedure on a *mutatis mutandis* basis. (*Mutatis mutandis* is a legal term that means "with the necessary changes in points of detail, meaning that matters or things are generally the same, but to be altered when necessary, as to names, offices and the like" (Black's Law Dictionary). In other words, the provisions of the Operating Procedure would apply on the same basis, other than for the difference in Party in this instance.)

Similar considerations will often apply to a pooling agreement.

The issue is more complex for those situations in which there is no ongoing relationship between the Working Interest owners and the entity administering the Title Documents (e.g., purchase of deep rights from a third party). The Parties could require a special provision in a sale document or a side agreement of some sort, probably requiring the Operator to manage the interface between the Working Interest owners and that third party.

Title Documents: i) The acquisition of a freehold lease in "replacement" for an expiring lease does not fall within the scope of this definition unless the acquisition is through an AMI or the Parties otherwise agree to make the acquisition for the Joint Account. If, for example, the Operator were concerned about the validity of the current lease and it acquired another freehold lease for the Joint Account after discussions with the other Parties, it would be a Title Document.

Assuming the terms of the freehold lease did not provide the lessee with the unilateral option to obtain a successor lease, the lessee only had a non-exclusive right to obtain a new lease. This would not satisfy the test that the replacement document be "issued or derived therefrom".

Whether an Operator chooses to act unilaterally for such an acquisition is a different consideration. There will be many instances in which the Non-Operators will have an expectation that they be offered the opportunity to participate in any such acquisition.

ii) A more typical "replacement" of a Title Document would be a lease selected from a B.C. drilling licence or a significant discovery licence issued from a Federal exploration licence.

Working Interest: i) The beneficial interest reference recognizes that the Working Interests are not necessarily the same as the registered interests in the Title Document. The Working Interests are identified in the Agreement, and can be modified by operation of the Agreement. This could be by operation of the Operating Procedure (such as forfeiture, surrender and disposition) or by operation of other provisions of the Agreement (such as conversion rights at payout or the abandonment provisions of the CAPL Farmout & Royalty Procedure). The linkage of the beneficial interest to the Working Interest held under the Agreement precludes a Party from circumventing the disposition requirements with a "silent partner".

ii) Remember that a Party subject to a cost recovery under Article **9.00** or **10.00** retains its Working Interest in the applicable Joint Lands (versus its share of production volumes from the well).

Paragraph 1.02A(d): The inclusion of this provision ensures that terms such as "Abandon", "Abandoning" and "Abandonment" can be used in the context of the definition of "Abandonment."

Paragraph 1.02A(f): References such as "including" outline a list of examples that is not necessarily exhaustive. The context is actually "including, without limitation,".

Paragraph 1.02A(i): This is included for the benefit of Parties which are both a Working Interest owner under the Operating Procedure and the lessor under a Title Document. Its capacity as lessor is not impacted directly by the application of the Operating Procedure.

Paragraph 1.02A(j): This Paragraph has been included for clarity in handling sales taxes that are refundable (such as GST) when calculating amounts payable or to be recovered under the Operating Procedure. It is aligned with the joint election on GST under the Accounting Procedure.

Paragraph 1.02A(k): 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 similar to the general timing provision in the Alberta Rules of Court. A similar provision was introduced in Paragraph 103(c) of the 1990 document.

ii) The clock basically starts on the day after a typical notice is received.

iii) The period within which an act must be performed, such as Commencement of an Operation or response to a notice, is generally extended to the next Business Day if the last date for performance is on a weekend or a statutory holiday. There is an exception for the 24 hour Casing Point election under Article **9.00**. Payment is due on the preceding Business Day under Clause 103 of the 1996 PASC Accounting Procedure if the due date for a Joint Account billing is on a weekend or a statutory holiday.

To provide otherwise for a response to a notice, for example, would enable the Party that controls the initiation of the notice process (e.g., ROFR notice or Operation Notice) to serve its notice so that the Parties have less than the prescribed period for response. An issuing Party that does not want to see the response period extended over a weekend can easily avoid the result by serving its notice a day or two earlier.

iv) The initial portion of this Paragraph does not apply to 24 and 48 notices under Subclause **9.02B** and Paragraph **10.02B(b)**. Because costs are being incurred on a real time basis, those notices require a response within a specified number of hours, not days or Business Days. However, the last sentence applies to defer a response to the next Business Day for a 48 hour notice if the response period expires on a day that is not a Business Day. To provide otherwise might encourage surprise notices on a Friday afternoon. An Operator can mitigate the negative impact of this provision by alerting the other Parties to its plans in advance. Operators also need to understand the impact of Article **22.00** on the receipt of a notice.

Paragraph 1.02A(l): The provisions of Clause **1.02** apply on a *mutatis mutandis* basis to all of the components of the Agreement. This provides a better context for the Head Agreement and the other Schedules, as those other components will typically not include a comparable provision.

Subclause 1.02B: This Subclause is designed to override a legal rule of construction ("*contra proferentem*") whereby an ambiguity in an agreement is held against the Party that drafted the agreement. (See, for example, Mobil Oil Canada Ltd. v. Beta Well Service Ltd. (1974), 43 D.L.R. (3rd) 745 (Alta.

S.C., App. Div.) and Morrison Petroleums Ltd. v. Phoenix Canada Oil Co., [1997] A.J. No. 275 (Alta. Q.B.). The latter is interesting because the provisions in question were in the standard form 1981 CAPL Operating Procedure.)

Subclause 1.04A: i) The Working Interests, the well classifications and the allocation of legal responsibility provided in the document (i.e., Article **4.00**) apply among the Parties, notwithstanding the registered interests in the Title Documents and the well classifications and responsibility for Operations prescribed by the Regulations.

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 registered interests become the Working Interests because of the conflict with the Title Documents.

The liability reference is included because of the degree to which the Title Documents and the Regulations may require the lessee or well licencee to assume legal responsibility for losses. While this may be in the public interest, it is clear that the provisions of the document allocating legal responsibility among the Parties should continue to govern their relationship to share responsibility for Losses and Liabilities.

ii) The Operating Procedure will generally override the provisions of another Schedule if there is a conflict. However, there is an exception if a Schedule expressly overrides the Operating Procedure, such as Article 17.00 of the 1997 CAPL Farmout & Royalty Procedure and Clause 2.02 of the 1993 CAPL Assignment Procedure.

Subclause 1.04B: Insofar as a provision is severed from the Agreement, the consideration under the Agreement has been altered to some extent. The proviso in the second last sentence is new to this document. It requires the Parties to make a good faith effort to include a replacement term that gives effect to the original intention in a legally binding manner.

Subclause 1.05A: i) There have been a number of major cases in this area since the late 1980s, and some pertain to the oil and gas and mining industries. They are addressed in Part II of the Addendum at the end of these annotations. This issue will also frequently be raised in conjunction with a claim for breach of confidence when a misuse of confidential information is alleged.

The law in this area is evolving. What is clear is that a Party that exercises discretion in a manner that it knows will harm its co-venturers may be vulnerable to legal challenge if its behaviours appear dubious.

ii) Notwithstanding this Subclause, the first sentence arguably applies to the relationship of the Parties with third parties, not the relationship of the Parties to each other. Consider this provision in the context of Clause **5.06** for reimbursement of the Operator. If a Party defaulted in its obligation to pay its share of costs incurred for the Joint Account, Clause **5.06** ensures that the burden is shared by the non-defaulting Parties until (and insofar as) the Operator can use its remedies to recover the unpaid amount. Otherwise, the Operator would always have to bear that burden alone.

iii) The statement of intention cannot exclude the Court's jurisdiction to determine that there is a fiduciary relationship for a particular duty.

iv) The provision may not be effective against third party litigants. A Court is not obligated by the provisions of the contract. Unless it apportions legal responsibility among defendants, a successful plaintiff can enforce its judgment jointly against those defendants held responsible for the loss.

v) One of the major reasons for the inclusion of this type of provision is to attempt to ensure that the business relationship is not legally characterized as a partnership, largely because of the potential adverse tax consequences of that classification. Although other Working Interest owners in a property are commonly referred to as "partners" in the oil and gas industry, this just reflects a traditional choice of terminology, not a description of the legal relationship. A more accurate legal description would be to describe other owners as "co-venturers".

vi) Although the Operator may contract for the leasing or acquisition of Joint Property in its own name, the rights acquired by the Operator for the Joint Account become Joint Property. The Non-Operators own their respective Working Interest shares of acquired Joint Property as tenants in common. (This would include surface rights, as noted in the annotations on Clause **3.09**.) See Direct Energy Marketing Ltd. v. Kafta Energy Corp., [2003] A.J. No. 1624 (Alta. Q.B.) in the context of the 1974 CAPL Operating Procedure.

Subclause 1.05B: The Parties are also competitors. A Party may generally make decisions based on its perception of its own interests, subject to Subclause **1.05A** and the other obligations in the Agreement, including any express obligations not to exercise discretion unreasonably.

Subclause 1.05C: The Operator does not have any special obligation to apply knowledge from other project areas to the Joint Lands.

Clause 1.06: i) The assumption is that the Parties want the Courts of Alberta to have jurisdiction, even if the Joint Lands are located outside of Alberta. There are two reasons for this. Firstly, the logistics of managing legal proceedings would generally be easier, since the Parties' head offices are typically located in Calgary. Secondly, the Courts of Alberta have an extensive body of oil and gas case law that provides a valuable context for any litigation involving the Operating Procedure.

The Parties could easily modify this provision or include a provision in the Head Agreement to apply the laws of another jurisdiction if the reference to Alberta does not meet their needs (e.g., Parties based in Saskatchewan conducting Operations there). Corresponding modifications would be required for Clauses **1.07** and **21.03** (or the introduction to Article **21.00** if it is not selected to apply) and probably the definition of Business Day.

ii) Notwithstanding that the Operating Procedure may stipulate that the Courts of Alberta have jurisdiction, this is not necessarily determinative at law. (See, for example, Encal Energy Ltd. v. Numac Energy, [1986] B.C.J. No. 1918 (B.C.S.C.).)

Clause 1.07: i) On March 1, 2001, a new *Limitations Act* (Alberta) came fully into force in Alberta. Under the new *Act*, all actions must be commenced "within two years of when the claimant knew or ought to have known of its claim". Many oil and gas industry practices typically require a longer time to address and resolve claims before an action may suitably be commenced. For example, the widely accepted audit process in the industry permits audits to be conducted up to 24 months after the end of the calendar year in which Operations occur. The coming into force of the *Limitations Act* created a conflict between these industry practices and limitations rules in Alberta, and creates the possibility that the limitation period for bringing a claim may expire before an audit even occurs.

In recognition of this problem, the oil and gas industry has sought to use the right given under the *Limitations Act* to extend the limitation period for disputes arising under agreements between industry members. Under the guidance of the Petroleum Accountants Society of Canada, an industry task force developed language that would extend the limitation period under oil and gas industry agreements. This language was adopted by over 1200 companies in the Industry Agreement regarding Limitations dated January 1, 2001, and it generally applies to oil and gas industry agreements. It has become the standard method of treating limitation periods under industry agreements.

This Clause is substantially consistent with the language recommended by that task force. Generally, the provision extends the limitation period from 2 years to 4 years. Paragraph **(a)** applies to industry agreements that contain an audit provision requiring audits to be completed by a specified time, and it addresses the question of when a Party is treated as having "ought to have known" of a claim by providing that the limitations "clock" begins to run at the end of the period by which an audit was allowed by the agreement to have been performed.

Additional information about the *Limitations Act* (Alberta), its impact on oil and gas industry agreements and the Industry Agreement regarding Limitations can be found at *www.petroleumaccountants.com*.

ii) The Clause has been included in the document because of the assumption that the vast majority of Parties would prefer to see the issue addressed in this manner, rather than having to include a custom provision in their Head Agreement. The alternative would potentially see Parties forgetting to include the provision or including inconsistent and sometimes poorly drafted provisions. Parties that believe that the Clause substantively alters their rights in a way that is unacceptable to them remain free to modify or override this Clause.

Clause 1.09: An amendment generally is not effective unless it is executed by the Parties. Examples of exceptions to the general rule include a notice of a changed address for service under Clause **22.02**, a modification to rates under Clause **2.03** or **2.05**, the approvals provision of the PASC Accounting Procedure and the notice of assignment process under the CAPL Assignment Procedure. The more generic reference has been included because any modifications negotiated to the Operating Procedure or the Accounting Procedure could create additional exceptions.

Clause 1.10: i) The Clause covers actual and anticipated breaches. A prudent Party would seek a waiver before a breach, not after the fact.

ii) A Party that does not exercise a right within a prescribed time period cannot rely on this Clause to preserve its rights for that particular matter.

iii) The waiver concept was reviewed in Tri-Star Resources Ltd. v. J.C. International Petroleum Ltd., [1987] 2 W.W. R. 141 (Alta. Q.B.,) and Kaiser Francis Oil Co. of Canada v. Bearspaw Petroleum Ltd. (1999), 240 A.R. 59 (Alta. Q.B.). The Tri-Star case pertained to a CAPL Operating Procedure that included an earlier version of this Clause. One of the issues was an alleged verbal statement by an officer of a non-operator that it would not attempt to remove the operator if its funds were protected from the operator's creditors. The Court found that a waiver must be in writing because of the mandatory nature of the provision. The Kaiser Francis case pertained to a pre-CAPL Operating Procedure that did not include a waiver clause. One of the arguments was that the non-operators were estopped from removing the party acting as successor operator because their conduct in working with that party as operator represented their consent to its appointment. The Court found, on the facts, that there had been "indulgences" that did not constitute a waiver of the non-operators' rights with respect to the appointment of the new operator.

Clause 1.11: i) The Operating Procedure will supersede the Head Agreement and any Schedule (e.g., CAPL Farmout & Royalty Procedure) insofar as they become ineffective by their own terms after the Operating Procedure begins to apply. On the other hand, the Head Agreement or the CAPL Farmout & Royalty Procedure may include terms that are stated to survive once the Operating Procedure becomes effective. An existing area of mutual interest created under the Head Agreement and, if applicable, the CAPL Farmout & Royalty Procedure would continue by its own terms.

ii) Many blocks have overlapping agreements that are binding on only some of the Parties (e.g., an owner farmed out a portion of its interest to a third party). In this type of situation, a notice of assignment (NOA) should be processed as soon as is feasible, so that 100% of the Working Interests are managed under the same Agreement. The last sentence is included because of the possibility that there may be unique obligations that apply between some Parties because of another agreement between them that does not affect the other Parties.

iii) Care must be taken when preparing a non-cross-conveyed pooling agreement. To what degree will the initial agreement for a tract remain active for the Parties holding those rights? This issue is particularly relevant if the original agreement included a ROFR. (See also annotation (v) in the Miscellaneous Annotations on ROFRs in Part III of the Addendum to the annotations.)

Clause 1.12: This provision is structured broadly enough to be used for both jurisdictions with perpetuities legislation, such as Alberta, and other jurisdictions in which the conventional common law principles apply. Although the Alberta Act does include a "life in being" approach, Section 18 of the Act currently includes a fixed 80 year period for commercial transactions, and Subsection 18(2) specifically addresses rights of first refusal.

Clause 1.13: This provision has been modified significantly from the traditional provision. The overall result remains the same, though, in that the relevant Parties are choosing to file such elections as are permitted to avoid a partnership for purposes of U.S. taxes. Insofar as the Joint Lands are located in the U.S., the Parties should review this Clause at the time in the context of their circumstances. A Party that believes the Clause does not meet its particular requirements remains free to replace it with a customized Clause.

Clause 1.14: i) Confidentiality obligations continue under Clause **18.05**. The provisions relating to audit, liability, indemnity, disposal and salvage of material and enforcement on default also continue for such period as the rights and obligations apply under the Regulations. This is particularly relevant for liabilities that were only contingent at the date of termination, given the increased sensitivity to environmental issues.

ii) Many users terminate the agreement file and remove it from their land system once the Joint Lands expire. While there are no P&NG rights at this point, the applicable surface rights are active until required reclamation is complete. The Operator's issuance of JV invoices for associated surface rentals often results in delays in payment and billing disputes, since recipients do not readily understand the legitimacy of the charges. This is a complex area, for which many of the potential solutions would be worse than the problem. The issue can be mitigated significantly through records retention processes in which files remain in the land system in an inactive status for a significant period after expiry of P&NG rights.

iii) This document is much clearer about Environmental Liabilities associated with Joint Operations that only become apparent after the final settlement of accounts. Subject to any special allocation of responsibility under Article **4.00**, the remedial costs will be for the Joint Account.

Notwithstanding this allocation of responsibility, there will be some enforcement issues in practice if a previous Party no longer exists at the time the expenditure is required.

iv) The parenthetical "or other Party" reference in Paragraph **(b)** recognizes that the Operator may not exist when the problem arises.

Clause 1.15: i) This Clause is designed to protect against changes to the standard form that were not identified when the document was prepared. It is necessary because of the likelihood that Parties will prepare their document electronically, rather than by attaching a CAPL watermark copy. It is conceptually consistent with the comparable provision in the 1997 CAPL Farmout & Royalty Procedure, the 1997 CAPL Overriding Royalty Procedure, the 2000 CAPL Property Transfer Procedure and the PetroDocs version of the 1990 CAPL Operating Procedure.

In essence, it ensures that modifications that have not been identified in the Operating Procedure, the Agreement or a Schedule of elections and modifications are not effective. The CAPL standard form will apply to the provisions as if the modifications have not been made.

ii) The PetroDocs tool automatically identifies all changes from the standard form on the custom document.

Subclause 2.02A: One of the foundation principles of this document and the 1990 document is that an Operator is appointed to serve for the benefit of the Joint Account. This is very different than the view that the role is somehow the property of the Party acting as Operator. The Operator's ability to fulfil its duties and obligations is largely a function of its ongoing financial viability. It is subject to immediate replacement, by notice, if any of the conditions in Paragraphs **2.02A(a)-(g)** apply to it. An interim Operator is appointed on the same basis as under Subclause **2.06D**, pending selection of a successor Operator by the Parties under Clause **2.06**.

Paragraph 2.02A(a): i) Notwithstanding the clear wording of provisions such as this Paragraph, there can be a major difficulty in attempting to enforce such a provision. As shown by 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.

The case pertained to an interpretation of Section 11 of the *Companies' Creditors Arrangement Act* (Canada). 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 financial difficulties or make an arrangement with its creditors.

Norcen was not a creditor of Oakwood, but the Court used Section 11 to affect the contractual relations between the insolvent Party and a non-creditor. It granted a 2 month stay that prevented Norcen from becoming Operator under Clause 202 of the 1981 document, even though the Court recognized that Oakwood had been insolvent for some time. The case was determined less than 2 weeks before expiry of the stay, and was not appealed. This protection from the application of Clause **2.02**, however, would not apply if the Operator makes a proposal to creditors under the *Bankruptcy and Insolvency Act (Canada)*. (See Tri-Star Resources Ltd. v. J.C. International Petroleum Ltd., [1987] 2 W.W.R.141 (Alta. Q.B.).)

This document and the 1990 document differ from the 1981 document. The differences include: (a) a reference to the *Companies' Creditors Arrangement Act*; (b) a potential removal by vote under Paragraph **2.02B(a)**; and (c) a waiver of relief Clause (**25.05**), through which a Party waives certain rights it may have at law or under the Regulations. This document introduces a prohibition that an Operator may not seek relief from the application of this Subclause. Paragraph **2.02A(b)** and Subclause **2.06F** are also relevant to the insolvency issue, and are new to this document. Orders issued under the *Companies' Creditors Arrangement Act* to date have not differentiated between versions of the document, and Non-Operators have not litigated the issue. It is unclear if a Court would allow Non-Operators to remove an insolvent Operator. It is also not clear if a Court would use its discretion to preclude replacement of an insolvent Operator under Paragraph **2.02B(a)**.

Because of the possibility that a Court may not allow removal of an insolvent Operator, Clause **5.07** has been modified in this document. It terminates the Operator's right to commingle funds held hereunder with the Operator's funds if any of the conditions in Paragraph **2.02(a)-(d)** apply and the Non-Operators are prevented from replacing the Operator.

ii) The Court also determined in the Norcen case that insolvency was to be given its normal meaning in interpreting the 1981 provision. Oakwood had attempted to argue that it was commercially solvent for day-to-day matters and that the Operating Procedure contemplated only commercial insolvency. The corresponding Paragraph (a) of the 1990 document was amended to reflect the Court's interpretation of the intention of the 1981 provision. In practice, it could be very difficult to determine if or when insolvency had occurred. A Party would require detailed information about the Operator's business affairs if the insolvency issue were to be considered in the absence of an Operator's application for debtor relief protection. It would be unlikely to receive any significant cooperation from the Operator prior to commencing an action.

iii) Following appointment of a receiver, a lender will generally provide the funds required to ensure that debts are then paid as they become due. The onus on the Non-Operators to prove insolvency could then be more difficult.

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

v) The notice must be a *bona fide* notice. It must specify the basis for replacement and include verifiable evidence substantiating in reasonable detail the basis for removal.

Paragraph 2.02A(f): This Paragraph is new to this document, and reflects the increased vigilance of regulatory authorities, such as the Alberta EUB, in assessing the financial capability of an Operator to fulfil Abandonment and reclamation responsibilities. An Operator that does not meet the regulatory criteria will typically be permitted to operate assets by submitting a deposit for its own account. A qualification has been included for situations in which the Operator is a registered partnership or trust, as all such licences and approvals would be held by the managing partner, another partner in the partnership or an Affiliate in the case of a trust.

Paragraph 2.02A(g): i) An Operator that is in the process of assigning its Working Interest is not subject to immediate replacement because it has initiated the process of formally assigning the interest. The Operator will continue to be responsible for operating the property during the transitional period to the applicable "binding date", at which point a successor Operator appointed under Clause **2.06** will assume the Operator's rights and duties. That successor may be an interim Operator selected under Subclause **2.06D** if the Parties have not been able to appoint an Operator under Subclause **2.06C**. Notwithstanding the timing specified by Subclause **2.06E** and the notice of assignment process under Subclause **24.04A**, the Parties should consider a mutually agreed acceleration of recognition of the Operator's assignee if it will be the successor Operator.

ii) A Vendor will often prepare assignment documents on the assumption that its assignee will succeed it as Operator. This may sometimes be clear because of the distribution of Working Interests. However, Closing will often occur prior to appointing the successor Operator under Subclause **2.06C**. The better practice is to try to appoint the successor Operator prior to Closing where feasible and warranted. If this is not feasible, it may be beneficial to defer registering the applicable transfers until the new Operator is confirmed. In practice, the approaches on this issue vary widely, and are influenced by such factors as the distribution of Working Interests, the logistics associated with a large transaction, the regional positions of the Parties (including infrastructure), the value of the property and the anticipated sensitivities of the other Parties on this issue.

iii) An Operator may sometimes have an Affiliate or another entity act as a contract operator on its behalf.

Paragraph 2.02B(a): i) This Paragraph is much stronger than the traditional Clause **2.03** challenge mechanism. It was introduced in the 1990 document with a greater than 50% WI threshold that has been increased to at least 60% in this document. It enables the Non-Operators to remove an Operator against its will. It reflects the evolving philosophy that the Operator is ultimately the Parties' representative, to serve only as long as it maintains a critical mass of Working Interest support. Given: (a) the significant costs potentially associated with the removal of an Operator during the development/production phase; (b) the potential for the disruption to Operations; and (c) 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 (Clause **2.03**), the use of a voting procedure/no cause challenge mechanism is used in conventional unit agreements and some international 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, as this would probably happen in practice. The problem with including such a provision would be the difficulty in trying to quantify if the Operator is not meeting the performance standard for qualitative problems.

The major advantages to this mechanism are: (a) not having to establish grounds for removal; (b) not having to wait for very serious problems; (c) avoiding evidentiary issues; (d) having legal resolution on an accelerated basis if the Operator is unwilling to comply; and (e) possibly avoiding the result in the Norcen case noted above if the Operator is seeking debtor relief protection.

ii) The removal of an Operator is a very serious step that should be regarded as an exceptional right. There are potentially significant direct costs because of the loss of continuity in the management of the property during at least the transitional period. There is likely to be a very real ongoing cost because of the damage to the Parties' relationship. Parties exercising this right in a capricious manner must also recognize the potential impact of this decision on their reputation in the marketplace and the potential that this could adversely impact their access to new opportunities.

iii) A Non-Operator holding at least a 60% Working Interest has the right to become Operator by notice to the other Parties, assuming it is not otherwise disqualified. This reflects the fact that it is paying at least 60% of the cost of Joint Operations (>66% in the 1990 document).

Paragraph 2.02B(b): The use of the default mechanism may be a very helpful tool to address deficiencies in an Operator's performance. Any such default notice must be in sufficient detail to enable the Operator to appreciate the nature of the alleged default. This is particularly important because of the real possibility that there could be litigation about the validity of the notice or the adequacy of the Operator's response.

Paragraph 2.02B(c): The Operator is required both to commence rectifying the default and to continue diligently to remedy the default. The notice also requires the Parties to identify the basis for their opinion that the Operator has not rectified the default diligently.

Clause 2.03: i) Limiting a challenge to an offer to conduct Joint Operations on "more favourable" terms and conditions than the Operator creates a serious, if not insurmountable, obstacle for the challenger. This is because of the obligation to assume sole responsibility if the more favourable terms are not delivered after a successful challenge. As it is difficult to quantify qualitative changes, it seems largely limited to financial terms. How, though, can a challenger give more than its best cost estimate when exploration costs reflect such factors as weather conditions, exploration success (testing costs), mechanical difficulties, the demand for equipment, changes in input costs and inflation? Similar challenges exist for a concern about Operating Costs. The problem might also be the Operator's technical performance or behaviours, rather than cost performance. In practice, the challenge might only be on the basis of overhead rates, where this would have the greatest financial impact on a mature, producing property.

The mechanism may be useful in some circumstances, in that it at least enables a Party to file a "complaint". However, the "no cause" replacement mechanism in Paragraph **2.02B(a)** provides the Non-Operators with far greater protection in practice.

ii) The challenge mechanism might also be a helpful tool to use if the Operator is unwilling to place Suspended wells back on production.

iii) A challenge could take about 3.5 months to effect if steps occur at the latest times in the Clause versus 5 months in the previous documents.

iv) The Non-Operators could consider assuming a more active role through the use of the Independent Operation process under Article **10.00** if the Non-Operators' concern is the Operator's reluctance to proceed with a work program.

v) The replacement of the Operator under this Clause does not protect the new Operator from the application of any of the removal mechanisms in Clause **2.02**, including Paragraph **2.02B(a)**. The Parties must be able to remove an Operator that is not performing to their satisfaction. To provide otherwise would place an Operator appointed under this Clause in a better position than any other new Operator. (See also Clause **2.05**.)

vi) The existing Operator that matches a challenge and a new Operator that effected a challenge basically have accountability for operating on the challenge terms for 2 years.

Clause 2.04: i) An Operator that has served notice under this Clause remains subject to the possibility of earlier replacement under Clause **2.02**.

ii) The minimum notice period has been reduced from 90 days to 45 days in this document. This reflects the fact that most resignations are in the context of sales. The change also facilitates A&D transactions by aligning the period more closely to the timing in the CAPL Assignment Procedure.

Clause 2.05: i) This Clause basically provides an Operator with an opportunity to obtain improved financial recoveries in circumstances in which the Non-Operators are not willing to amend the rates and elections in the Accounting Procedure. It can be particularly helpful to an Operator if the cost recovery under the Agreement is so low that the Operator is considering resignation.

Under this Clause, the Operator would issue notice of the terms and conditions under which it would be prepared to remain as Operator. Any Non-Operator that objects must, in essence, issue a "Challenge Notice" relative to the Operator's proposal. An Operator considering use of this Clause needs to realize that it is allowing itself to be replaced if a Non-Operator is willing to operate on better terms than the Operator's offer.

ii) An Operator may not use this mechanism again until it has operated under any previous Operator's Notice served by it for at least 2 years.

iii) As noted in the annotations on Clause **2.03**, an Operator appointed under this Clause may be replaced under Clause **2.02**.

Clause 2.06: i) Ignoring the challenge scenario, a new Operator will be appointed under Clause **2.06** if 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, the Party with the largest Working Interest will serve as interim Operator under Subclause **2.06D** if the Parties cannot appoint a successor Operator. Under no circumstances, though, will a provision of this Clause reappoint as the successor Operator a Party that: (a) would be subject to immediate replacement under Subclause **2.02A**; (b) had been replaced as Operator under Clause **2.02** within the preceding 30 months; or (c) is then subject to a notice of default issued under Clause **5.05**. For purposes of Subclauses **C** and **D**, an assignee that will be a Party at the time the replacement of the outgoing Operator is effective will be regarded as a Party for the purpose of being eligible to be Operator at that time.

ii) Previous versions of the document have not clearly addressed the situation in which the Operator resigns because of a disposition to an arm's length assignee. The Operator, its assignee and the other Parties are all motivated to determine the successor Operator under Subclause **C** before the Operator's resignation becomes effective under Subclause **E**. This is typically through a letter agreement respecting the change of Operator. (A Party that does not notify the other Parties of its vote/response within 15 Business Days after receipt of a notice requesting confirmation of the successor Operator is deemed to have approved that appointment.) The interim Operator process in Subclause **D** will apply if the Parties have not determined the successor Operator as of that time. Subject to the disqualification mechanisms prescribed by Subclause **B**, the Operator's assignee is eligible to replace it under Subclause **C** or, if applicable, **D**.

The document is not prescriptive about when the Operator must initiate the replacement process resulting from a disposition of its Working Interest. Clause **2.04** allows it to resign shortly after closing, so that its successor will be in place by the "binding date" of the resultant notice of assignment. An Operator might choose to be more proactive and initiate the process on closing occurring or even prior to closing, contingent on closing occurring.

iii) Note the special 60% single owner qualification in Subclause **C**. This has been included for consistency with the proviso in Paragraph **2.02B(a)**. The threshold has been lowered from greater than 66% in the 1990 document to at least 60% in this document.

iv) The Operator has flexibility on the timing for initiating the process to confirm its successor under Subclause **C**. The former Operator may vote on its replacement. The former Operator has a vested interest in seeing its Working Interest share of the assets managed effectively if it is retaining a Working Interest. If it is disposing of its Working Interest, it will usually vote on behalf of its assignee if the decision is made prior to the "Binding Date" under the applicable notice of assignment. (The assignor would continue to retain the general rights and obligations for the assigned Working Interest until the Binding Date under the notice of assignment. The agreement between the assignor and the assignee would typically govern the assignor's obligation respecting that vote.) An assignee that is already a recognized Working Interest owner would have a voting status for its existing interest.

v) Subject to the general disqualification limitations in Subclause **B**, the Non-Operator in a two Party scenario will have the right to become the Operator. However, it must hold more than a 40% Working Interest if the appointment of a successor Operator is because of the Operator's disposition of its Working Interest in the applicable Joint Lands. Previous versions of the document were less than satisfactory if the triggering event was the Operator's disposition of its Working Interest. The 1974 document did not address the issue, the 1981 document did so without a minimum threshold and the 1990 document addressed it with a *de facto* Working Interest threshold of 34%, given the general right of a Party holding more than a 66% Working Interest to become the Operator by notice in the 1990 document. The selection of the >40% threshold and the reduction of the threshold in Paragraph **2.02B(a)** and Subclause **2.06C** of this document from >66% to at least 60% are designed to balance the respective needs of the Parties. An owner with 60-66% Working Interest has greater rights than provided under the 1990 document, while a Non-Operator holding a large Working Interest (i.e., more than 40%) retains the ability to offer operational continuity to the property.

vi) An interim Operator will always be appointed if the Operator is removed immediately under Clause **2.02**. There will, however, be many circumstances in which the interim Operator and the successor Operator will be the same, with confirmation of this occurring in a parallel process to the interim appointment. An interim Operator will also need to be appointed under Subclause **D** if a successor Operator has not yet been appointed under this Article when the replacement of the outgoing Operator is effective under Subclause **2.06E**. An assignee that will be a Party as of that time will be eligible to be the interim Operator if it is not otherwise disqualified under Clause **2.06**.

vii) Subclause **E** prescribes the effective date of the change of Operator. The general rule is that it will be on the 1st day of the second calendar month after the determination. The CAPL Assignment Procedure would also apply to a disposition through which an Affiliate of the Operator succeeds it as Operator. There is different timing for the resignation and challenge type mechanisms in Clauses **2.03**-**2.05**. The outgoing Operator retains its rights and obligations during the interim period until its replacement is effective. This ensures that there is no gap in accountability for performance of the Operator's duties. If it is disposing of its Working Interest to an assignee that will be replacing it as Operator, the Parties might want to accelerate the timing for recognition of the assignee, notwithstanding the timing specified in this Subclause or under the notice of assignment. This recognizes the mutual benefits of having a contractual relationship with the successor Operator in place at the earliest feasible date and the practical fact that the Operator is unlikely to be highly motivated to operate the property after closing its transaction.

viii) Subclause **F** ensures that an Operator being validly replaced would not have any claim against the other Parties as a result its removal. It does not limit the Operator's remedies if Parties are trying to replace it in contravention of the requirements in Article **2.00**.

ix) The difficulties potentially associated with the appointment of a new Operator are illustrated by Kaiser Francis Oil Co. of Canada v. Bearspaw Petroleum Ltd. (1999), 240 A.R. 59 (Alta. Q.B.). This case pertained to a pre-CAPL Operating Procedure in which the Operator purported to appoint its purchaser as Operator. Although the agreement did not include an unrestricted ability to make the transfer, the Court regarded operatorship as being part of the vendor's interests that fell within the scope of "miscellaneous interests" under the P&S Agreement. Change of Operator letters had been sent to the non-operators for their execution. Although they were not signed, the purchaser acted as operator for some time. One of the non-operators then tried to become Operator with the support of the other non-operators. On the facts, the Court found that the non-operators had not waived their rights with respect to the appointment of Operator. (See also the annotations on Clause **1.10**.) The case shows the importance of having appropriate documentation finalized at the earliest opportunity for appointment of a new Operator.

Clause 2.07: i) This Clause and Clause **2.08** apply to all changes of Operator contemplated in Article **2.00** (involuntary, voluntary and assignment).

ii) An outgoing Operator is responsible for outstanding accrued obligations, and retains its rights for any amounts owing to it.

Clause 2.08: i) The Clause specifies that an audit will be conducted within a certain time. It will often be appropriate to waive this requirement, particularly when dealing with undeveloped lands or minor value properties that are not complex. The provisions of the Accounting Procedure otherwise apply to the audit, including the resolution of discrepancies disclosed by the audit. The Parties should conduct any such audit in accordance with the then most current PASC Joint Venture Audit Protocol.

ii) The Non-Operators would typically have a Non-Operator lead the audit effort in accordance with normal audit processes. This also reflects the practical consideration that the former Operator is often not motivated to pursue an audit diligently. The Parties should determine the desired scope of the audit prior to the audit. The scope will probably be similar to that of a normal J.V. Audit (paid for by the Non-Operators, including the successor Operator). The successor Operator contributes to the cost of the audit because it was a Non-Operator for the period to which the audit pertained.

A successor Operator might also conduct an audit under a Purchase & Sale Agreement with the outgoing Operator as part of its adjustment process if the interest is being acquired through an A&D transaction.

iii) The cost allocation for an inventory conducted under this Clause is consistent with the allocation under the Accounting Procedure.

iv) It can be difficult to resolve audit exceptions in a timely manner, particularly if an Operator has disposed of its interest. The applicable PASC Joint Venture Audit Protocol includes guidelines for resolution of audit exceptions that should be followed insofar as they do not conflict with the Accounting Procedure. Unresolved audit exceptions might ultimately be addressed through arbitration under Clause **21.03** if that Article applies.

Clause 2.09: i) This Clause would only apply if the Operator were proposing its assignee as the successor Operator. It clarifies the rights of the Non-Operators. As there would be no anticipated impact on Joint Operations because of 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, and an Operator would typically just note this in the cover letter it uses to distribute the applicable notice of assignment. If the Non-Operators were sufficiently troubled with the Operator's performance, they presumably would have used their other rights to replace it. If there is a concern that the Affiliate is a "shell company," the Parties could easily replace it under Paragraph **2.02B(a)** if the Non-Operators hold sufficient interest. They will have immediate access to Clause **2.03** in all cases. Operatorship is to be determined under Clause **2.06** in all other cases.

ii) Suppose ABC Ltd. assigns to its Affiliate, ABC Resources Inc. Since ABC Resources Inc. is a distinct entity from ABC Ltd. and a new Operator, the 2 year periods in Clauses **2.03** and **2.04** would start at the effective date of the change without the last sentence.

Clause 3.01 (General): i) The evolution of the role of the Operator to the manager of the Joint Property on behalf of the Parties is apparent by comparing the corresponding provisions in the 1971, 1974, 1981 and 1990 versions of the Operating Procedure.

1971 –"The Operator is hereby delegated the exclusive control and management of the exploration, development and operation of the joint lands for the discovery and production of petroleum substances for the joint account."
1974 –"The Operator is hereby delegated the exclusive control and management of the exploration, development and operation of the joint lands for the joint account."
1981 – "The Operator is hereby delegated the exclusive control and management of the exploration, development and operation of the joint lands for the joint account, provided it shall consult with the Joint-Operators from time to time with respect to decisions to be made for the exploration, development and operation of the joint lands, and keep the Joint-Operators informed with respect to operations planned or conducted for the joint account."
1990 - "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."

ii) One of the fundamental differences between the conventional CAPL Operating Procedure and Western Canadian production agreements and many international agreements is the use of an operating committee to provide direction in those other documents.

Ignoring the Independent Operation mechanism in Article **10.00** and the expenditure approval process, the role of the Non-Operators in setting exploration strategy might seem minimal under the conventional CAPL Operating Procedure. (Subclause **3.01A** includes a simple duty to consult, and Clause **5.04** gives a Non-Operator the right to require the Operator to provide the Non-Operators with a forecast of anticipated expenditures over the next 12 month period.) However, it is not feasible to include an operating committee provision in the document. A typical Operator will be operating a multitude of blocks with varying partners, interests, tenures, prospectivity, maturity and activity, and the resultant administrative burden would be high. 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. In practice, the Independent Operations Article and the expenditure approval process included in the document provide the Non-Operators with significant control over the exploration and development of the Joint Lands.

Subclause 3.01A: The delegation of management of the Joint Property to the Operator does not impose any obligation on it to initiate or optimize the exploration and development of the Joint Lands, except insofar as the Operator has specific obligations to the contrary under the Agreement. The broad nature of any implied duty of this type might place Operators at risk for the consequences of strategic decisions in which the Non-Operators may have contributed to or caused the outcome by the expenditure approval process. The Non-Operators are always free to promote a more aggressive work program through the Independent Operation process and possibly the replacement of the Operator.

Subclause 3.01B: i) The discretionary authority is included 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. The threshold is a *bona fide* estimated amount linked to the Accounting Procedure limit to reflect a change in the PASC Accounting Procedure, and there is a fallback to $50K if an older form of Accounting Procedure is used. (The corresponding thresholds were $10K in the 1974 document and $25K in the 1981 and 1990 documents.) The Operator's authority to make the expenditure under this Subclause is not compromised if its *bona fide* estimate ended up being too low.

ii) There is no specific requirement for the Operator to submit an itemized report of discretionary expenditures to the Parties, other than insofar as this information is normally required under the PASC Accounting Procedure (e.g., Clause 102 of the 1996 version). The only review mechanism as such would be if a Non-Operator were so concerned by a tendency to make such expenditures that it convened a meeting to discuss the matter.

iii) The Operator may make additional expenditures without the Non-Operators' approval if required by the Regulations (e.g., EUB requirements) or if reasonably considered necessary by the Operator for the protection of life, property or the environment. 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 3.01C: i) This Subclause does not apply to expenditures for which AFE authorization is not required under Subclause **3.01A**.

ii) In the absence of a specific provision in an agreement, has a Party that approved an AFE elected to pay its proportionate share of the cost or is its participation conditional on the actual cost corresponding to the estimate? Intuitively, operational logistics lead one to the conclusion that the cost estimate in an AFE is the Operator's *bona fide* estimate of the cost. How could it be otherwise when costs are subject to such factors as mechanical difficulties, the presence of hydrocarbons and weather? One of the consequences of the contrary view would also be that a Party was committed to pay the estimated cost, even if actual costs were lower.

As shown by American cases 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.) for the 1974 document, the general legal rule is that AFE approval constitutes authority to conduct the Operation described therein, even though the actual cost may differ from the AFE estimate. One of the Trial Court's *obiter dicta* statements in Renaissance, however, was: "I see no reason why, in the proper case, it would not be open to a joint-operator to allege negligence in the preparation of an AFE and/or the drilling of a well." This qualification was recognized in Erehwon Exploration Ltd. v. Northstar Energy Corp., [1993] A.J. No. 916 (Alta. Q.B.) and Novalta Resources Ltd. v. Ortynsky Exploration Ltd., [1994] A.J. No. 1101 (Alta. Q.B.). It was the main issue in Morrison Petroleums Ltd. v. Phoenix Canada Oil Co., [1997] A.J. No 275 (Alta. Q.B.). The latter pertained to the drilling of a foothills type well in NE British Columbia by an Operator with no experience in that operating environment. The Court determined that the Operator was negligent in the preparation of the AFE because: (a) it did not review the data from offsetting wells for potential drilling problems and drilling schedules when it was generally recognized that there were drilling problems in this area (e.g., shale sloughing, deviation, lost circulation, etc.); and (b) it did not use service companies and personnel

with expertise in this operating environment.

Those cases were not addressing the provisions in this version of the document. Clauses **4.01** and **4.02** have been modified to require a Non-Operator to satisfy the Gross Negligence or Wilful Misconduct test for claims relating to planning or conducting Joint Operations. An Operator would still also have the potential defence in many circumstances that the Non-Operator's independent ability to use its own expertise to assess the Operation meant that there was no reliance on the accuracy of the cost estimate at the time of the participation decision.

It seems likely, though, that some Parties may choose to amend this Subclause for drilling Operations in the foothills and certain other high cost areas. Given the potential magnitude of cost overruns in those operating environments, a pure "commitment to the Operation" mechanism could have a serious financial impact on a Party in practice. One possibility for those types of operating environments might be to include a mechanism whereby a Party could elect to become a Non-Participating Party on the same basis as provided for a Deepening under Article **10.00**, insofar as costs exceeded a certain negotiated threshold (e.g., 35%, 50%, etc.), subject to the qualification that this right could not be exercised during an emergency or until any existing drilling problems were rectified. Parties are also free to negotiate this type of outcome at the time of the problem.

iii) The corresponding provisions of the previous documents evolved significantly. The 1974 document was silent about overexpenditures. The 1981 document included the following paragraph: "Notwithstanding the foregoing, if the Operator while conducting any single operation for the joint account, incurs or expects to incur expenditures for the joint account in excess of the total amount authorized in writing by the Joint-Operators for that operation plus ten (10%) percent thereof, the Operator shall forthwith so advise the Joint-Operators and submit for their approval a written supplementary authority for such excess expenditures." The 1990 document was changed to require a supplementary AFE for informational purposes only.

The interpretation of the 1981provision was considered in Erehwon, Novalta, Morrison, Duce Oil Ltd. v. Coachlight Resources Ltd., [2000] S.J. No 352 (Sask. C.A.), affirming [1999] S.J. No 12 (Sask. Q.B.) and Powermax Energy Inc. v. Argonauts Group Ltd., [2003] A.J. No. 433 (Alta. Q.B.). There was an *obiter dicta* comment in Erehwon that "a party signing an AFE is bound to pay the resulting costs, at least under the 1981 CAPL, up to a cost overrun of less than 10%." The impact of the 1981 provision was the fundamental issue in Novalta, where the Court interpreted the supplementary AFE obligation as applying only to "operating expenditures", such that the Renaissance test applied to any overexpenditure respecting the drilling and completion of wells. The Court came to the opposite conclusion in Morrison. This was stated to be because of the expert evidence presented to that Court on the issue, where there did not appear to be any expert evidence in Novalta. The Court in Morrison concluded that operation "must be interpreted as applying to all undertakings conducted by the operator for the joint account, including all activities in connection with the drilling of a well except where a contrary intention is expressly indicated in the agreement between the parties". The Court determined that the literal and ordinary meaning of the words required a supplementary AFE for a cost overrun in excess of 110% of the approved amount, notwithstanding that the 1981 document did not specify the consequences of failure to approve the supplementary AFE.

In Duce, the Court agreed with the determination in Morrison, but found on the facts that the operator (Coachlight) had consulted with the non-operator about each significant decision that could increase the cost of the operation and that the non-operator had approved those recommendations. The Court determined that the non-operator could not then refuse to sign the supplementary AFE for the approved activities.

In Powermax, the Court again agreed with Morrison in a situation in which: (a) the final cost of an installation was 2.8 times the original estimate; (b) the Operator made a scope change relative to the installation described in the AFE; and (c) the Operator did not alert the Non-Operators to problems or issue a supplementary AFE until several months after the fact. The Operator also argued that it was inappropriate to allow the Non-Operator to obtain all of the economic benefits of the installed facility without having to share the full cost of the facility, but the Court essentially dismissed the unjust enrichment argument here by noting that the 1981 CAPL Operating Procedure was the juristic reason for that conclusion. (See also United Canso Oil & Gas Ltd. v. Washoe Northern, Inc. (1991), 121 A.R.1 (Alta. Q.B.) and Aber Resources Ltd. v. Winspear Resources Ltd., [2000] B.C.J. No. 742 (B.C. S.C.) with respect to the unjust enrichment issue in the context of a dispute under a resource agreement.)

iv) The initial reaction might be that identification of costs incurred to date in the daily drilling report should eliminate the need for this type of notice. The problem with that view is that information about incurred costs does not provide any insights into why there is an overexpenditure, what is being done to mitigate it and how large the overexpenditure is ultimately expected to be. The provision is based on the premise that an Operator is already sharing the additional information internally with its own management in practice if the overexpenditure is significant.

Clause 3.03: i) The usual result of a reference to an Operator as an independent contractor would be to require it to assume full legal responsibility for its own negligence, rather than through the tests in Article **4.00** (i.e., Gross Negligence or Wilful Misconduct). The last sentence is included to minimize the possibility that the Operator could be responsible to the other Parties for ordinary negligence.

ii) Subclause **B** has been included to add clarity to the Operator's rights and obligations under the contracting process. The Operator has a duty to award contracts in accordance with good contracting practices in the oil and gas industry, which would still be the case without this Subclause. The Operator will normally award contracts on a competitive basis, subject to several specified exceptions for which the Operator has greater discretion. They are: (a) non-arm's length arrangements authorized by the Agreement (e.g., Clause 207(b) of the 1996 PASC Accounting Procedure) or the Parties; (b) arm's length *bona fide* alliance arrangements with terms that are not unreasonable; (c) the use of local suppliers as required by the Regulations or the Title Documents or in accordance with the Operator's normal contracting policy; or (d) contracts below a specified threshold, where the threshold could easily be modified. The provision was included largely because of the increased use of alliances with suppliers and the increased emphasis on the use of local suppliers for miscellaneous project support, particularly in northern Alberta, B.C. and Canada's northern territories.

iii) The document does not address the specific expectations for supply contracts. Their complexity will vary greatly. The contract for a one-time sale of supplies FOB the supplier's warehouse would tend to be much simpler than a contract under which goods or services are supplied on an ongoing basis on location over the life of the Operation. Supply arrangements could, if appropriate in the context of the particular contract, include such provisions as those requiring the contractor to: (a) carry insurance; (b) comply with the Operator's HSE and drug and alcohol policies; (c) maintain supporting accounting records and allow an audit; (d) comply with the Regulations and any Operator policy for use of local suppliers or the employment of community members; and (e) include similar provisions in its contracts with subcontractors.

Clause 3.04: i) The interrelationship between this provision and Article **4.00** has historically been unclear. Is an Operator responsible for a loss suffered by the Parties if it has not conducted an Operation in accordance with good oilfield practice, but its performance could not be characterized as Gross Negligence or Wilful Misconduct? This issue was addressed in Erehwon and Morrison, in which the Courts reviewed the issue in the context of the 1981 CAPL Operating Procedure. In those cases, the Courts determined that the limitation in the version of Clause **4.02** in that document did not preclude the Operator from being responsible to the Non-Operators for losses suffered by them as a result of the Operator's breach of contract under another provision. The Morrison case was specifically in the context of the good oilfield practice obligation. It was unclear if the Court would have made a similar finding about the interrelationship of Clauses 304 and 401 in the 1990 document because of the "Notwithstanding" reference in Clause 401 of the 1990 document. The corresponding provisions of this document have been modified, to provide greater protection for Operators. The provision expresses more clearly the intention to apply the Clause **4.02** Gross Negligence test if Non-Operators seek damages for losses they suffer as a result of the manner in which Joint Operations are conducted under Clause **3.04**. (See also the annotations on Clause **4.01.)**

ii) There is a general obligation to manage a reservoir in accordance with appropriate reservoir management and conservation principles. An Operator that uses its position to reduce production volumes below productive capacity to produce higher interest equity wells in a competitive drainage situation, for example, is potentially open to litigation and removal from its position as Operator. (An Operator that chooses not to produce an economic well without good reasons is also vulnerable under the Clause **2.03** challenge process, as the proposal under the Challenge Notice might just be to produce the well.)

Clause 3.05: This Clause has been introduced in this document because of the increasing emphasis on health, safety and the environment in recent years. This is demonstrated by the introduction of Regulations such as the Alberta Occupational Health and Safety Code and recent changes to the federal Criminal Code creating criminal sanctions around existing provincial occupational health and safety laws, by requiring all organizations (including directors, employees, agents and contractors of such organizations) to take "reasonable steps" to provide a safe workplace for their workers. The expectations in this Clause address many of the elements in 2002 guidelines prepared for international agreements by the International Petroleum Industry Environmental Conservation Association and the International Association of Oil & Gas Producers.

Subclause 3.05A: i) This Subclause imposes a duty with respect to HSE that is similar to the general good oilfield practice requirement in Clause **3.04**. As with that Clause, the Operator is only liable for Losses and Liabilities suffered by the other Parties as a result of its breach of Clause **3.05** if its conduct meets the "Gross Negligence or Wilful Misconduct" test in Clause **4.02**. An Operator with HSE deficiencies is potentially subject to replacement under Subclauses **2.02A** and **B**. It is not feasible to include any numerical test for HSE deficiencies here because of the varying emphasis on HSE measurement tools in industry. However, like-minded Parties might sometimes choose to include a custom provision.

ii) The provision includes a general requirement to have internal processes in place to address any potential emergency. Not having such processes in place severely limits the ability of an Operator to mitigate the impact of an emergency. This can have serious consequences on safety, property and the environment, as well as major impacts on costs and reputation.

iii) The provision includes a general requirement to have work rules that restrict or prohibit possession or use of alcohol, illicit drugs and other controlled substances and weapons at the location of Joint Operations. This is an attempt to balance the desire of the Non-Operators to minimize safety risks with the desire of Operators not to be micro-managed in the manner in which they conduct Operations. This also recognizes that some Operators may not have any policy respecting the control of drugs and alcohol in addition to the requirements in this Subclause.

Some Parties will also have detailed internal policies with which they are required to comply. Some policies contemplate the ability to conduct unannounced searches, typically subject to a qualification that they are subject to the Regulations or other applicable law, which would include the Canadian Charter of Rights. Some Parties will require the inclusion of a more specific Clause about this area because of their internal policies.

iv) While not addressed in the provision, the emission of greenhouse gases is a major emerging issue. It was not addressed specifically because the Regulations and industry processes and guidelines in this area are evolving (e.g., CAPP voluntary emissions targets and guidelines).

Subclause 3.05B: The Operator is to notify the other Parties of any significant HSE incident promptly. The Operator will consult with them as appropriate in the circumstances.

Subclauses 3.05C-E: i) Subclause **C** creates a duty to conduct periodic inspections and audits for wells and Production Facilities held as Joint Property. This provision has been structured to link the review frequency and criteria to risk by providing the Operator with the discretion to choose audit criteria, personnel and an appropriate frequency, recognizing that the Regulations may prescribe a shorter frequency. HSE audits typically involve a structured review of HSE management systems, and do not necessarily involve an audit of each well and Production Facility. Subclause **D** addresses the report and the management of deficiencies. Subclause **E** includes Non-Operartor audit rights.

There is no duty on an auditing Non-Operator to share its report with Non-Operators that did not participate in the review, as the provision of the report would reward them for not participating. However, a Non-Operator that had identified significant deficiencies in its review would probably provide a copy of the report (or extracts therefrom) to the other Non-Operators to make them aware of the magnitude of the issue. This is particularly the case if the Non-Operators are considering a removal of the Operator.

ii) The provision does not specifically address the consequences if there are major concerns arising from the audit process. Ultimately, the Non-Operators would probably consider the replacement of the Operator if there were major deficiencies that were not being addressed. As a minimum, the replacement process provides a strong potential motivation to the Operator to be more vigilant in addressing deficiencies.

Subclause 3.05F: This Subclause has been included to mitigate the possibility of prosecution of the Non-Operators under the Regulations for failure to be proactive in assessing and addressing an Operator's HSE performance deficiencies.

Clause 3.07: i) References to internal controls have been included in this document because of the increased regulatory requirements respecting financial reporting and internal controls (i.e., U.S. Sarbanes Oxley Act) after the Enron investigation.

ii) Although the provision does not specifically refer to microfiche, microfilm and other electronic records, the phrase "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.

iii) Clause **5.01** requires the Operator to maintain records for Operations conducted hereunder, so that they can be accessed separately from those kept by it for other Operations, in accordance with good oilfield practice.

Clause 3.08: i) The proviso is new in this document. It has primarily been included to address the HSE issues associated with site visits.

ii) The reference to confidentiality of information reflects the fact that there will sometimes be restricted access to wells that the Parties have designated as "tight holes". This does not otherwise affect a Party's access to well information under Article **7.00**.

Clause 3.09: i) Surface rights or regulatory licences or approvals associated with Joint Operations are acquired, maintained and managed for the Joint Account. In the absence of a subsequent agreement affecting the surface rights, such as a unit, they are held under the Operating Procedure, since it is the contractual basis for charges and credits for surface rights held as Joint Property. The inclusion of the "manage" reference in this document reinforces the Operator's authority to enter into road use, crossing and similar operational agreements in the normal course of business, subject to the general good oilfield practice requirement in Clause **3.04**.

ii) The most common credits for the surface rights would be fees from road use agreements granted to third parties. Another that could be significant relates to fees for use of joint roads for the Operator's own operations, something which Operators may forget to monitor.

iii) This document recognizes that the requirement for community and stakeholder consultation is an increasingly critical component of project planning and implementation, and is an area that is evolving rapidly. The Regulations in this area are often "guidelines" (e.g., Alberta's Directive-56), so compliance with the standards outlined in the guidelines will not necessarily be sufficient. Operators need to consider if additional community and stakeholder consultation is required for each particular Operation. The definitions of Drilling Costs and Equipping Costs have been modified in this document to recognize expressly the incremental costs associated with the consultation process. Those costs should be included in the relevant AFE, and would otherwise be subject to the expenditure limitation in Subclause **3.01B**.

iv) A dispute about an allocation of costs between a Joint Operation and another operation would relate to an audit exception. Any dispute about an audit exception is potentially within the scope of the Article **21.00** dispute resolution process. Arbitration could ultimately be used to resolve it.

v) This Clause and the financial authority in Paragraph **3.01B(b)** do not allow an Operator to charge the Joint Account with any fees or deposits required by the Regulations as a condition of that particular Operator holding a licence or approval (e.g., LLR deposits in Alberta).

Subclause 3.10A: i) The Operating Procedure has historically presumed that the Operator is also the representative for land administration matters with the lessor. As this is not necessarily the case, the definition of Title Administrator has been added in this document, even though the Operator and the Title Administrator will typically be the same Party.

The Parties must consider three key points when reviewing this issue. They must understand who will have this responsibility if it is not the Operator, and should document this in the Head Agreement or the Land Schedule. They need to recall that it will often be beneficial to allow another Party with better information to make a continuation application. The Parties should also consider if anything has changed for a Title Document not administered by the Operator whereby the Operator should assume that role. One of the more common examples of the latter is the situation in which a farmor has administered Title Documents because of the initial retention of since expired deep rights.

As noted in the annotations on the definition of Title Administrator, clarity in expectations is particularly important if a Title Document is being maintained by an entity that is not a Working Interest owner. Clarity of expectations is also very important in a non-cross-conveyed pooling because loss of a contributed lease would typically see less than a complete Spacing Unit being held and loss of the right to produce the well.

ii) The Parties need to address clearly their expectations for the handling of lessor royalties and encumbrances in their pooling agreements. This is particularly important for non-cross-conveyed poolings.

iii) The duty to maintain the Title Documents does not require or permit the Title Administrator to drill a well or conduct any Operation.

iv) A growing issue associated with the increased stratification of rights is the allocation of portions of mineral rentals to the interest holders in various horizons. While it is mutually beneficial for the affected Parties to be clear about the expectations in this area. (i.e., side letter between land administrators of affected Parties), the issue is beyond the scope of the Operating Procedure.

v) The Title Administrator's rights include the default provisions in Clause **5.05** and the reimbursement mechanism in Clause **5.06**.

vi) The last sentence was included to provide a Title Administrator with greater protection if it inadvertently allowed a Title Document to lapse. The risk is of particular concern for freehold leases, especially since the loss may be due to an error in the head office or in the field (i.e., suspending a well).

Subclause 3.10B: i) The Title Administrator is to consult about any continuation or grouping applications it proposes to make to maintain any Title Documents in good standing and such other matters as offset requirements and the payment of compensatory royalties. It is required to provide copies of related correspondence to the other Parties in a timely manner, excepting any data to which they are not entitled. The provision applies on the same basis to an Operator or another Party making an application under the Regulations for a holding or another application under the Regulations to modify a Spacing Unit or increase drilling density. (See also Subclause **10.02A** about the response to an Operation Notice when an application of this type is outstanding.)

As noted in the annotations on the previous Subclause, it will often be advantageous to authorize another Party to make an application because it has additional information to which the other Parties do not have access.

ii) If the Operator is not the Title Administrator, it will probably still offer leadership in the matters contemplated in this Subclause.

Subclause 3.10C: i) This mechanism is designed for the situation in which the interests in the affected lands are uniform. It can be used for the scenario in which a farmee has earned all of the licence lands for drilling a well that validated less than an entire licence.

It will sometimes be preferable to include a land selection provision in the Head Agreement that overrides this Subclause. A farmor would likely want to include a special provision if a land selection is required during the earning phase. This could be the case if sufficient work had previously been conducted to enable the Parties to make a 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, as the process would be much more complicated. This is especially the case for British Columbia and Saskatchewan, as the earned lands may comprise only a small portion of the lands in the Title Document.

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

ii) Assume that there were three Parties with Working Interests of A50%, B30% and C20% and the Parties could select 10 selection units in their land selection as a result of a well drilled for the Joint Account. Each Party would select units in proportion to the Working Interests, being respectively 5, 3 and 2 selection units. The order of the ten individual selections would be chosen randomly (e.g., picking order out of a hat), such that A's 5 selections are not necessarily sequential.

iii) Suppose that the Working Interests were A 60%, B30% and C10% and the Parties had 9 remaining selection units to complete their land selection. The calculated entitlements for the Parties would be 5.4, 2.7 and 0.9 selection units respectively. A and B would initially select 7 selection units in a unit by unit sequence determined by draw, such that the remaining partial entitlements would be C 0.9, B 0.7 and A 0.4. C and B would then, in that order, use their partial entitlements to complete the selection of the remaining two selection units.

iv) Assume that the land selection is because of an Independent Well drilled only by A. Subclause **17.01B** provides that the entitlements would accrue solely to A, subject to the requirement that they be applied firstly to the Joint Lands.

Subclause 3.10D: i) This Subclause is designed for the situation in which sufficient work has been conducted to validate only a portion of the lands contained in a Title Document and an expiry is approaching. There is a problem determining if a well is a Title Preserving Well and the applicable Preserved Lands for the purpose of Clause **10.10**, unless the lands to be retained for the Joint Account are designated prior to issuance of the Operation Notice. As a result, a provision similar to this Subclause was introduced in the 1990 document. The 1990 document, though, included a 12 month period, which has been reduced to 6 months in this document.

If a Party were concerned that the lands it regarded as prospective would be returned to the Crown unless an additional well were drilled, it could require the Parties to make their land selection at an early date for the purposes only of crystallizing their positions under Clause **10.10**. If the lands it regarded as prospective were selected, the penalty in Clause **10.07** would apply to a well thereon. If, on the other hand, they were not selected, the penalty in Clause **10.10** would apply to a well thereon.

ii) Since the land selection would not be sent to the Crown until the date required by the Regulations, the Parties would retain the flexibility of changing their selection at a later date should they so agree.

Subclause 3.10E: This Subclause is new to the document, and provides clarity about the outcomes if a Party chooses not to participate in an extension of the applicable Title Document (i.e., Alberta Section 17 extension under penalty, B.C. drilling licence extension, B.C. Section 62 extension under penalty for 10 year leases). It basically creates a quasi-surrender process associated with continuation fees, extension fees, penalty payments, compensatory royalties and similar special payments that are required to maintain any portion of the Joint Lands in good standing. In essence, a Party that chooses not to pay its share of any such amount will forfeit its entire Working Interest in the applicable portion of the Joint Lands. The surrender process in Clause **11.03** would then apply on a *mutatis mutandis* basis.

The retaining Parties will assume responsibility for the forfeited Working Interest (and acquire it) in proportion to their Working Interests unless they agree to a different allocation.

Subclause 3.11B: i) The Operator will obtain and maintain for the Joint Account all insurance policies and other forms of financial responsibility required under the Regulations. The requirement will not apply insofar as the Parties can otherwise collectively or individually satisfy it.

ii) The Operator is not required to confirm if a Party that represents it satisfies the requirement actually does so. The other Parties could pursue any Losses and Liabilities suffered by them if the other Party misrepresented its satisfaction of the requirement.

Alternate 3.11C(a): i) Policies must be maintained with reputable insurance companies.

ii) Policies are maintained "for the benefit of the Parties and their respective directors, officers 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, to ensure that all of those involved with the Operation will have the protection of the policies.

iii) There is no obligation to obtain "control of well insurance" in either this Alternate or Alternate **C(b)**. This coverage can be expensive, and any such coverage is typically required on an individual basis. In any event, it is not a good use of funds in low risk operating environments. There may be unique circumstances in which the Parties consider obtaining this coverage jointly if there are special risks. However, this should only be considered with the full involvement of insurance experts.

iv) A "not less than" reference is not used in the Subparagraphs describing the policies. The inclusion of this type of reference would have provided the Operator with total discretion for the selection of the additional coverage to be charged to the Joint Account.

v) The Alternate does not include a mechanism whereby the Operator may cover the Joint Account risks under the umbrella policy and charge the Joint Account an amount approximating 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 about 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.

vi) The limits in this document were raised significantly, and Parties may wish to revise these limits for their particular circumstances (i.e., higher risk operating areas). The corresponding limits in the 1974 document were: $500K, $500K and $1MM respectively. The corresponding limits in the 1981 document were: $1MM, $1MM and $2MM respectively. The corresponding limits in the 1990 document were: $1MM, $1MM and $5MM respectively.

vii) The Parties may choose to acquire additional policies for the Joint Account in a particular transaction. This should only be done with the full involvement of risk management personnel and with clear documentation that is distributed to the applicable internal stakeholders.

Alternate 3.11C(b): i) Except for policies required to be maintained under the Regulations (Subclause **3.11B**) and the special allocations of legal responsibility under Article **4.00**, each Party is responsible for losses applicable to its Working Interest. Agreements increasingly include an obligation on Parties to carry control of well insurance individually for their Working Interest share of costs. A provision was not included in the document because of the variance in these provisions and the degree to which they are customized to reflect the risks associated with the particular circumstance (property risk and Party risk). Parties including such a provision should be clear about the interrelationship between their provision and the other obligations in this Clause.

ii) Notwithstanding the general statement 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 Agreement. Unless the Court apportions legal responsibility among defendants, a successful plaintiff can enforce its judgment jointly against the defendants that were held responsible for its loss.

Subclause 3.11D: The conditions in Paragraphs **(a)-(d)** apply to Subclause **3.11B** and any Joint Account policies maintained under Subclause **3.11C**.

Paragraph 3.11D(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. The deductible limit is aligned to the applicable expenditure threshold under Subclause **3.01B**. Larger deductibles can be carried with the Parties' prior approval.

Paragraph 3.11D(b): i) The Operator is required to notify the other Parties if the specified policies or coverages are, in the Operator's reasonable opinion, unavailable or available only at an unreasonable cost. If this occurs, 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 that 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 Parties' consent if it proposes to make such a change during the term after the policy or policy renewal has been acquired.

Paragraph 3.11D(c): Payments made by the Operator for losses or claims arising out of Joint Operations are initially charged to the Joint Account if the payment has been authorized by the applicable insurers or is otherwise authorized. 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 it had not been given proper notice of a potential claim prior to the Operator's settlement or if it did not agree with the settlement terms.

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 under Article **4.00**, 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 must attempt to process those claims diligently. It will promptly credit the Joint Account the amount it ultimately recovers.

Paragraph 3.11D(d): i) Note the reference to primary coverage and exposure to a deductible. As many Non-Operators will carry other insurance, this is included to ensure that the insurers of the Joint Account coverage 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 t applies only for the deductible portion of the loss and does not duplicate the Joint Account coverage above the deductible amount.

ii) 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 3.11E: i) There may be special circumstances in which some or all of the Parties are individually required to obtain "control of well insurance" for their own account, where this would require a modification to this Subclause. The amount of any such policy should be based on the perceived risk for the particular operating area (i.e., a foothills sour gas well has a very different risk profile than a typical medium depth well).

Given that this coverage is expensive and that some larger companies may prefer to self insure this risk, some companies object to a specific requirement to obtain a policy of this type. One potential approach to consider in this circumstance is the inclusion of language through which the obligation is waived for a particular Party and any of its Affiliates. This might be done by adding something like the following in the obligation: "..., provided that this obligation will be waived for X and Y and any of their respective Affiliates that become Parties, but not for any other successor in interest of X or Y without the consent of the Parties."

ii) A Party will ensure that the policies maintained by it under this Clause 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, being the Parties and their respective directors, officers and employees. Unless that class is otherwise protected under the policy (i.e., by being named insureds), members of the class that contribute to the loss are at risk without the waiver.

Subclause 3.11F: The Operator is required to provide a reasonable level of assistance to Non-Operators processing claims. The Operator would probably expect to be compensated for extra effort associated with labour intensive special requests for information from a Non-Operator.

Subclause 3.11G: Operators should not take the responsibilities prescribed by this Subclause lightly. If the 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 requirement that those policies include waivers of subrogation.

Subclause 3.11H: There may be special circumstances in which the Operator might request proof of compliance from a Non-Operator. This would tend to be in situations with high operational risk, where there are some concerns about the financial viability of that Party in the event of loss.

Clause 3.12: The "insofar as" reference at the end of the first sentence has been added because the Alberta Petroleum Registry (and any similar process in other jurisdictions) may allow Non-Operators independent access to this information in due course.

Clause 3.13: This Clause has traditionally excluded freehold mineral tax, but has been modified in this version of the document. This reflects the fact that Operators often pay the applicable share of freehold mineral tax and invoice each applicable Working Interest owner and lessor for its respective share of the amount if the Operator is the lessee. Parties would need to coordinate responsibility for freehold mineral tax in their particular circumstances if the Operator is not the lessee and declines to assume this responsibility or the Regulations dictate another approach. They also need to be aware of any notice requirements under the Regulations resulting from a change of interest.

