

**WASKADA UNIT #6 -  
UNIT PLAN AS CONSENTED TO  
BY MINISTER OF ENERGY AND MINES**

**WASKADA JOINT VENTURE AGREEMENT  
CHEVRON CANADA RESOURCES LIMITED  
AND GREAT AMERICAN ENERGY, INC.**

**WASKADA UNIT #6 - UNIT AGREEMENT**

WASKADA UNIT NO. 6

Unit Plan

ROYALTY OWNER CONSENT

The Oil and Natural Gas Conservation Board,  
Room 309 Legislative Building,  
Winnipeg, Manitoba.  
R3C OV8

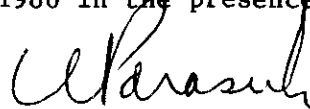
Dear Sirs:

Her Majesty the Queen, in Right of the Province of Manitoba, being the owner of a Royalty Interest of a head lessor in the proposed Waskada Unit No. 6, as hereinafter set out:

<u>Tract No.</u>	<u>Royalty Owner's Interest</u>
3-12	100%
5-12	100%
6-12	100%

HEREBY AGREES to the Proposed Plan of Unit Operation entitled "PLAN FOR UNIT OPERATION GOVERNING THE UNITIZED MANAGEMENT OPERATION AND FURTHER DEVELOPMENT OF WASKADA UNIT NO. 6", a copy of which Plan has been provided me by Chevron Canada Resources Limited, and CONSENTS AND AGREES to the Board making an Order pursuant to Section 76 of The Mines Act of the Revised Statutes of Manitoba, 1970 and Amendments thereto, ordering that a portion of the Waskada Field as described in the said Plan be operated as a Unit in accordance with the Plan of Unit Operation.

SIGNED at WINNIPEG in the Province of MANITOBA, this  
24<sup>th</sup> day of NOVEMBER, 1986 in the presence of:



Minister of Energy and Mines

PLAN FOR UNIT OPERATION  
GOVERNING THE UNITIZED MANAGEMENT  
OPERATION AND FURTHER DEVELOPMENT OF  
WASKADA UNIT NO. 6

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Exhibit "B"	- Map of Unit Area
Exhibit "C"	- Sonic Log
Exhibit "D"	- Prima Facie List of Working Interest Owners and Royalty Owners
Exhibit "E"	- List of Unit Wells
Exhibit "F"	- Accounting Procedure
Exhibit "G"	- Insurance



PLAN FOR UNIT OPERATION  
GOVERNING THE UNITIZED MANAGEMENT  
OPERATION AND FURTHER DEVELOPMENT OF  
WASKADA UNIT NO. 6

PART I

INTERPRETATION

1.01 Reference to Terms and Expressions

This Plan shall be construed with reference to "The Interpretation Act" and the terms and interpretation of "the Mines Act" and regulations thereunder.

1.02 Definitions

In this Plan unless the context otherwise requires:

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

- (i) Parties, one of which controls the other; or
- (ii) Two (2) or more Parties, both or all of which are controlled by the same person or corporation.

For purposes herein, "controls" or "controlled" means 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. Affiliates shall be deemed conclusively to be one Party only;

(b) "Conservation Board" means The Oil and Natural Gas Conservation Board of the Province of Manitoba;

(c) "Effective Date" means eight o'clock in the forenoon, official time on the \_\_\_\_ day of \_\_\_\_, 198\_\_;

(d) "for the Joint Account" means for the benefit and risk and at the expense of the Working Interest Owners in accordance with their Unit Participations;

(e) "Lease" means an instrument granting a Working Interest in the Unitized Strata;

- (f) "Minister" means the member of the Executive Council charged by the Lieutenant Governor in Council with the administration of The Mines Act;
- (g) "Operating Committee" means the committee comprised of the duly authorized representatives of each of the Working Interest Owners established pursuant to clause 8.01;
- (h) "Outside Substances" means any substances initially obtained from any source other than the Unitized Strata or any Unitized Substances with respect to which royalty has been paid;
- (i) "Party" means a person who is bound by this Plan;
- (j) "Petroleum Substances" means petroleum, natural gas and other hydrocarbons (except coal) or any of them, and all substances associated therewith;
- (k) "Royalty Interest" means any interest, other than a Working Interest, in Petroleum Substances, or the proceeds from the sale thereof, produced from the Watrous Formation but does not include the interest of a person as a purchaser of Petroleum Substances after production;
- (l) "Royalty Owner" means a Party owning a Royalty Interest;
- (m) "Spacing Unit" means the area allocated to a well by the Conservation Board with respect to the Watrous Formation for the purpose of drilling for or producing Petroleum Substances;
- (n) "Tract" means a parcel of land described and given a Tract number in Exhibit "A";
- (o) "Tract Participation" means the effective percentage allotted to a Tract pursuant to Part V and set forth in Exhibit "A";
- (p) "Unit Area" means the lands described in Exhibit "A" and shown outlined on Exhibit "B";
- (q) "Unitized Substances" means Petroleum Substances in or obtained from the Unitized Strata;

(r) "Unitized Strata" means the Lower Amaranth Red Beds member of the Amaranth Formation, of Jurassic Age underlying the lands described in Exhibit "A", as same is shown on the sonic log of Chevron Newscope Waskada 15-7-1-25 WPM well in Legal Subdivision Fifteen (15) of Section Seven (7), Township One (1), Range Twenty-five (25), West of the First (W.1st) Meridian, in the Province of Manitoba between the interval 895 metres and 929 metres as measured from the Kelly Bushing. The Amaranth Formation consists of an upper evaporitic member, known as the Upper Amaranth Anhydrite and a lower interbedded shale, siltstone, and sandstone member known as the Lower Amaranth Red Beds. The principal reservoir of the Lower Amaranth Red Beds is the lower sandy zone which is commonly referred to as the Spearfish zone. The Amaranth Formation is correlative with the Amaranth Formation of North Dakota. It unconformably overlies the Mississippian Mission Canyon Formation which in turn overlies the Mississippian Lodgepole Formation and is conformably overlain by carbonates of the Jurassic Reston Formation.

(s) "Unit Facilities" means all real and personal property of every kind, nature and description (excepting Unitized Substances, the Unitized Strata, rental equipment and Unit Operator's solely owned equipment) in the possession of Unit Operator pursuant to this Plan;

(t) "Unit Operations" means any operations authorized and provided for in this Plan for or in respect of the development and operation of the Unitized Strata for the production of Unitized Substances;

(u) "Unit Operator" means the person who is so appointed to manage and conduct the operations hereunder;

(v) "Unit Participation" of a Working Interest Owner means the sum of the Working Interest Owner's share of effective Tract Participations;

(w) "Unit Well" means a well listed in Exhibit "E" and any well drilled or acquired for the Joint Account.

- (x) "Working Interest" means any right to produce and dispose of Petroleum Substances from the Unitized Strata including an interest chargeable with any costs of drilling for, recovery of and disposal of Petroleum Substances therefrom;
- (y) "Working Interest Owner" means a Party owning a Working Interest;

PART II  
EXHIBITS

2.01 Exhibits

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

- (a) Exhibit "A" which numbers and describes each Tract and sets forth its interim and final Tract Participation;
- (b) Exhibit "B" which is a plan of the Unit Area;
- (c) Exhibit "C" which is a copy of a portion of the sonic log referred to in subclause 1.02 (r) hereof.
- (d) Exhibit "D" which is a list of the Working Interest Owners and the Royalty Owners in each Tract together with a list of the respective Unit Participations of the Working Interest Owners;
- (e) Exhibit "E" which is a list of the Unit Wells;
- (f) Exhibit "F" which is the Accounting Procedure;
- (g) Exhibit "G" which is the Insurance Requirements.

2.02 Preparation of Exhibit "D"

The Unit Operator shall as soon after approval of title by the Operating Committee under Part XX is deemed to have been made, prepare and submit to the Working Interest Owners, Exhibit "D" setting out the Working Interest Owners of the Tracts and the Unit Participations. Upon the approval of the Operating Committee the Unit Operator shall cause such

Exhibit to be published in one issue of The Manitoba Gazette.

The Unit Operator shall from time to time in accordance with clause 23.02 prepare and submit to the Working Interest Owners, revisions to Exhibit "D" setting out any change of ownership in the Tracts or Unit Participations, and shall cause such revised Exhibit to be published in one issue of The Manitoba Gazette.

2.03 Conflicts

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

PART III  
UNITIZATION AND EFFECT

3.01 Name

The name of the unit hereby constituted is "Waskada Unit No. 6".

3.02 Unitization

On and after the Effective Date the interests of each Royalty Owner and of each Working Interest Owner in the Unitized Substances and in the Unitized Strata are hereby unitized, as if the Unitized Strata had been included in a single lease subject to all the terms and conditions hereof 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 Plan.

3.03 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.

3.04 Continuation of Leases

All operations conducted with respect to the Unitized Strata 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 Strata 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 Strata 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.

