INITIAL CONSIDERATIONS – CROSS CONVEYED POOLING AGREEMENT

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The purpose of this agreement is to combine land to complete a spacing unit for the drilling and production of a petroleum substance by each party assigning an interest in its portion of the DSU to the other party. Careful consideration should be given to which form of pooling would best suit your situation. This is especially effective if pooling multiple zones. Also, a Cross Conveyed Pooling Agreement could ensure your assets are more secure in case your pooling partner succumbs to bankruptcy. However, a cross conveyance of interests can create issues such as infringement on AMI (Area of Mutual Interest) rights under an AMI agreement and creation of ROFR issues, as well as priority issues regarding caveating of newly cross conveyed interests. If a horizontal well is being drilled in an area with single LSD spacing, consider using a Horizontal Well Pooling Agreement. If this agreement is used to pool a freehold lease, it is recommended that a caveat be registered on the certificate of title of your pooling partner’s lease.

This is a template for the following, Note that options are in red:

**CROSS-CONVEYED POOLING AGREEMENT**

**(Using the 2015 CAPL)**

**Name Area, Province**

**THIS** **AGREEMENT DATED** \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**BETWEEN/AMONG:**

**COMPANY ONE,** a body corporate, having an office in the City of \_\_\_\_\_\_\_\_\_\_\_\_, in the Province of \_\_\_\_\_\_\_\_\_\_\_. (**"ONE SHORT”**)

 and

**COMPANY TWO**, a general partnership, by its Managing Partner **COMPANY TWO LTD.**  having an office in the City of \_\_\_\_\_\_\_\_\_\_, in the Province of \_\_\_\_\_\_\_\_\_ (**"TWO SHORT”**)

and

**COMPANY THREE**, an individual, having a residence in the City/Town of \_\_\_\_\_\_\_\_\_\_\_\_\_, its Managing Partner **COMPANY TWO LTD.**  having an office in the City of \_\_\_\_\_\_\_\_\_\_, in the Province of \_\_\_\_\_\_\_\_\_ (**"THREE SHORT”**)

**BACKGROUND**

Immediately prior to the Effective Date the Parties are the holders of certain interests in the Title Documents covering the lands that comprise the Pooled Substances, as described in Schedule “A”.

The Parties have agreed to pool their respective interests in the Pooled Lands as of the Effective Date and have entered into this Agreement to provide for the pooling, exploration, development, maintenance and operation of the Pooled Lands and the production of the Pooled Substances.

**IN CONSIDERATION** of the terms and conditions contained in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which is acknowledged, the Parties agree as follows:

1. **DEFINITIONS AND INTERPRETATION**

## 1.1 Definitions

Except as otherwise defined in this Agreement, the definitions set out in the Operating Procedure will apply, mutatis mutandis, to this Agreement and:

“**Effective Date**” means \_\_\_\_\_\_\_\_\_\_\_\_\_.

“**Encumbrances**” means those royalties, overriding royalties, production payments, net profits interests or charges of a similar nature (other than the lessor royalty accruing under the Title Documents) that apply against the Pooled Lands or the production of Pooled Substances therefrom, described as “Encumbrances” in Schedule “A”.

“**Initial Well**” means the well licensed as \_\_\_\_\_\_\_\_\_\_\_\_\_\_ / initial well to be drilled by the Parties hereunder.

“**Operating Procedure**” means the standard form 2015 CAPL Operating Procedure, together with the standard form 1996 PASC Accounting Procedure, with the elections and amendments as described in Schedule “B”, which documents are incorporated by reference into this Agreement and become effective as of the Effective Date.

“**Part I Lands**” means the Pooled Formations and Pooled Substances underlying the lands described as Part I Lands in Schedule “A”.

“**Part II Lands**” means the Pooled Formations and Pooled Substances underlying the lands described as Part II Lands in Schedule “A”.

“**Pooled Formations**” means the formation known as the (blank) formation, identified as the interval between (blank) metres and (blank) metres subsurface measured depth, as shown on the gamma ray (insert other log type, if applicable) log of the well (blank).

“**Pooled Lands**” means the Part I Lands and the Part II Lands as described in Schedule “A” and so much thereof as from time to time remain subject to this Agreement, and includes the Pooled Substances within, upon or under those lands in the Pooled Formations only, together with the right to explore for and recover the same, to the extent that those rights are granted by the Title Documents.