Clause 3.14: This Clause has been included so that there is a specific duty to test the accuracy of metering equipment. While a bigger issue in the context of gas plants covered by a CO&O agreement, this can still be an issue for any wellsite measurement. Rather than include detailed measurement provisions, such as those included in Article VII of the Operating Procedure included in the 1999 PJVA CO&O Agreement, the Clause applies the PJVA resolution methodologies if the applicable Accounting Procedure does not address the issue. (While Accounting Procedures have not historically addressed this issue, the inclusion of the reference accommodates any future changes in this area.) In practice, any adjustment would be on a cash or volume makeup basis, as agreed by the Parties at the time.

Clause 4.01: i) The breach of contract reference is included in Clause **4.01** because of Erehwon Exploration Ltd. v. Northstar Energy Corp., [1994] A.J. No. 916 (Alta. Q.B.). One of the arguments raised by the defendant about an accounting issue under the 1981 document was that all liabilities would be for the joint account unless the gross negligence test in Clause 401 of that document was satisfied. The Trial Judge's response to that suggestion was: "However, most importantly, I reject the suggestion that Article IV was meant to relate to the standard of care applicable to the relations between the CAPL parties themselves, and in particular to the Operator's duty to the Non-Operators in carrying out joint operations. In my opinion, Article IV is more likely intended to deal with third party losses." This approach was also endorsed in a breach of good oilfield practice context in Morrison Petroleums Ltd. v. Phoenix Canada Oil Co., [1997] A.J. No. 275 (Alta. Q.B.).

It is unclear if the same interpretation would apply to the 1990 document. Clause 401 of the 1990 document was modified significantly from the 1981 version, and included a reference to losses "respecting any person", which would include both third parties and the Parties.

The 1990 document arguably would have provided the same result with respect to accounting charges in contravention of the agreement, as in Erehwon. The gross negligence test might have applied to the Morrison good oilfield practice scenario, though. The inclusion of the "notwithstanding" reference respecting Clauses 303 and 304 at the beginning of Clause 401 of the 1990 document was intended to ensure the Clause 401 gross negligence test had to be satisfied for claims made under those Clauses. As shown by the annotations to Clause 401 of the 1990 document, there was no attempt to limit a party's right to the remedies available for the Operator's breach of its other contractual obligations.

The interrelationship between Article **4.00** and the breach of the Operator's contractual obligations has been further clarified in this document because of those cases. The reference to losses "respecting any person" in the definition of Losses and Liabilities refers expressly to the Parties. A claim for breach of Clauses **3.03** and **3.04** and Subclauses **3.05A** and **3.10A** is to be under Article **4.00** because of the operational nature of those obligations and the potential magnitude of the loss. Clauses **4.01** and **4.02** also include a reference to the "planning" of Operations, to clarify the expectations for the planning of a Joint Operation, including preparation of the associated AFE.

Clauses **4.01** and **4.02** also reflect the Erehwon case. Other than for Clause **3.04** and Subclauses **3.05A** and **3.10A**, the Operator retains responsibility for breaches of its contractual obligations without regard to Article **4.00**. These other contractual obligations pertain to such matters as breach of the Accounting Procedure and misappropriation of funds held under Clause **5.07**. While much clearer than previous versions of the document, the Operator's responsibility for those breaches has not been increased. The Extraordinary Damages exclusion in Clause **4.04** actually provides it with more protection than it has for breach of contract under prior versions of the document.

ii) The special outcomes in Clause **4.02** apply to the Operator in the performance of its responsibilities as Operator. The Article does not alter the rights and obligations of the Operator as a Party.

iii) The Clause provides some protection to persons who are not Parties. Greenwood Shopping Plaza Ltd. v. Beattie et al (1980), 111 D.L.R. (3rd) 257 (S.C.C.) held that someone who is not party to a contract can neither sue nor rely upon it to avoid liability, except in case of agency or trust. London Drugs Ltd. v. Kuehne & Nagel International Ltd., [1993] 1 W.W.R. 1 (S.C.C.) later determined that an employee could rely on a limitation of liability provision under a contract to which it was not privy if: (a) the provision purported to extend the protection expressly or implicitly; and (b) the employee was acting in the course of the employment and performing the services provided for under the contract when the loss occurred.

iv) A reference to directors and officers has been included because of the tendency of American suits to cast a wider liability net.

v) The Operator is also a Working Interest owner as a Party. The indemnification obligation is not borne only by the Non-Operators.

Clause 4.02: i) Note the reference "whether negligent or otherwise." There is a 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.

ii) A provision might be held to be only an obligation to indemnify if the distinction between liability and indemnity is blurred. In such event, the provision might not provide them with a remedy for 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). Recent decisions, however, indicate that Courts are willing to look at the wording in its context. See, for example, TransCanada Pipelines v. Potter Station Power Ltd., [2002] O.J. No. 429 (Ont. S.C.), affirmed [2003] O.J. No. 1879 (Ont. C.A.), Alberta v. Western Irrigation District, [2002] A.J. No. 1085 (Alta. C.A.) and Herron v. Chase Manufacturers Inc., [2003] A.J. No. 865 (Alta. C.A.).

iii) Note the "insofar as" reference. This ensures that a loss which is due to the Operator's Gross Negligence or Wilful Misconduct and other causes outside the scope of Clause **4.02** can be apportioned between the applicable causes. It also enables the Operator to raise the issue of contributory negligence if the acts or omissions of the injured Party contributed to its Losses and Liabilities.

iv) Paragraph **(b)** is new in this document. Clauses **3.04** and **3.05** impose general obligations on the Operator to conduct Operations in accordance with good oilfield practice and the Regulations, and Subclause **3.10A** is similar. In the absence of the references to Gross Negligence or Wilful Misconduct in those provisions, a Party might have tried to frame a claim for the breach of the overall standards prescribed by Clauses **3.03**, **3.04** and **3.05** and Subclause **3.10A** in contract. This could see it only having to prove a breach of contract and its loss without having to prove that the Operator's conduct met the Gross Negligence or Wilful Misconduct test under Clause **4.02**. This Paragraph reinforces the Operator's obligation for performance of its other specific contractual obligations under the Agreement with the outcomes noted in the annotations on Clause **4.01**.

v) Note the interrelationship between the requirement to carry insurance for the Joint Account under Clause **3.11** and Paragraph **(c)**. Assume that the Operator failed to carry the required insurance and a loss of $1MM occurred which would have been covered by that insurance. In the absence of Paragraph **(c)** and the modifications in this document about the Operator's responsibility for breaches of specific contractual obligations, it would not be clear if the Non-Operators had to prove that the failure to carry insurance was due to the Gross Negligence or Wilful Misconduct of the Operator. The inclusion of Paragraph **(c)** ensures that the Operator is directly responsible for the failure to carry required insurance, and reinforces the importance of compliance to the Operator's personnel.

vi) Note the reference to the deductible in Paragraph **(c)**. Suppose that the Operator failed to carry a required $1MM 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 $1MM, less the deductible amount.

vii) It is clear in this document that Losses and Liabilities are initially for the Joint Account. The Operator is not required to assume financial responsibility under Paragraph **(a)**, **(b)** or **(c)** until its responsibility is confirmed. An allegation that the Paragraph applies is not sufficient.

Clause 4.03: i) Subclause **A** ensures that Losses and Liabilities are shared if a Non-Operator conducts an activity for the Joint Account. Two examples are the Title Administrator's duties and the application of Clause **10.04** to a proposed Independent Operation in which all Parties participate.

ii) Subclause **B** provides protection to the Non-Operators if a third party attempts to enforce a Joint Account judgment against any single Non-Operator. As noted in the annotations on Subclause **1.05A**, a successful plaintiff can enforce its judgment against any defendant held responsible for the loss unless a Court apportions legal responsibility among defendants.

iii) Clauses **10.16** and **10.18** provide the required protections for Independent Operations.

Clause 4.04: i) This Clause and the definition of Extraordinary Damages are included to limit the potential damages awarded by a Court. Subject to the limit in the definition about a breach of the confidentiality Article, they apply to all damage awards arising out of the Operating Procedure, including those for breach of contract. They include (but are not limited to) the content from the last sentence of Clause 401 of the 1990 document, and are influenced significantly by current international practices.

ii) The exclusion of liability for the loss or delay of production was introduced in the 1990 document, and its inclusion reflected the international practice. Proponents argue that the magnitude of a potential loss of this type is such that it may not be feasible to become the Operator without such an exemption, as the sole assumption of the applicable Losses and Liabilities could potentially threaten the ongoing financial viability of many Operators. This is a particularly relevant consideration when one considers that Operators receive relatively modest overhead recoveries for serving as Operator. The most obvious loss resulting from this type of damage would be a loss of profits.

iii) See Amoco Canada Petroleum Co. v. Propak Systems Ltd., [2004] A.J. 339 (Alta. Q.B.) for a review of the assessment of business interruption damages and deferred production credits when dealing with an agreement that does not have the exclusion in Clause **4.04**.

iv) The protection granted by this Clause does not extend to third party damages for which the other Parties are to be indemnified. The provision distinguishes between a Party's damages relating to its own interest and requiring the innocent injured Party to compound its loss by paying cash amounts to a third party for any Extraordinary Damages awarded to the third party by a Court.

Clause 5.01: The Operator will maintain its financial records in accordance with the Accounting Procedure. Subject to: (a) the Accounting Procedure; (b) the contracting rights granted under Subclause **3.03B**; and (c) the rights granted to the Operator under Article **6.00** for a Non-Taking Party's production, there is a general expectation that the Operator will not gain a profit or suffer a loss because of its role as Operator, other than for any legal responsibility that may accrue only to it because of the breach of its obligations under the Operating Procedure.

The Accounting Procedure provides the Operator with a limited right to use its own equipment or services on a prescribed basis (e.g., Clause 207 of the 1996 PASC Accounting Procedure) or as otherwise approved by the Parties (e.g., Clause 205 of the 1996 PASC Accounting Procedure). In addition, the Accounting Procedure provides the Operator with an overhead recovery that is not related to the Operator's actual overhead cost experience. The marketing of a Non-Taking Party's share of production under Article **6.00** and the associated marketing fee under Clause **6.04** provide an additional potential exception to this general expectation.

Clause 5.02: The Parties are expected to pay Joint Account invoices as and when due. Clause 107 of the 1996 PASC Accounting Procedure requires a Party to pay its bills when due and to challenge any billing issues in due course in a separate process. This becomes less clear in practice if the invoices include incorrect charges for other properties or minimal supporting information to enable a reasonable understanding of the charges.

Subclause 5.03A: i) Clause **5.03** applies to capital advances of costs. It does not apply to operating expenses, which are covered by the Accounting Procedure (e.g., the "operating fund" in Clause 105 of the 1996 PASC Accounting Procedure).

ii) Payment of the advance is linked to the month in which the Operator will be paying its bills, not the month in which the costs were incurred. The Subclause recognizes the fact that costs will generally be incurred prior to the Operator's receipt and payment of the associated invoices. The lag between the time the costs are incurred and when they are paid will often exceed 45 days. The 1990 document clarified that the advance mechanism was linked to the payment of costs, rather than the accrual of the obligation to pay because the work had been done.

iii) Some Operators erroneously believe that this Subclause enables them to require payment of the Non-Operators' full share of costs forecast in the AFE as soon as the AFE is approved.

iv) To illustrate the application of this Subclause, assume that the Operator issues a notice on January 15th requesting an advance for $Z in costs being paid by it in February. A Non-Operator is required to pay its share of the $Z by the later of February 5th (20 days later) or February 15th.

Subclause 5.03B: The adjustment mechanism has historically been substantially the same as that contained in Clause 104 of the 1996 PASC 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 1996 PASC Accounting Procedure.

This Subclause has been modified to allow the Operator to apply an excess advance against the next month's advance. If, for example, the original advance request was for $300K when actual costs paid in that month were only $225K, the Operator can either credit the excess $75K against the advance requested by it for the succeeding month or refund the excess. However, the retained excess cannot exceed the next month's advance.

The Non-Operators have access to the default remedies in Clause **5.05** (e.g., interest) if the Operator does not comply with its obligations to provide a refund if its estimate was too high. In practice, these adjustments might not be managed in this manner for small amounts.

Subclause 5.03C: i) This reflects two Operator concerns - security of payment by the Non-Operators and the receipt of adequate funding to conduct the Joint Operation on an ongoing basis. The Operator may require an individual Party to secure payment of its share of the costs of the Joint Operation in a manner satisfactory to the Operator if there is a reasonable basis to believe that the Party would not be able to fund its share of the cost under Subclause **A**. It might do this by establishing an irrevocable letter of credit in favour of the Operator for 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 under this Subclause or Subclause **A** would be subject to the trust funds mechanism imposed by Clause **5.07**.

This Subclause has been modified to provide more process safeguards for Non-Operators because of some abuse of the corresponding provisions by Operators under the 1990 document. The exercise of this special discretion is included in the list of items potentially resolved through arbitration under Clause **21.03**, such that a Party disputing the request may defer compliance. However, the dispute resolution process will not apply if a Non-Operator is bankrupt, is subject to debtor protection or has a recent history of financial default under the Agreement. The last is of particular importance to Non-Operators with a cash management strategy of deferring payment of receivables an extra 30-60 days beyond their due date.

ii) The normal joint venture billing process prescribed by the Accounting Procedure continues to apply during the period in which a Party is disputing the application of the security for payment process, such that the Operator is never worse off than it would be in the absence of the provision. A Party that does not pay its share of joint venture billings when due remains subject to the potential application of the Clause **5.05** default remedies.

iii) It is important to recall that Clause **9.01** states that approval of a drilling AFE is not the approval of a Completion program.

Clause 5.04: i) This Clause enables a Non-Operator to require the Operator to provide a forecast of anticipated Joint Operations over the succeeding 12 month period. It is seldom used in practice, though. A prudent Operator would discuss the delineation/development of a promising discovery on a technical level anyway in the absence of the Clause, and a Non-Operator would be unlikely to request a forecast for an inactive area. It is an option, though, if an Operator is not advising them of its recommendations for the delineation/development of a significant discovery.

ii) A forecast is for informational purposes, consistent with the practices in J.V. Production Agreements for capital items. They also include a budget process for operating costs, but this is not feasible for most land agreements, even if there are minor Production Facilities.

iii) The Parties may wish to include a formal forecast mechanism in the Head Agreement if large capital expenditures are reasonably anticipated. It might also be considered as an amendment after a large discovery. It would need to be customized to the particular transaction.

Subclause 5.05A: i) The Operator's lien is included to attempt to secure payment of a Non-Operator's share of costs and expenses by placing a charge on its interest in the Joint Property. It applies to all costs and expenses incurred for the Joint Account, not just those for 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, the document tries to provide the Operator with the earliest possible claim. Beginning with the 1990 document, this 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 for frontier properties, in recognition of the fact that lenders should realize that an operating agreement will probably exist under which the Operator would have a lien. This differs from the conventional situation under the *Mines and Minerals Act* (Alberta), for example. It 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 legislative and common law rules on priorities. This Subclause is subject to the Regulations. It probably would not be effective against lenders with registered security notices, notwithstanding that they are aware that an Operating Procedure is probably in effect. Similarly, there would be challenges in trying to enforce the remedies in Subclause **B** against a Non-Operator subject to debtor relief protection.

Subclause 5.05B: i) Default rights are premised on the existence of a default, and are only as good as the validity of the charges under Clause **5.02**. An Operator should not resort to these remedies if Parties are disputing an approval, an accounting practice or the adequacy of invoice information.

An Operator that purports to apply the default remedies for amounts that are not owing is in breach of the Agreement. It potentially could be removed as Operator under Subclause **2.02B** if its default were to persist, and could also face a claim for damages. A Non-Operator would presumably also seek injunctive relief if the Operator purported to apply any of the harsher remedies in Paragraphs **B(e)-(g)**. An Operator also needs to consider the potential impact on its reputation resulting from legal proceedings or word of mouth if it is using the remedies inappropriately.

It may be attractive to deposit a disputed amount into a trust account until resolution of the dispute, with interest accruing for the successful Party.

ii) As non-defaulting Non Operators are subrogated to the Operator's rights under Clause **5.06**, this Subclause should not be regarded as a provision for the benefit of the Operator to the detriment of the Non Operators. It is designed to provide all non-defaulting Parties with appropriate protection if there is a default, while including reasonable safeguards for the protection of the defaulting Non-Operator.

iii) It is important to recall that the purpose of the default remedies is to reinforce payment of owed amounts when due. Operators typically resort to the remedies only when they believe they must. Similarly, Non-Operators must recall that the Accounting Procedure (e.g., Subclause 107(a) of the 1996 PASC Accounting Procedure) contemplates that disputes will be handled through the audit process. A Non-Operator may only withhold payment of a disputed amount under that Subclause with the Operator's consent.

Paragraph 5.05B(a): 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 5.05B(b): The most obvious use of the suspension of rights is to withhold information from Joint Operations. This is particularly useful as a well approaches target depth. The suspension of other privileges should be considered very carefully in each case, largely because of the potential impact on relationships. (See Duce Oil Ltd. v. Coachlight Resources Ltd., [2000] S.J. No. 352 (Sask. C.A.), affirming [1999] S.J. No. 12 (Sask. Q.B.). The Operator was allowed to install a $100K screw pump and top drive assembly for the joint account without consultation with the defaulting Non-Operator.) The proviso is new in this document, and clarifies the limits in using this remedy. This remedy does not affect the defaulting Non-Operator's rights and obligations for new expenditures that are proposed or the ability to issue, receive or respond to other notices.

Paragraph 5.05B(c): i) While traditionally not found in agreements, this remedy is basically the codification of a Party's common law rights respecting liquidated amounts. Notwithstanding this general statement, there are common law restrictions on set-off that are beyond the scope of these annotations. If one planned to appropriate funds using set-off as a basis, legal advice should be obtained, particularly under a pre-1990 document. One of the findings in Powermax Energy Inc. v. Argonauts Group Ltd., [2003] A.J. No. 433 (Alta. Q.B.) was that the trust relationship with respect to production revenues prevented an Operator from setting off funds as a self-help remedy "without authority or legal right to do so".

ii) One question that may arise is whether the seizure of funds accruing to the defaulting Non-Operator under another agreement would place the Operator in default thereunder. As the right of set-off is a common law right and the provision states that the timing of the execution of that other document is irrelevant, this seems unlikely. However, the implications of the exercise of this right should be considered in each case.

Paragraph 5.05B(d): While traditionally not found in agreements prior to the 1990 document, 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 that may enable the Operator to avoid having to prove that the work was done and the costs incurred, and could allow it to assert simply that the amount is a debt to be collected.

Paragraph 5.05B(e): i) This provision is new to this version of the document. It enables the Operator to take the defaulting Non-Operator's share of production at the wellhead, to dispose of that production and to apply the proceeds to the debt. The previous provision required the Operator to attempt to obtain sale proceeds from the purchaser of the defaulting Non-Operator's share of production, although the Court in Powermax determined that the previous version allowed the Operator to seize production if it satisfied the other requirements of the Clause (e.g., there is a default).

This presented two challenges. The Operator could not require the third party purchaser of production to cooperate. In practice, the best that could probably be hoped for would be payment of those proceeds into a trust account or into Court. This could greatly limit the potential application of that remedy in practice. The shift from "dedicated lands" to "corporate warranty" sales contracts also typically makes it very difficult to identify the purchaser of the product. (A defaulting Party with a dedicated lands contract would be very motivated to cure any default if this remedy were used.)

ii) In practice, the Operator would usually manage the volumes in the same manner as its own production. This would place the defaulting Party in breach under its sale contract, where this would be particularly problematic for a dedicated lands contract. This presents a very strong incentive to remedy the default, and the primary and secondary day notice mechanisms provide ample opportunity to do this.

iii) Production is to be disposed of for a Market Price. This is basically a price that is not unreasonable in the circumstances.

iv) An Operator considering use of this remedy would need to have access to infrastructure to manage the incremental volumes.

Paragraph 5.05B(f): i) This remedy is new in this document. The Operator basically has the option to reverse a participation decision of a defaulting Non-Operator and subject it to the consequences of non-participation prescribed by Article **10.00** for the unpaid and remaining costs of the applicable Operation. The remedy attempts to balance the needs of the defaulting Non-Operator and the other Parties. It is premised on the defaulting Non-Operator not paying amounts payable by it under Clause **5.02**. The Operator must give specific notice of its intention to use this remedy, and is to identify in that notice the amount owing and any application of the reimbursement requirement relating to a forfeiture, as noted in annotation (ii).

The defaulting Non-Operator may avoid this outcome by paying the amounts owed by it within 5 Business Days after receipt of that notice. During that period, the other non-defaulting Non-Operators may assume a proportionate share of the costs of the defaulting Non-Operator in the applicable Joint Operation by making a participation election on the same basis as in Subclause **10.02C**, where failure to respond is deemed an election not to assume any portion of the defaulting Non-Operator's share of costs. To ensure that 100% of those costs are assumed, the Operator is deemed to elect to assume its proportionate share of all available interest. The Parties need to be aware that the other remedies for that default in Subclause **5.05B** are no longer available to them if they choose to use this remedy, as the defaulting Non-Operator's status has been changed to that of a Non-Participating Party for its unpaid share of costs of the Operation.

ii) Suppose that the defaulting Non-Operator paid $300K, but didn't pay the last $200K of its share of costs. If the Joint Operation was the drilling of an Exploratory Well to which a 500% cost recovery applied under Subclause **10.07A**, the 500% cost recovery would apply to the costs not paid by it. On the other hand, the Parties would need to reimburse the defaulting Party the $300K already paid by it in order to apply a Clause **10.10** forfeiture initially identified in the Operation Notice. The potential reimbursement obligation would influence use of the remedy and the Parties' elections.

iii) Parties using this remedy need to ensure that the outcomes are clear when setting up their records to reflect any cost recovery created under this Paragraph and in all associated communications with other affected internal groups, such as accounting. This is particularly so if the defaulting Party had paid a portion of its share of the costs of the Operation.

Paragraph 5.05B(g): i) The seizure and sale remedy in this Paragraph is an exceptional remedy that would only actually be used in extreme cases.

ii) A defaulting Non-Operator's interest would often be pledged as security to lenders, such that the price to be paid by potential purchasers would probably be heavily discounted if a sale under those circumstances were even feasible. A sale would be further complicated if the defaulting Non-Operator's interest were subject to a dedicated lands gas sales contract.

It is probably advantageous to obtain approval of the other non-defaulting Parties for use of this provision because of the possibility that there may be litigation associated with the exercise of this exceptional remedy.

Because of the special circumstances in which this remedy would be likely to be used, potential issues associated with effecting a forfeiture of lands,

the potential impact on third parties, the potential difficulty in effecting assignments, potential valuation issues and the possible reluctance of purchasers to acquire the interest without a Court order, any sale under this document is subject to any required Court order. This outcome is consistent with the Court's determination in Novalta Resources Ltd. v. Ortynsky Exploration Ltd., [1994] A.J. No. 1101 (Alta. Q.B.) that Part 37 of the Alberta Rules of Court would apply to the use of a seizure and sale remedy like that contemplated in this Paragraph.

That case could potentially also limit the ability of an Operator to use the seizure and sale remedy in prior versions of the document.

iii) 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 Non-Operator. Otherwise, the Operator has no incentive in the contract to attempt to sell the property for greater than the amount owed to it by the defaulting Non-Operator.

iv) A sale is without prejudice to the Operator's claim for any amount still owing after the sale.

v) One of the potential challenges in effecting this remedy is the execution of the associated transfer documentation. Notwithstanding the "Further Assurances" Clause **(25.01)**, there is a real possibility that a defaulting Non-Operator would refuse to execute that documentation. To address this issue, the Operator is authorized to execute those documents as the defaulting Non-Operator's attorney if the defaulting Non-Operator fails to execute those documents promptly following delivery to it. The Court order step validates this outcome to third parties.

Subclause 5.05B-Proviso: i) There are differences in access to the remedies of interest, the withholding of information and the seizure remedy. The interest remedy (Paragraph **(a)**) applies by its own terms without any requirement to issue a default notice, and the remedy in Paragraph **(b)** applies immediately after service of that notice. The harsher seizure remedy (**B(g)**) is only available if the default has continued for at least 60 days after service of that notice, an increase from the 30 day period in previous documents. The 60 day period provides access to this exceptional remedy before the default imposes a serious hardship on the Operator, while decreasing the likelihood that a Court would use its discretion to prohibit use of the remedy. The traditional 30 day period after notice applies to the remedies in Paragraphs **B(c)-(f)**, where Powermax reinforced the need for an Operator to follow the required process. Several of the Paragraphs ((**e**), (**f**) and (**g**)) require notice of the specific intention to apply the remedy. That additional notice may be served before expiry of the initial notice, but the remedy cannot be effected before expiry of the first notice period.

Subclause **5.03C** now enables an Operator to require a Party that received a *bona fide* default notice within the preceding 6 months to post security under the capital advance process. This will impact Parties that regularly pay invoices on a delayed cycle, and encourage more timely payment.

ii) The increase in the waiting period for the seizure and sale remedy to 60 days after issuance of the default notice is likely to see default notices issued more often than has been the case. Increased vigilance in this area helps increase the visibility of the default and the potential implications associated with imposition of the default remedies. This increases the likelihood that the Parties will address the default sooner.

Subclause 5.05E: This provision is included because of the *Judgment Interest Act* (Alberta). It operates to merge a judgment of principal and interest, and limits post-judgment interest to the rate set by regulation each year. While the *Interest Act* (Canada) allows for post-judgment interest at a contractual rate, that Act has no application to any judgment in Alberta as of August 1, 1992 because of amendments to that Act. (See National Trust Co. v. Conroy, [1995] 6 W.W.R. 363 (Alta. Q.B.) and AVCO Financial Services Canada Ltd. v. Kilbreath (1996), 45 Alta. L.R. (3rd) 218 (Alta. Q.B.).) Notwithstanding this provision and Clause **25.05**, this Subclause will not be effective in the absence of an amendment to the legislation.

Subclause 5.05F: Subject to audit rights, the Operator's *bona fide* records constitute *prima facie* proof of a financial default. Without this Subclause, it would have greater difficulty presenting evidence about the amount owing. (See the annotation on Subclause **3.01C** respecting Renaissance.)

Subclause 5.05G: If the Operator is the defaulting Party, the Non-Operators assuming the Operator's share of costs may appoint a Party to act as their representative to exercise the default remedies otherwise available to the Operator, pending the appointment of a new Operator.

Subclause 5.05H: This protects a Party that pays another Party's unpaid share of lessor royalties to preserve any of the Title Documents.

Clause 5.06: i) The Operator may use this Clause after a Party has been in default for 60 days if the Operator has not applied the non-participation remedy in Paragraph **5.05B(f)**. The Non-Operators are required to reimburse the Operator its out of pocket costs associated with the default.

This reflects the policy objective that the Operator is not to suffer a loss relative to the Non-Operators as a result of being the Operator. In the absence of this Clause, the Operator would ultimately bear the entire risk for financial default by a Non-Operator.

ii) The contributing Non-Operators are not required to reimburse the Operator interest which has accrued on the unpaid principal at the time the Operator uses the mechanism.

iii) The time for this request has been reduced from 3 months to 60 days in this document to encourage dialogue by the Operator and the other non-defaulting Parties about the potential use of the default remedies.

iv) This provision would extend to losses incurred for the Joint Account under Article **4.00**, since those losses would pertain to Joint Operations. If the Parties were held liable to a third party for a loss it suffered 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 an 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 5.07: i) There had been some suggestion in the late 1980s that Operators should be required to hold funds in distinct trust accounts because of the view that creditors could otherwise seize Joint Account funds 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 a trust relationship is imposed under the conventional commingling clause of the 1981 document, as the intention that the Operator acts for the benefit of the Non-Operators pervaded the entire document. The provision was expanded in the 1990 CAPL Operating Procedure to reflect that decision. (See also Sturrock v. Ancona Petroleums Ltd. (1990), 75 Alta. L.R. 216 (Alta.Q.B.).)

The Sorrel 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 Parties.

Prudent Non-Operators should continue to monitor their properties for indications that an Operator may have serious financial difficulties. It may be attractive to consider replacing such an Operator under Clause **2.02** or **2.03**. It may also be desirable to use the leverage under those provisions to require an Operator to set up a separate trust account or to hold Joint Account monies at a bank to which the Operator is not indebted.

ii) The nature of the traditional right to commingle may be unclear after Sorrel 1985 Limited Partnership v. Sorrel Resources Ltd., [2000] A.J. No. 1140 (Alta. C.A.), reversing [1997] A.J. No. 225 (Alta. Q.B.). It pertained to a general manager of a partnership that obtained advances from the partners well in advance of the cash outlays required for partnership activities, in breach of the agreement. It then used the funds to pay its own costs and internal expenses, when the Court found on the facts that it knew it was vulnerable to creditors. While the Trial Judge determined that it breached its trust obligation to the partners in its handling of those funds, the Court determined that commingling was an accepted practice in the industry for parties in a relationship under an agreement. The Court of Appeal determined, however, that there was not sufficient evidence to find that this was an accepted practice, where there was specific evidence to the contrary for general partnerships. It also determined "...It is not acceptable for a trustee to use trust funds for its own purposes, even in the expectation that it will be able to repay those funds."

The Court of Appeal imposed liability personally on two of the officers of the general partner because they knew that the general partner did not have funds to cover its own operational expenses at the time they chose to appropriate the funds provided by the other partners. (See also Air Canada v. M&L Travel Ltd. (1993), 108 D.L.R. (4th) 592 (S.C.C.), affirming (1991), 77 D.L.R. (4th) 536 (Ont. C.A.) with respect to the potential imposition of personal liability on the principals of a corporation.)

iii) As noted in the annotations on Subclause **2.02A**, Non-Operators have sometimes been prevented from removing an Operator in financial distress under the corresponding provisions in previous versions of this document. Although the relevant provisions of this document have been modified to increase the likelihood that the Parties could remove an Operator meeting any of the tests in Paragraphs **2.02A(a)-(d)**, there is no guarantee that the modifications will be successful. This Clause has been modified so that the right to commingle funds terminates (and the obligation to segregate funds held hereunder accrues) if the Parties are precluded from removing an Operator under Subclause **2.02A**.

iv) One of the major difficulties with the mandatory creation of individual trust accounts would be the imposition of significant incremental administration on all Operators, instead of only problem Operators. Another major difficulty would be in monitoring compliance of the obligations. The inclusion of the obligation would not mean that there would be compliance, particularly if an Operator were in financial distress.

v) Re Blue Range Resources Corp., [1999] A.J. No. 929 (Alta. Q.B.) addressed when funds are "received" in a commingling situation. It pertained to a processing arrangement in which Blue Range was an owner and contract operator. The Court determined on the facts that journal entries on Blue Range's books to show an obligation to pay at the required time did not mean that the contemplated amounts had been "received".

Subclause 6.01A: i) Each Party is required to take its production in kind at the First Point of Measurement. The 1974 document required the Parties to take in kind, and the 1981 and 1990 documents provided the Parties with the right to take in kind. There is little substantive difference between the two approaches, as a Non-Taking Party is subject only to the consequences prescribed in Article **6.00** for a failure to take in kind (i.e, the marketing fee prescribed by Clause **6.04**, but not a remedy in damages for breach of contract).

ii) There will be situations in which an Operator would prefer to manage additional volumes under asset specific marketing arrangements.

iii) Each Party remains responsible for costs and expenses applicable to substances produced in association with P&NG, such as associated water.

iv) This document clarifies that the risk of loss prior to the delivery point is for the Joint Account, subject to the Article **4.00** exceptions.

v) A Party is required to provide the Operator with such information about its marketing arrangements as the Operator reasonably requires to fulfil its obligations to transfer possession of production.

Subclause 6.01B: The Operator has limited authority to contract gathering, processing or transportation service for the Joint Account without the Parties' approval. The Parties may wish to discuss this when considering the development of a significant gas prospect. However, a Party disposing of a Non-Taking Party's production under this Article, may, for that Non-Taking Party's account, contract for such incremental services as are reasonably required to market those volumes. In practice, the disposing Party would typically not contract for transportation beyond the first liquid sales point.

Subclause 6.02A: i) Notwithstanding the document provisions, the Parties would be highly motivated to attempt to negotiate an appropriate asset specific marketing arrangement in practice if the volumes are significant and a Non-Taking Party is unlikely to take in kind in the near term.

ii) The Operator may dispose of a Non-Taking Party's production under short term arrangements that do not exceed 31 days, unless the applicable contract can be terminated on less than 31 days' notice. Without that right or the negotiation of a separate production balancing arrangement (as addressed in the AAPL Operating Procedure), the well would have to be shut-in.

The provision in the 1981 document stated that production marketed 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." That provision seemed satisfactory in the 1970s and the early 1980s, when markets were readily available for gas and prices were regulated. Problems were apparent, though, when there was a surplus of available gas and a large variation in gas prices after deregulation. A Non-Operator without a long-term contract that took in kind was then usually forced to sell into a heavily discounted spot market. An Operator with a long-term contract faced the risk that a Non-Operator without such a contract would prefer the Operator market its production, rather than sell into an unfavourable spot market. Assuming that the Operator was meeting its deliverability requirements, this arguably could require the Operator to displace its own production to sell a Non-Operator's production under its contract. In the alternative, the Operator could purchase the Non-Operator's production at "the field price prevailing in the area," when the meaning was unclear when prices for similar production varied drastically.

The meaning of that phrase in the 1981 document was considered in Erehwon Exploration Ltd. v. Northstar Energy Corp., [1994] A.J. No. 916 (Alta. Q.B.), where the Court determined that it meant "spot price".

The Clause attempts to balance the needs of the Operator and Non-Operators. The Operator requires protection that it is not required to displace its production to accommodate a Non-Operator. It also wants to be compensated for any extra expenses it incurs 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 that production under another arm's length transaction at a Market Price (as defined in Clause **1.01**); or (ii) buy the production for a Market Price. The 1990 document also enabled the Operator to sell the production for the same price as it receives under the sales contract under which it sells its own production. This has not been included because of the shift to corporate supply gas sales arrangements and restrictions on the sale of non-equity volumes under reserves based dedicated land contracts.

iii) This document links the charges for product enhancement costs to the Facility Fees definition. This provides protection for both the disposing Party and the Non-Taking Party. It provides greater clarity that the disposing Party manages the incremental volumes as if they are third party volumes at its facilities, while including some controls on the fees that can be charged.

iv) The marketing fee applies to all dispositions of the Non-Taking Party's volumes under this document. The 1990 document did not apply the marketing fee to non-arm's length transactions.

v) One issue that may arise is the possibility that the Operator may sell production at a higher price than the Market Price. However, 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 an attractive long-term contract that it is not willing to share. Because of the greater possibility that the determination of Market Price could be challenged in this situation, a prudent disposing Party would document its determination of Market Price in reasonable detail in this circumstance.

The Court also considered the resale scenario in Erehwon, and concluded that there was no prohibition on resale for profit under the 1981 document. The Court's view was a limitation such as "and for its own use" would have been included if that had been the intention.

Subclause 6.02B: i) Purchases may not exceed 31 days, unless the applicable contract entered into by the Operator is terminable at any time on notice of not greater than 31 days. If the Operator proposes to sell production under contracts that either exceed 31 days or are not terminable at any time on notice of not greater than 31 days: (a) the Operator is required to notify the Non-Taking Party of that intention, together with a summary of the material terms; (b) the Non-Taking Party will elect, within 5 Business Days after its receipt of that notice (or such longer period as the Operator may specify therein), if it wishes its production sold under that contract, where failure to respond is deemed to be a refusal to consent to the sale; and (c) if it does not consent to the contract, it must advise the Operator if it intends to take in kind or if it wishes the Operator to continue to market the production under the short term arrangements in Subclause **6.02A**.

ii) Note the 5 Business Day response period in Paragraph **B(b)**. Attractive short term contracts are probably only available for a limited period of time. A longer election period could result in the loss of a contract. The Operator may designate a longer response period if it has additional flexibility. The deeming mechanism in the 1990 document was a deemed consent. It has been reversed because of the logistical difficulties in making the assessment on a short time frame. The change also reinforces to the Operator the benefits of giving a longer election period when feasible.

iii) The Non-Taking Party can continue to require the Operator to sell its production under short term arrangements if it is not prepared to consent to a contract. It may be unwilling to consent if it believes that it can obtain a better contract in the next few months, for example.

iv) The 31 day month restriction may pose problems in the disposition of LPGs. 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 LPGs and the nature of LPG contracts, it is likely that a Party that does not intend to take its share of LPGs in kind for a sustained period would in practice negotiate a suitable arrangement with the Operator in the context of the particular fact situation.

Subclause 6.02C: A Non-Taking Party may subsequently wish to take its production in kind. The election will generally be effective at the end of a contract permitted under Clause **6.02**. If 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 7 Business Days before any specific date upon which it may terminate the arrangement.

Clause 6.03: i) This Clause addresses the possibilities that the Operator may be the Non-Taking Party and that it may be willing to take only its own share of production in kind if there is a Non-Taking Party. (Clause **6.02** provides the Operator with the right, but not the obligation, to market a Non-Taking Party's share of production.) The Operator must provide the other Parties with the information they require to exercise their rights under the Clause. These rights will be shared by the Parties in proportion to their Working Interests, unless otherwise agreed by them.

ii) Suppose X (Operator) and Y have not been taking in kind and that Z has been selling their share of production under Clauses **6.02** and **6.03**. X now begins to take in kind. Who will market Y's production once the Operator begins to take its own production in kind? If Y's share of production is being sold under a Clause **6.02** contract, Z would manage the production until termination of that contract. At that point, and assuming Y did not then begin to take in kind, the Operator could sell it under Clause **6.02**. Z would only have the right to sell it under Clause **6.03** insofar as X did not.

Clause 6.04: i) A disposing Party may charge the Non-Taking Party a marketing fee for production being managed by it, including in this document (but not the 1990 document) volumes being purchased by the disposing Party. If the Parties prefer to market collectively through the Operator because of its access to gas markets, they are free to tailor an arrangement to their situation and waive the fee for those dispositions.

ii) The marketing fee is not based on the ultimate sale price, but on the "value" of the product at the wellhead or the "value" of gas and associated products at the plant gate, as applicable. Although easier to calculate than a wellhead based fee, 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 processing raw gas. Instead, the provision refers to the value of the substance at the wellhead. This is determined by subtracting from the applicable Market Price all of the costs and expenses associated with product enhancement, such as transportation, insofar as it has not already been taken into account in the determination of the Market Price.

iii) The percentages are lower than were used in the 1990 document to reflect forecast pricing models, but some minimums have been included. Parties will sometimes choose to override these percentages with a higher percentage to reinforce the expectation that the Parties are to take in kind (i.e., foothills environment) or to encourage the Non-Operator to enter into an asset specific marketing arrangement with the Operator. As noted in the first annotation on Subclause **6.02A**, the Parties should consider an asset specific marketing arrangement if the volumes are significant and the Non-Taking Party believes that it is unlikely to take in kind in the near term.

iv) The 1990 document included an Alternate B that enabled the Parties to tailor the fee ($ or %) to individual products in their particular fact situation. It was removed from this document because it was used very infrequently. However, minimums have been included for gas and sulphur.

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

vi) The terms petroleum, natural gas, etc., have not been defined. Both the terminology and the definitions vary between jurisdictions.

Clause 6.05: i) A Party marketing a Non-Taking Party's share of production under this Article may, by notice to it, pay the associated royalties directly to the lessor. This is an exceptional right. The incremental administration associated with the process is such that an Operator would probably only ever consider doing this if it believed that the Title Document would otherwise be at risk (i.e., concerns about Non-Taking Party's viability). The Non-Taking Party is to provide such information as may reasonably be required to make that payment, such as company specific information respecting gas cost allowance (a new feature in this document). Those royalties would then be deducted from the amount payable under Clause **6.06**.

ii) The Operator is required to provide production statements to the Parties under Clause **3.12** to assist them with the calculation of their royalties.

iii) Subclause **B** is new to this document. It is an indemnification from the Non-Taking Party for payments by a disposing Party on its behalf. The indemnification is contingent on the amounts paid being consistent with the information provided by the Non-Taking Party and the distribution of proceeds under Clause **6.06** being consistent with the payments made under this Clause.

iv) Clause **3.13** of this document has been modified to recognize that an Operator that is the lessee under the applicable freehold lease will often pay any applicable freehold mineral tax and invoice the applicable Working Interest owners for their respective shares.

Clause 6.06: i) Funds held by the disposing party on behalf of a Non-Taking Party are held in trust under Clause **5.07**. The disposing Party must pay the Non-Taking Party its share of net proceeds not later than the 25th day of the second month after the production month. Clause **5.05** applies, *mutatis mutandis*, to a failure to pay, such that the Non-Taking Party would have access to interest and the other default remedies.

The corresponding Clause in the 1981 and 1990 documents required production proceeds to be distributed within 10 days after their receipt. While some Parties will apply the historic "cheque exchange day" philosophy in managing production proceeds, the practice has been honoured more frequently by its breach. The modified requirement better reflects the timing constraints of the accounting cycle for the majority of industry. However, nothing prevents Parties from managing this process on a shorter cycle. A Non-Taking Party would be particularly motivated to request this if the proceeds were significant, especially if there were a well established relationship with the disposing Party.

ii) The Clause has been structured so that the disposing Party assumes the risk if the purchaser of a Non-Taking Party's production being marketed by it fails to pay unless the volumes have specifically been sold under a particular contract. The main reason for this approach is that corporate warranty sales contracts would otherwise often enable a Party to allocate a Non-Taking Party's volumes managed by it to its problem contracts.

iii) 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 default remedies in Clause **5.05** to secure payment of those expenses. As a Non-Taking Party could still receive proceeds in the situation in which a purchaser of its production does not pay, it remains responsible for its share of the costs described in Subclause **6.06B**.

iv) This document includes additional flexibility, to recognize that the calculation may need to be based on estimated production volumes, particularly if the distribution is made on a shorter cycle. The disposing Party would identify that the calculation was made on the basis of estimated production data in its statement. Any financial adjustment would be made in the next month, with the adjustment identified on that statement.

v) Production rates fluctuate daily, so accounts will be adjusted once per month.

Clause 6.07: A Non-Taking Party has the right to audit the disposing Party's records for production volumes and costs associated with Petroleum Substances sold on its behalf under Article **6.00**. However, the disposing Party is not required to provide those auditors with any access to any contract under which the disposing Party sells its own Working Interest share of production, except insofar as the audit is conducted by the external auditors of the Non-Taking Party under reasonable conditions of confidentiality. Those contracts contain proprietary information that a Party is not required to disclose to the Non-Taking Party's internal auditors.

Clause 6.08: A Party selling production is often required to provide a title warranty for 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.

Paragraph 7.01(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 document 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 Parties within 30 days after its submission to them. This ensures that a Party is not bound by an AFE approved by it for a prolonged period while waiting for responses. It is preferable to send well AFEs through an Operation Notice under Article **10.00**. This creates a consequence for failure to approve it, and secures the Operator's role in conducting the work if Alternate **10.04A(a)** applies.

iii) The Operator is to advise the Parties about the status of the AFE as soon as the position of the Parties is clear.

Paragraph 7.01(b): Assuming that all Parties approve the AFE, a sunset provision is required to ensure that they are not bound indefinitely by the AFE. This Subclause mirrors the period for Commencement of an Independent Operation under Clause **10.03**, and is subject to the potential application of the Force Majeure Article (Article **16.00**). The Parties should consider increasing this period if it is not appropriate for their project area.

Paragraph 7.01(c): A separate Operation Notice will sometimes be served for an Operation after issuance of an AFE that is not served as part of an Operation Notice under Article **10.00**. If all Parties approve the original AFE within the response period for the Operation Notice, the Operation Notice is void. However, the Operation will be conducted under the Operation Notice if the original AFE is not approved and all Parties approve the Operation under the election process for the Operation Notice in Clause **10.02**. This is because: (a) the Operation described in the Operation Notice may be somewhat different from that to which the AFE pertains; (b) the timing of issuance is later; and (c) of the possibility that a Non-Operator may have issued the Operation Notice in circumstances in which it would be the Operator for the Operation under Clause **10.04**.

Paragraph 7.01(d)(ii): The Operator's proposed program should be provided to the Non-Operators at the earliest opportunity. This provides the Parties with an adequate opportunity to resolve any differences they may have about the program. It would be preferable to require an Operator to forward the proposed program with the AFE (or at least a week before Commencement). However, 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 about 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 Commencement of the well.

There may be circumstances in which the drilling program may address major issues that are fundamental to the Operation (e.g., horizontal drilling, special treatment of formations). In those circumstances, it is the better practice to discuss those issues before approval of the AFE.

This treatment of the proposed program differs significantly from that prescribed by Clause **9.02** for the Completion program because of the increased probability that there could be differences of opinion on major components of the Completion program.

Clause 7.02: The Operator will also be required to provide well information to regulatory authorities under the Regulations and possibly to a lessor under a particular Title Documents (e.g., EnCana/PanCanadian form lease). This obligation is captured under the general obligations in Clause **3.04**, which includes the requirement for the Operator to comply with the Regulations and the Title Documents.

Clause 7.03: The Parties will have different expectations for wells drilled as core holes or as injection or disposal wells.

Paragraph 7.03(a): This Paragraph has traditionally stated that each Non-Operator will have a reasonable opportunity to observe the conduct of the logging program. This requirement has been eliminated in this document because advances in technology enable the Non-Operators to receive logging information on a real time basis at their offices.

Clause 7.04: The Completion approval is obtained under the Casing Point election process in Article **9.00** or the response to an Operation Notice issued under Clause **10.02** (re-entry and Completion under Clause **10.08**).

Clause 7.06: The Operator is to supply data in accordance with established industry standards. The Operator might require reimbursement of incremental costs to accommodate a Non-Operator's request for data in an unusual format.

Clause 7.07: i) This is an enabling provision. A Party may conduct testing programs in a well in addition to those tests conducted under Article **9.00** (e.g., additional tests in a formation that has already been evaluated under Article **9.00**) at its sole cost, risk and expense, provided hole conditions are, in the Operator's reasonable opinion, satisfactory. The liability and indemnification provisions of Clause **10.18** apply to this program.

ii) The consequences in Article **9.00** apply to any testing program conducted under that Article.

iii) The provision does not entitle a Party to use a joint well to evaluate formations that are not included in the Joint Lands. A Party that wishes to conduct such a test would need to obtain the consent of the other owners to that use of the well. Otherwise, this use of the joint well would see it using the Joint Property to subsidize its other operations. Similarly, it does not enable a Party to use a wellbore not subject to this Agreement to test formations in the Joint Lands, since this could prejudice the other Parties. (See also Clause **10.06** and the associated annotations.)

Article 8.00 (General): i) This Article is designed to address only relatively straightforward situations involving Horizontal Wells. It has been structured so that the special provisions for Horizontal Wells are basically contained in this Article. If more complex Operations beyond the scope of this Article are expected or contemplated, such as secondary or tertiary recovery schemes, the Parties should amend the Operating Procedure or the Head Agreement to address their particular circumstances.

If the applicable well is proposed through an Operation Notice, this Article operates to supplement the Article **10.00** process by addressing issues associated with proper identification of the activity and the procedural platform for the relationship between the applicable participants.

ii) The benefits of presenting these provisions in a self-contained module would be more apparent if they were instead integrated throughout the document. The added references throughout the document would be frustrating to users who do not conduct horizontal drilling. It would also be suboptimal to users who were not familiar with horizontal drilling, since they would not be presented with a snapshot of the issues in one location.

Clause 8.01: Horizontal Wells can be drilled in at least two ways. In some circumstances, a single wellbore is drilled, beginning vertically and then gradually veering at an increasing angle from vertical until the wellbore is continuing horizontally into or within a particular formation. In other circumstances, a single vertical wellbore is drilled to evaluate the various formations encountered, following which one or more Horizontal Legs may be kicked off from the vertical wellbore in an effort to obtain production from a particular formation or formations. The definition of Horizontal Well encompasses both of these types of wells. However, it differentiates between them because certain provisions of the Article apply to these different types of Horizontal Wells in different manners.

Clause 8.02: i) Horizontal Wells are by their nature subject to much more variation from the original drilling plans than are vertical wells. Operators of Horizontal Wells will typically respond to conditions encountered in a given formation by varying the length and direction of the proposed Horizontal Wellbores or Horizontal Legs. At the same time, there must always be some reasonable restrictions on the flexibility and discretion afforded to the Operator of a Horizontal Well by the participants in the well, since the participants should not be expected to provide an Operator with a blank cheque to do what it sees fit.

This Clause reflects this balance. It grants an Operator increased flexibility by allowing for reasonable deviations in length or direction without invalidating the applicable AFE or Operation Notice. In essence, the Operator is to keep the bottom hole location within a 75 metre radius of the original bottom hole coordinates, except insofar as is required to address drilling difficulties.

The onus is on the Operator to negotiate a broader discretion in the context of the particular well if it believes that the 75 metre radius limitation is overly restrictive for the well or operating area. The Operator's ability to negotiate greater flexibility will be project specific. In practice, it will be a function of such factors as the nature of the project, the discretion being requested, the potential cost variance, the Operator's technical performance and its previous willingness to consult with the Non-Operators in a timely manner as conditions warrant.

The normal processes in Subclause **8.02A** and Article **10.00** (i.e., Clause **10.07** and **10.08**) otherwise apply to any Non-Participating Parties in a Horizontal Well, such that the participants in the well have some *bona fide* discretion to modify the scope of a proposed Horizontal Well without the potential invalidation of the original Operation Notice. The nature of this type of Operation is such that a Non-Participating Party takes this into account at the time of its initial election.

ii) The discretion granted to an Operator does not enable it to change the number of Horizontal Legs, such that additional approvals would be required to increase or decrease a program. This restriction probably would not have a significant impact in practice, though. Many Horizontal Wells will have only a single Horizontal Leg. For a Horizontal Well proposed to include multiple Horizontal Legs, an Operator would be most likely to modify the number of Horizontal Legs if the drilling results differed significantly from its anticipated outcome. The Participating Parties in the initial Horizontal Legs would typically be open to reconsidering the remaining program if the results were disappointing, where it is unlikely that any Non-Participating Parties would request a participation re-election because of a reduction driven by disappointing results.

Clause **10.08** would apply if the Operator subsequently proposed to increase the number of Horizontal Legs in a Horizontal Well under this Clause or Clause **8.03**. The net effect is that additional Horizontal Legs could only be drilled in a well capable of production in Paying Quantities if the participants in the well agreed to that modification. The application of Subclause **10.08C** to a Deepening would also provide any Non-Participating Party with a re-election right for the entire well. (See the definition of "Deepen" for the application of that definition to a Horizontal Well.)

Clause 8.03: The traditional "Casing Point election" will typically not apply to Horizontal Wells. If a Horizontal Well consists of the drilling of a Horizontal Wellbore, there is no point at which a Party must make its "Casing Point election". The decision to participate commits that Party to participate in the approved Operation. This includes the evaluation program for the well in the absence of a separate agreement at the time.

On the other hand, a particular Horizontal Well may consist of the drilling of a Vertical Stratigraphic Wellbore and the possible kicking off of one or more Horizontal Legs from that Vertical Stratigraphic Wellbore, dependent on the initial results. The Parties then need to determine if they are prepared to incur the incremental costs for the applicable Horizontal Legs. The Article **9.00** processes apply, *mutatis mutandis*, to this decision point, such that a Party that is not prepared to participate in the proposed initial Horizontal Legs is potentially subject to a cost recovery for the incremental expenditures on the same basis as is prescribed in Article **9.00**.

Subclause **8.03B** is structured so that a Party cannot participate selectively in only some of the Horizontal Legs presented in the initial kickoff program. This reflects the difficulties in managing different ownership interests when production is commingled from multiple Horizontal Legs.

Article 9.00-General: This Article applies to wells drilled for the Joint Account. It also applies between the Participating Parties in an Independent Well because of Clause **10.16**. It basically applies the provisions of the Operating Procedure on a *mutatis mutandis* basis between the Participating Parties, as if the Operation were their Joint Operation.

Clause 9.01: i) The testing program described in the initial AFE for drilling the well (including a Deepening or Sidetracking) is the Operator's predicted testing program if the original assumptions are accurate. The setting of production casing/the associated Completion attempt is a distinct component of the overall Operation. The risk of proceeding with additional expenditures is reassessed after the evaluation of the logs and preliminary results. The inconvenience of consultation with the Non-Operators does not outweigh their right to determine the appropriate evaluation of their interests after the initial well results have been obtained.

ii) Previous versions of the document have contemplated that every well will have a full Casing Point election, but this is not correct. There is no Casing Point election for a Horizontal Well, for example. It is increasingly common for participants in shallow Development Wells to agree that the scope of the drilling Operation can include the setting of production casing and the conduct of cased hole logs, assuming that the Operator will not be requesting a waiver of the logging requirement from regulatory authorities. It is also increasingly common for Parties to agree that the scope of the Operation can include: (a) the setting of intermediate casing above the target formation; (b) drilling into the target formation; and (c) the conduct of an open hole Completion if the wellbore has sufficient integrity. The provisions of this Article must be read in the context of what has been agreed to by the Parties as fundamental to the drilling of the agreed well to its proposed depth and those other expenditures that might be incurred after the well has been drilled to its target depth.

Clause 9.02-General: The 1990 document introduced greater flexibility in this election process for such matters as the handling of objections to the program, a proposed program limited to the setting of production casing and an election limited to setting production casing. This Clause must be read subject to the qualifications in Clause **9.01**.

Subclause 9.02A: i) The Operator must promptly supply required logging and testing data to enable the Non-Operators to determine if they wish to attempt to set casing for production and further Complete the well. It must also supply them with a proposed program and an AFE for that program, so that they can make an informed decision about further investment in the well. This document has been modified so that the requirement to supply information about the proposed program is satisfied if the Operator confirms that a contingent program (and associated costs) included with the drilling AFE still reflects its proposed program. This modification aligns the document much more closely to what happens in practice.

ii) The proposed program may be the setting of casing and the Suspension of the well, so that it may be re-entered later for a further unspecified Completion program. This reflects that the setting of casing for production is a specific subset of Completion, where references such as "further attempt to Complete the well" also reflect this construction. (The staged approach is often used in the deeper portion of the WCSB, where a service rig will often be used for the conduct of a testing program that is specified at that later time.) The Parties' approval of that initial program does not empower the Operator to re-enter the well later to attempt to Complete the well for their account without obtaining additional approvals under Article **10.00**. However, additional approvals are not required if the program initially approved included the setting of casing and specifics of a subsequent testing program using a service rig shortly after drilling rig release and the testing program is Commenced on that schedule, subject to any application of the Force Majeure Article. (See Clause **10.08**.) The Parties might sometimes agree to modify the timing for the latter for a winter only access area, but this would materially increase the uncertainty of the program cost presented for approval.

Subclause 9.02B: i) Each Non-Operator is to elect, within 24 hours after receipt of the required data and program information, if it will participate in the Completion attempt. This will be through a single step election under Subclause **10.02C**, as supplemented by Subclauses **10.02D** and **E**.

ii) The norm is that a Party has not approved an expenditure unless it takes action to confirm its approval, as in Clause **10.02**. This Subclause is structured so that failure to reply to the Operator's notice is an election to participate in the proposed program, as in all previous versions of the document. This is because the logistics of this election process are that technical personnel will often be making decisions by phone outside regular business hours with no follow-up correspondence. The onus is on a Party that does not approve the program to document its election.

iii) A participant is deemed to have approved the proposed program unless it otherwise notifies the Parties in the election period. If the Operator proposes to alter its program materially because of an objection, each Party may re-elect, as the program would differ materially from that to which the election pertained. The Operator would likely convene a meeting to attempt to resolve the issue if there were a significant difference of opinion.

The 1990 document expressly addressed the possibility of objections to the proposed program. (Objections would have been made on an "offline" basis under previous versions of the document.) This provides a platform to raise issues. However, it sometimes may be less than satisfactory, as there is no mechanism that compels closure if the Parties are unable to agree on the handling of the objection (e.g., perforation of a water bearing formation). This is largely because of the timing logistics associated with this type of Operation.

iv) A Party that disagrees with the specifics of the Operator's Completion program can limit the negative impact on it by participating in setting casing. Otherwise, the production casing costs go into the cost recovery. This document includes some additional flexibility because the divided well process in Clause **10.05** has been expanded to apply to Completion programs, so that participation can be limited to development objectives.

If at least one of the other Parties proceeds to conduct the full Completion attempt at that time, a cost recovery prescribed by Clause **9.03** would be based only on that portion of the costs not assumed by the Party that limited its election.

v) The Operator's proposed program might be an evaluation of more than one formation. Without a negotiated outcome (or in this document use of the Clause **10.05** divided well process), a Non-Operator has limited ability to participate selectively. The issue is more complex if it includes any component that is contingent on other aspects of the program. If the additional test is contingent on another test being successful, it is difficult to argue that a Party should be able to participate only in the (lower risk) contingent test. A good argument can be made that this should not apply if the additional test is contingent on a prior test being unsuccessful, as the risk for the unrelated test has not been reduced. Other than for the modification to Clause **10.05**, the document does not address these issues specifically because of the multitude of potential permutations and cost allocation issues. It is preferable that Parties facing this issue retain flexibility to explore negotiated outcomes that reflect their situation and their ongoing relationship. Key aspects include: (a) wellbore ownership issues; (b) cost allocation issues; and (c) indemnification and liability.

Subclause 9.02D: i) Clause **3.04** 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 **3.04** may allow the Parties to claim that the Operator is required to obtain additional approvals, particularly if the AFE included a statement about 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 after the setting of production casing (as contemplated in Subclause **9.02A**), the Non-Operators might also attempt to argue that a material deviation from that representation voided their approval of that portion of the AFE, particularly if there were some business sensitivities to the timing of the outstanding work (e.g., expiries, land sale). (See the reference to the Passburg and Prairie Pacific cases in the annotations notes on the definition of AFE.)

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

ii) Clause **10.08** will apply to the Participating Parties with respect to subsequent Operations on the well.

Clause 9.03: i) A Non-Participating Party is subject to a cost recovery. Previous versions of the document included a cost recovery under Alternate A or a forfeiture under Alternate B. Alternate B was deleted from this document because it was used so infrequently.

ii) The cost recovery percentage will depend on the applicable formation(s) being in a Development Well or an Exploratory Well. The 1974 and 1981 documents applied only the Development Well penalty. This created a result that was inconsistent with the handling of Recompletions under the comparable versions of Clause **10.08**, so the 1990 document was modified on this point.

iii) Previous versions of the document were unclear about the interrelationship between Clauses **9.03** and **10.10** when the well was a "Title Preserving Well". The application of the risk-reward test dictates that a Party that participated in the well should still be subject to a forfeiture under Clause **10.10** if it does not participate in any Completion program required to retain a portion of the Joint Lands. This reflects the fact that it ultimately is not participating in the Operation required for retention of the "Preserved Lands". (The Clause **9.03** penalty mechanism would apply to the Title Preserving Well, though, if land retention were not contingent on Completion (e.g., Alberta licence validation).)

The application of the general Clause **10.10** outcome admittedly creates the result that a Party that paid its full share of Drilling Costs would ultimately be worse off than would have been the case had it initially simply chosen not to participate in the Title Preserving Well. While this may at first appear to be a harsh result, the option to make an informed election at Casing Point is of significant value, and each Party knows the rules at the time it makes its participation elections for the well and at Casing Point. In practice, a Party that participates in the drilling of the Title Preserving Well in this circumstance would typically be very motivated to participate in any Completion attempt if there were any reasonable encouragement.

This is different than the situation in which title preserving work is conducted in a well in which a Party is already subject to a cost recovery.

Clause 9.04: i) Subject to any application of the Force Majeure Article, a wellbore Abandoned within 6 months after the Casing Point election will generally be Abandoned for the Joint Account of the drilling Parties. This is subject to qualifications for additional costs resulting from the Completion attempt, the charging of anticipated surface restoration costs and the application of the proceeds from salvable material to the cost recovery account, as in Subclause **10.09B**. If the well is Abandoned prior to the cost recovery, it will be for the account of the Parties that participated in the setting of production casing/Completion. If it is Abandoned after the cost recovery, it will be by Parties then having interests in the well.

ii) The handling of Abandonment responsibility in the 1974 and 1981 documents was not clear, as the proviso included in the text of Alternate 903B therein was intended to apply to both Alternates A and B, not just B.

Clause 9.05: A Completion attempt by fewer than all Parties is really just a special type of Independent Operation. Without this Clause, users might not remember that the principles in such provisions as **10.15**, **10.16**, **10.17**, **10.18**, **10.19** (information) and **10.20** also apply to Article **9.00**.

Article 10.00 - General: The paramount policy objective of an Operating Procedure is to encourage the joint evaluation of the Joint Lands. It is important to place it in a practical perspective, though. The investment strategies of the Parties will often differ with respect to the nature or timing of a work program and internal budget thresholds. In practice, those differences will often (but not always) be resolved through negotiation. An Operating Procedure, therefore, must include some mechanism for resolution of these differences - an Independent Operations provision.

The fact that the strategies of the Parties may differ is not inconsistent with the underlying objective of encouraging Joint Operations. The Independent Operations provision, therefore, should not include consequences for non-participation that are chosen so that an Independent Operation will not be a practical alternative. The Parties will probably have different business strategies from time to time. Parties must structure an Agreement accordingly, to neither encourage nor discourage an Independent Operation if differences cannot be resolved through negotiation. The attempt to balance the recognition of risk and reward is the foundation of this Article.

The Article is designed to address the vast majority of transactions. There may be situations in which the nature of the contemplated Operations warrants significant modifications. Parties pursuing a high-risk, high-reward play in a large wildcat area might, for example, include some sort of forced farmout mechanism for non-participation in Exploratory Wells meeting certain criteria in at least the initial stages of their exploration program. (See the miscellaneous annotations in the Addendum at the end of the document for additional insights on this issue.)

Clause 10.01: i) An Independent Operation is one that is proposed as such under this Article. It may ultimately be conducted for the Joint Account.

ii) A Party that elects not to participate in an Equipping (**10.08F**) or a Production Facility (**10.13B**) is only a Non-Participating Party if a cost recovery applies to it. This does not occur if it elects to take its production in kind or, under Subclause **10.13B** only, it elects to pay the usage fee.

iii) An Operation Notice should include all non-proprietary information that would reasonably be expected to be material to a Party's decision to participate. It does not require a Proposing Party to share its economic analysis or technical interpretation of the prospect. The proposed location of a well must be specified in reasonable detail. (See the definition of AFE and the related annotations.)

iv) See the definition of Development Well and the related annotations to understand the evolution of this definition over time.

v) The Proposing Party is required to state any expected application of the Clause **10.10** title preserving processes in the Operation Notice, including a description of the Joint Lands (areal, stratigraphic) to which it expects that Clause **10.10** would apply. Some Operation Notices issued under older versions of the document simply referred to a well as a Development Well or an Exploratory Well when the applicable penalty was actually found in Clause **10.10**. That practice is misleading. The importance of specifying the Joint Lands expected to be included in the Clause **10.10** forfeiture is particularly important if there may be another basis to extend at least some of the Joint Lands subject to the applicable Title Documents. There will be other circumstances in which failure to specify the applicable Joint Lands should not compromise the effectiveness of the Operation Notice (i.e., clear that the well is the only basis by which the applicable Joint Lands may be extended).

The expected application of Clause **10.10** identified in the Operation Notice and the actual application of the Clause may be different, as the Operation Notice cannot give greater rights to the Participating Parties than those provided under that Clause. Subclause **10.10G** includes a dispute resolution process if there is a dispute about the potential application of that Clause. As noted in the annotations on that Clause, the issue is ultimately a question of fact in each particular case. At the end of the day, what work entitled the applicable rights of the Joint Lands to be retained? Insofar as there is a dispute about the potential application of the Clause, there is nothing in the document that allows a Party to defer its election or otherwise claim that the Operation Notice is invalid. Any such process step would encourage passive Parties to object to each Operation Notice to which Clause **10.10** is purported to apply. It is, however, beneficial to identify any objections in a timely manner, as this facilitates a negotiated resolution in due course and timely exploration of such possible alternatives as an advance ruling submission under the Regulations.

vi) Clauses **10.05** and **10.06** include additional information requirements if the well is only in part a Development Well or it will be (or has been) used for other than the Joint Lands.

vii) There will be situations in which the information provided with the Operation Notice is so deficient that it does not meet the document requirements. The document could include a prescriptive checklist approach, where the absence of any of the stated components would necessarily invalidate the notice without regard to materiality. Another approach is to avoid defining the point at which an Operation Notice becomes ineffective because of either the lack of certain information or, as is more likely the case, the inclusion of insufficient information, particularly the accuracy of the AFE information. The second approach has historically been used, as this assessment is ultimately based on the circumstances and the belief of the various authors that the first approach would often see notices rejected on a technicality.

The Parties should be clear about their expectations for rectification if a particular Operation Notice is so deficient that it is ineffective. The best approach is often to reissue it, as this provides the greatest certainty. Provision of the missing information may sometimes be preferable.

A joint CAPL-CAPLA Committee prepared precedent materials on Operation Notices in 2006, and they are available on the CAPL and CAPLA websites. The materials were prepared as a reference package, to assist users to improve their understanding of the requirements in the various versions of the document and to optimize their internal precedents. The package includes: (a) an annotated precedent Operation Notice; (b) a precedent without the annotations; and (c) specific examples for: (1) a new well; (2) a Completion; (3) an Equipping; (4) a Sidetracking; and (5) a Production Facility. There is no requirement to use these materials, given user preferences for their own formats and the need to customize an Operation Notice to the particular situation.

viii) A Party subject to a cost recovery due to non-participation in a well generally does not have the status of being a Receiving Party for the Completion or Equipping of that well. An Operation Notice for any such Operation would be served only to the Participating Parties in that well, as the existing Non-Participating Party generally has no right to participate in that Operation. (See also Subclause **10.08B**.)

There are four qualifications to that general outcome. The first is that a Party that participated in only the Development Well portion of a divided status well for which it then received reimbursement under Paragraph **10.05C(b)** will have the right under Subclause **10.07B** to participate in a Recompletion in the reimbursed interval if the Exploratory Well portion of the well is Abandoned prior to the cost recovery. The second is that a Party that participated in drilling and setting production casing may participate in a Recompletion under Subclause **10.08B** after an unsuccessful Completion in which it did not participate. The third is that a Non-Participating Party will have the opportunity to re-elect with respect to a Deepening or Sidetracking under Subclause **10.08C**, to reflect the change in scope relative to what was originally proposed. The fourth is that a Non-Participating Party may have re-election rights at law or equity in certain circumstances in which the scope of the presented Operation differed materially from the Operation that was actually conducted. (See the annotations on the definition of AFE in Clause **1.01** and the first annotation on Subclause **10.07A**.)

Subclause 10.02A: i) A Party may issue an Operation Notice without prior advice to its co-venturers. This largely reflects the logistics of attempting to manage numerous properties and agreements, as well as scheduling and resource logistics. (Previous versions of the document included a sentence that the Parties would normally consult about decisions for the exploration, development and operation of the Joint Lands. It was deleted from this document because it was typically given little or no weight by Parties.)