3.05 Leases Amended

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

3.06 Effect of Unitization on Titles

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

PART IV

AUTHORITY TO WORKING INTEREST OWNERS

4.01 Operations

The Working Interest Owners are hereby granted the right to develop and operate the Unitized Strata without regard to the provisions of the Leases or the boundary lines of the Tracts 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 Strata and convert and use as injection wells any wells now existing or hereafter drilled into the Unitized Strata.

4.02 Delegation

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

4.03 Vote of Working Interest Owners

Any matter to be determined under this Plan by the Working Interest Owners may be determined by vote of the Working Interest Owners as prescribed herein.

4.04 Royalty Owners

Nothing contained in this Plan shall be construed as imposing upon any Royalty Owner any obligation to pay for any of the costs and expenses incurred in operations hereunder unless such Royalty Owner is obligated to pay for the same by the terms of any Lease.

PART V

TRACT PARTICIPATION

5.01 Tract Participations

The interim Tract Participation and the final Tract Participation of each Tract is shown in Exhibit "A" hereof.

5.02 Tract Participations - When Effective

The interim Tract Participation of each Tract shall be effective from the Effective Date until 8:00 a.m. on on the first day of the month immediately following the

expiry of a one year period from the Effective Date at which time the final Tract Participation shall become effective.

5.03 Interim Tract Participation

The interim Tract Participation is the Tract's current oil rate factor.

The current oil rate factor is the fraction calculated by dividing the oil rate of the Tract during an interval of at least thirty (30) consecutive days on production, or as close to thirty (30) consecutive days as possible, by the sum of the oil rates for all Tracts.

The oil rate is calculated by dividing the oil production from at least thirty (30) consecutive days on production by the number of consecutive days on production.

The production data for this calculation is from the time period May 1, 1985 to August 31, 1985, where possible.

5.04 Final Tract Participation

The final Tract Participation of each Tract is the sum of:

(a) Three-tenths (3/10ths) of the current oil rate factor.

The current oil rate factor is the fraction calculated by dividing the oil rate of the Tract during an interval of at least thirty (30) consecutive days on production, or as close to thirty (30) days as possible, by the sum of the oil rates for all Tracts.

(i) The oil rate for all Tracts except Tracts 12-6, 13-6, 4-7, 5-7, 11-7, 12-7, 13-7, 14-7, 15-7, 9-12, 10-12, 15-12 and 16-12 was obtained from production tests.

(ii) The oil rate for Tracts 12-6, 13-6, 4-7, 5-7, 11-7, 12-7, 13-7, 14-7, 15-7, 9-12, 10-12, 15-12 and 16-12 is calculated by dividing the oil production from at least thirty (30) consecutive days on production by the number of consecutive days on production.

The production data for this calculation is from the time period September 1, 1984 to November 30, 1984, where possible.



(b) One-tenth (1/10th) of the current oil cut factor. The current oil factor is the fraction calculated by dividing the oil cut of the Tract, during an interval of at least thirty (30) consecutive days on production, or as close to thirty (30) days as possible, by the sum of the oil cuts for all the Tracts.

(i) The oil cut for all Tracts except Tracts 12-6, 13-6, 4-7, 5-7, 11-7, 12-7, 13-7, 14-7, 15-7, 9-12, 10-12, 15-12 and 16-12 was obtained from well production tests.

(ii) The oil cut for Tracts 12-6, 13-6, 4-7, 5-7, 11-7, 12-7, 13-7, 14-7, 15-7, 9-12, 10-12, 15-12 and 16-12 was calculated by dividing the oil production from at least thirty (30) consecutive days on production by the sum of the oil and water production during the same period.

The production data for this calculation is from the time period September 1, 1984 to November 30, 1984, where possible.

(c) Three-tenths (3/10ths) of the initial oil rate factor. The initial oil rate factor is the fraction calculated by dividing the oil rate of the Tract during the first four (4) months or less of production life by the sum of the oil rates for all Tracts. The oil rate is calculated by dividing the oil production from the first four (4) months or less of production life by the total days on production during the same period.

(d) One-tenth (1/10th) of the initial oil cut factor. The initial oil cut factor is the fraction calculated by dividing the oil cut of the Tract during the first four (4) months of production life by the sum of the oil cuts for all Tracts. The oil cut for a Tract is calculated by dividing the oil production from the first four (4) months or less of production life, by the sum of the oil and water production during the same period.

(e) Two-tenths (2/10ths) of the porosity thickness factor. The porosity thickness is the fraction calculated by dividing the porosity thickness of the Tract by the sum of the porosity thicknesses for all Tracts. The porosity thickness for a Tract is calculated by a Chevron Multi-Variant Analysis Computer Program (MULVAN). This program uses a multiple regression technique to force fit well log data to core data, in order to generate porosity and net pay or thickness values.

5.05 Tract Participations equal 100%

The total of the Tract Participations for all Tracts shall at all times equal one hundred percent (100%).

5.06 Part V Explanatory

This Part V is explanatory and the Tract Participations shown in Exhibit "A" shall be deemed to be correctly made in accordance with this Part V.

PART VI

ALLOCATION OF UNITIZED SUBSTANCES PRODUCED

6.01 Allocation to Tracts

Subject to clauses 7.01 and 7.02 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.

6.02 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.

6.03 Calculation of Royalty

The Working Interest Owners of each Tract shall calculate royalty on 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.

6.04 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.

6.05 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, 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 one (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.

6.06 Royalty on Outside Substances

If an Outside Substance is injected into the Unitized Strata, 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 Strata is recovered. No royalty shall be payable on any substance which is deemed conclusively to be an Outside Substance.

PART VII

USE, LOSS AND STORAGE OF UNITIZED SUBSTANCES

7.01 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 operation and development of the Unitized Strata including, but not limited to, the injection thereof into the Unitized Strata 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.

7.02. Storage

The Working Interest Owners are hereby granted the right to inject Unitized Substances, other than crude oil, into the Unitized Strata 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.

PART VIII

THE OPERATING COMMITTEE

8.01 Operating Committee

There is hereby created an Operating Committee which shall be composed of one representative of each Working Interest Owner designated as hereinafter provided. Each Working Interest Owner shall, as soon as possible after the Effective Date, notify Unit Operator of the name and address of its representative and one or more alternate representatives who are authorized to represent and bind the Working Interest Owner with respect to Unit Operations. A Working Interest Owner may change any of its representatives from time to time by notice to Unit Operator. Two (2) or more Working Interest Owners may appoint the same person as their representative who shall cast a separate vote for each of his or her principals.

8.02 Chairman

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

8.03

Meetings

The Operating Committee shall hold meetings whenever called by Unit Operator, or if there is no Unit Operator, by Working Interest Owners having Unit Participations totalling five percent (5%) or more. Unit Operator may call meetings at any time on its own motion, and shall call meetings whenever requested to do so by Working Interest Owners having Unit Participations totalling five percent (5%) or more. Unless the representatives of all Working Interest Owners in writing waive their right to notice, at least ten (10) days' notice of each meeting shall be given to the Working Interest Owners, 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 Working Interest Owners, whether or not present at the meeting, unanimously agree.

8.04

Voting Procedure

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

(a) Voting Interest. Except as otherwise provided in this clause, in voting on any matter each Working Interest Owner shall have a voting interest equal to its final Unit Participation;

(b) Vote Required - Generally. Except as otherwise provided in this Plan, the Operating Committee shall determine matters by the affirmative vote of three (3) or more Working Interest Owners having voting interests totalling seventy-five percent (75%) or more, but if a Working Interest Owner having a voting interest of twenty-five percent (25%) or more is the only one voting negatively, the motion shall be carried even though the voting interests of the Working Interest Owners

voting affirmatively total less than seventy-five percent (75%).

(c) Vote Required - Special Matters.

(i) Removal Unit Operator. Unit Operator may be removed by the affirmative vote of two (2) or more Working Interest Owners having voting interests totalling ninety percent (90%) or more of the total voting interests of all the Working Interest Owners except Unit Operator and its Affiliate Corporations, but for the purposes hereof subclause (e) of this clause shall not apply;

(ii) Amendment or Replacement of Exhibits "F" and "G". Exhibits "F" and "G" may be amended or replaced by the affirmative vote of Working Interest Owners having voting interests totalling ninety percent (90%) or more but if a Working Interest Owner having a voting interest of ten percent (10%) or more is the only one voting negatively, the motion shall be carried even though the voting interests of the Working Interest Owners voting affirmatively total less than ninety percent (90%).

(d) Vote by Notice

(i) A Working Interest Owner 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 Working Interest Owner by mail ballot notice. Each Working Interest Owner shall, by notice, cast its vote with Unit Operator within fifteen (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 8.03 within five (5) days from the receipt of mail ballot notice. Unit Operator

shall promptly notify each Working Interest Owner of the result of a vote hereunder.

