INITIAL CONSIDERATIONS – HORIZONTAL WELL POOLING

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It is important to utilize the correct agreement and tailor it to the specific drilling situation. The purpose of this Horizontal Well Pooling Agreement is to obtain common working interests in a drill spacing unit for a SINGLE WELL with no conveyance.

* If the well is crossing Crown and Freehold interests in Alberta a Production Allocation Unit Agreement (PAUA) will be required.

<https://training.energy.gov.ab.ca/Pages/Unit%20Agreement%20Exhibit%20A.aspx>

* In Saskatchewan a Production Allocation Agreement (PAA) or Royalty Allocation Agreement (RAA) will be needed to properly allocate the ROYALTY division amongst royalty owners.
* Allocation method
* Reserve potential across the span of the wellbore may vary considerably

There are differing methods of allocation, each with its own assumptions. Where these assumptions deviate from reality, the basis of allocation may become a source of contention. Some example are:

Area allocation:

The wellbore is presumed to draw ratably for a deemed distance (i.e. 75 metres from the wellbore). Each set of working interests shares in production to the extent that the drainage area falls within its area

Productive Portion of Wellbore:

Each set of working interests shares in production to the extent that a productive portion of wellbore falls within its lease

Reserves or Pool Information

Reservoir information (to the extent known) serves as the basis for allocation using considerations such as pay thickness, drainage, etc.

If an alternate allocation method is to be used in the Agreement, users may consider including the following clauses in Article 4 (Pooling):

“The Pooled Interest has been calculated by way of {area allocation, production allocation, reserves allocation} and the calculations are shown in Clause 4 (e). The Parties acknowledge and agree that the participation factors are based upon the anticipated drilling results, drill path, length and location of the Horizontal Leg or Horizontal Wellbore of the Well. The parties also acknowledge and agree that upon completion of the drilling of the Pooled Well, if for any reason either Party believes the Pooled Interests previously calculated no longer are accurate, the Pooled Interests shall be re-calcuated using the method set out in Clause 4 (e) (or an alternate method as mutually agreed upon by both Parties). The Pooled Interests shall thereby be amended to reflect the actual drilling results, trajectory and length of the Pooled Well based on the as-drilled survey plan. All associated costs and production shall also be amended.

{insert calcuations for proportionate interests for the definition of Pooled Interests as based off the allocation method mentioned above and referencing the Title Documents in Schedule “A”}”

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

**HORIZONTAL WELL NON 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 \_\_\_\_\_\_\_\_\_\_\_\_\_, in the Province of \_\_\_\_\_\_\_\_\_ (**"THREE SHORT”**)

**BACKGROUND**

The Parties are the holders of certain interests in the Title Documents covering the lands as described in Schedule “A”.

The Parties wish to drill and produce Pooled Substances from the Pooled Well.

The Parties have agreed to pool their respective interests in the Pooled Lands in order to drill and produce from the Pooled Well and have entered into this Agreement to provide for the pooling and operations only as they pertain to the Pooled Well.

**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 shall apply, mutatis mutandis, to this Agreement and:

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

“**Encumbrances**” means those royalties, overriding royalties, production payments, net profits interests or charges 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”.

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

“**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 as may be prescribed by the Regulations.

“**Pooled Well**” means the proposed well known as HZ \_\_\_\_\_\_\_\_\_\_\_\_\_\_ and includes any substitute well drilled in accordance with this Agreement.

“**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 all the documents as described 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” shall be deemed to be the “Pooled Interests” and “Joint Lands” shall 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;
		2. Schedule “B”, which contains the elections and amendments to the Operating Procedure; and
		3. Schedule “C”, which is the survey plan for the Pooled Well.
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 shall 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 Well, 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 No Cross-Conveyance Of Interests

Nothing in this Agreement is to be construed as effecting a cross-conveyance of the interests of the Parties in the Title Documents or the Pooled Lands.

## 4.4 Single Pooled Well Only

This Agreement is entered into solely for the purpose of drilling, producing and conducting Operations with respect to the Pooled Well and for no other purpose whatsoever. This Agreement does not apply to any other wells located on the Pooled Lands, whether drilled before, after or simultaneously with the Pooled Well.

1. **MAINTENANCE OF TITLE DOCUMENTS**

## 5.1 Certain Charges Borne In Proportions Of Pre-Pooled Interests

The Operator shall pay taxes assessed against equipment owned jointly by all or some of the Parties and charge any such taxes to the account of the applicable Parties. Except as otherwise provided in the preceding sentence, Clause 5.2 of this Head Agreement and the Operating Procedure, each Party shall pay all rentals, taxes, royalties, Encumbrances and other payments or burdens on the Title Documents that it contributes to this Agreement in accordance with its Pre-Pooled Interest. Each Party shall defend, indemnify and hold each other Party harmless from and against all claims, demands and causes of action for those rentals, taxes, royalties, Encumbrances and other payments or burdens with respect to its Pre-Pooled Interest in the applicable Title Documents.