However, a Proposing Party will often first alert them to its intention to issue the notice, particularly if there is an active delineation or development drilling program. This practice has several benefits. It encourages an exchange of ideas, something that would likely be attractive unless a Party is pursuing its individual agenda for a regional play. It enables the Proposing Party to gauge the degree of support for the Operation prior to issuing its notice and the allocation of its resources to the Operation. It also provides the other Parties with additional time to obtain funding or a farmee.

ii) Clause **3.01** (financial authorities) and Clause **7.01** (pre-Commencement approvals) do not force a response to an AFE within any specific time. It is the better practice for an Operator to issue an Operation Notice if: (a) time is of the essence, to ensure that there is a consequence associated with the response; or (b) there is a concern that a Party may reject the AFE and issue its own Operation Notice in order to operate the Operation.

iii) A Party receiving an Operation Notice has a legitimate expectation that it is presented with an investment opportunity from which it can receive a financial return. Should a Proposing Party be able to serve an Operation Notice for an additional well on a section on the assumption that an application for a holding or other modification to a Spacing Unit or drilling density will be approved under the Regulations in due course?

After considering various alternatives, the conclusion was that the normal notice and response period (including any application of Subclause **10.02F**) applies if an Operation Notice is served for a well for which regulatory approval of that type of application is required, provided that the application has been made under the Regulations and has not been rejected thereunder. This reflects the assumption that these applications are typically approved in due course (perhaps with a different drilling density) and that Operations should not be frustrated during the period prior to receipt of the approval.

A rejection of the application by regulatory authorities terminates the Operation Notice and the elections thereunder. Although objections to the application do not have the same effect, the Participating Parties should proceed cautiously if there are objections to the application, as objections may increase significantly the risk that the application may ultimately be rejected.

Subclause 10.02B: i) It is the better practice to send a copy of the election to the Proposing Party and the other Receiving Parties. A Receiving Party's election is effective if made only to the Proposing Party, to avoid any potential question about the validity of a response served only to the Proposing Party. Providing the response to all Parties allows them to understand the likely cost allocation earlier in the process, and simplifies the potential application of Subclause **10.02D**. The last paragraph of Subclause **B** in this document includes a requirement to provide a copy of the response to the other Receiving Parties, while being clear that the response is not invalidated for failure to comply with this requirement.

ii) The general reply period to an Operation Notice is within 30 days after its receipt, but there are three exceptions to that timing.

Firstly, the response period is reduced to 15 days if the Operation Notice pertains to a well and certain P&NG rights have been offered for sale by the Crown within 60 days after its receipt. Those sale rights must: (a) be within 1.6 kilometres of the proposed well; and (b) include at least one formation that corresponds to the formations to be evaluated by that well. The 60 day period is well aligned with the period between publication of a sale notice and the sale date (e.g., currently 56 days in Alberta). The reference to formations to be evaluated by that well is new to this document, and reflects the fact that a Cardium test on section 1 would have no relevance to a section 2 parcel of P&NG rights only below the top of the Wabamun. It is also clear in this document that there has to be a reasonable expectation that some of the rights included in the sale parcel would be evaluated prior to the sale. It would be very difficult for a Party to argue that it meets this requirement if it has not applied for its well licence until a week before the sale or it was intending to Spud a well to evaluate a deep rights only parcel two days before the sale. While the existence of an area of mutual interest is not a pre-requisite to use of the special mechanism, there would be a practical motivation to consider a joint bid in many circumstances.

Secondly, the response period will only be 48 hours if the proposed Operation is a Clause **10.08** Deepening, Sidetracking, re-entry and Completion, Recompletion or Reworking and the rig to be used for it is then at the well location for the conduct of other Operations. This is because the standby costs are such that time is of the essence if a Party wants to propose such an Operation while the rig is on location. The condition that the rig is on location for a prior Operation has been included in this document because of some abuse in the previous version. Parties sometimes provided no prior notice of their intention to move a rig to the location to create a surprise 48 hour election, in the hope of maximizing their interest in the well.

Thirdly, the response period will be 7 Business Days if the proposed Operation is under Subclause **10.06C** (a well being brought into the Agreement after being used for another purpose) when the rig to be used is then on location for prior work on the well, as under Paragraph **(b)**. From the perspective of the Proposing Party this may seem to be too long when a rig is on site. It is important to recall, though, that the Receiving Parties may have had no prior knowledge that there was any vision of importing this well into the Agreement. This timing is designed to reinforce to the Proposing Party the benefits of prior dialogue with the other Parties. This would alert them that the well is being drilled and the contingency that Subclause **10.06C** might come into play if the well is unsuccessful in the 100% rights and there is apparent prospectivity in a formation of the Joint Lands.

iii) Suppose that the Proposing Party Spuds a well before expiry of the 30 day election period and decided to Deepen it before expiry of that period. Should it have the unilateral ability to require a Receiving Party to elect before expiry of the original election period? Paragraph **(b)** has been modified so that it is clear that the Proposing Party cannot require an election on the Deepening prior to the election under the original election period. A Proposing Party must proceed carefully if its Operation will be complete before expiry of the second election period. It would find itself in a very awkward position if a Receiving Party elected to participate in both components when it had already Abandoned the wellbore.

Subclause 10.02C: i) Assume that the Working Interests are A1%, B24%, C25% and D50%. B issues an Operation Notice for a well, and A is willing to participate for a 2% interest. Under the traditional provision (i.e., Clause 1015 of the 1981 document), A was required to participate to the extent of its Working Interest (1%) or for its proportionate share (4% if C and D elect not to participate). The corresponding provision in the 1990 document introduced much greater flexibility. 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.

ii) Failure to limit the Participating Interest in the Operation Notice or the response is deemed to be an election to assume a proportionate share of all available interests. While the form of the election mechanism differs, the outcome is the same as in the 1990 document.

iii) A Party does not have the right to participate for less than its Working Interest, so it would need to negotiate that outcome if it wanted to do this.

Subclause 10.02D: i) If even one Party elects to assume its proportionate share of all available interest under Paragraph **C(b)**, the interests will be fully subscribed. If there is an unassumed percentage of participation after the process in Subclause **C**, the Participating Parties will need to allocate the unassumed interest within a prescribed time or the notice will be deemed to be withdrawn.

ii) Assume 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? A Proposing Party should proceed cautiously if it is unsure if it will actually drill the well, particularly if there is a pending expiry or a competitive drainage situation. This is a particularly interesting question if the Proposing Party had no genuine intention of drilling the well and could benefit from not proceeding with the well (e.g., competitive drainage situation).

Subclause 10.02E: The Proposing Party is to notify the other Parties of the cost allocation if fewer than all Parties elect to participate. This provides clarity about the manner in which costs are borne and the reward shared. This information is often unclear in land files and in land information systems, and creates confusion in divestitures. An AFE updating the interests might also be issued, but it is only for informational purposes.

Subclause 10.02F: i) A Proposing Party may propose an unlimited number of Operation Notices at any time. Protections have been included for the Receiving Parties, subject to optional Subclause **10.02G**, which has been included to facilitate the conduct of shallow infill programs.

An Operation Notice may not be for multiple wells, so the Parties are not required to commit to a regional strategy or an all or nothing package. ✓

ii) The commencement of the response period for an Operation Notice can be deferred if there is certain other well activity being conducted on the Joint Lands at a location within 3.2km of the location of the proposed Independent Operation. (The ~~distance was 3.2km in the~~ 1990 document and 3 miles (4.8km) in the 1981document.) Paragraphs **(a)** and **(b)** outline the types of well activity that result in a deemed deferral of receipt. → Not Reworking

Paragraph **(a)** is new in this document. It allows for the deferral if another well has been approved to be drilled or Completed for the Joint Account under either an AFE or another Operation Notice. This recognizes that the participation decision for another well is likely to be influenced by the results from the Joint Operation. It also ensures that the impact on the election is the same if the Joint Operation were approved through an AFE or in response to an Operation Notice. While the Operation would usually pertain to a different well, it could also pertain to the same wellbore.

Paragraph **(b)** allows for the deferral with respect to activities under a previous Operation Notice issued by that Proposing Party (or its Affiliate), if the activity has not then been approved for the Joint Account.

If Paragraph **(a)** or **(b)** apply, the Receiving Parties are generally deemed not to have received the Operation Notice until the pre-existing AFE or Operation Notice: (a) has expired; (b) has been withdrawn; or (c) is no longer in effect because the Operation was conducted. If the latter, it may also delay its response until receipt of any well information under Clause **10.19**, basically well information from all wells on the Joint Lands insofar as Subclause **10.08C** or Clause **10.10** do not apply. The requirement to release information ensures that the Non-Participating Parties are not effectively penalized in the evaluation of other opportunities on the Joint Lands.

Clause **10.08** includes some restrictions on issuance of an Operation Notice that are addressed in the annotations on that Clause. This document is clear that a Participating Party in the well is not deemed to have received an Operation Notice for an Equipping until it has access to the Completion information from the well. While there may be good reasons to initiate some work on the tie-in sooner (i.e., wildlife or access considerations), it is not appropriate to enable an Operator to trigger responses before Completion information is understood. Consultation is preferred for those cases.

iii) A Receiving Party's right to delay its response to additional Operation Notices under Paragraph **(b)** has limited application if a different Party is otherwise the Proposing Party for the second Operation Notice. Suppose, for example, that A, B and C are the owners of a 3 section block, and A and B each issue an Operation Notice for a well. Subject to Clause **10.19**, the notices are processed independently, as each Party, as an owner, has an equal right to propose its own independent drilling program. This is not intended to encourage Parties to agree on a common path and use different Proposing Parties only to alter the rights of the passive Party.

iv) This version of the document is clearer about the interrelationship between this Clause, Clause **10.10** and Paragraph **5.05B(b)**. A Receiving Party cannot defer its election for a well to which Clause **10.10** or the withholding of information under Paragraph **5.05B(b)** applies.

Subclause 10.02G: i)The restrictions in Subclause **10.02F** are sometimes overly restrictive. Large sequential infill drilling programs are common for low risk shallow gas/tight gas and heavy oil projects if the variation in results between wells is expected to be minor. The Operators of those programs usually prefer to treat those wells as a single project to optimize project efficiency, the construction of associated project infrastructure and the program cost. They will often be reluctant to sacrifice the program waiting for elections on a well by well basis from a Receiving Party.

This optional Subclause substantially addresses the issues relating to shallow programs, and may often enable an Operator to obtain agreement to handle a program under a single AFE in practice. The Parties should elect that this Subclause will apply if this type of program is expected. (An amendment should be considered if it was not selected and the issue arises after execution.) While Receiving Parties may still elect on a well by well basis (rather than on an entire program), they cannot defer their elections until they see results from other wells in the program. Although a Receiving Party may elect not to participate in a particular well, this is likely to be the exception because of the nature of shallow infill programs.

ii) Some Parties might modify the document to limit the number of wells or the estimated costs that could be proposed in a program.

iii) A subsurface reference is used because targets in operating areas for which this option will be selected will typically be above sea level.

iv) A variation would be the inclusion of a customized provision to address a deep Development Well drilling program, particularly where the wells are being drilled from a common drilling pad. Any such provision could address such items as: (a) the permissible number of wells in a program and the identification of their sequencing; (b) the individual rights of election for each well; (c) the ability to defer the response (for at least the Participating Parties in the immediately preceding well) until a short time after receipt of the drilling and logging information from the preceding well; and (d) expectations for the manner in which surface costs and associated liabilities would be shared between wells using a common surface location. The Parties would also need to consider the rights, if any, of a Non-Participating Party in the preceding well to have the benefit of well information from that well when making its election on a subsequent well in the previously identified "program". Further customization may be required to address the interrelationship between that provision and Article **8.00** for Horizontal Wells. The level of project specific customization was such that it was not feasible to include this type of provision in the document.

Clause 10.03: i) The interpretation of "commenced" was unclear in prior versions of the document, so it has been defined. For new wells, it is the Spud date. (See also the definition of Commenced and the related annotations and annotation (iv) below.)

ii) This document includes a proviso that a Proposing Party must issue an Operation Notice before Commencing an Independent Operation. (This can be prior to the start of the response period if there is a deemed delayed receipt under Subclause **10.02F**.) As a Proposing Party might do this inadvertently in situations in which there is no actual harm to the Receiving Parties, the Clause **10.02** response process still applies to any such Operation Notice for a Commenced Operation. However, the Receiving Parties would retain any legal remedies they may have for failure to serve that Operation Notice prior to Commencement of the Operation. That proviso is designed primarily to protect Receiving Parties against potential abuse if a Party tries to obtain exclusive well data to position itself for a Crown sale or a farmin. A Party facing this issue would often attempt to seek injunctive relief if it believed that its interests were being prejudiced. In the absence of harm, it is unlikely that a Party that innocently Commences an Operation early would face problems under this Clause in practice.

A Party that perceives that it has suffered damages because of failure to serve an Operation Notice before Commencement of the Operation should promptly notify the Proposing Party and the other Parties about the nature of its concern. Failure to provide that notice promptly could adversely impact its ability to pursue a claim because of the legal doctrines of "estoppel in pais" and "laches" (basically potential limitations on the ability to assert rights when others have relied on your conduct to their detriment) and the duty on an injured party to mitigate its loss. It was not feasible to include a specific time limitation on the ability to serve such a notice because of the possibility that the damage may not initially be apparent (i.e., Proposing Party used information from the well to acquire a freehold lease under the name of a third party agent).

iii) Operations are often Commenced before expiry of the response period if there is: (a) an early receipt of elections; (b) a low-risk infill drilling program if Subclause **10.02G** does not apply; (c) immediate access to a rig; or (d) a long duration well in an area with a short operating window.

The Operator of a well that is not expected to encounter the primary or secondary targets within the response period may prefer to Commence it earlier. This will particularly be the case if: (a) it is prepared to assume all available Participating Interests in the well; (b) risks for the initial portion of the well are low; and (c) operational logistics are tight (e.g., seasonal access, pending Crown sale, availability of suitable equipment). Conversely, a prudent Proposing Party would not Commence a well prior to expiry of the response period if the information was highly variable, the well was expected to be of short duration and the Receiving Parties could alter their risk by scouting the well.

iv) Subject to Force Majeure, the Proposing Party is to Commence the Operation within 120 days after issuance of the Operation Notice (90 days in the 1990 document), with a 30 day increase for Production Facilities and greater flexibility for an Operation committed to under the B.C. Regulations in order to obtain an extension to a Title Document. (For context, the Parties are not required to "commit" to any work to obtain a temporary Section 16 or 17 continuation in Alberta.) It should be cautious in unilaterally choosing not to Commence the Operation within that period, particularly where it is advantageous not to see it conducted (e.g., competitive drainage situation). As noted in the annotations on the definition of Commenced in Clause **1.01**, the Parties should consider customizing this provision to increase this period if it is not appropriate for their project area.

v) Production Facilities have a longer period because of the logistics of obtaining approvals and the design and construction process.

Clause 10.04: Prior to the 1990 document, the Operator would conduct the Operation if it elected to participate. This was modified in the 1990 document, so that it was similar to Alternate **A(a)**, by having the Proposing Party at least initially conduct the Operation.

Alternate 10.04A(a): i) This Alternate recognizes that: (a) the Operator may have planned to allocate its personnel to other projects; (b) it may not be able to operate under the proposed timing and cost constraints; and (c) Non-Operators typically have the expertise to conduct most Operations. The Non-Operators may not want the Operator to conduct the Operation if they are confident that the Proposing Party can conduct it properly for the cost in the AFE or they doubt that the Operator could conduct it on a similar schedule for a similar cost.

ii) To ensure a Proposing Party is accountable, it will conduct the Operation unless: (a) it is in default under Clause **5.05** (ultimately a question of fact- mere issuance of a default notice is not necessarily determinative); or (b) it would be disqualified from operating by Subclause **2.02A**. The Parties always have the option to agree to a different outcome at the time.

iii) An Operator that is not eligible to receive a well licence transfer in due course is subject to immediate replacement under Paragraph **2.02A(f)**.

iv) Notwithstanding the general provision, the Operator would probably conduct certain Operations. If there were safety or other technical concerns about a particular Proposing Party's expertise (e.g., critical sour gas well), the other Parties might attempt to negotiate an alternative arrangement. (They may choose to do so in their initial negotiations for foothills type agreements in any event.) If the rig is on location, the Operation is the setting of casing or a Deepening or Sidetracking and the Operator is not prepared to participate, the Operator would probably conduct it under a contract operating arrangement because of the desire for technical continuity and the difficulty in transferring supply contracts and regulatory approvals. However, this mechanism is not included in the document because of the need for Parties to address it on a custom basis at the time.

Alternate 10.04A(b): i) This Alternate is similar in many ways to the Clause that had been included in the 1981 document, but has additional flexibility if the Operator does not elect to conduct the Operation in its election to participate. There were two major reasons for including this Alternate. Firstly, some users had amended the 1990 document to use the provision from the 1981 document. Secondly, the Operator's particular technical expertise may be of such benefit that the Parties want the Operator to conduct each Operation in which it participates. This may particularly be the case, for example, in the foothills, in certain critical sour gas or tight gas areas or in other projects requiring highly specialized technical expertise.

There is a critical difference, though. An Operator that elects to conduct an Operation is required to do so in substantial compliance with the Operation Notice (e.g., schedule, scope of Operation, any specified technical program, etc.). It may not impose its own vision for the Operation.

ii) An Operator considering the exercise of its rights under this Clause must also assess its ability to obtain contracts for required goods and services. The Proposing Party is not obligated to transfer any contracts for goods and services that do not pertain exclusively to the Operation.

iii) An Operator that exercises its takeover right and then fails to proceed with the Operation may not exercise its takeover right again for that Operation (or a substantially similar Operation) proposed in an Operation Notice within 365 days after the original Operation Notice.

Subclause 10.04B: Subject to Alternate **10.04A(b)**, an Operator that is a Participating Party (but not the Proposing Party) has the option to succeed the Proposing Party as Operator at completion of the Operation (e.g., after conclusion of any program proposed at Casing Point under Article **9.00**) or that particular phase thereof as the Proposing Party and the Operator may agree. (If an Independent Well is being Abandoned by the Proposing Party, it will retain responsibility for the entire Abandonment process, unless otherwise agreed with the Operator.) While the Operator will typically exercise its right to take over the Operation in due course because of the potential synergies with other Operations, this will not always be the case.

Subclause 10.04C: A Proposing Party other than the Operator could be the Operator of that Operation through Clause **10.04**, the definition of Operator and Clause **10.16**. The extension of these rights and responsibilities to a Proposing Party other than the Operator is limited to the particular activity and does not otherwise alter the Operator's overall responsibilities.

Subclause 10.05A: i) A well may be in part a Development Well and in part an Exploratory Well. In those instances, it is accepted that a Party should be able to limit its participation in the drilling or (new in this document) Completion of the well to that portion which is a Development Well. This reflects the view that it would be inappropriate to deny a Party the right to participate in the exploitation/evaluation of a development play because it was not prepared to participate in unrelated exploratory activities. The mechanism does not 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 because of the practical implications of such an extension. However, there are circumstances in which the Parties may wish to negotiate this outcome.

ii) Failure to issue an Operation Notice on the prescribed basis would be a clear breach of the Article and enable the Receiving Parties to reject it as invalid. The outcome is not clear if they make elections under the initial Operation Notice and later discover the problem.

iii) The Operation Notice and the associated AFE are to provide sufficient information about the respective portions of the well to enable an informed election under Subclause **B** about such matters as formations, material differences in downhole locations and cost allocations.

iv) Note the reference to specialized equipment or casing. If, for example, special equipment or casing is required because sour gas might be encountered in the exploratory portion of the well, those costs would not be relevant to the development portion of the well.

Subclause 10.05C: i) Disputes about the allocation of costs are included in the list of items that can be resolved by arbitration under Article **21.00**.

ii) A Party is not prevented from drilling a twin well to exploit the "development" formation while the cost recovery applies to the "exploratory" Spacing Unit. (See Paragraph **10.07A(e)**, Subclause **10.07B** and the related annotations about a Paragraph **10.05C(b)** reimbursement.)

iii) The reimbursement under Paragraph **(b)** is only made if the well is productive in both portions, but it cannot be produced simultaneously. It is designed to position the Development Well participants to drill a twin well to the prospective Development Well formation if they are so inclined. This mechanism and the subsequent potential uphole participation rights of the former Development Well participants are addressed in Subclause **10.07B**.

iv) The Parties will need to supplement this provision at the time if production will be commingled. They would need to address such matters as testing obligations to confirm that the production allocation continues to be reasonable and the process for making any required adjustments.

Clause 10.05-Other: i) Given the complexities potentially associated with this Clause if the participation in the well differs, the affected Parties may find it helpful to supplement the Clause with a letter agreement that addresses more specifically the outcomes in their particular situation.

ii) The traditional provision has not provided any corresponding process for a Development Well that is prospective in two or more formations that are productive in prior wells within 3.2km of the location. A Receiving Party's choice has been to participate in the entire well or elect not to participate, such that it can be required to participate in drilling and Completion activities of little interest to it to maintain its rights for its primary objective. A Receiving Party has retained the ability to propose a shallower well for its preferred objective, though. If faced with this situation, a Receiving Party might try to negotiate the application of the Clause **10.05** dual election process to that well. A prudent Operator that is aware of a potential misalignment about the evaluation of multiple formations might also anticipate this request when preparing its Operation Notice and offer an election that allows each Party to achieve its preferred outcome.

Clause 10.06-General: i) This Clause has been included to address the issues associated with use of a well for multiple purposes when P&NG ownership varies. One of the major issues associated with the Operating Procedure since the mid 1990s has been the handling of a well used for multiple purposes-Operations under the Agreement and other activities. The most common example has been the cost equalization when a Party owning a 100% well abandoned in its own deeper rights then proposes to use it for an uphole Completion in the Joint Lands. Parties holding such a well have typically requested a cost equalization for that use, often based on 100% of the costs of a new well to that formation.

Some have challenged the view that there be any cost equalization for that use, but most have accepted that some cost equalization is warranted. They have typically questioned a reimbursement based on a 100% cost allocation based on a notional new well to that formation, though. They have argued that this would provide a subsidization of the deep test, with this especially the case as the difference in depth between the uphole formation and the deep objective decreases. The 100% equalization also does not recognize that many of the identified uphole opportunities would, in fact, be marginal, salvage type operations that would never have been proposed as the primary objective of a new well at the location.

ii) The Parties may wish to consider trying to negotiate a vertical pooling agreement in many circumstances in which this Clause may apply.

Subclause 10.06A: i) A Party can only rely on the consents under this Clause insofar as it is otherwise authorized by the Regulations or other owners of the applicable rights/the well to use the well for an additional purpose.

A Party may not use a Joint Account well for its own purposes in formations not included in the Joint Lands, unless that other use has been authorized by the other Parties. This reflects the principle that a Party should not be able to use Joint Property for its own gain. This Subclause could see a negotiated transfer of an unsuccessful Joint Account well for assumption of the Abandonment responsibility, perhaps contingent on the initial evaluation of the other formation. However, it could also result in a negotiated cost equalization if its value is high to the Party that wishes to acquire it.

There are two outcomes inherent in this Subclause. The first is that the Party that wishes to use the well for its own purposes would have to negotiate this outcome, often through a negotiated cost adjustment. The second is that the provision is structured to encourage a Party with an attractive deep prospect to drill it outside this Agreement and address secondary objectives in the Joint Lands under Subclause **C**.

ii) This Subclause, Subclause **10.06B** and Subparagraph **10.06C(b)(i)** contemplate permitted drilling for an additional 15metres. These references were included to accommodate a logging tool. This incremental depth may change over time because of changes to technology or the Regulations. Insofar as any such change requires some minor incremental depth, Parties are encouraged to administer the 15m qualification accordingly.

iii) There may be concerns about the integrity of the wellbore or a prospective formation if the additional activities proceed. Any such negotiation should address cost allocation issues, production priorities, any royalty holiday issues and indemnification and liability.

Subclause 10.06B: i) Although this Subclause is presented before Subclause **C**, it has been structured so that Subclause **B** is unlikely to be used often. The consent mechanisms and cost allocation in the Subclause are designed to encourage a Party with an attractive deep play to negotiate with the other Parties in advance or proceed under Subclause **C**. Subclause **B** creates negative outcomes for a Party that misrepresents a dual use well as only a shallow well in the Joint Lands. The consent of the other Participating Parties is also required for other activities in an Independent Well. In effect, it is a Joint Account well between them.

ii) Prior notice of that additional use must be provided to the Non-Participating Parties, so that they can protect their rights. This would not necessarily

require disclosure of confidential information. If, for example, the Joint Lands comprised rights to the base of the R formation, it would be sufficient for the Participating Parties to notify them that they plan to deepen the well below the R formation.

iii) The other major restriction in this Subclause (Paragraph **(b)**) is the general prohibition on using the well for another purpose if productivity is established in any formation of the Joint Lands. That Paragraph will be relevant any time that Paragraph **(d)** may apply. It is based on two principles-that production from the Joint Lands has the highest priority and the need to protect the integrity of the wellbore and the formation. The Non-Participating Parties might waive that outcome, probably through negotiation of an agreement that addresses such matters as protections respecting production priorities, cost allocation methodologies, any royalty holiday issues and a clear assumption of responsibility for damage to the well and prospective formations. This obligation may be inconvenient for the Participating Parties because of the inherent requirement to disclose some well information before the Non-Participating Parties are entitled to it. This would have to be assessed against the corresponding benefits.

iv) If the restriction in Paragraph **(b)** does not apply, the Participating Parties may use the well for another purpose without the Non-Participating Parties' consent. There is an immediate financial consequence if they use this discretion, though. Paragraph **(c)** provides that the Drilling Costs and Completion Costs included in the Paragraph **10.07A(e)** cost recovery will be reduced on the same basis as in Subclause **C.** Any Clause **10.07** cost recovery for the Joint Lands would be reduced significantly, where this does not depend on a successful Completion in the other formation. This should be considered carefully by a Participating Party that is requested to consent to the use of an Independent Well for another purpose.

v) Paragraph **(d)** provides that a cost recovery for an Independent Well is waived entirely if it is placed on production (other than for test purposes) in a formation other than the Joint Lands for more than 30 total days unless both portions of the well will be produced simultaneously or the Parties otherwise agree. This authority is not as broad as it first appears, though, as issues associated with the dual use would need to be addressed as part of the consent dialogue required under Paragraph **B(b)** for additional activities in a productive Independent Well. The last portion of the Subclause addresses the Operator's general duties about measuring production and a reasonable cost allocation in the dual producer situation, where the generic reference is similar to some of the cost allocation provisions in the PASC Accounting Procedure. (This would apply mostly to Operating Costs and Equipping Costs, as Drilling Costs are subject to the cost allocation in Subclause **C**.) Some fixed costs may be allocated equally to the producing horizons, for example, while variable costs might be apportioned based on total recovered volumes (including water).

vi) The indemnification and liability provisions of Clause **10.18** apply, *mutatis mutandis*. This is subject to the qualification that the Clause does not see Extraordinary Damages excluded on the basis prescribed by Clause **4.04**. The normal legal rules on damages apply in this particular instance because the relationship between the Parties and the owner of the other interval is treated as a relationship with a third party. (See also Subclause **D**.)

vii) It would be prudent for Parties to supplement this provision at the time the provision applies with documentation that addresses their specific expectations. This is particularly important if the cost recovery is attained and the well is producing from both ownership intervals. What, for example, are the rights of one ownership group to conduct further work in the well when the well is still productive in the other interval?

Subclause 10.06C: i) The most common application of this Subclause would be where the Joint Lands are shallower than a deep objective held outside of the Agreement. However, it accommodates the possibility that the Joint Lands may comprise the deeper rights.

ii) The Proposing Party must identify the multiple use issue to the Receiving Parties in its Operation Notice. The detailed processes in the Subclause are designed for the situation in which the Proposing Party intends to use the well exclusively for the evaluation and exploitation of the Joint Lands. That information would supplement the information required to be provided in the Operation Notice for such matters as the description, location, timing and cost of the proposed Operation.

A Proposing Party that intends to use the well to produce from both the Joint Lands and other formations (i.e., a dual producer) will need to negotiate the basis for that arrangement with the other Parties, as it is beyond the scope of this Subclause. While they may choose to use the provisions of this Subclause as a platform for their negotiations, they would probably also want to address such additional matters as production priorities, other cost allocation issues, any royalty holiday issues and liability and indemnification issues. (See also Subclause **F**.)

Some companies have attempted to avoid addressing this issue by ignoring in their Operation Notice the fact that the well was initially drilled to evaluate formations not included in the Joint Lands. The Clause creates negative outcomes for a Party that misrepresents its well.

iii) One might try to structure the cost allocation in Paragraph **(b)** to prescribe specific methods to allocate the actual intangible and tangible Drilling Costs between the respective portions of the well. The intangible costs, for example, might be allocated on the basis of the number of drilling days for the respective portions of the well (excluding days for formation specific testing). (See "Allocation of Well Costs Between Zones With Different Ownership" by Carlos J. Salazar in the March/April 1991 edition of the AAPL Landmen for an overview of these types of cost allocations.) This Subclause uses a more general approach similar to that used in Clause **10.05**. While less prescriptive than that noted above, the reference to the dispute resolution Article should mitigate the risk that this approach would lead to prolonged negotiations.

iv) Subparagraph **(b)(i)** requires the Proposing Party to provide a reasonably detailed, *bona fide* estimate of Drilling Costs from surface to 15m below the deepest target formation in the Joint Lands, with an exception if the Joint Lands are deeper than the original target. Drilling Costs serving both portions of the well are then reduced by 50%, 75% or 90% under Subparagraph **(b)(ii)**, depending on when the Operation Notice is served relative to the original drilling rig release of the well. The 75% reduction applies after 72 months, and a 90% reduction applies after 180 months. The Parties will sometimes negotiate different percentages when they initially prepare the Agreement or at the time the provision applies, having regard to the circumstances and the ongoing relationship between the Parties.

The problems with use of a 100% cost equalization are clear in an example in which: (a) A drills a $800K well that is not successful in its 100% T formation; (b) it then proposes an uphole completion in the jointly held S formation 150m shallower; and (c) the Drilling Costs for a new well to the S formation would be $700K. A 100% cost equalization would, in effect, potentially provide A with an evaluation of its primary objective of the T formation for an incremental $100K of gross Drilling Costs, plus the formation specific testing costs.

The 50% reduction was recommended in the AAPL article above, and has typically been used in negotiated resolutions of this issue. The linkage of the percentage reduction to the rig release reflects the increased risks for well integrity and environmental concerns over time. A different threshold might be negotiated at the time, particularly if more than one formation of the Joint Lands will be tested.

v) The Subparagraph **(b)(ii)** adjustment only applies to costs serving both portions of the well. Suppose that it was originally drilled to evaluate the shallow 100% D formation and the Proposing Party now wants to Deepen it to the jointly held J formation. The adjustment would only be for the costs from surface to just below the D formation. The Drilling Costs between that depth and the J formation would not be subject to the equalization process, as the Drilling Costs are an integral part of the proposed Deepening Operation to evaluate the J formation. (See Subparagraph **(b)(iv)**.)

vi) Paragraph **(c)** enables the Receiving Parties to defer their election until receipt of the drilling information for the interval to which the cost equalization pertains, insofar as that information is not already in the public domain. This is a major benefit to the Receiving Parties, as it can alter their assessment of the risk of the Operation significantly. It is also inconsistent with the manner in which information is handled under Clause **10.08**.

Access to the information was included to mitigate the risk that the Proposing Party's primary motivation for an Operation in the Joint Lands is a cash reimbursement to offset some of the costs associated with the unsuccessful evaluation of the primary objective.

A Party drilling a well to which this Subclause may apply needs to be aware of the obligation to provide this information if there are other owners in the well that are not Parties. The entire arrangement is ultimately a negotiation outside the scope of the Agreement if it cannot comply with the requirements in the Clause or it is unwilling to comply with them.

vii) The Receiving Parties are deemed to agree to the proposed Subparagraph **(b)(i)** calculation, unless a Party objects, by notice. A Party must typically serve any such objection within 10 Business Days after receipt of the Operation Notice (5 Business Days if a Paragraph **10.02B(c)** 7 Business Day election applies because a rig is then on location for prior work). Any such notice must include in reasonable detail the basis for the objection and a proposed alternative. The allocation under Subparagraph **(b)(i)** (but not the **(b)(ii)** percentage reduction) can be referred to Article **21.00** for resolution if the Parties are unable to agree.

viii) The 7 Business Day response under Paragraph **10.02B(c)** may seem long when the rig is already on location. This is designed to reinforce to the Proposing Party the potential benefit of alerting the other Parties to a potential Subclause **10.06C** Operation when the well is being drilled.

ix) Most of the wells to which this Subclause applies will be new wells, where the well is unsuccessful in the deeper rights. The Subclause might also apply to an existing well with an existing wellhead and surface installations. Paragraph **(d)** addresses that equipment. It basically sees the net salvage value of that equipment used as the equalization value, as calculated under the Accounting Procedure. This amount would be included as Operating Costs under Paragraph **10.07A(b)** if a Clause **10.07** cost recovery applied to the well after receipt of the elections from the Receiving Parties.

Subclause 10.06D: i) A Party makes minimal representations about a well it proposes to use for the Joint Lands under Subclause **C**. Paragraphs **(a)** and **(b)** are an abbreviated form of the typical "Compliance with Agreements" and "Lawsuits and Claims" type representations used under sale agreements. Paragraphs **(c)** and **(d)** are largely based on the Transferor's "Condition of Wells" and "Environmental Matters" representations in the CAPL Property Transfer Procedure. The latter basically provides that there is no outstanding notice issued under the Regulations pertaining to HSE, where a Proposing Party could not make this representation if there were outstanding work required to satisfy a directive issued under the Regulations. Parties assessing participation might consider reviewing the well file and possibly visit the wellsite to assess the well's condition and its suitability for use.

ii) A Party that determines that the representations are inaccurate would probably try to obtain injunctive relief through the Courts if the concern was significant and it was apparent that discussions with the Proposing Party were not going to allow the issue to be resolved.

iii) Parties will often prefer to supplement this Clause with their own conveyance agreement. This would address the Proposing Party's representations or the expectations for conveyance documentation in more detail, as well as address such other items as any applicable GST. They remain free to supplement these provisions in their Agreements or on a customized basis at the time in the context of their situation.

Subclause 10.06E: The ownership interests in the well and the ultimate responsibility for Abandonment should be negotiated if the well will be produced concurrently from both portions of the well. Otherwise, the ownership of the well and the Abandonment obligations will generally be shared by the Participating Parties. This general rule is subject to two qualifications. The first is that the Proposing Party was to assume responsibility for Abandoning that portion of the wellbore that is of no relevance to the proposed Operation (i.e., rights below the uphole formation of the Joint Lands in which the well is being Completed). The second is for the situation in which the wellbore is to be Abandoned within 6 months after expiry of the response period to the Operation Notice. Abandonment costs in that case would be allocated to the respective portions of the well, with additional costs resulting from the Operation in the Joint Lands borne by the Participating Parties. This outcome is similar to the approach in Clause **9.04**.

Subclause 10.06F: i) Parties will often have the opportunity to acquire another well to be used to exploit formations included in the Joint Lands. The foundation of this Subclause is that a Party that acquires such a well from one or more third parties on a *bona fide* basis will allow the other Parties to participate in that acquisition on an "at cost" basis as part of the proposed Operation. This requires the acquiring Party to identify the basis for the acquisition in its Operation Notice for that Operation and for any Party participating in that acquisition to assume its Participating Interest share of the corresponding rights and obligations associated with that acquisition. The Subclause is structured on the premise that a Party will initiate the process in an Operation Notice. However, the preferred approach would be to discuss any such acquisition in its early stages, so that the Parties could collectively determine the best way to conduct their environmental and technical due diligence for the well.

ii) A Receiving Party may also acquire a Working Interest in the well indirectly through the cost recovery process. The consideration paid for the well (as calculated on a 100% ownership) will be included as Drilling Costs of an Independent Well for the purpose of the Subclause **10.07A** cost recovery if there is at least one Non-Participating Party respecting the associated Operation Notice. In practice, though, many of these wells would be acquired for just $1 and the assumption of the Abandonment responsibility.

iii) An allocation mechanism like that in the Clause **24.01** ROFR process applies if the well is acquired in a large deal or on a non-cash basis.

Subclause 10.07A: i) Note the reference to the Independent Well and the cost recovery applicable to it. Suppose that the drilling program was not conducted in accordance with the Operation Notice. Would the cost recovery apply?

An Operation may differ from that described in an Operation Notice in cost, timing, location and depth, and the differences may be material or of little consequence. The answer, then, would depend on the type and degree of the deviation. Immaterial differences in timing or costs are unlikely to affect a cost recovery because they depend on external factors. Similarly, a material difference in costs would probably not have any effect if the original cost estimate had been reasonable and the Participating Parties had no reason to revise it prior to Commencement. If, however, they have (or should have) knowledge of developments that would materially alter the costs or timing, the validity of the Operation Notice might be jeopardized if those changes might have influenced the Non-Participating Parties to participate, particularly if they were highly reliant on the Operator's specialized expertise. Similar considerations apply to such technical factors as location and depth.

If the Operation is, in essence, a different Operation from that proposed, there may be a legal duty on the Participating Parties to advise the Non-Participating Parties of the change promptly and to allow them to re-elect to participate, even if it has already Commenced. This reflects the view that the Parties should be in the same position they would have been in if the revised Operation were proposed initially. This also has implications for the obligations to the other Participating Parties, particularly if a cost recovery were not effective. (This is also relevant to Joint Operations. See the Passburg and Prairie Pacific cases referenced in the annotations on the AFE definition.)

ii) Suppose a well has been proposed as a well to "test the Y formation" and well information indicates that it is actually only prospective in the shallower R formation, where the Joint Lands include all rights. Would a Non-Participating Party have the right to request the opportunity to participate in the R Completion because the Operation is different from the "Y test"? Is the answer different if the well had been proposed to evaluate the "Y formation and all other formations of the Joint Lands indicated to be prospective during the Operation"? Subject to the Clause **10.05** divided status scenario, the latter phrase is arguably inherent in any drilling activity for the Joint Lands, as wells frequently provide unexpected information. The essence of a drilling Operation to the Y formation is that it will drill through other shallower formations that may be held jointly. While a parenthetical reference has been included in Subclause **A** of this document, the previous versions are consistent with the outcome that the

Participating Parties may use the original wellbore to exploit other penetrated formations of the Joint Lands.

The suggestion that a Non-Participating Party have the opportunity to participate in an uphole Completion without consequence is inconsistent with the risk-reward principle. It would be making an election on the basis of risk that has been adjusted by the Participating Parties' Operation. In addition, previous versions of the document would have included an equalization for the relevant Drilling Costs if this had been the intention. Subclause **10.08B** of this document includes one qualification for the situation in which a Party that participated in the drilling and setting of production casing then elects not to participate in the Completion program. It has the right to participate in any subsequent Recompletion in another formation.

iii) A critical element of the mechanism that is not always apparent to users is that the cost recovery only affects the allocation of production from that well. It is helpful to think of it as a non-recourse financing arrangement whereby the Non-Participating Party foregoes its share of production until recovery of the prescribed cost recovery from the well. It does not alter the Parties' Working Interests in the associated Joint Lands. A Non-Participating Party can participate in (or even propose) other wells on the same section. This could be another well to exploit formations in which the well has not been Completed or Recompleted if permitted under the Regulations. It could also be an additional well drilled to the productive formation under a holding or reduced spacing.

iv) Another key element of the mechanism is that the calculation is generally done on a gross (100%) basis. There is no attempt to prorate Drilling Costs, for example, to a Non-Participating Party's Working Interest share. This is because of the potential for calculation errors in prorating each revenue and cost element to a Non-Participating Party. There are, though, some potential elements of the calculation that require special treatment (i.e., impact of Paragraph **10.05C(b)** reimbursement, a Subclause **10.07F** encumbrance and linking (on a 100% basis) proceeds and Facility Fees to incremental cost recovery volumes). The calculation is not affected by any cash payment made under Subclause **10.13E**.

v) The objective of the cost recovery is to provide an appropriate reward for assumed risk. The reward is ultimately only as good as the well's productivity. A cost recovery does not reward failure.

vi) Note the reference "that are paid" in Paragraph **A(a)**. "Phantom royalties" cannot be charged during a royalty holiday.

vii) The 1974 and 1981 documents were silent on product enhancement costs for handling production. They did not actually fall within the scope of the formula, as they were not "operating costs" as then defined. In practice, personnel administering penalty accounts intuitively recognized that they should be included in the cost recovery, as those costs were incurred to enhance the value of the production. They generally addressed their recovery through a broad interpretation of "operating costs" or by calculating production proceeds at the wellhead. The 1990 document used the latter approach. This document introduces the Facility Fees concept. This basically grosses up the Facility Fees applicable to the incremental volumes to 100%. This links the Facility Fees directly to the costs to handle the volumes otherwise applicable to the Non-Participating Party's Working Interest, and gives the same result as if all costs and revenues were prorated to the Non-Participating Party's interest.

viii) The 200% cost recovery for Equipping Costs was introduced in the 1990 document. (The 1974 document allowed for their recovery on an "at cost" basis, and the 1981 document included an interest mechanism.) The 200% recovery was included for two reasons-to recognize there was no certainty that the Equipping Costs would be recovered and to simplify the calculation.

ix) Parties typically use different percentages for the Development and Exploratory costs in Paragraph **A(e)** to reflect presumptions about risk differentials. While users have typically used 300% and 500% for most operating areas, the percentages should be assessed for each transaction.

x) The definition of Completion Costs includes the cost of any Recompletion or Reworking.

xi) The calculation applies against the wellbore. Suppose a well is not productive in the deep X formation, but it is Completed in an uphole formation (J). The cost recovery is based on the *bona fide* costs that were incurred in the well as a whole, even though the costs incurred below the J formation had no direct bearing on its exploitation. There is an exception to this general outcome when Clauses **10.07** and **10.10** apply to different portions of the well. As the Non-Participating Parties are already potentially subject to a forfeiture of their entire interest in the deeper formations, the costs associated with those deeper formations are excluded from Paragraph **A(e)** under Subclause **10.10F**.

xii) The traditional cost recovery poses many challenges in practice. These include: (a) the differences in cost (e.g., Facility Fees) and revenue profiles of the Participating Parties; (b) the low priority given to monitoring "payout" type accounts by both Participating Parties and Non-Participating Parties; (c) continuity issues with property sales; and (d) the complexity of calculations for gas properties. It was not feasible to include a volume based reward as an alternative (as in the 1997 CAPL Farmout & Royalty Procedure), given the difficulty in predicting the type of activities that could be conducted over the life of the Operating Procedure. It may be attractive, though, to consider other negotiated alternatives in the context of a particular Operation Notice. In addition to the more traditional alternative of a farmout (possibly for a non-convertible ORR), it may be attractive to negotiate a volume based reward as a proxy for value before the well is Commenced or after it is determined to be successful, using the well data. The negotiation of some type of forced farmout penalty for at least some initial period (specified time or Exploratory Wells meeting certain criteria) may also be mutually attractive when negotiating an Agreement for a high-risk, high-reward area in which the initial drilling information could validate the basin model. (See the miscellaneous annotations on high-risk, high-reward properties in the Addendum at the end of the document.)

Another option that may sometimes be attractive is to negotiate a cash buyback of a Working Interest in the well shortly after the well is drilled. This idea is based on the cash premium mechanism that has been traditionally used in international agreements, such as the AIPN and UK model Operating Procedures. This would see a Non-Participating Party buy its way out of the cash recovery situation by paying an agreed upon negotiated amount that makes mutual sense, with any such payment generally regarded as "COGPE" for tax purposes insofar as it does not pertain to tangibles. Any such negotiated amount would probably be less than the full cost recovery amount, to reflect the benefit to the Participating Parties of obtaining funds immediately on a favourable tax basis. The Participating Parties would share any such payment on the basis prescribed by Clause **10.17**.

There are several reasons why this might be mutually attractive in a particular case. Having common equity interests early in the development cycle can facilitate pool development, particularly if there are strategic issues with use of regional facilities. A Non-Participating Party could limit the financial impact of the cost recovery if significant Equipping Costs and Production Facilities are anticipated, and it may also be attractive to it if the strategic benefits of being able to book the production and reserves outweigh the cash premium required to reinstate its interest in the well. At the same time, Participating Parties can benefit from a near term receipt of funds (versus receiving production proceeds over time on a less favourable tax basis) and from another Party's participation in the lower rate of return Equipping and Production Facilities. Payment also shifts the entire risk for well performance on the interest from the Participating Parties to a Non-Participating Party buying back its participation.

xiii) Note the deeming mechanism on sale proceeds in the first sentence of the last paragraph. That sentence generally creates a floor price of a Market Price. It is designed primarily to protect Non-Participating Parties against notional allocations of the least attractive gas sales contracts in a Participating Party's portfolio to wells subject to a cost recovery. This is of particular concern if gas prices are volatile and companies have entered into unfavourable hedging arrangements. The outcome is not entirely clear if that sentence was not included, but the Mesa case noted in the annotations on Clause **1.05** might provide some protection from a Participating Party's attempt to allocate volumes on an arbitrary basis from an Independent Well to its least attractive sales contracts. The use of the Market Price for 100% of proceeds gives the same result as using it only for the incremental cost recovery volumes applicable to the Non-Participating Party's interest and prorating all costs to that interest.

A pre-existing dedicated lands reserves based contract complicates the calculation. If the Non-Participating Party's cost recovery volumes must be sold under that agreement, the proviso basically grosses up the proceeds applicable to the incremental cost recovery volumes to 100%. This reflects the 100% nature of the calculation, but gives the same result as if all costs and revenues were prorated to the Non-Participating Party's interest. Those contracts tend to apply only to older properties, where all owners are typically subject to the same or parallel gas sales contracts.

xiv) Audits and other financial adjustments reduce the principal amount on which the multiples in Paragraphs **10.07A(d)** and **(e)** are based.

Subclause 10.07B: i) Suppose that a well drilled under Clause **10.05** was successfully Completed in both the Development Well and Exploratory Well portion, but could not be produced simultaneously and that the Drilling and Completion Costs of the well were borne as follows: (a) Development Well Portion ($300K): A 50% ($150K), B 50% ($150K) and C-0; and (b) Exploratory Well Portion ($300K): A 100% ($300K), B-0 and C-0.

Between A and C, the Paragraph **A(e)** cost base would be $600K, as any reimbursement to the Development Well participants (100%) under Paragraph **10.05C(b)** has no impact on C. Between A and B, it would be $300K at the prescribed multiple plus $300K without a multiple because of the participation in the Development Well portion. Any reimbursement to the Development Well participants because A exercised its pre-emptive production right for the deeper portion of the well was treated as a 100% Operating Cost between only A and B in prior versions of the document.

The handling in this document continues to see the reimbursement handled in the cost recovery on a 100% basis without the multiple. It was included under Paragraph **10.07A(e)** to address the situation in which the well is Abandoned in the deep rights in order to conduct an uphole Completion in a formation to which the reimbursement pertains. The modified handling sees the reimbursed costs being recovered after the Paragraph **10.07A(e)** costs pertaining to the Exploratory Well, rather than before any recovery of the costs of the exploratory portion of the well as in the 1990 document. (The last paragraph of Subclause **10.07A** applies proceeds to Operating Costs before the Paragraph **10.07A(e)** costs.) Any outstanding Paragraph **10.07A(e)** costs relating to the Exploratory Well portion of the well are waived relative to the former Participating Parties in the Development Well portion of the well if the well is subsequently Abandoned for an uphole Completion in the original Development Well.

ii) The Participating Parties will sometimes Abandon the Exploratory Well prior to the prescribed cost recovery to conduct a Completion or Recompletion in one or more formations of the Development Well portion of the well to which the reimbursement pertained. The former Participating Parties in only the Development Well portion of the well that are subject to the cost recovery have the right to receive an Operation Notice for this proposed Operation. Participation by any such former Participating Party is contingent on reimbursement of: (a) the outstanding amount of the reimbursement applicable to its Working Interest; and (b) the outstanding Equipping Costs applicable to its Working Interest, without the 200% multiple prescribed by Paragraph **10.07A(d)**. The elimination of the multiple on the Equipping Costs reflects the fact that the Exploratory Well Participating Parties have already had the opportunity to apply production proceeds against 200% of the Equipping Costs. A former Participating Party in the Development Well portion that chooses not to participate in the new work will see the additional costs added to the cost recovery calculation.

To illustrate using the example in annotation (i) above, assume that the Exploratory Well portion of the well is plugged back for a Completion in the original Development Well portion of the well before full recovery of the deep costs. C would remain subject to the cost recovery on the total amount then outstanding. B, on the other hand, would have the option to participate in the Completion by reimbursing the $150K that had previously been reimbursed to it. B's reimbursement would be smaller if the work were proposed after full recovery of the deep costs multiple and some recovery of the 100% amount to be recovered for the reimbursed amount applicable to the Development Well portion of the well.

iii) The special participation rights in this Subclause only apply if the well is only being retained for activities in the original Development Well portion of the well. They do not apply if the Participating Parties later Complete the well in each portion as a dual producer.

Subclause 10.07C: The election after cost recovery was introduced in the 1981 document. The 1971 and 1974 documents provided that the Non-Participating Party's acquisition of participation in the well occurred automatically. It would generally acquire the interest if it believed that the benefit of reacquiring its share of production was greater than the potential Abandonment costs or accrued Environmental Liabilities.

Subclause 10.07E: i) A Non-Participating Party that chooses not to accept participation in the well is basically foregoing its rights in the well and the production associated with its Working Interest through the well from the formations in which that well is then Completed or Recompleted. It otherwise retains its Working Interest in the Joint Lands included in the Spacing Unit of that well, such that it has the right to participate in any additional well on the original Spacing Unit. This would include a well drilled to a different formation or a well drilled under a holding or a reduced spacing order. This is similar to the handling of an Abandoning Party's interest under Subclause **12.02A**.

ii) This might be shown on a land information system by setting up the wellbore as a separate ownership split.

Subclause 10.07F: i) This Subclause was introduced in the 1990 document. It only applies to those encumbrances not borne for the Joint Account that flow with the interest under Clause **15.02**. It will not apply to the typical Clause **15.01** encumbrance, such that the issue would have to be resolved by the Non-Participating Party and the encumbrance holder wherever Clause **15.02** does not apply. However, a Non-Participating Party might also consider trying to negotiate the application of these principles to its Clause **15.01** burden for a particular Independent Well.

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. Assume that the interests are: A -ORR (as calculated on 50% of production - net 7.5%); B-25% (farmor that converted its ORR at payout); 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, how is A's ORR handled under Clause **10.07**?

A's ORR was not an encumbrance borne for the Joint Account, such that the 1981 provision clearly stated that it had no impact. This would be of concern to both A and D, as D is required to pay an ORR on the production respecting the interest acquired from A. This Subclause creates a different result for encumbrances to which Clause **15.02** applies. They will be taken into account under Paragraph **10.07A(a)** for only the affected Non-Participating Party. Subclause **F** provides that 150% of the amount so paid by B on D's behalf is added to the amount recovered thereunder. The 50% premium is designed to compensate the Participating Parties for the delay of penalty payout caused as a result of its inclusion.

iii) Suppose that B did not participate in a well proposed by C when the interests in the above example applied. While C's Working Interest was encumbered by a Clause **15.02** encumbrance, B's did not have any such burden attached to it. Payments made by C on D's behalf would continue to be taken into account for D, but would have no impact on B. Similarly, payments made by C for its own account would have no impact on B.

Subclause 10.07G: Incentives accruing under the Regulations do not affect the calculation under Subclause **10.07A**, whether they accrue collectively to the participants in the Operation or to any individual Participating Party because of attributes personal to it. However, "phantom royalties" cannot be charged under Paragraph **10.07A(a)** during a royalty holiday.

Subclause 10.07H: i) Disclosure of information for consideration under Clause **18.03** requires the consent of all Parties with a proprietary interest in it. That Clause states that a Non-Participating Party does not have a proprietary interest in the information, such that its consent is not required.

ii) A disclosure of well information will typically be in exchange for other well information, rather than cash. Any cash contribution received by the Participating Parties for disclosure of well information under Clause **18.03** will be applied against the amount in **A(e)** to reduce the penalty cost base.

Subclause 10.08A: i) Except as provided in this Subclause, a Party may not issue an Operation Notice for other Operations in a well that is capable of production in Paying Quantities without the authorization of the other Parties holding a Participating Interest in the well (on such terms as they may agree). The restrictions are designed to ensure that cash flow will not be compromised by a new Operation that may not be successful or that may damage the wellbore or the productive formation.

There is a new qualification that a Party may issue an Operation Notice for a well if it has not been Completed within 36 months of its drilling rig release or it had produced (other than for test purposes) and has then been Suspended for at least 24 consecutive months. This is designed to facilitate activity with respect to inactive wells without going so far as to deem the well not to be productive and potentially invite lease retention issues.

The authorization in the last sentence does not extend to a Completed well that has not yet been produced, to recognize that infrastructure limitations may restrict the ability to put a good well on production. It does not follow from this, though, that the restriction in Paragraph **(a)** will necessarily apply to that well, a Completed well or a well that has produced in the preceding 24 months, as the Paying Quantities test is a question of fact in each case.

ii) A Party that wishes to conduct such an Operation in a productive well would need to negotiate mutually acceptable outcomes with the other Parties for such matters as production priorities, any cost allocation/penalty issues, damage to the well or formation and any royalty holiday issues.

Similar considerations apply if a Party wishes to convert a well to a horizontal producer by Abandoning a portion of the well and redrilling the formation horizontally. Because a Party may be reluctant to forego the production and cash flow from the well, the Parties might attempt to negotiate an outcome in which the cost recovery for the horizontal Operation is linked to incremental production. This would be structured so that a Non-Participating Party would retain its current level of production from the new Operation, subject to normal decline, while being subject to a cost recovery for the remainder of the production associated with its Working Interest.

iii) The Operations contemplated by this Subclause are in the context of formations included in the Joint Lands. Clause **10.06** would apply to the situation in which the contemplated activities pertained to formations not included in the Joint Lands.

Subclause 10.08B: i) A Non-Participating Party generally may not propose or participate in Operations under this Clause during the period in which a cost recovery applies. It does not, for example, typically have the right to participate in the Completion or Equipping of an Independent Well. (See the definition of Receiving Party.)

There are three exceptions to this handling. The first relates to the rights of a Party that participated in only the Development Well portion of a Clause **10.05** divided well, where the well is initially produced from only the Exploratory Well portion of the well. (See Subclause **10.07B**) The second is as provided in Subclause **10.08C** for participation in a Deepening or Sidetracking proposed to it. The third is for the situation in which a Party had participated in the drilling and setting of production casing, but declined participation in the Completion program.

For the latter, it may participate in a Completion or Recompletion program in a different formation without having to pay, in cash, any outstanding cost recovery under Paragraph **10.07A(e)**. Although this situation would often arise when the deeper formation is being Abandoned in favour of further Operations uphole, this will not always be the case. It is quite possible that the Participating Parties in the deeper formation will want to conduct further Operations so that the well can be produced from more than one formation simultaneously.

Paragraph **(c)** accommodates this by providing that the Clause **10.07** cost recovery would continue to apply to the original Completion or Recompletion, notwithstanding the special election granted for the new Operation. Paragraph **10.05C(a)** will apply, *mutatis mutandis*, in this circumstance if there were any resultant variance in participation in the well. In essence, that Paragraph clarifies the Operator, includes a measurement obligation and provides some direction about the allocation of Operating Costs. Parties that find themselves in this situation would find it beneficial to supplement this provision with additional documentation that addresses their expectations in their particular fact situation.

Any new participant is required to pay its Working Interest share of the unrecovered principal amount for Equipping Costs for equipment to be used in conjunction with that Operation (with a corresponding adjustment to any existing cost recovery). This is a unique situation, as that Non-Participating Party has participated in all of the Drilling Costs and the costs of production casing that were required to conduct the additional Operation.

ii) This handling of Equipping Costs reflects the dual use of the equipment and the fact that this Non-Participating Party has potentially seen its Working Interest share of production proceeds previously applied against the cost recovery.

Subclause 10.08C: i) The Operating Procedure has historically been silent about a Deepening or Sidetracking proposed for a well that was drilled as an Independent Well and subject to the Clause **10.07** cost recovery. (This Subclause could not apply if a Clause **10.10** forfeiture already applies to the well, although the Parties would always be free to negotiate a different outcome at the time.)

Subject to the qualification in annotation (ii) below, a Non-Participating Party's ability to participate in that Operation is probably not contentious. There was no guidance about the election mechanism in prior versions of the document, though. There were three major potential approaches. A Party could participate if it paid its share of the entire uphole cost of the well. It could participate with no direct responsibility for any uphole costs, as it already contributed a potential cost recovery in support of the well. It might also be required to make a specified partial reimbursement of uphole costs that were not formation specific evaluation costs, such that the costs of any testing program in the uphole formations would be excluded.

Subject to the exclusion of some costs for a Sidetracking, the 100% reimbursement in the first approach is used. This puts that Party in the same position as it would have been in if the well were initially proposed to the different depth. If it elects not to participate in the additional Operation, the costs of the additional Operation will be added to the cost recovery. If it elects to participate and make the reimbursement, it will become an owner in the acquired well on the same basis as if it had originally participated in it. This would see the new participant receive a cash credit for any intervening production applicable to its Working Interest in the acquired well. The new participant would also have a credit or debit for any subsequent adjustment of costs and a share of any other liabilities that had accrued for the Joint Account. Subject to the qualification for the plugged portion of a Sidetracked well, this structure also avoids the complexities in applying a cost recovery to the shallow formations and having different ownership interests in the wellbore. (A Non-Participating Party normally would not have rights or obligations for the wellbore until it acquires them after a cost recovery.)

This Subclause is based on three major principles. The first is that a Party that did not participate in the original well is permitted to participate in the new Operation, as it differs materially from that described in the original Operation Notice. The second is that the costs to the depth at which the Operation begins are integral to it and are to be reimbursed. The third is that the costs respecting formations deeper than the depth at which a Sidetracking commences do not result in a cash reimbursement, as they are, in effect, being incurred a second time to evaluate the same objective at a different location. (One of the consequences of excluding these costs from the cash reimbursement is that any revenues pertaining to the deep formation in the original wellbore are retained by the original Participating Parties, and applied to the original cost recovery. The alternative handling would see both the deeper costs and revenues coming into the reimbursement equation, such that the cost base would typically be materially higher.)

ii) As noted in the miscellaneous annotations on high-risk, high-reward Operations in the Addendum at the end of the annotations, the Parties may wish to modify the outcomes provided in this Subclause to provide some flexibility to conduct a Sidetracking within a specified radius of the original location. That type of modification recognizes the real probability that the Participating Parties might Sidetrack a wildcat well because of the information they obtain during the drilling of the well. It is designed to ensure that the Non-Participating Parties do not have the opportunity to re-elect to participate at this stage and avoid the consequence of their initial election after the initial work has changed the risk profile drastically.

iii) The information about the objective from the original wellbore and the decision to proceed with the Sidetracking would probably impact the assessment of the risk of the Sidetracking. This reinforced the inclusion of a 100% cost reimbursement for the well to the depth at which it begins.

iv) For context, Sidetracking excludes deviations associated with straightening the wellbore, drilling around obstructions and other mechanical difficulties. In effect, it addresses an intentional decision to evaluate a different downhole location than that identified in the original Operation Notice.

v) A Non-Participating Party considering the participation election does not have the right to obtain the information for the well prior to its election, unless it is then entitled to that information under Clause **10.19**. However, the disclosure of this information may sometimes occur in practice because the Participating Parties may want to facilitate a participation election and have another Party share the additional costs of the Operation.

vi) A Non-Participating Party that does not make the equalization payment to the Participating Parties by the required time is subject to the potential application of the Clause **5.05** default remedies, subject to an important qualification. The Operator of the Operation (probably in consultation with the other Participating Parties) may serve notice that the participation election is void, in which case the cost recovery would apply. A Non-Participating Party making this election should monitor the reimbursement process to ensure internal compliance with the requirements. In practice, most Parties would probably only exercise their right to void the transaction for non-payment after notifying the Non-Participating Party that payment was late and providing them an opportunity to rectify the default.

vii) A Non-Participating Party considering the participation election should conduct some due diligence to ensure that it would not be assuming unforeseen liabilities because of its retroactive participation in the uphole portion of the well.

viii) A Sidetracking would result in an adjustment of costs under Paragraph **10.07A(e)** for a Non-Participating Party that did not participate in it. The costs excluded from the cash reimbursement will be included in the cost recovery, and supplemented by the costs of the Sidetracking and any associated Completion attempt. This is designed to provide an incentive to participate in a Sidetracking while providing a full recognition of assumed risk relative to a Non-Participating Party that chooses to continue to sit on the sidelines.

Subclause 10.08D: Except as provided in Subclauses **10.07B** and **10.08C**, the processes in Clause **10.07** will apply, *mutatis mutandis*, to Independent Operations conducted under Clause **10.08.** The development or exploratory status will be determined at the time of the Operation, not when the well was originally drilled. Otherwise a new Operation on an old well could result in an exploratory penalty because of the well's original exploratory status, when the same Operations in a new well at the same location would be categorized as development. This reflects the degree to which subsequent investment decisions can be significantly influenced by other Operations in the vicinity.

Subclause 10.08E: i) This Subclause is similar to Clause **9.04.** It has been broadened in this document to apply to an existing well on which an Operation is conducted under either Clause **10.08** or **10.10**.

Assume that A, B and C hold Working Interests in the Joint Lands. A and B participated in drilling a well, and Suspended it. A later conducts a re-entry and Completion in which B elected not to participate. A then notifies B within 6 months of its intention to Abandon the well. 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 joint equipment.

Operations would then be for the Joint Account of A and B in proportion to their respective Participating Interests in the well, subject to three exceptions. Equipment and material added to the well at A's expense would be salvaged for A's sole account. Any additional costs of Abandonment (including Environmental Liabilities) associated with A's Operations would be for only A's account. Similarly, nothing in this Subclause alters the Parties' respective rights and responsibilities for Losses and Liabilities associated with that Operation, such that B would retain all remedies provided to it under Clause **10.18** with respect to A's Operation.

ii) If the Participating Parties in the Clause **10.08** Operation retain that well after that 6 month period, they will reimburse the Clause **10.08** Non-Participating Parties their respective shares of the net salvage value of the applicable material and equipment in proportion to their original Participating Interests therein. The reimbursed amounts are treated as Operating Costs under Paragraph **10.07A(b)** for any cost recovery that applies.

Subclause 10.08F: i) A Party receiving an Operation Notice for Equipping a well in which it holds a Working Interest has historically had the choice of participating or being subject to a cost recovery on the same basis as is prescribed under Clause **10.07**. This version of the document expands the options available to it by enabling it to elect to take in kind its share of the Petroleum Substances otherwise being served by the Equipping if the nature of the Equipping Operation allows a Party to take its production in kind without using the assets included in the Equipping. This allows it to install a "splitter" at the well site, so that it can manage its volumes differently than contemplated by the Equipping.

A Party making this election will generally be solely responsible for the costs of any additional equipment required to handle or measure its share of production. The one exception to that handling is the situation in which the proposed Equipping pertains to the installation of equipment that serves substantially the same function as equipment already on the well (e.g. another pipeline to a different location when there is an existing line in place). The Participating Parties in the proposed Equipping will be responsible for the incremental costs for the splitter and measurement in that situation, and may not include these costs in a cost recovery relative to any Parties that elected to be subject to the cost recovery under Paragraph **10.08F(c)**.

ii) There are practical implementation issues associated with the take in kind option for such matters as compensation for shutting in production, surface sharing and liability and indemnification that the Parties should address at the time. Other than for the inclusion of a mutual liability and indemnification obligation, it is not feasible to cover them in this document because of the degree to which these issues are situation dependent.

iii) A Party that elects to take in kind and then fails to do so will be a Non-Taking Party. It will be subject to a marketing fee under Clause **6.04**, as well as an additional fee for use of the assets included in the Equipping on the same basis as prescribed by Clause **14.04.**

iv) The preferred approach may be a negotiated outcome at the time, particularly if taking in kind would significantly impact use of the equipment to which the proposed Equipping pertains. In practice, the impact may be so significant that it may cause the Proposing Party to reconsider the Operation or its perspective on a negotiated resolution.

Subclause 10.09A: i) This Subclause addresses an initial Abandonment, and is similar to Clause 1006 of the previous documents. Subclauses **10.09B** and **C** apply to wells that are initially Completed successfully, but Abandoned before the cost recovery. The decision is deferred if the initial program under Article **9.00** is the setting of production casing and the Suspension of the well, pending a later Clause **10.08** re-entry and Completion.

ii) The "timely manner" reference is situation dependent. A Non-Participating Party subject to a cost recovery does not share in production from that well. It still retains its Working Interest rights in the Joint Lands to propose another well if the Participating Parties do not proceed to Abandon.

Subclause 10.09B: i) This is similar to Clause 1009 of the previous version of the document, but it clarifies the impact of estimated surface restoration costs in the calculation.

ii) This Subclause does not provide the Non-Participating Parties with any right to take over this well. This would have required the inclusion of a specific cost adjustment process and possibly a second election process. It will sometimes be mutually attractive to provide them with the opportunity to take over the well at the time on a negotiated basis, as the Participating Parties typically regard the well as a liability at that stage.

Subclause 10.09C: i) There is no longer a provision similar to Clause 1015 of the 1990 document whereby the Non-Participating Party "regains" its rights to formations in which an Independent Well is Abandoned. The cost recoveries in Articles **9.00** and **10.00** reward success, not failure. The reward of a cost recovery applies to the share of volumes applicable to the Non-Participating Party's Working Interest that can be produced from the well to which the cost recovery applies, not the Non-Participating Party's Working Interest in the applicable Joint Lands.

ii) A Non-Participating Party may be responsible for its share of Abandonment costs if it participated in drilling the well and the Participating Parties in a subsequent Operation Commence Abandonment of the well within the 6 month period prescribed by Clause **9.04** or Subclause **10.08E**. A Non-Participating Party only acquires rights in an Independent Well Abandoned hereunder insofar as it is required to assume Abandonment costs.

Clause 10.10 - General: i) The Clause only addresses wells that preserve title. Some forms of tenure allow lands to be maintained because the holder incurred eligible expenditures for geological or geophysical work or well activities to satisfy prescribed annual work requirements. This is relevant if the Joint Lands are in Saskatchewan or British Columbia and they include a permit (or may include a permit under an area of mutual interest). Structuring a suitable provision is more complicated if the interests in the permit lands are not consistent.

ii) The Parties also might be able to obtain an extension to the term of a B.C. lease if they commit to a work program during the following year of the lease. While typically a well, the "committed" work might also be a seismic program and a well that is contingent on the results of that work.

The Parties should consider creating a provision that is customized to their own circumstances, as there is no generally accepted provision on this issue. Subclause **3.10E** of this document addresses this topic to some degree if there is any requirement to post a refundable deposit under the Regulations to secure performance of the work. Paragraph **7.01(b)** and Subclause **10.03B** have also been modified in this document to provide greater flexibility for the period within which to Commence this type of Operation. It was not otherwise feasible to try to include a Clause to address this issue because of major philosophic differences about the level of precision that is required for a contemplated Operation in order to trigger a forfeiture by a Party that was unwilling to agree to a "commitment" at the time the representation was required to be made under the Regulations. The biggest item of discussion is likely to be the level of certainty about the Operation that is required to be presented in order to enforce a forfeiture obligation when the specific well location and the associated costs are unlikely to be finalized at that time. Given the credibility impact on the proponent in the eyes of the regulator if the work is not ultimately conducted, are the other Parties subject to an "in or out" election at that time, subject to protections if the scope of the represented work changes materially? Or is the ultimate election deferred until an Operation Notice with a more specific description of the Operation is presented in due course? Any such provision would also need to address the possibility that a Party may prefer to conduct an alternative Operation that would satisfy the requirement.

iii) The Clause has been structured to address the possibility that title preserving Operations may be conducted for more than one well during the title preserving period. In practice, the vast majority of title preserving scenarios will involve a single title preserving Operation.