(e) Failure to Vote. A Working Interest Owner who does not vote on any matter shall be deemed conclusively to have voted affirmatively, but in recording the vote in the minutes, the Working Interest Owner 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) Affiliates. In determining the number of Working Interest Owners having voted or deemed to have voting on any matter hereunder, Affiliate Corporations shall be conclusively deemed to be one Working Interest Owner only.

8.05 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 Working Interest Owner. The minutes shall include the names of the representatives present, the Working Interest Owners 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 thirty (30) days after the date the minutes are deemed to have been received by the Working Interest Owners.

8.06 Working Interest Owners Bound by Voting

A determination of a matter by the voting of Working Interest Owners in accordance with this Plan shall be binding upon all the Working Interest Owners.

PART IX

RIGHTS AND POWERS OF THE OPERATING COMMITTEE

9.01 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 this Plan, except to the extent that certain of the said rights and powers are by this Plan 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.

9.02 Rights Granted to Operating Committee

All rights, powers, privileges and duties hereunder not specifically delegated to Unit Operator or reserved to the individual Working Interest Owners are hereby granted collectively to the Operating Committee. Without limiting the generality of the foregoing, the following rights and powers are granted to the Operating Committee:

- (a) To instruct Unit Operator concerning all Unit Operations for the production of Unitized Substances;
- (b) To approve or disapprove the drilling of additional wells to the Unitized Strata either for the production of water, Unitized Substances or for injection purposes;
- (c) Subject to the rights of Unit Operator pursuant to clause 12.02 hereof, to approve or disapprove in whole or in part each and every estimate and item of expenditures, submitted by Unit Operator, except those that were included in a previously approved budget;
- (d) To appoint an Audit Committee to represent all Working Interest Owners to arrange proper annual audits of the accounts of Unit Operator with respect to the operation and development of the Unit Area, approve or disapprove the same and make available to the Working Interest Owners the results of such audits;
- (e) To fill any vacancy occurring in the position of Unit Operator; provided, that, no Unit Operator shall vote to succeed itself in the position of Unit Operator;
- (f) To represent, or determine who shall represent, the Working Interest Owners before any governmental body having

jurisdiction with respect to matters pertaining to Unit Operations; provided, however, that this shall never be construed as authorization to speak on behalf of any Working Interest Owner dissenting from the views to be expressed or to prevent any Working Interest Owner from presenting its own view on such matters;

(g) To appoint and grant powers to such committees as they may deem proper and requisite;

(h) To approve an annual forecast as in clause 16.02 hereof provided;

(i) To approve the method of disposal of surplus material;

(j) To amend Exhibit "F" hereof from time to time whether in whole or in part; provided, that, two (2) copies of any amendment to Exhibit "F" shall be filed with the Conservation Board.

#### PART X

#### INDIVIDUAL RIGHTS AND PRIVILEGES OF THE WORKING INTEREST OWNERS

##### 10.01 Reservation of Rights

Except as otherwise provided in this Plan each Working Interest Owner reserves to itself all of its rights, powers, authorities and privileges.

##### 10.02 Specific Rights

Each Working Interest Owner 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 working Interest Owner'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 Working Interest

Owner shall protect the Unitized Strata and prevent interference with Unit Operations. Each Working Interest Owner who exercises this right agrees to indemnify all other Working Interest Owners 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 right.

PART XI  
UNIT OPERATOR

11.01     Unit Operator

Chevron Canada Resources Limited is hereby designated initial Unit Operator.

11.02     Resignation or Removal

Unit Operator may resign at any time by giving ninety (90) days' notice to the Working Interest Owners. Unit Operator may be removed by a vote of the Operating Committee. A Unit Operator who resigns or is removed shall continue to have all 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 ninety (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.

11.03     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, Unit Operator may not vote to succeed itself nor vote for its Affiliate Corporation.

11.04 Takeover by Successor

Upon the effective time of a resignation, removal or cessation, the departing Unit Operator shall turn over to its successor, or if no successor has been designated, to the Working Interest Owners 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. Upon the transfer and delivery thereof, the departing Unit Operator shall be released and discharged from, and the successor Unit Operator shall assume, all duties and obligations of Unit Operator except the unsatisfied duties and obligations of the departing Unit Operator accrued prior to the effective time of change of Unit Operator and for which the departing Unit Operator shall, notwithstanding its release or discharge, continue to remain liable. 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 Working Interest Owners unless otherwise directed by the Operating Committee.

11.05 Audit Upon Change of Unit Operator

Within sixty (60) days of the effective time of a Unit Operator's resignation, removal or cessation as Unit Operator, the 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.

11.06 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 under this Plan.

PART XII  
PERFORMANCE BY UNIT OPERATOR

12.01     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 Working Interest Owner.

12.02     Rights, Powers, Duties and Obligations

Subject to this Plan 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 Working Interest Owner on or before the twenty-fifth (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 the Working Interest Owners with timely statements of financial results on a monthly basis and remit net proceeds of production received for the account of the Working Interest Owners promptly on completion of those monthly statements;
- (d) furnish to each Working Interest Owner such reports of Unit Operations as the Operating Committee may direct and consult with the Operating Committee and keep the Working Interest Owners advised of all matters arising in connection with Unit Operations which Unit Operator considers important;
- (e) 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;

(f) 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;

(g) comply and require its contractors to comply with The Workers Compensation Act and carry and require its contractors to carry, with respect to Unit Operations, such liability insurance for the benefit of the Working Interest Owners as set forth in Exhibit "G", but this shall not prevent a Working Interest Owner from procuring and maintaining at its sole cost and expense and for its sole benefit such insurance on Unit Facilities as it shall determine provided that Working Interest Owner's insurance policy contains a waiver of subrogation in favour of the Working Interest Owners; and

(h) 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 usage thereof in accordance with paragraph 207 of Exhibit "F".

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.

#### 12.03 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.

12.04      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 paragraph 218 of the Exhibit "F".

PART XIII

LIABILITY AND OBLIGATIONS

13.01      Liability of Unit Operator

Unit Operator shall not be liable to the other Working Interest Owners for any loss or damage suffered by the Working Interest Owners 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 Working Interest Owner, in the proportion of its Unit Participation, indemnifies and agrees to hold harmless Unit Operator 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.

13.02      Taxes, Rentals and Royalties

Each Working Interest Owner 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 Working Interest Owner's Working Interest in the respective Tracts and shall indemnify and save harmless all other Working Interest Owners from all claims, suits, loss, costs, expenses and damages paid or incurred by them as a result of its failure to do so.

PART XIV  
UNIT FACILITIES

14.01     Delivery of Wells

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

- (a) all Unit Wells together with all casing therein;
- (b) all tubing, flowline, wellsite and other operating equipment used in the operation of the Unit Wells 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; and
- (c) all roads associated with Unit Operations.

14.02     Delivery of Records

Upon the Effective Date each Working Interest Owner 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.

14.03     Testing of Unit Wells

If, by a test conducted by Unit Operator within ninety (90) days after the Effective Date or the effective time of a unit enlargement, any Unit Well is found by Unit Operator not to be in sound working condition, the Working Interest Owner



delivering it shall bear the entire cost and risk of putting it in sound working condition; provided that if a Working Interest Owner disagrees with Unit Operator's finding, the matter shall be finally decided by the Operating Committee. Either the Working Interest Owner 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 Working Interest Owner to Unit Operator for the Joint Account. All costs incurred by Unit Operator hereunder, or the amount to be paid by the Working Interest Owner in lieu thereof, shall be deemed conclusively to be amounts owing by the Working Interest Owner within the meaning of Article XII.

14.04

Adequacy of Wellsite and Other Operating Equipment

If, within ninety (90) days after the Effective Date, Unit Operator determines that a Unit Well does not have adequate access roads, wellsite and flowline and other operating equipment, the Working Interest Owner delivering it shall bear the entire cost and risk of providing and installing adequate access roads, wellsite and flowline and other operating equipment; provided that if a Working Interest Owner disagrees with Unit Operator's decision, the matter shall be finally decided by the Operating Committee. Either the Working Interest Owner 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 Working Interest Owner to Unit Operator for the Joint Account. All costs incurred by Unit Operator hereunder or the amount to be paid by the Working Interest Owner in lieu thereof, shall be deemed conclusively to be amounts owing by the Working Interest Owner within the meaning of Part XVI.

14.05      Representation and Indemnity

Each Working Interest Owner represents that the Unit Facilities which it delivers pursuant to clause 14.01 are free and clear of any liens, charges, encumbrances, suits or actions of whatsoever kind or nature, and each Working Interest Owner indemnifies and holds harmless the other Working Interest Owners from any and all liability, loss, cost or damage sustained by them and resulting from failure of or deficiencies in its title to the Unit Facilities which it so delivers.

14.06      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 facilities owned by any person, and all costs and expenses recovered or incurred pursuant to said agreements shall be for the Joint Account.

