

UNIT OPERATING AGREEMENT

WASKADA UNIT NO. 14

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UNIT OPERATING AGREEMENT

WASKADA UNIT NO. 14

WHEREAS the Parties own Working Interests in the Unitized Zone and desire to conduct Unit Operations;

NOW THEREFORE in consideration of the covenants herein contained, the Parties agree as follows:

ARTICLE I

DEFINITIONS

101. **Definitions**

Unless otherwise defined herein, the definitions in the Unit Agreement are adopted. In addition, in this agreement:

(a) **"Affiliate Corporation"** means means a corporation fulfilling one of the following requirements:

- (i) Parties, one of which controls the other: or
- (ii) two or more Parties, both or all of which are controlled by the same corporation.

For the purposes herein, "controls" or "controlled" means control in any manner that results in control in fact, whether directly through the ownership of shares, or indirectly through a trust, a contract, the ownership of shares of any other body corporate or otherwise;

(b) **"Commencement Date"** means the time and date referred to in Article XVII;

- (c) **"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 Western Canada;
- (d) **"Joint Account"** means the account for the benefit and risk and at the expense of the Parties in accordance with their Unit Participations;
- (e) **"Non-Operators"** - means the Parties, whether one or more, other than the Unit Operator;
- (f) **"Party"** means a person who is bound by this agreement;
- (g) **"Operating Committee"** means the committee comprised of the duly authorized representatives of each of the Parties established pursuant to Article IV;
- (h) **"Unit Agreement"** means the agreement entitled "Unit Agreement - Waskada Unit No. 14";
- (i) **"Unit Facilities"** means all real and personal property of every kind, nature and description (excepting Unitized Substances, the Unitized Zone, rental equipment and Unit Operator's solely owned equipment) in the possession of Unit Operator pursuant to this agreement;
- (j) **"Unit Operations"** means any operations authorized and provided for in the Unit Agreement and this agreement, or either of them, for or in respect of the development and operation of the Unitized Zone for the production of Unitized Substances;
- (k) **"Unit Participation"** of a Party means the sum of the Party's share of Tract Participations as set forth in Exhibit "D";
- (l) **"Unit Well"** means a well listed in Exhibit "E" and any well drilled or acquired for the Joint Account.

ARTICLE II
CONFIRMATION OF UNIT AGREEMENT

201. **Confirmation of Unit Agreement**

The Unit Agreement is ratified and confirmed. In the event of any conflict between the Unit Agreement and this agreement, the Unit Agreement shall prevail. With respect to all matters not specifically provided for in this agreement, the relative provisions of the Unit Agreement shall apply, mutatis mutandis.

ARTICLE III
EXHIBITS

301. **Exhibits Incorporated**

Exhibits "A", "B" and "C" of the Unit Agreement are incorporated in this agreement by this reference.

302. **Exhibits Attached**

The following exhibits are attached to and incorporated in this agreement:

- (a) **Exhibit "D"** which is a list of the Parties and their respective Unit Participations;
- (b) **Exhibit "E"** which is a list of the Unit Wells;
- (c) **Exhibit "F"** which is the Accounting Procedure;
- (d) **Exhibit "G"** which is the Insurance Requirements.

303. **Revisions and Corrections**

Whenever Exhibits "A" and "B" are revised or corrected, corresponding revisions or corrections of Exhibits "D" and "E" shall be made with concurrent effect. Exhibit "E" shall also be revised as required to reflect additions or deletions of Unit Wells.

304. **Supplying of Exhibits**

Each time that an exhibit is revised or corrected pursuant to this agreement, the Unit Operator shall supply each Party with a copy of the revised exhibit.

305. **Conflicts**

If a provision of Exhibit "F" or "G" conflicts with a provision in the body hereof, the latter shall prevail.

ARTICLE IV

SUPERVISION AND CONTROL OF UNIT OPERATIONS

401. **Operating Committee**

The Parties shall supervise and control Unit Operations through an Operating Committee composed of their duly appointed representatives. Each Party shall as soon as possible notify Unit Operator of the name and address of its representatives and one or more alternate representatives who are authorized to represent and bind the Party with respect to Unit Operations. A Party may change any of its representatives from time to time by notice to Unit Operator. Two or more Parties may appoint the same person as their representative who shall cast a separate vote for each of his principals.

402. **Chairman**

The representative of Unit Operator shall be Chairman of the Operating Committee.

403. **Meetings**

The Operating Committee shall hold meetings whenever called by Unit Operator, or if there is no Unit Operator, by Parties having Unit Participations totalling 5 percent or more. Unit Operator may call meetings at any time on its own motion, and shall call meetings whenever requested to do so by representatives of any Working Interest Owners. Unless the representatives of all Parties in writing waive their right to notice, at least 10 days' notice of each meeting shall be given to the Parties, with an agenda attached. Reasonable details of matters on the agenda involving proposed expenditures and enlargements of the Unit Area shall be given. Matters not on the agenda may be voted upon only if the representatives of all Parties, whether or not present at the meeting, unanimously agree.

404. **Voting Procedure**

The representatives of the Parties shall determine all matters properly coming before the Operating Committee as follows:

- (a) **Voting Interest.** Except as otherwise provided in this clause and clause 405, in voting on any matter each Party shall have a voting interest equal to its Unit Participation. Parties that are Affiliate Corporations shall be deemed to be one Party and shall be entitled to one vote representing their entire combined interest.
- (b) **Vote Required - Generally.** Except as otherwise provided in this agreement, the Operating Committee shall determine matters by the affirmative vote of Parties having voting interests totalling 75 percent or more.

(c) **Vote Required - Special Matters**

- (i) **Qualification of Tracts.** Matters in respect of the qualification of Tracts for inclusion in the Unit Area shall be determined by the affirmative vote of Parties having voting interests totalling 75 percent or more;
- (ii) **Enlargement of Unit Area.** Matters in respect of the enlargement of the Unit Area shall be determined by the affirmative vote of Parties having voting interests totalling 75 percent or more;
- (iii) **Amendment or Replacement of Exhibit "F" or Exhibit "G".** Exhibit "F" or Exhibit "G" may be amended or replaced by the affirmative vote of Parties having voting interests totalling 75 percent or more;
- (iv) **Termination.** The Unit Agreement, pursuant to the provisions thereof; and this agreement, may be terminated by the affirmative vote of Parties having voting interests totalling 90 percent or more, but for the purposes hereof sub-clause (e) of this clause shall not apply.

(d) **Vote by Notice**

- (i) A Party not represented at a meeting may vote on any matter on the agenda by prior notice to Unit Operator;
- (ii) Unit Operator may submit any matter, with reasonable details of any proposed expenditure or enlargement of the Unit Area, to each Party by mail ballot notice. Each Party shall by notice cast its vote with Unit Operator within 15 days from the date of receipt of the mail ballot notice.

Such vote shall be binding unless Unit Operator calls a meeting or is requested to call a meeting pursuant to clause 403 within 5 days from the receipt of mail ballot notice. Unit Operator shall promptly notify each Party of the result of a vote hereunder.

(e) **Failure to Vote.** A Party who does not vote on any matter shall be deemed conclusively to have voted affirmatively, but in recording the vote in the minutes, the Party shall be shown as having been present and abstained, been absent, or failed to vote pursuant to a mail ballot notice, as the case may be.

(f) **Arbitration** - Notwithstanding that the required vote pursuant to any matter voted upon respecting sub-clauses (b) and (c) of this clause 404 is obtained, any Party may, within 15 days from receipt of the results of such vote, request that such matter be referred to arbitration, and in such event, the following principles shall apply to such arbitration:

(i) **Appointment of Arbitrator(s)**

Upon written demand of any Party, the Parties hereto shall meet and attempt to appoint a single arbitrator. In the event that the Parties are unable to agree on a single arbitrator, then upon written demand of any Party and within 10 days of such demand, the matter voted upon but in dispute shall be referred to three arbitrators, one to be appointed by the Unit Operator, one to be appointed by the other Party or Parties and the third to be chosen by the two arbitrators so chosen. If any Party fails to name an arbitrator within 10 days from

such demand, then an arbitrator for such Party shall be appointed by any Justice of the Court of Queen's Bench of Alberta. If the two arbitrators fail within 10 days from their appointment to agree upon and appoint the third arbitrator, then, upon written application by any Party, such third arbitrator shall be appointed by any Justice of Queen's Bench of Alberta.

(ii) **Qualification of Arbitrator(s)**

The arbitrator or arbitrators selected to act hereunder shall be qualified by education, experience and training to pass upon the particular matter voted upon but in dispute.

(iii) **Proceedings**

The arbitrator or arbitrators selected to act hereunder shall proceed immediately to hear in Calgary, Alberta and determine the matter voted upon but in dispute. The decision of the single arbitrator shall be made within 30 days after his or her appointment, subject to any reasonable delay due to unforeseen circumstances. Where there are three arbitrators, the decision of the arbitrators, or a majority of them, shall be made within 30 days after the appointment of the third arbitrator, subject to any reasonable delay due to unforeseen circumstances. In the event the single arbitrator fails or the arbitrators, or a majority of them, fail to make a decision within the period herein prescribed, then any Party may elect to have a new single arbitrator chosen in the manner herein prescribed, as if none had previously been selected.

(iv) **Decision**

The decision of the single arbitrator or the decision of the arbitrators, or a majority of them, shall be drawn up in writing and signed by the single arbitrator or by the arbitrators, or a majority of them, as the case may be, and shall be final and binding upon the Parties hereto as to any matter so submitted to arbitration, and the Parties hereto shall be bound by such decision and bound to perform the terms and conditions thereof.

(v) **Compensation**

The compensation and expenses of the single arbitrator or the arbitrators shall be determined by the arbitrator or arbitrators, as the case may be, and shall be borne by the Parties hereto in proportion to their respective final Unit Participations, except that Omega Hydrocarbons Ltd.'s proportion shall not exceed 80 percent.

(vi) **Governing Law**

Arbitrations conducted pursuant to this clause shall be governed in all aspects not addressed in this clause by the provisions of the Arbitration Act (Alberta) and regulations thereunder.

405. **Initial Voting Interest**

Each Party shall, during the period from the Commencement Date until 90 days after the Effective Date, be deemed conclusively to have a voting interest equal to the proportion, expressed as a percentage, that its Unit Participation bears to the combined Unit Participations of the Parties, as set forth in Exhibit "D".

406. **Minutes**

Unit Operator shall keep minutes of the proceedings of each meeting of the Operating Committee and a copy thereof shall be forwarded to each Party. The minutes shall include the names of the representatives present, the Parties they represent and any formal action taken by the Operating Committee. Minutes shall be deemed to be correct as distributed unless notice of errors or omissions is received by Unit Operator within 30 days after the date the minutes were deemed to be received by the Parties. A copy of corrected minutes shall be forwarded to each Party.

407. **Parties Bound by Voting**

A determination of a matter by the voting of Parties in accordance with this agreement shall be binding upon all the Parties.

ARTICLE V

RIGHTS AND POWERS OF THE OPERATING COMMITTEE

501. **Rights and Powers of the Operating Committee**

The Operating Committee shall have and exercise all the rights and powers granted to the Working Interest Owners by the Unit Agreement, except to the extent that certain of the said rights and powers are by this agreement specifically delegated to Unit Operator to be exercised by Unit Operator subject to the orders, directions and limitations given or imposed by the Operating Committee.

ARTICLE VI

INDIVIDUAL RIGHTS AND PRIVILEGES OF THE PARTIES

601. **Reservation of Rights**

Except as otherwise provided in this agreement or the Unit Agreement, each Party reserves to itself all of its rights, powers, authorities and privileges.

602. **Specific Rights**

Each Party shall have:

- (a) at all reasonable times upon notice to Unit Operator, the right to inspect all records and data pertaining to Unit Operations in the possession of Unit Operator and the right of access to the Unit Area, at the Party's sole risk and expense, to inspect Unit Operations and the Unit Facilities;
- (b) the right to conduct operations on its Tracts for the discovery and production of Petroleum Substances other than Unitized Substances on condition that the Party shall protect the Unitized Zone and prevent interference with Unit Operations. Each Party who exercises this right agrees to indemnify all other Parties against all actions, suits, claims, costs, loss, liability, damages and expenses that may be brought against or suffered by them as a result of anything done pursuant or relative to the exercising of such rights.

ARTICLE VII
UNIT OPERATOR

701. **Unit Operator**

The Parties hereby designate Omega Hydrocarbons Ltd. as initial Unit Operator and Omega Hydrocarbons Ltd. hereby accepts such designation.