Subclause 10.10A: i) A critical criteria when considering if a well is a Title Preserving Well or a Subsequent Title Preserving Well is that the applicable Operation is conducted "hereunder" (i.e., under this Agreement). Assume a Party drills on its 100% lands where the well could retain portions of the Joint Lands. Clause **10.10** does not apply to the well, so that Party must negotiate an agreement with the other Parties if it wishes to obtain any of their interest in the applicable Joint Lands. The corollary of this is that a Title Preserving Well creates a forfeiture requirement for only the Joint Lands, such that there is no impact on other offsetting lands, even if held by the same Parties in the same interests under another JOA.

ii) The Preserved Lands are any Joint Lands that would revert under the relevant Title Document(s) if the Operation were not conducted. There are several subtle points about the provision that have been emphasized in this document. Firstly, a well can be a Title Preserving Well for several Title Documents simultaneously. (The determination is on a Title Document by Title Document basis, but the application to multiple Title Documents is clearer in this document.) Secondly, some formations might be continued without the Title Preserving Well, such that a cost recovery would apply to those formations for the well, 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, there would only actually be Preserved Lands/Common Preserved Lands if the work, in fact, enabled retention of Joint Lands. (After the licence validation phase (lands retained for activity), a D&A well will generally be of little value because of the need to prove productivity to continue the rights. The one exception to this is for any temporary continuation that may result (e.g., Alberta Section 16 continuation).) Fifthly, lands that may be retained through payment of compensatory royalties fall outside the scope of the provision. The cost recovery mechanisms apply to an Independent Operation that enables the applicable Joint Lands to be retained, and the forfeiture process in Subclause **3.10E** applies if compensatory royalties are being paid and a Party chooses not to pay its share.

Last, but certainly not least, the classification of a Title Preserving Well and Preserved Lands are situation dependent. In APL Oil & Gas Ltd. v. Amoco Canada Resources Ltd., [1993] A.J. No. 1031 (Alta Q.B.), the plaintiff elected not to participate in a well proposed within the title preserving period under the 1974 document. During the response period to the Operation Notice and prior to its election, it asked to make a continuation application for the lands instead of drilling the well. Its intention was to seek continuation using a new offsetting well (8-10 mmcf/d) for which the parties did not have information, where it believed its application would be successful. The other parties did not agree to this request. It elected not to participate in the well, while objecting that it was not, in fact, a title preserving well and a production penalty should apply to its non-participation.

The Operator allowed the plaintiff to present well data for the confidential offsetting well to the Crown prior to expiry of the Title Document, but after expiry of the response period to the Operation Notice. Confirmation of continuation of the lands was received prior to the expiry date and the Spudding of the well. The Court determined on the facts that the well was not a well to preserve title under the 1974 document. (See also Amethyst Petroleums Ltd. v. Primrose Drilling Ventures Ltd., 2006 CarswellAlta 1023 (Alta. Q.B.), which also found the classification to be a question of fact.)

The document does not include any specific rules about the wells that may or may not be used to demonstrate that Joint Lands would have been retained without the Independent Well. This approach was taken to ensure that the determination would be situation dependent.

iii) Assume that the applicable Title Document is a licence, that a well has validated less than the entire licence and that a Party is considering issuance of an Operation Notice to ensure that its priority lands would be retained after expiry. It should request an early land selection under Subclause **3.10D** and then determine if it will issue the Operation Notice after the land selection thereunder.

iv) An interesting application of the Clause is to a non-cross-conveyed pooling in which A's lease has an imminent expiry and B's lease does not. What is the outcome if B elects not to participate in A's proposed well to avoid the reversion of A's lease? While the well would be a Title Preserving Well, there are no Preserved Lands with respect to B's non-participation. The Clause **10.07** cost recovery would apply to it, as B's rights were not expiring. Why would B ever be worse off than it would be if 100% of the interests were subject to B's lease? However, if the situation were reversed and B proposed the well, A would be subject to the Clause **10.10** penalty, as its interest would satisfy the Preserved Lands test. (The Parties to a non-cross-conveyed pooling also need to be clear if there is any expectation that the Parties in a contributed tract have any pre-emptive election right under Subclause **10.02C** to assume the share of costs of a Party in their tract that chooses not to participate in an Operation.)

Similar considerations apply to a Party with a Working Interest in the Spacing Unit under two different Title Documents if only one of those documents had a pending expiry. From a risk-reward perspective, the forfeiture outcome should only apply to that portion of its Working Interest subject to loss under the Title Document. The cost recovery should apply to its remaining Working Interest. The Parties would need to consider any other specific implementation issues in their particular context, and should document those expectations in their Agreement or at the time.

v) A well drilled on lands not subject to expiry may be a Title Preserving Well for other lands. A Subsequent Title Preserving Well can also be a Title

Preserving Well, insofar as the Joint Lands (areal and stratigraphic) to be preserved by it do not duplicate those preserved by an earlier Title Preserving Well. A deep Subsequent Title Preserving Well may also continue rights deeper than those preserved by a Title Preserving Well. This has been presented more clearly in this document.

vi) Note the reference to Completion, Recompletion or placing a well on production. A Title Preserving Well is not limited to drilling a well, as in the 1974 and 1981 documents. A drilled well, though, is not required to be Completed or Recompleted if retention is a function of activity (e.g., initial term of an Alberta licence).

vii) The Parties select the date by which a Title Preserving Well must be Commenced in the definition of Title Preserving Well. This allows the Parties to consider such factors as surface accessibility and required regulatory approvals in environmentally sensitive areas. This provides the Parties with greater flexibility than had been prescribed by the 1974 (45 days) and 1981 (1 year or 1/6 of term) documents. The Parties should generally use 365 days for projects in British Columbia because of operational logistics and the possibility that a lease continuation may be conditional on a drilling "commitment" during the next year of the term.

viii) Some Title Documents (e.g., B.C. drilling licences) provide the grantee with the option to extend the term for an additional one year period through payment of a higher rental without the grantor's prior approval. The proviso in the definition of Title Preserving Well links the reversion date for such a Title Document to the end of the extension period, as the Parties generally exercise that right in practice.

Subclause 10.10B: i) Subject to the qualifications in Subclauses **10.10C** and **D**, a Non-Participating Party for a Title Preserving Well will forfeit:

a) 100% of its interest in the well and its Spacing Unit at completion of the Operation, insofar only as they pertain to the Preserved Lands and a Subsequent Title Preserving Well has not then been Commenced whereby that Spacing Unit would be Common Preserved Lands; and

b) 100% of its Working Interest in the balance of the Preserved Lands at the date they otherwise would have reverted to the grantor of the applicable Title Document, subject to any application of Subclauses **10.10C**, **D** and **E**.

If certain shallow rights included in the Joint Lands were not included in the Preserved Lands, the cost recovery prescribed by Clause **9.03**, **10.07** or **10.08** would continue to apply to the well and its Spacing Unit for those zones. Similarly, the Spacing Unit forfeiture would not initially apply to deep rights not penetrated by the well, although those rights could potentially be captured under Paragraph **(b)** in due course.

ii) The Participating Parties knew the type of penalty they would receive in the Title Preserving Well Spacing Unit under the 1990 document at the time they conducted the Operation, assuming the well actually preserved 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 for the Spacing Unit at the time they elected to participate in the well. This document has been modified to provide greater flexibility in the Spacing Unit for the Title Preserving Well because of the possibility that a Subsequent Title Preserving Well that also could have retained those lands is Commenced before completion of the Title Preserving Well activity. However, it does not offer the same wait and watch opportunity as under the 1981 document.

iii) The delayed forfeiture in Paragraph **B(b)** occurs at the date the lands otherwise would have reverted under the applicable Title Document(s). Paragraphs **10.10C(a)** and **(b)** can operate to reduce the interest to be forfeited to the participants in the Title Preserving Well.

iv) A Subsequent Title Preserving Well might be a Title Preserving Well for lands other than the Common Preserved Lands. This Subclause applies, *mutatis mutandis*, between the Parties if that is the case. This is expressed more directly in this document.

Subclause 10.10C: i) The consequences in this Subclause were introduced in the 1990 document. It is very different from the comparable provision in the 1974 and 1981 documents. Those outcomes were not clear until the similar well decision was made, which might not be until after the first well was drilled. The 1990 approach admittedly poses a problem if there is no agreement on the technical merits of a drilling location and simultaneous wells are drilled during the title preserving period, particularly for an unvalidated licence. In that case, it is preferable to negotiate a result appropriate for the situation, and the negative implications of a "race" would typically motivate Parties to do this in practice. While this result would not occur under the earlier documents, the ability to alter the risk thereunder was regarded as a much more serious problem in practice. The modifications to Paragraph **10.10B(a)** were included to mitigate some of the problems with the 1990 approach for the Spacing Unit for the initial well.

ii) The following will apply to a Subsequent Title Preserving Well, subject to any revision of Common Preserved Lands under Subclause **10.10D**:

a) a Non-Participating Party for the Title Preserving Well that participates in the Subsequent Title Preserving Well will not be required to forfeit its Working Interest in any Common Preserved Lands under Paragraph **B(b)**. (It could still forfeit an interest, though, in the Spacing Unit for the Title Preserving Well under Paragraph **B(a)**);

b) insofar as the Spacing Unit for the Subsequent Title Preserving Well is located on Common Preserved Lands that are not part of the Spacing Unit for the Title Preserving Well, a Non-Participating Party in both wells will 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). Either Paragraph **B(b)** or Subclause **E** would apply to its remaining interest in the balance of the lands preserved by the Title Preserving Well; and

c) a Non-Participating Party for the Subsequent Title Preserving Well that participated in the Title Preserving Well would only be subject to a cost recovery for the Subsequent Title Preserving Well if it was drilled on initial Preserved Lands (or the Joint Lands not subject to the contemplated reversion). If the Subsequent Title Preserving Well was also a Title Preserving Well for other Joint Lands, the Subclause **10.10B** forfeiture process would also apply to that Non-Participating Party for the applicable Joint Lands.

Subclause 10.10D: This Subclause is new in this document. It was introduced because the activities associated with the Title Preserving Well or Subsequent Title Preserving Well might only have resulted in a temporary retention of the rights (i.e., Alberta Section 16 continuation). Parties need to revisit the Common Preserved Lands at the end of a temporary retention to determine the activities that caused further continuation of the applicable Common Preserved Lands. In essence, the reward criterion at that stage shifts from a reward for activity to a reward for success. To illustrate the application of this Subclause, consider the situation in which 4 sections of Alberta Crown leases are expiring in an area in which Cardium oil is the main objective. A has drilled a Title Preserving Well on SE1 (D&A) and B has drilled a Subsequent Title Preserving Well on NW11 (oil), where each was drilling through expiry and would entitle the Parties to a Section 16 continuation of all 4 sections for about 6 months. No other well was drilled during the Section 16 continuation period. The Joint Lands could then only be continued based on demonstrated productivity. While A took risk in drilling the Title Preserving Well, the ultimate retention of the lands will be due to B's well in this example. A Party that did not participate in B's well should then forfeit its Working Interest in the Joint Lands continued as a result of that well. This issue was not addressed in any of the previous versions of the document, such that Parties in this situation would need to try to negotiate this type of outcome based on risk-reward principles.

Subclause 10.10E: Paragraphs **B(a)**, **C(a)** and **C(b)** include special rules for 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. The forfeited interest is allocated equally to the Title Preserving Well and the applicable Subsequent Title Preserving Well(s). The allocated interest is then apportioned among the Participating Parties in the respective wells under Clause **10.17**.

Subclause 10.10F: i) This Subclause addresses Drilling Costs and Completion Costs for the formations subject to the forfeiture if a cost recovery also applies to a different portion of the well. Drilling Costs for the formations deeper than the deepest formation not subject to the Clause **10.10** forfeiture and Completion Costs for forfeited formations may not be included under Paragraph **10.07A(e)**, as inclusion would provide a second reward (cost recovery, plus forfeiture) to the Participating Parties for that portion of the costs.

ii) Given the potential dual ownership in the well, it is beneficial to supplement the expectations in the Clause if the well will be retained as a dual producer. This would address such matters as the ability to conduct additional Operations in the well if the well is still productive in the other portion.

Subclause 10.10G: One practical challenge is the determination of the lands that are preserved by a Title Preserving Well, as illustrated by the APL case noted in the annotations on Subclause **10.10A**. 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 negotiation in many cases because of timing problems or the reluctance of regulatory agencies to make a predetermination. In practice, the reference to a dispute resolution process will generally only serve as an impetus towards more timely and reasonable negotiations than might otherwise be the case.

Clause 10.11: i) A Party may conduct a geophysical program over the Joint Lands without prior notice. This admittedly conflicts with the underlying policy objective of encouraging Joint Operations, particularly if a program is primarily conducted on the Joint Lands. However, industry experience has been that an exploration program conducted on the Joint Lands is often a portion of a larger regional program or is also intended to evaluate formations that are not held jointly or subject to any area of mutual interest. A Non-Participating Party that wants to obtain a licence or other access to that data in due course would have to negotiate the terms of access with the owners of the data, where they are under no obligation to accept any offer. This Clause traditionally provided a Non-Participating Party with a relatively short window to acquire a licenced copy of the data for 200% of what its share of the cost would have been had the program been conducted for the Joint Account. The change was made because that structure potentially encouraged non-participation, as a Non-Participating Party knew it had the option to acquire the data if the data matured a prospect.

ii) Parties in a large regional area of mutual interest involving a significant joint exploration program may wish to deviate from this approach. They might include an obligation to allow participation in any G&G program within the project area. They might also provide that a Party could not participate in a well within the program area without acquiring the data at a prescribed amount (such as 200% of what its share of the cost would have been had it been conducted for the Joint Account), unless it had its own data over the prospect.

Clause 10.12: i) The Clause does not include an allocation of capital costs or a fee for capital. A capital component would delay penalty payout, even though there would be an immediate benefit (income) to the Non-Participating Parties. It would also be inconsistent with the basis for use of excess capacity contemplated in Clause **14.03**. The Participating Parties do not have preferential rights to use production infrastructure that falls outside the definition of Production Facility. Any such use would be on such terms as the applicable Parties may negotiate at the time.

ii) An Independent Well on the Joint Lands has priority for use of excess capacity in a Production Facility held for the Joint Account over an existing owner well using it for Outside Substances. This is because production from the Independent Well can ultimately benefit the Joint Account due to the acceleration of the cost recovery. Joint Account wells have the highest priority, even if drilled subsequent to an Independent Well or outside well.

Clause 10.13 i) If the construction of a minor production facility is proposed for wells operated under the 1974 or 1981 document and fewer than all Parties with interests in the wells that would use it participate, the non-participants would either take their production to some other facility or negotiate a processing/transportation arrangement with the facility owners (if sufficient capacity in the facility is available). Production Facility provisions were introduced in the 1990 document to address these types of issues (Clauses 1021 and 1022 of the 1990 document).

Clause **10.13** expands the options for Parties that do not wish to participate in the Production Facility. It provides the Parties proposing to construct a Production 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 Operation Notice or constructed for the Joint Account.

Subclauses **10.13A** and **B** are enabling provisions. They do not preclude the Parties from entering into a separate agreement to construct or use this infrastructure. They allow any Party to propose the construction of a Production Facility through an Operation Notice. Parties receiving that notice have the option to: (a) participate; (b) elect not to participate and take their production in kind; (c) elect not to participate and be subject to a cost recovery out of their production of Petroleum Substances handled at the Production Facility; or (d) negotiate a fee to use the facility on the same basis as provided under Clause **14.04**. The definition of Non-Participating Party provides that a Party that makes the take in kind election in Paragraph **B(b)** or a fee election under Paragraph **B(d)** is not a "Non-Participating Party". In the context of a Production Facility, a "Non-Participating Party" is a Party that elects to be subject to a cost recovery as a result of its non-participation under Paragraph **B(c)**.

Any cost recovery would usually be paid out of production from wells located on the Joint Lands and using the Production Facility. Upon recovery of the prescribed cost recovery, the Non-Participating Parties have a further election whereby they may choose to reject or accept participation in the facility, with rejection amounting to forfeiture of the rejecting Party's interest in the Production Facility.

The main principle in this Clause is that the construction of a Production Facility should be permitted. This is subject to the critical qualification that no Party is forced to participate in the facility, either directly (by paying its share of costs in cash) or indirectly (through a cost recovery mechanism).

ii) Subclause **10.02A** of this document has been modified, so that it no longer includes a sentence like the first sentence of this Clause. It has been retained in this Clause to encourage dialogue, as decisions about Production Facilities can affect an entire development project.

iii) There are some practical implementation issues associated with the take in kind option for such matters as compensation for shutting in production, surface sharing and liability and indemnification. Other than for the inclusion of a mutual liability and indemnification obligation, it is not feasible to be prescriptive about them because of the degree to which these types of issues are situation dependent. These issues seem manageable in practice because of the Operator's role in conducting any work required to accommodate the election, particularly with the fallback into the Subclause **10.13I** fee if issues are unresolved and the electing Party ends up not taking in kind.

iv) Paragraph **(d)** is new in this document, but the fee option would probably be considered by the Parties in practice in any event. The option may be mutually attractive because of the difficulties inherent in monitoring a facility payout account, particularly if there are multiple Participating Parties and the production is gas and associated products. It may also be attractive if a Party is not interested in acquiring its full share of capacity in the facility because it is not as optimistic about well performance as the proponents (e.g., regards one well as uneconomic). In that case, the option may sometimes provide a platform for negotiation of an arrangement involving a lower level of participation in the Production Facility.

In practice, a Proposing Party would often identify its expectation for the fee in the Operation Notice, even though it cannot unilaterally impose its fee. A Receiving Party considering the fee option would presumably initiate a discussion before expiry of the response period if the notice were silent.

v) The deeming mechanism generally applies the take in kind approach in Paragraph **(b)**. However, the fee approach in Paragraph **(d)** will apply if the nature of the proposed Production Facility is that it is not feasible to take production in kind without using the Production Facility.

vi) Only Operations that would result in a facility meeting the tests in the definition of Production Facility are within the scope of this Clause. A Party that receives a notice for an Operation that clearly does not satisfy those tests may reject the notice. This document includes more protection for the Receiving Parties. A Receiving Party has a 10 Business Day period to notify the other Parties of its objections if it does not believe that the Production Facility meets the requirements in the definition of Production Facility (e.g., an objection that it is overdesigned to handle Outside Substances). Any such objection suspends the response period for the Operation Notice pending a determination under the Article **21.00** dispute resolution process.

Subclause 10.13D: i) This Subclause addresses the cost recovery process, where it is important to recall that a Party that elected to take in kind or pay a fee does not fall within the definition of Non-Participating Party. In essence, the mechanism provides that the Participating Parties will retain the Non-Participating Party's share of production from wells held hereunder that use the Production Facility until recovery of the prescribed amount. As is the case with the calculation under Clause **10.07**, the current expenses for royalties, Operating Costs and Facility Fees are deducted before the allocation of remaining proceeds to the outstanding capital amount.

ii) Paragraph **(c)** recognizes that the Production Facility may be designed to provide only partial handling functionality, as additional product enhancement may be required at other upstream or downstream facilities. This could happen, for example, if the Production Facility provided field booster compression where the production requires further downstream handling.

iii) A Non-Participating Party may already be subject to a Clause **10.07** cost recovery for a well using the Production Facility. The Clause **10.07** cost recovery would take priority over the Clause **10.13** cost recovery. If the Non-Participating Party's interest in other wells hereunder were subject only to the Clause **10.13** cost recovery, it would then initially be from those wells. If the Clause **10.07** cost recovery were attained before the Clause **10.13** cost recovery, the Clause **10.13** cost recovery would then apply to that Non-Participating Party's interest in that well.

Subclause 10.13E: i) A Non-Participating Party has the option to pay in cash the outstanding amount to be recovered from its share of production. The tax impact here would be based on an acquisition of tangible property (not "COGPE"), and includes the requirement to pay GST on the

acquisition. (This would be based on the gross (100%) outstanding amount of the cost recovery amount as prorated to that Party's Working Interest.) This may be attractive to a Non-Participating Party if it wishes to participate in additional development drilling that will result in an increased use of the Production Facility. This option could also be particularly attractive if an expansion is being considered under Clause **10.14** to accommodate increased volumes of Petroleum Substances.

The Participating Parties could also find the exercise of this right attractive because common equity interests early in the development cycle can facilitate pool development. The Participating Parties can benefit from a near term receipt of funds (versus receiving production proceeds over time on a less favourable tax basis) and from participation in the lower rate of return Production Facilities. Payment also shifts the risk for pool performance on the interest from the Participating Parties to the Non-Participating Parties.

ii) A Non-Participating Party considering the exercise of the acquisition right granted under this Subclause would typically conduct a due diligence review to confirm that the Production Facility is consistent with its expectations.

iii) Although the Participating Parties would probably be receptive to this for Production Facilities constructed under the 1990 document, this mechanism is new to this version of the document.

Subclause 10.13F: Subclauses **10.07F**, **G** and **H** and **10.09B** apply, *mutatis mutandis*, to Clause **10.13**. This ensures that the cost recovery infrastructure in Clause **10.07** and the Abandonment processes in Subclause **10.09B** apply to the Production Facility.

Subclause 10.13G: A Non-Participating Party that elected to be subject to the cost recovery might elect not to obtain an interest in the Production Facility after the cost recovery because of its belief that reclamation costs would exceed the value of the Production Facility to it. The elections to accept participation in the well and in the Production Facility are distinct elections. It could accept participation in the wells, but refuse participation in the Production Facility. It would then have to negotiate a fee if it wanted to use the Production Facility for its share of production from the Joint Lands.

Subclause 10.13H: A former Non-Participating Party that exercises its right to acquire its Working Interest by paying the outstanding cost recovery amount in cash acquires its Working Interest in the Production Facility, effective as of the date of that payment and subject to Paragraph **10.13E(d)**. Once it becomes an owner, it shares the rights and responsibilities on the same basis as if it had originally been a participant in the activity. For example, it would assume its share of any outstanding claims against the owners and its share of the benefit of any revenue adjustment in favour of the owners during the period prior to the time it became an owner.

Subclause 10.13J: This Subclause provides the necessary fee mechanism if a Party that elects to take its production in kind fails to do so. The provisions of Article **6.00** also apply to the extent that this occurs, including the Clause **6.04** marketing fee.

Clause 10.14: i) This Clause applies the Clause **10.13** principles to the expansion of an existing Production Facility, subject to Clause **14.02**. If this occurs, an owner's options are limited to participation or being subject to a cost recovery, with no further election after recovery of the prescribed amount. That Party does not have the right to forego acquiring its interest in the expansion after the cost recovery, as this would require the creation of functional units with different ownerships and greatly complicate management of the Production Facility.

This mechanism deviates from the principles that apply to a significant facility under a typical, detailed facility agreement, such as the PJVA CO&O Agreement. It would not force a non-participating owner to participate in an expansion or to pay for it indirectly through a cost recovery. Because of the unique handling and to encourage dialogue, this document has been modified to decrease an expansion cost recovery from 200% to 150%.

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 choose not to prepare a separate facility agreement. The application of a cost recovery to minor expansions of such a Production Facility allows it to continue to be governed by the Operating Procedure. Parties that find this objectionable, however, may prefer to: (a) try to negotiate an alternative in the context of their situation; (b) prepare a separate facility agreement; or (c) delete this portion of the provision and modify Clause **14.02** to exclude any Production Facility being expanded if fewer than all owner Parties agree to the expansion.

ii) A Non-Participating Party in the Production Facility is to be provided a copy of the Operation Notice for the expansion. It has the option under Subclause **10.13E** to pay in cash the outstanding amount to be recovered from its share of the production to become a Working Interest owner in the Production Facility. Making that payment before expiry of the response period for the expansion of the Production Facility would then enable it to elect to participate in the expansion as a Working Interest owner.

Subclause 10.15A: i) The Operator of an Independent Operation is to provide the affected Parties (Non-Participating Parties and Participating Parties assuming the Non-Participating Parties' costs) with periodic statements showing the status of the cost recovery under the applicable provision (**9.03**, **10.07**, **10.08**, **10.13** or **10.14**) once the Non-Participating Party is entitled to information from the Operation under Clause **10.19**. Previous versions of the document included an obligation to issue statements on a monthly basis. This obligation was typically ignored and the cost recovery status monitored infrequently by both the "Operator" and the Non-Participating Parties. The more specific obligations in this Subclause are intended to help address this problem. The obligations are largely based on Clause 6.01 of the 1997 CAPL Farmout & Royalty Procedure. It, in turn, had largely been based on the 1989 PJVA Well Payout Calculation Study.

Having reasonable information of this type on hand is particularly important if a Party is disposing of its interest.

ii) Notwithstanding the expectations set forth in this Clause, industry's implementation of the Clause in practice is likely to be "targeted compliance". There are wells that warrant the administrative effort contemplated by this Clause and those that do not, and both Operators and Non-Participating Parties will govern themselves accordingly in practice. A Non-Participating Party can quickly assess if an Independent Well may be material to it by using public data to look at production rates.

iii) The Operator might only have participated for its Working Interest share of costs and conducted the Operation under Alternate **10.04A(b)**. The Proposing Party would have the monitoring and reporting obligations under this Clause in that case.

Subclause 10.15B: The cost recovery calculation can be complicated greatly if multiple Participating Parties have assumed the Non-Participating Parties' costs. They would typically sell into different markets at different prices, and the Operator would seldom be aware of the range of actual prices. Their cost structures could also be very different if they have different positions in regional infrastructure used to handle the production subject to the penalty (e.g., facility owner, fee user). The handling of Facility Fees and proceeds in this document mitigates these issues.

Subclause **B** enables the Operator to use its own cost and revenue information as a proxy for that of the other Participating Parties when doing a 100% calculation. Remember, though, that Subclauses **10.07A** and **10.13D** generally require use of a "Market Price" for production proceeds.

Subclause 10.15C: The cost recovery is calculated on a financial month basis, with a financial adjustment to accounts. Insofar as there are changes to debits or credits used in the calculation (e.g., delayed recognition of Operating Costs, impact of 13th month adjustment), there will be an adjustment to the Parties' accounts at the time. This approach also applies to adjustments for the period prior to the election to obtain participation.

Subclause 10.15D: A Non-Participating Party has audit rights on the same basis as under the Accounting Procedure, with Clause **21.03** potentially applying to unresolved audit exceptions. Any such audit will also be conducted in accordance with the then most current PASC Joint Venture Audit Protocol. Audit rights extend beyond the Operator of the Independent Operation to the other Participating Parties that assumed the Non-Participating Party's share of costs. In practice, a Non-Participating Party would only even consider the expanded audit if the well was significant to it and there were a concern that the Operator's handling wasn't representative.

Subclause 10.15E: i) One of the historical difficulties with Clause **10.15** has been the lack of consequences for failure to issue the required periodic statements. This version of the document introduces a mechanism whereby a Non-Participating Party may conduct an audit for the account of the applicable Participating Parties if it does not receive a statement within 60 days after a formal request. A Non-Participating Party is more likely to consider this mechanism if it has previously made several requests for the statement, particularly if the well is potentially significant to it.

ii) Any such audit is at the expense of the Participating Parties that assume the Non-Participating Party's share of costs, even though the "Operator" is the Party that has refused to satisfy the reporting obligation. This structure was designed to encourage performance by causing the other Participating Parties to take greater interest in the problem because they would also be required to bear a share of the cost of non-compliance.

iii) This also provides the Participating Parties with a basis to replace the "Operator". Clause **10.16** applies the other provisions of the document, *mutatis mutandis*, between the Parties. The replacement processes in Subclause **2.02B** would apply to an Operator in default of its obligations that does not remedy the default within 30 days after receipt of a default notice from a majority in interest of the "Non-Operator" Participating Parties.

Subclause 10.15F: It is not uncommon for notice of a cost recovery not to be issued to the Non-Participating Parties or to be 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 when the notice should have been issued. To provide greater protection to the Non-Participating Parties for the debt owing to them, they also have access to the general default remedies in Clause **5.05**.

There is little likelihood that this provision would apply if the required statements were, in fact, being issued under Subclause **10.15A**. The most practical impact of the Subclause will be to ensure that there is an incentive for Proposing Parties to comply with that Subclause.

Clause 10.16: It is not well understood that an Independent Operation is basically conducted for the "Joint Account" of the Participating Parties, notwithstanding the special status relative to Non-Participating Parties. This Clause ensures that such provisions as Articles **4.00-9.00** and **16.00** and Clauses **3.04**, **3.05**, **3.06** and **3.11** apply, *mutatis mutandis*, to the Participating Parties in an Independent Operation.

Clause 10.17: 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 cost recovery, Subclause **10.13E** cash payment or Clause **10.10** forfeiture) should accrue only to C based on the matching of risk and reward to the incremental interests and costs. In the absence of the first sentence, B and C would allocate the benefit of the penalty between them in the proportions of their Participating Interests because of the second sentence. B would literally receive 25% of the benefit without assuming even $1 of the Non-Participating Party's costs.

The allocation of interests in the first sentence was introduced in the 1990 document. The allocations under Clauses 1010 and 1016 of the 1974 and 1981 documents were stated to be in proportion to the Parties' Participating Interests in the Independent Operation, and many international and frontier agreements use similar language. Notwithstanding this gap, it is unlikely that Parties would dispute this issue in practice if it were discovered in a timely manner. This would probably only ever be an issue if an allocation error either was not recognized or was discovered well after the fact.

Clause 10.18: i) This provision addresses both liability and indemnification. It also applies to Operations conducted by fewer than all Parties under Clause **7.07** and Article **9.00**.

ii) The Participating Parties are responsible for Losses and Liabilities suffered by the Non-Participating Parties, insofar as they are caused by the acts or omissions of the Participating Parties, subject to the special handling of Extraordinary Damages under Clause **4.04**. The exclusion of Extraordinary Damages provides greater protection to the Participating Parties than existed under all previous versions of the document.

iii) There are circumstances in which it would be arguable that a Non-Participating Party had contributed to the loss by its actions or omissions.

iv) The Clause also applies to the Participating Parties and a Receiving Party that exercises its right to take in kind or pay a usage fee under Subclause **10.08F** or **10.13B**.

Clause 10.19: i) Information from an Independent Well will initially be withheld from a Non-Participating Party. Except for Clause **10.10** wells and subject to Paragraph **5.05B(b)** (withholding of information due to a default), a Non-Participating Party will generally be provided the existing information at the earlier of the date it becomes a Participating Party or the date prescribed by Paragraph **(a)** or **(b)**.

For drilling information from a new well or a Deepening or Sidetracking, the Operator will provide a Non-Participating Party with the drilling information prescribed by Clauses **7.02** and **7.03** 150 days after the applicable drilling rig release date. (This is basically a 60 day increase relative to prior versions of the document.) For this purpose, a Deepening or Sidetracking conducted on a well prior to its initial drilling rig release is regarded as a single, continuous Operation. A Deepening or Sidetracking conducted in conjunction with the re-entry of an existing well is regarded as a distinct Operation, such that a Non-Participating Party in the entire well would receive the applicable drilling information on a staged basis.

Paragraph **(b)** handles Completion and production information differently than in prior versions of the document. A Non-Participating Party is entitled to receive that information at the later of: (1) the date prescribed by Paragraph **(a)**, if applicable to that Non-Participating Party (i.e., a Non-Participating Party in the initial applicable drilling Operation); and (2) 90 days after the conclusion of the applicable Completion, Recompletion or Reworking. This structure addresses a problem in prior versions of the document in circumstances in which the participation differed. (A Non-Participating Party in the entire well could sometimes obtain Completion and production information before a Party that participated in drilling the well, but not its Completion.)

ii) To illustrate the application of the Clause, assume that A elected not to participate in the well, B participated in drilling the well, but not the Completion of the well and C participated in all Operations. A would be entitled to the drilling information 150 days after the rig release date of the well. It would be entitled to Completion information at the later of that time or 90 days after conclusion of the Completion (i.e., it would obtain Completion information 180 days after rig release if the Completion concluded 90 days after rig release). B would obtain the drilling information on a current basis because of its participation in the well. It would obtain the Completion information 90 days after conclusion of the Completion, such that it would receive the Completion data at the same time as A.

iii) The timing of the release of well information is subject to four qualifications. Firstly, the Participating Parties may choose to release information to accelerate elections under Subclause **10.02F** for an additional well within 3.2 kilometres of a well drilled hereunder. Secondly, the Non-Participating Parties may have access to some of the information earlier from regulatory authorities insofar as the confidentiality period for the information under the Regulations is shorter than that provided under this Clause. Thirdly, there is an obligation to provide Completion type information that is subsequently acquired. Fourthly, the obligation does not apply to information from wells that have an experimental status under the Regulations (i.e., certain unconventional gas wells), to recognize the commercial sensitivity of disclosure of information from those wells.

iv) The reference to the date a Non-Participating Party becomes a Participating Party pertains to a cost recovery under Clause **9.03**, Subclause **10.07A** or Clause **10.08**. A Non-Participating Party never becomes a Participating Party for a D&A Independent Well. The delayed receipt mechanism in this Clause always applies to a D&A well.

v) The obligation to provide information to a Non-Participating Party relates to the specific well, and does not apply insofar as Clause **10.10** applies to the well. There are two subtleties about this construction. The first is that the obligation to disclose the information would not apply to any portion of the well to which the Clause **10.10** penalty applied, but would apply to the extent that the cost recovery mechanism (i.e. Clause **10.07**) applied to a portion of the well. The second is that the test is linked to the penalty on the well, rather than to the status of the well as a Title Preserving Well. A Title Preserving Well, for example, that is drilled on lands that are not expiring, but which preserves other Joint Lands, would not relieve the Participating Parties from the obligation in this Clause.

vi) Users should be aware of the pending obligation to release data for wells when considering acquisitions of additional lands at Crown sales or from third parties. A Party, for example, would not want to cause offsetting lands to be offered at a Crown sale 160 days after the rig release of an Exploratory Well, as the Non-Participating Parties would have access to the well information prior to that sale.

vii) The Regulations respecting the release of well information can vary materially by jurisdiction. Prudent Parties should understand those Regulations when planning drilling programs in jurisdictions in which they do not have significant recent experience.

Clause 10.20: The Participating Parties could also be negotiating tract factors/pooled interests for other lands in which they have an interest. They may only unitize or pool a well subject to a cost recovery with the Non-Participating Parties' consent, which may not be unreasonably withheld. Ultimately, this reflects the fact that the cost recovery does not alter the Working Interests in the applicable Joint Lands.

Some of the issues to be considered by the Non-Participating Parties for a pooling would be the allocation of production, clarification of the impact of the financial arrangement on the cost recovery calculation, the material provisions of a pooling agreement (i.e., cross-conveyance or no cross-conveyance, the pooled substances/zones, the treatment of encumbrances and the elections under the Operating Procedure).

Clause 11.01: i) The surrender process is distinct from the process of not participating in a temporary continuation or extension of a Title Document for an incremental fee under the new Subclause **3.10E** (e.g., an Alberta Section 17 one year continuation).

ii) Failure to respond is deemed to be an election to retain, which has been the presumption since the 1971 document. A non-responsive Party that discovers that it is acquiring interests it does not want would typically respond very quickly in practice. The net effect of a quick phone call after expiry of the election period would probably see prompt confirmation of the surrender. (See also Clause **12.01**.)

iii) All of the previous versions of the document included a revocation right up to the end of the election process. The last sentence modifies this approach, and allows a Party to change its election not later than three Business Days after expiry of the response period if at least one Party elects not to join in the surrender. This could place an additional administrative burden on the Operator/Title Administrator if it calculated the revised interests prior to expiry of the response period. However, the provision should not pose a problem in practice. It is likely to minimize that burden because its most likely application would be to the case in which the Party that proposed the surrender reversed its position after seeing that the other Parties elected to retain their interests. It would be most likely to consider the exercise of this right if the surrender involved only a portion of the Joint Lands. The sentence ultimately reflects a policy objective of allowing Parties to continue to hold the Joint Lands jointly, to avoid segregation issues and other potential equity issues over time. (See also Clause **12.01**.)

Clause 11.02: i) A Production Facility may be a profit centre for Outside Substances, so a Party would generally retain its interest therein. A Production Facility might be managed outside the Operating Procedure under a separate CO&O Agreement at this stage because of Clause **14.02**.

ii) The Title Administrator would process the surrender with the lessor if it is a different Party than the Operator.

iii) A surrender by all Parties does not release them from any accrued liabilities, such as Abandonment obligations or other Environmental Liabilities. The Agreement will continue to apply to those liabilities. Otherwise, the Operator could initially be responsible for them and potentially find itself attempting to recover amounts several years later when some of the other Parties are reluctant to assume their share of those costs.

Subclause 11.03B: i) The surrender is effective on the day before the obligation date. Subject to the limited revocation election, the Parties' contractual rights would have crystallized 30 days before this date under Clause **11.01**.

ii) Unless otherwise agreed by the retaining Parties, the transfer will be in proportion to their Working Interests.

iii) The transferors' 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 associated wells and other applicable Joint Property, is to be determined within 30 days after the deemed assignment. Accounts will be adjusted accordingly within 30 days after this determination, with the matter potentially referred to arbitration under Article **21.00** for resolution insofar as they are unable to agree. Parties owed an amount will have access to the remedies in Clause **5.05** if accounts have not been adjusted at that time. Subclause **5.05D** ensures that a Party owed an amount retains other legal remedies for any amount owing to it.

This could require the surrendering Parties to pay an amount to the retaining Parties if the estimated Abandonment costs exceed the estimated net salvage value of the assigned material and equipment. This mitigates the risk that a Party would surrender to attempt to avoid Abandonment costs.

iv) The assignment under this Article occurs through operation of the Operating Procedure, such that no separate notice of assignment is required because of the second sentence of Clause **24.04**. Some Parties may still prefer to complete a notice of assignment after a surrender to optimize the paper trail on the file, particularly if there will be segregation (Article **13.00**) as a result of the surrender. They need to remember, though, that the use of a NOA would defer the timing for the transfer of responsibility of obligations for the surrendered lands.

Some documentation may be required to reflect the assignment, though (e.g., a Crown mineral transfer or a trust agreement).

Subclause 11.03C: A surrendering Party is not released from obligations that accrued prior to the surrender (including Environmental Liabilities, obligations with respect to approved Operations and those associated with an emergency) and its obligation to maintain information confidential. However, this does 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 **11.03B** when the accounts of the Parties were adjusted.

Subclause 11.03D: Assume that A, B and C acquire a licence and that A subsequently surrenders its Working Interest in half of it to B and C. B and C acquire certain obligations with respect to those lands, where failure to perform some of those obligations could compromise the ability to retain the rights jointly held with A in good standing. If, for example, B and C did not surrender the acquired lands and then failed to pay rentals or a lessor royalty, the entire Title Document would be in jeopardy.

B and C are therefore required to maintain the lands surrendered by A in good standing if failure to do so could prejudice A's title to the retained portion of the licence. However, they are never obligated to conduct an Operation on the lands they acquired through the surrender.

Clause 12.01: i) The interrelationship between this Clause and Clause **10.08** Recompletions has historically not been well understood by users. Assume that a joint well is no longer capable of production in Paying Quantities from the Z formation when one Party believes that an uphole Recompletion should be pursued in the T formation. It should propose a Recompletion under Clause **10.08** in which one component of the Operation is the plugging of the downhole portion of the wellbore. The costs of the downhole abandonment are within the scope of the definition of Recompletion, so those costs would be included in the associated Paragraph **10.07A(e)** amount if a cost recovery applied to the Recompletion.

ii) See the annotations on Clause **11.01** about the consequences of failure to respond and what that may mean in practice.

iii) The second last sentence is new to this version of the document. Any Party may revoke its notice to participate in an Abandonment not later than three Business Days after expiry of the 30 day notice period if at least one Party has elected not to join in the Abandonment. (See the annotations on Clause **11.01** for additional context on this right.) Notwithstanding that this process may result in the election not being finalized for several days after expiry of the election period, the assignments are deemed to be effective as of the end of the election period, so that there is consistency in the preparation of assignment documentation. This also allows for an earlier release for the Abandoning Parties.

iii) A Party may not serve notice to Abandon a well during a period in which there is an emergency respecting that well. Similarly, any such notice will be void if an emergency occurs during the response period.

iv) The Abandonment obligations for a Production Facility are embedded in the definition of Abandonment and Clauses **1.14**, **3.04** and **3.05**.

Clause 12.02A: i) The purpose of the Abandonment Article is to enable the retaining Parties to continue to use the wellbore for exploitation of the producing/Completed formation(s). Other than for foregoing their share of production from that formation through that well, the Abandoning Parties' rights for the Joint Lands included in the Spacing Unit remain unchanged. The Abandoning Parties have Working Interest rights if the retaining Parties subsequently choose to use a different wellbore to exploit that formation at a different location in the Spacing Unit. A Sidetracking into the same formation would involve the use of a different wellbore because of the incremental drilling activity to a different location in the formation. In essence, the Abandoning Parties have a Working Interest in the formation, but no interest in the well or the associated production.

ii) There is an adjustment of accounts to reflect the estimated Abandonment costs under Subclause **12.02B**. Subject to the application of Article **15.00** to encumbrances not borne for the Joint Account, the retaining Parties basically acquire the assigned rights on an "as is, where is" basis and assume full responsibility for all Environmental Liabilities with respect to the assigned interests, regardless of when they may have accrued (Subclause **12.02C**). This is consistent with the result in industry's typical A&D transactions.

Notwithstanding that general outcome, there may be some circumstances in which the Parties negotiate a different outcome because of some known Environmental Liabilities, particularly if reclamation work is then ongoing for an incident off the well site.

iii) Unless otherwise agreed by the non-Abandoning Parties, the assignment will be in proportion to their Working Interests.

iv) The Regulations increasingly include restrictions on well licence transfers whereby certain assignees may be precluded from accepting a transfer of the well licence. The Parties need to review these restrictions at the time of any proposed assignment of a well licence under this Article. The Operator would need to be eligible under the Regulations to accept the transfer of the applicable well licence.

If none of the retaining Parties would be eligible to accept a transfer of the well licence under the Regulations, each Party will be deemed to have elected to join in the proposed Abandonment and the Operator will proceed with Abandonment, unless otherwise agreed by the Parties. Notwithstanding that statement, the Parties would, in practice, be mutually motivated to consider how best to address this at the time in the context of their particular circumstances and the Regulations then in effect in the applicable jurisdiction.

v) The limited assignment of a Working Interest under this Article occurs through the operation of the Operating Procedure, such that no separate notice of assignment is required because of the second sentence of Subclause **24.04A**. The preparation of a notice of assignment could also create confusion, as the Working Interests in the Joint Lands are not being altered. However, some documentation may be required to reflect the assignment under this Clause, particularly if the Operator is an Abandoning Party (e.g., a transfer of the well licence, a transfer of the applicable surface dispositions and obligations and any applicable equipment rental or service contracts). It is also important for a new Operator under this Clause to ensure that notices are distributed to other affected third parties for such matters as utilities and municipal taxes, and that signs are modified. In many ways, the assignment process should be managed in the same manner as an A&D transaction.

Subclause 12.02B: The transferors' estimated net salvage value of the material and equipment for the well, less their share of the Abandonment costs of the well, is to be determined within 30 days after the transfer. The Parties' accounts will be adjusted accordingly within 30 days after that determination, with any dispute potentially resolved ultimately through arbitration in Article **21.00**.

This calculation would require the transferors 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.

Subclause 12.02C: Subject to Clause **12.03**, the non-Abandoning Parties generally assume all obligations accruing for the well after the takeover. However, the Abandoning Parties are not released from their future share of costs for any emergency that had occurred prior to the transfer, other than to the extent already included in the adjustment of accounts.

Clause 12.03: The Abandoning Parties assigned their interest in the well and their Working Interest share of Petroleum Substances produced through the well from the Completed formation. They otherwise retain their Working Interests in the Joint Lands, such that they have participation rights for Operations in other formations or a Sidetracking in the same formation. They will have a participation right under Clause **10.08** if the retaining Parties later use the well for an uphole Operation. This participation right includes the ability to acquire a Working Interest in the well that corresponds to their Working Interest in the applicable Joint Lands, with a resultant adjustment of accounts on the same basis as prescribed by Subclause **12.02B**. This basically sees them reacquiring a Working Interest in the well for little incremental consideration. This reflects the fact that there had been a previous adjustment of accounts for the well through which the retaining Parties acquired their incremental interests for a low cost (i.e., after an adjustment for Abandonment costs applicable to the assigned interest). This mechanism is designed to put the Parties in the same position as they would be in if a plugging back and uphole Recompletion were initially presented.

Clause 13.01: i) The application of the document to the heterogeneous ownership case can be confusing. The Clause applies if any portion of the Joint Lands: (a) ceases to be held in the same percentages as the Working Interests in the balance; (b) is held by fewer than all Parties; or (c) is held by a mix of different Parties. In essence, each common Working Interest portion of lands will be held as if the applicable owners are Parties to a separate agreement having the same terms, except for the change to the interests/Parties. An Article **9.00** or **10.00** cost recovery does not result in segregation, as the Working Interests in the Joint Lands remain unchanged during the cost recovery.

This provision and Subclause **24.04B** reflect a CAPLA initiative on the segregation issue. This Clause is similar to the provision in the previous versions of the document, other than for: (a) the use of the reference to the "Agreement", instead of the "Operating Procedure"; and (b) the presentation of parallel agreements, rather than a parent agreement and a spinoff agreement as in prior versions of the document. The biggest impact will be in the third parties identified in a notice of assignment. It will often see the NOA for a partial assignment delivered only to the same Working Interest Parties that receive notice of the disposition under Clause **24.01**, an administrative practice that has already been commonly used.

ii) To illustrate the impact of this provision, assume that the Parties' Working Interests in sections 1 and 2 were initially held by A, B and C, and that A and B later acquired all of C's interest in section 1 because of a forfeiture. B is now proposing to dispose of its entire interest in both sections when

there is a ROFR obligation. B would serve one ROFR notice to A for section 1 and a separate ROFR notice to A and C for section 2, as each section is treated as being subject to its own Agreement. This is the same outcome as would have occurred in previous versions of the document.

iii) Not all changes of interest will be through a NOA due to an Article **24.00** disposition. Other transfers of interest can occur by operation of the Agreement, such as a Clause **10.10** forfeiture, a surrender or an Abandonment. Those provisions state when that change is effective.

iv) The document does not prescribe the manner in which a Party manages "separate agreements" in its records system. Most Parties would probably manage them simply as "splits" in their contracts database.

v) This provision also applies, *mutatis mutandis*, to a Production Facility, assuming that it is not governed by a separate CO&O agreement. In practice, a Party would typically elect under Clause **14.02** to have such a Production Facility managed under a separate CO&O agreement if it was concerned about use of the Production Facility to handle production with differing ownership. It could do this because all production using the Production Facility would be regarded as Outside Substances for the purposes of the segregated agreement that was created for the Production Facility.

vi) A Party assigning an interest when this Clause applies must be aware of any special issues that could arise because of the creation of a segregated block. Issues relating to such matters as an outstanding area of mutual interest, joint Production Facilities and, if stratigraphic segregation, the handling of existing wellbores, would need to be addressed on a transaction specific basis. Given the complexities potentially associated with this Clause, the affected Parties may sometimes find it helpful to supplement the Clause with a letter agreement that addresses more specifically the outcomes in their particular situation.

vii) There is a consolidation of separate agreements insofar as lands in different agreement splits are again held in common Working Interests.

Article 14.00 (General): i) Production facilities of any significance, in terms of capital investment, capacity, risk or complexity, should be governed by individual facility agreements. There will always be a class of minor facilities, though, that does not justify the time and expense to create specific agreements, such that owners often construct, own and operate a minor production facility without any agreement specifically intended to cover those activities. Prior to the 1990 document, the applicable owners often purported to apply the terms of the Operating Procedure governing the lands served by a facility to administer their relationship for the facility, even though the facility was outside the document scope.

Article **14.00** provides some basic terms required for the construction, ownership and operation of such minor facilities. Situations that demand more extensive terms should be addressed in a separate facility agreement. The initiative of the PJVA to develop the 1996 PJVA CO&O Agreement and the updated 1999 PJVA CO&O Agreement has greatly simplified the process of preparing asset specific facility agreements.

For simplicity and to recognize actual operating practices for existing minor facilities, this Article has been limited to items of universal application to that minor class of facilities. The Article deviates from the "norm" found in formal facility agreements in some instances to reflect the nature of the facilities for which it is designed. For example, owners are not charged a capital fee for using surplus capacity in this Article. While not ideal from a "fairness" objective, this reflects the administrative burden management of a traditional fee for this type of facility would place on the Operator.

This Article will seldom apply to significant facilities in practice, so it is not appropriate to address all of the issues normally included in CO&O agreements. Parties that are uncomfortable with this should prepare a separate CO&O agreement in each such case, and Clause **14.02** in this document will also see some Production Facilities later ceasing to be governed by this Article. To provide a depth of coverage comparable to that included in a CO&O agreement would have encouraged Parties to use the Operating Procedure when they should be using a CO&O agreement.

ii) Parties need to remember that the segregation concepts in Article **13.00** can also apply to a Production Facility.

iii) The Abandonment obligations for a Production Facility are embedded in the definition of Abandonment and Clauses **1.14**, **3.04** and **3.05**. It is unlikely that a Production Facility of significance would be Abandoned under this document, though. It is far more likely that such a facility would then be subject to a separate CO&O agreement because of Clause **14.02**.

Clause 14.01: This provision establishes the basis of ownership for a Production Facility. It is subject to Clauses **10.13** and **10.14**, the independent facility and expansion provisions.

Clause 14.02: i) As noted in the general annotation above, this Article has been structured to address minor facilities that are initially used only for Petroleum Substances from the Joint Lands. The use of the Production Facility for Outside Substances may later increase to the extent that the simple processes in the Article are no longer appropriate. This Clause creates triggering mechanisms whereby a Production Facility ceases to be a Production Facility and must be managed under a separate CO&O agreement based on the most recent PJVA model and the Accounting Procedure. This is a major improvement to the document that has been made possible by industry's broad acceptance of the PJVA model. The Parties always remain free to use a different form of CO&O Agreement at the time (i.e., a previous version of the PJVA form).

There are three triggering events. The first is that any Party may, by notice, request this result if the Production Facility will be used to handle the Outside Substances of a Party or a third party (including any resulting from a segregated agreement created under Clause **13.01**). A Party would typically only exercise this right in practice if it regarded the negative economic impact of that use on it as warranting the effort required to prepare and administer a CO&O agreement for the facility. The second is that any agreed expansion will automatically cause this outcome if the expanded facility would then be used to handle Outside Substances or it no longer satisfies the condition in Paragraph **(d)** of the definition of Production Facility (e.g., no fractionation of Petroleum Substances), to recognize the resultant change in the nature of the facility. The third is that the Parties may agree to create a new agreement.

ii) The Parties are always free to agree to allow the document to apply for longer than the periods specified by Paragraphs **14.02(a)** and **(b)**.

iii) The Clause does not allow the provisions of the Operating Procedure to "bridge" any gap that may occur if a separate CO&O agreement is not in place on the date that construction relating to any significant expansion Commences. The Parties should attempt to ensure that the Commencement of the facility expansion coincides with completion of the CO&O agreement or that they have bridging documentation.

iv) The preparation of the contemplated CO&O agreement would be complicated significantly if a cost recovery then applied under Clause **10.13** and **10.14**, as the Non-Participating Parties' future rights for the facility would not be eliminated by this change in status. However, a Non-Participating Party may find it attractive to pay in cash under Subclause **10.13E** the outstanding cost recovery amount applicable to it to obtain its Working Interest earlier. This is particularly so for an expansion.

v) While the other provisions of the Article still accommodate continued use of a Production Facility for Outside Substances, this will probably only occur in practice if the use and the associated fees and costs are relatively insignificant.

Clause 14.03: i) Subject to Clause **14.02** and any agreement made under Clause **14.04**, this Clause prescribes a Party's rights to use a Production Facility with respect to primary capacity, surplus capacity and priority of use. Production Facilities, by definition, are initially intended to be designed and used exclusively for the production, processing, transportation, etc. of Petroleum Substances produced from the Joint Lands. However, it is a recognized principle of ownership in any facility that an owner may use its capacity and any available surplus capacity to handle its hydrocarbons, regardless of source, as long as the other production is consistent with the facility's operating parameters. The handling of Petroleum Substances produced from the Joint Lands takes priority, though. To simplify the administration of these minor facilities, no capital fee is charged to any Party using surplus capacity, as the resulting fees would generally not justify the associated administration. However, a Party concerned by the degree of use of surplus capacity is free to try to negotiate a different outcome using the leverage available to it under Clause **14.02**.

ii) Parties that wish a different outcome without creating a separate CO&O Agreement could modify the provision to include a Paragraph (c) like the following: "any Party using such surplus capacity in excess of its owned capacity in a month will pay a fee for that use to those Parties owning it on the same basis as contemplated in Subclause **14.04B**. The Operator will: (i) credit the capital component of any such fee to the Parties on a monthly basis in proportion to their respective contributions of that surplus capacity; and (ii) make any required adjustment to that credit distribution for the preceding year within 180 days after the end of that year." This logic might also be extended to Clause **14.04** fees.

Clause 14.04: i) Significant third party usage of Production Facilities should not occur because of the definition. However, some custom handling of Outside Substances is expected during the life of a facility. Clause **14.04** provides a foundation for this if a separate CO&O agreement is not created under Clause **14.02**. This ensures that all facility owners agree to the arrangement and share in the resultant benefits.

ii) To simplify the administration of these minor facilities, the foundation principle is that the capital component of fees received for the custom handling of Outside Substances will be allocated among the facility owners in proportion to their ownership interests. The operating cost component of the fee is credited to the Operating Costs for the Production Facility.

This treatment is different from industry practice for significant facilities under CO&O agreements. They allocate the capital component of fees based on the surplus capacity contributed by each owner to handle those Outside Substances. The approach under this Clause is a generally accepted method of allocating those fees for minor facilities. If this outcome is objectionable to the Parties, it is a good indication that the Production Facility might best be managed under a separate CO&O agreement. Clause **14.02** facilitates this result.

iii) The requirement that third party fees be determined by all Parties could pose a problem if there are a large number of Parties and some hold small interests. The provision addresses part of this concern by including a mechanism under which a Party's approval is deemed if it does not object to the proposed arrangement within 10 Business Days after receipt of the Operator's notice. (The deemed affirmative outcome is also consistent with the result in the 1996 and 1999 PJVA CO&O Agreements.)

The ability to apply the dispute resolution process (Article **21.00**) to a disputed third party fee under Clause **14.08** also mitigates the possibility that the Parties would be unable to resolve the matter in practice. However, it sometimes may be beneficial to modify the provision to include some type of voting mechanism.

iv) The Parties may sometimes find that the cost of handling Outside Substances materially exceeds the cost of handling Petroleum Substances. This may already have been considered when determining the fee to be charged to a third party for handling its Outside Substances. If there is a problem with the cost differential, two alternatives to consider would be a denial of entry to the Production Facility or a renegotiation of the financial arrangement under which access is provided. The latter could be a renegotiation of the fee to be charged to a third party under Clause **14.04** or the negotiation of a fee type arrangement with the Party using surplus capacity to handle the applicable Outside Substances.

Clause 14.05: In essence, Operating Costs are allocated on the basis of the throughput of Petroleum Substances and Outside Substances. The dispute resolution mechanism in Article **21.00** will apply under Clause **14.08** if there is a disagreement about the allocation.

The Operator will initially allocate the costs monthly on an estimated basis (often based on the previous year's share of throughput) and then make any required adjustment within 180 days after the end of the year based on actual costs and throughput volumes. This is subject to any special allocation of Operating Costs under Subclause **14.04D**. Adjustments would be minimal if the ownership of volumes throughout the year were consistent.

Clause 14.06: This provision provides the basis for allocating products generated from the processing or treatment of hydrocarbon substances using a Production Facility. Clause **14.04** requires the Operator to structure its agreements with each third party fee user to include provisions consistent with the principles in Paragraphs **14.03(a)** and **(b)** and Clauses **14.05**, **14.06** and **14.07**.

Clause 14.07: This provision reflects standard industry practice for the allocation of shrinkage, production losses and facility fuel in minor facilities.

Clause 14.08: The dispute resolution process in Article **21.00** can apply if the owners of a minor facility cannot resolve a dispute respecting: (a) the capacity or surplus capacity of a Production Facility; (b) a usage fee under Clause **10.13** or **14.04**; (c) the allocation of Operating Costs; (d) a significant variation in the composition of inlet streams of Petroleum Substances and Outside Substances; or (e) the allocation of products or losses. Binding arbitration is a possible outcome.

Clause 15.01: Provisions like this have often been used in farmout agreements and joint operating agreements, and a similar provision was introduced as Clause 801 of the 1990 document. A Party that has encumbered its interest by burdens in addition to the lessor royalty and any encumbrances borne for the Joint Account is to free the interest from them if the interest is surrendered, forfeited or subject to an Article **9.00** or **10.00** cost recovery. If it fails to do so, it will have liability and indemnification obligations for any resultant Losses and Liabilities of the Parties.

The only way that an encumbered Party can free the interest from the burden is to structure the contract creating the encumbrance accordingly. A Party that encumbers its interest must structure its contract so that the encumbrance does not have an adverse impact on its co-venturers if the surrender, forfeiture or cost recovery provisions subsequently apply. This is particularly critical when granting ORRs to employees and consultants or when farming in on only one Working Interest owner and then becoming party to the applicable joint operating agreement in place of the farmor.

Clause 15.02: i) The purpose of this Clause is not to encourage the creation or recognition of encumbrances. It is to distinguish between encumbrances that have a special treatment under the document and those which do not. Any additional encumbrance that is not created in the Agreement only falls within the scope of Clause **15.02** if the Parties voluntarily agree to provide it with a special status in the Agreement. Many Parties will not wish to become involved in a contract that does not apply to its interest. They will be extremely reluctant to accept any special treatment for additional encumbrances that are not created in the Agreement.

ii) Encumbrances that are not borne for the Joint Account may be created under the provisions of the Agreement, such as a farmor's ORR, or may be acknowledged as being one that attaches to the Working Interest therein. Any such encumbrance will be an exception to the general rule in Clause **15.01**. (See also Subclause **10.07F** for the handling of this type of encumbrance in a cost recovery scenario.)

iii) Users should always check the Head Agreement to confirm if there is any special treatment of an encumbrance. Although an encumbrance may be created under the Head Agreement, it may also 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 that would run with the interest under Clause **15.02**. However, the inclusion of a specific exception for non-arm's length encumbrances could operate to extinguish a legitimate encumbrance that is subsequently purchased by a Party.

v) A Party may occasionally find itself presented with a joint operating agreement for a Crown sale area of mutual interest acquisition where the other Party is insistent that an ORR applicable to its interest is recognized (e.g., "geologist ORR"). The simplest response to this if a provision comparable to Clause 8.07 of the 1997 CAPL Farmout & Royalty Procedure applies is that a separate joint operating agreement is not required. That type of provision states that the Operating Procedure to the Agreement will apply to the acquisition, such that the ORR that applies to that Party's interest would not be recognized for the purposes of Clause **15.02**.

Clause 16.01: i) An overview of the general law respecting Force Majeure was presented in Atcor Ltd. v. Continental Energy Marketing Ltd., [1994] A.J. No. 715 (Alta. Q.B.). The case pertained to a marketing agreement in which a party could rely on the force majeure provision if it failed to perform any of its obligations and the failure was "in consequence" of force majeure. In essence, there were curtailments of transportation capacity by a third party and the seller chose to allocate its reduced volumes to other purchasers, rather than to Continental. The Court determined that the curtailments were an event of force majeure that could not have been avoided by the exercise of due diligence. After reviewing the two major types of force majeure provisions, the Court determined that the provision in that agreement did not require Atcor to mitigate the impact of the force majeure on the performance of its obligations under the agreement.

The provision historically used in the CAPL Operating Procedure, on the other hand, is an "unable to prevent" provision that would require the Party claiming Force Majeure to attempt to mitigate the impact of the Force Majeure on an ongoing basis.

ii) This Clause applies to performance of all applicable obligations, including those for which there is a specified period for Commencement. While the individual provisions do not state that they are subject to this Article, the effect of the "notwithstanding" reference is that they are.

iii) A Force Majeure suspends the performance of the affected obligations for the period that it prevents performance and for such additional time as the Party may reasonably require to commence to fulfil them. The affected Party cannot practically be expected to begin fulfil obligations the moment the Force Majeure is remedied, as equipment and personnel may have to be mobilized on short notice.

Subclause 17.01A: i) Only incentives that accrue to the Operation (such as the former Alberta EDAPs or DICs) are shared by the participants under this Clause. The Operator for the Operation is to apply for the applicable incentives or royalty exemptions in the manner prescribed by the Regulations. "Incentives" that accrue to all or only some participants individually because of their unique corporate attributes (such as ARTCs and the former APIPs and CEDIPs) are not shared, as they accrue to the "personality" of the participant, not to the particular Operation.

ii) The most typical incentive accruing to an Operation would be a temporary royalty exemption. A prudent Operator would be aware of any such program because of the synergy with production reporting and accounting.

iii) The reference to differences in cost bases is included because of the current royalty regime in the Northwest Territories and the probability that the document will be used as a basis for some northern agreements.

Subclause 17.01B: This Subclause has been introduced in this document because of changes in the Alberta Regulations allowing the "grouping" of multiple documents of title thereunder. If an Operation entitles the Parties to retain P&NG rights for a further period, those entitlements will first be applied to the Joint Lands. If entitlements remain that cannot be used for the Joint Lands, the Parties will consult to determine how they will be used. Insofar as they are unable to agree on their use, each Party may use its Participating Interest share of the remaining entitlements for such other P&NG rights as it may select, subject to any restrictions under the Regulations or in the Head Agreement. (See also Subclause **3.10C**.)

To illustrate, assume that: (a) A and B have participated on a 50-50 basis in a well that would entitle them to the retention of 12 sections under the Regulations when there are only 6 sections of Joint Lands that could use those entitlements; (b) A (50%) and B (15%) hold 6 sections of other P&NG rights that could use those entitlements under another agreement; and (c) B holds 2 other sections of 100% lands that could also use those entitlements. Unless otherwise agreed by A and B, the first 6 sections of entitlement would be applied to the Joint Lands, such that each has an entitlement to 3 sections remaining. Assuming that B's greater priority was the retention of its 100% P&NG rights, B could apply 2 sections of its entitlement to its 100% P&NG rights and the remaining section to its minor interest J.V. section.

Notwithstanding the specified allocations, the Parties will often use this Subclause as a basis for a negotiated allocation of the entitlements. This could see the Party with surplus entitlements informally "owed" some entitlements at a subsequent date in an unspecified area.

iii) A "farmee" that wishes greater discretion to use "grouping rights" to optimize its retention of lands should address its expectations on this issue during the initial negotiations, and document the outcome in the Head Agreement.

Clause 18.01: i) A review of the cases about breach of confidence is included in Part II of the Addendum at the end of the annotations. Parties disclosing confidential information in commercial negotiations should enter into an appropriate confidentiality agreement before any such disclosure. The legal and equitable remedies normally available for a breach of this Article are not impacted by the restrictions on Extraordinary Damages in Clause **4.04**. Damages under this Article are excluded from that definition, as it is inherent that they cannot be direct damages.

ii) A Party may use information for its own benefit and account. This statement was initially included in the 1990 document to address any argument of constructive trust if a Party used joint information to acquire adjacent lands for its own account when there was no 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 if one or more of the Parties has little expertise, such as a Party which is a passive investor. The reference is consistent with Subclause **1.05C**.

iii) The Parties make two different types of disclosures under the Regulations. One is a mandatory disclosure, such as the disclosure of prescribed types of drilling information. The other is a voluntary disclosure made to attempt to optimize the retention of lands, whether they are Joint Lands or other lands held by a Party under other documents of title. A Party's ability to disclose information under the Regulations for its other lands falls within the scope of the first sentence of the Clause, subject to the requirement not to disclose the information to other third parties. (The submission of information may also be a requirement under the applicable Title Documents, such as an EnCana/PanCanadian freehold lease.)

iv) Stock exchange requirements generally require publicly traded companies to make timely, full, true and plain disclosure about developments that would reasonably be expected to affect the market value of a company's stock significantly. The foundations of this requirement are the objectives to provide all who invest in listed securities with equal access to information that may affect their investment decisions and to minimize the likelihood that those with preferential access to undisclosed information could profit from that knowledge.

For this purpose, the TSE rules provide that "material information consists of both material facts and material changes relating to the business and affairs of a listed company." It is largely left to the judgment of a listed company to determine what information is material and must be disclosed. However, the TSE may also require a public announcement if trading volumes are anomalous or rumours or speculation exist.

TSE requirements provide that disclosure is generally required upon information becoming known to management or, if known, upon the information becoming material. However, the TSE may allow the disclosure to be deferred if early disclosure could compromise the company's interests and the potential harm caused to the company and its investors by the disclosure outweighs the consequences of delay (e.g., premature disclosure of an intention to attempt to purchase an asset potentially increasing the price or disclosure of confidential corporate information that would benefit competitors). The TSE rules stipulate, though, that a company must retain strict confidentiality if disclosure is deferred, and immediate disclosure is required if there is any leak of the information.

The announcements must be factual and balanced, "neither over-emphasizing favourable news nor under-emphasizing unfavourable news". There must be enough information contained in the announcement to allow investors to make informed decisions about their investments.

The test of whether a transaction would be a "material change" is a subjective one, as a transaction that would be "material" for one company would not necessarily be "material" to another. As noted in the TSE Policy Statement on Timely Disclosure and Related Guidelines, "The materiality of information varies from one company to another according to the size of its profits, assets and capitalization, the nature of its operations and many other factors. An event that is "significant" or "major" in the context of a smaller company's business and affairs is often not material to a large company. The company itself is in the best position to apply the definition of material information to its own unique circumstances. The Exchange recognizes that decisions on disclosure require careful subjective judgments, and encourages listed companies to consult the Exchange's Market Surveillance Division when in doubt as to whether disclosure should be made."

The TSX Venture Exchange has similar requirements. Additional information for both can be found on the TSE's web page at www.tse.com.

v) Information included in Annual Reports and other presentations made to shareholders and the investment community typically extends beyond that required to be disclosed under securities laws. The disclosing Party has an obligation not to disclose information from the Agreement that could damage the interest of the other Parties, and Article **19.00** would apply to those public announcements. To illustrate, Joint Lands held by a third party agent should not be identified on a map of the project area in an annual report if this is commercially sensitive information at the time.

vi) It is not feasible to have a separate confidentiality agreement for each disclosure of information to employees, officers and Affiliates. However, the disclosing Party remains liable for any Losses and Liabilities suffered by the Parties as a result of their disclosure of confidential information.

vii) Paragraph **(d)** of this document provides greater flexibility to disclose information, to reflect the reality of the marketplace. A Party may disclose data not subject to a Clause **18.02** obligation on a confidential basis to its prospective assignees and also in the context of any *bona fide* merger or amalgamation discussions. The latter reflects the document principle that corporate type transactions should not be frustrated, and is consistent with the exemption from rights of first refusal for those types of transactions (Paragraph **24.02(b)**).