PART XV

ADJUSTMENT OF INVESTMENT

15.01      Value of Unit Wells

Each Unit Well, including casing and flowline but excluding Controllable Material, shall be deemed conclusively to have a value of One Hundred and Thirty-five Thousand Dollars (\$135,000.00). Controllable Material for each Unit Well shall be deemed to have a value of Forty Thousand Dollars (\$40,000.00).

15.02      Inventory and Evaluation

The Operating Committee shall appoint an inventory committee which shall take a physical inventory and make an evaluation of the Controllable Material for each Unit Well and other

Unit Facilities. Each Working Interest Owner shall, upon request by the inventory committee, submit promptly a detailed statement of all Controllable Material on each Unit Well and a detailed statement of all Controllable Material and the cost of installation and related non-controllable material for other Unit Facilities. The inventory committee shall price the Controllable Material associated with other Unit Facilities contributed by each Working Interest Owner at its current New Price adjusted for condition as of the Effective Date. The total value assigned to such other Unit Facilities shall include the value of the Controllable Material as determined above plus the costs of installation and non-controllable material based on the original proportion that the installation costs and non-controllable material bore to the Controllable Material. A report of its inventory and evaluation shall be made to the Operating Committee.

15.03

Investment Adjustment

All costs associated with other Unit Facilities contributed by each Working Interest Owner are subject to audit prior to equalization. Upon approval by the Operating Committee of the audit and the report of the inventory committee, each Working Interest Owner shall be credited with the value of its interests in the Unit Wells and other Unit Facilities as determined in clause 15.01 and clause 15.02 and charged with an amount equal to the total value of all Unit Wells and other Unit Facilities times each Working Interest Owner's final Unit Participation. If the charge against any Working Interest Owner is greater than the amount credited to it, the resulting net charge shall be payable by that Working Interest Owner to the Unit Operator. If the credit to any Working Interest Owner is greater than the amount charged against it, the resulting net credit shall be paid to the Working Interest Owner by the Unit Operator out of the funds

received from other Parties in settlement of net charges against them.

15.04     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.

15.05     Ownership of Unit Facilities

Each Working Interest Owner shall own an undivided interest in the Unit Facilities that is equal to its final Unit Participation.

15.06     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 Working Interest Owner whose title to a Tract fails for such Working Interest Owner's undivided interest so lost in the Unit Facilities.

15.07     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.

PART XVI

COSTS OF UNIT OPERATIONS

16.01     Basis of Charges to Working Interest Owners

Except as otherwise provided in this Plan, Unit Operator initially shall pay and discharge all costs and expenses incurred for the Joint Account. The Working Interest Owners shall reimburse Unit Operator for all such costs and expenses

in proportion to their respective Unit Participations. All capital costs will be shared based on final Unit Participations. Operating costs will be shared based on the Unit Participations effective at the time the charges occurred, that being either interim or final Unit Participations. All charges, credits and accounting for costs and expenses shall be in accordance with Exhibit "F".

16.02      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 October 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 Working Interest Owner. Approval of a forecast shall constitute an approval of all expenditures therein except capital expenditures in excess of the limit provided for in paragraph 218 of Exhibit "F" for any single undertaking.

16.03      Advance Billings for Capital Items

Unit Operator may submit to each Working Interest Owner on or before the fifteenth (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. Within thirty (30) days or by the fifteenth (15th) day of the month for which the advance is requested, whichever is later, after receipt of such request each

Working Interest Owner shall pay Unit Operator its share thereof. 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.

16.04      Operating Fund

Unit Operator may, by notice, require the Working Interest Owners 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. After the establishment of the operating fund, each Working Interest Owner shall remit its share of actual costs and expenses in accordance with clause 16.05, 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 Working Interest Owner. If under this Plan, revenues are received and distributed to the Working Interest Owners by the Unit Operator through a net billing, the Unit Operator shall not request advances for operating funds from the Working Interest Owners.

16.05      Regular Billings

Unit Operator shall bill each Working Interest Owner on or before the last day of each month for its share of charges recorded during the preceding calendar month in accordance with Exhibit "F". Each Working Interest Owner shall pay all such bills within thirty (30) days after receipt.

16.06      Commingling of Funds

Unit Operator may commingle funds received by it hereunder with its own funds and with other funds in its possession.

16.07 Unit Operator's Remedies

If a Working Interest Owner fails to pay when due a bill rendered by Unit Operator, Unit Operator may give the Working Interest Owner a notice of non-payment. 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 then in effect in the principal chartered bank used by the Unit Operator plus two percent (2%) per annum, which interest shall be for Unit Operator's sole account, unless the costs and expenses for which the bill was submitted were met by the other Working Interest Owners pursuant to clause 16.08 hereof, in which event the interest shall be for the accounts of the Working Interest Owners so contributing. Further, Unit Operator may, after notice of non-payment 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 Working Interest Owner from Unit Operator hereunder;
- (b) by notice accompanied by a copy of this Plan to any purchaser of the defaulting Working Interest Owner's share of production, require such purchaser to pay to Unit Operator the proceeds of such production which shall be applied towards payment of the amount unpaid and Unit Operator is hereby constituted irrevocably the attorney of the Working Interest Owner 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 non-existence of any default, subject, however, to all rights of inspection, verification and audit provided in this Plan. The exercise of the rights granted in this clause shall not relieve a defaulting Working Interest Owner from its obligations to pay royalty currently, as provided elsewhere in this Plan.

16.08 Contributions by Working Interest Owners

If Unit Operator has not received full payment of a Working Interest Owner's share of the costs and expenses of Unit Operations within three (3) months following the date when payment was due, each of the Working Interest Owners shall, upon being billed therefor by Unit Operator, contribute a fraction of the unpaid amount, excluding interest thereon, having as its numerator the Working Interest Owner's Unit Participation and as its denominator the aggregate of the Unit Participations of all of the Working Interest Owners exclusive of the Unit Participation of the defaulting Working Interest Owner, and thereupon each Working Interest Owner so contributing shall be proportionately subrogated to Unit Operator's rights pursuant to clause 16.07.

PART XVII

OIL IN LEASE TANKAGE AND OVERPRODUCTION  
AS OF THE EFFECTIVE DATE

17.01 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 Strata 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. For the purpose of this clause, "merchantable oil"



shall mean crude oil above the base of the sale line outlet or one foot from the tank bottom, whichever is lower.

17.02 Overproduction

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

17.03 No Allowance for Underproduction

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

PART XVIII  
SURFACE RIGHTS

18.01 Submission of List to Unit Operator

As soon as reasonably possible after the Effective Date, each Working Interest Owner 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.

18.02 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 Working Interest Owner submitting the list which, if any, of its listed surface rights will be required for Unit Operations. Subject to the other provisions of this Part, each Working Interest Owner 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 Working Interest Owner for rentals so paid and the amounts thereof shall be for the Joint Account. Notwithstanding the foregoing, each Working Interest Owner 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 18.04.

18.03      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 selectively from more than one formation shall be considered a separate well for each respective formation.

18.04      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 18.03. 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 18.05 shall apply, mutatis mutandis, in respect of any surface rights which are the subject of a notice given under this clause.

- 18.05     Surface Rights No Longer Required  
Unit Operator may notify a Working Interest Owner that its surface rights or any of them are no longer required for Unit Operations, but any such notice shall be given at least sixty (60) days prior to the date on which notice of surrender must be given to the surface owner or the 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 Working Interest Owner holding them from responsibility and liability as to the surface rights, which shall not thereafter be subject to this Plan.
- 18.06     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 Working Interest Owner upon payment to the Working Interest Owner of a rental commensurate with rentals paid for other surface rights in the Unit Area.
- 18.07     Acquisition of Additional Surface Rights  
Unit Operator may acquire such additional surface rights as it deems necessary or desirable for Unit Operations.
- 18.08     Sharing of Surface Rights  
Notwithstanding the provisions of clause 14.06, 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.

PART IXX  
ABANDONMENT OF WELLS

19.01     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 Working Interest Owner owning the Working Interest in the Tract upon which the well is located. The Working Interest Owner may elect by notice to Unit Operator within sixty (60) days, or forty-eight (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 Strata . Within ten (10) days after the Working Interest Owner 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 Strata in the well before handing it over to the Working Interest Owner 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 Working Interest Owner so electing from responsibility and liability as to the well, which shall not thereafter be subject to this Plan.

19.02     Abandonment of Wells

If the Working Interest Owner receiving a notice pursuant to clause 19.01 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.

19.03      Surface Clean-up

Upon the abandonment of any well in the Unit Area, Unit Operator or the Working Interest Owner abandoning the well shall clean up the surface at the wellsite to the satisfaction of any governmental body having jurisdiction and to the reasonable satisfaction of the owner and occupier thereof.