“**Pooled Substances**” means all petroleum (or) natural gas (or) petroleum and natural gas and all fluids and associated substances, which may be produced from the Pooled Lands in accordance with the terms and conditions of the Title Documents and the Regulations.

“**Pre-Pooled Interest**” means the undivided Working Interest of each Party in the Title Documents immediately prior to the Effective Date of this Agreement, as described for each Party in Schedule “A”.

“**Reserved Formations**” means any rights held by a Party that are not included in the Pooled Lands, but that coincide by surface area with all or a portion of the Pooled Lands.

“**Title Documents**” means the documents described as “Title Documents” in Schedule “A” and all renewals, extensions, continuations, amendments and further documents of title issued in substitution or by selection from them, to the extent that they relate to the Pooled Lands at the applicable time.

## 1.2 Working Interests And Joint Lands

In the Operating Procedure, “Working Interests” will be deemed to be the “Pooled Interests” and “Joint Lands” will be deemed to be the “Pooled Lands”.

1. **SCHEDULES**

The following Schedules are attached to and incorporated into this Agreement:

* + 1. Schedule “A”, which describes the Title Documents, the Pooled Lands, the Encumbrances, the Pre-Pooled Interests and the Pooled Interests; and
		2. Schedule “B”, which contains the elections and amendments to the Operating Procedure.
1. **TITLE DOCUMENTS AND ENCUMBRANCES**

## 3.1 Representations And Warranties

No Party warrants title to its Pre-Pooled Interests in the Pooled Lands*.* However, each Party confirms that:

* + 1. prior to the execution of this Agreement, it has not received or otherwise become aware of, any notice of default related to the Title Documents contributed by it to this Agreement which makes any of them subject to termination or forfeiture that has not been remedied;
		2. it is unaware of any act or omission which it reasonably believes would result in a default under the terms of the Regulations or the Title Documents contributed by it to this Agreement;
		3. it has the authority to enter into this Agreement;
		4. it is unaware that the terms of the Title Documents contributed by it to this Agreement have not been complied with to the extent necessary to keep them in full force and effect; and
		5. its Pre-Pooled Interest is not encumbered with any burdens except the lessor royalty applicable to the Title Documents contributed by it to this Agreement and any Encumbrances.

## 3.2 Pooled Lands Not To Be Encumbered

In addition to the provisions of Article 15.00 of the Operating Procedure, no Party will do, or cause to be done, anything to encumber the Pooled Lands or otherwise impact the Title Documents held by it which might reasonably result in any portion of any of those Title Documents becoming subject to termination or forfeiture.

1. **POOLING**

## 4.1 Pooling Of Pre-Pooled Interests

Each Party hereby pools its respective Pre-Pooled Interest in and to the Title Documents, the Pooled Lands and the Pooled Substances only to the extent necessary for the production of Pooled Substances from the Pooled Lands, so that, as of the Effective Date, all Operations on the Pooled Lands may be conducted without regard to the boundary lines of the separate Title Documents comprising the Pooled Lands.

## 4.2 Allocation Of Costs And Benefits

As of the Effective Date, and unless otherwise provided in this Agreement, all costs and expenses incurred with respect to the Pooled Lands and all Pooled Substances produced and revenues received as a result of Operations on the Pooled Lands shall be allocated among the Parties in accordance with their respective Pooled Interests.

## 4.3 Cross-Conveyance Of Interests

As soon as practicable following the Effective Date, each Party shall execute registrable transfers or take such other steps as are reasonably required to convey the Pooled Interests under the Title Documents or the Regulations. If any such transfer is impracticable, each Party shall hold that interest in the Title Documents in which it is lessee or licensee in trust for the benefit of the other Parties to the extent of each Party's respective Pooled Interest.

## 4.4 Initial Well

The Operator shall serve an Operation Notice to the Parties for the drilling of the Initial Well.

1. **OPERATING PROCEDURE**

## 5.1 Application Of Operating Procedure

As of the Effective Date, and except as may otherwise be provided herein, the Operating Procedure as amended by this Agreement:

* + 1. governs the relationship of the Parties as to their respective Pooled Interests; and
		2. applies to all Operations conducted on the Pooled Lands and the production of Pooled Substances therefrom.