The Paragraph also recognizes that it is a well accepted industry practice for a Party to "show" seismic data at its offices or in its data room, on a confidential basis, to encourage a potential assignee to enter into an agreement (i.e., a farmin for the evaluation of the Joint Lands). Subject to the release process in Clause **18.03**, this does not provide the disclosing Party with the right to provide the prospective assignee with a copy of the data. The ability to "show" the data to a potential assignee is contingent on a Party not being prohibited from that type of disclosure under the agreement through which the geophysical data were acquired (e.g., licencing agreement with unusual restrictions).

viii) The references to legal counsel and financial and professional advisors in Paragraph **(e)** recognizes that they receive information in practice.

ix) Paragraph **(f)** is new in this document, and applies to information required to be disclosed under legal or administrative proceedings. Murphy Oil Co. Ltd. v. Predator Corp., [2002] A.J. No. 647 (Alta. Q.B.) is relevant to this Paragraph. A Court may set aside confidentiality agreements. This reflects the policy view that "the search for the truth" serves a greater public need than freedom of contract. This type of order enables a witness to testify about matters subject to the confidentiality agreement if the witness is willing to do so.

x) Paragraph 1801(e) of the 1990 document allowed disclosure to "Scout Check". It has been deleted because of the decline in membership.

xi) 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.

xii) Parties will often include confidentiality provisions in their agreements with many of the service providers contemplated in Paragraph **(e)**. A specific obligation was not included because of the general duty on each Party in the introduction to Clause **18.01**.

Clause 18.02: i) A Party may voluntarily offer to disclose information for the benefit of Operations. Assuming the other Parties are willing to receive it, this Clause reinforces the responsibility of the recipients to keep that information confidential. This is new to this version of the document, and will be of greatest relevance if the contemplated Operations involve the use of complex technology.

ii) A Party prepared to disclose sensitive proprietary information should make the disclosure through a confidentiality or licencing agreement at the time. The better practice would be to offer the disclosure by notice, so the information proposed for disclosure is clear.

Clause 18.03: i) This provision addresses the release of confidential information to third parties for consideration. The Party that wishes to release the information is required to obtain the consent of the other Parties with 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 in the 1990 document allowed the deletion of Subclause 1701(a) and Clause 1702 of the 1981 document.

ii) Participants in an Independent Operation maintain all proprietary rights to that information, and are free to disclose it without the consent of a Non-Participating Party, notwithstanding Clause **18.01** and the possible deferred distribution of that information to a Non-Participating Party under Clause **10.19**. However, disclosure by the Participating Parties can affect the cost recovery account under Subclause **10.07H**. Providing a Non-Participating Party with broader rights to participate in data disclosure decisions and the receipt of trade data would enable a Non-Participating Party to frustrate data disclosures and to obtain technical insights that could compromise the competitive position of the Participating Parties.

iii) A farmee that conducts a geophysical program under an optional earning arrangement would typically retain all ownership rights to that data under the Head Agreement for the purpose of this Clause.

iv) The disclosure of information under this Clause will often be in the context of an exchange of information that involves the execution of a confidentiality or licencing agreement. It might be executed by all relevant Parties or only by the Operator on behalf of those Parties. The better practice for the latter is for the Operator to include with its notice a request for authorization to execute that agreement on behalf of the Parties, and the Operator might include a copy of the proposed agreement if one is available at the time of the notice. Since the Operator will have executed any such agreement on behalf of the Parties, it should include a copy of the executed agreement with the provision of the information in due course, so that the Parties are aware of their rights and obligations.

Clause 18.05: i) A Party that 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 pre-1990 provision, which linked the confidentiality obligation 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 might literally be interpreted to release A from any obligation to maintain information confidential.

ii) Parties need to be aware of the potential for seismic information obtained under this Agreement to be assigned inadvertently under a notice of assignment in the absence of other arrangements to the contrary under which seismic information is managed. Even in the absence of any other agreement governing the management and licencing of seismic data, disclosure may be governed by practice standards established by the Canadian Society of Exploration Geophysicists.

Clause 18.06: i) This Clause is new to the document. It is premised on the assumption that relatively open discussions will often be occurring between the Parties' representatives, particularly for technically complex or high cost projects. Notwithstanding any sharing of information that may occur, each Party is ultimately responsible for its own evaluation of information and proposed Operations. The one exception to this general rule is for fraud or deceit, such as an intentional distribution of false or selective information in the hope that the other Parties would rely on it.

This Clause is similar to the disclaimer typically included in industry's P&S Agreements. (See, for example, Subclause 6.05B of the 2000 CAPL Property Transfer Procedure and the associated annotations.)

ii) Opron Construction Co. v. Alberta, [1994] A.J. No 224 (Alta. Q.B.) reviewed the law respecting disclosure and reliance on information in the context of a tendering scenario in the construction industry and a claim of selective disclosure of information. The case found that a finding of fraud or deceit requires three elements: (a) the applicable party to know that a statement or information is false or for it to be reckless as to its truth or falsehood; (b) an intention to induce reliance; and (c) reliance on the information by the injured party. The Court also confirmed that a limitation clause cannot excuse fraudulent misrepresentation.

Clause 19.01: i) This Clause is new in this document. It reflects increased sensitivity to public releases of information about activities conducted hereunder. This is particularly important for high-risk, high-reward activities or other areas in which there are significant competitive sensitivities.

ii) Subclause **A** requires the Party proposing the disclosure to provide a draft of the proposed release to the other Parties at least 2 Business Days before the release. The release is then subject to the approval of the other Parties, which approval may not be unreasonably withheld. Failure to respond within that 2 day period is deemed approval. Limited exceptions to this general approval mechanism are included in Subclauses **B** and **C**.

If the agreement is one that will use complex technology or generate significant scientific information, the Parties may wish to consider a proviso whereby the notice period is extended to 10 Business Days for any disclosure that is primarily a paper or presentation of a scientific nature.

iii) All releases made on behalf of the Parties collectively are to be issued by the Operator under Subclause **B**. The Operator may issue such a release without prior approval of the other Parties insofar as prior approval is not feasible in an emergency. However, the Operator is required to work with the Parties in an emergency situation as feasible under Subclause **3.05B**. Except for the emergency exception, all other releases by the Operator in its capacity as Operator will be through the notification process in Subclause **A**.

iv) Any Party may issue a release on its own behalf under Subclause **C**. Prior approval will not be required insofar only as the release is required to comply with securities laws applicable to the Party with respect to material events or material changes, as described in detail in annotation (iv) on Clause **18.01**. Other releases being made by a Party, including releases of property specific information in an Annual Report, are subject to the notification process in Subclause **A**. Although prior distribution to the other Parties is not required for releases required by securities laws, it is the better practice to provide the other Parties with a draft on short notice for their information and feedback. This is a particularly relevant consideration if other Parties are publicly traded and the release would be material to their business.

Clause 20.01: This Clause is primarily designed for third party actions against the Parties collectively. It does not prevent a Party from starting an action against another Party, such as a suit alleging the Operator's Gross Negligence or Wilful Misconduct. It is inherent in the last sentence that no Party could unilaterally pursue an individual course of action respecting a Joint Account claim that would compromise the Parties collectively.

Article 21.00-General Structure: This Article was created as one of the outputs of the "Company to Company Dispute Resolution Task Force". This was an industry driven initiative to improve the dispute resolution processes in the oil and gas industry. Additional information about this Task Force and its report "Let's Talk" can be found at wwwc2cadr.org. These annotations focus largely on some of the philosophies in the "C2C Project".

Article 21.00-Optionality: This Article has been structured as an optional Article, so that users have the flexibility not to apply the Article to their Agreement. The structure is unusual, though, as arbitration using the *Arbitration Act* (Alberta) is to be used to resolve several of the disputes listed in Clause **21.03** if the Article is not selected. This mechanism is largely designed to place the Parties in a similar position to the outcomes under the 1990 document for the items in Paragraphs **21.03(e), (h)** and **(i)**, as well as the similar fact based determinations in the other included Paragraphs. However, the additional processes in Clause **21.03** (i.e., the use of the "National Arbitration Rules") do not apply.

Subclause 21.01A: i) The foundation of Article **21.00** is a strong preference for Parties to resolve their own disputes through negotiation. The supplementary processes provide a road map if negotiations are not initially successful, while reinforcing negotiation as the preferred course.

Successful negotiations are focused on the problem (rather than the people), and will typically see the right people communicating in the right way at the right time. Experience has shown that face to face dialogue early in the negotiating process is particularly beneficial relative to the alternatives of phone conversations, letters or e-mails. Conversely, negotiations are more challenging and much more likely to escalate into a prolonged, adversarial process if the tone is negative, if one of the Parties refuses to engage in discussions or if either of the Parties is unwilling to listen to an alternative perspective or to share information that would provide additional insights about a Party's concerns or expectations.

This emphasis on negotiations also recognizes that the vast majority of disputes that escalate to litigation are eventually resolved through negotiation prior to or at trial. Given that the typical dispute can be resolved at a business level if there is a mutual will to do so and that the Parties are usually motivated to develop that mutual will eventually anyway, why not fully explore negotiation approaches sooner, rather than later?

ii) One step that a Party might consider relatively early in a negotiation that is not proceeding well is the use of an outside neutral facilitator. This can help focus (or refocus) the negotiations by: (a) framing clearly the issues that are in dispute; (b) objectively summarizing the Parties' respective perspectives; and (c) facilitating a discussion of potential alternatives. The use of a facilitator at this stage can be relatively inexpensive, and can provide a platform for the Parties to resolve their dispute much more easily than might otherwise be the case. Outside facilitation can be particularly helpful if the difficulties in the current negotiations are a symptom of broader ongoing problems between the Parties.

iii) Another approach that might be helpful in refocusing a stalled negotiation is a letter to the other negotiator that outlines similar information to that contemplated in a notice issued under Subclause **21.01B**.

Subclause 21.01B: i) Subclause **B** includes another potential step in the negotiating process if a Party reasonably believes that the financial impact of the dispute on it exceeds $50K (the permissible expenditure amount in Clause **3.01**). This financial threshold does not limit the ability of a Party to continue to try to engage the other Party in negotiations or to pursue a remedy through arbitration or litigation as applicable. It is structured to create a materiality test for the specific negotiation and mediation processes contemplated in this Subclause and Clause **21.02**. (See also Subclause **21.02A**.)

A Party may issue a notice about the status of the negotiations to the other Party's "address for service" and request each other Party to the dispute to designate a representative with knowledge and authority to settle the issues in dispute to become involved directly in the negotiation process.

It is not necessary that the Parties' management become involved in the requested negotiations. However, delivery of such a notice will typically see it brought to the attention of other personnel, particularly if the issuing Party intends to use a member of its management as its designated representative. If nothing else, the notice would typically cause the receiving Party to assess its approach to date and make any desired changes.

ii) This step is one that should not be taken lightly because of the potential for this notice to be received negatively by the other Party's negotiator. To mitigate this potential outcome, a Party considering this step should alert the other Party's negotiator and preferably provide a draft of the notice before sending it. The ultimate objective of the notice is to resolve the dispute, not escalate it. It is imperative that the information in any such notice be presented objectively without a provocative tone. This keeps the focus on the issues that remain in dispute, rather than the people who are involved in the negotiations, and best enables the Parties to keep the process moving forward instead of rehashing the past.

The issuance of the notice could, in fact, be a positive step in many cases. There is a real possibility that the Parties may have misunderstood the issues that were in dispute or the perspective of the other Party on an issue.

iii) The notice might result in the direct participation of the Parties' management personnel. This might be beneficial, as they may have greater objectivity because of a broader perspective and their lack of previous direct involvement in the dispute. This works most successfully if they have similar levels of responsibility and the financial authority to resolve the issue. This approach may also help build a relationship between the senior representatives and result in a clearer (and narrower) definition of the matters that are actually in dispute. (A formal management participation step is included in modern commercial agreements on an increasing basis (e.g., Alberta Power Purchase Arrangements).)

iv) One of the expected consequences of this Subclause is the incentive it provides to front line negotiators to resolve their issues amicably.

v) Subclause **B** is very different from the traditional approach, and a Party may choose not to participate. The Parties could then either continue to negotiate under Subclause **A** or move to the next stages of the process. A decision not to engage in these negotiations, though, is by itself a valuable piece of information. While not stated, it is the better practice for a Party that receives such a notice to respond to it by confirming the degree to which it agrees with the description of the issues and its perspective on those issues, even if it chooses not to participate.

vi) The Parties should also consider the process within which the dispute is most appropriately advanced before negotiations become adversarial and positional. While further negotiation may be attractive, a broader range of options should often be considered. Litigation may, in fact, sometimes be the most appropriate option. There will also be situations in which it is beneficial to engage a neutral expert for one of the initial meetings to help the Parties (and their legal advisors) understand more fully the options to address their dispute. Although there is no requirement to involve a neutral expert at this stage, the Parties are encouraged to consider in advance if this is a path that may be attractive for their dispute.

One simple solution that is proving effective in both regulatory and non-regulatory dispute resolution systems is the Preliminary ADR meeting ("PADR") (possibly also referred to as a Situation Assessment Meeting or "SAM"). This meeting is an opportunity for Parties in conflict to discuss the dynamics of their dispute and jointly design a dispute resolution process appropriate to their unique situation. In essence, this enables the Parties to build a road map for resolution of their dispute, while ensuring that they do not harm or compromise their litigation steps.

These meetings are flexible, and generally: (a) are facilitated by a neutral dispute resolution expert; (b) deal with process issues, not substantive ones; (c) identify the necessary Parties and address issues of authority; (d) address planning, preparation and logistics for the process; (e) enable the custom design of the appropriate dispute resolution tool (i.e., mediation, arbitration, litigation) and, if applicable, the selection of a neutral facilitator; and (f) provide the best opportunity to make an informed decision about continued participation in a future dispute resolution process.

Experience with this process in a regulatory context has been positive. It's a safe and simple first step in stressful and conflicted situations. Most Parties agree to an invitation to a PADR/SAM meeting as they have "nothing to lose". Most Parties would more fully commit to a dispute resolution process they have helped to design, and this has historically resulted in a higher settlement rate before litigation. The Parties identify roadblocks and preparation issues, and plan for these effectively, enhancing the success of the process. The Parties bring decision-makers to the meeting, which is set for a specific duration to maximize results. An informed "no" and a decision to proceed with litigation is a perfectly acceptable outcome.

Subclause 21.01C: A Party can "fast track" resolution of an item identified in Clause **21.03** by referring the matter directly to arbitration. However, the Parties should consider the potential benefits of using the other process steps if it is not critical to seek immediate resolution. A disposing Party facing a challenge of a ROFR value would typically negotiate a deferral of the closing date or a closing in escrow with its assignee. Rejection of a mediation request under Clause **21.02** also positions a Party to move to arbitration.

Clause 21.02: i) This provision reflects the increased use of mediation to resolve disputes. Mediation cannot be successful if the Parties are unwilling to explore alternative ways to resolve the dispute, so any Party may terminate the mediation process by notice to the other Parties.

ii) While not stated in the Clause, a Party receiving a mediation request will often choose to respond in writing to the information in the notice.

iii) Parties considering mediation are motivated to agree on a mediator in practice. When choosing a mediator, it is important to consider the type of mediator to use for the mediation. Do the Parties require one who tries to lead them to a resolution that the mediator believes is appropriate based on the mediator's experience (an "evaluative mediator") or do they require one who tries to facilitate the discussions to enable them to develop a resolution that they believe is appropriate (a "facilitative mediator")? If they are unable to agree on the selection of a mediator, they might consider obtaining a list of potential mediators from groups such as the Alberta Arbitration and Mediation Society and the ADR Institute of Canada Inc., where the latter is also willing to select one for them. (More information about the ADR Institute of Canada Inc. is found on its website at www.adrcanada.ca, and more information about the Alberta Arbitration and Mediation Society is found at its website at www.aams.ab.ca.)

iv) A mediator and the Parties will jointly determine the process to be used for the mediation, including any confidentiality requirements. The Parties might consider adopting the National Mediation Rules of the ADR Institute of Canada, Inc. or any similar rules.

v) This is an early mediation provision. It reflects a greatly increased emphasis on mediation in the judicial system.

vi) Costs and expenses of the mediation are to be shared equally by the affected Parties, unless they agree on a different arrangement at the time. This approach is consistent with the handling of those costs in the Dispute Resolution Appendix of the 1996 and 1999 PJVA CO&O Agreements.

Clause 21.03: i) The focus in Clauses **21.01** and **21.02** is an "interest based process" in which Parties attempt to resolve their dispute in a way that meets their mutual needs from a broad range of potential alternatives. Failure to resolve a dispute under those Clauses shifts the focus to a "rights based process" if formal proceedings are commenced through arbitration or litigation. The "rights based" reference is used because of the potential involvement of a neutral third party to adjudicate the dispute and provide an answer based on the respective entitlements under the Agreement.

ii) Except for civil proceedings permitted under Clause **21.04**, a Party that wishes to pursue an issue formally after a failed mediation is required to use arbitration if the dispute is one that pertains only to one or more of what is generally a specified list of fact based items. The Parties are also free to agree to refer any other dispute to arbitration instead of pursuing judicial proceedings.

One might argue that the inclusion of an arbitration provision might encourage disputes. However, the more likely effect would be to cause the Parties to negotiate contentious issues more realistically than they otherwise might in order to avoid the uncertain outcomes from arbitration.

iii) Unresolved audit exceptions have been included as an optional item with a negotiated value threshold. As audit exceptions often require some interpretation of the Accounting Procedure, this approach provides Parties with greater control over the degree to which arbitration should be the ultimate dispute resolution vehicle for this type of dispute.

iv) Unless otherwise agreed, a single arbitrator will conduct an arbitration in Calgary under the "National Arbitration Rules" of the ADR Institute of Canada Inc. (or any replacement for those rules). The Institute results from the merger of The Canadian Foundation for Dispute Resolution and the Arbitration and Mediation Institute of Canada Inc., and the CFDR remains its wholly owned subsidiary. The rules are substantially of a procedural nature. They supplement or make substitution for provisions of the Arbitration Act for the applicable jurisdiction (i.e., Alberta, in the absence of modification to this document). The handling of costs and appeals thereunder are generally on the same basis as provided in the applicable Arbitration Act.

Clause 21.04: i) Provided that the Regulations permit an extension, limitation periods are suspended from a notice to mediate until 45 days after termination of the mediation (including the deemed termination in the first sentence of Subclause **21.02B**), or such later date as the applicable Parties may agree, with a similar outcome for arbitration. Notwithstanding this provision, the Parties' lawyers will frequently choose to supplement it with separate documentation in the context of their particular dispute, particularly if the issue is significant and mediation is attempted close to expiry of the applicable limitation period. Parties intending to rely on the extension of the limitation period on the basis contemplated by this Clause should obtain legal advice at the time to confirm that their rights are preserved under the applicable Regulations.

ii) The timing is linked to the mediation and arbitration processes, rather than the negotiation process. There are two reasons for this approach. The first is that the documentation for the negotiation process will typically be quite loose in practice. The second is to provide reinforcement for Parties to use negotiations to attempt to resolve their disputes much earlier than has often historically been the case.

iii) A review of the law about injunctive relief is found in Gulf Canada Resources Ltd. v. Pembina Resources Ltd. (1994), 152 A.R. 74 (Alta. Q.B.). It was a dispute about the appointment of a new operator under a pre-CAPL Operating Procedure. The Court found that the plaintiff did not demonstrate irreparable harm entitling it to an injunction, such that it could adequately be compensated in damages if it suffered losses. The law in this area was also reviewed in Constellation Oil & Gas Ltd. v. Sunoma Energy Corp., [1999] A.J. No. 1202 (Alta. Q.B.), ExxonMobil Canada Energy v. Novagas Canada Ltd., [2002] A.J. No. 775 (Alta. Q.B.) and AltaGas Services Inc. v. BelAir Energy Corp., [2003] A.J. No.1127 (Alta. Q.B.).

Clause 22.01: i) Paragraph **(a)** provides that a notice may be served on a Party during its normal business hours on any normal working day. Service after normal business hours is treated as receipt on the next Business Day. If a Party is closed on a particular day by its own choice (e.g., a scheduled 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 it.

ii) It is possible for the Parties to have different response dates because of different delivery times. However, the issuing Party would typically use the latest date as the response date for all Parties in practice.

iii) Paragraph **(b)** does not require the addressee to acknowledge receipt for that notice to be effective. It is sufficient if the Party serving notice can demonstrate that it was sent. The Party serving 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 if its notice was effective. In the unlikely event there is actually a problem with receipt, the business considerations are such that the matter would typically be resolved to the addressee's satisfaction once the problem is identified. The onus, however, is on the addressee to satisfy the other Parties of the legitimacy of its request.

iv) Service of notice by facsimile under Paragraph **(b)** is contingent upon the addressee having included its fax number in its address for service.

v) The reference "other electronic medium" has been included to accommodate the issuance of notices by e-mail if the Parties choose to include an e-mail address in their respective addresses for service. A notice delivered by e-mail will not be a valid notice if a Party's address for service does not include its e-mail address. A Party should only consider including an e-mail address in its address for service if it has processes in place to ensure that e-mail is checked on a regular basis, such that it is not at risk because of vacation, business trips, etc. The content in the Paragraph in this area is based on the *Electronic Transaction Act* (Alberta).

vi) A notice must be served under Paragraph **(a)** or **(b)** if the applicable notice period is 48 hours or less. However, a telephone notice may be used for the 24 hour Casing Point election, to reflect typical industry practice.

vii) It is the better practice to serve important notices (i.e., issuance of a response to an Operation Notice or ROFR notice) under Paragraph **(a)**. This expedites delivery and provides a tracking mechanism if the issuance of the applicable notice or the timing of its receipt is challenged.

viii) Remember that Paragraph **1.02(k)** addresses the manner in which to count days and Business Days for notices served under the document. (A comparable provision was introduced in Clause 103 of the 1990 document.) That Paragraph generally states that day 1 of the response period is the day following receipt and that expiry of the response period falling on a weekend or statutory holiday extends it to the next Business Day.

Clause 22.02: i) Each Party is to notify the other Parties of any changed address for service in a timely manner. This is implicit in the provision, so has been expressly included as a reminder to administrative personnel. Prompt notification of a changed address for service minimizes the risk that time sensitive notices will be misdirected or that a Party could become a delinquent Party. The latter is a particular risk for smaller companies that are not well known, particularly if they are located outside of Calgary or are operated out of a private home.

ii) Home Oil Co. Ltd. v. Northridge Exploration Ltd., [1998] A.J. No. 519 (Alta. Q.B.) pertained to a situation in which Home exercised its ROFR on a property by sending the election to Northridge's former address. Although Home had updated Northridge's address in its internal records after receipt of a general notice, the election letter was sent to the old address that was on the Northridge letterhead used for the ROFR notice. The Court found as a fact that Northridge had intentionally been using its old letterhead after a merger as a cost saving measure and that Home was entitled to send its ROFR election to that address. One of the comments in *obiter dicta* was the Court's question of whether a general change of address circular delivered to industry without reference to specific agreements could be an effective means to change address.

Clause 23.01: A Party does not become a delinquent Party if it only fails to settle its accounts hereunder. The Operator already has potential legal remedies to address that problem under the default processes in Clauses **5.05** and **5.06**. (See also Clause **23.04**.) Similarly, an oversight in providing the other Parties with a new address would not seem to be sufficient if the Operator can easily determine that Party's new address by phoning its old office number or obtaining a new phone number from directory assistance.

Clause 23.02: i) 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. If other amounts were owing, the Clause **5.05** default process could be used.

ii) The burden of managing this issue has been reduced. The Operator may commingle the net funds with its other funds, and any ultimate adjustment of accounts is without interest because of the incremental administrative burden in accounting for the delinquent Party's interest.

iii) The delinquent Party is deemed not to participate in any proposed Operation, but remains responsible for all costs incurred for the Joint Account that do not require prior approval under Subclause **3.01B** (e.g., emergency scenario, payment of rentals under Clause **3.10**, etc.). It will be deemed to have elected to join in all farmouts, surrenders, Abandonments, etc. effected by the Operator on a *bona fide* basis for its own account.

iv) The Operator is appointed as the delinquent Party's attorney for the handling of documents required to be executed by the delinquent Party as a result of this Article, with an indemnification from the delinquent Party.

v) The rights, benefits, obligations and liabilities of a delinquent Party will be assigned proportionately to the other non-delinquent Parties (including the Operator) if it does not restore its status within 24 months after issuance of the notice under Clause **23.01**. This is new in this document.

While this will not necessarily result in the assumption of net liabilities by the Non-Operators, this could be the case. This result is consistent with the philosophy in Clause **5.06**, which recognizes that the Operator should not bear this type of cost for its sole account.

Clause 23.03: A delinquent Party that has its status restored prior to the allocation of its Working Interest to the other Parties under Clause **23.02** is to receive the accrued funds applicable to its interest from the Operator within 30 days after restoration of its status.

Clause 23.04: The Operator may also use its rights under Article **5.00** to secure satisfaction of obligations.

Clause 24.01-General: i) This Clause attempts to balance two competing objectives. One is an individual Party's desire to optimize value by having flexibility to explore the market. The other is the Parties' desire to maintain appropriate controls on assignments by another Party.

ii) The Clause includes two Alternates-a consent not to be unreasonably withheld (Alternate **A**) and a right of first refusal ("ROFR") (Alternate **B**).

The use of ROFRs has decreased over time. Prior to the 1974 document, a ROFR was the norm, often because large companies had been insistent on inclusion as a control mechanism on potential dispositions by the other parties. The use of the consent mechanism increased after the 1974 document began to be used, although many companies continued to insist on a ROFR as their standard election. The use of ROFRs has decreased since the early 1990s because of industry's experiences with A&D activities and recognition that each Party is probably a seller at some point during the asset life cycle. While some companies still insist on a ROFR as their standard election, most are more selective about when they will require a ROFR (e.g., significant agreements within a core area, potential high-risk, high-reward projects). The changes to this Article in the 1990 document and this document have largely been designed to narrow the potential application of the Alternate when selected.

iii) The introduction to the Clause in this version of the document makes it clearer that the contemplated disposition includes any right to earn a Working Interest for the conduct of operations, even though it is uncertain if and when the assignee will actually earn that Working Interest. This was included for two reasons. One is that the Earning Agreement typically places the farmee/optionee in control of the conduct of earning operations during the earning phase. The other is that a linkage of the disposition to the election for each earning well might enable Offerees to make their elections after value added work (e.g., seismic programs, other off block wells) has been conducted by the farmee/optionee, a major impediment to the ability to complete Earning Agreements. (This also impacts the time periods in Paragraphs **24.01B(h)** and **(i)**, which might otherwise arguably apply if earning did not occur within the 150 day period provided therein.)

iv) A Party subject to an Article **9.00** or **10.00** cost recovery holds its Working Interest in the applicable Joint Lands. It has full rights under this Clause.

Alternate 24.01A: i) The 20 day deemed consent mechanism was added in the 1990 document to ensure a prompt resolution.

ii) It is reasonable for a Party to withhold its consent if it reasonably believes that the disposition would be likely to affect its interest in a material adverse manner. Usually, this would apply to a reasonable concern about the proposed assignee's financial capability to fulfil obligations under the Agreement. A reasonable concern about the ability to apply Clause **5.05** default remedies against a Disposing Party in default also meets the test.

This reflects the legal test that probably would have been applied under the 1974 and 1981 provisions if a withholding of consent were litigated. A lengthier version of this concept was introduced in the 1990 document 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.

iii) If a Party elects to proceed with a disposition following refusal of consent, a Party that refused its consent 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.

The decision to withhold consent should be made very carefully. That Party could be liable for damages if the refusal to grant a consent frustrated a 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 may not refuse its consent unreasonably. (See, for example, Cudmore v. Petro-Canada Inc., [1986] 4.W.W.R. 38 (B.C.S.C.).) The risk of damages is very real if a Disposing Party lost a disposition in a period of falling commodity prices because a purchaser exercised the typical right to terminate a transaction over the refusal of a Party to grant a required consent.

Alternate 24.01B: i) The right of first refusal ("ROFR") mechanisms in the 1990 and 2007 documents are more onerous than the provisions in the 1974 and 1981 documents. This reflects the conclusion that industry's experiences with asset rationalization programs since the late 1980s have demonstrated the advantages and disadvantages of including ROFRs in agreements. The ROFR mechanism has been structured on the assumption that only Parties that are serious about attaching the obligation to their interest would include a ROFR. Additional annotations on ROFRs are included in Part III of the Addendum at the end of the annotations.

ii) Courts recognize an implied duty of good faith under ROFR provisions. In GATX Corp. v. Hawker Siddeley Canada Inc., [1996] O.J. No. 1462 (Ont. C.J.), the Court stated: "It is well established that the grantor of a right of first refusal must act reasonably and in good faith in relation to that right, and must not act in a fashion designed to eviscerate the very right which has been given." This implied duty of good faith was also recognized at Trial and the Court of Appeal in Chase Manhattan Bank of Canada v. Sunoma Energy Corp., [2001] A.J. No. 245 (Alta. Q.B.), affirmed [2002] A.J. No. 1550 (Alta., C.A.) (typically referred to as "Best Pacific") and in Hanen v. Cartwright, [2007] A.J. No. 334 (Alta. Q.B.). The Court of Appeal in Best Pacific, though, struggled with a suggestion that this duty would extend to a purchaser that did not have privity of contract with the ROFR holder.

Paragraph 24.01B(a): This document introduces a time limitation on the duration of the ROFR. This enables the Parties to retain the benefits of a ROFR process during the initial stages of a project and to have the flexibility of a consent mechanism when the project is mature. On the other hand, Parties that wish to include the more traditional ROFR process can simply use an expiry date more than 50-75 years in the future. The inclusion of this mechanism reflects a policy objective of reducing the number of long duration ROFRs. The structure of the provision avoids the issue raised in the Hanen case, where a party tried to avoid a ROFR on real estate by using an option to purchase with an exercise date after expiry of the ROFR.

Paragraph 24.01B(b): i) A number of commentators have written articles about the potential inclusion of a copy of its P&S Agreement with the notice to minimize the risk that a ROFR notice could subsequently be challenged. As a general statement, they concluded that a Disposing Party that issues only a simple ROFR notice outlining the basic ROFR terms is at significant risk. They note that some Parties attempt to minimize this risk by stating in the notice that the Offerees may review the P&S Agreement at the Disposing Party's offices. They typically note, though, that the most effective way to eliminate this risk is to issue a copy of the form of the P&S Agreement with the ROFR notice.

Since the Disposing Party would not want to negotiate a new sale agreement with an Offeree, this would ensure that the Offerees are aware of all material terms. This greatly increases the likelihood that an agreement resulting from a ROFR election would be finalized quickly. It also motivates a purchaser to finalize the P&S Agreement more promptly. The use of the CAPL Property Transfer Procedure will also facilitate ROFR notices and the finalization of agreements resulting from the exercise of a ROFR.

ii) A ROFR notice should not be issued until the form of the P&S Agreement is complete. The validity of a ROFR notice could be at risk if material changes were subsequently made to the P&S Agreement, as the Offerees would not have made their election on the actual business terms.

Paragraph 24.01B(c): i) The Disposing Party must identify in its Disposition Notice that an allocation has been made, if applicable, so that the Offerees understand if the price is an estimated or allocated value, or represents the actual cash price being received.

ii) The Court of Appeal in Best Pacific considered the ability of an Offeree to use arbitration to challenge an estimated value for a "package deal" under the 1974 document. It determined that the 1974 provision was premised on the consideration not being one that could be matched in kind, such that the arbitration mechanism did not apply to an allocation of a cash value for a property forming part of a larger cash transaction. (This would presumably also apply to the 1981 document.) The Court also stated in *obiter dicta* that the 1990 document appeared to make arbitration available more generally. The application of this Paragraph to the larger transaction scenario has been addressed more clearly in this document.

iii) The applicable P&S Agreement may include terms that pertain specifically to other properties. The general view of commentators is that terms that are specific to other assets may be blacked out of the agreement to which the Offerees are provided access.

iv) As the notice and election mechanism under Alternate **B** is structured in the context of offer and acceptance, a Disposing Party should only issue its ROFR notice if it is confident that its transaction will proceed. This is particularly important when attempting to complete an asset exchange. Otherwise, the Disposing Party could be obligated to dispose of assets to an Offeree when it would prefer to retain the interest.

v) A farmout pertaining only to the Joint Lands can be matched in kind.

Paragraph 24.01B(d): i) This Paragraph is new to this document, and has been included because of the difficult issues inherent with the application of a ROFR to farmouts and optional earning arrangements under the CAPL type ROFR provisions. It should be read in conjunction with the changes to Paragraphs **24.02(c)-(f)** of this document and the related definition of Earning Agreement. They recognize the increased tendency for Parties to enter into large scale Earning Agreements, such that it is unlikely for a ROFR to apply to large scale transactions. This Paragraph basically applies the "in kind" mechanism in Paragraph **(c)** to any farmout type arrangement covering only the Joint Lands, with a modified process for larger deals.

ii) A Disposing Party that enters into an Earning Agreement is obligated to disclose the material terms of the transaction as they relate to the Joint Lands. Various alternatives were explored in conjunction with the inclusion of Paragraphs **24.02(e)** and **(f)**. The conclusion was that the most practicable process was to provide the Disposing Party with the option to: (a) provide an allocated cash equivalent value for the earnable Working Interest; or (b) allow the Offerees the opportunity to step into the entire transaction by "matching the deal", even though it applies to rights in addition to the Joint Lands. The inclusion of the requirement to disclose some information about the transaction provides a foundation for the Offerees to assess the reasonableness of that value. The Disposing Party should consult with its proposed assignee if it is considering the second option, and it would also need to understand any resultant ROFR issues under other agreements. The proposed assignee will often prefer that the broader option not be given. This does not preclude the Parties from exploring other options at the time.

Paragraph 24.01B(e): i) The Disposing Party has an existing responsibility to the Offerees under its existing contract. As the Disposing Party (not its proposed assignee) is contractually responsible to them for the ROFR value, it should not blindly accept its assignee's proposed ROFR values.

ii) An Offeree that objects to a cash equivalent estimate must object to the estimate within 7 Business Days after its receipt.

iii) The corresponding provisions in the 1974 and 1981 documents provided that the reference to arbitration did not suspend the election period. They also provided that the amount determined could never exceed the allocation in the ROFR notice. One of the key findings in Best Pacific on the 1974 document was that Best Pacific had not taken the steps required to exercise or maintain its ROFR within the 20 day period therein. The suspension mechanism was introduced in the 1990 document.

iv) The Party that requests the cash value of consideration to be determined under Article **21.00** assumes the risk that the determined value will be higher than that proposed by the Disposing Party. If the provision stated that the determined value could never exceed that proposed by the Disposing Party, there could be an incentive for an Offeree to refer the matter for resolution if the estimate had been reasonable.

v) Another option would be to have the Disposing Party assign its value and provide that an arbitrator may choose only one of the two alternative values ("baseball arbitration"). The simplicity of that mechanism is attractive, but there are two problems. Firstly, the possibility of an adverse arbitration award might result in Disposing Parties assigning overly conservative cash values to the interest, such that the estimate may be below fair market value. Secondly, such a mechanism might encourage the use of arbitration. If an Offeree'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.

An arbitrator's discretion to award the costs of the arbitration should deter frivolous references to arbitration in most cases. (See, for example, Section 9 of Schedule 2 of the *Arbitration Act* (Alberta). If costs were to be shared equally, regardless of the reasonableness of the respective positions, there would be no deterrent to a Party that wished to pursue an unreasonable position.

Paragraph 24.01B(f): i) Commentators have generally concluded that the Disposing Party may not issue a conditional ROFR notice whereby the "offer" may be withdrawn if a package deal or asset exchange is contingent on ROFRs not being exercised. Such a Disposing Party needs to be confident that the transaction would otherwise proceed. It may also wish to manage its risk by requesting waivers without issuing a ROFR notice that the Offerees may accept. This is particularly the case if it is only prepared to dispose of its interest in the asset exchange.

ii) The basic election period was increased from 20 days to 30 days in the 1990 document. A Party receiving a notice is required to conduct a complex evaluation very quickly. As this is often with little or no advance warning, the 20 day period in previous versions of the Operating Procedure would not be practicable in many cases. While this election period will not be attractive to a Disposing Party in a particular instance, it is in the best

position to determine the timing of notices. Moreover, presuming that the Parties have elected to use Alternate **B** because of their genuine desire to include a ROFR, the change ensured that the mechanism was more effective in practice. If the Parties have difficulty with the major principles in Alternate **B**, it is a strong signal that they should possibly reconsider the selection of this Alternate.

iii) The Offerees have no obligation to respond until 15 days after receipt of the arbitrated value, if applicable. If the obligation were not suspended pending that determination, a Disposing Party may have less incentive to provide a reasonable estimate of the cash value of the consideration. One might attempt to argue that the 15 day election period after the determination of the arbitrated value is too short. However, this ignores the fact that an Offeree which disputes the value would have conducted a detailed evaluation to support its position in the arbitration.

iv) An Offeree's election to purchase the interest creates a contractual obligation that binds both the Offeree and the Disposing Party. An Offeree should not assume that it has latitude to deviate from the terms of the Disposition Notice with respect to such matters as well locations or timing. (See Canadian Natural Resources Ltd. v. EnCana Oil & Gas Partnership, [2007] A.J. No. 787 (Alta. Q.B.).)

v) A prudent Disposing Party will calculate the ROFR response period carefully under Paragraph **1.02(l)** and confirm the final election with any Party it knows is recommending a ROFR exercise before closing the transaction. (See Home Oil, as reviewed in the annotations on Clause **22.02**.)

vi) Clause **2.06** would apply to the situation of a successor Operator if the Operator were the Disposing Party.

Paragraph 24.01B(g): The consent mechanism ensures that a Disposing Party is not free to dispose of the interest to a third party that may not have satisfied the criteria at the end of Alternate **A**. An Offeree should never be forced to pay more than what it believes a property is worth only to avoid an unsuitable assignee that it could have refused if the consent mechanism in Alternate **A** was chosen. This obligation was introduced in the 1990 document, and was streamlined in this document. It had not been included in the 1974 and 1981 documents.

Paragraph 24.01B(h): The Disposing Party is to complete its transaction within 150 days after issuance of the Disposition Notice. The 1974 and 1981 documents included a much shorter period for completion of the transaction (within 60 days of expiry of the notice period). Consent to a longer period might be requested as part of a right of first refusal letter if those Operating Procedures apply. The Parties' personnel must be aware of the consequences if they are unable to close their transaction within the unmodified period prescribed by those previous documents. (This is a particular problem if there are also facility agreements associated with the transaction that have 60 day ROFRs.) The modifications to the introduction to Clause **24.01** respecting Earning Agreements ensure that the operative event for Paragraphs **(h)** and **(i)** is the completion of the Earning Agreement, not the timing of the applicable earning thereunder. (See also the related annotation on the introduction to Clause **24.01**.)

Clause 24.02: The premise of this Clause is that there are certain types of arrangements to which Clause **24.01** should not apply. The potential problems inherent in not having a comparable provision providing clarity for a large scale corporate transaction are illustrated by Budget Car Rentals Toronto Ltd. v. Petro-Canada Inc. (1989), 60 D.L.R. (4th) 751(Ont. C.A.).

Paragraph 24.02(a): This Paragraph applies to both financial and non-monetary obligations. A Party, for example, may be obligated to deliver production at some future date. The normal Clause **24.01** process would apply to any disposition made after a foreclosure by a lender. That clarification was introduced in the 1990 document. (The Court in Best Pacific also determined that the more general exception in the 1974 and 1981 documents did not apply to any subsequent sale enforcing the security.)

Paragraph 24.02(b): i) The traditional ability to dispose of an interest in return for shares or an interest in a partnership could see those vehicles used artificially to attempt to defeat a ROFR, so has been deleted. This change would not impact assignments to a partnership comprised only of Affiliates, which comprise the vast majority of partnerships to date. If the transaction is not part of a much larger transaction to which the exceptions in Paragraph **(c)** or **(d)** apply, the issue is ultimately just the determination of a cash equivalent value.

ii) This document introduces two limitations on the use of this exception.

One is the inclusion of the *bona fide* reference. It reflects the principle that a Party can't do indirectly what it can't do directly. Industry has traditionally applied this principle to process a transaction as an asset transaction if it is in substance an asset disposition, even though it may be structured as the sale of shares of a specially created Affiliate to which the assets were transferred. (This is also consistent with the way a Court might interpret an attempt to circumvent a ROFR obligation, as occurred in GATX Corp. and as noted with approval in Best Pacific.)

The second provides the Parties with additional protections if a defaulting Party attempts to limit the application of the remedies potentially applicable to its Working Interest under Clause **5.05** by an assignment to an Affiliate. Although this provides clear protection for the Parties, they may already be protected against any such assignment at law or in equity if this were to become an issue. In practice, this would not impact any *bona fide* major corporate transaction, such as a merger or amalgamation.

Paragraph 24.02(c): i) An exemption has applied since the 1974 version if a Party disposes of all or a portion of its interest in substantially all of its P&NG rights in a particular province. A sale of 20% of all of a Party's interests throughout a province would satisfy this exception, for example.

ii) The exception does not apply if the regional disposition is intended to be made under several transactions to different assignees. While this qualification is new to this document, Best Pacific found that the corresponding provision in the 1974 and 1981 documents applied to a single transaction, and this interpretation would presumably also apply to the 1990 document. The provision in this document is also clearer that the single transaction requirement can be satisfied by a multi-party assignee, assuming that the *bona fide* test is met.

iii) The exception includes a *bona fide* Earning Agreement, a clarification introduced in this version of the document.

iv) The test for "substantially all" was introduced in the 1990 Operating Procedure. It is linked to net hectares, rather than value, because of the factual basis for the calculation using this methodology. International agreements generally use a value test, rather than a net hectares test. This reflects the different order of magnitude typically associated with the value of an individual block in the respective operating environments. In addition, an explorer that may have 10 blocks in country X could potentially have hundreds or even thousands of different agreements in Alberta.

v) The references "all or substantially all" and "substantially all" have been considered by Canadian Courts (see for example Canadian Broadcasting Corp. Pension Plan v. BF Realty Holding Ltd. (2002), 214 D.L.R. (4th) 121 (Ont.C.A.)) in a variety of contexts involving the interpretation of contracts, taxation legislation and statutes which provide for shareholders' rights upon disposition of material assets by a corporation. In the absence of a contractual or statutory definition like that in this Paragraph, the meaning of "all or substantially all" has been determined to be context dependent and not lending itself to simple arithmetic calculations. Courts have tended to use, in some combination, a quantitative analysis (i.e., a comparison of the proportion or relative value of the transferred property to the total property of the transferor) and a qualitative analysis (i.e., a determination of the nature of a transferor's core business and an inquiry as to whether the transferred property is integral to the transferor's traditional business such that the transfer "strikes at the heart of the transferor's existence and primary corporate purpose"). The 90% "substantially all" test in Paragraph **24.02(c)** is designed to eliminate what would otherwise be contextual uncertainties and establish a pure quantitative analysis, so that no scrutiny of the qualitative aspect of the property transfer is required.

Paragraph 24.02(d): i) This Paragraph applies to large transactions being made by a Party and any of its Affiliates, other than Earning Agreements. It applies if the interest being disposed represents a small part of the transaction. It can be easily overlooked when a transaction is being effected. The concept was introduced in the 1981 document, and a clarification has been introduced in this document for Affiliates. The percentage threshold was increased from 5% to 10% in this document, to reflect the degree to which A&D transactions typically represent an ongoing component of each Party's asset management strategy. As well, Earning Agreements are handled in new Paragraphs **(e)** and **(f)** in this document. Based on industry's experiences and expectations, the provision reflects a policy objective that larger transactions should not be unduly impeded.

Assume that A holds a 20% interest in a 1,500 ha block (300 net ha) and it is selling its interests in 12,500 ha in which its average working interest is 25%, including the interest in the Joint Lands. The total net hectares being disposed of would be 3,125 (12 500 X 25%). The net hectares of the Joint Lands would be 9.6% of the total net hectares in the transaction (300/3,125), such that the transaction would fall within the exception.

ii) Segregation (Clause **13.01**), by its own terms, creates individual agreements for this calculation, even if the segregation is only stratigraphic.

iii) Lands in which a Party holds only an ORR do not comprise any net hectares, for consistency with industry acreage reporting norms.

iv) Including additional non-prospective acreage that is expiring in a month only to bring the transaction within the 10% threshold seems unlikely to satisfy the *bona fide* test in the Paragraph if the matter were ever litigated. (See the GATX reference in annotation (ii) on Alternate **24.01B**.)

v) A Party using this exception should include information on its sale file in sufficient detail that supports the application of the exception in case its use is challenged. There is nothing that precludes another Party from requesting information that demonstrates that the exception applies to a transaction. A Party that erroneously determines that this exception applies has a problem, particularly if this is discovered well after closing.

Paragraph 24.02(e): This exemption is new in this document, but similar to Paragraph **(d)**. (Also see the annotations on that exemption.) It addresses one type of disposition-*bona fide* Earning Agreements. A ROFR will not apply if the net hectares of Joint Lands that may be earned represent less than 35% of the total net hectares that may be earned under the Earning Agreement (including option rights that ultimately might not be exercised). This structure brings greater clarity to the impact of a farmout that includes optional elements. The use of the higher percentage also facilitates farmouts that comprise Joint Lands and other lands.

Paragraph 24.02(f): This optional Paragraph is new to this document. It allows Parties to exempt all *bona fide* Earning Agreements from the scope of the ROFR obligation. This optional exemption provides Parties with the ability to farm out their Working Interest in a deal that applies only to the Joint Lands or a larger deal without having to comply with a ROFR. This exemption duplicates the Paragraph **24.02(e)** exemption for some Earning Agreements, but is a much more transparent exemption to administer.

Subclause 24.04A: i) The CAPL Assignment Procedure applies to all dispositions made under Article **24.00** for which recognition of the assignee under the Agreement is sought. It will not apply to dispositions made by operation of other provisions of this Agreement. Recognition is inherent in the operation of such provisions as the Title Preserving Well penalty and the surrender provisions. Issuance of NOAs for those events would delay recognition and introduce unnecessary administrative effort and possible confusion that typically exceed the benefits of additional documentation.

ii) Pembina Resources Ltd. v. Saskenergy Inc., [1993] 3 W.W.R. 549 (Alta C.A.) pertained to the interpretation of an assignment and novation agreement for a marketing agreement. The assignee attempted to enforce rights formerly belonging to the assignor for contract years prior to the effective date, where the gas had already been delivered by the assignor. The only provision of the A&N agreement referenced in the judgment provided that the third party does "covenant and agree that from and after the Effective Date the Assignee shall be entitled to hold and enforce all of the privileges, rights and benefits of the Assignor under the said Agreement to the same extent as though and to the intent and purpose that the Assignee had become a party thereto in the place and stead of the Assignor."

The purchaser of the gas argued that the clause provided the assignee only with rights for events occurring or accruing after the effective date. The Court did not agree with that argument. It found that the reference to the effective date modified "entitled to hold", rather than "privileges, rights and benefits of the Assignor". In essence, the Court determined that the assignor no longer had any status to commence an action for benefits accruing to the period prior to the "effective date", such that the assignee was placed in the shoes of the assignor as of the effective date.

When considering this case, it is important to recall that the references to the assumption or retention of rights, benefits, obligations and liabilities in Clauses 3.01(c), (e) and (f) of the 1993 CAPL Assignment Procedure were structured to modify rights and obligations, rather than the entitlement to those rights or the responsibility for those obligations. It was unclear from the case how (or if) the A&N in question addressed the allocation of other rights and obligations between the assignee and assignor for pre and post effective date scenarios. This has caused some concern that assignees might be held responsible for pre-effective date obligations because of the case. This appears unfounded, though. A review of the materials filed with the Court of Appeal confirmed that the A&N in the case included in a paragraph not referenced in the judgment a clear statement that nothing would "be construed as a release of the Assignor from any obligation or liability which may have accrued prior to the Effective Date."

The other distinguishing factor in an Operating Procedure scenario is a well established industry practice to the contrary of that outcome, particularly in the context of such matters as J.V. audits. It would be an odd result if an assignee that had not been involved in a property prior to the "transfer date" would be exposed to the possibility of either a positive or negative adjustment resulting from an audit pertaining to the period prior to the "transfer date". As the assignee would not have any income from the acquired interest prior to the effective date, the allocation of either benefits or obligations to it for that period would violate the "matching principle" that forms the foundation of the accrual basis of accounting.

Subclause 24.04B: i) As noted in the annotations on Clause **13.01**, Article **13.00** of this version of the document has been modified, so that each portion of the Joint Lands with different Working Interests is managed, in effect, under its own separate agreement.

One of the historical issues relating to segregation under previous versions of the document has been the inclusion of additional third parties in the applicable notice of assignment (NOA) if those additional third parties are involved in other portions of the lands subject to the Agreement because only the Operating Procedure was subject to segregation. This Clause supplements Clause **13.01** by stating that the third parties for any such NOA may be limited to only those third parties that hold either a Working Interest or another form of interest (e.g., farmor holding ORR) in those Joint Lands subject to the NOA.

ii) To avoid a proliferation of assignment documentation, the assigning Party may use a single NOA to effect an assignment of interest under more than one of the separate agreements deemed to be created under Clause **13.01** if: (a) it is disposing of an interest under all of the separate agreements in which it holds an interest; or (b) it chooses to list all the segregated blocks to which the NOA pertains and the specific interests being assigned for each such segregated block. The latter NOA would see listed in the NOA all third parties having interests in any of the applicable segregated blocks, even if the third parties or their interests differed between the segregated blocks. This Subclause allows the assigning Party to list as a third party to the NOA a third party that holds an interest in any segregated block to which the NOA pertains. It is designed to ensure that a Party will not have grounds to reject a NOA because the third parties do not have consistent interests in all of the blocks to which the NOA pertains.

iii) A Party assigning an interest in circumstances in which Clause **13.01** will apply must be aware of any special issues that could arise as a result of the creation of a segregated block. Issues relating to such matters as an outstanding area of mutual interest, joint Production Facilities and, if stratigraphic segregation, the handling of existing wellbores, would need to be addressed on a transaction specific basis.

Clause 25.05: This Clause is included to minimize the possibility that a Party could successfully turn to a Court for relief if a provision were being used 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 *Judicature Act* (Alberta).)

Clause 25.06: One of the requirements for approval of a holding in Alberta is that there be "common ownership" in the area to which the holding applies, and the Board reserves the discretion to terminate a holding if this requirement is no longer satisfied. This provision is designed to restrict a Party from attempting to terminate or alter the holding based on a change in ownership in a portion of the area to which the holding applies. It is based on the premise that the Board is unlikely to be concerned as long as the "well density" and "buffer" and "interwell" distance requirements under the holding are still being satisfied.

Clause 25.07: This Clause is included because of the increased emphasis on avoidance of conflicts of interest under corporate compliance policies. Internal policies and regulatory requirements also restrict the use of confidential information in the trading of securities. Clause **3.07** of this document also introduces a requirement to maintain suitable internal controls. These were included in the aftermath of the Enron investigation, in recognition of the degree of reliance on the Operator's financial reporting and greater regulatory requirements for corporate compliance with financial reporting standards, such as the U.S. Sarbanes Oxley Act.

ANNOTATIONS-ADDENDUM

I - Special Circumstances In Which Amendments Might Be Considered

These annotations are designed to provide an overview of some of the circumstances in which amendments to the Operating Procedure may be appropriate. The nature of some of the potential amendments is that they might most effectively be addressed through the inclusion of additional provisions in the Head Agreement that will supplement, override or replace the applicable provisions of the Operating Procedure. Others would more effectively be addressed through an amendment to the specific provisions of the Operating Procedure, such as the inclusion of a proviso or the modification of a time period. The PetroDocs document preparation tool allows users to make changes in a way that is clear to users.

This information has been included to assist users in understanding the document, and is not intended to be a complete examination of either those situations or the types of potential amendments that should be considered.

The one caution in this area is that the benefits of customization have to be weighed against the associated cost. While specific amendments may be appropriate and acceptable to the Parties, the benefits of standardization begin to be lost with customization that reflects only organizational preferences. Every incremental modification above what is required for a particular project introduces a point of potential misalignment that could, by itself, delay or frustrate the completion of the Agreement. It is also important to remember that an adjustment to one provision will often have consequences in other areas of the document that will often not be appreciated by users.

A. Remote Areas/Seasonal Access

- Potential timing issues for Commencement of Operations under Clauses **7.01** and **10.03**, particularly if significant consultation is anticipated to be required to obtain access and regulatory approvals.
  - Increase to the period of Commencement in this document and potential application of Force Majeure Article mitigate risk on this issue significantly, though.
  - The simplest modification is to increase by 60-120 days the time periods prescribed by those Clauses, and Parties should identify this possibility in their precedent election sheet to minimize the possibility it might be overlooked.
  - Possible revision of definition of "Commencement" in areas with difficult access to link to initiation of surface construction, rather than Spudding.
    - Possible further requirement that Spudding has to occur within X days of completion of surface construction?
- Should consider if there are any special facilities issues that need to be addressed in the Head Agreement about construction of new regional facilities or access to existing facilities owned by a Party.

B. Sour Gas

- Potential timing issues for Commencement of Operations under Clauses **7.01** and **10.03** if significant consultation is anticipated to be required to obtain surface access and regulatory approvals.
  - Increase to the period of Commencement in this document and potential application of Force Majeure mitigate risk on this issue significantly, though.
  - The simplest modification is to increase by 60-120 days the time periods prescribed by those Clauses, and Parties should identify this possibility in their precedent election sheet to minimize the possibility it might be overlooked.
  - The nature of the contemplated pre-Spud activities may warrant setting up an interim AFE, as contemplated in annotation (vii) on the definition of AFE in Clause **1.01**.
- Possible modification to Subclause **3.01C** for the overexpenditure scenario for high cost operating areas.
  - Mechanism in which a Party could elect to become a Non-Participating Party on the same basis as for a Deepening under Article **10.00** once costs exceed a specified overexpenditure threshold (e.g., 35%, 50%, etc.)?
    - Restriction that a Party could not exercise this right during an emergency or during drilling difficulties.
    - Would also need to be clear about expectations for Abandonment costs.
- May want to modify Operator's liability to require Gross Negligence or Wilful Misconduct to be by Operator's Senior Supervisory Personnel. (See annotation (v) on the definition of Gross Negligence or Wilful Misconduct.)
- Might want to be more specific about consultation expectations and status reports in Clauses **3.05** and **3.09**.
- Need to review Clause **3.11** insurance coverage carefully.
  - Individual duty to have control of well insurance coverage at a prescribed level?
    - Exception for all (or some) of the initial Parties and their Affiliates, to recognize that financial viability of at least some of the current owners is not an issue?
    - May be beneficial to include a mechanism to review the selection of Alternate **3.11C(b)** if there is a change of Parties.
- Need to review the Clause **10.04** election carefully for the ability of a Non-Operator to operate an Independent Operation in which the Operator participates.
- Should consider if there are any special facilities issues that need to be addressed in the Head Agreement about construction of new regional facilities or access to existing facilities owned by a Party.

C. High-Risk, High-Reward Wildcat Exploration Programs

- Potentially some of the same issues identified in A and B above, depending on the location and type of production anticipated.
- Some special features to consider if: (i) the lands are held by more than two Parties and no single Party holds a dominant Working Interest; (ii) there is a large amount of open P&NG rights in the area; (iii) none of the Parties is otherwise active in the project area; and (iv) the initial Operations can confirm or invalidate the play type.
  - Ability to approve Operations of a certain type or below a certain cost threshold through a less than unanimous vote?
  - An Operating Committee mechanism of some sort as a vehicle for joint planning and expenditure forecasting if significant capital expenditures forecast?
- Possible inclusion of a mechanism whereby G&G programs within the AMI/project area for at least some period must be proposed to the other Parties as a Joint Operation.
  - Modification whereby a Non-Participating Party may not participate in a well within the area of a G&G program conducted by fewer than all of the Parties without equalization into the program on some basis?
    - Variation so that equalization isn't required if at the time the well is proposed it already has proprietary or trade seismic at the well location?
      - Protects a Party with 2D seismic data from a 3D program it believes is unnecessary.
- Inclusion of some flexibility to change the scope for complex foothills type plays where Sidetracking is contemplated, given the frontier type nature of some of these project areas? (Parties might want to identify this possibility in their precedent election sheet to minimize the possibility that the issue is overlooked.)
  - Ability to conduct Sidetracking within a specified area associated with the well relative to Non-Participating Parties?
    - Sample of this type of provision: Notwithstanding the description of a drilling operation in an AFE or Operation Notice, the situations encountered in a well drilled in the area of the Joint Lands are such that the Participating Parties might intentionally choose to deviate the well from the well described in the original associated AFE or Operation Notice as information from that well is obtained. As between the Participating Parties and each Non-Participating Party with respect to that well, the original election of a Non-Participating Party not to participate in the well will remain in effect (and no right to elect to participate in the revised well will arise due to such revision), provided that: (i) the revised well is still being drilled to the deepest formation identified in such original AFE or Operation Notice; (ii) the revised well is not being drilled to a deeper formation than that identified deepest formation; (iii) the revised location for the well is with

respect to Joint Lands in which the Parties hold the same Working Interests as they do with respect to the Joint Lands that included the original bottomhole location for the well; (iv) the revised location of the well will not be one which would result in the reduction of the production allowable for the well under the Regulations because of the well's revised location; and (v) the *bona fide* anticipated revised location is otherwise within _____ metres of the anticipated bottomhole location identified in that original AFE or Operation Notice. All costs incurred for that well, including those associated with any such deviation, will be included in any cost recovery applicable to that well.

- Some financial cap or other restriction for protection to participants?

- Inclusion of a modification to Clause **10.07** cost recovery for certain types of Exploratory Wells so that there is a "forced farmout".
  - Could apply, for example, to the first X Exploratory Wells drilled under the Agreement, the first well on a particular "Prospect", Exploratory Wells Spudded prior to a specified date or Exploratory Wells not less than X km from another well that penetrated the Z formation.
- Should consider if there are any special facilities issues that need to be addressed in the Head Agreement about construction of new regional facilities or access to existing facilities owned by a Party.

D. Pattern Drilling Programs (Shallow Gas/Conventional Heavy Oil)

- Operating Procedure historically has not optimally handled multi-well pattern shallow gas or conventional heavy oil drilling programs in which well results from individual wells are not expected to vary materially.
- Potential modifications could facilitate approval and conduct of the drilling program.
  - Use of optional Subclause **10.02G** or subsequent amendment whereby it will be selected if not originally selected.
  - Negotiation of technical parameters under which the Operator may automatically proceed to test wells without requirement for authorizations for each well?

E. Complex Horizontal Well Operations

- It is critical to assess carefully the degree to which the document, in its unamended form, offers enough content for complex Horizontal Well Operations that are contemplated, such as secondary or tertiary recovery schemes.
  - Does it suitably address recognized producing issues and the range of issues relating to the use of unique technology?
  - Does it provide the appropriate balance of flexibility for the Operator and financial controls for the Non-Operators?
    - Can the Operator make the necessary real time decisions inherent in the contemplated horizontal Operations?
    - Are there appropriate protections included for the benefit of the Non-Operators, so that they are comfortable with the implications of agreeing to participate in (or electing not to participate in) any particular horizontal Operation?
    - A number of additional issues should be considered by the Parties, such as:
      - Are any revisions desired to the definition of "Development Well" or the definition of "Spacing Unit"?
      - Are the Parties comfortable with the degree of flexibility afforded the Operator under Clause **8.02**?
      - Are the Parties comfortable with the manner of handling the "Casing Point" type election in Clause **8.03**?

F. Unconventional Gas Operations

- Clear identification of rights (e.g., coal or shale horizons only?).
  - Reserved formations mechanisms.
- Need to understand the expectations for involvement of the Non-Operators in the planning of Operations, given the likelihood that there will be more than two owners in many cases.
  - Establish an Operating Committee model, if warranted by the capital program, owner % and ongoing similarities to units?
    - Approval thresholds?
- Will there be a formal budgeting process of some sort?
  - Minimum committed program for initial period?
- Any special environmental and consultation requirements?
  - Special access issues probably associated with this type of project, notwithstanding the use of drilling pads.
    - Drilling density and water handling, with impact magnified by success.
  - Extensive stakeholder consultation probably required in many cases.
- Expectations for advocacy efforts with regulators/lessors?
  - Additional financial and tenure issues associated with this type of project.
    - Offsets and continuation mechanisms.
    - Potential royalty issues-deductions against royalty, flaring.
- Different handling of pilots and development projects?
- Any modifications to such definitions as "Commercial Quantities", "Equipping", "Paying Quantities", etc. required?
- Basis for proceeding independently?
  - What is the appropriate penalty mechanism?
  - Modifications to Casing Point mechanism?
  - Differences between Exploratory Wells, "stepout wells" and Development Wells?
  - Link development to previous CBM activities, rather than conventional wells.
  - Project based or well specific?
  - Project based Abandonment?

G. "North of 60" Operations

- Important for users to understand those principles of the Operating Procedure that translate well to northern operations, those that need to be modified somewhat and those that need to be rethought entirely.
  - Many of the modifications to this version of the Operating Procedure were made to provide a more effective platform for more complex projects, such as northern operations.
  - Degree of required modification will generally increase as one moves further north because of the increasing logistical challenges and the potential magnitude of the costs.
- Need to understand the expectations for the involvement of the Non-Operators in the planning and possibly conduct of Operations, given the likelihood that there will be more than two owners in many cases.
  - Establish an Operating Committee model from the commencement of the project?
  - Use of a more traditional AFE Operator/Non-Operator approval model under which an Operating Committee may be established at a later date (i.e., development stage or agreement of the owners)?
    - Agreement would need to be clear on expectations for such matters as the technical dialogue process, the budget process and approval of certain items through less than unanimous approval.
  - Need to be clear about expectations for charging internal labour costs associated with any joint technical teams.
- Need to be clear about local benefits obligations and expectations.
  - May wish to add some provisions in the Head Agreement about the negotiation of local benefits agreements and the requirement for compliance.
  - May wish to expand Subclause **3.03B** on the basis outlined in the annotations to provide additional clarity about the expectations for contracts being entered into for the Joint Account.
  - May wish to expand the consultation component of Clause **3.09** about the degree to which Non-Operators may participate in the consultation process and the expectations for status reports from the Operator.
    - Need to confirm that the document ensures that consultation costs associated with activities conducted for the Joint Account are chargeable for the Joint Account.
  - May wish to include staffing and supply of goods and services as part of the budget process.

- Need to be clear about interface with regulators and the responsibilities of the "designated representative".
  - To what degree are the Non-Operators to be consulted with respect to non-routine issues?
    - Handling of applications for significant discovery licences, etc.
  - Need to be clear about prioritization if multiple "regulators" involved in activities (i.e., areas with settled land claims).
- Exploration and appraisal operations.
  - Possible inclusion of a mechanism whereby G&G programs within the AMI/project area for at least some period must be proposed to the other Parties as a Joint Operation.
    - Modification whereby a Non-Participating Party may not participate in a well within the area of a G&G program conducted by fewer than all of the Parties without equalization into the program on some basis?
    - Variation so that equalization isn't required if at the time the well is proposed it already has proprietary or trade seismic at the well location?
      - Protects a Party with 2D seismic data from a 3D program it believes is unnecessary.
  - May wish to modify definitions of Exploratory and Development Wells from a distance test to a technical test and to add a definition of Prospect.
    - Add definition of "Appraisal Well", with consequential penalty impact?
  - May wish to have some types of Operations approved through a less than unanimous approval process, so that Parties are using similar information bases.
  - How to manage cost allocation issues associated with the north, particularly for the far north?
    - Allocation of mobilization costs to the north across a drilling program.
    - Allocation of standby charges inherent in maintaining equipment in areas of the north on a year round basis.
    - Allocation of charges for use of a staging and base camp area owned by fewer than all of the Parties.
  - How to manage overexpenditures?
  - Suitability of cost recovery penalties or land forfeiture penalties?
  - Suitability of "cash premium" penalties, such as commonly used internationally?
    - If so, what are the percentages, the reinstatement mechanism and the related timing window?
  - Ability to conduct Sidetracking within specified area without triggering Non-Participating Parties' re-election rights, as described in the High-Risk, High-Reward review in Item C above.
- May wish to address expectations for "Pre-Development" and "Development" in the Head Agreement in the context of the different regulatory and operating environment.
  - Does the level of participation by the Non-Operators in the planning of Operations increase?
  - What is the approval threshold for studies and the preparation of the Development Plan?
  - Expectations for approval-a project or well-by-well approvals?
  - Will a Party be able to drill additional Development Wells independently once the field is on production or will additional drilling be conducted under unit type approval processes?
    - Additional Development Wells drilled through a less than unanimous approval process?
    - No ability to drill a Development Well independently if the applicable approval threshold is not obtained?
  - Basis for approval of subsequent Production Facilities or expansions?
    - Potentially advantageous to use less than unanimous approval process.
    - Is there a process in which facilities shift to being managed under a CO&O agreement?
- A potential range of marketing type issues associated with transportation commitments.
  - A front-end mechanism to encourage coordination of transportation commitments, particularly for the far north?
  - What are the consequences if a Party fails to obtain sufficient transportation capacity to handle its share of production?
    - To what degree would the traditional WCSB marketing fee mechanism provide suitable compensation?
- Inclusion of a mechanism under which an abandonment fund may be established?
  - Special tax issues respecting an abandonment fund.

II - Case Law Respecting Fiduciary Obligations And Breach Of Confidence

A. Fiduciary Obligations

One of the evolving areas of the law is the area of fiduciary obligations. There have been several major cases in this area since the late 1980s, and some have been in the context of the oil and gas and mining industries. As noted in the annotations in Section B below, this issue will also frequently be raised in conjunction with a claim for breach of confidence when a misuse of confidential information is alleged.

As noted in the consideration of the Sorrel decision in the annotations on Clause **5.07**, that judgment found that the intention that the Operator acts for the benefit of the Parties pervaded the entire 1981 document.

The leading Canadian case is Lac Minerals v. International Corona Resources Ltd., [1989] 2 S.C.R. 574 (S.C.C.), affirming (1987), 44 D.L.R. (4th) 592 (Ont. C.A.) and (1986), 25 D.L.R. (4th) 504 (Ont. H.C.). As noted in more detail in the annotations in Section B below, the case related to the use of information disclosed in confidence during negotiations to acquire promising adjacent mineral claims.

The Supreme Court of Canada confirmed the finding of the lower Courts that Lac was liable to Corona. It applied the doctrine of constructive trust to award the other mineral claims to Corona, so that the fiduciary could not profit from the breach of the trust. (Also see, Midcon Oil & Gas Ltd. v. New British Dominion Oil Co., [1958] S.C.R. 314 (S.C.C.) respecting the doctrine of constructive trust.) The majority opinion of the Supreme Court found Lac liable in two ways-breach of confidence (Section B below) and breach of fiduciary duty.

The Supreme Court recognized that a fiduciary relationship does not normally arise between arm's length commercial parties. It found that a fiduciary obligation or duty can arise out of the specific facts, however, even though fiduciary obligations normally would not be expected. The majority judgment chose to apply the test from a dissenting judgment in an earlier case (Frame v. Smith, [1987] 2 S.C.R.99 (S.C.C.)) to determine whether a fiduciary obligation exists. The three general characteristics in this test were: "(a) the fiduciary has scope for the exercise of some discretion or power; (b) the fiduciary can unilaterally exercise that power or discretion so as to affect the beneficiary's legal or practical interests; and (c) the beneficiary is peculiarly vulnerable to or at the mercy of the fiduciary holding the discretion or power".

Another important issue that arose in the early 1990s about the conduct of the parties in a contractual relationship was the doctrine of "good faith". This is basically an American doctrine that provides that: "Every contract imposes upon each party a duty of good faith and fair dealing in its performance and its enforcement." The Supreme Court in Lac made a passing reference that: "The institution of bargaining in good faith is one that is worthy of legal protection in those circumstances where that protection accords with the expectations of the parties."