702. **Resignation or Removal**

Unit Operator may resign at any time by giving 90 days' notice to the Parties. A Unit Operator who resigns or is removed shall continue to have all its rights, powers, duties and obligations as Unit Operator hereunder until 8:00 a.m. on the first day of the month immediately following the month in which the said period of 90 days expires or until a designated successor Unit Operator has taken over Unit Operations, whichever is the sooner. If Unit Operator becomes bankrupt or insolvent or ceases to be a Working Interest Owner it shall thereupon cease to be Unit Operator.

703. **Designation of Successor**

If Unit Operator resigns or is removed or ceases to be Unit Operator, a successor Unit Operator shall forthwith be designated by the Operating Committee. In voting on the successor a Unit Operator may not vote to succeed itself.

704. **Takeover by Successor**

Upon the effective time of a resignation or cessation, the departing Unit Operator shall turn over to its successor, or if no successor has been designated, to the Parties or to any one of them on behalf of all, control and possession of all Unit Facilities, unit production on hand, documents, books, records and accounts (or copies thereof) pertaining to the performance of its functions as Unit Operator, together with all monies held by it in its capacity as Unit Operator. If the title to any real property

included in the Unit Facilities is held in its name, it shall continue to hold such property in trust for the Parties unless otherwise directed by the Operating Committee. Upon the date Unit Operations are taken over by the successor Unit Operator, the departing Unit Operator shall be released and discharged from and the successor Unit Operator shall assume, all duties and obligations of Unit Operator; provided however that the departing Unit Operator shall continue to be liable for any and all unsatisfied duties and obligations of the departing Unit Operator which arose prior to the effective date the successor Unit Operator took over the Unit Operations.

705. **Audit Upon Change of Unit Operator**

Within 60 days of the effective time of a Unit Operator's resignation, removal or cessation as Unit Operator, the Unit Operating Committee shall cause an audit to be made of the records of the departing Unit Operator, the cost of which shall be for the Joint Account.

706. **No Assignment of Operating Rights**

The assignment of any or all of the Unit Operator's Working Interest through any means shall not include the assignment of operating rights or obligations except as authorized by the Operating Committee.

ARTICLE VIII

PERFORMANCE BY UNIT OPERATOR

801. **Status**

Unit Operator shall, in addition to its rights, powers, duties and obligations as Unit Operator, have all the rights, powers, duties and obligations of a Party.

802. Rights, Powers, Duties and Obligations

Subject to this agreement and the Unit Agreement and to any orders, directions and limitations given or imposed by the Operating Committee or by regulatory bodies having jurisdiction, Unit Operator shall conduct or cause to be conducted all Unit Operations. Without limiting the generality of the foregoing, Unit Operator shall:

- (a) make all necessary reports relating to Unit Operations to the appropriate governmental agency;
- (b) keep in Canada true and correct books, accounts and records of the Unit Operations and furnish to each Party on or before the 25th day of each calendar month a statement of the amount of Unitized Substances produced and the sales and inventory of such production in the preceding calendar month and such other data and information as the Operating Committee may require;
- (c) provide each Party with timely statements of financial results on a monthly basis and remit net proceeds of production received for the account of non-operators promptly on completion of those monthly statements;
- (d) make, for and on behalf of all Parties, applications for any and all approvals or orders of governmental bodies or duly constituted authorities having jurisdiction which are necessary or convenient for the purposes of this agreement and operations hereunder;
- (e) furnish to each Party such reports of Unit Operations as the Operating Committee may direct and consult with the Operating Committee and keep the Parties advised of all matters arising in connection with Unit Operations which Unit Operator considers important;
- (f) conduct all Unit Operations in a good and workmanlike manner, in

accordance with good oil and gas field practices and in accordance with all applicable laws, orders, rules, and regulations;

- (g) keep the Leases, the Unit Area and the Unit Facilities free from all liens and encumbrances resulting or arising from Unit Operations, except liens being contested in good faith;
- (h) comply and require its contractors to comply with The Worker's Compensation Act and carry and require its contractors to carry, with respect to Unit Operations, such liability insurance for the benefit of the Parties as set forth in Exhibit "G", but this shall not prevent a Party from procuring and maintaining at its sole cost and expense and for its sole benefit such insurance on Unit Facilities as it shall determine if the Party's insurance policy contains a waiver on the part of the insurance carrier of all rights, by subrogation or otherwise, against any Party not named as an insured in the policy;
- (i) let contracts for portions of Unit Operations on a competitive basis, but Unit Operator may use its own facilities and equipment for such operations and charge for the use thereof in accordance with paragraph 206(c) of Exhibit "F"; and
- (j) prepare and submit to the Operating Committee, for approval, the forecasts provided for in clause 1202 herein.

In the absence of any specific instructions from the Operating Committee, Unit Operator shall conduct, or cause to be conducted, such Unit Operations as would a prudent operator under the same or similar circumstances.

803. Employees

The number, selection, hours of labour and remuneration of employees used by Unit Operator in conducting Unit Operations shall be determined by Unit Operator. Such employees shall be the employees solely of Unit Operator.

804. Expenditures

Unit Operator shall not make or incur any expenditure for the Joint Account, other than an expenditure allowed by an approved forecast, without the prior approval of the Operating Committee except as provided for in Exhibit "F".

ARTICLE IX

LIABILITIES AND OBLIGATIONS

901. Liability of Unit Operator

Unit Operator, its servants, agents or employees shall not be liable to the other Parties for any loss or damage suffered by the Parties resulting or arising from Unit Operations except when and to the extent that such loss or damage results from the gross negligence or wilful or wanton misconduct of Unit Operator, its servants, agents or employees. Each Party in the proportion of its Unit Participation indemnifies and agrees to hold harmless Unit Operator, its servants, agents or employees against any claim of, or liability to, any third person resulting from acts or omissions of Unit Operator, its servants, agents or employees in respect of Unit Operations, except when and to the extent that such claim or liability results from the gross negligence or wilful or wanton misconduct of Unit Operator, its servants, agents or employees. For the purposes of this clause, an act or omission of Unit Operator, its servants, agents or employees shall not be

deemed gross negligence or wilful or wanton misconduct if such act or omission is done or omitted pursuant to the instructions of, or with the concurrence of, the Operating Committee.

902. **Taxes, Rentals and Royalties**

Each Party shall pay or be responsible for the payment of all taxes (other than taxes on Unit Facilities which shall be paid by Unit Operator for the Joint Account), rentals and royalties applicable to the Party's Working Interest in the respective Tracts and shall indemnify and save harmless all other Parties from all claims, suits, loss, costs, expenses and damages paid or incurred by them as a result of its failure to do so.

ARTICLE X

UNIT FACILITIES

1001. **Delivery of Wells and Equipment**

Upon the Effective Date each Party shall deliver to Unit Operator the exclusive use and possession of such Party's interest in:

- (a) all Unit Wells together with all casing therein; and
- (b) all tubing, flowlines, wellsite and other operating equipment used in the operation of the Unit Wells, and those access roads associated with Unit Operations, which the Operating Committee determines is necessary or desirable for conducting Unit Operations, except warehouses, lease houses, camps, office buildings and automobiles and other service equipment.

1002. **Delivery of Records**

Upon the Effective Date each Party shall deliver to Unit Operator copies of all records and information pertaining to Unit Wells, and any other pertinent information and records requested by Unit Operator.

1003. **Testing of Unit Wells**

If, by a test conducted by Unit Operator within 90 days after the Effective Date, any Unit Well is found by Unit Operator not to be in sound working condition, the Party delivering it shall bear the entire cost and risk of putting it in sound working condition; provided that if a Party disagrees with Unit Operator's finding, the matter shall be finally decided by the Operating Committee. Either the Party shall authorize Unit Operator to carry out the remedial work on its behalf, or the Operating Committee shall determine how and by whom the work shall be carried out or the amount that, in lieu of the work being carried out, shall be paid by the Party to Unit Operator for the Joint Account. All costs incurred by Unit Operator hereunder, or the amount to be paid by the Party in lieu thereof, shall be deemed conclusively to be amounts owing by the Party within the meaning of Article XII.

1004. **Adequacy of Wellsite and Other Operating Equipment**

If, within 90 days after the Effective Date, Unit Operator determines that a Unit Well does not have adequate wellsite and other operating equipment, the Party delivering it shall bear the entire cost and risk of providing and installing adequate wellsite and other operating equipment; provided that if a Party disagrees with Unit Operator's decision, the matter shall be finally decided by the Operating Committee. Either the Party shall authorize Unit Operator to provide and install the necessary equipment on its behalf or the Operating Committee shall determine who shall provide and install the equipment or the amount that, in lieu of the equipment being provided and installed, shall be paid by the Party to Unit Operator for the Joint Account. All costs incurred by Unit Operator hereunder or the amount to be paid by the Party in lieu thereof, shall be deemed conclusively to be amounts owing by the Party within the meaning of Article XII.

1005. **Representation and Indemnity**

Each Working Interest Owner represents and warrants that it is the owner of or has the right to deliver the Unit Facilities which it delivers pursuant to clause 1001 and each Working Interest Owner indemnifies and agrees to hold harmless the other Working Interest Owners from any and all liability, loss, cost or damage sustained by them and resulting from any liens, charges, encumbrances, suits or actions of whatsoever kind or nature, or failure of or deficiencies in its title to the Unit Facilities which it so delivers. Unit Operator, on behalf of the other Working Interest Owners, shall be entitled to exercise the remedies set out in clause 1207 of this agreement with respect to the collection of any monies owing with respect to such liability, loss, cost or damage.

1006. **Agreements for Use of Facilities**

With the prior approval of the Operating Committee, Unit Operator may enter into agreements with any person to operate facilities other than Unit Facilities or for the use or joint use by any person of any Unit Facilities, or for the use or joint use by Unit Operator of any facility owned by any person, and all costs and expenses recovered or incurred pursuant to said agreements shall be for the Joint Account.

ARTICLE XI
ADJUSTMENT OF INVESTMENT

1101. **Investment Adjustment**

Notwithstanding anything to the contrary herein contained, there shall be no adjustment of investment.

1102. **Inventory and Evaluation**

The Operating Committee shall appoint an inventory committee which shall make an inventory and evaluation of such of the wellsite and other operating equipment delivered to Unit Operator defined as Controllable Material. Each Party shall, upon request by the inventory committee, submit to it promptly a complete statement of the Controllable Material delivered by the Party to Unit Operator. The inventory committee shall price the Controllable Material at its current New Price adjusted for condition as of the Effective Date and report its inventory and evaluation to the Operating Committee.

1103. **General Facilities**

With the approval of the Operating Committee, Unit Operator may acquire warehouses, warehouse stocks, lease houses, camps, office buildings and automobiles and other service equipment necessary for Unit Operations.

1104. **Ownership of Unit Facilities**

Each Party shall own an undivided interest in the Unit Facilities that is equal to its Unit Participation.

1105. **Adjustment on Failure of Title**

The Operating Committee shall determine whether and the amount of any compensation that shall be payable by the other Parties to a Party whose title to a Tract fails for such Party's undivided interest so lost in the Unit Facilities.

1106. Pre-Unit Costs

With the approval of the Operating Committee any or all costs and expenses incurred prior to the Effective Date that are directly related to effecting unitization hereunder shall be for the Joint Account.

ARTICLE XII

COSTS OF UNIT OPERATIONS

1201. Basis of Charges to Parties

Except as otherwise provided in this agreement, Unit Operator initially shall pay and discharge all costs and expenses incurred for the Joint Account. The Parties shall reimburse Unit Operator for all such costs and expenses in proportion to their respective Unit Participations. All charges, credits and accounting for costs and expenses shall be in accordance with Exhibit "F".

1202. Forecasts

As soon as practicable after the Effective Date, Unit Operator shall submit to the Operating Committee a forecast of proposed expenditures for Unit Operations for the remainder of the calendar year, and on or before the last day of each December thereafter shall submit to the Operating Committee such a forecast for the succeeding calendar year. Forecasts shall set forth the proposed expenditures by quarterly periods, showing the capital items separately. The Operating Committee may approve a forecast or any portion thereof or it may conditionally approve any proposed expenditure or it may instruct Unit Operator to revise a forecast or any portion thereof. A copy of each forecast and revised forecast shall be promptly furnished to each Party. Approval of a forecast by the Operating Committee shall constitute

approval of proposed expenditures for Unit Operations except an expenditure for any single capital undertaking, the total estimated cost of which is in excess of the amount specified in or determined pursuant to paragraph 215 of Exhibit "F".

1203. **Advance Billings for Capital Items**

Unit Operator may submit to each Party on or before the 15th day of any calendar month a reasonably detailed estimate of approved capital items for the succeeding calendar month with a request for payment in advance. Each Party shall pay Unit Operator its share thereof within 30 days after receipt of such request or by the 15th day of the month for which the advance is requested, whichever is later. Unit Operator's monthly billings shall reflect credit for any advances, and any differences between actual costs and expenses and amounts advanced will be adjusted as required.