## 5.2 Impact of Operating Procedure on Preceding Clause

 Notwithstanding the preceding Clause of this Head Agreement:

* + 1. if a Party elects to not participate in an Operation pursuant to Article 9.00 or Article 10.00 of the Operating Procedure for which the consequence of non-participation is the imposition of a cost recovery or production penalty thereunder, the Participating Parties assuming the Non-Participating Party's share of the cost of that Operation shall pay all lessor royalties and, on the basis prescribed by Subclause 10.07F of the Operating Procedure with respect to any cost recovery prescribed by that Subclause, any Encumbrances attributable to the Non-Participating Party's Pooled Interest in respect of production from the well in which the Non-Participating Party elected not to participate until that Non-Participating Party elects to become a Participating Party in that well; and
		2. if a Party’s Pooled Interest in the Pooled Lands or a well held hereunder changes because of the application of Clause 10.10 of the Operating Procedure to its election not to participate in a certain well or Article 11.00 or Article 12.00 of the Operating Procedure because of its surrender of certain Pooled Lands or its election to participate in a proposed Abandonment of a well, the Parties that acquire the applicable Pooled Interest in the applicable Pooled Lands or well shall pay all lessor royalties and Encumbrances attributable to that Party’s applicable Pooled Interest.

## 5.3 Title Administrator

Each Party shall act as Title Administrator for the Title Documents that it contributes to this Agreement. Notwithstanding the preceding sentence, if a particular Title Document is contributed to this Agreement by more than one Party, the Party acting as the Title Administrator under the applicable prior agreement shall be the Title Administrator for this purpose. The Title Administrator with respect to a particular Title Document shall inform the other Parties in a timely manner of any notice of default served upon that Party under the terms of the Regulations or any of the Title Documents held by it.

1. **OPERATING PROCEDURE**

## 6.1 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 Well and the production of Pooled Substances therefrom.

## 6.2 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.

## 6.3 Pad Site Sharing Agreement Required In Due Course

Insofar as there are any shared Well Pads serving the Pooled Well 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. **RIGHT OF FIRST REFUSAL (IF UNDERLYING AGREEMENT CONTAINS A ROFR)**

[Parties in underlying agreement with ROFR] agree that, notwithstanding any provision to the contrary in this Agreement, the right of first refusal in the [description of underlying agreement, including name, date, and parties] continues to apply with respect to the Pre-Pooled Interests in the applicable lands those Parties have contributed to the Pooled Lands under this Agreement.

1. **INSURANCE**

## 8.1 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.

## 8.2 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. **TERMINATION**

## 9.1 Termination If Initial Well Not Commenced

This Agreement shall terminate if the Pooled Well is not Commenced on or before the Obligation Date, provided that this does not release any Party from its responsibility for any obligations that had accrued to it on or before the Obligation Date hereunder, including any obligation to pay amounts owing hereunder.

## 9.2 Termination On Abandonment Of Wells

Subject to the preceding Clause of this Head Agreement and Clause 1.14 of the Operating Procedure, this Agreement shall terminate with respect to the Pooled Lands and the associated Pooled Substances when the Pooled Well is Abandoned, provided that this termination shall not affect any residual obligations respecting Operations or other activities conducted or required to be conducted hereunder, including reclamation or future remediation of the affected surface rights and payment of any amounts owing hereunder. For the purposes of this Clause, insofar as the Pooled Well is used for operations outside the Pooled Lands due to the application of Article 12.00 of the Operating Procedure, that wellbore shall no longer be governed by this Agreement.

## 9.3 Reversion To Pre-Pooled Interests Following Termination

Upon termination of this Agreement with respect to the Pooled Lands in accordance with Clause 9.1 or Clause 9.2 of this Head Agreement or Clause 1.14 of the Operating Procedure, and, insofar as the Title Documents remain in effect for the Pooled Lands at that time, the applicable Parties shall thereupon hold the applicable former Pooled Lands in the proportions of their respective Pre-Pooled Interests under any relevant agreement that consequently applies between them for those rights. Insofar as the Parties or their interests are different with respect to the original Pre-Pooled Interests, the distribution shall be to the applicable successors in interest with respect to the applicable Pre-Pooled Interests.

1. **OTHER OPERATIONS AND RESERVED FORMATIONS**

## 10.1 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 shall not interfere with Operations on the Pooled Lands.

## 10.2 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 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.
	* 1. Notwithstanding the preceding Subclause (a), there shall be no liability of one Party to another 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.

## 10.3 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**

## 11.1 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.

## 11.2 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 shall 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 Horizontal Well Non Cross-Conveyed Pooling Agreement dated **{enter “Agreement Date”}** between/among **{enter “Full Name of First Party”}** and **{enter “Full Name of Second Party”}**

**SCHEDULE “A”**

to the Horizontal Well Non Cross-Conveyed Pooling Agreement

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

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

**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 Horizontal Well Non 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