

INTRODUCTION TO 2018 PJVA-CAPL PAD SITE SHARING AGREEMENT

Industry is drilling increasingly from shared well pads in which wells and facilities are not held in common interests. This is done to mitigate the environmental footprint and to optimize operating efficiencies for construction costs and shared site-specific infrastructure. Many well pads serving different ownership wells already exist without any documentation to address the wide range of issues inherent in a pad sharing scenario.

The Pad Site Sharing Agreement ("PSSA") reflects a shared belief by the PJVA and CAPL that the only efficient and effective way to address this growing issue is to seek an industry solution to this industry problem by creating a precedent that can be used as a starting point for the vast majority of pad sharing arrangements. Increased commonality in addressing these issues will allow for optimized business outcomes and the completion of these agreements in a much more timely and efficient manner than would otherwise be the case.

Pad sharing arrangements may at first appear to be a simple surface sharing arrangement designed to decrease the environmental footprint and to enhance operating efficiencies. The cost of the construction of the Pad Site and the installation of the shared Facility to manage production will also typically be very modest relative to the investments in the Wells. The relationship of the Owners is much more complex, though, because of the issues resulting from differences in ownership between the Pad Site (and the related common Facility) and the Wells located on the Pad Site (e.g., cross-indemnifications, a staged abandonment, Enlargements).

Given the ongoing need to manage the Pad Site and the Facility located on the Pad Site, the starting point used to create this document was the 1999 PJVA CO&O Agreement. That document was then modified, firstly, to reflect more recent work that CAPL had done to update similar concepts in the 2007 and 2015 CAPL Operating Procedures and, secondly, to address the interrelationship of the PSSA with specific Land Activities being conducted by the respective mineral rights holders under any applicable Land Agreements. The integration of the modern CAPL content also reflects the fact that the PJVA CO&O Operating Procedure was largely based on the 1990 CAPL Operating Procedure for comparable topics. Anchoring the document to these familiar and accepted industry standards is expected to facilitate industry's transition to the document.

Some of the major principles at the foundation of the document are the following:

Contemplated Usage: The starting point in considering the PSSA is to understand the circumstances in which it should and should not be used. A PSSA is unlikely to be used for the situation in which the vision is to drill wells to exploit only common interest mineral rights under a land JOA. It is intended to be used in a situation in which there is a natural business synergy with respect to different interest mineral rights expected to be exploited from the Pad Site. This is most typically a situation in which at least one party holds a working interest in all of the applicable mineral rights and the nature of its interest and expertise is that it would be the natural Site Operator (e.g., X holds 100% mineral rights to the east and a 60% interest in the mineral rights to the west or Y is operator under a number of different Land Agreements with diverse interests). A PSSA is not recommended if there is no such natural business synergy for creation of a PSSA with a single Site Operator because of the potential operational and HSE complexities that follow the initial construction phase, notwithstanding that there may be other potential synergies for roads, pipelines, etc. (This is elaborated upon in the Addendum at the end of the PSSA Operating Procedure.)

Designed for Typical Pad Site: To attempt to optimize industry alignment, the document was designed for the typical shared Pad Site, such as that shown on the next page. Attributes of the typical Pad Site include: (i) a single Site Operator; (ii) a single blended ownership interest based on well count; and (iii) sharing of Capacity, Operating Costs and any fee income from the use of Surplus Capacity based on blended ownership interests. Users requiring a more complex handling will need to modify the document to deliver their desired outcomes. The most frequent and simple modifications will typically relate to different approaches for the determination of blended ownership, the sharing of Operating Costs and the sharing of any fee revenue.

Nature of Agreement and Document Custodian: The similarities to a PJVA CO&O Agreement for shared surface facilities simplify the creation of this document and industry's willingness to accept it. Although this is a joint PJVA-CAPL project, the PJVA will be the document custodian as a result. This interrelationship between a JV agreement and land interests is similar in some ways to a unit agreement that applies to lands subject to a JOA.

Parties to Agreement: All owners (including holders of an interest contingent on exercise of a "Land Election Right") are expected to be parties to a PSSA. The applicable "operators" will not execute a PSSA on behalf of the respective mineral rights owners. The Land Agreement would rarely provide an operator with the authority to enter into a PSSA on behalf of the working interest owners in the absence of specific authorization.

Site Operator: Ownership rights are subject to the restriction that only the applicable Site Operator may conduct operations on the Pad Site due to the Occupational Health and Safety "prime contractor" requirements, the need for operational and HSE integrity on the Pad Site and the complexities inherent in allowing multiple operators on site. This reflects the view that the rights of individual owners of mineral rights are secondary to the interests of the Owners of the Pad Site, and the PSSA modifies each Land Agreement on some matters as a consequence. However, individual Owner groups may modify the document if they wish. (See also the Addendum respecting "prime contractor" requirements at the end of the PSSA Operating Procedure.)

Governance: There is an Operating Committee structure that would typically see mail ballots used for decisions. However, the operational and regulatory requirements associated with a Pad Site require Site Operator to have a very high degree of *de facto* control with respect to day-to-day matters.

Permitted Use: The Owners can prescribe the permitted use for the Pad Site in Appendix I (i.e., they can agree to limit operations to similar operations or include restrictions on operations anticipated to have sour production). (This is addressed in more detail in the definition of Permitted Use in the PSSA Operating Procedure.)

Land Activities: Subject to certain limitations and interrelationships created in this document, Well specific activities are conducted by Site Operator (typically wearing its "land operator hat") for the Well Owner(s) under the applicable Land Agreement, rather than wearing its "Site Operator hat" under the PSSA. It is important that Site Operator's personnel are always aware of which "hat" is being worn for activities being conducted by it at the relevant time, so that costs are allocated appropriately.

Site Abandonment: The PSSA addresses Well specific Abandonment obligations (Article VI) and those relating to the Pad Site more generally (Appendix VI). The applicable Land Agreement also applies to Wells.

Indemnification and Liability: The typical gross negligence or wilful misconduct approach applies, subject to cross-indemnification outcomes with respect to the conduct of Land Activities.

Linkage to PASC Guidelines: The PASC Accounting for Shared Pad Costs Accounting Guidelines will also apply to the PSSA insofar as they are not inconsistent with the Accounting Procedure or other provisions of the PSSA.

Example: The schematic below is a simple illustration of a typical shared Pad Site.

- The Wells located on the Pad Site are not held in common interests.
- There is at least one common Owner in the Wells located on the Pad Site.
- The common Owner's interest is material. In practice, that Owner will often have proposed the Pad Site sharing arrangement and been the natural Site Operator because of its interests and expertise with the play.
- The respective Well Owners own the Wells and the related Well Equipment under their Land Agreements.
- The PSSA will apply to the construction of the access road and the Pad Site, the related shared Facility and, typically (but not necessarily), the associated pipeline leaving the Pad Site, as well as the ongoing management of those assets.
- The interests of the Owners will be derived on a Well count basis to arrive at a blended interest for the Pad Site and the related assets owned under the PSSA that are not specific to the individual Wells.
- The onus is on the Owners to address on a custom basis any special needs they may have for a Pad Site sharing arrangement that has unusual elements or for which they prefer a different handling than that provided in the PSSA (e.g., the respective obligations if there is any Excluded Equipment).