1204. **Operating Fund**

Unit Operator may by notice require the Parties to advance for an operating fund their respective proportions of one-twelfth of the expenditures, other than expenditures for capital items, proposed for a calendar year in an approved forecast. Within 30 days after receipt of such request each Party shall pay Unit Operator its share thereof. After the establishment of the operating fund, each Party shall remit its share of actual costs and expenses in accordance with clause 1205, thus maintaining the operating fund intact. The amount of the operating fund may be increased or decreased at the direction of the Operating Committee, who shall review the matter annually or whenever requested by a Party.

1205. **Regular Billings**

Unit Operator shall bill each Party for its share of charges for the Joint Account and each Party shall pay such bills in accordance with Exhibit "F".

1206. **Commingling of Funds**

Unit Operator may commingle funds received by it hereunder with its own funds. Provided, however, that such funds shall be and at all times remain the property of the Non-Operators and the Unit Operator shall hold and continue to hold such funds in trust for the benefit and on behalf of the Non-Operators until such funds are either expended by the Unit Operator for the Joint Account or are distributed to the Non-Operators under this agreement.

1207. **Unit Operator's Remedies**

If a Party fails to pay when due a bill rendered by Unit Operator, Unit Operator may give the Party a notice of nonpayment. After receipt of such notice, the amount unpaid as set forth in the notice shall at Unit Operator's discretion bear interest at the prime rate in effect at such time in the principal chartered bank in Canada used by the Unit Operator plus 2 percent per annum. The interest shall be for Unit Operator's sole account unless the costs and expenses for which the bill was submitted were met by other Parties, pursuant to clause 1208, in which event the interest shall be for the Parties so contributing. Further, Unit Operator may, after notice of nonpayment and while the bill remains unpaid, without limiting Unit Operator's other rights at law, exercise any or all of the following remedies:

- (a) set off against the amount unpaid, sums due or accruing to the Party from Unit Operator hereunder;
- (b) by notice accompanied by an executed copy of this agreement to any purchaser of the defaulting Party's share of production, require such purchaser to pay to Unit Operator the proceeds of such production which shall be applied toward payment of the amount unpaid and Unit Operator is hereby constituted irrevocably the attorney of the Party for the purpose of executing the instruments necessary to effect an assignment of such proceeds.

Books and records kept by Unit Operator with respect to Unit Operations shall constitute conclusive proof of the existence or nonexistence of any default, subject, however, to all rights of inspection, verification and audit provided in this agreement. The exercise of the rights granted in this clause shall not relieve a defaulting Party from its obligations to pay royalty currently, as provided elsewhere in this agreement.

1208. **Contributions by Parties**

If Unit Operator has not received full payment of a Party's share of the costs and expenses of Unit Operations within 3 months following the date when payment was due, each of the Parties shall, upon being billed therefor by Unit Operator, contribute a fraction of the unpaid amount, excluding interest thereon, having as its numerator the Party's Unit Participation and as its denominator the aggregate of the Unit Participations of all of the Parties exclusive of the Unit Participation of the defaulting Party; and thereupon each Party so contributing shall be proportionately subrogated to Unit Operator's rights pursuant to clause 1207.

ARTICLE XIII

**OIL IN LEASE TANKAGE AND OVERPRODUCTION
AS OF THE EFFECTIVE DATE**

1301. **Gauge of Merchantable Oil**

Unit Operator shall gauge all lease and other tanks delivered to it to ascertain the amount of merchantable oil in them as of the Effective Date. If any well producing into them has made more than its cumulative allowable production of oil from the proposed Unitized Zone as set by the Conservation Board, the amount of such overproduction then in the tanks shall be deemed to be Unitized Substances produced after the Effective Date. Except

as aforesaid, the oil in the tanks shall remain at the risk of and be the property of the persons owning it prior to the Effective Date, and upon request shall be delivered in kind to them, or in the absence of their request, shall be sold by Unit Operator for their account.

1302. **Overproduction**

If any overproduction of oil from the proposed Unitized Zone has been sold by a Party prior to the Effective Date, such Party shall pay to Unit Operator for the Joint Account, the gross proceeds thereof less any royalty paid or payable thereon.

1303. **No Allowance for Underproduction**

No allowance shall be made to a Party for any underproduction of oil prior to the Effective Date.

ARTICLE XIV

SURFACE RIGHTS

1401. **Submission of List to Unit Operator**

As soon as reasonably possible after executing this agreement, each Party shall submit to Unit Operator a list of all easements, rights-of-way, surface leases, rights of entry and other surface rights which it holds in connection with its operations in the proposed Unit Area, together with particulars thereof including rentals payable, if any.

1402. **Surface Rights Required for Unit Operations**

Unit Operator shall, as soon as practicable after the receipt of each of the aforesaid lists, advise in writing the Party submitting the list which, if any, of its listed surface rights will be required for Unit Operations. Subject to the other provisions of this Article, each Party shall continue to hold the surface rights so required and pay the applicable rentals

and bill Unit Operator for the amount of rentals applicable to periods subsequent to the Effective Date. Unit Operator shall reimburse each Party for rentals so paid and the amounts thereof shall be for the Joint Account. Notwithstanding the foregoing, each Party holding surface rights required for Unit Operations may, at any time at its election, assign such surface rights to Unit Operator in accordance with clause 1404.

1403. Surface Rights Jointly Used

Where there is a well or wells on a Tract in addition to a Unit Well, and surface rights are being used for production jointly from one or more of such other wells and the Unit Well, the rentals applicable to the surface rights shall be divided equally between the wells with respect to which the surface rights are being jointly used, and Unit Operator shall only be billed for the portion of such rentals which is applicable to the production of Unitized Substances from the Unit Well. For the purpose of this clause, a well producing from more than one formation shall be considered a separate well for each respective productive formation.

1404. Assignment of Surface Rights

Unit Operator may require that any surface rights which are being used solely for Unit Operations be assigned to it. Any such assignment shall, however, contain an express reservation to the assignor of the right at any time upon request to use the assigned surface rights jointly with Unit Operator on the basis provided in clause 1403. When the assigned surface rights are no longer required, Unit Operator shall so notify the assignor who may require Unit Operator to re-assign the surface rights to the assignor. The provisions of clause 1405 shall apply, mutatis mutandis, in respect of any surface rights which are the subject of a notice given under this clause.

1405. **Surface Rights No Longer Required**

Unit Operator may notify a Party that its surface rights or any of them are no longer required for Unit Operations, but any such notice shall be given at least 60 days prior to the date on which notice of surrender must be given to the surface owner or 60 days prior to the date of accrual of a rental obligation, whichever is sooner. Unit Operator shall clean up the surface to the satisfaction of any governmental body having jurisdiction and to the reasonable satisfaction of the owner and occupier thereof. After giving such notice Unit Operator shall be relieved of its responsibility and liability with respect to the surface rights except any obligations already accrued, and shall be denied all benefit with respect to the surface rights, and shall thereafter be held harmless by the Party holding them from responsibility and liability as to the surface rights, which shall not thereafter be subject to this agreement.

1406. **Surface Rights Held in Fee Simple**

Subject to any prior grant thereof, Unit Operator may use for Unit Operations any surface rights held in fee simple by a Party upon payment to the Party of a rental commensurate with rentals paid for other like surface rights in the Unit Area and the expense thereof shall be for the Joint Account.

1407. **Acquisition of Additional Surface Rights**

Unit Operator may acquire such additional surface rights as it deems necessary or desirable for Unit Operations.

1408. **Sharing of Surface Rights**

Notwithstanding the provisions of clause 1006, Unit Operator may enter into agreements with any person for the sharing of any surface rights and all costs and expenses recovered or incurred by Unit Operator pursuant to such agreements shall be for the Joint Account.

ARTICLE XV
ABANDONMENT OF WELLS

1501. **Rights of Former Owners**

 If the Operating Committee decides to plug and abandon permanently any Unit Well, Unit Operator shall give notice of this decision to the Party owning the Working Interest in the Tract upon which the well is located. The Party may elect by notice to Unit Operator within 60 days, or 48 hours if a drilling rig is in place, of receipt of notice, to take over and own the well and deepen or plug it back to a formation other than the Unitized Zone. Within 10 days after the Party has so elected it shall pay to Unit Operator for the Joint Account the fair net salvage value of the production casing and equipment in and on the well, as estimated and fixed by the Operating Committee. Unit Operator shall seal off the Unitized Zone in the well before handing it over to the Party and thereupon Unit Operator shall be relieved of its responsibility and liability with respect to the well, except any obligations already accrued, and shall be denied all benefit with respect to the well and shall thereafter be held harmless by the Party so electing from responsibility and liability as to the well, which shall not thereafter be subject to this agreement.

1502. **Abandonment of Wells**

 If the Party receiving a notice pursuant to clause 1501 does not elect to take over the Unit Well proposed for abandonment, Unit Operator shall abandon the Unit Well in accordance with applicable laws and regulations and the cost of such abandonment shall be for the Joint Account.

1503. **Surface Clean-up**

 Upon the abandonment of any well in the Unit Area, Unit Operator

or the Party abandoning the well shall clean up the surface at the well site to the satisfaction of any governmental body having jurisdiction and to the reasonable satisfaction of the owner and occupier thereof.

ARTICLE XVI
TERM OF AGREEMENT

1601. **Term**

 This agreement is binding upon a person who executes and delivers a counterpart thereof to Unit Operator, and that person is bound by this agreement as of the time of such delivery. Subject to Article XVII, this agreement shall remain in full force and effect while Unitized Substances are produced or are capable of being produced from the Unitized Zone in paying quantities and thereafter until all Unit Wells have been plugged and abandoned, and the Unit Facilities have been salvaged and the accounts between the Parties have been settled. Notwithstanding anything herein contained, this agreement may be terminated by the vote provided for in clause 404 (c)(iv).

ARTICLE XVII
COMMENCEMENT DATE

1701. **Commencement Date**

 Although this agreement is binding upon a person from the time that person executes and delivers a counterpart thereof to Unit Operator, the Commencement Date for actions to be taken by the Parties to carry out the purposes of this agreement in accordance with its provisions shall be at 8:00 a.m. on the day next following the day when Unit Operator is satisfied that

owners of Working Interests having Unit Participations totalling 100 per cent, as set forth in the original Exhibit "D", have become Parties. Unit Operator shall notify the Parties thereof within 30 days. If the unitization provided for in the Unit Agreement has not become effective within the time limited therein, this agreement shall thereupon terminate. If this agreement so terminates, all expenditures made in anticipation of the unitization becoming effective shall be borne by the Parties in the proportion that the voting interest of each bears to the combined voting interests of all the Parties.

ARTICLE XVIII
ABANDONMENT OF OPERATIONS

1801. **Right to Operate**

The owner of the Working Interest in a Tract desiring to take over and continue to operate a well located thereon may, upon the termination of this agreement, do so by paying Unit Operator for the Joint Account, the fair net salvage value of the casing and equipment in and on the well as estimated and fixed by the Operating Committee, and by agreeing to plug the well when it is finally abandoned.

1802. **Salvaging Wells**

With respect to all wells not taken over for continued operations pursuant to clause 1801, Unit Operator shall, for the Joint Account, salvage as much of the casing and equipment in or on such wells as can economically and reasonably be salvaged, and cause the wells to be properly plugged and abandoned.

1803. **Cost of Salvaging**

The cost of salvaging, liquidation or other distribution of assets and properties used in Unit Operations shall be for the Joint Account.

ARTICLE XIX

GENERAL

1901. **Affects Working Interest Only**

This agreement affects only the Working Interests of the Parties. Any Royalty Interest is governed solely by the Unit Agreement.

1902. **Execution Without Prejudice**

The execution of this agreement by Parties who claim title to any interest in the Unit Area shall not constitute a waiver of any such claim, but any Party who succeeds to the title to a Working Interest in a Tract shall be bound by this agreement with respect to such Working Interest.

1903. **Lien on or Assignment of Production**

If any interest of a Party in a Tract or Unitized Substances or the proceeds or value thereof is subject to a lien, assignment of production or other encumbrance, the owner or holder of such lien, assignment or encumbrance, by consenting to this agreement in writing, agrees that such lien, assignment or encumbrance shall, from the Effective Date continue in effect, but shall apply only to such interest as the same is amended, modified and affected by this agreement and the Unit Agreement, and shall be subject to such agreements as to the Party and such interest.

1904. **No Partitioning**

A Party shall not resort to any action for partition or sale in lieu of partition of the Unit Facilities or any lands affected by this agreement.

1905. **No Surrender Without Consent**

A Party shall not surrender its Working Interest in a Tract without the prior consent of the Operating Committee.

