

SUMMARY

Our first draft of the CAPLA Joint Operating Agreement Precedent (“the Agreement”) was sent to the CAPLA Advisory Council for comments. These were reviewed and/or incorporated into our second draft which was sent to Wordsmith Associates, a company that reviews and prepares plain english documentation. Subsequently, our document was sent to a group of selected companies within the industry. The Sub-Committee reviewed all comments received and although all comments were not incorporated into the Agreement, we have attached a Question and Answer to address certain issues.

QUESTION AND ANSWER

1. Why did the Standardization group create the CAPLA Joint Operating Agreement Precedent?

The Sub-Committee felt that the industry was spending a considerable amount of time reviewing and commenting on the traditional verbiage and format used in Joint Operating Agreements. The intent was to develop an Agreement in a simplified form, using plain english language, and interchangeable data which would expedite the review and execution process of these agreements.

The purpose of our Sub-Committee was to create a document where minimal changes were to be made to the body of the Agreement. The document has been prepared utilizing the 1990 CAPL Operating Procedure and the February 1991 revised version of the 1996 PASC Accounting Procedure which are the versions currently used by Industry.

Most companies have their own precedents, in particular the major companies. It is our recommendation that the precedent we have created be considered. This precedent can be utilized in most situations, however, will most likely be used for lands acquired through a crown land sale or through freehold acquisition.

2. Why was this particular format chosen?

Each company has a preference in formatting a document and we have left that option up to the individual company. The format will change based on the company’s preference and according to the number of parties to the Agreement, change in the version of CAPL or PASC that may be used, or additional clauses that may be added.

This document was prepared in Word using the Aerial font 11.0 to be consistent with the other CAPLA documents that have been prepared by the Standardization Committee.

3. Why are some of the currently used common definitions and/or clauses excluded from the body of the Agreement?

To avoid duplication certain defined terms and clauses were not included in the body of the agreement as they are defined in Clause 101 and throughout the body of the Operating Procedure.

4. Why is the effective date not the same date as the Agreement date and why is it set out on Schedule "A" and not in the body of the Agreement with the defined terms?

In most cases the date of the Agreement and the effective date are the same. However there are cases where these dates differ (i.e. an agreement prepared well after the fact as clean up). To eliminate the amount of required changes made to the body of the Agreement, the effective date was put on Schedule "A".

5. Why was the party appointed as Operator not set out within the body of the Agreement?

To eliminate the amount of changes made to the body of Agreement, the Operator was set out on Schedule "A".

6. Why was a Goods and Services Clause not included in the Agreement?

The Goods and Services Clause is covered under Clause 113 of the 1996 PASC Accounting Procedure which is the version currently being used by the industry.

7. Why was a counterpart execution page not included in the Agreement?

Clause 9 (e) of the agreement provides for counterpart execution.

8. Does the precedent provide for additional clauses?

During our discussions and review of the clauses contained in Joint Operating Agreements, there were several clauses that some companies require be included in their Joint Operating Agreements. An example of these clauses include Plant Participation, Area of Mutual Interest, Segregation, Environmental, Lease Selection and Special Penalty Provisions.

The Sub-Committee focused primarily on standard clauses. It was not our intent to standardize additional clauses such as those referenced above. However, these issues had to be addressed. Some companies prefer to handle certain of these issues by separate agreements.

A Special Provisions Clause (Clause 10) has been added to the body of the Agreement to separate and identify additional clauses that are added and are specific to a particular Joint Operating Agreement. These clauses may be customized by each company depending on the circumstances, and may include:

AMI	may consider using a modified version of applicable provisions in the 1997 CAPL Farmout & Royalty Procedure.
Plant Participation	may be customized for each case in consultation with Joint Venture Group.
Segregation Clause	utilize the CAPLA Segregation Procedure currently being prepared by the Segregation Sub-Committee of the Standardization Committee.
Environmental	may be customized for each case.
Lease Selection	will need a special provision if lease selection mechanism in Clause 309 of the 1990 CAPL Operating Procedure does not meet needs (i.e. B.C. permits where interests differ).
Special Penalty Provisions	May include forced farmout or some other special penalty mechanism on exploratory wells, where the production penalty does not provide an appropriate reward (i.e. large blocks of pure wild cat wells where the first wells are critical to the play.)

9. Does the entire 1990 CAPL Operating Procedure and 1996 PASC Accounting Procedure need to be attached or is an election sheet adequate?

In our examples we did not attach a completed Operating Procedure or Accounting Procedure. What we did include was a sample of an election sheet to identify what information should be set out in an election sheet if that is what the Company wishes to use. It is in the best interest of the parties to the agreement that a full operating Procedure be attached.