## 5.2 Appointment Of Initial Operator

Subject to the provisions of this Head Agreement and the Operating Procedure, (blank)accepts the appointment of initial Operator and agrees to assume, as of the Effective Date, the duties, obligations and rights of the Operator under the Operating Procedure.

## 5.3 Title Administrator

Notwithstanding the appointment of Operator under the preceding Clause, each Party shall have the same rights and obligations as the Operator under the Operating Procedure with respect to the maintenance and administration of the Title Documents with respect to each Title Document that includes rights in addition to the Pooled Lands and for which that Party is the designated representative of the lessee or licensee under the applicable Title Document. The Operator shall become the Title Administrator in due course with respect to any such Title Document that ceases to include rights in addition to the Pooled Lands.

## 5.4 Multiple Completions And Operating Procedure

Notwithstanding the provisions of Article 9.00 and Article 10.00 of the Operating Procedure, under no circumstance may a Party Complete a well in one or more formations included in the Pooled Lands and also in any other formation or for any substance not included in the Pooled Lands or Pooled Substances without the consent of the other Parties, which consent may be refused by a Party for any reason. If the Parties agree to the conduct of any such Completion program, they shall do so under such separate agreement as they may agree at the time.

## 5.5 Pad Site Sharing Agreement Required In Due Course

Insofar as there are any shared Well Pads serving wells governed by this Agreement and other wells not governed by this Agreement, the nature of the cost allocations, management of shared facilities and potential liability and indemnification obligations are such that it is the Parties’ intention that any such Well Pad shall ultimately be governed by a pad site sharing agreement using as a starting point the 2018 PJVA-CAPL Model Pad Site Sharing Agreement.

1. **INSURANCE**

## 6.1 Requirement To Carry Additional Insurance

Each Participating Party shall, in addition to the insurance provisions of the Operating Procedure, carry independently, but in proportion to its Participating Interest in the particular Operation under the Operating Procedure [Replace the introduction of this Clause with the following if the Operator carries this additional insurance on behalf of the Parties: The Operator, in addition to the insurance provisions of the Operating Procedure, shall carry for the Joint Account]:

* + 1. “Control of Well Insurance” with a limit of liability for its respective Participating Interest share of at least $[•],000,000.00 (based on a 100% Participating Interest); and
		2. “Comprehensive General Liability Insurance” with a limit of liability for its respective Participating Interest share of at least $[•],000,000.00 (based on a 100% Participating Interest), provided that this coverage may be arranged using “General Liability” and “Excess/Umbrella” coverage in combination.

## 6.2 Evidence Of Additional Insurance

In addition to the Operator’s obligations pursuant to Clause 3.11 of the Operating Procedure, each Party shall, upon request by any other Party, provide evidence of the following required coverage:

* + 1. with respect to “Control of Well Insurance”: control of well; underground blowout; cost of re-drilling/extra expense; seepage, pollution and clean up; deliberate well firing; care custody and control; and evacuation coverage; and
		2. with respect to “Comprehensive General Liability Insurance”: pollution liability; contractual liability; tortious liability; contractor’s protective liability; and products and completed operations liability.
1. **OTHER OPERATIONS AND RESERVED FORMATIONS**

## 7.1 Right To Conduct Operations In Reserved Formations

Notwithstanding any other provision contained in this Agreement, each Party shall have the right to drill a well to explore and develop any of its Reserved Formations and to produce or otherwise carry on other operations with respect to its Reserved Formations. That Party shall conduct any other such operations with respect to the Reserved Formations in a manner that will not interfere with Operations on the Pooled Lands.

## 7.2 Responsibility For Operations In Reserved Formations

* + 1. Any Party carrying on operations with respect to its Reserved Formations under the preceding Clause shall:
			1. be liable to the other Parties in their capacity as Pooled Interest owners of the Pooled Lands for all losses, costs, damages and expenses whatsoever which they may suffer, sustain, pay or incur by reason of any matter or thing arising out of or in any way attributable to or connected with those other operations; and
			2. indemnify, defend and save those other Parties harmless from and against all claims, liabilities, actions, causes of action, proceedings, demands, losses, costs, damages and expenses whatsoever which may be brought against or suffered by those other Parties, or which they may suffer, sustain, pay or incur in their capacity as Pooled Interest owners of the Pooled Lands, by reason of any matter or thing arising out of or in any way attributable to or connected with those other operations.
		2. Notwithstanding the preceding Subclause (a), there shall be no liability of one Party to another under that Subclause for consequential, indirect, punitive or exemplary damages, including, but not limited to, loss of profits, loss of opportunity, opportunity costs, reservoir or formation damage, the inability to produce Petroleum Substances or a delay in their production, except insofar as the damaged Party is legally determined to be responsible for any such damages suffered by a third party.