1906. **Waivers**

A waiver of any breach of a provision of this agreement shall not be binding upon a Party unless it is in writing and signed and such waiver shall not affect a Party's rights with respect to any other or future breach whether of a similar or different nature.

1907. **Suits**

A Party who is sued on an alleged cause of action arising out of Unit Operations shall forthwith notify every other Party.

1908. **Further Assurances**

Each Party shall from time to time and at all times do all such further acts and execute and deliver all such further deeds and documents as required in order fully to perform and carry out this agreement.

1909. **Restriction on Dispositions**

A Party shall not make any disposition of a Working Interest which does not include a corresponding interest in the Unit Facilities. No Working Interest shall be owned apart from a corresponding interest in the Unit Facilities and vice versa.

1910. **United States Internal Revenue Provision**

Each Party agrees that if, for purposes of the United States Internal Code of 1954, this agreement or the relationship established thereby constitutes a partnership as defined in Section 761 (a) of the said Code, each Party who is entitled under the said Section 761 (a) to elect, shall and does hereby elect to have the said partnership excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the said Code, or such portion thereof as the Secretary of the Treasury of the United States or his delegates shall permit by election to be excluded therefrom. The Unit Operator is authorized to execute such election on behalf of the Parties who are entitled to make such election and to file the election with the proper United States

government office or agency, and Unit Operator is further authorized and directed to execute and file such additional and further evidence of such election as may be required; provided that if Unit Operator is not subject to the said Code with respect to the Unit Area, the obligation of Unit Operator under this clause shall be carried out by the Party hereto who is subject to the said Code with respect to the Unit Area and who holds the greatest Unit Participation.

1911. **Notices and Communications**

All notices or communications hereunder shall be in writing and in lieu of personal service may be given or made by prepaid telecommunication or by mailing in a sealed and properly addressed envelope with postage prepaid. Notices or communications shall be deemed to have been received 12 hours after the sending thereof in the case of a telecommunication, and 96 hours after the date of mailing in the case of mailing, in either case excluding Saturdays, Sundays and statutory holidays. The address appearing below the execution of each Party shall be the address to which notices and communications to it shall be directed. A Party may change its address by notice to Unit Operator. Upon request Unit Operator shall furnish to any Party the address for service of any other Party.

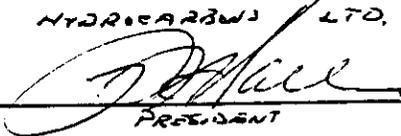
1912. **Inuring Clause**

This agreement shall inure to the benefit of and be binding upon the Parties and their respective heirs, executors, administrators, successors and assigns.

1913. Execution in Counterpart

This agreement may be executed in separate counterparts and all the executed counterparts together shall constitute one agreement.

IN WITNESS WHEREOF the Parties have executed this agreement each on the date shown opposite its execution hereof.

OMEGA HYDROCARBONS LTD.


PRESIDENT

Date NOVEMBER 27, 1957



SECRETARY

Address for Service

1300, 112 4TH AVENUE S.W.
CALGARY, ALBERTA
T2P 0N3

Execution Page forming part of the Unit Operating Agreement - Waskada Unit
No. 14

E X H I B I T "D"

Attached to and made part of an Agreement entitled
"Unit Operating Agreement - Waskada Unit No. 14"

LIST OF PARTIES AND THEIR RESPECTIVE UNIT PARTICIPATIONS

<u>Party</u>	<u>Unit Participation Percent</u>
Omega Hydrocarbons Ltd.	94.4061
Chauvco Resources Ltd.	5.5939
	<u>100.0000</u>

Effective: As of the Effective Date

E X H I B I T " E "

**Attached and made part of an Agreement entitled -
"Unit Operating Agreement - Waskada Unit No. 14"**

LIST OF UNIT WELLS

Omega et al	Waskada	1-32-1-25	WPM
Omega et al	Waskada	2-32-1-25	WPM
Omega et al	Waskada	A3-32-1-25	WPM
Omega et al	Waskada	4-32-1-25	WPM
Omega et al	Waskada	5-32-1-25	WPM
Omega et al	Waskada	6-32-1-25	WPM
Omega et al	Waskada	7-32-1-25	WPM
Omega et al	Waskada	8-32-1-25	WPM

Effective: As of the Effective Date

E X H I B I T " F "

ATTACHED TO AND MADE PART OF
"UNIT OPERATING AGREEMENT
WASKADA UNIT NO. 14"

ACCOUNTING PROCEDURE

PART I

GENERAL PROVISIONS

101. Definitions

The definitions of the Unit Operating Agreement, (hereinafter called the "Agreement") are adopted for the purposes of this Accounting Procedure, unless the context otherwise requires:

- (a) "Construction Project" means any construction or installation undertaken for the Joint Account, including each subsequent addition thereto or alteration thereof or AFE'd replacement of Material thereon and Equipping Costs of a well, but does not include Drilling. For purposes of paragraph 302, each addition, alteration or replacement 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.
- (b) "Completion Costs" means all moneys expended in preparing a Unit Well for the taking of production up to and including the initial installation of tubing and the

wellhead in and on a well but does not include "Equipping Costs."

(c) **"Drilling"** means the use of a rig and crew for the drilling, completing, production testing, capping, plugging, and abandoning, deepening, plugging-back, redrilling or reconditioning of a Unit Well (except routine cleanout and pump or rod pulling operations) or conversion of a Unit Well to a source, input, observation or Producing Well, and includes Completion Costs but does not include Equipping Costs.

(d) **"Equipping Costs"** of a Unit Well means all moneys expended, beyond Completion Costs, to acquire and install equipment required to produce petroleum substances from the well including the pump (or other artificial lift equipment), the acquisition and installation of flow lines and production tankage serving the well and where necessary a heater, dehydrator or other facility for the initial treatment of the petroleum substances produced from the well to prepare such production for transport to market, but specifically excluding costs incurred beyond the point of entry into a gathering system, plant or other common facility which is will be operated pursuant to a separate agreement.

(e) **"First Level Field Supervisor"** means the field employee whose primary function is the direct supervision of other field employees and/or contract labor, directly employed in a field operating capacity.

- (f) **Material** means the equipment, machinery and supplies acquired for the Joint Account and 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.
- (g) **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 Unit Area. Tubular goods 50.8mm in diameter and over shall be priced on a carload basis. Any cash discount that may be allowed by a dealer shall not be deducted in determining New Price.
- (h) **Operation and Maintenance** means all operations and required maintenance other than Drilling and Construction Projects conducted under the terms of this Agreement.

(i) **"Producing Well"** means a Unit Well which in a calendar month:

(i) is capable of economic production of Petroleum Substances from the Unitized Zone or has an allowable assigned thereto; or

(ii) is connected to a source, injection or disposal system; or

(iii) is used as an observation well in the Unitized Zone;

provided that a well that is a Drilling well during the entire month or is shut-in for 3 consecutive months awaiting abandonment or waterflood response shall not be considered a Producing Well, and a well separately completed in more than one zone shall be considered a separate Producing Well for each such zone; and further provided that a source, injection or disposal well which is shut-in for the entire month shall not be considered a Producing Well.

(j) **"Technical Employee"** means the employee having special and specific engineering, geological or other professional skills and whose primary function is the handling of specific operating conditions and problems.

102. **Statements and Billings**

Unit 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 will be accompanied by statements which identify the authority for expenditure, or leases, or

facility, and all charges and credits will be summarized by appropriate classifications of investment and expense. Items of Controllable Material and unusual charges and credits shall be identified and described in detail.

103. **Payments by Non-Operators**

Each Non-Operator shall pay all bills rendered pursuant to paragraph 102 hereof within 30 days of the date of receipt thereof.

104. **Advances**

Each Non-Operator shall pay in accordance with clauses 1203 and 1204 of the Agreement its proportionate share of any advances required by the Unit Operator thereunder.

105. **Unpaid Accounts**

If payment of any bill or request for advances is not made within the time stipulated in clauses 1203, and 1204 of the Agreement and paragraph 103 hereof the Unit Operator may invoke the provisions of clause 1207 of the Agreement.

106. **Rights to Protest or Question Bills**

Payment of bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof, nor shall such protest or question be justification for full or partial nonpayment. All statements rendered to Non-Operator by Unit Operator during any calendar year shall conclusively be presumed to be true and correct after 26 months following the end of any such calendar year, unless within the said 26 month period, Non-Operator takes written exception thereto and makes claim on Unit Operator for adjustment.

107. **Audits**

Unit Operator's books, accounts and records relating to Unit Operations for a calendar year may be audited within 24 months next following the end of that calendar year by:

- (a) an audit committee which shall be appointed by the Operating Committee. The Operating Committee shall set the rates of remuneration and expenses and the cost of such audit shall be borne by all Parties except the Unit Operator in the proportions of their Unit Participations, provided that, for the purposes of this paragraph 107(a), the term "Unit Operator" shall include an Affiliate Corporation of the Unit Operator which is a Party to the Agreement; or
- (b) a Party or Parties who shall give reasonable written notice to the Unit Operator and the other Parties that it or they intend to audit, which Party or Parties shall bear the total cost thereof. Where two or more Parties desire to conduct such audits, they shall make every reasonable effort to conduct joint or simultaneous audits.

Each audit shall be conducted so as to cause a minimum of inconvenience to the Unit Operator. Any claims of discrepancies disclosed by an audit shall be made in writing to Unit Operator within 2 months of the completion of such audit. Unit Operator shall respond to any claims of discrepancies within 6 months of receipt of such claims. If Unit Operator is unable to respond to the claims during the 6 month period, one extension of 3 months may be presented by Unit Operator to the Parties for approval in

accordance with Clause 404 (b) of the Agreement. Claims unanswered after the above 6 month period and/or additional 3 month extension, shall be credited forthwith to the Joint Account as originally submitted, until such claims of discrepancies are resolved.

108. **Audit of Outside Services**

With prior approval of the Operating Committee, the cost of audit of outside services shall be for the Joint Account.

109. **Records**

The Unit Operator shall maintain detailed records of Controllable Material in such a manner as to enable an effective reconciliation of any physical inventory with the Joint Account.

110. **Approvals and Directions**

Any approval of or direction by the Operating Committee under this Accounting Procedure shall be determined by a vote pursuant to clause 404(b) of the Agreement.

111. **Rates**

All rates set forth in this Accounting Procedure may be amended from time to time in accordance with clause 404(c)(iii) of the Agreement.

PART II

CHARGES

Unit Operator may charge the Joint Account with the cost of the following items:

201. **Rentals and Other Payments**

Rentals, fees and other payments required to maintain the interest of the Parties in the Unit Area and Unit Facilities and which it has paid for the Joint Account.

202. **Labor**

- (a)
- 1) Salaries and wages of Unit Operator's field employees directly employed on the Unit Area in conduct of Unit Operations.
 - 2) Salaries of First Level Field Supervisors in the field.
 - 3) Salaries and wages of Technical Employees directly employed on the Unit Area in conduct of Unit Operations.
 - 4) Salaries and wages of Technical Employees who are either temporarily or permanently assigned to and directly employed off the site of the Unit Area or Unit Facilities may be charged upon prior approval of the Operating Committee. Charges for such Technical Employees shall be limited to that portion of the salaries and wages attributable to and actually devoted to Unit Operations.
 - 5) Earned or compensatory time off relating to the above wage or salary categories.
- (b) Unit Operator's costs of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are for the Joint Account. Costs under this paragraph 202(b) shall 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 Unit Operator's cost experience.

203. **Employee Benefits**

Unit Operator's costs with respect to employees whose salaries and wages are chargeable under paragraph 202:

(a) Compulsory:

Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Unit Operator's salaries and wages for the Joint Account.

(b) Non-Compulsory:

Established plans for employee's group life, insurance, hospitalization, company pension, retirement, stock purchase, thrift, bonus and other benefit plans of a like nature, applicable to Unit Operator's labor for the Joint Account shall be chargeable at Unit Operator's actual cost not to exceed 25 percent of such labor cost. Unit Operator shall not charge the costs of administering such plans.

204. **Travel and Moving**

Actual personal expenses, and personnel transfers (except real estate charges and commissions) beyond the control of the Unit Operator and travelling expenses to and from and within the Unit Area of those employees whose salaries and wages are for the Joint Account.

205. **Material**

Material purchased or furnished by Unit Operator for use in Unit Operations as provided under Part IV including transportation costs thereof. So far as it is reasonably practicable and consistent with efficient and economical operation only such material shall be purchased for or transferred to the Unit Area as may be required for the conduct of the Unit Operations.