The doctrine was considered in Gateway Realty Ltd. v. Arton Holdings Ltd., [1992] N.S.J. No. 175 (N.S.C.A.), affirming [1991] N.S.J. No. 362 (N.S.S.C. - T.D.). The Trial Judge stated: "What will constitute bad faith or breach of the conduct described above will depend on the terms of the contract and the circumstances of each case. In most cases, bad faith can be said to occur when one party, without reasonable justification, acts in relation to the contracts in a manner where the result would be to substantially nullify the bargained objective or benefit contracted for by the other, or to cause significant harm to the other, contrary to the original purpose and expectation of the parties."

It is in the backdrop of these cases that the more recent Alberta cases about relationship based claims must be considered. There were several of these cases in Alberta in the early 1990s, with some decided before issuance of judgments from the Alberta Court of Appeal with respect to the Luscar and Mesa cases noted below. These cases included: (a) Consolidated Oil & Gas Inc. v. Suncor Inc., [1993] A.J. 485

(Alta. Q.B.), which considered fiduciary obligations and the "duty of good faith"; (b) Erehwon Exploration Ltd. v. Northstar Energy Corp., [1993] A.J. No.916 (Alta. Q.B.), which considered, among other issues, fiduciary obligations and the "duty of good faith" in circumstances in which a CAPL Operating Procedure applied, and determined that an Operator is in a fiduciary role with respect to many of its functions, where the determination is issue and fact specific and must be examined in the context of the particular contract; (c) Prairie Pacific Energy Corp. v. Scurry-Rainbow Oil Ltd., [1994] A.J. No. 36 (Alta. Q.B.), which considered the nature of an Operator's fiduciary obligations in the context of a pre-CAPL Operating Procedure; (d) Novalta Resources Ltd. v. Ortynsky Exploration Ltd., [1994] A.J. No. 1101 (Alta. Q.B.), which considered, among other issues, the nature of the Operator's fiduciary obligations in the context of the 1981 CAPL Operating Procedure and the "duty of good faith"; and (e) Opron Construction Co. v. Alberta, [1994] A.J. No 224 (Alta. Q.B.), which, in a construction tendering context, considered, in part, the "duty of good faith".

The "good faith" issue was considered in Mesa Operating Ltd. v. Amoco Canada Resources Ltd., [1994] A.J. No. 201 (Alta. C.A.), affirming [1992] A.J. No. 287 (Alta. Q.B.). In essence, the case pertained to a situation in which a half-section subject to Mesa's ORR and held by Amoco was included in an acreage based pooling with another half section in which Amoco also held a working interest with other owners. The critical finding of fact was the determination that the vast majority of the reserves were within the half-section subject to the ORR. The Court at trial found for the ORR holder on the basis of the "duty of good faith." The Court of Appeal agreed that Amoco was liable to Mesa, but was not prepared to do so on the basis of a "duty of good faith". The Court of Appeal judgment stated in part; "The rule that governs here can, therefore, be expressed much more narrowly than to speak of good faith, although I suspect it is in reality the sort of thing some judges have in mind when they speak of good faith. As the trial judge said, a party cannot exercise a power granted in a contract in a way that "substantially nullifies the contractual objectives or causes significant harm to the other contrary to the original purposes or expectations of the parties." Subsequent cases in which the Courts made a similar conclusion were Transamerica Life Inc. et al. v. ING Canada Inc. (2003), 68 O.R. (3d) 457 (Ont. C.A.) and Hanen v. Cartwright, [2007] A.J. No. 334 (Alta. Q.B.).

The leading Alberta case on the issue of fiduciary obligations in the context of the CAPL Operating Procedure is Luscar Ltd. v. Pembina Resources Ltd., [1994] A.J. 864 (Alta. C.A.), reversing [1991] A.J. No. 1051 (Alta. Q.B.), leave to appeal to the Supreme Court of Canada denied, [1995] S.C.C.A. No. 6. The case pertained to a pre-CAPL form of agreement that the defendant may have breached many years previously with respect to several AMI acquisitions. The Trial Judge determined that the plaintiffs were entitled to a remedy in equity because of the Operator's breach of fiduciary obligations with respect to the AMI acquisitions and other duties (including for the latter a duty to share the Operator's proprietary interpretations so that the parties could jointly pursue new opportunities and a duty to optimize exploration and exploitation of the joint rights).

In reversing the decision, the Court of Appeal stated in part: "It may well have duties of loyalty arising from its position, and not be able to use advantages it gains exclusively as operator. For instance, if it deliberately misrepresented well results or facts, that might be a breach of a fiduciary duty such that equity would require disgorgement of any profit gained. While I accept that there may be fiduciary aspects of the duties of an operator, not every duty is fiduciary. The mere fact a contract imposes responsibilities on one party upon which another relies, does not mean the first party is automatically a fiduciary with respect to the duty created. Moreover, where a specific term of a contract addresses an issue, the contractual remedy may properly redress the wrong, thereby reducing any vulnerability. The parties, having addressed the issue specifically by contract, without making the duty to give notice a fiduciary one is also a factor to be considered...Thus a party may have fiduciary obligations arising from its relationship, but not every obligation is a fiduciary one." The Court of Appeal also had difficulty with finding the dependency required for a fiduciary relationship when parties were on an equal footing.

One instance in which a fiduciary obligation might be found is in the circumstance in which the Operator has an interest in offsetting lands in the same pool if it stands to profit by not placing a well on production respecting the Joint Lands. (See Moco Resources Ltd. v. Unocal Canada Resources, [1997] A.J. No 116 (Alta. Q.B.).)

The law in this area is evolving. What is clear is that a Party that exercises discretion in a manner that it knows will harm its co-venturers may be vulnerable to legal challenge if its behaviours appear dubious.

B. Breach of Confidence

Fiduciary obligations were reviewed in the preceding Section. The law respecting breach of confidence is not coextensive, but is not entirely distinct either. It is also an evolving area. The leading case of Lac Minerals v. International Corona Resources Ltd., [1989] 2 S.C.R. 574 (S.C.C.), affirming (1987), 44D.L.R. (4th) 592 (Ont. C.A.) and (1986), 25 D.L.R. (4th) 504 (Ont. H.C.), for example, related to the use of information disclosed in confidence in the context of a possible business venture to acquire an adjacent mineral property. In essence, the case pertained to a situation in which Corona disclosed sensitive proprietary information about a mineral property to Lac in the early stages of a possible joint venture. Those parties did not enter into a confidentiality agreement. Lac proceeded to acquire an adjacent property that the information indicated to be prospective, where the disclosed information was found to be the "springboard" to the acquisition.

The Supreme Court determined that the test for breach of confidence required an injured party to establish three elements: (a) that the information conveyed was confidential; (b) that it was communicated in confidence; and (c) that it was misused by the party to whom it was communicated. The absence of a confidentiality agreement was not fatal to Corona's claim in that case, as the Supreme Court placed significant weight on industry practice in the mining industry. Although the conventional remedies for breach of confidence would be an accounting for profits or damages, the Supreme Court chose to apply the remedy of constructive trust, and awarded Corona the adjacent property in its entirety.

The remedy that will be applied for a misuse of confidential information is dependent on the particular circumstances. In Ontex Resources Ltd. v. Metalore Resources Ltd. (1993), 13 O.R. (3rd) 229 (Ont. C.A.), application for leave to appeal dismissed, [1993] S.C.C.A. No. 370, the operator of a mining property intentionally withheld information it was required to share with the other party on an annual basis. The operator proceeded to purchase the property from the other party and to acquire adjacent properties that were prospective for its own account. Although the Court of Appeal rescinded the sale agreement, it was not prepared to find on the facts that there was a constructive trust for the adjacent lands.

One outstanding issue raised by the Ontex case is the degree to which an Operator must make full disclosure of all information it possesses for a property when trying to purchase another Party's interest. It seems clear from the decision that non-disclosure of information that the Operator is required to provide would potentially leave the purchase open to challenge, unless the selling Party was consciously prepared to make the disposition without access to that information. Clauses **1.05** and **18.04**, on the other hand, should enable purchasers to make an offer based on information to which the vendor has no entitlement under the Agreement. An unanswered question is if an Operator willing to buy a Working Interest must disclose a work program that the Operator plans to propose for the Joint Account.

The breach of confidence issue was considered in an oil and gas context in Cinabar Enterprises Ltd. v. Richland Petroleum Corp., [1998] A.J. No. 891 (Alta. Q.B.). This case pertained to a situation in which a party shared information in the early stage of potential negotiations without a confidentiality agreement in place. The party receiving the information realized from the discussion that the lease had terminated years previously and proceeded to acquire a new lease. This information was also in the public domain, such that the other party could have easily confirmed this using data that was readily available to it.

Although the Court quoted the Lac test with approval, the Court found that the information was not confidential or conveyed in confidence. These findings were based on the fact that the information was already in the public domain and the determination that the disclosing party

did not have the belief that the information could be used to its detriment (e.g., its belief that its lease was valid). (It is also important to note that the facts also indicated that the other party had independently developed a different play on the lands prior to the meeting.)

The Court considered the custom and practice respecting the sharing of information in the oil and gas industry, but did not have to make a determination on this issue after the finding that the shared information was not confidential.

Given the evolving nature of the law in this area, users should ensure that they comply with the obligations in the Agreement for the handling of information. Parties disclosing confidential information in commercial negotiations should also attempt to control their own destiny by entering into an appropriate confidentiality agreement prior to any such disclosure.

III - Miscellaneous Annotations On ROFRs

i) There may be instances in which the Parties choose to include a "first right of negotiation" in their Agreement instead of either of the presented options. In essence, this type of mechanism requires a Party contemplating a disposition to solicit offers from the other Parties within a prescribed period (typically 30 days). If the Party does not accept an offer from the other Parties, it may try to obtain a better offer from the marketplace for a prescribed period (e.g., 180 days) without any ROFR type obligation attaching to a transaction more favourable to it. (See Article 12.2(F) of the 2002 AIPN Operating Procedure for a sample provision of this type.) This type of provision was not included because of the view that the Alternate would not be frequently used and that a Party considering a disposition in Western Canada would typically be motivated to determine the interest of the other Parties in the property in practice.

ii) A Party that does not comply with a right of first refusal obligation faces the risk that a Court could order specific performance if the acquiring party knew or should have known that there was a ROFR. 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.), in which it was clear that the assignee was aware of the ROFR. Since that decision, Alberta has amended *The Law of Property Act* to address a right of first refusal. Section 63 provides that a right of first 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 rights of first refusal in Alberta. The failure to file a caveat protecting a right of first refusal had a negative impact on the offerees in Calcrude Oils Ltd. v. Langevin Resources, [2003] A.J. No. 1575 (Alta. Q.B.).

iii) The proposed assignee may also hold a ROFR if it already owns an interest in the property. If so, the assignee should exercise its ROFR. The owners exercising the ROFR have priority over the assignee under the Operating Procedure. If another offeree exercised its ROFR and the assignee did not exercise, the exercising offeree would acquire the applicable interest in its entirety.

iv) Unit agreements seldom include any restriction on dispositions. Operations for the unitized zone are conducted under the unit agreement. Some assume, therefore, that the Operating Procedure no longer applies to the unitized zone, such that a ROFR obligation therein does not apply to the unitized interest. Unless the unit agreement specifically states that it has superseded the prior agreement for all purposes, the generally accepted view is that a ROFR in the land agreement continues to apply to the owners in the tract.

v) Similar considerations as for a unit agreement potentially apply to the interrelationship between a subsequent non-cross-conveyed pooling agreement and the original agreements under which the pooled interests were held. If, for example, the pooling agreement included a consent mechanism and the original agreement included a ROFR, the ROFR in the original agreement arguably still applies unless there was a clear intention in the subsequent agreement to override the ROFR. This type of pooling agreement is typically structured as a vehicle to allow the lands to be combined for development and production purposes only during the period in which the well is productive, with reversionary processes back to the original agreement. To minimize potential confusion later, Parties entering into such a pooling agreement should be clear at the time about their expectations for the original ROFR.

vi) A Disposing Party must check both the land and J.V. agreements for ROFRs. There is a tendency for vendors and purchasers to focus only on the land agreements. However, the failure to discover a ROFR in a J.V. agreement when researching title is at least as serious as the failure to note a ROFR under a land agreement. It is also important to remember to check a freehold lease that has been granted by an industry player, such as EnCana (PanCanadian), for a possible ROFR.

vii) The ROFR process in Article IX of the 1999 PJVA CO&O Agreement is similar in many ways to the 1990 CAPL provision, but does have major differences. In addition to differences because of the subject matter, the PJVA provision includes two optional Paragraphs in the ROFR exemptions in Clause 902. One pertains to a disposition of substantially all of an Owner's working interest in the wells producing to the facility. The other is for a disposition of an interest in the facility that corresponds to the wells being produced to the facility.

viii) The ROFR provision in the Operating Procedure generally will not apply to a royalty interest. However, it arguably applies if a farmor has the right to convert its ORR to a Working Interest at payout, and Clause 12.02 of the 1997 CAPL Farmout & Royalty Procedure is clear on this issue if that document applies. This will probably be academic for a poor well. A cautious farmee would comply with the obligation if payout is anticipated in at least the short to medium term. The converse is also true. If a Party with a convertible ORR would have a ROFR after a payout conversion, that Party might also issue a ROFR. This treatment avoids the allocation issues associated with an asset that includes a well subject to a convertible ORR and other lands earned under the same agreement. The election process typically used in those notices is on the basis of the after payout interests.

ix) Parties that accept a ROFR provision must be aware of the potential consequences of the mechanism if they have a tendency to dispose of a portion of their interest to "partners" who are not recognized in any manner under the Agreement. The obligation to issue the Disposition Notice accrued as of the time of the disposition, and is not contingent on the proposed recognition of the "silent partner". If the original disposition is discovered years after the fact, this could possibly then enable the other Parties to acquire the disposed interest for the original price, subject to an accounting adjustment for revenues and costs since that time.

This was the major issue relating to the 1974 document in Calcrude Oils Ltd. v. Langevin Resources, [2003] A.J. No. 1575 (Alta. Q.B.). In essence, Enerplus purchased an interest from Langevin, where Enerplus had a silent partner that acquired 10% of its interest for a proportionate amount of the purchase price. The silent partner's interest then passed hands several times through transactions that basically involved all of the vendor's assets in Alberta until the ROFR gap was addressed by a purchaser in the chain. Although Enerplus had tried to claim that the interest of a silent partner can be held without attracting a ROFR, the Court disagreed, stating: "...The Defendants have taken the position that there is no obligation to provide a ROFR Notice pursuant to the Farmout Agreement as long as some other Party (not necessarily the vendor) holds the interest in trust following the disposition. This is contrary to the unequivocal words of the CAPL clause 2401 that a ROFR notice must be provided upon any intention to sell an interest. <The Court then quotes the good faith requirement noted in GATX as quoted in the annotations on Alternate 24.01B.>...There is no authority that they are to be relieved from their contractual obligations simply because they arrange for Enerplus to hold the interest in trust. In fact, the authority is quite to the contrary."

The Court then determined that there was no basis to conclude that the plaintiffs would have exercised on the Enerplus transaction with its silent partner, as they did not exercise their ROFR for the original Langevin-Enerplus disposition. Failure to have filed a caveat for the ROFR precluded an award of specific performance. The Court also found that the plaintiffs failed to mitigate their damages by acquiring the interest when the ROFR was eventually offered to them. While the Court found that there was a breach of the ROFR obligation, it found on the facts of this particular case that it was a technical breach and awarded damages of only $1.

This is Exhibit "E" to the Affidavit of
me ✓ (Robert Logan) ✓
~~Brianne Harris~~ sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

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.

EXHIBIT "__"

AGREEMENT FOR THE_____

_____

_____

_____

RATES, ELECTIONS AND MODIFICATIONS TO THE 1996 PETROLEUM ACCOUNTANTS SOCIETY OF CANADA (PASC) ACCOUNTING PROCEDURE

101. Rates and Elections

The following clauses of the Accounting Procedure are modified to include the indicated election, alternate, option or value:

105. **Operating Fund:** _____%

110. **Approvals:** Clause _____; from _____; _____ percent (_____%)

112. **Expenditure Limitations:**
(a) excess of _____ dollars ($_____)
(c) excess of_____dollars ($_____)

202. **Employee Benefits:**
(b) exceed _____ percent (_____%)

213. **Camp and Housing:**
(b) shall _____/shall not _____

221. **Allocation Options:**
204. _____
207(c). _____
212. _____
213(a). _____
214. _____

302. **Overhead Rates:**

(a) _____percent (_____%)
OR
(1) _____ percent (_____%); _____ dollars ($_____)
(2) _____ percent (_____%); _____ dollars ($_____)
(3) _____ percent (_____%)

(b) _____percent (_____%)
OR
(1) _____ percent (_____%); _____ dollars ($_____)
(2) _____ percent (_____%); _____ dollars ($_____)
(3) _____ percent (_____%)

(c) _____percent (_____%)
OR
(1) _____ percent (_____%); _____ dollars ($_____)
(2) _____ percent (_____%); _____ dollars ($_____)
(3) _____ percent (_____%)

(d) _____percent (_____%)
OR
(1) _____ percent (_____%); _____ dollars ($_____)
(2) _____ percent (_____%); _____ dollars ($_____)
(3) _____ percent (_____%)

(e)(1) _____ percent (_____%)
(2) _____ dollars ($_____)
(3) _____ dollars ($_____)
shall_____/shall not_____

406. **Dispositions:** _____dollars($_____)

102. Modifications to the PASC Accounting Procedure

The Accounting Procedure is modified as follows:

The clauses contained in the Accounting Procedure are amended as follows:

_____
_____
_____
_____
_____
_____
_____
_____

103. Warranty as to Modifications

Except as otherwise provided for in Clause 101 and 102 hereof, the Accounting Procedure published by the Petroleum Accountants Society of Canada, 1996 (copyright) is hereby incorporated in its entirety in the Agreement and the Parties so warrant that said Accounting Procedure has been amended only to the extent set forth herein.

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	(b)		X		In proportion to time on Joint Property
Automotive	204		X		Rates equitable basis
Compulsory Benefits	202 (a)		X		Actual or percentage assessment
Worker's Compensation					
Unemployment Insurance					
Canada/Quebec Pension Plan					
Non-Compulsory Benefits	(b)		X		% limitation
Available to ALL employees including					
Life Insurance					
Medical/dental/etc. insurance					
Company pension/retirement plans					
Savings plans					
Stock purchase					
Bonus					
NOT available to ALL employees	(b)	X			NOT Chargeable
Bonuses to select employees					
Stock plans					
Management incentives					
Selective benefits					See list in Explanatory Text
Camp	213 (a)		X		Equitable allocation
Housing	(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	(b)			X	
Contract services for Operations	207 (a)		X		
Contracted Technical Services	(a)				
on-site and related off-site			X		
off-site				X	
Contracted Production Engineering-off-site see Explanatory Guide	(a)		X		If duties listed in Explanatory Text
Contract Professional Consulting	(a)			X	
Operator's Laboratories	(b)		X		Third party maximum
Operator Owned Equipment	(b)		X		Formula applies
Chart integration	(a)		X		Third party maximum
Production office	(c)		X		Equitable basis
Contract Services Audit	108 (d)			X	
Damages and Losses	208		X		Notice required
Insurance proceeds (CR)			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		X	
Facilities Use					
Laboratory	207 (b)		X		Commercial Maximum
Chart Integration	(b)		X		Commercial Maximum
Other owned or leased equipment	(b)		X		Clause 207(e) & (f) limiter on formula
Offices	(c)		X		Clause 207(e) & (f) limiter on formula

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
GST	113				Subject to Election
Insurance Premiums	211 (a)		X		
Employers Liability			X		
Automotive			X		
General Liability			X		
Insurance deductible	(b)		X		
Uninsured loss			X		
Claims in excess of limit			X		
Construction inventory	506		X		
Inventory - Regular scheduled	504		X		
More frequent		X			
Labour - Admin (On-Site or Off-Site)	201 or				
Supervision of administrative functions	207	X			
Contracts administration (field)	201(a)(2)			X	
File administration		X			
Systems administration		X			Except as per Clause 214
Budgets and budgeting administration		X			
Production data recording administration		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 Constructions admin.		X			
Major out of the ordinary construction Project admin. done On-Site				X	
Daily plant balance admin. done On-Site			X		Included in annual budget
Purchasing Administration		X			Head office & master contracts
Warehouse Co-ordination			X		Included in annual budget
Labour - Completion	201				
Program design	or		X		Subject to Owner Approved Completion AFE
Wellsite supervision	207		X		Subject to Owner Approved Completion AFE
Personnel Administration		X			HR activities
Labour - Construction Project	201, 205				
Engineering & design	or			X	Owner approval required for projects
In contractors main or field office while in conduct of Joint Operations	207		X		above Clause 112 expenditure limit
Preparing budgets		X			
Feasibility studies - wholly engineering				X	
Procurement and disposal		X			Administrative function
Labour - Drilling	201				
Program design	or			X	Owner approved Drilling AFE Req.
Wellsite supervision	207			X	Owner approved Drilling AFE Req.
Personnel administration		X			HR activities
Labour - Equipping	201				
Program design	or			X	Owner approved Equipping AFE Req.
Wellsite supervision	207			X	Owner approved Equipping AFE Req.
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		In approved budget
Repair & maintaining wells & facilities			X		In approved budget
Scheduling of production			X		In approved budget
maintenance and turn-arounds			X		In approved budget
including safe-work permits			X		In approved budget
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	or				
Operations	207		X		
Geologist/Geophysicist working on					
capital projects that have Owner					
approval			X		Owner approval required
Technologist conducting studies &					
analysis in direct support of Operation					
& Maintenance & Production Eng.					
within approval limit			X		Must be On-Site
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		
Labour - Production Engineering	201				On or Off-site, when included in
Workovers	or		X		approved budget or project is within
Facility optimization	207		X		the approval limit, otherwise Owner
Downhole equipment optimization			X		approval required.
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		
Labour - Reservoir Engineering	201				
Longer term studies	or			X	
Reservoir modelling	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, non 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			

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
Litigation - Legal personnel	218			X	
Handling litigation			X		
Judgements			X		
Settling Claims			X		
Material	401 (a)		X		Includes discounts and rebates
New Material transfer	402 (a)		X		
Good used material transfer	(b)				
to Joint Property			X		
From Joint Property (CR)			X		
Was charged as new			X		
Was charged as used (CR)			X		
Other used Material transfer	402 (c)				
Condition C			X		
Condition D			X		
Condition E			X		
Premium prices	405		X		
Transportation of Material	403				
To Joint Property			X		
From Joint Property (CR)				X	
Other	220			X	
Recruitment, training and safety	217 (a)				
Initial staffing recruitment/induction			X		
Expansion recruitment			X		
Circumstances beyond Operator's control			X		
Training	(b)				
Initial staffing			X		
Operations, environmental, safety			X		
Offsite 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)	(d)		X		
Dinners which are not mainly safety		X			
Safety dinners (alcohol & transport)		X			
Site specific safety manuals	(e)		X		
General safety manuals		X			
Surface rights acquisition	209		X		While On-Site
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
Taxes - property	210 (a)		X		
Income Taxes					Not for Joint Account
Transfers	203 (a)				
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	(b)		X		
Warehouse handling	216 (a)		X		
Operating joint owned warehouse	(b)		X		Allocated portions

This is Exhibit "F" to the Affidavit of
me ✓(Robert Logan)✓ ~~Brianne Harris~~ sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

COURT FILE NUMBER	2301-04480
COURT	COURT OF KING'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
PLAINTIFF	ORPHAN WELL ASSOCIATION
DEFENDANT	EVEREST CANADIAN RESOURCES CORP.
DOCUMENT	**RECEIVERSHIP ORDER**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	MLT AIKINS LLP 2100, 222 - 3rd Ave SW Calgary, AB T2P 0B4 Telephone: 403.693.5420 Fax: 403.508.4349 Attention: Ryan Zahara File: 0147836.00003

DATE ON WHICH ORDER WAS PRONOUNCED: APRIL 5, 2023

LOCATION OF HEARING: EDMONTON, ALBERTA

NAME OF JUSTICE WHO GRANTED THIS ORDER: **JUSTICE M.E. BURNS**

UPON the application of the Orphan Well Association (the "**OWA**") in respect of Everest Canadian Resources Corp. (the "**Debtor**"); AND UPON having read the Application, the Affidavit of Lars De Pauw sworn on April 4, 2023, the Affidavit of Lars De Pauw sworn on March 30, 2023, in Action No. 2301-04293, the Supplemental Affidavit of Lars De Pauw, sworn on April 3, 2023, in Action No. 2301-04293; and the Affidavit of Service of Joy Mutuku, filed; AND UPON reading the consent of PricewaterhouseCoopers Inc. to act as receiver and manager (the "**Receiver**") of the Debtor, filed; AND UPON hearing counsel for the OWA, counsel for the proposed Receiver, counsel for Greenfire Resources Inc. ("**Greenfire**"), and any other counsel or other interested parties present; IT IS HEREBY ORDERED AND DECLARED THAT:

Service

1. The time for service of the notice of application for this order (the "Order") is hereby abridged and deemed good and sufficient and this application is properly returnable today.

Appointment

2. Pursuant to sections 13(2) of the *Judicature Act*, RSA 2000, c.J-2, 99(a) of the *Business Corporations Act*, RSA 2000, c.B-9, and section 106.1 of the *Oil and Gas Conservation Act*, RSA 2000, c O-6, PricewaterhouseCoopers Inc. is hereby appointed Receiver, without security, of all of the Debtor's current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate, including all proceeds thereof (the "**Property**").

Receiver's Powers

3. The Receiver is hereby empowered and authorized, but not obligated, to act at once in respect of the Property and, without in any way limiting the generality of the foregoing, the Receiver is hereby expressly empowered and authorized to do any of the following where the Receiver considers it necessary or desirable:

   (a) to take possession of and exercise control over the Property and any and all proceeds, receipts and disbursements arising out of or from the Property, which shall include the Receiver's ability:

      i. to abandon, dispose of, or otherwise release any interest in any of the Debtor's real or personal property, or any right in any immoveable; and

      ii. upon further order of the Court, to abandon, dispose of, or otherwise release any license or authorization issued by the Alberta Energy Regulator, or any other similar government authority;

   (b) to receive, preserve and protect the Property, or any part or parts thereof, including, but not limited to, the changing of locks and security codes, the relocating of Property to safeguard it, the engaging of independent security personnel, the taking of physical inventories and the placement of such insurance coverage as may be necessary or desirable;

   (c) to manage, operate and carry on the business of the Debtor, including the powers to enter into any agreements, incur any obligations in the ordinary course of business, cease to carry on all or any part of the business, or cease to perform any contracts of the Debtor;

   (d) to engage consultants, appraisers, agents, experts, auditors, accountants, managers, counsel and such other persons from time to time and on whatever

basis, including on a temporary basis, to assist with the exercise of the Receiver's powers and duties, including without limitation those conferred by this Order;

(e) to purchase or lease machinery, equipment, inventories, supplies, premises or other assets to continue the business of the Debtor or any part or parts thereof;

(f) to receive and collect all monies and accounts now owed or hereafter owing to the Debtor and to exercise all remedies of the Debtor in collecting such monies, including, without limitation, to enforce any security held by the Debtor;

(g) to settle, extend or compromise any indebtedness owing to or by the Debtor;

(h) to execute, assign, issue and endorse documents of whatever nature in respect of any of the Property, whether in the Receiver's name or in the name and on behalf of the Debtor, for any purpose pursuant to this Order;

(i) to undertake environmental or workers' health and safety assessments of the Property and operations of the Debtor;

(j) to initiate, prosecute and continue the prosecution of any and all proceedings and to defend all proceedings now pending or hereafter instituted with respect to the Debtor, the Property or the Receiver, and to settle or compromise any such proceedings. The authority hereby conveyed shall extend to such appeals or applications for judicial review in respect of any order or judgment pronounced in any such proceeding, and provided further that nothing in this Order shall authorize the Receiver to defend or settle the action in which this Order is made unless otherwise directed by this Court;

(k) to market any or all the Property, including advertising and soliciting offers in respect of the Property or any part or parts thereof and negotiating such terms and conditions of sale as the Receiver in its discretion may deem appropriate;

(l) to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business:

i. without the approval of this Court in respect of any transaction not exceeding $50,000, provided that the aggregate consideration for all such transactions does not exceed $250,000; and

ii. with the approval of this Court in respect of any transaction in which the purchase price or the aggregate purchase price exceeds the applicable amount set out in the preceding clause;

and in each such case notice under subsection 60(8) of the *Personal Property Security Act*, RSA 2000, c. P-7 or any other similar legislation in any other province or territory shall not be required.

(m) to apply for any vesting order or other orders (including, without limitation, confidentiality or sealing orders) necessary to convey the Property or any part or parts thereof to a purchaser or purchasers thereof, free and clear of any liens or encumbrances affecting such Property;

(n) to report to, meet with and discuss with such affected Persons (as defined below) as the Receiver deems appropriate all matters relating to the Property and the receivership, and to share information, subject to such terms as to confidentiality as the Receiver deems advisable;

(o) to register a copy of this Order and any other orders in respect of the Property against title to any of the Property, and when submitted by the Receiver for registration this Order shall be immediately registered by the Registrar of Land Titles of Alberta, or any other similar government authority, notwithstanding Section 191 of the *Land Titles Act*, RSA 2000, c. L-4, or the provisions of any other similar legislation in any other province or territory, and notwithstanding that the appeal period in respect of this Order has not elapsed and the Registrar of Land Titles shall accept all Affidavits of Corporate Signing Authority submitted by the Receiver in its capacity as Receiver of the Debtor and not in its personal capacity;[1]

(p) to apply for any permits, licences, approvals or permissions as may be required by any governmental authority and any renewals thereof for and on behalf of and, if thought desirable by the Receiver, in the name of the Debtor;

(q) to enter into agreements with any trustee in bankruptcy appointed in respect of the Debtor, including, without limiting the generality of the foregoing, the ability to enter into occupation agreements for any property owned or leased by the Debtor;

(r) to exercise any shareholder, partnership, joint venture or other rights which the Debtor may have; and

(s) to take any steps reasonably incidental to the exercise of these powers or the performance of any statutory obligations;

and in each case where the Receiver takes any such actions or steps, it shall be exclusively authorized and empowered to do so, to the exclusion of all other Persons, including the Debtor, and without interference from any other Person (as defined below).

Duty to Provide Access and Co-operations to the Receiver

4. (i) The Debtor, (ii) all of its current and former directors, officers, employees, agents, accountants, legal counsel and shareholders, and all other persons acting on its instructions or behalf, and (iii) all other individuals, firms, corporations, governmental bodies or agencies, or other entities having notice of this Order (all of the foregoing, collectively, being "**Persons**" and each being a "**Person**") shall forthwith advise the Receiver of the existence of any Property in such Person's possession or control, shall grant immediate and continued access to the Property to the Receiver, and shall deliver all such Property (excluding Property subject to liens the validity of which is dependent on maintaining possession) to the Receiver upon the Receiver's request.

5. All Persons shall forthwith advise the Receiver of the existence of any books, documents, securities, contracts, orders, corporate and accounting records, and any other papers, records and information of any kind related to the business or affairs of the Debtor, and any computer programs, computer tapes, computer disks or other data storage media containing any such information (the foregoing, collectively, the "**Records**") in that Person's possession or control, and shall provide to the Receiver or permit the Receiver to make, retain and take away copies thereof and grant to the Receiver unfettered access to and use of accounting, computer, software and physical facilities relating thereto, provided however that nothing in this paragraph or in paragraph 6 of this Order shall require the delivery of Records, or the granting of access to Records, which may not be disclosed or provided to the Receiver due to the privilege attaching to solicitor-client communication or documents prepared in contemplation of litigation or due to statutory provisions prohibiting such disclosure.

6. If any Records are stored or otherwise contained on a computer or other electronic system of information storage, whether by independent service provider or otherwise, all Persons

in possession or control of such Records shall forthwith give unfettered access to the Receiver for the purpose of allowing the Receiver to recover and fully copy all of the information contained therein whether by way of printing the information onto paper or making copies of computer disks or such other manner of retrieving and copying the information as the Receiver in its discretion deems expedient, and shall not alter, erase or destroy any Records without the prior written consent of the Receiver. Further, for the purposes of this paragraph, all Persons shall provide the Receiver with all such assistance in gaining immediate access to the information in the Records as the Receiver may in its discretion require including providing the Receiver with instructions on the use of any computer or other system and providing the Receiver with any and all access codes, account names, and account numbers that may be required to gain access to the information.

No Proceedings Against the Receiver

7. No proceeding or enforcement process in any court or tribunal (each, a "**Proceeding**"), shall be commenced or continued against the Receiver except with the written consent of the Receiver or with leave of this Court.

No Proceedings Against the Debtor or the Property

8. No Proceeding against or in respect of the Debtor or the Property shall be commenced or continued except with the written consent of the Receiver or with leave of this Court and any and all Proceedings currently under way against or in respect of the Debtor or the Property are hereby stayed and suspended pending further Order of this Court, provided, however, that nothing in this Order shall: (i) prevent any Person from commencing a proceeding regarding a claim that might otherwise become barred by statute or an existing agreement if such proceeding is not commenced before the expiration of the stay provided by this paragraph; and (ii) affect a Regulatory Body's investigation in respect of the debtor or an action, suit or proceeding that is taken in respect of the debtor by or before the Regulatory Body, other than the enforcement of a payment order by the Regulatory Body or the Court. "**Regulatory Body**" means a person or body that has powers, duties or functions relating to the enforcement or administration of an Act of Parliament or of the legislature of a Province.

No Exercise of Rights of Remedies

9. All rights and remedies of any Person, whether judicial or extra-judicial, statutory or non-statutory (including, without limitation, set-off rights) against or in respect of the Debtor or

the Receiver or affecting the Property are hereby stayed and suspended and shall not be commenced, proceeded with or continued except with leave of this Court, provided, however, that this stay and suspension does not apply in respect of any "eligible financial contract" (as defined in the BIA)**,** and further provided that nothing in this Order shall:

(a) empower the Debtor to carry on any business that the Debtor is not lawfully entitled to carry on;

(b) prevent the filing of any registration to preserve or perfect a security interest;

(c) prevent the registration of a claim for lien; or

(d) exempt the Debtor from compliance with statutory or regulatory provisions relating to health, safety or the environment.

10. Nothing in this Order shall prevent any party from taking an action against the Debtor where such an action must be taken in order to comply with statutory time limitations in order to preserve their rights at law, provided that no further steps shall be taken by such party except in accordance with the other provisions of this Order, and notice in writing of such action be given to the Receiver at the first available opportunity.

No Interference with the Receiver

11. No Person shall accelerate, suspend, discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Debtor, except with the written consent of the Debtor and the Receiver, or leave of this Court. Nothing in this Order shall prohibit any party to an eligible financial contract (as defined in the BIA) from closing out and terminating such contract in accordance with its terms.

Continuation of Services

12. All persons having:

(a) statutory or regulatory mandates for the supply of goods and/or services; or

(b) oral or written agreements or arrangements with the Debtor, including without limitation all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation, services, utility or other services to the Debtor,

are hereby restrained until further order of this Court from discontinuing, altering, interfering with, suspending or terminating the supply of such goods or services as may be required by the Debtor or exercising any other remedy provided under such agreements or arrangements. The Debtor shall be entitled to the continued use of its current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the usual prices or charges for all such goods or services received after the date of this Order are paid by the Debtor in accordance with the payment practices of the Debtor, or such other practices as may be agreed upon by the supplier or service provider and each of the Debtor and the Receiver, or as may be ordered by this Court.

Receiver to Hold Funds

13. All funds, monies, cheques, instruments, and other forms of payments received or collected by the Receiver from and after the making of this Order from any source whatsoever, including without limitation the sale of all or any of the Property and the collection of any accounts receivable in whole or in part, whether in existence on the date of this Order or hereafter coming into existence, shall be deposited into one or more new accounts to be opened by the Receiver (the "**Post Receivership Accounts**") and the monies standing to the credit of such Post Receivership Accounts from time to time, net of any disbursements provided for herein, shall be held by the Receiver to be paid in accordance with the terms of this Order or any further order of this Court.

Employees

14. Subject to employees' rights to terminate their employment, all employees of the Debtor shall remain the employees of the Debtor until such time as the Receiver, on the Debtor's behalf, may terminate the employment of such employees. The Receiver shall not be liable for any employee-related liabilities, including any successor employer liabilities as provided for in section 14.06(1.2) of the BIA, other than such amounts as the Receiver may specifically agree in writing to pay, or in respect of its obligations under sections 81.4(5) or 81.6(3) of the BIA or under the *Wage Earner Protection Program Act*, SC 2005, c.47 ("**WEPPA**").

15. Pursuant to clause 7(3)(c) of the *Personal Information Protection and Electronic Documents Act*, SC 2000, c. 5, the Receiver shall disclose personal information of identifiable individuals to prospective purchasers or bidders for the Property and to their advisors, but only to the extent desirable or required to negotiate and attempt to complete

one or more sales of the Property (each, a "**Sale**"). Each prospective purchaser or bidder to whom such personal information is disclosed shall maintain and protect the privacy of such information and limit the use of such information to its evaluation of the Sale, and if it does not complete a Sale, shall return all such information to the Receiver, or in the alternative destroy all such information. The purchaser of any Property shall be entitled to continue to use the personal information provided to it, and related to the Property purchased, in a manner which is in all material respects identical to the prior use of such information by the Debtor, and shall return all other personal information to the Receiver, or ensure that all other personal information is destroyed.

Limitations on Environmental Liabilities

16. (a) Notwithstanding anything in any federal or provincial law, the Receiver is not personally liable in that position for any environmental condition that arose or environmental damage that occurred:

i. before the Receiver's appointment; or

ii. after the Receiver's appointment unless it is established that the condition arose or the damage occurred as a result of the Receiver's gross negligence or wilful misconduct.

(b) Nothing in sub-paragraph (a) exempts a Receiver from any duty to report or make disclosure imposed by a law referred to in that sub-paragraph.

(c) Notwithstanding anything in any federal or provincial law, but subject to sub-paragraph (a) hereof, where an order is made which has the effect of requiring the Receiver to remedy any environmental condition or environmental damage affecting the Property, the Receiver is not personally liable for failure to comply with the order, and is not personally liable for any costs that are or would be incurred by any person in carrying out the terms of the order,

i. if, within such time as is specified in the order, within 10 days after the order is made if no time is so specified, within 10 days after the appointment of the Receiver, if the order is in effect when the Receiver is appointed, or during the period of the stay referred to in clause (ii) below, the Receiver:

A. complies with the order, or

B. on notice to the person who issued the order, abandons, disposes of or otherwise releases any interest in any real property affected by the condition or damage;

ii. during the period of a stay of the order granted, on application made within the time specified in the order referred to in clause (i) above, within 10 days after the order is made or within 10 days after the appointment of the Receiver, if the order is in effect when the Receiver is appointed, by:

A. the court or body having jurisdiction under the law pursuant to which the order was made to enable the Receiver to contest the order; or

B. the court having jurisdiction in bankruptcy for the purposes of assessing the economic viability of complying with the order; or

iii. if the Receiver had, before the order was made, abandoned or renounced or been divested of any interest in any real property affected by the condition or damage.

Limitation on the Receiver's Liability

17. Except for gross negligence or wilful misconduct, as a result of its appointment or carrying out the provisions of this Order the Receiver shall incur no liability or obligation that exceeds an amount for which it may obtain full indemnity from the Property. Nothing in this Order shall derogate from any limitation on liability or other protection afforded to the Receiver under any applicable law, including, without limitation, Section 14.06, 81.4(5) or 81.6(3) of the BIA.

Receiver's Accounts

18. The Receiver and counsel to the Receiver shall be paid their reasonable fees and disbursements, in each case, incurred at their standard rates and charges. The Receiver and counsel to the Receiver shall be entitled to the benefits of and are hereby granted a charge (the "**Receiver's Charge**") on the Property, as security for their professional fees and disbursements incurred at the normal rates and charges of the Receiver and such counsel, both before and after the making of this Order in respect of these proceedings, and the Receiver's Charge shall form a first charge on the Property in priority to all security interests, trusts, deemed trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person but subject to section 14.06(7), 81.4(4) and 81.6(2) and 88 of the BIA.

19. The Receiver and its legal counsel shall pass their accounts from time to time.

20. Prior to the passing of its accounts, the Receiver shall be at liberty from time to time to apply reasonable amounts, out of the monies in its hands, against its fees and disbursements, including the legal fees and disbursements, incurred at the normal rates and charges of the Receiver or its counsel, and such amounts shall constitute advances against its remuneration and disbursements when and as approved by this Court.

Funding of the Receivership

21. The Receiver be at liberty and it is hereby empowered to borrow by way of a revolving credit or otherwise, such monies from time to time as it may consider necessary or desirable, provided that the outstanding principal amount does not exceed $2,500,000 (or such greater amount as this Court may by further order authorize) at any time, at such rate or rates of interest as it deems advisable for such period or periods of time as it may arrange, for the purpose of funding the exercise of the powers and duties conferred upon the Receiver by this Order, including interim expenditures. The whole of the Property shall be and is hereby charged by way of a fixed and specific charge (the "**Receiver's Borrowings Charge**") as security for the payment of the monies borrowed, together with interest and charges thereon, in priority to all security interests, trusts, deemed trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person, but subordinate in priority to the Receiver's Charge and the charges set out in sections 14.06(7), 81.4(4) and 81.6(2) and 88 of the BIA.

22. Neither the Receiver's Borrowings Charge nor any other security granted by the Receiver in connection with its borrowings under this Order shall be enforced without leave of this Court.

23. The Receiver is at liberty and authorized to issue certificates substantially in the form annexed as Schedule "A" hereto (the "**Receiver's Certificates**") for any amount borrowed by it pursuant to this Order.

24. The monies from time to time borrowed by the Receiver pursuant to this Order or any further order of this Court and any and all Receiver's Certificates evidencing the same or any part thereof shall rank on a *pari passu* basis, unless otherwise agreed to by the holders of any prior issued Receiver's Certificates.

25. The Receiver shall be authorized to repay any amounts borrowed by way of Receiver's Certificates out of the Property or any proceeds, including any proceeds from the sale of any assets without further approval of this Court.

Allocation

26. Any interested party may apply to this Court on notice to any other party likely to be affected, for an order allocating the Receiver's Charge and Receiver's Borrowings Charge amongst the various assets comprising the Property

General

27. The Receiver may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

28. Notwithstanding Rule 6.11 of the *Alberta Rules of Court*, unless otherwise ordered by this Court, the Receiver will report to the Court from time to time, which reporting is not required to be in affidavit form and shall be considered by this Court as evidence. The Receiver's reports shall be filed by the Court Clerk notwithstanding that they do not include an original signature.

29. Nothing in this Order shall prevent the Receiver from acting as a trustee in bankruptcy of the Debtor.

30. This Court hereby requests the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in any foreign jurisdiction to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Receiver in any foreign proceeding, or to assist the Receiver and its agents in carrying out the terms of this Order.

31. The Receiver be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order and that the Receiver is authorized and empowered to act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada.

32. The Plaintiff shall have its costs of this application, up to and including entry and service of this Order, provided for by the terms of the Plaintiff's security or, if not so provided by the Plaintiff's security, then on a substantial indemnity basis, including legal costs on a solicitor-client full indemnity basis, to be paid by the Receiver from the Debtor's estate with such priority and at such time as this Court may determine.

33. Any interested party may apply to this Court to vary or amend this Order on not less than 7 days' notice to the Receiver and to any other party likely to be affected by the order sought or upon such other notice, if any, as this Court may order. [2]

Filing

34. This Order is issued and shall be filed in Court of King's Bench Action No. 2301- 04480.

35. The Receiver shall establish and maintain a website in respect of these proceedings at www.pwc.com/ca/everestcanadianresources (the "**Receiver's Website**") and shall post there as soon as practicable:

    (a) all materials prescribed by statue or regulation to be made publicly available; and

    (b) all applications, reports, affidavits, orders and other materials filed in these proceedings by or on behalf of the Receiver, or served upon it, except such materials as are confidential and the subject of a sealing order or pending application for a sealing order.

36. Service of this Order shall be deemed good and sufficient by:

    (a) serving the same on:

        i. the persons listed on the service list created in these proceedings or otherwise served with notice of these proceedings;

        ii. any other person served with notice of the application for this Order;

        iii. any other parties attending or represented at the application for this Order; and

    (b) posting a copy of this Order on the Receiver's Website

and service on any other person is hereby dispensed with.

37. Service of this Order may be effected by facsimile, electronic mail, personal delivery or courier. Service is deemed to be effected the next business day following transmission or delivery of this Order.

Justice of the Court of King's Bench of Alberta

SCHEDULE "A"

RECEIVER CERTIFICATE

CERTIFICATE NO. _____

AMOUNT $_____

1. THIS IS TO CERTIFY that PricewaterhouseCoopers Inc., the receiver and manager (the "**Receiver**") of all of the assets, undertakings and properties of Everest Canadian Resources Corp. appointed by Order of the Court of King's Bench of Alberta and Court of King's Bench of Alberta (collectively, the "Court") dated the 5th day of April**,** 2023 (the "**Order**") made in action number 2301-04480, has received as such Receiver from the holder of this certificate (the "**Lender**") the principal sum of $_____, being part of the total principal sum of $_____ that the Receiver is authorized to borrow under and pursuant to the Order.

2. The principal sum evidenced by this certificate is payable on demand by the Lender with interest thereon calculated and compounded monthly not in advance on the [DAY] day of each month after the date hereof at a notional rate per annum equal to the rate of 5% per cent above the prime commercial lending rate of the Orphan Well Association from time to time.

3. Such principal sum with interest thereon is, by the terms of the Order, together with the principal sums and interest thereon of all other certificates issued by the Receiver pursuant to the Order or to any further order of the Court, a charge upon the whole of the Property (as defined in the Order), in priority to the security interests of any other person, but subject to the priority of the charges set out in the Order and the *Bankruptcy and Insolvency Act*, and the right of the Receiver to indemnify itself out of such Property in respect of its remuneration and expenses.

4. All sums payable in respect of principal and interest under this certificate are payable at the main office of the Lender at:

   Orphan Well Association
   1800, 222-3rd Avenue S.W.
   Calgary, AB, T2P0B4.

5. Until all liability in respect of this certificate has been terminated, no certificates creating charges ranking or purporting to rank in priority to this certificate shall be issued by the Receiver to any person other than the holder of this certificate without the prior written consent of the holder of this certificate.

6. The charge securing this certificate shall operate so as to permit the Receiver to deal with the Property as authorized by the Order and as authorized by any further or other order of the Court.

7. The Receiver does not undertake, and it is not under any personal liability, to pay any sum in respect of which it may issue certificates under the terms of the Order.

DATED the _____ day of _____,2023

PricewaterhouseCoopers Inc., solely in its capacity as Receiver of the Property (as defined in the Order), and not in its personal or corporate capacity,

Per: _____

Name:

Title:

This is Exhibit "G" to the Affidavit of
MC ✓ (Robert Logan) ✓
~~Brianne Harris~~ sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

COURT FILE NUMBER	**2301-04480**
COURT	COURT OF KING'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
PLAINTIFF	ORPHAN WELL ASSOCIATION
DEFENDANT	EVEREST CANADIAN RESOURCES CORP.
DOCUMENT	**APPROVAL AND VESTING ORDER (Sale by Receiver)**

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

Jack R. Maslen
Borden Ladner Gervais LLP
1900, 520 – 3rd Avenue SW
Calgary, AB T2P 0R3
Telephone: (403) 232-9790
Facsimile: (403) 266-1395
Email: JMaslen@blg.com
File No. 422442.000049

DATE ON WHICH ORDER WAS PRONOUNCED:	**MARCH 27, 2024**
LOCATION WHERE ORDER WAS PRONOUNCED:	**CALGARY, ALBERTA**
NAME OF JUSTICE WHO MADE THIS ORDER:	**THE HONOURABLE JUSTICE C.M. JONES**

UPON THE APPLICATION of PricewaterhouseCoopers Inc. LIT, in its capacity as the Court-appointed receiver and manager (the "**Receiver**") of the undertakings, property and assets of Everest Canadian Resources Corp. (the "**Debtor**") for an order, *inter alia*, (i) approving the sale transaction (the "**Transaction**") contemplated by an agreement of purchase and sale (the "**Sale Agreement**") between the Receiver and Greenfire Resources Operating Corporation (the "**Purchaser**") dated February 15, 2024 and appended in redacted form to the Second Report of the Receiver dated March 15, 2024 (the "**Second Report**") and appended in unredacted form to the Confidential Supplement to the Second Report (the "**Confidential Supplement**"), and (ii) vesting in the Purchaser the Debtor's right, title and interest in and to the Assets as defined in the Sale Agreement (the "**Purchased Assets**");

AND UPON HAVING READ the Receivership Order dated April 5, 2023 (the "**Receivership Order**"), the Second Report, the Confidential Supplement, the Application and the Affidavit of Service of Kayley Woods, and such other materials and evidence filed in the within proceedings;

AND UPON HAVING HEARD the submissions of counsel for the Receiver, counsel for the Purchaser, and any other interested parties present,

IT IS HEREBY ORDERED AND DECLARED THAT:

SERVICE

1. Service of notice of this Application and supporting materials is hereby declared to be good and sufficient, no other person is required to have been served with notice of this Application, and time for service of this Application is abridged to that actually given.

APPROVAL OF TRANSACTION

2. The Transaction is hereby approved and execution of the Sale Agreement by the Receiver is hereby authorized and approved, with such minor amendments as the Receiver may deem necessary. The Receiver is hereby authorized and directed to take such additional steps and execute such additional documents as may be necessary or desirable for completion of the Transaction and conveyance of the Purchased Assets to the Purchaser.

ASSET SALE AND VESTING OF PROPERTY

3. Subject only to approval by the Alberta Energy Regulator (the "**AER**") of the transfers of any applicable licenses, permits, and approvals pursuant to section 24 of the *Oil and Gas Conservation Act* (Alberta) and section 18 of the *Pipeline Act* (Alberta), or such other applicable legislation regulated and administered by the AER, and upon the delivery of a Receiver's certificate to the Purchaser substantially in the form set out in **Schedule "A"** hereto (the "**Receiver's Closing Certificate**"), all of the Debtor's right, title and interest in and to the Purchased Assets listed in **Schedule "B"** hereto, shall vest absolutely in the name of the Purchaser, free and clear of and from any and all caveats, security interests, hypothecs, pledges, mortgages, liens, trusts or deemed trusts, reservations of ownership, royalties, options, rights of pre-emption, privileges, interests, assignments, actions, judgements, executions, levies, taxes, fees, writs of enforcement, charges, or other claims, whether contractual, statutory, financial, monetary or otherwise, whether or not they

have attached or been perfected, registered or filed and whether secured, unsecured or otherwise (collectively, "**Claims**"), including, without limiting the generality of the foregoing:

(a) any encumbrances or charges created by the Receivership Order;

(b) any charges, security interests or claims against the Purchased Assets, whether or not evidenced by registrations pursuant to the *Personal Property Security Act* (Alberta) or any other personal property registry system;

(c) any liens or claims of lien under the *Prompt Payment and Construction Lien Act* (Alberta) or its predecessor statute the *Builders' Lien Act* (Alberta);

(d) any fees relating to the Oil Sands Environmental Monitoring Program under the *Oil Sands Environmental Monitoring Program Regulation* (Alberta), or otherwise, which accrued or were payable before or after April 5, 2023 until Closing pursuant to the Sale Agreement; and

(e) the encumbrances listed in **Schedule "C"** hereto,

all of which are collectively referred to as the "**Encumbrances**", which term shall not include the permitted encumbrances, caveats, interests, easements, and restrictive covenants listed in **Schedule "D"** (collectively, the "**Permitted Encumbrances**"). For greater certainty, this Court orders that all Claims including the Encumbrances, other than Permitted Encumbrances, affecting or relating to the Purchased Assets are hereby expunged, discharged and terminated as against the Purchased Assets.

4. Upon the delivery of the Receiver's Closing Certificate, and upon the filing of a certified copy of this Order, together with any applicable registration fees, all governmental authorities including those referred to below in this paragraph (collectively, the "**Governmental Authorities**") are hereby authorized, requested, and directed to accept delivery of such Receiver's Closing Certificate and certified copy of this Order as though they were originals and to register such transfers, interest authorizations, discharges, and discharge statements of conveyance as may be required to convey to the Purchaser clear title to the Purchased Assets subject only to the Permitted Encumbrances. Without limiting the foregoing:

(a) the Alberta Ministry of Energy and Minerals shall and is hereby authorized, requested and directed to forthwith:

(i) cancel and discharge those Claims including builders' liens, security notices, assignments under section 426 (formerly section 177) of the *Bank Act* (Canada) and other Encumbrances (but excluding the Permitted Encumbrances) registered (whether before or after the date of this Order) against the estate or interest of the Debtor in and to any of the Purchased Assets located in the Province of Alberta; and

(ii) transfer all Crown leases listed in **Schedule "E"** to this Order standing in the name of the Debtor to the Purchaser free and clear of all Claims including the Encumbrances (but excluding the Permitted Encumbrances); and

(b) the Registrar of the Alberta Personal Property Registry shall and is hereby directed to forthwith cancel and discharge any registrations at the Alberta Personal Property Registry (whether made before or after the date of this Order) claiming security interests, charges or other interest (other than Permitted Encumbrances) in the estate or interest of the Debtor in any of the Purchased Assets.

5. In order to effect the transfers and discharges described above, this Court directs each of the Governmental Authorities to take such steps as are necessary to give effect to the terms of this Order and the Sale Agreement. Presentment of this Order and the Receiver's Closing Certificate, shall be the sole and sufficient authority for the Governmental Authorities to make and register transfers of title or interest and cancel and discharge registrations against any of the Purchased Assets of any Claims including the Encumbrances but excluding the Permitted Encumbrances.

6. No authorization, approval, or other action by and no notice to or filing with any Governmental Authority or regulatory body exercising jurisdiction over the Purchased Assets is required for the due execution, delivery and performance by the Receiver of the Sale Agreement, other than any required approval by the AER referenced in paragraph 3 above.

7. Upon delivery of the Receiver's Closing Certificate together with a certified copy of this Order, this Order shall be immediately registered by the Land Titles Registrar in accordance with the *Land Titles Act* (Alberta) and notwithstanding the requirements of section 191(1) of the *Land Titles Act* (Alberta), and notwithstanding that the appeal period in respect of this Order has not elapsed. The Land Titles Registrar is hereby directed to accept all Affidavits of Corporate Signing Authority submitted by the Receiver in its capacity as Receiver of the Debtor and not in its personal capacity.

8. Upon completion of the Transaction, the Debtor and all persons who claim by, through or under the Debtor in respect of the Purchased Assets, and all persons or entities having any Claims of any kind whatsoever in respect of the Purchased Assets, save and except for persons entitled to the benefit of the Permitted Encumbrances, shall stand absolutely and forever barred, estopped, and foreclosed from and permanently enjoined from pursuing, asserting, or claiming any and all right, title, estate, interest, royalty, rental, and equity of redemption or other Claim whatsoever in respect of or to the Purchased Assets and, to the extent that any such persons or entities remain in the possession or control of any of the Purchased Assets, or any artifacts, certificates, instruments, or other indicia of title representing or evidencing any right, title, estate, or interest in and to the Purchased Assets, they shall forthwith deliver possession thereof to the Purchaser.

9. The Purchaser shall be entitled to enter into and upon, hold, and enjoy the Purchased Assets for its own use and benefit without any interference of or by the Debtor, or any person claiming by, through or against the Debtor.

10. Immediately upon closing of the Transaction, holders of the Permitted Encumbrances shall have no claim whatsoever against the Receiver.

11. The Receiver is directed to file with the Court a copy of the Receiver's Closing Certificate, forthwith after delivery thereof to the Purchaser.

HANDLING OF NET PROCEEDS

12. For the purposes of determining the nature and priority of Claims, the net proceeds from the sale of the Purchased Assets (to be held in an interest bearing trust account by the Receiver) shall stand in the place and stead of the Purchased Assets and from and after the delivery of the Receiver's Closing Certificate any encumbrances or charges created by the Receivership Order and all Claims and Encumbrances (but excluding Permitted Encumbrances) shall not attach to, and shall cease to be attached to, encumber or otherwise form a charge, security interest, lien, builders' lien, or other Claim against the Purchased Assets and shall attach to the net proceeds from the sale of the Purchased Assets with the same priority as they had with respect to the Purchased Assets immediately prior to the sale, as if the Purchased Assets had not been sold and remained in the possession or control of the person having that possession or control immediately prior to the sale.

13. The Receiver shall not make any distributions to creditors from the net proceeds from the sale of the Purchased Assets without further order of this Court, provided however that the Receiver may

apply any part of such net proceeds to repay any amounts the Receiver has borrowed for which it has issued a Receiver's Closing Certificate pursuant to the Receivership Order.

MISCELLANEOUS MATTERS

14. Notwithstanding any other paragraph herein, this Order shall not in any way affect or otherwise limit any of the terms and conditions of the Tax Payment Agreement between the Purchaser and the Regional Municipality of Wood Buffalo dated February 5, 2024.

15. Notwithstanding:

(a) the pendency of these proceedings and any declaration of insolvency made herein;

(b) the pendency of any applications for a bankruptcy order now or hereafter issued pursuant to the *Bankruptcy and Insolvency Act* (Canada) (the "**BIA**"), in respect of the Debtor, and any bankruptcy order issued pursuant to any such applications;

(c) any assignment in bankruptcy made in respect of the Debtor; and

(d) the provisions of any federal or provincial statute,

the vesting of the Purchased Assets in the Purchaser pursuant to this Order shall be binding on any trustee in bankruptcy that may be appointed in respect of the Debtor and shall not be void or voidable by creditors of the Debtor, nor shall it constitute nor be deemed to be a transfer at undervalue, settlement, fraudulent preference, assignment, fraudulent conveyance, or other reviewable transaction under the BIA or any other applicable federal or provincial legislation, nor shall it constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

16. The Receiver, the Purchaser, and any other interested party, shall be at liberty to apply for further advice, assistance and direction as may be necessary in order to give full force and effect to the terms of this Order and to assist and aid the parties in closing the Transaction.

17. This Honourable Court hereby requests the aid and recognition of any court, tribunal, regulatory, or administrative body having jurisdiction in Canada or in any of its provinces or territories or in any foreign jurisdiction, to act in aid of and to be complimentary to this Court in carrying out the terms of this Order, to give effect to this Order and to assist the Receiver and its agents in carrying

out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such order and to provide such assistance to the Receiver, as an officer of the Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

18. Service of this Order shall be deemed good and sufficient by:

(a) serving the same on:

(i) the persons listed on the service list created in these proceedings;

(ii) any other person served with notice of the Application for this Order;

(iii) any other parties attending or represented at the Application for this Order;

(iv) the Purchaser or the Purchaser's solicitors; and

(b) posting a copy of this Order on the Receiver's website at: https://www.pwc.com/ca/everestcanadianresources,

and service on any other person is hereby dispensed with.

19. Service of this Order may be effected by facsimile, electronic mail, personal delivery or courier. Service is deemed to be effected the next business day following transmission or delivery of this Order.

C J Jones

Justice of the Court of King's Bench of Alberta

The following Schedules form part of this Approval and Vesting Order:

SCHEDULE A – Form of Receiver's Closing Certificate

SCHEDULE B – Purchased Assets

SCHEDULE C – Encumbrances

SCHEDULE D – Permitted Encumbrances

SCHEDULE E – Crown Mineral Interests

SCHEDULE "A"

Form of Receiver's Certificate

COURT FILE NUMBER	**2301-04480**
COURT	COURT OF KING'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
PLAINTIFF	ORPHAN WELL ASSOCIATION
DEFENDANT	EVEREST CANADIAN RESOURCES CORP.
DOCUMENT	**RECEIVER'S CERTIFICATE**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	Jack R. Maslen Borden Ladner Gervais LLP 1900, 520 – 3rd Avenue SW Calgary, AB T2P 0R3 Telephone: (403) 232-9790 Facsimile: (403) 266-1395 Email: JMaslen@blg.com File No. 422442.000049

Clerk's Stamp

RECITALS

A. Pursuant to an Order of the Honourable Justice B. B. Johnston of the Court of King's Bench of Alberta, Judicial District of Calgary (the "**Court**") dated April 5, 2023, PricewaterhouseCoopers Inc. LIT was appointed as the receiver and manager (the "**Receiver**") of the undertakings, property and assets of Everest Canadian Resources Corp. (the "**Debtor**").

B. Pursuant to an Order of the Court dated March 27, 2024, the Court approved the agreement of purchase and sale made as of February 15, 2024 (the "**Sale Agreement**") between the Receiver and Greenfire Resources Operating Corporation (the "**Purchaser**") and provided for the vesting in the Purchaser of the Debtor's right, title and interest in and to the Purchased Assets (as defined in such Order), which vesting is to be effective with respect to the Purchased Assets upon the delivery by the Receiver to the Purchaser of a certificate confirming (i) the payment by the Purchaser of the Purchase Price for the Assets; (ii) that the conditions to Closing set out in Article 3 of the Sale Agreement have been satisfied or waived by the Receiver and the Purchaser, as applicable; and (iii) the Transaction has been completed to the satisfaction of the Receiver.

C. Unless otherwise indicated herein, capitalized terms have the meanings set out in the Sale Agreement.

THE RECEIVER CERTIFIES the following:

1. The Purchaser has paid and the Receiver has received the Purchase Price for the Assets payable on the Closing Date pursuant to the Sale Agreement;

2. The conditions to Closing set out in Article 3 of the Sale Agreement have been satisfied or waived by the Receiver and the Purchaser; and

3. The Transaction has been completed to the satisfaction of the Receiver.

This Certificate was delivered by the Receiver at **[Time]** on **[Date]**.

PRICEWATERHOUSECOOPERS INC. LIT, in its capacity as Receiver of the undertakings, property and assets of **EVEREST CANADIAN RESOURCES CORP.**, and not in its personal capacity.

Per: _____

Name:

Title:

SCHEDULE "B"

Purchased Assets

The Purchased Assets consist of the "Assets" as defined in Section 1.1(e) of the Sale Agreement and, for greater certainty, exclude the "Excluded Assets" as defined Section 1.1(p) of the Sale Agreement.

SCHEDULE "C"

Encumbrances

The encumbrances consist of the "Encumbrances" as defined in Section 1.1(n) of the Sale Agreement.

SCHEDULE "D"

Permitted Encumbrances

The Permitted Encumbrances means those "Permitted Encumbrances" as defined in Section 1.1(dd) of the Sale Agreement. Without limiting the generality of the foregoing, and for greater certainty, the Permitted Encumbrances include the Royalty Agreement dated June 19, 2020 between the Debtor and Burgess Energy Holdings, L.L.C. in respect of the Royalty Lands (as such term is defined in the aforementioned Royalty Agreement).

SCHEDULE "E"

Crown Mineral Interests

The Purchased Assets shall include the Debtor's entire, right, title and interest in and to all rights to the following oil sands leases:

Agreement No.	Type	Expiry	Interest
0747407030888	OIL SANDS LEASE	MAR 22 2025	Everest 95%
0747407050211	OIL SANDS LEASE	MAY 3 2025	Everest 95%
0747407050213	OIL SANDS LEASE	MAY 3 2025	Everest 95%
0747407050214	OIL SANDS LEASE	MAY 3 2025	Everest 95%
0747407050215	OIL SANDS LEASE	MAY 3 2025	Everest 95%
0747407050216	OIL SANDS LEASE	MAY 3 2025	Everest 95%
0747407050220	OIL SANDS LEASE	MAY 3 2025	Everest 95%
0747407050221	OIL SANDS LEASE	MAY 3 2025	Everest 95%
0747407050222	OIL SANDS LEASE	MAY 3 2025	Everest 95%
0747407070282	OIL SANDS LEASE	JUL 12 2025	Everest 95%
0747407070292	OIL SANDS LEASE	JUL 12 2025	Everest 95%
0747407080270	OIL SANDS LEASE	AUG 9 2025	Everest 95%

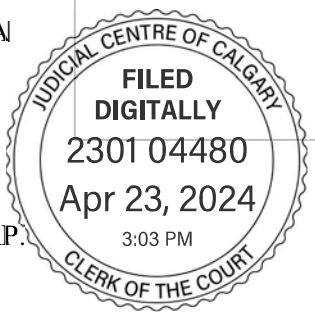
This is Exhibit "H" to the Affidavit of
mc ✓(Robert Logan)✓ ~~Brianne Harris~~ sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

COURT FILE NUMBER	**2301-04480**
COURT	COURT OF KING'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
PLAINTIFF	ORPHAN WELL ASSOCIATION
DEFENDANT	EVEREST CANADIAN RESOURCES CORP.
DOCUMENT	**RECEIVER'S CERTIFICATE**

Clerk's Stamp



ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	Jack R. Maslen Borden Ladner Gervais LLP 1900, 520 – 3rd Avenue SW Calgary, AB T2P 0R3 Telephone: (403) 232-9790 Facsimile: (403) 266-1395 Email: JMaslen@blg.com File No. 422442.000049

RECITALS

A. Pursuant to an Order of the Honourable Justice B. B. Johnston of the Court of King's Bench of Alberta, Judicial District of Calgary (the "**Court**") dated April 5, 2023, PricewaterhouseCoopers Inc. LIT was appointed as the receiver and manager (the "**Receiver**") of the undertakings, property and assets of Everest Canadian Resources Corp. (the "**Debtor**").

B. Pursuant to an Order of the Court dated March 27, 2024, the Court approved the agreement of purchase and sale made as of February 15, 2024 (the "**Sale Agreement**") between the Receiver and Greenfire Resources Operating Corporation (the "**Purchaser**") and provided for the vesting in the Purchaser of the Debtor's right, title and interest in and to the Purchased Assets (as defined in such Order), which vesting is to be effective with respect to the Purchased Assets upon the delivery by the Receiver to the Purchaser of a certificate confirming (i) the payment by the Purchaser of the Purchase Price for the Assets; (ii) that the conditions to Closing set out in Article 3 of the Sale Agreement have been satisfied or waived by the Receiver and the Purchaser, as applicable; and (iii) the Transaction has been completed to the satisfaction of the Receiver.

C. Unless otherwise indicated herein, capitalized terms have the meanings set out in the Sale Agreement.

THE RECEIVER CERTIFIES the following:

1. The Purchaser has paid and the Receiver has received the Purchase Price for the Assets payable on the Closing Date pursuant to the Sale Agreement;

2. The conditions to Closing set out in Article 3 of the Sale Agreement have been satisfied or waived by the Receiver and the Purchaser; and

3. The Transaction has been completed to the satisfaction of the Receiver.

This Certificate was delivered by the Receiver at the City of Calgary on April 19, 2024.

PRICEWATERHOUSECOOPERS INC. LIT, in its capacity as Receiver of the undertakings, property and assets of **EVEREST CANADIAN RESOURCES CORP.**, and not in its personal capacity.

Per: _____

Name: Rick Osuna
Title: Senior Vice President, Deals

This is Exhibit "I" to the Affidavit of
me ✓ (Robert Logan) ✓ ~~Brianne Harris~~ sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

Government of Alberta

Personal Property Registry
Search Results Report

Search ID #: Z17503732

Transmitting Party

OSLER HOSKIN & HARCOURT LLP

2700, 225 6 AVENUE SW
CALGARY, AB T2P 1N2

Party Code: 50084029
Phone #: 403 592 7120
Reference #: 0085444-2381

Search ID #: Z17503732 **Date of Search:** 2024-Jun-18 **Time of Search:** 11:46:18

Business Debtor Search For:

VICEROY CANADIAN RESOURCES

Inexact Result(s) Only Found

NOTE:

A complete Search may result in a Report of Exact and Inexact Matches.
Be sure to read the reports carefully.