## 7.3 Responsibility For Operations In Pooled Lands

The provisions of the preceding Clause shall apply, mutatis mutandis, to the Parties’ Operations, activities and obligations with respect to the Pooled Lands relative to the Reserved Formations.

1. **GOODS AND SERVICES TAX**

## 8.1 Joint Election For Refundable Taxes

Effective as of the Effective Date, the Parties elect jointly to have the Operator or any successor to the initial Operator, account for any refundable taxes in the nature of value added tax, goods and services tax or other sales taxes in the course of any joint venture activity attributable to the electing participants pursuant to Subsection 273(1) of the Excise Tax Act or other applicable Regulations.

## 8.2 Authority With Respect To Refundable Taxes And Marketing Arrangements

For the purposes of Subsection 273(1) of the Excise Tax Act or other applicable Regulations imposing refundable taxes in the nature of value added tax, goods and services tax or other sales taxes, the authority granted under this Agreement with respect to the handling of any refundable taxes by the Operator also covers any marketing arrangements between the Operator and any other Parties under which the Operator agrees to market production of Petroleum Substances on behalf of any such other Parties.

1. **COUNTERPART EXECUTION**

This Agreement may be executed in counterpart, and when each Party has executed a counterpart, all counterparts together will constitute one and the same agreement.

The Parties have executed this Agreement to be effective as of the Effective Date.

|  |  |  |
| --- | --- | --- |
|  |  |  |
|  |
| Per: |  |  | Per: |  |
|  |  |  |  |  |
|  |
|  |  |  |
|  |
| Per: |  |  | Per: |  |
|  |  |  |  |  |

Execution page to the Conveyed Pooling Agreement dated **{enter “Agreement Date”}** between/among **{enter “Full Name of First Party”}** and **{enter “Full Name of Second Party”} and {enter “Full Name of Third Party”}**

**SCHEDULE “A”**

to the Cross-Conveyed Pooling Agreement

dated **{enter “Agreement Date”}** between/among

**{enter “Full Name of First Party”}** and **{enter “Full Name of Second Party”}** and **{enter “Full Name of Third Party”}**

**Part I Lands**

|  |  |  |  |
| --- | --- | --- | --- |
| **Title Documents** | **Pooled Lands** | **Encumbrances** | **Pre-Pooled Interests** |
|  |  | **\* ORR** |  |
|  |  |  |  |

**Part II Lands**

|  |  |  |  |
| --- | --- | --- | --- |
| **Title Documents** | **Pooled Lands** | **Encumbrances** | **Pre-Pooled Interests** |
|  |  | **\* ORR** |  |
|  |  |  |  |

|  |
| --- |
| **Pooled Interests** |
| **Party A** |  |
| **Party B** |  |
| **Party C** |  |

**Encumbrances**

**\* e.g. 15% ORR paid by Party E 50%, Party A 25%, Party B 25% and paid to Party C 50%, Party D 50%, based on 75% of production; as described in the Farmout Letter Agreement dated February 28, 2012.**

**SCHEDULE “B”**

to the Cross-Conveyed Pooling Agreement

dated **{enter “Agreement Date”}** between/among

**{enter “Full Name of First Party”}** and **{enter “Full Name of Second Party”}** and **{enter “Full Name of Third Party”}**

# CAPL OPERATING PROCEDURE - 2015

**Clause 1.01-Market Price Definition, optional sentence:** Will Apply \_\_\_ -or- Will Not Apply \_\_\_

**Clause 1.01-Production Facility, optional Paragraph(f):**

 Will \_\_\_ Apply -or- Will Not \_\_\_ Apply

 Estimated cost less than $ \_\_\_\_\_\_\_\_\_, if applies

**Subclause 3.11C-Required Insurance:** Replace the first sentence with the following: In addition to the obligations in Subclauses 3.11A and B and the requirements to carry specified policies of coverage under the Head Agreement: Alternate (a) \_\_\_ (b) \_\_\_