206. **Services**

- (a) Services relative to the Unit Operations incurred under contracts entered into by Unit Operator with contractors.
- (b) Utilities and other services procured from outside sources including transportation costs thereof. Professional consultant services shall not be for the Joint Account unless approved by the Operating Committee except services provided for geological wellsite and drilling supervision.
- (c) Unit Operator may charge for use of Unit Operator's own facilities and equipment at rates, not exceeding those available in the immediate area for available like facilities and equipment, commensurate with the costs of ownership and operation thereof, including depreciation and interest on the depreciated investment. In lieu of the foregoing rates, Unit Operator may charge for use of its own facilities and equipment, except automotive equipment, at the commercial rates available in the immediate area, less 20 percent. When requested to do so, Unit Operator shall inform Non-Operators in advance of the rates to be charged.

(d) Unit Operator's costs for owned or leased automotive equipment used in Unit Operations. Costs shall be charged on a kilometrage basis or other equitable basis, based on Unit Operator's actual cost experience.

207. **Damages and Losses to Unit Facilities**

Repair or replacement of Unit Facilities made necessary because of damages or losses incurred by fire, flood, storm, theft, accident or other causes for which the Unit Operator is not liable. Unit Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after the damage or loss has been discovered.

208. **Surface Rights and Legal Services**

Acquisition or renewal of surface rights and periodic rentals. Fees and related expenses associated with other legal services may be charged only with the approval of the Operating Committee.

209. **Taxes**

Taxes paid for the Joint Account.

210. **Insurance**

Insurance premiums paid for the Joint Account.

211. **Communications**

Communication equipment located on or serving the Unit area or the Unit Facilities and outgoing communications incurred by Unit Operator directly from the Unit Area or Unit Facilities. Other communication services as agreed upon by the Parties.

212. **Camp and Housing**

Operation and maintenance of all necessary camp and housing facilities for, and boarding of, employees whose salaries and wages

are for the Joint Account; provided that the charges for Unit Operator's own facilities shall be commensurate with the costs of ownership 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 Unit Operator plus one percent, determined at the beginning of each year. When operations in addition to Unit Operations are served by these facilities, the charge for such facilities shall be apportioned among all such operations on an equitable basis.

213. **Central Production Control**

Automated field and central production control facilities owned or leased by Unit Operator including employee costs for maintenance and operation of the central production control system and related computer facilities serving the Unit Operations shall be allocated to each operation served on an equitable basis.

214. **Ecological and Environmental**

Requirements, whether statutory or otherwise, relating to the ecology or environment of the Unit Area. Cost of related studies shall be subject to the approval of the Operating Committee.

215. **Limits to Expenditures**

Unit Operator may make or incur the following expenditures for the Joint Account, in addition to expenditures allowed by an approved forecast, without the prior approval of the Operating Committee:

- (a) an expenditure for any undertaking, the total estimated cost of which is not in excess of \$25,000.00;
- (b) expenditures which it deems necessary in emergencies to

protect lives or property, but if it makes any said expenditure it promptly shall advise the Parties; and

- (c) expenditures not in excess of \$10,000.00 for full settlement of each damage claim resulting or arising from Unit Operations, other than those claims for which insurance has been provided in Exhibit "G".

216. **Engineering and Design**

- (a) Engineering and design for each approved Construction Project conducted by Unit Operator's employees directly engaged in such work shall be charged at cost. Cost shall mean salaries and benefits only.
- (b) Engineering and design work conducted by consultants or outside services require prior approval of the Operating Committee.

217. **Other Costs**

Costs, as approved by the Operating Committee, for which provision is not made elsewhere in the Accounting Procedure.

PART III

OVERHEAD

301. **In This Part III:**

"Costs" means total expenditures described in Part II (excluding those expenditures referred to in paragraph 201, and expenses of litigation, judgments, settlement of claims, royalties on production, salvage credits for Material retired and the value of injected substances purchased for enhanced recovery) incurred in conducting Unit Operations.

"Overhead" means an allowance to Unit Operator for the cost of salaries, wages, employee benefits and all other expenses of employees other than those covered by paragraph 202; and the cost of maintaining and operating offices, camps, housing and other facilities that are not Unit Facilities other than those costs covered by paragraphs 212 and 213.

302.

Overhead

Notwithstanding that the actual overhead may be greater or less, Unit Operator shall charge the Joint Account for overhead as follows:

- (a) For each Drilling well:
 - 1) 3% of the first \$50,000.00 of Cost plus
 - 2) 2% of the next \$100,000.00 of Cost plus
 - 3) 1% of Cost exceeding \$150,000.00.
- (b) For each Construction Project:
 - 1) 5% of the first \$50,000.00 of Cost plus
 - 2) 3% of the next \$100,000.00 of Cost plus
 - 3) 1% of Cost exceeding \$150,000.00.
- (c) For Operation and Maintenance:
 - 1) \$225.00 per month for each Producing Well.

303.

Warehouse Handling

- (a) If a warehouse is not maintained as a Unit Facility, Unit Operator may charge:
 - 1) 2 1/2 percent of the cost of tubular goods, 50.8mm in diameter and over, and each other item of Material having a New Price in excess of \$3,000.00; and
 - 2) 5 percent of the cost of all other Material delivered from its warehouse.

- (b) If a warehouse is maintained as a Unit Facility, Unit Operator may charge only the actual costs thereof.

PART IV

**PRICING OF JOINT MATERIAL PURCHASE
TRANSFERS AND DISPOSITIONS**

401. **Material Movement, Use and Disposition**

- (a) Unit Operator shall make proper and timely charges and credits for all Material movements affecting the Unit Facilities.
- (b) Unit Operator shall provide all Materials for use on the Unit Area; however, at Unit Operator's option such Material may be supplied by Non-Operators.
- (c) Unit Operator shall make timely disposition of idle and/or surplus Material either through sale to Unit Operator or Non-Operators, division in kind, or sale to outsiders.
- (d) Unit Operator may purchase interests of Non-Operators in surplus Material.
- (e) All sales of Condition A, B or C Material, the New Price of which is greater than \$10,000.00 shall be subject to approval by the Operating Committee. All other disposals of Material shall be at the discretion of the Unit Operator provided that any sales to the Parties or any of them shall be priced in accordance with Paragraph 403. The proceeds of sales of Material shall be for the Joint Account.

402. **Purchases**

Material purchased shall be charged at the price paid by Unit Operator after deduction of all discounts received. Credit for Material returned to vendor shall be for the Joint Account when adjustment has been received by the Unit Operator.

403. **Transfers and Dispositions**

Material furnished to the Unit Area and Material transferred from the Unit Area or disposed of by the Unit Operator, unless otherwise agreed to by the Operating Committee, shall be priced on the following basis exclusive of cash discounts:

(a) **New Material (Condition A)**

Condition A Material including tubular goods, shall be priced at the New Price in effect on date of movement.

(b) **Good Used Material (Condition B)**

1) Condition B Material moved to the Unit Area at 75 percent of New Price.

2) Condition B Material moved from the Unit Area:

(i) At 75 percent of New Price if Material was originally for the Joint Account as new Material;
or

(ii) At 65 percent of New Price if Material was originally for the Joint Account as good used Material at 75 percent of New Price.

(c) **Other Used Material (Condition C, D and E)**

1) Condition C Material shall be priced at 50 percent of New Price.

2) Condition D and E Material shall be priced at a value commensurate with its use or at prevailing prices.

404. **Transportation of Material**

Unit Operator may charge the actual cost of transporting Material to or from the Unit Area or the estimated cost of transporting such Material from the closer of the nearest reputable supply store or railway receiving point, whichever is the lesser, but no charge shall be made for transporting Material from the Unit Area to other properties of the Unit Operator without the approval of the Operating Committee.

405. **Premium Prices**

Unit Operator may, with the approval of the Operating Committee, charge the direct cost and expense incurred in procuring material that is not readily available because of causes over which Unit Operator has no control, in making it suitable for use and in transporting it to Unit Area.

PART V

INVENTORIES

501. **Inventories by Operator or Committee**

Unit Operator shall conduct inventories that are required hereunder unless an inventory committee is appointed by the Operating Committee for the purpose. The Operating Committee shall set the rates of remuneration and expenses of the inventory committee.

502. **Notice of Inventory**

Unit Operator shall give each Party notice that an inventory will be conducted at least 30 days before an inventory will begin. Each Party may elect, at its own expense, to be represented during the taking of an inventory.

503. **Frequency of Inventory and Expense**

An inventory of Controllable Material shall be conducted whenever the Operating Committee so directs or within a minimum of every 5 years and the expense thereof shall be for the Joint Account. The costs of conducting inventories initiated at more frequent intervals by the Unit Operator shall be borne by the Unit Operator.

504. **Reconciliation**

Unit Operator shall reconcile the inventories with Joint Account records unless the inventory committee appointed by the Operating Committee is directed to do so.

505. **Report of Inventory**

Unit Operator shall submit each inventory, together with a list of overages and shortages showing the cost for the Joint Account of shortages and the original or estimated cost of overages to each Party all within 6 months of commencement of taking of the inventory. Unit Operator shall, for the Joint Account notwithstanding anything elsewhere herein contained, adjust for such overages and shortages.

506. **Special Inventory**

Each Party has the right at any time to request in writing the taking of a special inventory. The taking of such special inventory shall be commenced within 30 days after receipt of notice thereof. All expenses incurred by Unit Operator in conducting any special inventory, including reconciliations shall be borne by the requesting Party.

Effective: As of the Effective Date

E X H I B I T " G "

**ATTACHED TO AND MADE PART OF
"UNIT OPERATING AGREEMENT
WASKADA UNIT NO. 14"**

INSURANCE REQUIREMENTS

(a) In respect of operations covered by this Agreement, the Unit Operator shall comply with the requirements of all Unemployment Insurance and Workers' Compensation legislation and shall, prior to the commencement of operations hereunder, hold or cause to be held with a reputable insurance company or companies, and thereafter maintain or cause to be maintained for the Joint Account and benefit of the Parties hereto, the insurance hereinafter set forth, and the cost thereof shall be charged to the Joint Account. The insurance referred to in this subclause is as follows:

- (i) Contingent Employer's Liability Insurance covering each worker engaged in the operations hereunder to the extent of \$1,000,000.00 where such worker is not covered by Worker's Compensation. Alternately, if Workers' Compensation Insurance exists then in such event the aforementioned Employer's Liability Insurance shall not be required but the Comprehensive General Liability Insurance referred to in clause (a)(iii) hereof shall contain an endorsement providing for Contingent Employer's Liability Insurance.
- (ii) Automobile, Aircraft, Snowcraft and Watercraft Liability Insurance covering all motor vehicles, aircraft, snowcraft

and watercraft owned or non-owned, leased, operated and/or licensed by the Unit Operator, with bodily injury, death and property damage limit of \$1,000,000.00 inclusive.

(iii) Comprehensive General Liability Insurance with a bodily injury, death and occurrence basis, property damage limit of \$1,000,000.00 inclusive, and without restricting the generality of the foregoing provisions of this subclause, such coverage shall include Contractual Liability, Tortious Liability, Contractor's Protective Liability, Products and Complete Operations Liability.

(b) The Unit Operator shall require its contractors and subcontractors to comply with applicable Unemployment Insurance and Workers' Compensation legislation and carry such insurance in such amounts as the Unit Operator deems necessary.

(c) Each Party hereto shall be responsible for insuring its own interest in the Facilities with respect to physical damage to property, loss of income and any insurance other than that referred to in sub-clause (a) of this clause, and sub-clause (d).

(d) The Unit Operator or the contractor at the Unit Operator's direction shall carry and place in force, prior to the commencement of the facility construction, "All Risk" Course of Construction Insurance covering loss or damage to the facility in course of construction, including all machinery, materials, and supplies, on the premises of the facility or in transit thereto and intended to become part of the finished facility, and while there awaiting erection or installation and during erection or installation, testing and until:

(i) the facility is mechanically complete as a whole;

- (ii) the facility is being operated by the Unit Operator; and
- (iii) the facility has been operating for a period of not less than 30 days.

Such insurance shall include Parties, contractors and subcontractors as named insureds as their respective interest may appear, and the amount of insurance shall be for the total completed value of the work.

- (e) If so requested by any Party, the Unit Operator shall furnish evidence of compliance with the foregoing insurance provisions.
- (f) Each Party waives any and every right of subrogation against the Unit Operator arising out of or in anyway connected with the insurance coverage provided for in or required by, this Exhibit "G".
- (g) Any insurance policy insuring a Party's interest in the properties shall contain a waiver on the part of the insured of all rights, by subrogation or otherwise, against the other Parties.