REGISTRAR OF PERSONAL PROPERTY

Business Debtor Search For:
VICEROY CANADIAN RESOURCES
Search ID #: Z17503732 **Date of Search:** 2024-Jun-18 **Time of Search:** 11:46:18

Registration Number: 24052331179
Registration Date: 2024-May-23
Registration Type: SECURITY AGREEMENT
Registration Status: Current
Registration Term: Infinity

Inexact Match on: Debtor No: 1

Debtor(s)

Block		Status
1	VICEROY CANADIAN RESOURCES CORP. 510, 634 - 6TH AVENUE SW CALGARY, AB T2P 0S4	Current

Secured Party / Parties

Block		Status
1	GREENFIRE RESOURCES INC. SUITE 1900, 205 - 5TH AVENUE SW CALGARY, AB T2P 2V7 Email: sclark@osler.com	Current

Collateral: General

Block	Description	Status
1	Schedule "A" A. All of the Debtor's right, title and interest in the McKay Facility, an oil processing facility located at the following lands: 00/10-07-091-14W4 00/15-07-091-14W4 00/14-07-091-14W4 (the "Facility"), pursuant to the Amended and Restated Farm-in and Participation Agreement among Viceroy Canadian Resources Corp. and Everest Canadian Resources Corp. effective as of January 31, 2019 and amended and restated as of June 19, 2020 (incorporating the 2007 Operating Procedure) (the "Agreement"). B. All of the Debtor's personal property interests in wells (including but not limited to abandoned, shut in, suspended, capped, producing, water injection, water source, waste disposal, oil or gas wells and any other wells) in relation to the Facility, including the well bores, wellhead, and all materials and equipment in the wellbore.	Current

Search ID #: Z17503732

2	C. All of the Debtor's present and after acquired interests in equipment at the Facility or located elsewhere but serving or intended to serve the Facility (including without limitation any surface and subsurface machinery, apparatus, and other property and assets of whatsoever nature and kind for the production, treatment, storage or transportation of hydrocarbons, casing, tubing, rods, pumps and pumping equipment, separators, flow lines, tanks, treaters, heaters, compressors, plants and systems to treat, dispose of or inject water or other substances, power plants, poles, lines, transformers, starters, controllers, machine shops, tools, spare parts and spare equipment, telegraph, telephone, radio and other communication equipment, racks and storage facilities). D. All of the Debtor's right, title and interest in petroleum substances produced or recoverable from the Facility including without limitation, petroleum, oil, natural gas, natural gas liquids, methane, ethane, butane, propane, pentanes plus, condensate, and all other substances whether liquid or solid and whether hydrocarbons or not produced in association therewith including any substances without pipelines and flowlines) E. All of the Debtor's personal property interests in any other joint property at the Facility as per the Agreement. F. Proceeds: goods, investment property, documents of title, chattel paper, instruments, money and intangibles.	Current

Result Complete

This is Exhibit "J" to the Affidavit of
~~Brianne Harris~~ (Robert Logan) sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

Government of Alberta

Personal Property Registry
Search Results Report

Search ID #: Z17696806

Transmitting Party

WEST-END REGISTRATIONS LICENSING & SEARCHES LTD. (P158)

10011 170 STREET
EDMONTON, AB T5P 4R5

Party Code: 50076967
Phone #: 780 483 8211
Reference #: 05660419-148754

Search ID #: Z17696806 **Date of Search:** 2024-Aug-13 **Time of Search:** 14:52:03

Business Debtor Search For:

VICEROY CANADIAN RESOURCES CORP.

Exact Result(s) Only Found

NOTE:

A complete Search may result in a Report of Exact and Inexact Matches.
Be sure to read the reports carefully.

REGISTRAR OF PERSONAL PROPERTY

Business Debtor Search For:

VICEROY CANADIAN RESOURCES CORP.

Search ID #: Z17696806 **Date of Search:** 2024-Aug-13 **Time of Search:** 14:52:03

Registration Number: 24052331179
Registration Date: 2024-May-23
Registration Type: SECURITY AGREEMENT
Registration Status: Current
Registration Term: Infinity

Exact Match on: Debtor No: 1

Amendments to Registration

24081328701	Amendment	2024-Aug-13

Debtor(s)

Block		Status
1	VICEROY CANADIAN RESOURCES CORP. 510, 634 - 6TH AVENUE SW CALGARY, AB T2P 0S4	Current

Secured Party / Parties

Block		Status
1	GREENFIRE RESOURCES INC. SUITE 1900, 205 - 5TH AVENUE SW CALGARY, AB T2P 2V7 Email: sclark@osler.com	Current
2	GREENFIRE RESOURCES OPERATING CORPORATION SUITE 1900, 205 - 5TH AVENUE SW CALGARY, AB T2P 2V7 Email: sclark@osler.com	Current by 24081328701
3	GREENFIRE RESOURCES LTD. SUITE 1900, 205 - 5TH AVENUE SW CALGARY, AB T2P 2V7 Email: sclark@osler.com	Current by 24081328701

Search ID #: Z17696806

Collateral: General

Block	Description	Status
1	Schedule "A" A. All of the Debtor's right, title and interest in the McKay Facility, an oil processing facility located at the following lands: 00/10-07-091-14W4 00/15-07-091-14W4 00/14-07-091-14W4 (the "Facility"), pursuant to the Amended and Restated Farm-in and Participation Agreement among Viceroy Canadian Resources Corp. and Everest Canadian Resources Corp. effective as of January 31, 2019 and amended and restated as of June 19, 2020 (incorporating the 2007 Operating Procedure) (the "Agreement"). B. All of the Debtor's personal property interests in wells (including but not limited to abandoned, shut in, suspended, capped, producing, water injection, water source, waste disposal, oil or gas wells and any other wells) in relation to the Facility, including the well bores, wellhead, and all materials and equipment in the wellbore.	Current
2	C. All of the Debtor's present and after acquired interests in equipment at the Facility or located elsewhere but serving or intended to serve the Facility (including without limitation any surface and subsurface machinery, apparatus, and other property and assets of whatsoever nature and kind for the production, treatment, storage or transportation of hydrocarbons, casing, tubing, rods, pumps and pumping equipment, separators, flow lines, tanks, treaters, heaters, compressors, plants and systems to treat, dispose of or inject water or other substances, power plants, poles, lines, transformers, starters, controllers, machine shops, tools, spare parts and spare equipment, telegraph, telephone, radio and other communication equipment, racks and storage facilities). D. All of the Debtor's right, title and interest in petroleum substances produced or recoverable from the Facility including without limitation, petroleum, oil, natural gas, natural gas liquids, methane, ethane, butane, propane, pentanes plus, condensate, and all other substances whether liquid or solid and whether hydrocarbons or not produced in association therewith including any substances without pipelines and flowlines) E. All of the Debtor's personal property interests in any other joint property at the Facility as per the Agreement. F. Proceeds: goods, investment property, documents of title, chattel paper, instruments, money and intangibles.	Current

Result Complete

This is Exhibit "K" to the Affidavit of
me ~~Brianne Harris~~ (Robert Logan) sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

Jack Maslen
T: 403-232-9790
jmaslen@blg.com

Borden Ladner Gervais LLP
World Exchange Plaza
100 Queen Street, Suite 1300
Ottawa ON K1P 1J9
Canada
T 613-237-5160
F 613-230-8842 / F 613-787-3558 (IP)
blg.com

Borden Ladner Gervais

422442.000050

January 24, 2024

DELIVERED BY COURIER AND EMAIL [men8566@yahoo.ca]

Viceroy Canadian Resources Corp.
c/o registered address
2080-222 3rd Ave SW
Calgary, Alberta T2P 0B4

- and -

510, 634 - 6th Avenue SW
Calgary, Alberta T2P 0S4

Attention: Qiping Men, Director

Dear Sir:

Re: Receivership of Everest Canadian Resources Corp. ("Everest"); Alberta Court of King's Bench File 2301-04480

Debt owed by Viceroy Canadian Resources Corp. ("Viceroy")

We are counsel to PricewaterhouseCoopers Inc. LIT in its capacity as the court-appointed receiver and manager (the "**Receiver**") over all the current and future assets, undertakings and properties of every nature and kind (the "**Property**") of Everest, pursuant to a receivership order ("**Receivership Order**") granted by the Alberta Court of King's Bench on April 5, 2023 (the "**Receivership Date**").

The Receivership Order empowers and authorizes the Receiver to, *inter alia*, "to receive and collect all monies and accounts now owed … to [Everest] and to exercise all remedies of [Everest] in collecting such monies, including without limitation, to enforce any security held by [Everest]" (Receivership Order, s. 3(f)).

We write regarding outstanding amounts owed by Viceroy to Everest as outlined below.

FARM-IN AGREEMENT

Viceroy and Everest are parties to an Amended and Restated Farm-In and Participation Agreement made effective as of January 31, 2019, as amended and restated as of June 19, 2020 (the "**Farm-In Agreement**").

Among other things, the Farm-In Agreement appointed Everest as the operator of the joint lands detailed therein, including the Fort MacKay SAGD Facility, leases, wells and lands (collectively, the "**Lands**"). The Farm-In Agreement directs that the 2007 CAPL Operating Procedure (the "**Operating Procedure**") governs

Everest's operatorship of the Lands. Under the Operating Procedure, Viceroy is obligated to pay its proportionate share of the costs and expenses incurred for operations relating to the Lands.

DEFAULT AND DEBT OWED BY VICEROY

The Receiver understands that, as at the Receivership Date, Viceroy was indebted to Everest in respect of the joint operations in the amount of at least $**106,269.87** plus other amounts properly payable by Viceroy to Everest pursuant to the Farm-In Agreement and the Operating Procedure, together with all interest, legal costs and other chargeable amounts (the "**Indebtedness**"). The particulars of the Indebtedness, excluding interest and costs, are detailed in **Schedule "A"** attached hereto.

The Indebtedness is a just debt due and owing to the Receiver, on behalf of Everest, which is being withheld by Viceroy and which Viceroy is required to pay.

Please consider this letter formal notice to Viceroy that the Receiver hereby **demands immediate and full payment of the Indebtedness by no later than February 7, 2024,** failing which the Receiver may take any and all steps necessary and appropriate to collect the property of Everest.

Without limiting the generality of the foregoing, please further consider this letter as formal notice of default to Viceroy, by Everest as operator, pursuant to Clause 5.05 of the Operating Procedure. As such, in addition to all other rights and remedies under the Farm-in Agreement, the Receivership Order or otherwise at law or equity, the Receiver may:

a) charge Viceroy compound interest on the Indebtedness;

b) maintain or commence an action against Viceroy for the Indebtedness;

c) enforce the operator's lien, as contemplated by Clause 5.05A of the Operating Procedure, by taking possession of and using free of charge any part of Viceroy's working interest in the joint lands and related property; and/or

d) enforce the operator's lien, as contemplated by Clause 5.05A of the Operating Procedure, by disposing of any of Viceroy's working interest in the joint lands and related property, in part or in separate parcels, at public auction or by private tender, on whatever terms it may arrange.

The Receiver, on behalf of Everest, reserves the right to supplement or increase the amount of Indebtedness as and when the Receiver obtains additional information. For greater clarity, the Indebtedness does not include amounts which have been incurred by the Receiver, on and after the Receivership Date, which amounts are also payable by Viceroy, and the Receiver reserves its rights to collect and recover such amounts from Viceroy.

We trust you will find the foregoing to be in order. Should you have any questions please contact the undersigned.

Yours truly,

BORDEN LADNER GERVAIS LLP

Jack R. Maslen

cc: Receiver

SCHEDULE "A"

Indebtedness as at April 5, 2023 (excluding interest and costs)

Invoice Number	Invoice Date	Due Date	Invoice Amount (CAD$)
1	2021-01-31	2021-03-02	52,210.81
2	2021-02-28	2021-03-30	53,736.80
3	2021-03-31	2021-04-30	12,941.83
4	2021-04-30	2021-05-30	12,450.20
5	2021-05-31	2021-06-30	12,716.87
7	2021-07-31	2021-08-30	14,903.37
8	2021-08-31	2021-09-30	10,467.94
11	2021-10-31	2021-11-30	17,306.28
12	2021-11-30	2021-12-30	31,872.40
13	2022-01-31	2022-03-02	64,233.82
14	2022-02-28	2022-04-14	(80,236.99)
15	2022-03-31	2022-05-15	(62,152.17)
16	2022-04-30	2022-06-14	(35,680.82)
17	2022-05-31	2022-07-15	(67,452.97)
18	2022-06-30	2022-08-14	(77,885.69)
19	2022-07-31	2022-09-14	(33,931.74)
20	2022-08-31	2022-10-15	(43,291.82)
21	2022-09-30	2022-10-30	3,325.78
22	2022-10-31	2022-12-15	(39,102.20)
23	2022-11-30	2022-12-30	76,979.09
24	2022-12-31	2023-01-30	133,430.96
25	2023-01-31	2023-03-02	42,581.58
26	2023-02-28	2023-03-30	40,941.38
27	2023-03-31	2023-05-15	(34,094.84)
		Total	**$106,269.87**

This is Exhibit "L" to the Affidavit of
me ✓(Robert Logan)✓ ~~Brianne Harris~~ sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

Osler, Hoskin & Harcourt LLP
Suite 2700, Brookfield Place
225 - 6th Avenue S.W.
Calgary, Alberta, Canada T2P 1N2
403.260.7000 MAIN
406.260.7024 FACSIMILE

OSLER

Calgary
Toronto
Montréal
Ottawa
Vancouver
New York

April 25, 2024

Randal Van de Mosselaer
Direct Dial: 403.260.7060
rvandemosselaer@osler.com
Our Matter Number: 1241968

By Courier

Viceroy Canadian Resources Corp.
510, 634 - 6th Avenue SW
Calgary, Alberta T2P 0S4
Attention: Land Manager

Viceroy Canadian Resources Corp.
2080 – 222 3rd Avenue S.W.
Calgary, Alberta T2P 0B4
Attention: Land Manager

Dear Sirs/Mesdames:

Re: Statement of Account and Amounts Payable

Please be advised that we are counsel to Greenfire Resources Operating Corporation ("**Greenfire**"). In that capacity, we refer to the Receivership Order (the "**Receivership Order**") granted by the Court of King's Bench of Alberta (the "**Court**") in Action No. 2301-04480 on April 5, 2023 pursuant to which PricewaterhouseCoopers Inc. was appointed Receiver (the "**Receiver**") over all of the current and future assets, undertakings, and properties of every nature and kind whatsoever of Everest Canadian Resources Corp. ("**Everest**"). A copy of the Receivership Order and all other relevant Court documents can be found on the Receiver's web site at: http://www.pwc.com/ca/everestcanadianresources

As you will be aware, pursuant to a Purchase and Sale Agreement (the "**PSA**") dated February 15, 2024 between the Receiver (as Vendor) and Greenfire (as Purchaser), which PSA was approved by the Court on March 27, 2024, Greenfire has purchased from the Receiver all of Everest's right, title, estate and interest in and to the Assets (as that term is defined in the PSA), including, without limiting the generality of the foregoing:

1. All of Everest's right, title estate and interest in the Fort McKay SAGD project (the "**Fort McKay Project**") (being a 95% working interest therein), and
2. All obligations, accounts receivable and debts owing by Viceroy Canadian Resources Corp. ("**Viceroy**") and its affiliates to Everest and the Receiver, including Viceroy's working interest share of costs and expenses incurred in respect of the Assets and all amounts that are owing by Viceroy to Everest pertaining to the Assets.

Pursuant to an Amended and Restated Farm-In and Participation Agreement between Viceroy and Everest made effective as of the 31st day of January, 2019 (as amended and restated as of the 19th day of June 2020) (the "**Farm-In Agreement**") Viceroy, being a

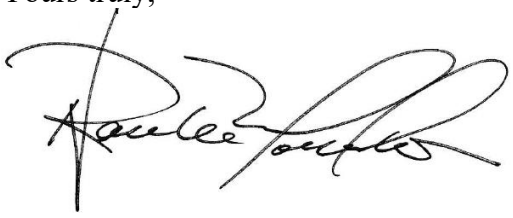
5% interest holder in the Fort McKay Project, has certain obligations to Greenfire (as successor in interest to Everest) to make payment for joint operation expenses in connection with the Fort McKay Project.

We are aware that by letter dated January 24, 2024 (a copy of which is enclosed herewith) the Receiver made demand on Viceroy for certain amounts owing by Viceroy to Everest in the amount of $106,269.87. However, after further review of the financial records of Everest Greenfire has determined that there is a significantly greater amount owing from Viceroy to Everest in connection with the joint operations of the Fort McKay Project. We can advise that a total of **$794,075.06** is now due and owing from Viceroy to Greenfire (as successor in interest to Everest). A statement of account is attached and is supported by attached invoices and statements.

Demand is hereby made for payment of this outstanding amount within 30 days hereof, failing which Greenfire will be at liberty to take any and all enforcement steps at its disposal under the Farm-In Agreement, the associated 2007 CAPL Operating Procedure (which is incorporated by reference into the Farm-In Agreement), or otherwise at law. You may take this letter as constituting notice of default pursuant to Paragraph 5.05B of the 2007 CAPL Operating Procedure.

We look forward to hearing from you.

Yours truly,



Randal Van de Mosselaer
RVdM:

Suite 1900, 205 - 5th Avenue SW
Calgary, Alberta T2P 2V7

Bill To :
Viceroy Canadian Resources Corp.
510, 634 6th Avenue SW
Calgary, AB T2P 0S5

Invoice: JIB202401
Date : Apr. 05, 2024
PO:

DESCRIPTION			
JIB 1 2021-01-31		$	52,210.81
JIB 2 2021-02-28		$	53,736.80
JIB 3 2021-03-31		$	12,941.83
JIB 4 2021-04-30		$	12,450.20
JIB 5 2021-05-31		$	12,716.87
JIB 6 2021-06-30		-$	14,678.40
JIB 7 2021-07-31		$	14,903.37
JIB 8 2021-08-31		$	10,467.94
JIB 9 2021-09-30		-$	20,990.31
JIB 11 2021-10-31		$	17,306.28
JIB 12 2021-11-30		$	31,872.40
JIB 13 2022-01-31		$	64,233.82
JIB 14 2022-02-28		-$	80,236.99
JIB 15 2022-03-31		-$	62,152.17
JIB 16 2022-04-30		-$	35,680.82
JIB 17 2022-05-31		-$	67,452.97
JIB 18 2022-06-30		-$	77,885.69
JIB 19 2022-07-31		-$	33,931.74
JIB 20 2022-08-31		-$	43,291.82
JIB 21 2022-09-30		$	3,325.78
JIB 22 2022-10-31		-$	39,102.20
JIB 23 2022-11-30		$	76,979.09
JIB 24 2022-12-31		$	133,430.96
JIB 25 2023-01-31		$	42,581.58
JIB 26 2023-02-28		$	40,941.38
JIB 27 2023-03-31		-$	34,094.84
JIB 28 2023-2024		$	85,765.00
JIB 29 2024AUDADJ		$	3,776.82
JIB CAPEX		$	451,495.60
JIB GOR		$	182,436.48
TOTAL	**INVOICE JIB202401 DUE NOW**	**$**	**794,075.06**

Please Remit To:
Greenfire Rsources Operating Corporation
Suite 1900
205 - 5th Avenue SW
Calgary, Alberta T2P 2V7 CANADA

EFT Payment Instructions:
Bank of Montreal
222 - 5th Avenue SW
Calgary, Alberta T2P 0L1 CANADA
Institution Code: 001
Transit Number: 06779
Account Number: 1007523

THANK YOU FOR YOUR BUSINESS !

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 21/01
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 31-JAN-21
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-2,174,947.31	15,073,375.24	2,984,523.32	0.00	0.00	15,882,951.25
11867	VICEROY CANADIAN RES	1	-96,745.70	-4,250.00	153,206.51	0.00	0.00	52,210.81
	WARNING: No alternate address id was found for BA 11867							
Total			-2,271,693.01	15,069,125.24	3,137,729.83	0.00	0.00	15,935,162.06

***** Resulting Voucher: 31-JAN-21 JIBO 1 *****

Total Number of A/P Records Created: 0
Total A/P Amount: $0.00
Total Number of A/R Records Created: 2
Total A/R Amount: $15,935,162.06
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 21/02
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 28-FEB-21
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-1,988,216.85	0.00	3,009,216.22	0.00	0.00	1,020,999.37
11867	VICEROY CANADIAN RES	2	-104,643.01	0.00	158,379.81	0.00	0.00	53,736.80
	WARNING: No alternate address id was found for BA 11867							
Total			-2,092,859.86	0.00	3,167,596.03	0.00	0.00	1,074,736.17

***** Resulting Voucher: 28-FEB-21 JIBO 2 *****

Total Number of A/P Records Created: 0
Total A/P Amount: $0.00
Total Number of A/R Records Created: 2
Total A/R Amount: $1,074,736.17
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 21/03
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 31-MAR-21
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-2,419,054.20	0.00	2,664,949.48	0.00	0.00	245,895.28
11867	VICEROY CANADIAN RES	3	-127,318.64	0.00	140,260.47	0.00	0.00	12,941.83
	WARNING: No alternate address id was found for BA 11867							
Total			-2,546,372.84	0.00	2,805,209.95	0.00	0.00	258,837.11

***** Resulting Voucher: 31-MAR-21 JIBO 3 *****

Total Number of A/P Records Created: 0
Total A/P Amount: $0.00
Total Number of A/R Records Created: 2
Total A/R Amount: $258,837.11
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 21/04
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 30-APR-21
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-2,567,349.26	0.00	2,597,374.27	0.00	0.00	30,025.01
11867	VICEROY CANADIAN RES	4	-135,123.67	0.00	147,573.87	0.00	0.00	12,450.20
	WARNING: No alternate address id was found for BA 11867							
Total			-2,702,472.93	0.00	2,744,948.14	0.00	0.00	42,475.21

***** Resulting Voucher: 30-APR-21 JIBO 4 *****

Total Number of A/P Records Created: 0
Total A/P Amount: $0.00
Total Number of A/R Records Created: 2
Total A/R Amount: $42,475.21
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 21/05
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 31-MAY-21
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-2,442,281.15	0.00	2,691,181.89	0.00	0.00	248,900.74
11867	VICEROY CANADIAN RES	5	-128,541.12	0.00	141,257.99	0.00	0.00	12,716.87
	WARNING: No alternate address id was found for BA 11867							
Total			-2,570,822.27	0.00	2,832,439.88	0.00	0.00	261,617.61

***** Resulting Voucher: 31-MAY-21 JIBO 5 *****

Total Number of A/P Records Created: 0
Total A/P Amount: $0.00
Total Number of A/R Records Created: 2
Total A/R Amount: $261,617.61
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 21/06
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 30-JUN-21
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-2,682,575.39	0.00	2,407,122.89	0.00	0.00	-275,452.50
11867	VICEROY CANADIAN RES	6	-141,188.19	0.00	126,509.79	0.00	0.00	-14,678.40
	WARNING: No alternate address id was found for BA 11867							
Total			-2,823,763.58	0.00	2,533,632.68	0.00	0.00	-290,130.90

***** Resulting Voucher: 30-JUN-21 JIBO 6 *****

Total Number of A/P Records Created: 2
Total A/P Amount: -$290,130.90
Total Number of A/R Records Created: 0
Total A/R Amount: $0.00
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 21/07
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 31-JUL-21
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-2,172,509.69	0.00	2,662,200.44	0.00	0.00	489,690.75
11867	VICEROY CANADIAN RES	7	-114,342.59	0.00	129,245.96	0.00	0.00	14,903.37
	WARNING: No alternate address id was found for BA 11867							
Total			-2,286,852.28	0.00	2,791,446.40	0.00	0.00	504,594.12

***** Resulting Voucher: 31-JUL-21 JIBO 7 *****

Total Number of A/P Records Created: 0
Total A/P Amount: $0.00
Total Number of A/R Records Created: 2
Total A/R Amount: $504,594.12
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 21/08
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 31-AUG-21
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-2,539,269.42	0.00	2,738,159.56	0.00	0.00	198,890.14
11867	VICEROY CANADIAN RES	8	-133,645.76	0.00	144,113.70	0.00	0.00	10,467.94
	WARNING: No alternate address id was found for BA 11867							
Total			-2,672,915.18	0.00	2,882,273.26	0.00	0.00	209,358.08

***** Resulting Voucher: 31-AUG-21 JIBO 8 *****

Total Number of A/P Records Created: 0
Total A/P Amount: $0.00
Total Number of A/R Records Created: 2
Total A/R Amount: $209,358.08
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 21/09
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 30-SEP-21
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-2,966,835.44	0.00	2,958,479.84	0.00	0.00	-8,355.60
11867	VICEROY CANADIAN RES	9	-155,860.73	0.00	134,870.42	0.00	0.00	-20,990.31
	WARNING: No alternate address id was found for BA 11867							
Total			-3,122,696.17	0.00	3,093,350.26	0.00	0.00	-29,345.91

***** Resulting Voucher: 30-SEP-21 JIBO 9 *****

Total Number of A/P Records Created: 2
Total A/P Amount: -$29,345.91
Total Number of A/R Records Created: 0
Total A/R Amount: $0.00
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 21/10
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 31-OCT-21
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-3,470,762.58	0.00	3,402,100.09	0.00	0.00	-68,662.49
11867	VICEROY CANADIAN RES	11	-182,671.68	0.00	199,977.96	0.00	0.00	17,306.28
	WARNING: No alternate address id was found for BA 11867							
Total			-3,653,434.26	0.00	3,602,078.05	0.00	0.00	-51,356.21

***** Resulting Voucher: 31-OCT-21 JIBO 11 *****

Total Number of A/P Records Created: 1
Total A/P Amount: -$68,662.49
Total Number of A/R Records Created: 1
Total A/R Amount: $17,306.28
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 21/11
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 30-NOV-21
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-2,665,667.55	0.00	3,271,389.42	0.00	0.00	605,721.87
11867	VICEROY CANADIAN RES	12	-140,298.36	0.00	172,170.76	0.00	0.00	31,872.40
	WARNING: No alternate address id was found for BA 11867							
Total			-2,805,965.91	0.00	3,443,560.18	0.00	0.00	637,594.27

***** Resulting Voucher: 30-NOV-21 JIBO 12 *****

Total Number of A/P Records Created: 0
Total A/P Amount: $0.00
Total Number of A/R Records Created: 2
Total A/R Amount: $637,594.27
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 21/12
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 31-DEC-21
Billing Code: All

Partner	Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount

No billing details to process for Organization 1 and accounting period 31-DEC-21

Organization was not processed

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 22/01
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 31-JAN-22
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-5,920,974.46	-40.00	7,758,569.62	0.00	0.00	1,837,555.16
11867	VICEROY CANADIAN RES	13	-324,253.71	0.00	388,487.53	0.00	0.00	64,233.82
	WARNING: No alternate address id was found for BA 11867							
Total			-6,245,228.17	-40.00	8,147,057.15	0.00	0.00	1,901,788.98

***** Resulting Voucher: 31-JAN-22 JIBO 13 *****

Total Number of A/P Records Created: 0
Total A/P Amount: $0.00
Total Number of A/R Records Created: 2
Total A/R Amount: $1,901,788.98
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 22/02
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 28-FEB-22
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-4,720,215.47	0.00	3,451,884.81	0.00	0.00	-1,268,330.66
11867	VICEROY CANADIAN RES	14	-261,915.19	0.00	181,678.20	0.00	0.00	-80,236.99
	WARNING: No alternate address id was found for BA 11867							
Total			-4,982,130.66	0.00	3,633,563.01	0.00	0.00	-1,348,567.65

***** Resulting Voucher: 28-FEB-22 JIBO 14 *****

Total Number of A/P Records Created: 2
Total A/P Amount: -$1,348,567.65
Total Number of A/R Records Created: 0
Total A/R Amount: $0.00
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 22/03
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 31-MAR-22
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-4,678,939.97	0.00	4,380,689.92	0.00	0.00	-298,250.05
11867	VICEROY CANADIAN RES	15	-292,714.90	0.00	230,562.73	0.00	0.00	-62,152.17
	WARNING: No alternate address id was found for BA 11867							
Total			-4,971,654.87	0.00	4,611,252.65	0.00	0.00	-360,402.22

***** Resulting Voucher: 31-MAR-22 JIBO 15 *****

Total Number of A/P Records Created: 2
Total A/P Amount: -$360,402.22
Total Number of A/R Records Created: 0
Total A/R Amount: $0.00
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 22/04
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 30-APR-22
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-5,254,829.54	0.00	5,039,000.83	0.00	0.00	-215,828.71
11867	VICEROY CANADIAN RES	16	-300,891.44	0.00	265,210.62	0.00	0.00	-35,680.82
	WARNING: No alternate address id was found for BA 11867							
Total			-5,555,720.98	0.00	5,304,211.45	0.00	0.00	-251,509.53

***** Resulting Voucher: 30-APR-22 JIBO 16 *****

Total Number of A/P Records Created: 2
Total A/P Amount: -$251,509.53
Total Number of A/R Records Created: 0
Total A/R Amount: $0.00
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 22/05
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 31-MAY-22
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-5,876,376.69	0.00	5,273,429.98	0.00	0.00	-602,946.71
11867	VICEROY CANADIAN RES	17	-345,001.99	0.00	277,549.02	0.00	0.00	-67,452.97
	WARNING: No alternate address id was found for BA 11867							
Total			-6,221,378.68	0.00	5,550,979.00	0.00	0.00	-670,399.68

***** Resulting Voucher: 31-MAY-22 JIBO 17 *****

Total Number of A/P Records Created: 2
Total A/P Amount: -$670,399.68
Total Number of A/R Records Created: 0
Total A/R Amount: $0.00
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

```
Organization ID  (one only)        = 1
Accounting Period End Date (YY/MM) = 22/06
Billing Code (one/many/all)        =
Voucher Type Code (one/many/all)   =
Voucher Number (one/many/all)      =


JIB Run Number (generated)         = 1
```

System default values:

```
AR_CREDIT_DAYS                 = 30
AP_CREDIT_DAYS                 = 45
BILLING_CODE                   = N
INTERCO_DFLT_CONT_CODE         =
JIB_CLR_DFLT_CONT_CODE         =
JIBU026_INVC_SPLIT             = Y
JIBU026_REV_INVC_TYPE          =
JIBU026_SAVE_BILLINGS_MONTHS   = 99
JIBU026_SPLIT_INVC_BY_AFE      =
JIBU026_SPLIT_INVC_BY_CC       =
JIBU026_SPLIT_INVC_BY_OC       = N
PAYMENT_DFLT_CONT_CODE         = N
POPULATE_INVOICES_COST_CENTRES =
USE_OPERATING_CENTRE           = N
```

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 30-JUN-22
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-6,092,553.57	384,754.05	5,120,469.09	0.00	0.00	-587,330.43
11867	VICEROY CANADIAN RES	18	-352,940.13	5,556.06	269,498.38	0.00	0.00	-77,885.69
	WARNING: No alternate address id was found for BA 11867							
Total			-6,445,493.70	390,310.11	5,389,967.47	0.00	0.00	-665,216.12

***** Resulting Voucher: 30-JUN-22 JIBO 18 *****

Total Number of A/P Records Created: 2
Total A/P Amount: -$665,216.12
Total Number of A/R Records Created: 0
Total A/R Amount: $0.00
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 22/07
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 31-JUL-22
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-4,402,962.90	3,881.22	4,072,719.42	0.00	0.00	-326,362.26
11867	VICEROY CANADIAN RES	19	-248,489.78	204.27	214,353.77	0.00	0.00	-33,931.74
	WARNING: No alternate address id was found for BA 11867							
Total			-4,651,452.68	4,085.49	4,287,073.19	0.00	0.00	-360,294.00

***** Resulting Voucher: 31-JUL-22 JIBO 19 *****

Total Number of A/P Records Created: 2
Total A/P Amount: -$360,294.00
Total Number of A/R Records Created: 0
Total A/R Amount: $0.00
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

```
      Organization ID  (one only)        = 1
      Accounting Period End Date (YY/MM) = 22/08
      Billing Code (one/many/all)        =
      Voucher Type Code (one/many/all)   =
      Voucher Number (one/many/all)      =


      JIB Run Number (generated)         = 1
```

System default values:

```
      AR_CREDIT_DAYS                 = 30
      AP_CREDIT_DAYS                 = 45
      BILLING_CODE                   = N
      INTERCO_DFLT_CONT_CODE         =
      JIB_CLR_DFLT_CONT_CODE         =
      JIBU026_INVC_SPLIT             = Y
      JIBU026_REV_INVC_TYPE          =
      JIBU026_SAVE_BILLINGS_MONTHS   = 99
      JIBU026_SPLIT_INVC_BY_AFE      =
      JIBU026_SPLIT_INVC_BY_CC       =
      JIBU026_SPLIT_INVC_BY_OC       = N
      PAYMENT_DFLT_CONT_CODE         = N
      POPULATE_INVOICES_COST_CENTRES =
      USE_OPERATING_CENTRE           = N
```

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 31-AUG-22
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-4,659,612.15	32,786.02	4,014,705.32	0.00	0.00	-612,120.81
11867	VICEROY CANADIAN RES	20	-256,317.84	1,725.59	211,300.43	0.00	0.00	-43,291.82
	WARNING: No alternate address id was found for BA 11867							
Total			-4,915,929.99	34,511.61	4,226,005.75	0.00	0.00	-655,412.63

***** Resulting Voucher: 31-AUG-22 JIBO 20 *****

Total Number of A/P Records Created: 2
Total A/P Amount: -$655,412.63
Total Number of A/R Records Created: 0
Total A/R Amount: $0.00
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 22/09
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 30-SEP-22
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-4,086,554.31	13,791.02	4,263,015.35	0.00	0.00	190,252.06
11867	VICEROY CANADIAN RES	21	-221,769.38	725.84	224,369.32	0.00	0.00	3,325.78
	WARNING: No alternate address id was found for BA 11867							
Total			-4,308,323.69	14,516.86	4,487,384.67	0.00	0.00	193,577.84

***** Resulting Voucher: 30-SEP-22 JIBO 21 *****

Total Number of A/P Records Created: 0
Total A/P Amount: $0.00
Total Number of A/R Records Created: 2
Total A/R Amount: $193,577.84
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 22/10
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 31-OCT-22
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-4,527,744.19	7,203.26	3,935,982.00	0.00	0.00	-584,558.93
11867	VICEROY CANADIAN RES	22	-246,638.28	379.12	207,156.96	0.00	0.00	-39,102.20
	WARNING: No alternate address id was found for BA 11867							
Total			-4,774,382.47	7,582.38	4,143,138.96	0.00	0.00	-623,661.13

***** Resulting Voucher: 31-OCT-22 JIBO 22 *****

Total Number of A/P Records Created: 2
Total A/P Amount: -$623,661.13
Total Number of A/R Records Created: 0
Total A/R Amount: $0.00
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 22/11
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 30-NOV-22
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-3,352,031.52	0.00	4,814,630.00	0.00	0.00	1,462,598.48
11867	VICEROY CANADIAN RES	23	-176,422.64	0.00	253,401.73	0.00	0.00	76,979.09
	WARNING: No alternate address id was found for BA 11867							
Total			-3,528,454.16	0.00	5,068,031.73	0.00	0.00	1,539,577.57

***** Resulting Voucher: 30-NOV-22 JIBO 23 *****

Total Number of A/P Records Created: 0
Total A/P Amount: $0.00
Total Number of A/R Records Created: 2
Total A/R Amount: $1,539,577.57
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

```
Organization ID  (one only)        = 1
Accounting Period End Date (YY/MM) = 23/01
Billing Code (one/many/all)        =
Voucher Type Code (one/many/all)   =
Voucher Number (one/many/all)      =


JIB Run Number (generated)         = 1
```

System default values:

```
AR_CREDIT_DAYS                 = 30
AP_CREDIT_DAYS                 = 45
BILLING_CODE                   = N
INTERCO_DFLT_CONT_CODE         =
JIB_CLR_DFLT_CONT_CODE         =
JIBU026_INVC_SPLIT             = Y
JIBU026_REV_INVC_TYPE          =
JIBU026_SAVE_BILLINGS_MONTHS   = 99
JIBU026_SPLIT_INVC_BY_AFE      =
JIBU026_SPLIT_INVC_BY_CC       =
JIBU026_SPLIT_INVC_BY_OC       = N
PAYMENT_DFLT_CONT_CODE         = N
POPULATE_INVOICES_COST_CENTRES =
USE_OPERATING_CENTRE           = N
```

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 31-JAN-23
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-2,605,633.72	0.00	3,414,683.08	0.00	0.00	809,049.36
11867	VICEROY CANADIAN RES	25	-137,138.66	0.00	179,720.24	0.00	0.00	42,581.58
	WARNING: No alternate address id was found for BA 11867							
Total			-2,742,772.38	0.00	3,594,403.32	0.00	0.00	851,630.94

***** Resulting Voucher: 31-JAN-23 JIBO 25 *****

Total Number of A/P Records Created: 0
Total A/P Amount: $0.00
Total Number of A/R Records Created: 2
Total A/R Amount: $851,630.94
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 23/02
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 28-FEB-23
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	-1,603,261.10	0.00	2,381,147.00	0.00	0.00	777,885.90
11867	VICEROY CANADIAN RES	26	-84,382.16	0.00	125,323.54	0.00	0.00	40,941.38
	WARNING: No alternate address id was found for BA 11867							
Total			-1,687,643.26	0.00	2,506,470.54	0.00	0.00	818,827.28

***** Resulting Voucher: 28-FEB-23 JIBO 26 *****

Total Number of A/P Records Created: 0
Total A/P Amount: $0.00
Total Number of A/R Records Created: 2
Total A/R Amount: $818,827.28
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

User input parameters:

Organization ID (one only)	= 1
Accounting Period End Date (YY/MM)	= 23/03
Billing Code (one/many/all)	=
Voucher Type Code (one/many/all)	=
Voucher Number (one/many/all)	=
JIB Run Number (generated)	= 1

System default values:

AR_CREDIT_DAYS	= 30
AP_CREDIT_DAYS	= 45
BILLING_CODE	= N
INTERCO_DFLT_CONT_CODE	=
JIB_CLR_DFLT_CONT_CODE	=
JIBU026_INVC_SPLIT	= Y
JIBU026_REV_INVC_TYPE	=
JIBU026_SAVE_BILLINGS_MONTHS	= 99
JIBU026_SPLIT_INVC_BY_AFE	=
JIBU026_SPLIT_INVC_BY_CC	=
JIBU026_SPLIT_INVC_BY_OC	= N
PAYMENT_DFLT_CONT_CODE	= N
POPULATE_INVOICES_COST_CENTRES	=
USE_OPERATING_CENTRE	= N

Processing Organization: 1 EVEREST CANADIAN RESOURCES CORP.
Accounting Period: 31-MAR-23
Billing Code: All

Partner		Invoice Number	Net Revenue	Capital	Expense	GST Amount	Cash Call Applied	Net Invoice Amount
1	EVEREST CANADIAN RES	N/A	445,943.67	-279,188.88	-1,462,455.23	0.00	0.00	-1,295,700.44
11867	VICEROY CANADIAN RES	27	23,470.73	0.00	-57,565.57	0.00	0.00	-34,094.84
	WARNING: No alternate address id was found for BA 11867							
Total			469,414.40	-279,188.88	-1,520,020.80	0.00	0.00	-1,329,795.28

***** Resulting Voucher: 31-MAR-23 JIBO 27 *****

Total Number of A/P Records Created: 2
Total A/P Amount: -$1,329,795.28
Total Number of A/R Records Created: 0
Total A/R Amount: $0.00
Total Number of Cash Call Records Created: 0
Total Cash Call Amount: $0.00

Processs completed successfully.
Data has been inserted into INVOICES.
Data has been inserted into LINE_ITEMS.
Data has been inserted into TEMP_JIB_STATEMENT_SUMMARIES.
Data has been inserted into TEMP_JIB_STATEMENT_DETAILS.
Data has been inserted into TEMP_JIB_FOOTNOTES.
BILLING_DETAILS table has been updated.

End of Report

Accounting Year	(All)
Accounting Month	(All)
Voucher Type	API

Sum of Transaction Amount	Column Labels						
	FAC-001	FAC-001 Total	RES-001	RES-001 Total	RES-002	RES-002 Total	Grand Total
Row Labels	WATER TANK PURCHASING		MCKAY RESTART UP		MCKAY RESTART UP PAD 1		
9255	**$47,000.00**	**$47,000.00**					**$47,000.00**
524	**$47,000.00**	**$47,000.00**					**$47,000.00**
STORAGE TANKS & VESSELS	$47,000.00	$47,000.00					$47,000.00
9270			**$8,740,678.02**	**$8,740,678.02**	**$242,233.98**	**$242,233.98**	**$8,982,912.00**
030			**$97,208.20**	**$97,208.20**			**$97,208.20**
TRANSPORTATION/CONTRA ACCOUNT			$97,208.20	$97,208.20			$97,208.20
052			**$248,439.28**	**$248,439.28**			**$248,439.28**
FUEL GAS TRANSPORTATION FEES			$248,439.28	$248,439.28			$248,439.28
100			**$200.00**	**$200.00**			**$200.00**
SALARIES & BENEFTIS - OPERATIONS			$200.00	$200.00			$200.00
102			**$964.62**	**$964.62**			**$964.62**
EDUCATION & TRAINING - OPERATIONS			$964.62	$964.62			$964.62
104			**$3,888.14**	**$3,888.14**			**$3,888.14**
MEALS & ENTERTAINMENT			$3,888.14	$3,888.14			$3,888.14
108			**$12,867.45**	**$12,867.45**			**$12,867.45**
COMMUNICATIONS (PHONE,FAX ETC)			$12,867.45	$12,867.45			$12,867.45
110			**$6,049.21**	**$6,049.21**			**$6,049.21**
COMMUNICATIONS (NETWORK)			$6,049.21	$6,049.21			$6,049.21
114			**$8,758.63**	**$8,758.63**			**$8,758.63**
COURIER			$8,758.63	$8,758.63			$8,758.63
116			**$11,187.95**	**$11,187.95**			**$11,187.95**
OFFICE SUPPLIES			$11,187.95	$11,187.95			$11,187.95
118			**$2,480.58**	**$2,480.58**			**$2,480.58**
GENERAL OFFICE EXPENSES			$2,480.58	$2,480.58			$2,480.58
120			**$1,472.20**	**$1,472.20**			**$1,472.20**
ADVERTISING			$1,472.20	$1,472.20			$1,472.20
122			**$87.90**	**$87.90**			**$87.90**
COMMUNITY INVESTMENT			$87.90	$87.90			$87.90
124			**$15,394.56**	**$15,394.56**			**$15,394.56**
SPECIAL EVENTS			$15,394.56	$15,394.56			$15,394.56
128			**$339,094.00**	**$339,094.00**			**$339,094.00**
INSURANCE			$339,094.00	$339,094.00			$339,094.00
130			**$465.03**	**$465.03**			**$465.03**
LATE PAYMENT CHARGES & INTEREST			$465.03	$465.03			$465.03
134			**$34,834.11**	**$34,834.11**			**$34,834.11**
TRAVEL & SUBSISTENCE			$34,834.11	$34,834.11			$34,834.11
136			**$4,844.58**	**$4,844.58**			**$4,844.58**
FIFO AIR TRAVEL			$4,844.58	$4,844.58			$4,844.58
138			**$306,078.29**	**$306,078.29**	**$0.00**	**$0.00**	**$306,078.29**
MAINTENANCE LABOUR			$306,078.29	$306,078.29	$0.00	$0.00	$306,078.29
140			**$371,084.69**	**$371,084.69**			**$371,084.69**
CAMP			$371,084.69	$371,084.69			$371,084.69
142			**$190,349.01**	**$190,349.01**			**$190,349.01**
CONSULTING SERVICES			$190,349.01	$190,349.01			$190,349.01

146		**$250,958.00**	**$250,958.00**			**$250,958.00**
CONTRACT OPERATOR		$250,958.00	$250,958.00			$250,958.00
150		**$1,338.76**	**$1,338.76**			**$1,338.76**
LIGHT VEHICLES		$1,338.76	$1,338.76			$1,338.76
154		**$68,721.74**	**$68,721.74**			**$68,721.74**
OFFSITE REPAIR & REFURBISHMENT		$68,721.74	$68,721.74			$68,721.74
210		**$6,031.36**	**$6,031.36**			**$6,031.36**
CROWN SURFACE LEASE RENTALS		$6,031.36	$6,031.36			$6,031.36
211		**$35,056.00**	**$35,056.00**			**$35,056.00**
CROWN MINERAL LEASE RENTAL		$35,056.00	$35,056.00			$35,056.00
213		**$50.00**	**$50.00**			**$50.00**
FREEHOLD SURFACE LEASE RENTAL		$50.00	$50.00			$50.00
214		**$90,324.00**	**$90,324.00**			**$90,324.00**
OPERATIONS CONTRACT LABOUR		$90,324.00	$90,324.00			$90,324.00
218		**$20,730.50**	**$20,730.50**			**$20,730.50**
LICENCES & REGULATORY FEES		$20,730.50	$20,730.50			$20,730.50
220		**$115.13**	**$115.13**			**$115.13**
SITE SECURITY		$115.13	$115.13			$115.13
222		**$2,054.00**	**$2,054.00**			**$2,054.00**
PROPERTY TAXES		$2,054.00	$2,054.00			$2,054.00
302		**$104,263.40**	**$104,263.40**			**$104,263.40**
GENERAL REPAIRS & MAINTENANCE		$104,263.40	$104,263.40			$104,263.40
304		**$117,740.02**	**$117,740.02**			**$117,740.02**
MECHANICAL-REPAIRS & MAINTENANCE		$117,740.02	$117,740.02			$117,740.02
306		**$236,812.20**	**$236,812.20**	**$60,286.46**	**$60,286.46**	**$297,098.66**
INSTRUMENTS - REPAIRS & MAINTENANCE		$236,812.20	$236,812.20	$60,286.46	$60,286.46	$297,098.66
308		**$85,877.41**	**$85,877.41**			**$85,877.41**
ELECTRICAL-REPAIRS & MAINTENANCE		$85,877.41	$85,877.41			$85,877.41
310		**$210,614.76**	**$210,614.76**	**$98,860.62**	**$98,860.62**	**$309,475.38**
PIPELINE-REPAIRS & MAINTENANCE		$210,614.76	$210,614.76	$98,860.62	$98,860.62	$309,475.38
312		**$16,148.82**	**$16,148.82**			**$16,148.82**
TANK-REPAIRS & MAINTENANCE		$16,148.82	$16,148.82			$16,148.82
314		**$1,987.67**	**$1,987.67**			**$1,987.67**
MOTOR-REPAIRS & MAINTENANCE		$1,987.67	$1,987.67			$1,987.67
318		**$12,613.74**	**$12,613.74**			**$12,613.74**
PUMP-REPAIRS & MAINTENACE		$12,613.74	$12,613.74			$12,613.74
320		**$80,594.62**	**$80,594.62**			**$80,594.62**
VEHICLE MAINTENANCE		$80,594.62	$80,594.62			$80,594.62
322		**$12,307.21**	**$12,307.21**			**$12,307.21**
ROADS & GROUNDS		$12,307.21	$12,307.21			$12,307.21
324		**$70.69**	**$70.69**			**$70.69**
POWERED MOBILE EQUIPMENT MAINTENANCE		$70.69	$70.69			$70.69
327		**$1,601.16**	**$1,601.16**			**$1,601.16**
BUILDING MAINTENANCE		$1,601.16	$1,601.16			$1,601.16
338		**$106,992.33**	**$106,992.33**			**$106,992.33**
EQUIPMENT RENTAL		$106,992.33	$106,992.33			$106,992.33
702		**$17,362.94**	**$17,362.94**			**$17,362.94**
VALVES & FITTINGS		$17,362.94	$17,362.94			$17,362.94
704		**$100,652.88**	**$100,652.88**			**$100,652.88**
CONMSUMABLES		$100,652.88	$100,652.88			$100,652.88
708		**$73,335.00**	**$73,335.00**			**$73,335.00**

HVAC		$73,335.00	$73,335.00			$73,335.00
710		**$70,539.80**	**$70,539.80**			**$70,539.80**
PRESSURE & VACUUM SERVICES		$70,539.80	$70,539.80			$70,539.80
714		**$1,021.36**	**$1,021.36**			**$1,021.36**
PIPING		$1,021.36	$1,021.36			$1,021.36
715		**$435,308.41**	**$435,308.41**			**$435,308.41**
OPERATIONS EQUIPMENT		$435,308.41	$435,308.41			$435,308.41
718		**$9,026.94**	**$9,026.94**			**$9,026.94**
WELDING		$9,026.94	$9,026.94			$9,026.94
724		**$14,033.74**	**$14,033.74**			**$14,033.74**
LUBRICANTS		$14,033.74	$14,033.74			$14,033.74
725		**$46,023.22**	**$46,023.22**			**$46,023.22**
NITROGEN		$46,023.22	$46,023.22			$46,023.22
728		**$82,905.17**	**$82,905.17**			**$82,905.17**
PRODUCTION CHEMICALS		$82,905.17	$82,905.17			$82,905.17
729		**$523,742.11**	**$523,742.11**			**$523,742.11**
WATER & STEAM CHEMICALS		$523,742.11	$523,742.11			$523,742.11
730		**$47,080.41**	**$47,080.41**			**$47,080.41**
OPERATIONS TOOLS & SUPPLIES		$47,080.41	$47,080.41			$47,080.41
734		**$121,424.12**	**$121,424.12**			**$121,424.12**
VEHICLE FUEL		$121,424.12	$121,424.12			$121,424.12
735		**$259.80**	**$259.80**			**$259.80**
POWER GENERATION		$259.80	$259.80			$259.80
737		**$2,471,111.60**	**$2,471,111.60**			**$2,471,111.60**
STEAM GENERATION		$2,471,111.60	$2,471,111.60			$2,471,111.60
740		**$94,576.97**	**$94,576.97**			**$94,576.97**
GENERAL TRUCKING/HAULING		$94,576.97	$94,576.97			$94,576.97
741		**$8,442.50**	**$8,442.50**			**$8,442.50**
EQUIPMENT HAULING		$8,442.50	$8,442.50			$8,442.50
743		**$48,986.70**	**$48,986.70**			**$48,986.70**
EVAPORATOR BLOWDOWN HAULING & DISPOSAL		$48,986.70	$48,986.70			$48,986.70
744		**$283.19**	**$283.19**			**$283.19**
HOSE & FITTINGS		$283.19	$283.19			$283.19
745		**$419,485.49**	**$419,485.49**			**$419,485.49**
OILFIELD WASTE HAULING & DISPOSAL		$419,485.49	$419,485.49			$419,485.49
747		**$515,204.76**	**$515,204.76**			**$515,204.76**
DILUENT		$515,204.76	$515,204.76			$515,204.76
749		**$203,648.48**	**$203,648.48**	**$83,086.90**	**$83,086.90**	**$286,735.38**
INSPECTION SERVICES		$203,648.48	$203,648.48	$83,086.90	$83,086.90	$286,735.38
750		**$153,351.88**	**$153,351.88**			**$153,351.88**
ENGINEERING & TECHNICAL		$153,351.88	$153,351.88			$153,351.88
754		**$13,102.40**	**$13,102.40**			**$13,102.40**
LABORATORY ANALYSIS		$13,102.40	$13,102.40			$13,102.40
758		**$42,971.87**	**$42,971.87**			**$42,971.87**
SOLID WASTE HAULING & DISPOSAL		$42,971.87	$42,971.87			$42,971.87
761		**$3,533.29**	**$3,533.29**			**$3,533.29**
SAFETY TRAINING		$3,533.29	$3,533.29			$3,533.29
762		**$24,910.70**	**$24,910.70**			**$24,910.70**
SAFETY SERVICES/ERP		$24,910.70	$24,910.70			$24,910.70
763		**$78,940.34**	**$78,940.34**			**$78,940.34**
SAFETY EQUIPMENT & SUPPLIES		$78,940.34	$78,940.34			$78,940.34

764			**$660.00**	**$660.00**			**$660.00**
ENVIRONMENTAL SERVICES			$660.00	$660.00			$660.00
Grand Total	**$47,000.00**	**$47,000.00**	**$8,740,678.02**	**$8,740,678.02**	**$242,233.98**	**$242,233.98**	**$9,029,912.00**
		$ 47,000.00		$8,740,678.02		$ 242,233.98	
		5%		5%		5%	
	AFE FAC-001	$ 2,350.00	AFE RES-001	$437,033.90	AFE RES-002	$ 12,111.70	$ 451,495.60

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FINAL AUDIT REPORT (April 5, 2024)

Greenfire Audit of Everest Resource Canadian Corp – JVSA Audit #24008
Various Properties

Client Concerns

1. Review the costs incurred by the operator and confirm all amounts have been appropriately billed to the joint venture partner

JVSA Comment: Most operating expenses appear to be coded correctly and billed through the Joint Account creating a monthly JIB to partner, Viceroy.

- Accounting month 2022/02 - there was one invoice that was not coded to the Joint Account. A gross amount of $8,602.00 was billed 100% Everest, where 5% was billable to Viceroy. $430.10 additional amount owed by Viceroy.
- In 2022/01 and 2022/02 accounting months, six (6) different invoices had late charges applied to them which were coded to the Joint Account. According to the 2007 CAPL Operating Procedure, it is the Operators responsibility to pay all goods and services with respect to the Joint Lands, as they become due. Late fees are not chargeable to the Joint Account. A gross amount of $4,565.54 was billed out through the Joint Account; a net credit owed to Viceroy of $228.28 for their 5% WI.

> The Operator will pay (or cause to be paid) all costs for goods and services supplied with respect to the Joint Lands, any Joint Operations and any other Joint Property as those costs become due.

According to Clause 302 of the Farm-In agreement (page 41), each producing well is to be charged $250/month. No overhead appears to have been charged out for the entirety of this agreement. A list of producing wells each month from 2020 through 2023 was used to calculate missed fees of $3,575.00 (net chargeable to Viceroy).

- Property taxes were billed by RM of Wood Buffalo and booked to the Joint Account appropriately.
- Burgess Energy Holdings was a royalty owner. There are royalty charges billed to the Joint Account. We cannot validate the royalty charged/paid without the specific royalty agreement and production reports - out of scope of initial project.
- Road Use invoices appear to also have been billed appropriately through the Joint Account.
- Mineral and surface leases have been billed properly through the Joint Account.
- Electricity accrual entries were reviewed. Information Request 02 was submitted during the audit to review requested copies of the electrical billings. A response was received confirming that “McKay site is not on the grid. All power at the site was generated via the gas powered cogens. The costs of power in Everest’s books would primarily be the BP gas supply costs.” Information Request was closed with no issues identified.

2. Review all payments between the operator and partner and determine the status of accounts as of March 31, 2023

JVSA Comment: There are no payments in or out of the system from or to Viceroy Canadian Resources Corp. The Accounts Receivable balance (from QByte statements) owed by the partner (Viceroy) is $70,601.16 as at Mar 31, 2023.

Adjustments to the account:

Overhead missed (Adj B)	$3,575.00
Missed Contract Op/Subsistence (Adj A)	$ 430.10
Overcharge of late payment fees (Adj C)	$ (228.28)
Total adjusted amount owed from Viceroy	$ 74,377.98

Reference to Supporting Documentation:
JIB Summary - AR Summary tab
Inv 1 through Inv 27

3. Review costs incurred from April 1 to "recent" and determine what charges should be billed per the JOA to the JV partner

JVSA Comment (February 2024): As per the video call on Feb 12, 2024 at 3:30pm with Greenview, the Receiver, and JVSA, this calculation will be determined by the Receiver. No financial information post March 31, 2023 has been shared with JVSA.

The Receiver has provided a summary of operating costs paid in 2023-2024. The total amount billable to Viceroy for this time period would be $85,765. This amount is in addition to the above total.

Reference to Supporting Documentation:
Inv 2023-2024.docx

4. Ultimately develop a supporting package to support a demand for payment of all outstanding amounts

JVSA has put together a document folder in the iCloud Box with all supporting documentation.

5. Capital Review

JVSA Notes/Observations
Viceroy Canadian Resources Corp (BA 11867 in the Everest QByte system) became a 5% WIO effective Feb 1, 2019 (Agreement executed June 19, 2020). Prior to Feb 1, 2019, Viceroy was 100% WIO.

All costs in 2019 and 2020 were booked to, and accounted for, through AFE's. Accuracy of the GL items billed to the Joint Account cannot be reviewed for accuracy without source documentation.

8.1 Notwithstanding Clause 2.02 of the Assignment Procedure, no provisions of the Assignment Procedure shall be construed so as to make the assignee responsible for any obligation or liability which had arisen or accrued prior to the Transfer Date (as defined in the Assignment Procedure).

JVSA Comment (March 2024): Scope was expanded to review more of the capital costs from June 2020 through to Dec 2020 (JIBs started to be created for the partner Viceroy Jan 2021 with the booking of operating costs and revenue).

In clause 8.1 it states the "Transfer Date as defined in the Assignment Procedure". There was no Assignment Procedure attached to the Farm In Agreement. However, in the definitions section of the agreement it states "Assignment Procedure" means the 1993 CAPL Assignment Procedure. According to the CAPL Property Transfer Procedure document dated July 6, 2016 - Part 1, Page 4 it states "Date: It is generally preferable to date Agreements as of the Effective Date. This facilitates the preparation of documents (i.e. date of "Transfer Agreement" under the CAPL Assignment procedure". It is thus inferred that capital costs from Feb 1, 2019 through to present should be billed through the partner account.

There are three (3) AFE's to be included: FAC-001 (water tank purchase), RES-001 (restart-up costs Pad 2), RES-002 (restart-up costs Pad 1).

There are three (3) voucher types booked to these AFEs. Of those, we can bill out for the API invoice types. There are enough details to know that these were invoices billed to and paid by Everest 100%. The GJE entries do not have enough detail to validate the source or value of the invoices. The NSRC invoice type also does not have enough detail to validate its source.

AFE FAC-001: $47,000 gross x 5% WI = $2,350.00 chargeable to Viceroy

AFE RES-001: $8,740,678.02 gross x 5% WI = $437,033.90 chargeable to Viceroy

AFE RES-002: $242,233.98 gross x 5% WI = $12,111.70 chargeable to Viceroy

Overall: $451,495.60 should have been charged to Viceroy through a JIB once the Farm In Agreement was finalized in June 2020.

Reference to Supporting Documentation:
JIB Summary.xlsx - CAPEX tab
CAPEX REVIEW.xlsx

CAPL Property Transfer Procedure July 6 2016 Part 1.pdf

6. Additional requests brought forward via email:

JVSA asked if there was a particular partner of concern that we need to focus on? The ask was to focus on payments, transfers etc. between 1. Viceroy 2. Qipeng Men (shareholder, CMC Professional Services and 2154896 Alberta Ltd) 3. Bill (Zhefei) Song (1997642 Ontario) 4. HEXU (Andy You, Mr. Michael Zhu, Mr. Owen Jiang).

Without source documentation for financial entries, we cannot validate these entries for Qipeng Men, Bill Song, or HEXU. Payments to CMC Professional Services appear to be created via an invoice reference and can be assumed to be for management services rendered. Several deposits over the years from HEXU can be assumed to be loan related (email from Crystal (Greenfire) references "Documents/contracts/payments for loans, related to shareholders such as Hexu Energy Ltd, Bill (Zhefie) Song, Qiping Men…")

7. Additional Greenfire Request:

1. The lease ops compared to the JIBs make it seem that maybe Viceroy was undercharged?
2. Can we tie the lease ops back to the billings?
3. Perhaps start with Revenue and ensure that it was not over allocated to Viceroy

JVSA Comments: We were able to validate the items in the lease op reports and tie them to the gross charges on the GL.

However, when validating the charges, the freehold royalty account was not booked through the joint account. This can often be the case and is based on how the royalty agreements are written.

The revenue was allocated correctly, but because the royalty expense was not shared through the joint account, it could be what made the revenue appear over-allocated.

The calculation of the royalties paid or payable was not verified as this was out of scope. The only royalty owner on file was Burgess Energy Holdings and there are historical payments to this royalty owner.

JVSA Observations:

Everest accounted for the royalty payments to Burgess Energy Holdings as "Freehold Royalties". The royalty agreement refers to a gross overriding royalty. See page 5 of the Royalty Agreement (BEH_ECRC) (June 2020) (Fully Executed).pdf - page 5 of the document in Article 1 Section 1.1 Definitions: (C) "Agreement" means this gross overriding royalty agreement, together with the recitals and the Schedules attached hereto and made a part hereof".

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Further in the definitions of this agreement, it can also be assumed that Viceroy is liable for their share of the royalty obligation. See page 15 of the Royalty Agreement (BEH_ECRC) (June 2020) (Fully Executed).pdf - in Article 1 Section 1.1 Definitions: "Viceroy Acknowledgement Agreement" means an agreement between Viceroy, the Grantor and the Royalty Owner, substantially in the form as that attached hereto as Schedule C."

2021 GL - only Crown royalties were accounted for or paid. These costs were shared with and billed to Viceroy.
2022 GL - there was a total of $3,649,073.86 booked to Oil Freehold Royalty expense account

Payments to Burgess Energy Holdings totaled $2,982,926.61. It can be presumed that the difference would be that of the allowable deductions to the royalty. Typical deductions are that of transportation and processing fees. Viceroy has been billed for their share of transportation and processing fees, as well as the associated revenue. Viceroy should also be billed out for 5% of the gross royalty expense which totals $182,436.48 (5% of the gross oil freehold royalty less $17.21 that did flow through the JIB).