PART XX  
APPROVAL OF TITLES

20.01      Titles Committee

There shall be a Titles Committee appointed by the Operating Committee which shall examine the title to all Tracts in the Unit Area. Each Working Interest Owner in the Unit Area, shall, upon request, submit to the Titles Committee all title data and information as may be requested by the Titles Committee affecting the title to its Tracts within the Unit Area. The Titles Committee shall in writing, and within a reasonable time, recommend to the Operating Committee the approval or disapproval of title documents submitted to them pursuant to this clause. Upon the acceptance of the recommendation of the Titles Committee by the Operating Committee, the title documents accepted shall be deemed to have been approved by the Operating Committee; PROVIDED THAT, no approval of title documents by the Operating Committee shall be construed as a warranty or certification of title in and to any portion of the Unit Area or Unitized Substances;

PART XXI  
DISPUTES

21.01      Disputes and Non-approved Titles

If there is now or should hereafter be any dispute involving the working interest in a Tract then the Working Interest Owner concerned shall immediately give written notice thereof to Unit Operator and upon the receipt of such written notice

or in the event that the Operating Committee does not approve the title documents to any Tract as in clause 20.01 provided, Unit Operator shall:

(a) sell the Unitized Substances allocated to the Tract in respect of which the title documents have not been approved by the Operating Committee, or in respect of which the dispute arises;

(b) pay out of the proceeds of the sale

(i) the portion of the costs and expenses allocated or apportioned to the Tract, and

(ii) the amount of money properly payable to the Royalty Owner of the Tract pursuant to the provisions of this clause and the Lease pertaining to the Tract (unless any such dispute involves the ownership of the royalty interest in the Tract) and such payment shall be deemed conclusively to be a payment by the person who is subsequently declared to be the owner of the working interest in such Tract in a final determination of the dispute;

(c) pay the balance of the proceeds to a trust company to be held by it until settlement has been reached by the persons interest therein or until a judge of Her Majesty's Court of Queen's Bench for Manitoba has made an order with respect thereto.

In the event that any such dispute results in a change of ownership in a working interest in a Tract such change shall not retroactively affect any vote taken pursuant to the terms of Part VIII hereof.

## PART XXII

### FILING

22.01

#### Filing

Unit Operator shall file this Plan with the Department of

Energy and Mines for the Province of Manitoba and with the appropriate Land Titles Office for the Province of Manitoba in accordance with the provisions of "The Mines Act".

PART XXIII  
TRANSFER OF INTEREST

23.01     Binding on Successors

This Plan shall be binding upon every owner of any lands, Leases and and interests in minerals covered hereby who acquires the same regardless of the manner in which the same have been acquired.

23.02     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 Working Interest Owner in a Tract shall cover the whole or an undivided interest in the Working Interest Owner's interest in such Tract. A disposition shall not be binding on Unit Operator until the acquiring parties have each given notice thereof to Unit Operator and delivered copies of all instruments, documents and other information necessary in Unit Operator's opinion to establish a complete chain of title. No other kind of notice, whether actual or constructive, shall be binding on Unit Operator or on the other Working Interest Owners. 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 month next following the calendar month in which the notice and documents referred to above are received by Unit Operator.

23.03      Restriction on Dispositions

A Working Interest Owner 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.

PART XXIV

TERM

24.01      Term of Plan

This Plan shall remain in full force and effect so long as Unitized Substances are produced or are capable of being produced from the Unitized Strata in paying quantities and as long as operations are conducted on the Unit Area, and thereafter until all Unit Operated Wells have been abandoned and plugged, or otherwise disposed of, and all personal property has been salvaged and all real estate has been disposed of by Unit Operator. Notwithstanding anything herein contained, this Plan shall, subject to the approval of the Conservation Board, terminate and be at an end upon the concurring vote of a majority of the Working Interest Owners with at least ninety percent (90%) of the Unit Participations and such vote shall be binding upon all the Working Interest Owners and Royalty Owners.

24.02      Abandonment of Operations

Upon the termination of this Plan, all rights in and to the Tracts shall revert to the owners and lessees thereof, and Unit Operator shall arrange for the salvaging, liquidation and other distribution of the Unit Facilities. The owner of the working interest in any such tract desiring to take over and continue to operate a Unit Operated Well located thereon may do so by notifying Unit Operator in writing of its election to take over said well and by paying Unit Operator, for the benefit of all Working Interest Owners, the fair net



salvage value of the equipment used in the operations of such well and by agreeing to plug the well in accordance with the applicable laws, rules, regulations and orders at his expense at such time as it is abandoned.

With respect to all wells not taken over by individual Working Interest Owners, Unit Operator shall salvage as much of the casing and equipment in or on such wells as can economically and reasonably be salvaged and shall cause such wells to be properly plugged and abandoned in accordance with the applicable laws, rules, regulations and orders.

24.03      Cost of Salvaging

The Working Interest Owners shall share the cost of salvaging, liquidation, or other distribution of assets and properties used in the development and operation of the Unitized Strata in proportion to their respective interests in the Unit Facilities.

24.04      Termination of Plan

Upon termination of this Plan the further development and operation of the Unit Area as a unit shall be abandoned, Unit Operations shall cease, and thereafter the Working Interest Owners and the Royalty Owners shall be governed by the terms and provisions of the Leases affecting the separate Tracts.

24.05      Notice to Royalty Owners

The Working Interest Owners shall advise their respective Royalty Owners of the termination of this Plan within thirty (30) days of such termination.

PART XXV  
IN GENERAL

25.01      No Partnership

The duties and obligations of the Working Interest Owners shall be separate and not joint or collective. Nothing

contained in this Plan shall be construed to create a partnership or association.

25.02      Force Majeure

Neither Unit Operator nor any Working Interest Owner 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 Working Interest Owner'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 Plan nor any Lease or any other agreement or instrument relating to the Unitized Strata or Unitized Substances shall terminate by reason of suspension of unit operations for the cause set forth in this clause.

25.03      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.

25.04      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.

25.05     Lien on or Assignment of Production

If any interest of a Working Interest Owner 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 Plan 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 Plan.

25.06     No Partitioning

A Working Interest Owner shall not resort to any action for partition or sale in lieu of partition of the Unit Facilities or any lands affected by this Plan.

25.07     No Surrender without Consent

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

25.08     Waivers

A waiver of any breach of a provision of this Plan 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.

25.09     Suits

A Working Interest Owner who is sued on an alleged cause of action arising out of Unit Operations shall forthwith notify

every other Working Interest Owner.

25.10 Further Assurances

Each Working Interest Owner 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 Plan.

25.11 United States Internal Revenue Provision

If for purposes of the United States Internal Revenue Code of 1954 this Plan or the relationship established thereby constitutes a partnership, as defined in Section 761(a) of the said Code, each of the Working Interest Owners hereto who is entitled under the said Section 761(a) to elect, hereby elects 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 delegate shall permit by election to be excluded therefrom. The Unit Operator is authorized to execute such election on behalf of the Working Interest Owners 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 Working Interest Owner hereto who is subject to the said Code with respect to the Unit Area and who holds the greatest Working Interest.

25.12 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 twelve (12) hours after the sending thereof in the case of a telecommunication, and seventy-two (72) hours after the date of mailing in the case of mailing, in either case excluding Saturdays, Sundays and statutory holidays. A Working Interest Owner may change its address by notice to Unit Operator. Upon request Unit Operator shall furnish to any Working Interest Owner the address for service of any other Working Interest Owner.

25.13 Interpretation

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

25.14 Number and Gender

In this Plan 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.

25.15 Time

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

25.16 Compliance with Legislation

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

25.17 Rehearing, Amendments, etc.

No application for a rehearing of the matters herein provided for, or for any amendments to this Plan in any respect, shall be heard by the Conservation Board within three (3) years of the Effective Date unless:

(a) a majority of two or more of the Working Interest

Owners, owning at least seventy-five percent (75%) of the Participating Interests have agreed in writing to such application for a rehearing of the matters herein provided for, or for amendments to this Plan, or

(b) the Conservation Board, on its own motion, decides to hold a rehearing, or

(c) the Conservation Board, after full consideration of the application of any Working Interest Owner, decides that such application should be heard.