Effective: As of the Effective Date

**UNIT AGREEMENT
WASKADA UNIT NO. 14**

UNIT AGREEMENT
WASKADA UNIT NO. 14

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UNIT AGREEMENT

WASKADA UNIT NO. 14

WHEREAS the Parties own Royalty Interests and Working Interests, or either of them, in the Unitized Zone;

AND WHEREAS the Parties desire that the Unitized Zone be developed, produced and operated as a unit, as hereinafter provided;

NOW THEREFORE in consideration of the covenants herein contained, the Parties agree as follows:

ARTICLE I

DEFINITIONS

101. **Definitions**

In this agreement:

- (a) **"Conservation Board"** means The Oil and Natural Gas Conservation Board of the Province of Manitoba;
- (b) **"Effective Date"** means the time and date referred to in Article XIV;
- (c) **"Lease"** means an instrument granting a Working Interest in the Unitized Zone;
- (d) **"Outside Substances"** means any substances initially obtained from any source other than the Unitized Zone or any Unitized Substances with respect to which royalty has been paid;
- (e) **"Party"** means a person who is bound by this agreement;

- (f) **"Petroleum Substances"** means petroleum, natural gas and other hydrocarbons (except coal) or any of them, and all substances associated therewith;
- (g) **"Royalty Interest"** means any interest other than a Working Interest in Petroleum Substances, or the proceeds from the sale thereof, produced from the Lower Amaranth Formation but does not include the interest of a person as a purchaser of Petroleum Substances after production;
- (h) **"Royalty Owner"** means a Party owning a Royalty Interest;
- (i) **"Spacing Unit"** means the area allocated to a well by the Conservation Board with respect to the Lower Amaranth Formation for the purpose of drilling for or producing Petroleum Substances;
- (j) **"Tract"** means a parcel of land described and given a Tract number in Exhibit "A" and shown outlined on Exhibit "B";
- (k) **"Tract Participation"** means the percentage allotted to a Tract and set forth in Exhibit "A";
- (l) **"Unit Area"** means the lands described in Exhibit "A";
- (m) **"Unit Operator"** means the person who is so designated under the Unit Operating Agreement;
- (n) **"Unit Operating Agreement"** means the agreement entitled "Unit Operating Agreement - Waskada Unit No. 14" entered into by the Working Interest Owners;
- (o) **"Unitized Zone"** means the Lower Amaranth Formation within the Unit Area;
- (p) **"Unitized Substances"** means Petroleum Substances in or obtained from the Unitized Zone;

- (q) **"Working Interest"** means any right to produce and dispose of Petroleum Substances from the Lower Amaranth Formation including an interest chargeable with any costs of drilling for, recovery of and disposal of Petroleum Substances therefrom;
- (r) **"Working Interest Owner"** means a Party owning a Working Interest;
- (s) **"Minister"** means the member of the Executive Council charged by the Lieutenant Governor in Council with the administration of The Mines Act;
- (t) **"Lower Amaranth Formation"** means the formation exemplified by the geological section occurring between the induction electric log depths of 889.8 m and 924.4 m, as measured from the Kelly Bushing at Omega Waskada 15-24-1-26 WPM and shown on Exhibit "C";

ARTICLE II

EXHIBITS

201. **Exhibits**

The following exhibits are attached to and incorporated in this agreement.

- (a) **Exhibit "A"** which numbers and describes each Tract and sets forth its Tract Participation, the names of the owners of the Working Interest and their respective shares of the Working Interest, together with the names of the Royalty Owners and their respective shares of the Royalty Interest;
- (b) **Exhibit "B"** which is a plan of the Unit Area;

(c) Exhibit "C" which is a copy of a portion of the induction electric log referred to in Subclause 101(t) hereof.

202. Exhibits Correct

Each exhibit shall be deemed conclusively to be correct to the effective time of a revision or correction thereof as herein provided.

203. Correction of Exhibits

If any mistake or mechanical error occurs in an exhibit, Unit Operator may, or upon request of the Working Interest Owners shall, prepare a corrected exhibit but the data used in establishing Tract Participations shall not be re-evaluated.

204. Effective Time

Any corrected exhibit prepared on or before the Effective Date or within 90 days thereafter shall be effective on the Effective Date. Any corrected exhibit prepared after the said 90 days shall be effective at 8:00 a.m. on the first day of the calendar month next following its preparation or on such other date as is determined by the Working Interest Owners.

205. Supplying of Exhibits

Each time that an exhibit is revised or corrected pursuant to this agreement, Unit Operator shall supply the Conservation Board and the Department of Energy and Mines, Manitoba with 2 copies each and shall supply each Working Interest Owner with the number of copies of the exhibit it requests. Each Working Interest Owner shall supply each of its Royalty Owners, excepting the Crown, with a copy thereof.

206. Form of Revised or Corrected Exhibits

Exhibits that are revised or corrected shall show the effective time of the revision or correction and shall be numbered consecutively.

ARTICLE III
UNITIZATION AND EFFECT

301. **Unitization**

On and after the Effective Date the interest of each Royalty Owner and of each Working Interest Owner in the Unitized Substances and in the Unitized Zone are hereby unitized, as if the Unitized Zone had been included in a single lease executed by the Royalty Owners, as lessors, in favour of the Working Interest Owners, as lessees, and as if the lease had been subject to this agreement.

302. **Personal Property Excepted**

All lease and well equipment heretofore or hereafter placed by any of the Working Interest Owners on lands comprised in the Unit Area shall be deemed conclusively to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. The Working Interest Owners' rights and interests therein are set forth in the Unit Operating Agreement.

303. **Continuation of Leases**

All operations conducted with respect to the Unitized Zone or production of Unitized Substances shall, except for the purpose of calculating payments to Royalty Owners, be deemed conclusively to be operations upon or production from all of the Unitized Zone in each Tract, and such operations or production shall continue in force and effect each Lease and any other agreement or instrument relating to the Unitized Zone or Unitized Substances as if such operations had been conducted on and a well was producing from each Tract or Spacing Unit, or portion thereof, in the Unit Area.

304. Leases Amended

Each Lease and any other agreement or instrument relating to the Unitized Zone or Unitized Substances is hereby amended only to the extent necessary to make it conform to this agreement.

305. Ratification of Leases

Except for a Lease in respect of which a court action has been commenced and is pending on the Effective Date, each Royalty Owner hereby ratifies and confirms any Lease, as amended by this agreement, to which it is a party and agrees that no default exists with respect thereto and that any such Lease is in effect as of the Effective Date.

306. Effect of Unitization on Titles

Nothing herein shall be construed as a transfer or exchange of any interest in the Leases, Tracts or Unitized Zone, or in the Unitized Substances before production thereof.

307. Name

The name of the Unit hereby constituted is "Waskada Unit No. 14".

ARTICLE IV

AUTHORITY TO WORKING INTEREST OWNERS

401. Operations

The Working Interest Owners are hereby granted the right to develop and operate the Unitized Zone without regard to the provisions of the Leases or the boundary lines of the Tract or Spacing Units in such manner and by such means and methods as the Working Interest Owners consider necessary and proper and, without limiting the generality of the foregoing, the right to

inject any substance or combination of substances into the Unitized Zone and convert and use as injection wells any wells now existing or hereafter drilled into the Unitized Zone.

402. **Delegation**

The Working Interest owners may delegate to Unit Operator any of the rights and powers herein or otherwise granted to them.

403. **Vote of Working Interest Owners**

Any matter to be determined under this agreement by the Working Interest Owners may be determined by vote of the parties to the Unit Operating Agreement as prescribed therein.

ARTICLE V

INCLUSION AND QUALIFICATION OF TRACTS

501. **Tracts Included on Effective Date**

The Tracts included in the Unit Area as of the Effective Date are those Tracts which are qualified under clause 502:

- (a) before the Effective Date; or
- (b) on or within 90 days after the Effective Date.

502. **Qualification of Tracts**

A Tract is qualified for inclusion in the Unit Area when its title has been approved by the Working Interest Owners under clause 1102 and when:

- (a) owners of 100 percent of the Working Interest therein have become Parties and parties to the Unit Operating Agreement and owners of 100 per cent of the Royalty Interest therein have become Parties; or

- (b) owners of 100 per cent of the Working Interest therein have become Parties and parties to the Unit Operating Agreement and owners of less than 100 per cent of the Royalty Interest therein have become Parties, and such owners of Working Interests agree, if required by the other Working Interest Owners, to indemnify the other Working Interest Owners in a form and manner satisfactory to them for any loss or damages that may be suffered by such other Working Interest Owners in respect of claims and demands that, because of the inclusion of the Tract in the Unit Area, may be made by those owners of Royalty Interests in the Tract who have not become Parties; or
- (c) owners of Working Interest therein have agreed with the owners of Working Interests then Parties and parties to the Unit Operating Agreement as to the basis on which the Tract shall become qualified, where the Tract cannot be qualified pursuant to sub-clause (a) or (b) of this clause.

503. **Revision of Exhibits**

Within 120 days after the Effective Date the exhibits shall be revised, if necessary, to set out only those Tracts included in the Unit Area under this Article. The revised Exhibit "A" shall set forth the Tract Participations of the Tracts recalculated on the same basis and using the same data as that used in the calculation of Tract Participations in the original Exhibit "A" and so that their summation is 100 per cent. The exhibits as so revised shall be effective as of the Effective Date.

ARTICLE VI
TRACT PARTICIPATION

601. **Tract Participation**

Each Tract has a Tract Participation as shown on Exhibit "A".

ARTICLE VII
ALLOCATION OF UNITIZED SUBSTANCES PRODUCED

701. **Allocation to Tracts**

Subject to clauses 801 and 802 the Unitized Substances when produced shall be allocated to the Tracts in accordance with their Tract Participations. The amount of Unitized Substances allocated to each Tract, and only that amount, regardless of whether it be more or less than the amount of actual production of Unitized Substances from the well or wells, if any, on the Tract, shall be deemed conclusively to have been produced from the Tract.

702. **Distribution Within Tract**

The Unitized Substances allocated to a Tract shall be distributed by the Working Interest Owners thereof among, or accounted for to, the Parties entitled to share in production from the Tract in the same manner, the same proportions, and upon the same conditions as they would have participated and shared in the production from the Tract, or in the proceeds from the sale thereof, had the Unitized Substances allocated to the Tract been actually produced therefrom by the Working Interest Owners.

703. **Calculation of Royalty**

The Working Interest Owners of each Tract shall calculate royalty on the Unitized Substances allocated to the Tract at the applicable

rate under the Lease, other agreement or instrument relating to the Tract. The Royalty Owners of each Tract agree to accept payment of royalty so calculated in satisfaction of the obligation of a Working Interest Owner to make royalty payments on Unitized Substances under the Lease agreement or other instrument covering such Tract; but a lessee under a Lease shall not be relieved from making payment of royalty to its lessor if payment is not made by the Working Interest Owner as aforesaid. In calculating royalty on residue gas, sulphur and fluid hydrocarbons, or any of them, obtained by processing Unitized Substances, other than crude oil, by compression, absorption or other plant extraction or stabilization, proper allowances shall be made for costs, expenses and charges, including a reasonable return on investment, incurred in or attributable to gathering and processing the Unitized Substances.

704. **Taking Unitized Substances in Kind**

The Unitized Substances allocated to a Tract shall be delivered in kind at the time and place of production to the Working Interest Owners entitled thereto who may, if there is no interference with unit operations, construct, maintain and operate in the Unit Area all necessary facilities for taking delivery in kind.

705. **Failure to Take in Kind**

To the extent that a Party entitled to take in kind any of the Unitized Substances fails to take or otherwise dispose of them at the time and place of production, then so long as such failure continues, Unit Operator, as agent and for the account and at the expense of such Party may sell, store, inject or otherwise dispose of them. Where there is a sale the net proceeds remaining from the sale shall be paid to the Party. Unit Operator may contract for the sale thereof only for the minimum term obtainable which in no

event shall exceed 1 year. When Unit Operator has so contracted, the Party may take its share of the Unitized Substances in kind upon the expiration of the current sales contract.

706. Royalty on Outside Substances

If an Outside Substance is injected into the Unitized Zone, the first like substance contained in the Unitized Substances subsequently produced and sold or used other than for operations hereunder shall be deemed conclusively to be an Outside Substance until a quantity equal to the quantity of the Outside Substance injected into the Unitized Zone is recovered. No royalty shall be payable on any substance which is deemed conclusively to be an Outside Substance.

ARTICLE VIII

USE, LOSS AND STORAGE OF UNITIZED SUBSTANCES

801. Use or Loss

The Working Interest Owners may use as much of the Unitized Substances, other than crude oil, as they deem necessary for the operations and development of the Unitized Zone including, but not limited to, the injection thereof into the Unitized Zone and in the operation of any plant or plants handling Unitized Substances. Unitized Substances so used or injected and Unitized Substances lost shall be excluded in allocating Unitized Substances to Tracts, and no royalty or other payment shall be payable in respect thereof.

802. Storage

The Working Interest Owners are hereby granted the right to inject Unitized Substances into the Unitized Zone for storage. Unitized

Substances so injected shall be excluded in allocating Unitized Substances to Tracts, and no royalty or other payment shall be payable in respect thereof until they are recovered from storage and sold or used for operations other than operations hereunder.