Reference to Supporting Documentation:
JIB Summary.xlsx - Royalty Summary tab
Royalty Analysis.xlsx
Royalty Agreement (as supplied by Greenfire)

Supporting Documentation (In Shared iCloud Box folder):

- Inv 1 - Inv 27 (pdf)
- Inv 2023-2024 (docx)
- Royalty Analysis (xlsx)
- CAPEX REVIEW (xlsx)
- Statement of Account (xlsx)
- JIB Summary (xlsx)
- CAPL Property Transfer Procedure (pdf)

Organization Name	Organization	Accounting Year	Accounting Month	Voucher Type	Voucher Number	Voucher Status	Account Major	Account Minor	Account Name	AFE	AFE Name	Cost Centre	Cost Centre Name	Activity Year	Activity Month	DOI	Transaction Amount	Transaction Volume	Invoice / Payment Number	Invoice	Invoice Amount
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2986	P	9520	110	OIL FREEHOLD ROYALTY			3257	MCKW 100/10-18-091-14W4/00	2022	1	101	2,259.82	0.00	01 2022 BEH	44482	(82,820.13)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2986	P	9520	110	OIL FREEHOLD ROYALTY			3258	MCKW 102/10-18-091-14W4/00	2022	1	101	3,907.31	0.00	01 2022 BEH	44482	(82,820.13)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2986	P	9520	110	OIL FREEHOLD ROYALTY			3259	MCKW 103/10-18-091-14W4/00	2022	1	101	3,753.86	0.00	01 2022 BEH	44482	(82,820.13)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2986	P	9520	110	OIL FREEHOLD ROYALTY			3261	MCKW 100/11-18-091-14W4/00	2022	1	101	2,630.43	0.00	01 2022 BEH	44482	(82,820.13)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2986	P	9520	110	OIL FREEHOLD ROYALTY			3262	MCKW 102/11-18-091-14W4/00	2022	1	101	1,373.25	0.00	01 2022 BEH	44482	(82,820.13)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2986	P	9520	110	OIL FREEHOLD ROYALTY			3269	MCKW 103/11-18-091-14W4/00	2022	1	101	26,112.50	0.00	01 2022 BEH	44482	(82,820.13)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2986	P	9520	110	OIL FREEHOLD ROYALTY			3270	MCKW 104/11-18-091-14W4/00	2022	1	101	23,229.96	0.00	01 2022 BEH	44482	(82,820.13)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2986	P	9520	110	OIL FREEHOLD ROYALTY			3271	MCKW 100/12-18-091-14W4/00	2022	1	101	14,013.48	0.00	01 2022 BEH	44482	(82,820.13)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2986	P	9520	110	OIL FREEHOLD ROYALTY			3272	MCKW 102/12-18-091-14W4/00	2022	1	101	2,911.56	0.00	01 2022 BEH	44482	(82,820.13)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2986	P	9520	110	OIL FREEHOLD ROYALTY			3273	MCKW 103/12-18-091-14W4/00	2022	1	101	16,025.10	0.00	01 2022 BEH	44482	(82,820.13)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2986	P	9520	110	OIL FREEHOLD ROYALTY			3274	MCKW 104/12-18-091-14W4/00	2022	1	101	14,209.57	0.00	01 2022 BEH	44482	(82,820.13)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2987	P	9520	110	OIL FREEHOLD ROYALTY			3257	MCKW 100/10-18-091-14W4/00	2022	2	101	6,486.93	0.00	02 2022 BEH	44483	(190,242.18)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2987	P	9520	110	OIL FREEHOLD ROYALTY			3258	MCKW 102/10-18-091-14W4/00	2022	2	101	6,030.22	0.00	02 2022 BEH	44483	(190,242.18)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2987	P	9520	110	OIL FREEHOLD ROYALTY			3259	MCKW 103/10-18-091-14W4/00	2022	2	101	4,856.79	0.00	02 2022 BEH	44483	(190,242.18)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2987	P	9520	110	OIL FREEHOLD ROYALTY			3261	MCKW 100/11-18-091-14W4/00	2022	2	101	6,273.24	0.00	02 2022 BEH	44483	(190,242.18)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2987	P	9520	110	OIL FREEHOLD ROYALTY			3262	MCKW 102/11-18-091-14W4/00	2022	2	101	2,010.65	0.00	02 2022 BEH	44483	(190,242.18)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2987	P	9520	110	OIL FREEHOLD ROYALTY			3269	MCKW 103/11-18-091-14W4/00	2022	2	101	51,194.00	0.00	02 2022 BEH	44483	(190,242.18)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2987	P	9520	110	OIL FREEHOLD ROYALTY			3270	MCKW 104/11-18-091-14W4/00	2022	2	101	49,787.33	0.00	02 2022 BEH	44483	(190,242.18)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2987	P	9520	110	OIL FREEHOLD ROYALTY			3271	MCKW 100/12-18-091-14W4/00	2022	2	101	59,904.13	0.00	02 2022 BEH	44483	(190,242.18)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2987	P	9520	110	OIL FREEHOLD ROYALTY			3272	MCKW 102/12-18-091-14W4/00	2022	2	101	4,029.92	0.00	02 2022 BEH	44483	(190,242.18)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2987	P	9520	110	OIL FREEHOLD ROYALTY			3273	MCKW 103/12-18-091-14W4/00	2022	2	101	36,623.64	0.00	02 2022 BEH	44483	(190,242.18)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2987	P	9520	110	OIL FREEHOLD ROYALTY			3274	MCKW 104/12-18-091-14W4/00	2022	2	101	26,459.39	0.00	02 2022 BEH	44483	(190,242.18)
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2998	P	9520	110	OIL FREEHOLD ROYALTY			3257	MCKW 100/10-18-091-14W4/00	2022	1	1	2,259.82	0.00			0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2998	P	9520	110	OIL FREEHOLD ROYALTY			3257	MCKW 100/10-18-091-14W4/00	2022	1	101	(2,259.82)	0.00			0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2998	P	9520	110	OIL FREEHOLD ROYALTY			3257	MCKW 100/10-18-091-14W4/00	2022	2	1	6,486.93	0.00			0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3	API	2998	P	9520	110	OIL FREEHOLD ROYALTY			3257	MCKW 100/10-18-091-14W4/00	2022	2	101	(6,486.93)	0.00			0.00

EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3258	MCKW 102/10-18-091-14W4/00	2022	1 1	3,907.31	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3258	MCKW 102/10-18-091-14W4/00	2022	1 101	(3,907.31)	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3258	MCKW 102/10-18-091-14W4/00	2022	2 1	6,030.22	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3258	MCKW 102/10-18-091-14W4/00	2022	2 101	(6,030.22)	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3259	MCKW 103/10-18-091-14W4/00	2022	1 1	3,753.86	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3259	MCKW 103/10-18-091-14W4/00	2022	1 101	(3,753.86)	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3259	MCKW 103/10-18-091-14W4/00	2022	2 1	4,856.79	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3259	MCKW 103/10-18-091-14W4/00	2022	2 101	(4,856.79)	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3261	MCKW 100/11-18-091-14W4/00	2022	1 1	2,630.43	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3261	MCKW 100/11-18-091-14W4/00	2022	1 101	(2,630.43)	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3261	MCKW 100/11-18-091-14W4/00	2022	2 1	6,273.24	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3261	MCKW 100/11-18-091-14W4/00	2022	2 101	(6,273.24)	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3262	MCKW 102/11-18-091-14W4/00	2022	1 1	1,373.25	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3262	MCKW 102/11-18-091-14W4/00	2022	1 101	(1,373.25)	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3262	MCKW 102/11-18-091-14W4/00	2022	2 1	2,010.65	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3262	MCKW 102/11-18-091-14W4/00	2022	2 101	(2,010.65)	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3269	MCKW 103/11-18-091-14W4/00	2022	1 1	26,112.50	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3269	MCKW 103/11-18-091-14W4/00	2022	1 101	(26,112.50)	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3269	MCKW 103/11-18-091-14W4/00	2022	2 1	51,194.00	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3269	MCKW 103/11-18-091-14W4/00	2022	2 101	(51,194.00)	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3270	MCKW 104/11-18-091-14W4/00	2022	1 1	23,229.96	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3270	MCKW 104/11-18-091-14W4/00	2022	1 101	(23,229.96)	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3270	MCKW 104/11-18-091-14W4/00	2022	2 1	49,787.33	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3270	MCKW 104/11-18-091-14W4/00	2022	2 101	(49,787.33)	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3271	MCKW 100/12-18-091-14W4/00	2022	1 1	14,013.48	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3271	MCKW 100/12-18-091-14W4/00	2022	1 101	(14,013.48)	0.00	0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3271	MCKW 100/12-18-091-14W4/00	2022	2 1	59,904.13	0.00	0.00

EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3271	MCKW 100/12-18-091-14W4/00	2022	2 101	(59,904.13)	0.00				0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3272	MCKW 102/12-18-091-14W4/00	2022	1 1	2,911.56	0.00				0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3272	MCKW 102/12-18-091-14W4/00	2022	1 101	(2,911.56)	0.00				0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3272	MCKW 102/12-18-091-14W4/00	2022	2 1	4,029.92	0.00				0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3272	MCKW 102/12-18-091-14W4/00	2022	2 101	(4,029.92)	0.00				0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3273	MCKW 103/12-18-091-14W4/00	2022	1 1	16,025.10	0.00				0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3273	MCKW 103/12-18-091-14W4/00	2022	1 101	(16,025.10)	0.00				0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3273	MCKW 103/12-18-091-14W4/00	2022	2 1	36,623.64	0.00				0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3273	MCKW 103/12-18-091-14W4/00	2022	2 101	(36,623.64)	0.00				0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3274	MCKW 104/12-18-091-14W4/00	2022	1 1	14,209.57	0.00				0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3274	MCKW 104/12-18-091-14W4/00	2022	1 101	(14,209.57)	0.00				0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3274	MCKW 104/12-18-091-14W4/00	2022	2 1	26,459.39	0.00				0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	3 API	2998 P	9520	110	OIL FREEHOLD ROYALTY	3274	MCKW 104/12-18-091-14W4/00	2022	2 101	(26,459.39)	0.00				0.00
EVEREST CANADIAN RESOURCES CORP.	1	2022	4 API	3036 P	9520	110	OIL FREEHOLD ROYALTY	3257	MCKW 100/10-18-091-14W4/00	2022	3 1	22,956.61	0.00	03 2022 BEH	44533		(443,256.04)
EVEREST CANADIAN RESOURCES CORP.	1	2022	4 API	3036 P	9520	110	OIL FREEHOLD ROYALTY	3258	MCKW 102/10-18-091-14W4/00	2022	3 1	16,011.42	0.00	03 2022 BEH	44533		(443,256.04)
EVEREST CANADIAN RESOURCES CORP.	1	2022	4 API	3036 P	9520	110	OIL FREEHOLD ROYALTY	3259	MCKW 103/10-18-091-14W4/00	2022	3 1	18,178.69	0.00	03 2022 BEH	44533		(443,256.04)
EVEREST CANADIAN RESOURCES CORP.	1	2022	4 API	3036 P	9520	110	OIL FREEHOLD ROYALTY	3261	MCKW 100/11-18-091-14W4/00	2022	3 1	22,508.80	0.00	03 2022 BEH	44533		(443,256.04)
EVEREST CANADIAN RESOURCES CORP.	1	2022	4 API	3036 P	9520	110	OIL FREEHOLD ROYALTY	3262	MCKW 102/11-18-091-14W4/00	2022	3 1	17,293.16	0.00	03 2022 BEH	44533		(443,256.04)
EVEREST CANADIAN RESOURCES CORP.	1	2022	4 API	3036 P	9520	110	OIL FREEHOLD ROYALTY	3269	MCKW 103/11-18-091-14W4/00	2022	3 1	118,222.07	0.00	03 2022 BEH	44533		(443,256.04)
EVEREST CANADIAN RESOURCES CORP.	1	2022	4 API	3036 P	9520	110	OIL FREEHOLD ROYALTY	3270	MCKW 104/11-18-091-14W4/00	2022	3 1	82,227.68	0.00	03 2022 BEH	44533		(443,256.04)
EVEREST CANADIAN RESOURCES CORP.	1	2022	4 API	3036 P	9520	110	OIL FREEHOLD ROYALTY	3271	MCKW 100/12-18-091-14W4/00	2022	3 1	111,583.11	0.00	03 2022 BEH	44533		(443,256.04)
EVEREST CANADIAN RESOURCES CORP.	1	2022	4 API	3036 P	9520	110	OIL FREEHOLD ROYALTY	3272	MCKW 102/12-18-091-14W4/00	2022	3 1	16,956.55	0.00	03 2022 BEH	44533		(443,256.04)
EVEREST CANADIAN RESOURCES CORP.	1	2022	4 API	3036 P	9520	110	OIL FREEHOLD ROYALTY	3273	MCKW 103/12-18-091-14W4/00	2022	3 1	100,886.98	0.00	03 2022 BEH	44533		(443,256.04)
EVEREST CANADIAN RESOURCES CORP.	1	2022	4 API	3036 P	9520	110	OIL FREEHOLD ROYALTY	3274	MCKW 104/12-18-091-14W4/00	2022	3 1	64,182.98	0.00	03 2022 BEH	44533		(443,256.04)
EVEREST CANADIAN RESOURCES CORP.	1	2022	5 API	3183 P	9520	110	OIL FREEHOLD ROYALTY	3257	MCKW 100/10-18-091-14W4/00	2022	4 1	10,698.35	0.00	04 2022 BEH	44692		(346,580.69)
EVEREST CANADIAN RESOURCES CORP.	1	2022	5 API	3183 P	9520	110	OIL FREEHOLD ROYALTY	3258	MCKW 102/10-18-091-14W4/00	2022	4 1	16,798.53	0.00	04 2022 BEH	44692		(346,580.69)
EVEREST CANADIAN RESOURCES CORP.	1	2022	5 API	3183 P	9520	110	OIL FREEHOLD ROYALTY	3259	MCKW 103/10-18-091-14W4/00	2022	4 1	23,162.39	0.00	04 2022 BEH	44692		(346,580.69)

EVEREST CANADIAN RESOURCES CORP.	1	2022	5 API	3183 P	9520	110	OIL FREEHOLD ROYALTY	3261	MCKW 100/11-18-091-14W4/00	2022	4 1	13,685.79	0.00	04 2022 BEH	44692	(346,580.69)
EVEREST CANADIAN RESOURCES CORP.	1	2022	5 API	3183 P	9520	110	OIL FREEHOLD ROYALTY	3262	MCKW 102/11-18-091-14W4/00	2022	4 1	5,642.31	0.00	04 2022 BEH	44692	(346,580.69)
EVEREST CANADIAN RESOURCES CORP.	1	2022	5 API	3183 P	9520	110	OIL FREEHOLD ROYALTY	3269	MCKW 103/11-18-091-14W4/00	2022	4 1	90,546.08	0.00	04 2022 BEH	44692	(346,580.69)
EVEREST CANADIAN RESOURCES CORP.	1	2022	5 API	3183 P	9520	110	OIL FREEHOLD ROYALTY	3270	MCKW 104/11-18-091-14W4/00	2022	4 1	60,293.56	0.00	04 2022 BEH	44692	(346,580.69)
EVEREST CANADIAN RESOURCES CORP.	1	2022	5 API	3183 P	9520	110	OIL FREEHOLD ROYALTY	3271	MCKW 100/12-18-091-14W4/00	2022	4 1	90,213.27	0.00	04 2022 BEH	44692	(346,580.69)
EVEREST CANADIAN RESOURCES CORP.	1	2022	5 API	3183 P	9520	110	OIL FREEHOLD ROYALTY	3272	MCKW 102/12-18-091-14W4/00	2022	4 1	14,435.22	0.00	04 2022 BEH	44692	(346,580.69)
EVEREST CANADIAN RESOURCES CORP.	1	2022	5 API	3183 P	9520	110	OIL FREEHOLD ROYALTY	3273	MCKW 103/12-18-091-14W4/00	2022	4 1	77,669.37	0.00	04 2022 BEH	44692	(346,580.69)
EVEREST CANADIAN RESOURCES CORP.	1	2022	5 API	3183 P	9520	110	OIL FREEHOLD ROYALTY	3274	MCKW 104/12-18-091-14W4/00	2022	4 1	58,962.72	0.00	04 2022 BEH	44692	(346,580.69)
EVEREST CANADIAN RESOURCES CORP.	1	2022	6 API	3329 P	9520	110	OIL FREEHOLD ROYALTY	3257	MCKW 100/10-18-091-14W4/00	2022	5 1	15,012.57	0.00	05 2022 BEH	44838	(508,995.93)
EVEREST CANADIAN RESOURCES CORP.	1	2022	6 API	3329 P	9520	110	OIL FREEHOLD ROYALTY	3258	MCKW 102/10-18-091-14W4/00	2022	5 1	27,723.49	0.00	05 2022 BEH	44838	(508,995.93)
EVEREST CANADIAN RESOURCES CORP.	1	2022	6 API	3329 P	9520	110	OIL FREEHOLD ROYALTY	3259	MCKW 103/10-18-091-14W4/00	2022	5 1	32,129.28	0.00	05 2022 BEH	44838	(508,995.93)
EVEREST CANADIAN RESOURCES CORP.	1	2022	6 API	3329 P	9520	110	OIL FREEHOLD ROYALTY	3261	MCKW 100/11-18-091-14W4/00	2022	5 1	25,334.42	0.00	05 2022 BEH	44838	(508,995.93)
EVEREST CANADIAN RESOURCES CORP.	1	2022	6 API	3329 P	9520	110	OIL FREEHOLD ROYALTY	3262	MCKW 102/11-18-091-14W4/00	2022	5 1	3,536.44	0.00	05 2022 BEH	44838	(508,995.93)
EVEREST CANADIAN RESOURCES CORP.	1	2022	6 API	3329 P	9520	110	OIL FREEHOLD ROYALTY	3269	MCKW 103/11-18-091-14W4/00	2022	5 1	141,893.29	0.00	05 2022 BEH	44838	(508,995.93)
EVEREST CANADIAN RESOURCES CORP.	1	2022	6 API	3329 P	9520	110	OIL FREEHOLD ROYALTY	3270	MCKW 104/11-18-091-14W4/00	2022	5 1	85,815.20	0.00	05 2022 BEH	44838	(508,995.93)
EVEREST CANADIAN RESOURCES CORP.	1	2022	6 API	3329 P	9520	110	OIL FREEHOLD ROYALTY	3271	MCKW 100/12-18-091-14W4/00	2022	5 1	143,330.99	0.00	05 2022 BEH	44838	(508,995.93)
EVEREST CANADIAN RESOURCES CORP.	1	2022	6 API	3329 P	9520	110	OIL FREEHOLD ROYALTY	3272	MCKW 102/12-18-091-14W4/00	2022	5 1	8,915.43	0.00	05 2022 BEH	44838	(508,995.93)
EVEREST CANADIAN RESOURCES CORP.	1	2022	6 API	3329 P	9520	110	OIL FREEHOLD ROYALTY	3273	MCKW 103/12-18-091-14W4/00	2022	5 1	118,073.90	0.00	05 2022 BEH	44838	(508,995.93)
EVEREST CANADIAN RESOURCES CORP.	1	2022	6 API	3329 P	9520	110	OIL FREEHOLD ROYALTY	3274	MCKW 104/12-18-091-14W4/00	2022	5 1	76,896.23	0.00	05 2022 BEH	44838	(508,995.93)
EVEREST CANADIAN RESOURCES CORP.	1	2022	7 API	3409 P	9520	110	OIL FREEHOLD ROYALTY	3257	MCKW 100/10-18-091-14W4/00	2022	6 1	17,864.55	0.00	06 2022 BEH	44921	(553,356.48)
EVEREST CANADIAN RESOURCES CORP.	1	2022	7 API	3409 P	9520	110	OIL FREEHOLD ROYALTY	3258	MCKW 102/10-18-091-14W4/00	2022	6 1	30,425.86	0.00	06 2022 BEH	44921	(553,356.48)
EVEREST CANADIAN RESOURCES CORP.	1	2022	7 API	3409 P	9520	110	OIL FREEHOLD ROYALTY	3259	MCKW 103/10-18-091-14W4/00	2022	6 1	27,979.62	0.00	06 2022 BEH	44921	(553,356.48)
EVEREST CANADIAN RESOURCES CORP.	1	2022	7 API	3409 P	9520	110	OIL FREEHOLD ROYALTY	3261	MCKW 100/11-18-091-14W4/00	2022	6 1	28,029.45	0.00	06 2022 BEH	44921	(553,356.48)
EVEREST CANADIAN RESOURCES CORP.	1	2022	7 API	3409 P	9520	110	OIL FREEHOLD ROYALTY	3262	MCKW 102/11-18-091-14W4/00	2022	6 1	12,510.32	0.00	06 2022 BEH	44921	(553,356.48)
EVEREST CANADIAN RESOURCES CORP.	1	2022	7 API	3409 P	9520	110	OIL FREEHOLD ROYALTY	3269	MCKW 103/11-18-091-14W4/00	2022	6 1	147,489.13	0.00	06 2022 BEH	44921	(553,356.48)
EVEREST CANADIAN RESOURCES CORP.	1	2022	7 API	3409 P	9520	110	OIL FREEHOLD ROYALTY	3270	MCKW 104/11-18-091-14W4/00	2022	6 1	85,181.55	0.00	06 2022 BEH	44921	(553,356.48)
EVEREST CANADIAN RESOURCES CORP.	1	2022	7 API	3409 P	9520	110	OIL FREEHOLD ROYALTY	3271	MCKW 100/12-18-091-14W4/00	2022	6 1	142,382.76	0.00	06 2022 BEH	44921	(553,356.48)

EVEREST CANADIAN RESOURCES CORP.	1	2022	7 API	3409 P	9520	110	OIL FREEHOLD ROYALTY	3272	MCKW 102/12-18-091-14W4/00	2022	6 1	52,569.62	0.00	06 2022 BEH	44921	(553,356.48)
EVEREST CANADIAN RESOURCES CORP.	1	2022	7 API	3409 P	9520	110	OIL FREEHOLD ROYALTY	3273	MCKW 103/12-18-091-14W4/00	2022	6 1	117,089.70	0.00	06 2022 BEH	44921	(553,356.48)
EVEREST CANADIAN RESOURCES CORP.	1	2022	7 API	3409 P	9520	110	OIL FREEHOLD ROYALTY	3274	MCKW 104/12-18-091-14W4/00	2022	6 1	76,286.08	0.00	06 2022 BEH	44921	(553,356.48)
EVEREST CANADIAN RESOURCES CORP.	1	2022	8 API	3601 P	9520	110	OIL FREEHOLD ROYALTY	3257	MCKW 100/10-18-091-14W4/00	2022	7 1	12,371.30	0.00	07 2022 BEH	45117	(239,872.46)
EVEREST CANADIAN RESOURCES CORP.	1	2022	8 API	3601 P	9520	110	OIL FREEHOLD ROYALTY	3258	MCKW 102/10-18-091-14W4/00	2022	7 1	12,171.43	0.00	07 2022 BEH	45117	(239,872.46)
EVEREST CANADIAN RESOURCES CORP.	1	2022	8 API	3601 P	9520	110	OIL FREEHOLD ROYALTY	3259	MCKW 103/10-18-091-14W4/00	2022	7 1	18,454.93	0.00	07 2022 BEH	45117	(239,872.46)
EVEREST CANADIAN RESOURCES CORP.	1	2022	8 API	3601 P	9520	110	OIL FREEHOLD ROYALTY	3261	MCKW 100/11-18-091-14W4/00	2022	7 1	4,476.32	0.00	07 2022 BEH	45117	(239,872.46)
EVEREST CANADIAN RESOURCES CORP.	1	2022	8 API	3601 P	9520	110	OIL FREEHOLD ROYALTY	3262	MCKW 102/11-18-091-14W4/00	2022	7 1	5,987.86	0.00	07 2022 BEH	45117	(239,872.46)
EVEREST CANADIAN RESOURCES CORP.	1	2022	8 API	3601 P	9520	110	OIL FREEHOLD ROYALTY	3269	MCKW 103/11-18-091-14W4/00	2022	7 1	49,414.41	0.00	07 2022 BEH	45117	(239,872.46)
EVEREST CANADIAN RESOURCES CORP.	1	2022	8 API	3601 P	9520	110	OIL FREEHOLD ROYALTY	3270	MCKW 104/11-18-091-14W4/00	2022	7 1	53,507.64	0.00	07 2022 BEH	45117	(239,872.46)
EVEREST CANADIAN RESOURCES CORP.	1	2022	8 API	3601 P	9520	110	OIL FREEHOLD ROYALTY	3271	MCKW 100/12-18-091-14W4/00	2022	7 1	50,721.91	0.00	07 2022 BEH	45117	(239,872.46)
EVEREST CANADIAN RESOURCES CORP.	1	2022	8 API	3601 P	9520	110	OIL FREEHOLD ROYALTY	3272	MCKW 102/12-18-091-14W4/00	2022	7 1	28,719.24	0.00	07 2022 BEH	45117	(239,872.46)
EVEREST CANADIAN RESOURCES CORP.	1	2022	8 API	3601 P	9520	110	OIL FREEHOLD ROYALTY	3273	MCKW 103/12-18-091-14W4/00	2022	7 1	43,276.65	0.00	07 2022 BEH	45117	(239,872.46)
EVEREST CANADIAN RESOURCES CORP.	1	2022	8 API	3601 P	9520	110	OIL FREEHOLD ROYALTY	3274	MCKW 104/12-18-091-14W4/00	2022	7 1	40,728.26	0.00	07 2022 BEH	45117	(239,872.46)
EVEREST CANADIAN RESOURCES CORP.	1	2022	9 API	3662 P	9520	110	OIL FREEHOLD ROYALTY	3257	MCKW 100/10-18-091-14W4/00	2022	8 1	8,311.82	0.00	08 2022 BEH	45181	(157,339.31)
EVEREST CANADIAN RESOURCES CORP.	1	2022	9 API	3662 P	9520	110	OIL FREEHOLD ROYALTY	3258	MCKW 102/10-18-091-14W4/00	2022	8 1	8,459.53	0.00	08 2022 BEH	45181	(157,339.31)
EVEREST CANADIAN RESOURCES CORP.	1	2022	9 API	3662 P	9520	110	OIL FREEHOLD ROYALTY	3259	MCKW 103/10-18-091-14W4/00	2022	8 1	11,311.42	0.00	08 2022 BEH	45181	(157,339.31)
EVEREST CANADIAN RESOURCES CORP.	1	2022	9 API	3662 P	9520	110	OIL FREEHOLD ROYALTY	3261	MCKW 100/11-18-091-14W4/00	2022	8 1	7,820.97	0.00	08 2022 BEH	45181	(157,339.31)
EVEREST CANADIAN RESOURCES CORP.	1	2022	9 API	3662 P	9520	110	OIL FREEHOLD ROYALTY	3262	MCKW 102/11-18-091-14W4/00	2022	8 1	2,750.57	0.00	08 2022 BEH	45181	(157,339.31)
EVEREST CANADIAN RESOURCES CORP.	1	2022	9 API	3662 P	9520	110	OIL FREEHOLD ROYALTY	3269	MCKW 103/11-18-091-14W4/00	2022	8 1	23,813.04	0.00	08 2022 BEH	45181	(157,339.31)
EVEREST CANADIAN RESOURCES CORP.	1	2022	9 API	3662 P	9520	110	OIL FREEHOLD ROYALTY	3270	MCKW 104/11-18-091-14W4/00	2022	8 1	45,977.90	0.00	08 2022 BEH	45181	(157,339.31)
EVEREST CANADIAN RESOURCES CORP.	1	2022	9 API	3662 P	9520	110	OIL FREEHOLD ROYALTY	3271	MCKW 100/12-18-091-14W4/00	2022	8 1	38,518.31	0.00	08 2022 BEH	45181	(157,339.31)
EVEREST CANADIAN RESOURCES CORP.	1	2022	9 API	3662 P	9520	110	OIL FREEHOLD ROYALTY	3272	MCKW 102/12-18-091-14W4/00	2022	8 1	8,614.66	0.00	08 2022 BEH	45181	(157,339.31)
EVEREST CANADIAN RESOURCES CORP.	1	2022	9 API	3662 P	9520	110	OIL FREEHOLD ROYALTY	3273	MCKW 103/12-18-091-14W4/00	2022	8 1	19,757.89	0.00	08 2022 BEH	45181	(157,339.31)
EVEREST CANADIAN RESOURCES CORP.	1	2022	9 API	3662 P	9520	110	OIL FREEHOLD ROYALTY	3274	MCKW 104/12-18-091-14W4/00	2022	8 1	34,449.64	0.00	08 2022 BEH	45181	(157,339.31)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3837 P	9520	110	OIL FREEHOLD ROYALTY	3257	MCKW 100/10-18-091-14W4/00	2022	9 1	4,591.23	0.00	09 2022 BEH	45364	(95,296.16)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3837 P	9520	110	OIL FREEHOLD ROYALTY	3258	MCKW 102/10-18-091-14W4/00	2022	9 1	6,613.76	0.00	09 2022 BEH	45364	(95,296.16)

EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3837 P	9520	110	OIL FREEHOLD ROYALTY	3259	MCKW 103/10-18-091-14W4/00	2022	9 1	6,252.31	0.00 09 2022 BEH	45364	(95,296.16)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3837 P	9520	110	OIL FREEHOLD ROYALTY	3261	MCKW 100/11-18-091-14W4/00	2022	9 1	4,426.82	0.00 09 2022 BEH	45364	(95,296.16)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3837 P	9520	110	OIL FREEHOLD ROYALTY	3262	MCKW 102/11-18-091-14W4/00	2022	9 1	2,402.98	0.00 09 2022 BEH	45364	(95,296.16)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3837 P	9520	110	OIL FREEHOLD ROYALTY	3269	MCKW 103/11-18-091-14W4/00	2022	9 1	21,284.22	0.00 09 2022 BEH	45364	(95,296.16)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3837 P	9520	110	OIL FREEHOLD ROYALTY	3270	MCKW 104/11-18-091-14W4/00	2022	9 1	19,238.76	0.00 09 2022 BEH	45364	(95,296.16)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3837 P	9520	110	OIL FREEHOLD ROYALTY	3271	MCKW 100/12-18-091-14W4/00	2022	9 1	25,383.09	0.00 09 2022 BEH	45364	(95,296.16)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3837 P	9520	110	OIL FREEHOLD ROYALTY	3272	MCKW 102/12-18-091-14W4/00	2022	9 1	6,476.65	0.00 09 2022 BEH	45364	(95,296.16)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3837 P	9520	110	OIL FREEHOLD ROYALTY	3273	MCKW 103/12-18-091-14W4/00	2022	9 1	13,288.64	0.00 09 2022 BEH	45364	(95,296.16)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3837 P	9520	110	OIL FREEHOLD ROYALTY	3274	MCKW 104/12-18-091-14W4/00	2022	9 1	17,103.09	0.00 09 2022 BEH	45364	(95,296.16)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3868 P	9520	110	OIL FREEHOLD ROYALTY	3257	MCKW 100/10-18-091-14W4/00	2022	8 101	13.64	0.00 08 2022 BEH ADJ	45395	(258.15)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3868 P	9520	110	OIL FREEHOLD ROYALTY	3258	MCKW 102/10-18-091-14W4/00	2022	8 101	13.88	0.00 08 2022 BEH ADJ	45395	(258.15)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3868 P	9520	110	OIL FREEHOLD ROYALTY	3259	MCKW 103/10-18-091-14W4/00	2022	8 101	18.56	0.00 08 2022 BEH ADJ	45395	(258.15)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3868 P	9520	110	OIL FREEHOLD ROYALTY	3261	MCKW 100/11-18-091-14W4/00	2022	8 101	12.83	0.00 08 2022 BEH ADJ	45395	(258.15)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3868 P	9520	110	OIL FREEHOLD ROYALTY	3262	MCKW 102/11-18-091-14W4/00	2022	8 101	4.51	0.00 08 2022 BEH ADJ	45395	(258.15)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3868 P	9520	110	OIL FREEHOLD ROYALTY	3269	MCKW 103/11-18-091-14W4/00	2022	8 101	39.07	0.00 08 2022 BEH ADJ	45395	(258.15)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3868 P	9520	110	OIL FREEHOLD ROYALTY	3270	MCKW 104/11-18-091-14W4/00	2022	8 101	75.44	0.00 08 2022 BEH ADJ	45395	(258.15)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3868 P	9520	110	OIL FREEHOLD ROYALTY	3271	MCKW 100/12-18-091-14W4/00	2022	8 101	63.20	0.00 08 2022 BEH ADJ	45395	(258.15)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3868 P	9520	110	OIL FREEHOLD ROYALTY	3272	MCKW 102/12-18-091-14W4/00	2022	8 101	14.13	0.00 08 2022 BEH ADJ	45395	(258.15)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3868 P	9520	110	OIL FREEHOLD ROYALTY	3273	MCKW 103/12-18-091-14W4/00	2022	8 101	32.42	0.00 08 2022 BEH ADJ	45395	(258.15)
EVEREST CANADIAN RESOURCES CORP.	1	2022	10 API	3868 P	9520	110	OIL FREEHOLD ROYALTY	3274	MCKW 104/12-18-091-14W4/00	2022	8 101	56.52	0.00 08 2022 BEH ADJ	45395	(258.15)
EVEREST CANADIAN RESOURCES CORP.	1	2022	11 API	3910 P	9520	110	OIL FREEHOLD ROYALTY	3257	MCKW 100/10-18-091-14W4/00	2022	10 1	5,526.31	0.00 10 2022 BEH	45445	(118,787.86)
EVEREST CANADIAN RESOURCES CORP.	1	2022	11 API	3910 P	9520	110	OIL FREEHOLD ROYALTY	3258	MCKW 102/10-18-091-14W4/00	2022	10 1	8,316.86	0.00 10 2022 BEH	45445	(118,787.86)
EVEREST CANADIAN RESOURCES CORP.	1	2022	11 API	3910 P	9520	110	OIL FREEHOLD ROYALTY	3259	MCKW 103/10-18-091-14W4/00	2022	10 1	9,202.61	0.00 10 2022 BEH	45445	(118,787.86)
EVEREST CANADIAN RESOURCES CORP.	1	2022	11 API	3910 P	9520	110	OIL FREEHOLD ROYALTY	3261	MCKW 100/11-18-091-14W4/00	2022	10 1	6,024.89	0.00 10 2022 BEH	45445	(118,787.86)
EVEREST CANADIAN RESOURCES CORP.	1	2022	11 API	3910 P	9520	110	OIL FREEHOLD ROYALTY	3262	MCKW 102/11-18-091-14W4/00	2022	10 1	3,847.96	0.00 10 2022 BEH	45445	(118,787.86)
EVEREST CANADIAN RESOURCES CORP.	1	2022	11 API	3910 P	9520	110	OIL FREEHOLD ROYALTY	3269	MCKW 103/11-18-091-14W4/00	2022	10 1	26,656.33	0.00 10 2022 BEH	45445	(118,787.86)
EVEREST CANADIAN RESOURCES CORP.	1	2022	11 API	3910 P	9520	110	OIL FREEHOLD ROYALTY	3270	MCKW 104/11-18-091-14W4/00	2022	10 1	21,739.99	0.00 10 2022 BEH	45445	(118,787.86)

EVEREST CANADIAN RESOURCES CORP.	1	2022	11 API	3910 P	9520	110	OIL FREEHOLD ROYALTY	3271	MCKW 100/12-18-091-14W4/00	2022	10	1	31,422.91	0.00	10	2022	BEH	45445	(118,787.86)
EVEREST CANADIAN RESOURCES CORP.	1	2022	11 API	3910 P	9520	110	OIL FREEHOLD ROYALTY	3272	MCKW 102/12-18-091-14W4/00	2022	10	1	7,427.47	0.00	10	2022	BEH	45445	(118,787.86)
EVEREST CANADIAN RESOURCES CORP.	1	2022	11 API	3910 P	9520	110	OIL FREEHOLD ROYALTY	3273	MCKW 103/12-18-091-14W4/00	2022	10	1	25,975.13	0.00	10	2022	BEH	45445	(118,787.86)
EVEREST CANADIAN RESOURCES CORP.	1	2022	11 API	3910 P	9520	110	OIL FREEHOLD ROYALTY	3274	MCKW 104/12-18-091-14W4/00	2022	10	1	12,243.35	0.00	10	2022	BEH	45445	(118,787.86)

Royalty Expense	WI		
3,649,073.86	5%	$ 182,453.69	Viceroy Payable share of Royalty
344.2	5%	17.21	What Viceroy was charged
		$ 182,436.48	Additional Royalty Owed by Viceroy

$ 2,982,926.61 Actual payments to Burgess

This is Exhibit "M" to the Affidavit of
MC ~~Brianne Harris~~ √ (Robert Logan) √ sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

Osler, Hoskin & Harcourt LLP
Suite 2700, Brookfield Place
225 – 6th Avenue S.W.
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403.260.7024 FACSIMILE

OSLER

Calgary
Toronto
Montréal
Ottawa
Vancouver
New York

June 4, 2024

Viceroy Canadian Resources Corp.
510, 634 - 6th Avenue SW
Calgary, Alberta T2P 0S4
Attention: Qiping Men and
Zhefei Song

Viceroy Canadian Resources Corp.
2080 – 222 3rd Avenue S.W.
Calgary, Alberta T2P 0B4
Attention: Qiping Men and
Zhefei Song

Re: Indebtedness of Viceroy Canadian Resources Corp. ("Viceroy") to Greenfire Resources Operating Corporation ("Greenfire")

We write on behalf of Greenfire in connection with amounts owed to it by Viceroy as described in our letter of April 25, 2024, a copy of which is enclosed herewith. Capitalized terms used in this letter and not otherwise defined shall have the same meaning as given to them in our April 25, 2024 letter.

Pursuant to the terms of the Farm-In Agreement and the associated 2007 CAPL Operating Procedure which is incorporated by reference into the Farm-In Agreement, the indebtedness owing by Viceroy to Greenfire is secured by a first-priority lien and charge in favour of Greenfire over Viceroy's interest in the McKay Project (the "**Operator's Lien**").

As at April 25, 2024, the amount outstanding and owing to Greenfire under the Farm-In Agreement, and secured by the Operator's Lien, is $794,075.06 (the "**Outstanding Amount**") plus accrued and accruing costs, disbursements and interest. The Outstanding Amount has increased since April 25, 2024 due to additional expenses being incurred for the joint account and will be invoiced in due course.

In accordance with the Farm-In Agreement and the 2007 CAPL Operating Procedure which is incorporated therein, demand is hereby made upon Viceroy for payment in full of the Outstanding Amount together with any additional expenses, accrued interest and other legal fees or charges that may arise. In the event that payment is not made in full by close of business on **June 17, 2024**, Greenfire will take such steps as it may consider necessary to protect its position.

Also enclosed for service upon you is a Notice of Intention to Enforce Security provided in accordance with the provisions of the *Bankruptcy and Insolvency Act* (Canada). If you consent to the Lender taking earlier enforcement, please return the consent executed by a duly executed officer of the Borrower.

Yours truly,

Randal Van de Mosselaer

NOTICE OF INTENTION TO ENFORCE SECURITY
(Subsection 244(1))

To: Viceroy Canadian Resources Corp.

Take notice that:

1. Greenfire Resources Operating Corporation ("Greenfire") a secured creditor, intends to enforce its security on the property of the above insolvent person which encompasses all of its property and assets;

2. The security that is to be enforced includes security granted by the insolvent person in favour of Greenfire as set out in the following:

    a. An Amended and Restated Farm-In and Participation Agreement between Viceroy and Everest Canadian Resources Corp. made effective as of the 31st day of January, 2019 (as amended and restated as of the 19th day of June 2020) (the "Farm-In Agreement") and the 2007 CAPL Operating Procedure which is incorporated therein; and

    b. Such further and other security documents, agreements, certificates, and other documents as may have been entered into by the insolvent person from time to time pursuant to or in connection with the Farm-In Agreement.

3. The total amount of the indebtedness secured by the security, as at April 25, 2024, is Cdn **$794,075.06**, plus accrued and accruing costs, disbursements and interest accruing from the date of this notice; and

4. The secured creditor (Greenfire) will not have the right to enforce the security until after the expiry of the 10-day period following the sending of this notice unless the insolvent person consents to an earlier enforcement.

Dated at Calgary, Alberta, this 4th day of June, 2024.

Greenfire Resources Operating Corporation

Per:

Robert Logan

Viceroy Canadian Resources Corp. hereby:

a) consents to the immediate enforcement by Greenfire as a secured party of the security described in the foregoing letter pursuant to Section 244(2) of the *Bankruptcy and Insolvency Act* (Canada);

b) consents to Greenfire's disposition of any or all collateral subject to Greenfire's security immediately or otherwise as the secured party may determine in its sole discretion, without notice as required by the *Personal Property Security Act* (Alberta); and

c) consents to Greenfire's immediate appointment of a Receiver, or a Receiver-Manager, in accordance with the provisions of the above noted security.

Per: _____
Viceroy Canadian Resources Corp.
By its authorized signatory

NAME:

TITLE:

This is Exhibit "N" to the Affidavit of
mc ✓(Robert Logan)✓ ~~Brianne Harris~~ sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

Osler, Hoskin & Harcourt LLP
Suite 2700, Brookfield Place
225 - 6th Avenue S.W.
Calgary, Alberta, Canada T2P 1N2
403.260.7000 MAIN
406.260.7024 FACSIMILE

OSLER

Calgary
Toronto
Montréal
Ottawa
Vancouver
New York

June 18, 2024

Sent By Electronic Mail

Viceroy Canadian Resources Corp.
510, 634 - 6th Avenue SW
Calgary, AB T2P 0S4
Attention: Qiping Men and Zhefei Song

Viceroy Canadian Resources Corp.
2080, 222 - 3rd Avenue SW
Calgary, AB T2P 0B4
Attention: Qiping Men and Zhefei Song

Dear Sirs/Mesdames :

Re: Indebtedness of Viceroy Canadian Resources Corp. ("Viceroy") to Greenfire Resources Operating Corporation ("Greenfire")

We write further to our letters of April 25, 2024 and June 4, 2024, copies of which are enclosed herewith for ease of reference. Capitalized terms used in this letter and not otherwise defined shall have the same meanings as given to them in our April 25, 2024 and June 4, 2024 letters.

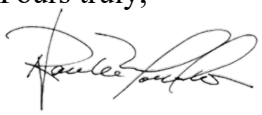
As Greenfire has received neither a response to our June 4, 2024 letter nor payment of the Outstanding Amount, Greenfire intends to take all steps available to it to recover from Viceroy the Outstanding Amount, as well as all additional expenses incurred for the joint account since April 25, 2024.

You may consider this letter as constituting notice pursuant to section 62 of the *Personal Property Security Act,* RSA 2000, c P-7 ("**PPSA**") that Greenfire proposes to take the collateral secured by the Operator's Lien (namely, Viceroy's interest in the Fort McKay Project) in satisfaction of the Outstanding Amounts.

Unless Viceroy gives to Greenfire a written notice of objection pursuant to section 62(2) of the PPSA within 15 days of the date of this letter, Greenfire will be deemed to have irrevocably elected to take Viceroy's interest in the Fort McKay Project in satisfaction of the Outstanding Amounts, and will be entitled to hold or dispose of that interest free from all rights and interest of Viceroy in the Fort McKay Project.

Greenfire reserves all rights it has under the Farm-In Agreement, the *Personal Property Security Act*, or otherwise.

Yours truly,



Randal Van de Mosselaer

Cc: Client

This is Exhibit "O" to the Affidavit of
me ~~Brianne Harris~~ (Robert Logan) sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

From: QIPING MEN <men8566@yahoo.ca>
Sent: Friday, June 21, 2024 9:58 AM
To: Van de Mosselaer, Randal
Cc: rlogan@greenfireres.com; 'Robert Loebach'; tkraljic@greenfireres.com; Sun Andrew; Bill Song
Subject: Re: Viceroy Canadian Resources Corp. ("Viceroy")
Attachments: Letter to Viceroy (June 18, 2024).pdf

Good morning Randal,

We have not received any mail as Viceroy has not have any physical office for long time.

We do not have any information for the outstanding amount to Greenfire, which leads no way to audit that amount.

Please treat this email is a formal notice of objection to section 62(2) of the PPSA of your letter.

Best regards,

Qiping Men

On Thursday, June 20, 2024 at 03:51:08 p.m. MDT, Van de Mosselaer, Randal <rvandemosselaer@osler.com> wrote:

Please see the attached correspondence which has also been forwarded Viceroy's Registered Office as reflected in the Alberta Corporate Registry.

Regards,

OSLER

Randal Van de Mosselaer

403.260.7060 DIRECT
403.260.7024 FACSIMILE
rvandemosselaer@osler.com

Suite 2700, Brookfield Place

225 – 6th Avenue S.W.

Calgary, Alberta, Canada T2P 1N2

403.260.7000 main

403.260.7024 facsimile

osler.com

Osler, Hoskin & Harcourt LLP
Suite 2700, Brookfield Place
225 - 6th Avenue S.W.
Calgary, Alberta, Canada T2P 1N2
403.260.7000 MAIN
406.260.7024 FACSIMILE

OSLER

Calgary
Toronto
Montréal
Ottawa
Vancouver
New York

June 18, 2024

SENT BY COURIER AND REGULAR MAIL

Viceroy Canadian Resources Corp.
510, 634 - 6th Avenue SW
Calgary, AB T2P 0S4
Attention: Qiping Men and Zhefei Song

Viceroy Canadian Resources Corp.
2080, 222 - 3rd Avenue SW
Calgary, AB T2P 0B4
Attention: Qiping Men and Zhefei Song

Dear Sirs/Mesdames :

Re: Indebtedness of Viceroy Canadian Resources Corp. ("Viceroy") to Greenfire Resources Operating Corporation ("Greenfire")

We write further to our letters of April 25, 2024 and June 4, 2024, copies of which are enclosed herewith for ease of reference. Capitalized terms used in this letter and not otherwise defined shall have the same meanings as given to them in our April 25, 2024 and June 4, 2024 letters.

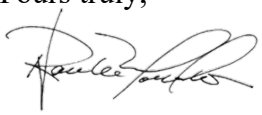
As Greenfire has received neither a response to our June 4, 2024 letter nor payment of the Outstanding Amount, Greenfire intends to take all steps available to it to recover from Viceroy the Outstanding Amount, as well as all additional expenses incurred for the joint account since April 25, 2024.

You may consider this letter as constituting notice pursuant to section 62 of the *Personal Property Security Act,* RSA 2000, c P-7 ("**PPSA**") that Greenfire proposes to take the collateral secured by the Operator's Lien (namely, Viceroy's interest in the Fort McKay Project) in satisfaction of the Outstanding Amounts.

Unless Viceroy gives to Greenfire a written notice of objection pursuant to section 62(2) of the PPSA within 15 days of the date of this letter, Greenfire will be deemed to have irrevocably elected to take Viceroy's interest in the Fort McKay Project in satisfaction of the Outstanding Amounts, and will be entitled to hold or dispose of that interest free from all rights and interest of Viceroy in the Fort McKay Project.

Greenfire reserves all rights it has under the Farm-In Agreement, the *Personal Property Security Act*, or otherwise.

Yours truly,



Randal Van de Mosselaer

Cc: Client

Osler, Hoskin & Harcourt LLP
Suite 2700, Brookfield Place
225 - 6th Avenue S.W.
Calgary, Alberta, Canada T2P 1N2
403.260.7000 MAIN
406.260.7024 FACSIMILE

OSLER

Calgary
Toronto
Montréal
Ottawa
Vancouver
New York

April 25, 2024

Randal Van de Mosselaer
Direct Dial: 403.260.7060
rvandemosselaer@osler.com
Our Matter Number: 1241968

By Courier

Viceroy Canadian Resources Corp.
510, 634 - 6th Avenue SW
Calgary, Alberta T2P 0S4
Attention: Land Manager

Viceroy Canadian Resources Corp.
2080 – 222 3rd Avenue S.W.
Calgary, Alberta T2P 0B4
Attention: Land Manager

Dear Sirs/Mesdames:

Re: Statement of Account and Amounts Payable

Please be advised that we are counsel to Greenfire Resources Operating Corporation ("**Greenfire**"). In that capacity, we refer to the Receivership Order (the "**Receivership Order**") granted by the Court of King's Bench of Alberta (the "**Court**") in Action No. 2301-04480 on April 5, 2023 pursuant to which PricewaterhouseCoopers Inc. was appointed Receiver (the "**Receiver**") over all of the current and future assets, undertakings, and properties of every nature and kind whatsoever of Everest Canadian Resources Corp. ("**Everest**"). A copy of the Receivership Order and all other relevant Court documents can be found on the Receiver's web site at: http://www.pwc.com/ca/everestcanadianresources

As you will be aware, pursuant to a Purchase and Sale Agreement (the "**PSA**") dated February 15, 2024 between the Receiver (as Vendor) and Greenfire (as Purchaser), which PSA was approved by the Court on March 27, 2024, Greenfire has purchased from the Receiver all of Everest's right, title, estate and interest in and to the Assets (as that term is defined in the PSA), including, without limiting the generality of the foregoing:

1. All of Everest's right, title estate and interest in the Fort McKay SAGD project (the "**Fort McKay Project**") (being a 95% working interest therein), and
2. All obligations, accounts receivable and debts owing by Viceroy Canadian Resources Corp. ("**Viceroy**") and its affiliates to Everest and the Receiver, including Viceroy's working interest share of costs and expenses incurred in respect of the Assets and all amounts that are owing by Viceroy to Everest pertaining to the Assets.

Pursuant to an Amended and Restated Farm-In and Participation Agreement between Viceroy and Everest made effective as of the 31st day of January, 2019 (as amended and restated as of the 19th day of June 2020) (the "**Farm-In Agreement**") Viceroy, being a

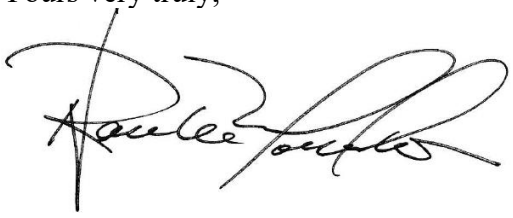
5% interest holder in the Fort McKay Project, has certain obligations to Greenfire (as successor in interest to Everest) to make payment for joint operation expenses in connection with the Fort McKay Project.

We are aware that by letter dated January 24, 2024 (a copy of which is enclosed herewith) the Receiver made demand on Viceroy for certain amounts owing by Viceroy to Everest in the amount of $106,269.87. However, after further review of the financial records of Everest Greenfire has determined that there is a significantly greater amount owing from Viceroy to Everest in connection with the joint operations of the Fort McKay Project. We can advise that a total of **$794,075.06** is now due and owing from Viceroy to Greenfire (as successor in interest to Everest). A statement of account is attached and is supported by attached invoices and statements.

Demand is hereby made for payment of this outstanding amount within 30 days hereof, failing which Greenfire will be at liberty to take any and all enforcement steps at its disposal under the Farm-In Agreement, the associated 2007 CAPL Operating Procedure (which is incorporated by reference into the Farm-In Agreement), or otherwise at law. You may take this letter as constituting notice of default pursuant to Paragraph 5.05B of the 2007 CAPL Operating Procedure.

We look forward to hearing from you.

Yours very truly,



Randal Van de Mosselaer
RVdM:

June 4, 2024

Viceroy Canadian Resources Corp.
510, 634 - 6th Avenue SW
Calgary, Alberta T2P 0S4
Attention: Qiping Men and
Zhefei Song

Viceroy Canadian Resources Corp.
2080 – 222 3rd Avenue S.W.
Calgary, Alberta T2P 0B4
Attention: Qiping Men and
Zhefei Song

Re: Indebtedness of Viceroy Canadian Resources Corp. ("Viceroy") to Greenfire Resources Operating Corporation ("Greenfire")

We write on behalf of Greenfire in connection with amounts owed to it by Viceroy as described in our letter of April 25, 2024, a copy of which is enclosed herewith. Capitalized terms used in this letter and not otherwise defined shall have the same meaning as given to them in our April 25, 2024 letter.

Pursuant to the terms of the Farm-In Agreement and the associated 2007 CAPL Operating Procedure which is incorporated by reference into the Farm-In Agreement, the indebtedness owing by Viceroy to Greenfire is secured by a first-priority lien and charge in favour of Greenfire over Viceroy's interest in the McKay Project (the "**Operator's Lien**").

As at April 25, 2024, the amount outstanding and owing to Greenfire under the Farm-In Agreement, and secured by the Operator's Lien, is $794,075.06 (the "**Outstanding Amount**") plus accrued and accruing costs, disbursements and interest. The Outstanding Amount has increased since April 25, 2024 due to additional expenses being incurred for the joint account and will be invoiced in due course.

In accordance with the Farm-In Agreement and the 2007 CAPL Operating Procedure which is incorporated therein, demand is hereby made upon Viceroy for payment in full of the Outstanding Amount together with any additional expenses, accrued interest and other legal fees or charges that may arise. In the event that payment is not made in full by close of business on **June 17, 2024**, Greenfire will take such steps as it may consider necessary to protect its position.

Also enclosed for service upon you is a Notice of Intention to Enforce Security provided in accordance with the provisions of the *Bankruptcy and Insolvency Act* (Canada). If you consent to the Lender taking earlier enforcement, please return the consent executed by a duly executed officer of the Borrower.

Yours truly,

Randal Van de Mosselaer

NOTICE OF INTENTION TO ENFORCE SECURITY
(Subsection 244(1))

To: Viceroy Canadian Resources Corp.

Take notice that:

1. Greenfire Resources Operating Corporation ("Greenfire") a secured creditor, intends to enforce its security on the property of the above insolvent person which encompasses all of its property and assets;

2. The security that is to be enforced includes security granted by the insolvent person in favour of Greenfire as set out in the following:

    a. An Amended and Restated Farm-In and Participation Agreement between Viceroy and Everest Canadian Resources Corp. made effective as of the 31st day of January, 2019 (as amended and restated as of the 19th day of June 2020) (the "Farm-In Agreement") and the 2007 CAPL Operating Procedure which is incorporated therein; and

    b. Such further and other security documents, agreements, certificates, and other documents as may have been entered into by the insolvent person from time to time pursuant to or in connection with the Farm-In Agreement.

3. The total amount of the indebtedness secured by the security, as at April 25, 2024, is Cdn **$794,075.06**, plus accrued and accruing costs, disbursements and interest accruing from the date of this notice; and

4. The secured creditor (Greenfire) will not have the right to enforce the security until after the expiry of the 10-day period following the sending of this notice unless the insolvent person consents to an earlier enforcement.

Dated at Calgary, Alberta, this 4th day of June, 2024.

Greenfire Resources Operating Corporation

Per:

Robert Logan

Viceroy Canadian Resources Corp. hereby:

a) consents to the immediate enforcement by Greenfire as a secured party of the security described in the foregoing letter pursuant to Section 244(2) of the *Bankruptcy and Insolvency Act* (Canada);

b) consents to Greenfire's disposition of any or all collateral subject to Greenfire's security immediately or otherwise as the secured party may determine in its sole discretion, without notice as required by the *Personal Property Security Act* (Alberta); and

c) consents to Greenfire's immediate appointment of a Receiver, or a Receiver-Manager, in accordance with the provisions of the above noted security.

Per: _____
Viceroy Canadian Resources Corp.
By its authorized signatory

NAME:

TITLE:

This is Exhibit "P" to the Affidavit of
me ✓(Robert Logan)✓ ~~Brianne Harris~~ sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

STATEMENT OF ACCOUNT

BA 11867 Viceroy Canadian Resources Corp.

Invoice:			
	1	$52,210.81	2021-01-31
	2	$53,736.80	2021-02-28
	3	$12,941.83	2021-03-31
	4	$12,450.20	2021-04-30
	5	$12,716.87	2021-05-31
	6	($14,678.40)	2021-06-30
	7	$14,903.37	2021-07-31
	8	$10,467.94	2021-08-31
	9	($20,990.31)	2021-09-30
	11	$17,306.28	2021-10-31
	12	$31,872.40	2021-11-30
	13	$64,233.82	2022-01-31
	14	($80,236.99)	2022-02-28
	15	($62,152.17)	2022-03-31
	16	($35,680.82)	2022-04-30
	17	($67,452.97)	2022-05-31
	18	($77,885.69)	2022-06-30
	19	($33,931.74)	2022-07-31
	20	($43,291.82)	2022-08-31
	21	$3,325.78	2022-09-30
	22	($39,102.20)	2022-10-31
	23	$76,979.09	2022-11-30
	24	$133,430.96	2022-12-31
	25	$42,581.58	2023-01-31
	26	$40,941.38	2023-02-28
	27	($34,094.84)	2023-03-31
	2023-2024	$85,765.00	2/28/2024
	Adj A	$430.10	2/28/2024
	Adj B	$3,575.00	2/28/2024
	Adj C	($228.28)	2/8/2024

$182,436.48	Royalties
$451,495.60	CAPEX
$794,075.06	

This is Exhibit "Q" to the Affidavit of
mc ~~Brianne Harris~~ √(Robert Logan)√ sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

From: Van de Mosselaer, Randal <rvandemosselaer@osler.com>
Sent: Thursday, July 04, 2024 4:31 PM
To: QIPING MEN
Cc: rlogan@greenfireres.com; Robert Loebach; tkraljic@greenfireres.com; Kirsten Strieck; Amy Reid; Traci Frost; Spurn, Craig; Clark, Stephanie
Subject: RE: 回复：FW: Letter to Viceroy Canadian Resources Corp. ("Viceroy")

Qiping,

Further to your email below, Greenfire acknowledges that Viceroy has the right pursuant to Section 108 of the 1996 PASC Accounting Procedure (the "Accounting Procedures" - which is incorporated into to the Farm-In Agreement) to conduct an audit. Greenfire and its consultants will coordinate with Viceroy to complete an audit in accordance with the procedures set out in the Accounting Procedures and in a timely manner. At the same time, Greenfire expects to receive timely payment of its outstanding joint interest billings in accordance with Viceroy's obligations under the Farm-In Agreement and the Accounting Procedures.

In order to ensure that the audit is completed in a timely manner, Greenfire require that the audit should proceed in accordance with the following schedule:

- Please advise as soon as possible who will be completing the audit fieldwork so that Greenfire can provide the necessary materials to them.
- Your auditor should commence their fieldwork by not later than July 29, and complete the fieldwork by not later than August 13, 2024.
- Your auditor will disclose any report or discrepancies to Greenfire within 30 days of the completion of the fieldwork.
- Greenfire will respond to any claims of discrepancies within 30 days of receipt thereof.

Please confirm that the foregoing timelines are acceptable. We look forward to receiving this information so that we can work with Viceroy to commence and complete this audit as soon as possible.

In the meantime, we point out the fact that Viceroy intends to conduct an audit does not affect Viceroy's obligation to pay the outstanding invoiced amounts for the joint operations under the Farm-In Agreement (which, as of April 25, 2024, totalled $794,075.06). Such amounts remain outstanding and remain due and owing notwithstanding the pending audit. Please see paragraphs 103 and 107 of the Accounting Procedures in this regard. Accordingly, absent receipt of payment, and concurrent with assisting with the audit, Greenfire will have recourse to all of its enforcement remedies under the Farm-In Agreement and otherwise at law, including without limitation taking steps to enforce Greenfire's Operator's Lien.

Regards,

OSLER

Randal Van de Mosselaer
Partner
403.260.7060 | rvandemosselaer@osler.com
Osler, Hoskin & Harcourt LLP | osler.com

From: QIPING MEN <men8566@yahoo.ca>
Sent: Wednesday, June 26, 2024 8:30 PM

To: Van de Mosselaer, Randal <rvandemosselaer@osler.com>
Cc: rlogan@greenfireres.com; Robert Loebach <RLoebach@greenfireres.com>; tkraljic@greenfireres.com
Subject: 回复： FW: Letter to Viceroy Canadian Resources Corp. ("Viceroy")

Dear Randal,

Based on our information, we totally disagreed Greenfire's numbers.

Please prepare all calculations with supporting documents; we will arrange JV audit accordingly.

Best regards,

Qiping Men

Yahoo 邮箱：搜索、组织、征服

2024 年 6 月 24 日周一 22:27，Van de Mosselaer, Randal <rvandemosselaer@osler.com> 写道：

> Further to our previous letters and emails, attached please find a copy of our April 25, 2024 letter addressed to Viceroy, as well as a JIB invoice from Greenfire Resources ("Greenfire") to Viceroy.
>
> These documents are being sent to you as a courtesy and without any obligation on the part of Greenfire to do so now or in the future, and without prejudice to Greenfire's right to provide such notices and invoices solely in accordance with the governing contractual provisions.
>
> Regards,
>
> OSLER
>
> **Randal Van de Mosselaer**
> Partner
> 403.260.7060 | rvandemosselaer@osler.com
> Osler, Hoskin & Harcourt LLP | osler.com

This is Exhibit "R" to the Affidavit of
mc ~~Brianne Harris~~ (Robert Logan) sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

From: QIPING MEN <men8566@yahoo.ca>
Sent: Wednesday, July 10, 2024 4:51 PM
To: Van de Mosselaer, Randal
Cc: rlogan@greenfireres.com; Robert Loebach; tkraljic@greenfireres.com; Kirsten Strieck; Amy Reid; Traci Frost; Spurn, Craig; Clark, Stephanie
Subject: 回复：Viceroy Canadian Resources Corp. ("Viceroy")

Hi all,

As mentioned at my last email, please send us the related calculations with supporting documents for auditing.

Before we receive necessary information, we can not agree any schedules.

Thanks!

Qiping

Yahoo 邮箱：搜索、组织、征服

2024 年 7 月 9 日周二 9:00，Van de Mosselaer, Randal <rvandemosselaer@osler.com> 写道：

Qiping,

As we have not yet had a reply from you, I am following up on the exchange below to get the necessary information from you to commence the audit you have requested.

We look forward to hearing from you as soon as possible.

In the meantime, I can advise that my client will be taking steps to enforce payment of the outstanding joint interest billings in accordance with its legal rights and remedies.

Regards,

OSLER

Randal Van de Mosselaer
Partner
403.260.7060 | rvandemosselaer@osler.com
Osler, Hoskin & Harcourt LLP | osler.com

From: Van de Mosselaer, Randal <rvandemosselaer@osler.com>
Sent: Thursday, July 04, 2024 4:31 PM
To: QIPING MEN <men8566@yahoo.ca>
Cc: rlogan@greenfireres.com; Robert Loebach <RLoebach@greenfireres.com>; tkraljic@greenfireres.com; Kirsten Strieck <kstrieck@jvsa.com>; Amy Reid <areid@jvsa.com>; Traci Frost <tracifrost@icloud.com>; Spurn, Craig <cspurn@osler.com>; Clark, Stephanie <sclark@osler.com>
Subject: RE: 回复：FW: Letter to Viceroy Canadian Resources Corp. ("Viceroy")

Qiping,

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In order to ensure that the audit is completed in a timely manner, Greenfire require that the audit should proceed in accordance with the following schedule:

- Please advise as soon as possible who will be completing the audit fieldwork so that Greenfire can provide the necessary materials to them.
- Your auditor should commence their fieldwork by not later than July 29, and complete the fieldwork by not later than August 13, 2024.
- Your auditor will disclose any report or discrepancies to Greenfire within 30 days of the completion of the fieldwork.
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In the meantime, we point out the fact that Viceroy intends to conduct an audit does not affect Viceroy’s obligation to pay the outstanding invoiced amounts for the joint operations under the Farm-In Agreement (which, as of April 25, 2024, totalled $794,075.06). Such amounts remain outstanding and remain due and

owing notwithstanding the pending audit. Please see paragraphs 103 and 107 of the Accounting Procedures in this regard. Accordingly, absent receipt of payment, and concurrent with assisting with the audit, Greenfire will have recourse to all of its enforcement remedies under the Farm-In Agreement and otherwise at law, including without limitation taking steps to enforce Greenfire's Operator's Lien.

Regards,

OSLER

Randal Van de Mosselaer
Partner
403.260.7060 | rvandemosselaer@osler.com
Osler, Hoskin & Harcourt LLP | osler.com

From: QIPING MEN <men8566@yahoo.ca>
Sent: Wednesday, June 26, 2024 8:30 PM
To: Van de Mosselaer, Randal <rvandemosselaer@osler.com>
Cc: rlogan@greenfireres.com; Robert Loebach <RLoebach@greenfireres.com>; tkraljic@greenfireres.com
Subject: 回复：FW: Letter to Viceroy Canadian Resources Corp. ("Viceroy")

Dear Randal,

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Please prepare all calculations with supporting documents; we will arrange JV audit accordingly.

Best regards,

Qiping Men

2024 年 6 月 24 日周一 22:27，Van de Mosselaer, Randal

<rvandemosselaer@osler.com> 写道：

Further to our previous letters and emails, attached please find a copy of our April 25, 2024 letter addressed to Viceroy, as well as a JIB invoice from Greenfire Resources (“Greenfire”) to Viceroy.

These documents are being sent to you as a courtesy and without any obligation on the part of Greenfire to do so now or in the future, and without prejudice to Greenfire’s right to provide such notices and invoices solely in accordance with the governing contractual provisions.

Regards,

OSLER

Randal Van de Mosselaer
Partner
403.260.7060 | rvandemosselaer@osler.com
Osler, Hoskin & Harcourt LLP | osler.com

This is Exhibit "S" to the Affidavit of
me ~~Brianne Harris~~ √(Robert Logan)√ sworn before me
at Calgary, Alberta on September 6, 2024

Commissioner for Oaths
in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

From: Tony Kraljic <tkraljic@greenfireres.com>
Sent: Thursday, August 01, 2024 11:59 AM
To: QIPING MEN
Cc: Van de Mosselaer, Randal; Daniel Romano; Tina Dawla
Subject: RE: Viceroy Canadian Resources Corp. ("Viceroy") - Audit Request

Qiping,

You have been supplied all backup as requested through the JIBs for both past and current charges.

With respect to the historical items, if there is something specific that you disagree with let you know through specific audit queries.

On the new charges, per the agreement, they are to be paid when due and any disputes are to follow after the fact. Please let us know when we can expect payment for all the new outstanding amounts for 2023 and 2024.

Best regards,

Tony Kraljic
Chief Financial Officer
D. 403-668-5298
M. 403-615-6180
TKraljic@Greenfireres.com

GREENFIRE RESOURCES

From: QIPING MEN <men8566@yahoo.ca>
Sent: Thursday, August 1, 2024 11:35 AM
To: Tony Kraljic <tkraljic@greenfireres.com>
Cc: Van de Mosselaer, Randal <rvandemosselaer@osler.com>; Daniel Romano <DRomano@greenfireres.com>; Tina Dawla <tdawla@greenfireres.com>
Subject: Re: Viceroy Canadian Resources Corp. ("Viceroy") - Audit Request

Hi Tony,

As mentioned from my previous email, we totally disagreed Greenfire's number; I did need your calculations with supporting documents. Before we have those necessary information, we can not go to next step for audit.

Best regards,

Qiping

On Thursday, August 1, 2024 at 10:50:48 a.m. MDT, Tony Kraljic <tkraljic@greenfireres.com> wrote:

Qiping,

I am following up on my July 15 email as we have had no reply.

Please advise immediately if you require any additional information to conduct the audit. If we do not hear from you by the end of this week we will presume that you do not require any additional information.

Please also provide your views on the schedule proposed in the July 15 email, and provide the information requested in that email.

In the meantime, we remind you that payment of all issued JIBs is required notwithstanding Viceroy's stated intention of conducting the audit. Failing receipt of payment in accordance with Viceroy's contractual obligations Greenfire, as Operator, intends to have recourse to all enforcement tools at its disposal.

Regards,

Tony Kraljic

Chief Financial Officer

D. 403-668-5298

M. 403-615-6180

TKraljic@Greenfireres.com

GREENFIRE
RESOURCES

From: Tony Kraljic
Sent: Monday, July 15, 2024 4:51 PM
To: MEN8566@YAHOO.CA
Cc: Van de Mosselaer, Randal <rvandemosselaer@osler.com>; Daniel Romano <dromano@greenfireres.com>; Tina Dawla <tdawla@greenfireres.com>
Subject: Viceroy Canadian Resources Corp. ("Viceroy") - Audit Request

Qiping,

Please find the link below to the outstanding JIBs that make up the outstanding $794,075.06 to allow you to commence the audit that you have requested.

Everest Billings - Audit Support

As per PASC 1996 Operating Procedure by which these properties are governed, this invoice was due by May 6, 2024. Per this operating agreement, we are also entitled to charge interest compounded monthly at a rate of prime plus 2% on overdue accounts. This amount will be added to the next bill which will included joint venture charges from February 2024 through June 2024, and which will be provided in a separate email. Pursuant to the operating agreement, outstanding payments are due within 30 days notwithstanding a working-interest partner's decision to exercise its right to audit. Please provide payment immediately.

Further to our July 4th email, if you still wish to pursue a concurrent audit, to move this forward:

1. advise us who will be completing the audit fieldwork.
2. Based on the materials provided above, provide the audit queries so that Greenfire can provide additional materials.
3. Your auditor should commence their fieldwork by not later than July 29, and complete the fieldwork by not later than August 13, 2024.
4. Your auditor will disclose any report or discrepancies to Greenfire within 30 days of the completion of the fieldwork.
5. Greenfire will respond to any claims of discrepancies within 30 days of receipt thereof.

In the meantime, Viceroy has an obligation to pay the outstanding invoiced amounts for the joint operations under the Farm-In Agreement (which, as of April 25, 2024, totaled $794,075.06), which amounts remain outstanding and remain due and owing notwithstanding the pending audit.

We remain ready to complete the audit quickly.

Best regards,

Tony Kraljic

Chief Financial Officer

D. 403-668-5298

M. 403-615-6180

TKraljic@Greenfireres.com

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Mackenzie Cardinal
Student-at-Law

Brent spot	Brent futures (1 mo)	WTI spot	WTI futures (1 mo)	UK Nat Gas (1 mo)	UK Nat Gas (2 mo)
$72.38 ▼ -1.75%	$72.37 ▼ -1.87%	$68.55 ▼ -1.85%	$68.86 ▼ -2.10%	85.44p ▼ -4.40%	94.89p ▼ -3.45%

WEEKLY See all articles

Total steam plant bound for Grand Rapids project

Cenovus Energy has acquired a mothballed steam plant from France's Total for use at its recently approved Grand Rapids in situ oil sands project in Canada.

9 May 2014 0:00 GMT *UPDATED 9 May 2014 0:00 GMT*

By **Tonya Zelinsky Calgary**

The central plant facility will be relocated from Total's planned Joslyn steam-assisted gravity drainage (SAGD) project in northern Alberta and moved to the site of Cenovus' Grand Rapids project, to be used in phase one of the 8000-barrel per day to 10,000 bpd project.

Cenovus said it acquired the equipment from Total in a deal that closed in April for an undisclosed amount.

Total's Joslyn project was originally designed for SAGD but after a steam release in 2006 that shot rocks out as far as 300 metres from the main crater it was changed to a mining operation.

Pilot work at Cenovus' 100%- owned Grand Rapids has been ongoing since 2010, and regulatory approval for the 180,000-bpd project was granted in March.

Cenovus chief operating officer John Brannan said recent results from the pilot have "given us confidence to move forward with that development." It is targeting first steam from phase A in 2017.

Oil sands production at the Canadian major rose by 20% during the first quarter of 2014 to average 120,444 barrels per day.

The spike was driven primarily by increased output at its Christina Lake SAGD operation, which averaged 65,738 bpd due to the ramp-up of phase E to full production capacity.

Phase F of the project is 50% complete and first steam is expected in 2016. At its Foster Creek SAGD project, output averaged 54,706 bpd in the first quarter, a 2% decrease from last year.

Phase F of the project is 93% complete and on track for production in the third quarter.

Full ramp up will take 18 to 24 months. Phases G and H are 69% and 42% complete, respectively.

The company last week reported an increase in net earnings of 44% to C$247 million (US$225 million). Cash flow from operations dropped 7% to C$904 million.

Capital spending for the quarter was C$829 million.

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mc ~~Brianne Harris~~ (Robert Logan) sworn before me

at Calgary, Alberta on September 6, 2024

Commissioner for Oaths

in and for the Province of Alberta

Mackenzie Cardinal
Student-at-Law

COURT FILE NUMBER	2401 -
COURT	COURT OF KING'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
PLAINTIFF	GREENFIRE RESOURCES OPERATING CORPORATION
DEFENDANT	VICEROY CANADIAN RESOURCES CORP.
DOCUMENT	**CONSENT TO ACT AS RECEIVER**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**OSLER, HOSKIN & HARCOURT LLP** Suite 2700, Brookfield Place 225 – 6th Avenue SW Calgary, AB T2P 1N2 Attention: Randal Van de Mosselaer / Stephanie Clark Telephone: 403.260.7060 / 7079 Facsimile: 403.260.7024 Email: rvandemosselaer@osler.com / sclark@osler.com Matter Number: 1241968

Clerk's Stamp

Alvarez & Marsal Canada Inc. does hereby consent to act as Receiver in these proceedings if so appointed by this Honourable Court.

DATED at the City of Calgary, in the Province of Alberta, this 3rd day of September, 2024.

ALVAREZ & MARSAL CANADA INC.

Per:_____

Orest Konowalchuk, CA, CPA, CIRP, LIT
Senior Vice President