# EXHIBIT "A"

ATTACHED TO AND MADE PART OF A PLAN FOR UNIT OPERATION  
GOVERNING THE UNITIZED MANAGEMENT OPERATION AND FURTHER  
DEVELOPMENT OF WASKADA UNIT NO. 6"

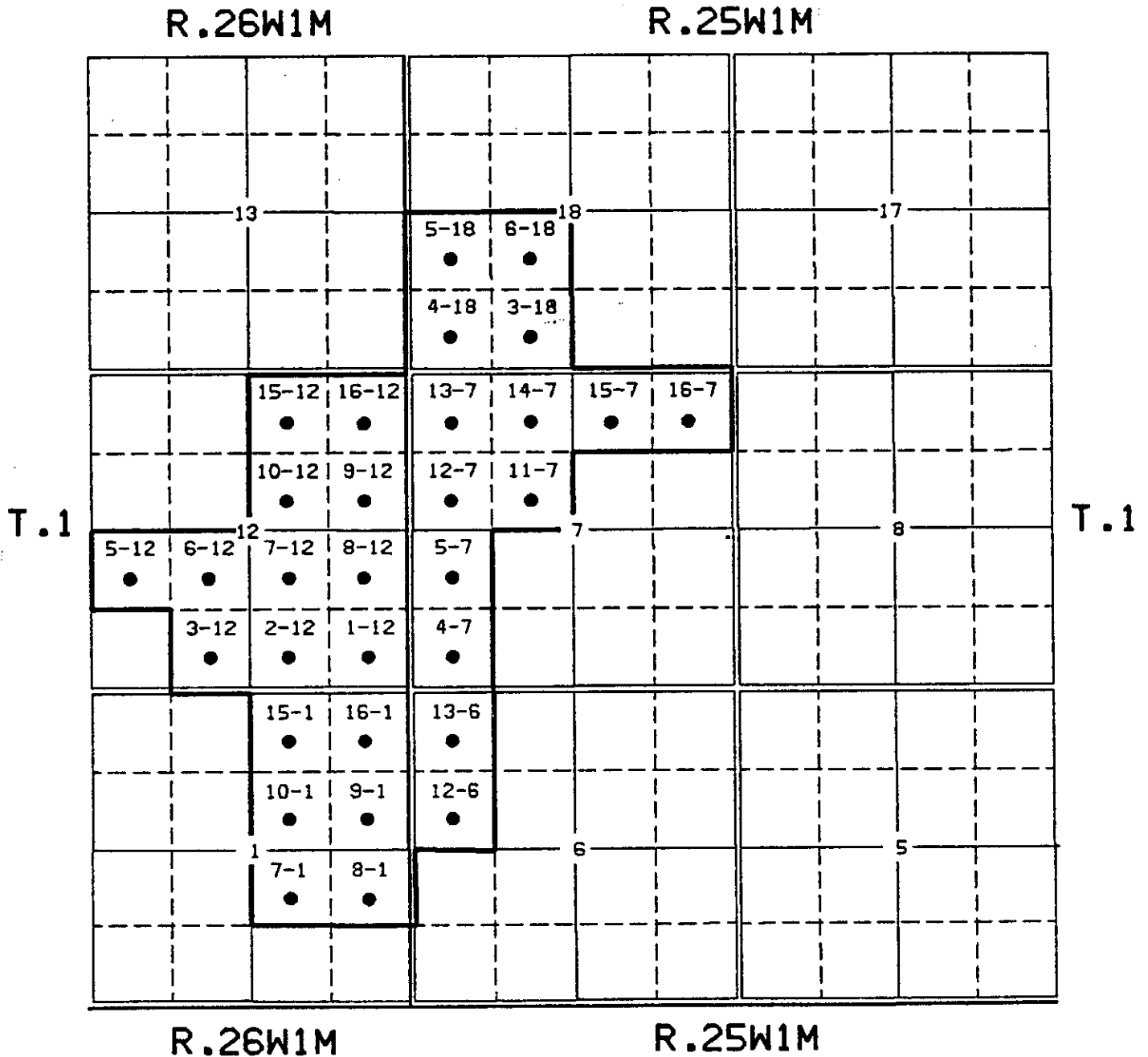
<u>Tract Number</u>	<u>Land Description (Lsd.)</u>	<u>Tract Participation</u>	
		<u>Interim</u>	<u>Final</u>
		(%)	(%)
12-6	12-6-1-25 WPM	3.0287	3.1186
13-6	13-6-1-25 WPM	1.0621	1.2874
4-7	4-7-1-25 WPM	0.4658	1.0347
5-7	5-7-1-25 WPM	3.7525	3.7728
11-7	11-7-1-25 WPM	0.9792	1.6078
12-7	12-7-1-25 WPM	2.8486	6.5387
13-7	13-7-1-25 WPM	2.8272	3.1379
14-7	14-7-1-25 WPM	5.4691	4.0914
15-7	15-7-1-25 WPM	2.1235	3.3804
16-7	16-7-1-25 WPM	5.1574	3.6057
3-18	3-18-1-25 WPM	2.9755	5.1391
4-18	4-18-1-25 WPM	1.3794	1.7664
5-18	5-18-1-25 WPM	1.6329	2.5048
6-18	6-18-1-25 WPM	0.6015	1.2087
7-1	7-1-1-26 WPM	0.2761	1.6224
8-1	8-1-1-26 WPM	1.4894	1.6856
9-1	9-1-1-26 WPM	1.2929	3.0059
10-1	10-1-1-26 WPM	2.5993	2.7255
15-1	15-1-1-26 WPM	3.1988	2.2590

<u>Tract Number</u>	<u>Land Description (Lsd.)</u>	<u>Tract Participation</u>	
		<u>Interim</u> (%)	<u>Final</u> (%)
16-1	16-1-1-26 WPM	3.0902	4.4877
1-12	1-12-1-26 WPM	2.9072	3.2093
2-12	2-12-1-26 WPM	7.2547	3.7575
3-12	3-12-1-26 WPM	6.0402	4.0556
5-12	5-12-1-26 WPM	0.0001	0.4638
6-12	6-12-1-26 WPM	4.8497	3.2165
7-12	7-12-1-26 WPM	2.5585	3.4868
8-12	8-12-1-26 WPM	1.1706	3.1893
9-12	9-12-1-26 WPM	9.1546	4.7848
10-12	10-12-1-26 WPM	8.6616	5.7960
15-12	15-12-1-26 WPM	3.7403	4.0447
16-12	16-12-1-26 WPM	7.4124	6.0152



# EXHIBIT "B"

ATTACHED TO AND MADE PART OF A PLAN FOR UNIT OPERATION  
GOVERNING THE UNITIZED MANAGEMENT OPERATION AND FURTHER  
DEVELOPMENT OF WASKADA UNIT NO. 6"



## LEGEND

- - OILWELL
- - LOCATION OR DRILLING WELL
- 13-6 - NUMBERED TRACT
- - UNIT BOUNDARY

EXHIBIT "D"

ATTACHED TO AND MADE PART OF A PLAN FOR UNIT OPERATION  
GOVERNING THE UNITIZED MANAGEMENT OPERATION AND FURTHER  
DEVELOPMENT OF WASKADA UNIT NO. 6"

PRIMA FACIE LIST OF WORKING INTEREST OWNERS AND ROYALTY OWNERS

<u>Tract Number</u>	<u>Land Description (Lsd.)</u>	<u>Working Interest</u>		<u>Royalty Interest</u>	
		<u>Owner</u>	<u>Share</u> (%)	<u>Owner</u>	<u>Share</u>
12-6	12-6-1-25 WPM	Chevron	25.0	Dome	50.000%
		Newscope	30.0	H & F Lawrence	50.000%
		Colenco	25.0	KLM Ventures	(ORR)
		Can-Am	10.0	3-D Petroleums	(ORR)
		New McManus	10.0	Dandy Oils	(ORR)
				Spearfish	(ORR)
				Chandler	(ORR)
13-6	13-6-1-25 WPM	Chevron	25.0	Dome	50.000%
		Newscope	30.0	H & F Lawrence	50.000%
		Colenco	25.0	KLM Venture	(ORR)
		Can-Am	10.0	3-D Petroleums	(ORR)
		New McManus	10.0	Dandy Oils	(ORR)
				Spearfish	(ORR)
				Chandler	(ORR)
4-7	4-7-1-25 WPM	Chevron	50.0	R.O.Young	25.000%
		Newscope	27.5	59643 Man.	75.000%
		Colenco	12.5	L.J.McGregor	(ORR)
		Can-Am	5.0	Chevron	(ORR)
		New McManus	5.0		
5-7	5-7-1-25 WPM	Chevron	50.0	R.O.Young	25.000%
		Newscope	27.5	59643 Man.	75.000%
		Colenco	12.5	L.J.McGregor	(ORR)
		Can-Am	5.0	Chevron	(ORR)
		New McManus	5.0		
11-7	11-7-1-25 WPM	Chevron	25.0	Rushton	50.000%
		Newscope	27.5	PanCanadian	50.000%
		PanCanadian	25.0	R.D.McGregor	(ORR)
		Colenco	10.0		
		Can-Am	5.0		
		New McManus	7.5		