ARTICLE IX
ENLARGEMENT OF UNIT AREA

901. **Application for Lateral Enlargement**

After the expiry of 90 days from the Effective Date, if an owner of a Working Interest in lands in the vicinity of the Unit Area indicated to be potentially productive of Petroleum Substances from the Lower Amaranth Formation makes application therefor, the Working Interest Owners may, upon such terms and conditions as they may determine, approve the admission of the lands into the Unit Area. If the lands qualify under clause 502, the Unit Area shall be enlarged to include them. Even though an owner of a Royalty Interest in lands approved hereunder for admission into the Unit Area is a Party, the lands shall not qualify for inclusion in the Unit Area unless the owner again executes and delivers a counterpart of this agreement to Unit Operator or the lands otherwise qualify pursuant to subclause (b) or (c) of clause 502. The owner of a Working Interest in lands approved hereunder for admission into the Unit Area who is a Party and has made or joined in the application for the admission of said lands need not again execute this agreement.

902. **Adjustment of Tract Participation**

The Tract Participation of each Tract added pursuant to clause 901 shall be determined by the Working Interest Owners. The Tract

Participations shall then be adjusted so that:

- (a) the ratios of the Tract Participations of Tracts shown on Exhibit "A" immediately prior to the enlargement remain the same to each other; and
- (b) the total of the Tract Participations for all Tracts of the enlarged Unit Area and Unitized Zone is 100 per cent.

903. **Exhibits**

Unit Operator shall revise Exhibits "A" and "B" as required by the enlargement.

904. **Effective Time of Enlargement**

An enlargement pursuant to clause 901 and an adjustment of Tract Participations under this Article shall become effective at 8:00 a.m. on the first day of the first calendar month following approval of admission under clause 901, Tract qualification under clause 502 and approval of the Conservation Board.

905. **No Retroactive Adjustment**

There shall never be any retroactive adjustment of the allocation of Unitized Substances by reason of an enlargement under this Article.

ARTICLE X

DISPUTES

1001. **Disputes**

If the title or right of a Party to receive in kind all or any portion of the Unitized Substances allocated to a Tract, or any share of the proceeds from the sale thereof, is in dispute, the Party concerned shall forthwith give notice thereof to Unit Operator. If Unit Operator is so

notified or if Unit Operator is directed to do so by the Working Interest Owners in the event that it is otherwise informed of the dispute, Unit Operator shall withhold and sell the portion of Unitized Substances the title or right to which is in dispute, and hold in trust the proceeds from the sale thereof in an interest bearing trust account until:

- (a) the Party concerned furnishes security in a form and manner satisfactory to the Working Interest Owners for the proper accounting thereof to the rightful owner or owners if the title or right of the Party shall fail in whole or in part, whereupon the proceeds shall be paid to the Party; or
- (b) the title or right thereto is established by a final judgment of a Court or otherwise to the satisfaction of the Working Interest Owners, whereupon such proceeds shall be paid to the person rightfully entitled.

If Unit Operator does not comply with this clause because it is not notified of a dispute by a Party concerned, that Party hereby agrees to indemnify and save harmless Unit Operator from any loss or damage suffered because of anything done or omitted to be done by Unit Operator because it was not notified.

ARTICLE XI

APPROVAL OF TITLES

1101. Titles Committee

The Working Interest Owners shall appoint a titles committee which shall investigate the ownership of all Tracts. Each Working Interest Owner shall submit to the titles committee such title data and information as the titles committee may reasonably require from time to time. The titles

committee shall report the result of its investigation to the Working Interest Owners specifying the titles to Tracts which it unanimously recommends for approval.

1102. **Approval of Titles by Working Interest Owners**

The Working Interest Owners may approve:

- (a) the titles of Working Interest Owners to Tracts which have been unanimously recommended for approval by the titles committee; and
- (b) the titles of Working Interest Owners to Tracts which have not been unanimously recommended for approval by the titles committee but with respect to which such Working Interest Owners have agreed to indemnify the other working Interest Owners, in a form and manner satisfactory to them, from loss or damage that may be suffered by them in respect of claims and demands made because of subsequent failure of the Working Interest Owners' title.

Notwithstanding the foregoing, the Working Interest Owners may approve any title that has not been unanimously recommended for approval by the titles committee.

1103. **Subsequent Failure of Title**

If the title of a Working Interest Owner to a Tract fails, the Tract shall be excluded from this agreement and the Unit Operating Agreement as of 8:00 a.m. on the first day of the calendar month in which the failure of title is finally determined unless:

- (a) any other Party is held or declared to own the title in which event that Party shall be bound by this agreement and the Unit Operating Agreement in respect of the Tract; or

(b) by the last day of the next following calendar month the Tract qualifies for inclusion in the Unit Area pursuant to clause 502.

1104. Revision of Exhibits

Unit Operator shall revise the exhibits to reflect any change in ownership in or exclusion from this agreement of a Tract pursuant to clause 1103. Where a Tract is excluded, the Tract Participations of the other Tracts shall each be increased, without changing their ratios to each other, so that their summation is 100 per cent. The revised exhibits shall be effective as of 8:00 a.m. on the first day of the calendar month in which the failure of title referred to in clause 1103 is finally determined.

ARTICLE XII

TRANSFER OF INTEREST

1201. Disposition

In this clause "disposition" means a sale, assignment, transfer, lease, sublease, conveyance, parting with possession, or any transaction of a similar nature, whether by trust or otherwise. A disposition of an interest owned by a Party in a Tract shall cover the whole or an undivided interest in the Party's interest in such Tract. A disposition shall not be binding on Unit Operator until the acquiring parties who are not Parties have executed and delivered to Unit Operator counterparts of this agreement, and at least one of the parties thereto has given notice thereof to Unit Operator. Unit Operator shall revise the exhibits to reflect each disposition of an interest in a Tract and the revised exhibits shall be effective as of 8:00 a.m. on the first day of the calendar month next following the calendar month in which the notice is received by Unit Operator.

1202. **Multiple Disposition Not to Increase Costs**

If any disposition of an interest by a Party in a Tract should be made to multiple parties so that the expense or duties of Unit Operator are thereby increased, the Unit Operator may require the assignee parties (and Party if it retains an interest) to appoint one of their number as representing all of them for the purpose of this agreement, unless arrangements satisfactory to the Unit Operator are made to compensate the Unit Operator for the increased expenses or duties.

ARTICLE XIII

IN GENERAL

1301. **Execution in Counterpart**

This agreement may be executed in separate counterparts and all the executed counterparts together shall constitute one agreement. Execution of this agreement by the Minister shall be on behalf of the Crown only as owner of Royalty Interest.

1302. **Dual Capacity**

If a Party owns a Working Interest and a Royalty Interest, its execution of this agreement shall constitute execution in both capacities.

1303. **Subsequent Execution**

An owner of an interest in a Tract who has not become a Party as of the date the Tract was included in the Unit Area under Article V or IX, may become a Party with respect to that interest only on such terms and conditions as may be prescribed by the Working Interest Owners.

1304. **No Partnership**

The duties and obligations of the Parties shall be separate and not joint or collective. Nothing contained in this agreement shall be construed to create a partnership or association.

1305. **Force Majeure**

Neither Unit Operator nor any Party shall be deemed to be in default with respect to non-performance of its obligations hereunder, other than financial, if and so long as its non-performance is due, in whole or in part, to any cause beyond its reasonable control, but lack of funds shall not be a cause beyond a Party's reasonable control. The performance of such obligations shall begin or be resumed within a reasonable time after such cause has been removed. Neither this agreement nor any Lease or any other agreement or instrument relating to the Unitized Zone or Unitized Substances shall terminate by reason of suspension of unit operations for the cause set forth in this clause.

1306. **Taxes**

Each Party shall be separately liable to the extent of its ownership for all taxes on Unitized Substances and with respect to the production or sale of Unitized Substances. A Working Interest Owner may, at any time and from time to time, pay said taxes on behalf of its Royalty Owner and deduct the amount of the payment from the Royalty Owner's royalty. Those taxes with respect to the production or sale of Unitized Substances shall be adjusted so that they are borne as if the basis of taxation was the allocation of Unitized Substances hereunder.

1307. **Right of Redemption**

A Working Interest Owner may, at any time and from time to time, with full rights of subrogation, redeem for its Royalty Owner any agreement

for sale, mortgage, or other lien or encumbrance of any kind or nature affecting any interest in the Unit Area in the event of default of payment by the Royalty Owner and deduct the amount of any payment made hereunder from the Royalty Owner's royalty.

1308. **Interpretation**

The clause headings in this agreement shall not be considered in interpreting the text.

1309. **Number and Gender**

In this agreement words importing the singular include the plural and vice versa; words importing the masculine gender include the feminine and vice versa; and words importing persons include firms or corporations and vice versa.

1310. **Time**

In this agreement all times are "official times" as defined in The Official Time Act of the Province of Manitoba.

1311. **Compliance With Legislation**

The provisions of The Mines Act and Regulations thereunder, as amended from time to time, take precedence over this Agreement.

ARTICLE XIV

EFFECTIVE DATE

1401. **Effective Date**

The unitization provided for herein shall become effective at 0800 hours official time of the first day of the first calendar month following:

(a) the date of the qualification under clause 502 of Tracts having a combined Tract Participation of 100 percent of the total Tract Participations as originally set out in Exhibit "A", and

(b) the date of the Unit Operator receiving written approval of the agreement from the Conservation Board.

1402. **Notice of Effective Date**

As soon as possible after the Effective Date Unit Operator shall notify all Working Interest Owners, the Conservation Board and the Department of Energy and Mines of Manitoba of the Effective Date and of the Tracts qualified as of the Effective Date, and each Working Interest Owner shall advise each of its Royalty Owners of the Effective Date.

1403. **Release of Parties**

This agreement shall cease to bind the Parties if the unitization provided for herein has not become effective on or before the first day of March, 1988.

ARTICLE XV

TERM

1501. **Effect of Execution and Delivery**

Subject to clause 1403, this agreement is binding upon a person who executes and delivers a counterpart thereof to Unit Operator, and that person is bound by this agreement as of the time of such delivery, but if a proposed Tract is not included in the Unit Area under Article V, the parties owning interest therein shall be completely released from the agreement with respect to it upon the expiration of 90 days after the Effective Date.

This agreement inures to the benefit of and is binding upon the heirs, executors, administrators, successors and assigns of the Parties.

1502. **Termination**

This agreement terminates 90 days after all wells for the production of Unitized Substances in the Unit Area have been abandoned, plugged or disposed of or upon the termination of the Unit Operating Agreement, and thereafter the Parties shall be governed by the terms and provisions of their Leases and other agreements or instruments relating to the Unitized Zone or Unitized Substances.

1503. **Salvaging Equipment Upon Termination**

The Royalty Owners grant the Working Interest Owners the right for a period of 6 months after termination of this agreement to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with unit operations.

1504. **Notice to Royalty Owners**

The Working Interest Owners shall give notice in accordance with their Leases to their respective Royalty Owners of the termination of this agreement within 30 days thereafter.

IN WITNESS WHEREOF the Parties have executed this agreement each on the date shown below.

Date: _____

Execution page forming part of the "Unit Agreement - Waskada Unit No. 14"

This agreement inures to the benefit of and is binding upon the heirs, executors, administrators, successors and assigns of the Parties.

1502. Termination

This agreement terminates 90 days after all wells for the production of Unitized Substances in the Unit Area have been abandoned, plugged or disposed of or upon the termination of the Unit Operating Agreement, and thereafter the Parties shall be governed by the terms and provisions of their Leases and other agreements or instruments relating to the Unitized Zone or Unitized Substances.

1503. Salvaging Equipment Upon Termination

The Royalty Owners grant the Working Interest Owners the right for a period of 6 months after termination of this agreement to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with unit operations.

1504. Notice to Royalty Owners

The Working Interest Owners shall give notice in accordance with their Leases to their respective Royalty Owners of the termination of this agreement within 30 days thereafter.

IN WITNESS WHEREOF the Parties have executed this agreement each on the date shown below.

Chauvco Resources Ltd.

Date: January 26/88



Execution page forming part of the "Unit Agreement - Waskada Unit No. 14"

This agreement inures to the benefit of and is binding upon the heirs, executors, administrators, successors and assigns of the Parties.

1502. Termination

This agreement terminates 90 days after all wells for the production of Unitized Substances in the Unit Area have been abandoned, plugged or disposed of or upon the termination of the Unit Operating Agreement, and thereafter the Parties shall be governed by the terms and provisions of their Leases and other agreements or instruments relating to the Unitized Zone or Unitized Substances.