***(Consider for special operating areas for which a longer Commencement period is required:***

**Paragraph 7.01(b) and Subclause 10.03B:**  Change reference from 120 days to \_\_\_\_\_ days.)

**Subclause 10.02G-Receiving Party May Not Defer Response:**

 Will \_\_\_ Apply -or- Will Not \_\_\_ Apply

 Above base of \_\_\_\_\_ formation, if applies

**Subclause 10.04A-Operator for Independent Operation:** Alternate (a) \_\_\_ (b) \_\_\_

**Paragraph 10.07A(e)-Penalty Where Independent Well Results in Production:**

 Development Well: \_\_\_\_\_% Exploratory Well: \_\_\_\_\_%

**Subclause 10.10A–Definition of Title Preserving Well:** \_\_\_\_ days

**Subclause 10.13B, optional Paragraph (d):** Will \_\_\_ Apply -or- Will Not \_\_\_ Apply

**Article 21.00–Dispute Resolution:** Will \_\_\_ Apply -or- Will Not \_\_\_ Apply

**Paragraph 21.03(k)–Arbitration Proceedings for unresolved audit exceptions, if Article 21.00 applies:**

Will \_\_\_ Apply -or- Will Not \_\_\_ Apply

 Estimated total adjustment of less than $ \_\_\_\_\_\_\_\_\_\_\_, if applies

**Clause 22.02-Addresses For Service:**

 COMPANY ONE COMPANY TWO

 Address Address

 Fax No. Fax No.

**Clause 24.01-Right to Dispose:** Alternate A \_\_\_ B \_\_\_

 If Alternate B, the date at which ROFR expires is \_\_\_\_\_\_\_\_\_\_\_\_\_

**Paragraph 24.02(f)–Exception for all Earning Agreements:** Will \_\_\_ Apply -or- Will Not \_\_\_ Apply

**PASC 1996 ACCOUNTING PROCEDURE**

**Clause 105 - Operating Fund**: proportionate share of %

**Clause 110 - Approvals**: Clause in the Agreement **- or -** Approval from or more owners, etc. totalling %;

Vote within **15 business days** from receipt or be **deemed** to have voted **affirmative**.

**Clause 112 - Expenditure Limitations without owner approval**:

(a) single capital expenditures not in excess of $

(c) full settlement of damage claim not in excess of $

**Clause 202(b) - Employee Benefits**: %

**Clause 213 - Camp and Housing**: (shall / shall not) be chargeable

**Clause 216 - Warehouse Handling**: % of the costs of such Material

**Clause 221 - Allocation Options**: (Applicable or Not Applicable)

|  |  |  |
| --- | --- | --- |
| **Clause** | **Cost** | **Options for Charging Joint Account** |
| Fixed $/Month | **Other** |
| **Subject to 302(e)** | **Not Subject to 302(e)** | **% of Direct Cost Well/m3** |
| 204 | Automotive |  |  |  |  |
| 207(c) | Prod Office |  |  |  |  |
| 212 | Communications |  |  |  |  |
| 213(a) | Camp |  |  |  |  |
| 214 | Measurement & Control |  |  |  |  |

**Clause 302 - Overhead Rates**:

(a) For each Exploration Project: % of Cost and/or (b) For each Drilling Well % of Cost and/or

 (1) % of first $ (1) % of first $

 (2) % of next $ (2) % of next $

 (3) % of cost exceeding (1) and (2) (3) % of cost exceeding (1) and (2)

(c) For each Initial Construction Project % of Cost and/or (d) For Subsequent Construction Project % of Cost and/or

 (1) % of first $ (1) % of first $

 (2) % of next $ (2) % of next $

 (3) % of cost exceeding (1) and (2) (3) % of cost exceeding (1) and (2)

(e) For Operations and Maintenance:

 (1) % of the cost, and/or

 (2) $ per producing well per month; or

 (3) $ flat rate

**Rates in Sub-clauses 302(e)(2) & 302(e)(3)**  (shall / shall not)

be adjusted as of the first day of July each year following the year in which the Agreement became effective.

**Clause 406 - Pricing of Joint Material Purchases, Transfers, and Dispositions** $ for requiring approval.

**Clause 501 - Inventories**: every five (5) years or as otherwise approved by the Owners.