<u>Tract Number</u>	<u>Land Description (Lsd.)</u>	<u>Working Interest</u>		<u>Royalty Interest</u>	
		<u>Owner</u>	<u>Share (%)</u>	<u>Owner</u>	<u>Share</u>
12-7	12-7-1-25 WPM	Chevron	25.0	Rushton	50.000%
		Newscope	27.5	PanCanadian	50.000%
		PanCanadian	25.0		
		Colenco	12.5		
		Can-Am	5.0		
		New McManus	5.0		
13-7	13-7-1-25 WPM	Newscope	55.0	Rushton	50.000%
		Colenco	25.0	PanCanadian	50.000%
		Can-Am	10.0		
		New McManus	10.0		
14-7	14-7-1-25 WPM	Chevron	25.0	Rushton	50.000%
		Newscope	27.5	PanCanadian	50.000%
		PanCanadian	25.0	R.D.McGregor	(ORR)
		Colenco	10.0		
		Can-Am	5.0		
		New McManus	7.5		
15-7	15-7-1-25 WPM	Chevron	50.0	Rushton	50.000%
		Newscope	50.0	PanCanadian	50.000%
16-7	16-7-1-25 WPM	Chevron	50.0	Rushton	50.000%
		Newscope	50.0	PanCanadian	50.000%
3-18	3-18-1-25 WPM	Chevron	100.0	Hernefield	100.000%
4-18	4-18-1-25 WPM	Chevron	100.0	Hernefield	100.000%
5-18	5-18-1-25 WPM	Chevron	100.0	Hernefield	100.000%
6-18	6-18-1-25 WPM	Chevron	100.0	Hernefield	100.000%
7-1	7-1-1-26 WPM	Chevron	100.0	Smart R.T.Duncan	100.000% (ORR)
8-1	8-1-1-26 WPM	Chevron	100.0	Smart R.T.Duncan	100.000% (ORR)

<u>Tract Number</u>	<u>Land Description (Lsd.)</u>	<u>Working Interest Owner</u>	<u>Share (%)</u>	<u>Royalty Interest Owner</u>	<u>Share</u>
9-1	9-1-1-26 WPM	Chevron	100.0	Smart R.T.Duncan	100.000% (ORR)
10-1	10-1-1-26 WPM	Chevron	100.0	Smart R.T.Duncan	100.000% (ORR)
15-1	15-1-1-26 WPM	Chevron	100.0	Smart R.T.Duncan	100.000% (ORR)
16-1	16-1-1-26 WPM	Chevron	100.0	Smart R.T.Duncan	100.000% (ORR)
1-12	1-12-1-26 WPM	Chevron Newscope Gt. Amer.	31.25 25.00 43.75	R. Stead Hernefield M. Ballantyne Hill Estate M. Westlie Smith Estate C & J Whyte ) P & M Boyle ) W & N Witteman Westlie Estate P. Boyle L. Nelson C. Eliason	6.250% 25.000% 6.250% 25.000% 6.250% 6.250%  3.125% 3.125% 12.500% 6.250% (ORR) (ORR)
2-12	2-12-1-26 WPM	Chevron Newscope Gt. Amer.	31.25 25.00 43.75	R. Stead Hernefield M. Ballantyne Hill Estate M. Westlie Smith Estate C & J Whyte ) P & M Boyle ) W & M Witteman Westlie Estate P. Boyle L. Nelson C. Eliason	6.250% 25.000% 6.250% 25.000% 6.250% 6.250%  3.125% 3.125% 23.500% 6.250% (ORR) (ORR)
3-12	3-12-1-26 WPM	Chevron	100.0	Man. Crown	100.000%

<u>Tract Number</u>	<u>Land Description (Lsd.)</u>	<u>Working Interest Owner</u>	<u>Interest Share (%)</u>	<u>Royalty Interest Owner</u>	<u>Share</u>
5-12	5-12-1-26 WPM	Chevron	100.0	Man. Crown	100.000%
6-12	6-12-1-26 WPM	Chevron	100.0	Man. Crown	100.000%
7-12	7-12-1-26 WPM	Chevron	31.25	R. Stead	6.250%
		Newscope	25.00	Hernefield	25.000%
		Gt. Amer.	43.75	M. Ballantyne	6.250%
				Hill Estate	25.000%
				M. Westlie	6.250%
				Smith Estate	6.250%
				C & J Whyte )	
				P & M Boyle )	3.125%
				W & N Witteman	3.125%
				Westlie Estate	12.500%
				P. Boyle	6.250%
				L. Nelson	(ORR)
				C. Eliason	(ORR)
8-12	8-12-1-26 WPM	Chevron	31.25	R. Stead	6.250%
		Newscope	25.00	Hernefield	25.000%
		Gt. Amer.	43.75	M. Ballantyne	6.250%
				Hill Estate	25.000%
				M. Westlie	6.250%
				Smith Estate	6.250%
				C & J Whyte )	
				P & M Boyle )	3.125%
				W & N Witteman	3.125%
				Westlie Estate	12.500%
				P. Boyle	6.250%
				L. Nelson	(ORR)
				C. Eliason	(ORR)
9-12	9-12-1-26 WPM	Chevron	50.0	Hernefield	100.000%
		Newscope	27.5		
		Colenco	10.0		
		Can-Am	5.0		
		New McManus	7.5		

<u>Tract Number</u>	<u>Land Description (Lsd.)</u>	<u>Working Interest</u>		<u>Royalty Interest</u>	
		<u>Owner</u>	<u>Share</u> (%)	<u>Owner</u>	<u>Share</u>
8-12	8-12-1-26 WPM	Chevron	31.25	R. Stead	6.250%
		Newscope	25.00	Hernefield	25.000%
		Gt. Amer.	43.75	M. Ballantyne	6.250%
				Hill Estate	25.000%
				M. Westlie	6.250%
				Smith Estate	6.250%
				C & J Whyte )	
				P & M Boyle )	3.125%
				W & N Witteman	3.125%
				Westlie Estate	12.500%
9-12	9-12-1-26 WPM	Chevron	50.0	P. Boyle	6.250%
		Newscope	27.5		
		Colenco	10.0		
		Can-Am	5.0		
		2277817	7.5		
				Hernefield	100.000%
10-12	10-12-1-26 WPM	Chevron	50.0		
		Newscope	27.5		
		Colenco	10.0		
		Can-Am	5.0		
		New McManus	7.5		
				Hernefield	100.000%
15-12	15-12-1-26 WPM	Chevron	50.0		
		Newscope	27.5		
		Colenco	10.0		
		Can-Am	5.0		
		New McManus	7.5		
				Hernefield	100.000%
16-12	16-12-1-26 WPM	Chevron	50.0		
		Newscope	17.5		
		Colenco	12.5		
		Can-Am	5.0		
		New McManus	5.0		
				Hernefield	100.000%

### List of Abbreviations

#### Working Interest Owners

Chevron	Chevron Canada Resources Limited
Newscope	Newscope Resources Limited
PanCanadian	PanCanadian Petroleum Limited
Gt. Amer.	Great American Energy, Inc.
Colenco	Colenco Petroleum Ltd.
Can-Am	Can-Am Drilling Ltd.
New McManus	New McManus Red Lake Gold Mines