1503. Salvaging Equipment Upon Termination

The Royalty Owners grant the Working Interest Owners the right for a period of 6 months after termination of this agreement to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with unit operations.

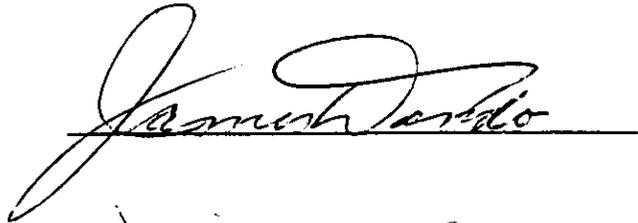
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IN WITNESS WHEREOF the Parties have executed this agreement each on the date shown below.

Ebenoch Minerals Ltd.

Date: December 8, 1987.


James Pardo

Michael J. Lando

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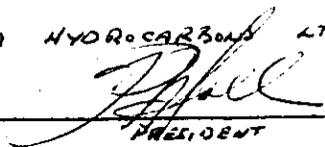
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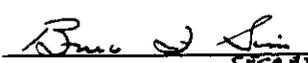
The Working Interest Owners shall give notice in accordance with their Leases to their respective Royalty Owners of the termination of this agreement within 30 days thereafter.

IN WITNESS WHEREOF the Parties have executed this agreement each on the date shown below.

Date: NOVEMBER 27, 1987

OMEGA HYDROCARBONS LTD.


PRESIDENT



SECRETARY

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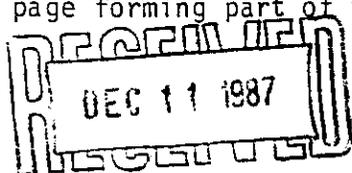
Date: December 9, 1987

GEODATA EXPLORATION SERVICES LI

Gary W. Litschke

GARY W. LITSCHKE, President

Execution page forming part of the "Unit Agreement - Waskada Unit No. 14"



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IN WITNESS WHEREOF the Parties have executed this agreement each on the date shown below.

Date: 12-4-87 By: H.R. Holcomb 
ADOBE RESOURCES CORPORATION
H.R. Holcomb, Vice President

ATTEST: Jan Watson
Jan Watson, Asst. Secretary

Execution page forming part of the "Unit Agreement - Waskada Unit No. 14"

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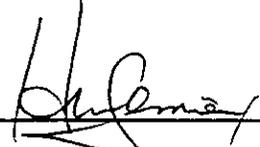
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IN WITNESS WHEREOF the Parties have executed this agreement each on the date shown below.

Date: JANUARY 4, 1988

SHELL CANADA LIMITED


SECRETARY

Execution page forming part of the "Unit Agreement - Waskada Unit No. 14"

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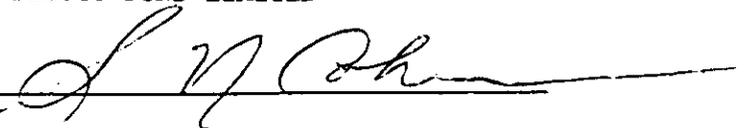
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IN WITNESS WHEREOF the Parties have executed this agreement each on the date shown below.

BROSCO FUND LIMITED

Date: Jan 18/88



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IN WITNESS WHEREOF the Parties have executed this agreement each on the date shown below.

PIONEER ENERGY RESOURCES LIMITED

Date:

Dec 21st/97

James A. Kubacki
Robert Schmidt

Execution page forming part of the "Unit Agreement - Waskada Unit No. 14"

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IN WITNESS WHEREOF the Parties have executed this agreement each on the date shown below.

Date: January 29, 1988

Prairie Leaseholds Ltd.

[Signature]
VICE PRESIDENT
[Signature]
ASSISTANT SECRETARY

<i>[Signature]</i>	Legal
<i>[Signature]</i>	Prod Op
<i>[Signature]</i>	Risk Mgmt.
<i>[Signature]</i>	Acct.
<i>[Signature]</i>	LAND

Execution page forming part of the "Unit Agreement - Waskada Unit No. 14"

E X H I B I T " A "

**Attached to and made part of an Agreement entitled
"Unit Agreement - Waskada Unit No. 14"**

TRACT PARTICIPATIONS

In this Exhibit the names of the Parties have
been abbreviated as follows:

<u>Abbreviation</u>	<u>Party</u>
Omega	Omega Hydrocarbons Ltd.
Chauvco	Chauvco Resources Ltd.
Ebenoch	Ebenoch Minerals Ltd.
Prairie	Prairie Leaseholds Ltd.
GeoData	GeoData Exploration Services Ltd.
Adobe	Adobe Resources Corporation
Brosco	Brosco Fund Limited
Pioneer	Pioneer Energy Resources Limited
Shell	Shell Canada Limited

Effective: As of the Effective Date

E X H I B I T " A "

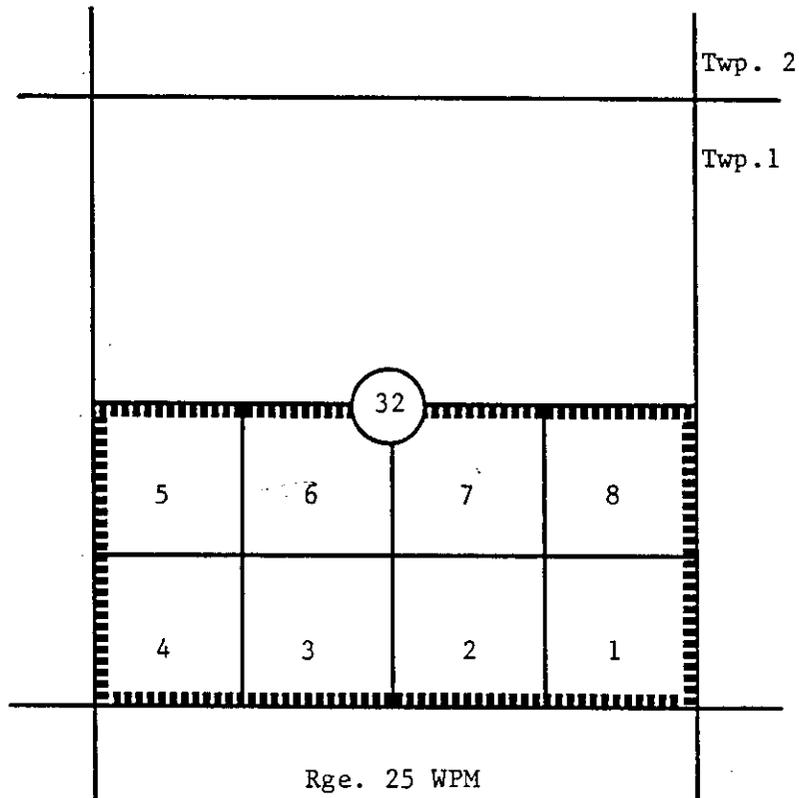
Tract No.	Land Description (Lsd)	Working Interest		Royalty Interest		Tract Participation (%)
		Owner	Share, %	Owner	Share, %	
1	1-32-1-25 WPM	Omega(1)(2)	100.00	Ebenoch Prairie	50.0 50.0	10.4973
2	2-32-1-25 WPM	Omega(2) Chauvco(3)	93.75 6.25	Ebenoch Prairie	50.0 50.0	9.8174
3	3-32-1-25 WPM	Omega(2) Chauvco(3)	93.75 6.25	Ebenoch Prairie	50.0 50.0	10.4387
4	4-32-1-25 WPM	Omega(2) Chauvco(3)	93.75 6.25	Ebenoch Prairie	50.0 50.0	11.8253
5	5-32-1-25 WPM	Omega(2) Chauvco(3)	93.75 6.25	Ebenoch Prairie	50.0 50.0	14.1890
6	6-32-1-25 WPM	Omega(2) Chauvco(3)	93.75 6.25	Ebenoch Prairie	50.0 50.0	14.5888
7	7-32-1-25 WPM	Omega(2) Chauvco(3)	93.75 6.25	Ebenoch Prairie	50.0 50.0	11.7158
8	8-32-1-25 WPM	Omega(2) Chauvco(3)	93.75 6.25	Ebenoch Prairie	50.0 50.0	16.9277
						100.0000

NOTES: 1) Interest subject to conversion under penalty payout provisions.
 2) Interest subject to overriding royalty interests to GeoData, Adobe, Brosco, Pioneer and Shell.
 3) Interest subject to overriding royalty interests to GeoData, Adobe, Brosco and Pioneer.

Effective: As of the Effective Date

E X H I B I T " B "

Attached to and made part of an Agreement entitled
"Unit Agreement - Waskada Unit No. 14"



7 Tract Numbers

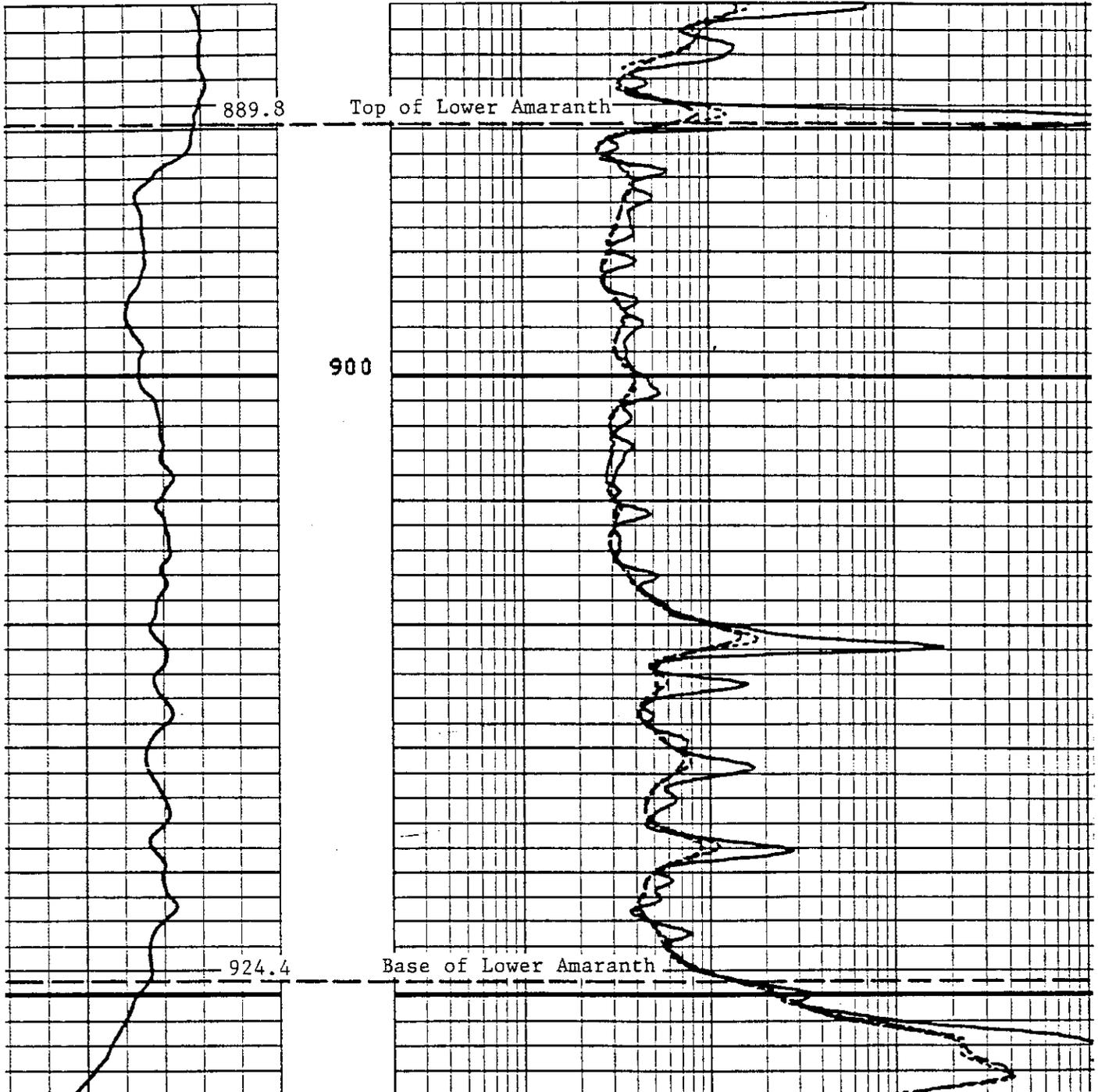
32 Section Number

■■■■■■ Unit Outline

Effective: As of the Effective Date

EXHIBIT "C"

Attached to and made part of an Agreement entitled
"Unit Agreement - Waskada Unit No. 14"



PORTION OF DISFL LOG
RECORDED AT WELL
OMEGA WASKADA 15-24-1-26
KELLY BUSHING 470.50 m

Effective: As of the Effective Date