#### Royalty Interest Owners

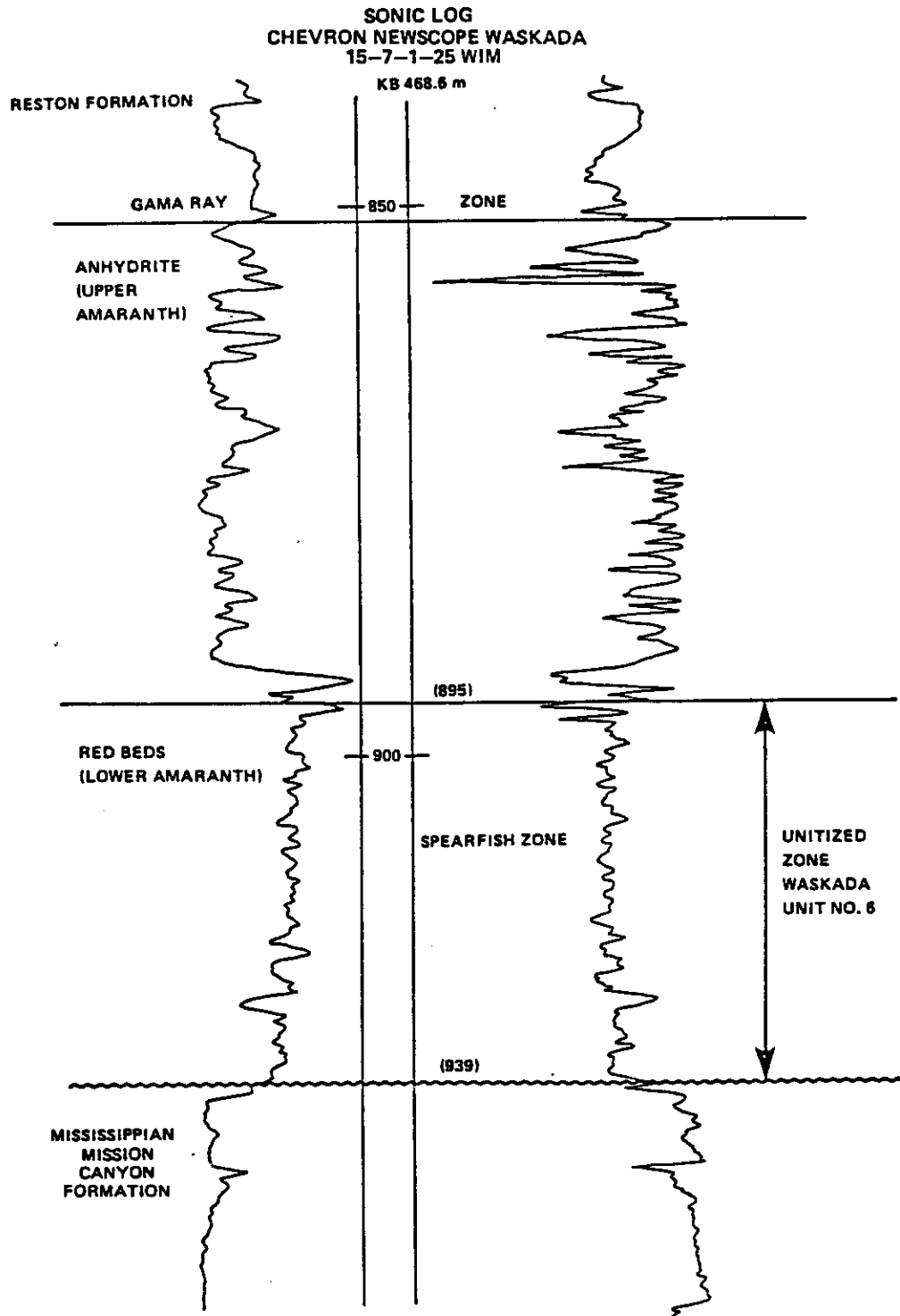
Dome	Dome Petroleum Limited
H & F Lawrence	Herbert Joseph Lawrence and Francis Hedley Lawrence
R.O. Young	Roy Ovey Young
59643 Man.	59643 Manitoba Ltd.
Rushton	Rushton Resources Ltd.
PanCanadian	PanCanadian Petroleum Limited
Hernefield	Hernefield Enterprises Ltd.
Smart	Smart Oils Ltd. (Frank Robert Smart)
R. Stead	Robert Stead
M. Ballantyne	Melvin Ballantyne
Hill Estate	William Jennings Hill (Estate)
M. Westlie	Marilyn R. Westlie, heir to the Estate of Aloysius Raymond Weinhardt
Smith Estate	Richard H. Friedman, Personal Representative of the Estate of Dorothy Ebba Smith
C & J Whyte	Carl Whyte and Jean Whyte
P & M Boyle	Paul Boyle and Mary Boyle
W & N Witteman	William Witteman and Nellie Witteman
Westlie Estate	Charles Westlie, Administrator of the Estate of Henry Westlie
P. Boyle	Paul Boyle
Man. Crown	Her Majesty the Queen in Right of the Province of Manitoba.

#### Overriding Royalty Holders (ORR)

3-D Petroleums	3-D Petroleums Ltd.
Chandler	Chandler Oils Ltd.
Chevron	Chevron Canada Resources Limited
Dandy Oils	Dandy Oils Ltd.
R.T. Duncan	Raymond T. Duncan
C. Eliason	Clarence Eliason
KLM Ventures	KLM Ventures Ltd.
L.J. McGregor	Leslie James McGregor
R.D. McGregor	Robert Donald McGregor
L. Nelson	Lyndly Nelson
Spearfish	Spearfish Resources Ltd.

EXHIBIT "C"

ATTACHED TO AND MADE PART OF A PLAN FOR UNIT OPERATION  
GOVERNING THE UNITIZED MANAGEMENT OPERATION AND FURTHER  
DEVELOPMENT OF WASKADA UNIT NO. 6





PRIMA FACIE LIST OF WORKING INTEREST OWNERS AND THEIR  
UNIT PARTICIPATIONS

<u>Working Interest Owner</u>	Percent	
	<u>Unit Participation</u>	
	<u>Interim</u>	<u>Final</u>
Can-Am Drilling Ltd.	2.8160	2.6387
Chevron Canada Resources Limited	57.3479	58.7825
Colenco Petroleum Ltd.	6.3399	6.0886
Great American Energy, Inc.	6.0773	5.9688
New McManus Red Lake Gold Mines	3.5161	3.1468
Newscope Resources Limited	21.5786	20.3151
PanCanadian Petroleum Limited	<u>2.3242</u>	<u>3.0595</u>
	100.0000	100.0000

EXHIBIT "E"  
ATTACHED TO AND MADE PART OF A PLAN FOR UNIT OPERATION  
GOVERNING THE UNITIZED MANAGEMENT OPERATION AND FURTHER  
DEVELOPMENT OF WASKADA UNIT NO. 6"

LIST OF UNIT WELLS

<u>Well Name</u>	<u>Location</u>
Newscope et al Waskada 12-6-1-25	Lsd. 12, Sec. 6, 1-25-WPM
New Scope S. Waskada 13-6-1-25	Lsd. 23, Sec. 6, 1-25 WPM
New Scope S. Waskada 4-7-1-25	Lsd. 4, Sec. 7, 1-25-WPM
New Scope S. Waskada 5-7-1-25	Lsd. 5, Sec. 7, 1-25-WPM
New Scope S. Waskada 11-7-1-25	Lsd. 11, Sec. 7, 1-25 WPM
New Scope S. Waskada 12-7-1-25	Lsd. 12, Sec. 7, 1-25-WPM
New Scope South Waskada 13-7-1-25	Lsd. 13, Sec. 7, 1-25-WPM
New Scope S. Waskada 14-7-1-25	Lsd. 14, Sec. 7, 1-25-WPM
Chevron Newscope Waskada 15-7-1-25	Lsd. 15, Sec. 7, 1-25-WPM
Chevron Newscope Waskada 16-7-1-25	Lsd. 16, Sec. 7, 1-25-WPM
Chevron Waskada 3-18-1-25	Lsd. 3, Sec. 18, 1-25-WPM
Chevron Waskada 4-18-1-25	Lsd. 4, Sec. 18, 1-25-WPM
Chevron Waskada 5-18-1-25	Lsd. 5, Sec. 18, 1-25-WPM
Chevron Waskada 6-18-1-25	Lsd. 6, Sec. 18, 1-25-WPM
Chevron Waskada 7-1-1-26	Lsd. 7, Sec. 1, 1-26-WPM
Chevron Waskada 8-1-1-26	Lsd. 8, Sec. 1, 1-26-WPM
Chevron Waskada 9-1-1-26	Lsd. 9, Sec. 1, 1-26-WPM
Chevron S. Waskada 10-1-1-26	Lsd. 10, Sec. 1, 1-26-WPM
Chevron Waskada 15-1-1-26	Lsd. 15, Sec. 1, 1-26-WPM
Chevron Waskada 16-1-1-26	Lsd. 16, Sec. 1, 1-26-WPM
Chevron Waskada 1-12-1-26	Lsd. 1, Sec. 12, 1-26-WPM
Chevron Waskada 2-12-1-26	Lsd. 2, Sec. 12, 1-26-WPM
Chevron Waskada Prov 3-12-1-26	Lsd. 3, Sec. 12, 1-26-WPM
Chevron Waskada Prov 5-12-1-26	Lsd. 5, Sec. 12, 1-26-WPM
Chevron Waskada Prov 6-12-1-26	Lsd. 6, Sec. 12, 1-26-WPM
Chevron Waskada 7-12-1-26	Lsd. 7, Sec. 12, 1-26-WPM
Chevron et al S. Waskada 8-12-1-26	Lsd. 8, Sec. 12, 1-26-WPM
New Scope S. Waskada 9-12-1-26	Lsd. 9, Sec. 12, 1-26-WPM
New Scope et al Waskada 10-12-1-26	Lsd. 10, Sec. 12, 1-26-WPM
New Scope S. Waskada 15-12-1-26	Lsd. 15, Sec. 12, 1-26-WPM
New Scope S. Waskada 16-12-1-26	Lsd. 16, Sec. 12, 1-26-WPM

EXHIBIT "F"  
ATTACHED TO AND MADE PART OF A PLAN FOR UNIT OPERATION  
GOVERNING THE UNITIZED MANAGEMENT OPERATION AND FURTHER  
DEVELOPMENT OF WASKADA UNIT NO. 6

ACCOUNTING PROCEDURE

PART I

GENERAL PROVISIONS

101.     Definitions

The definitions of the Plan for Unit Operation governing the Unitized Management Operation and Further Development of Waskada Unit No. 6 (hereinafter called "the Plan") are adopted for the purpose of this Accounting Procedure. In addition, in this Accounting Procedure, unless the context otherwise requires:

- (a) "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.
- (b) "Construction Project" means any construction or installation undertaken for the Joint Account, including each subsequent addition thereto or alteration thereof and Equipping Costs of a Unit Well, but does not include Drilling. For purposes of Clause 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.
- (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) "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 operation) or conversion of a well to a source, injection, observation or producing well and includes Completion Costs but not Equipping Costs.
- (e) "Equipping Costs" of a Unit Well means all moneys expended, beyond Completion Costs, to acquire and install equipment required to produce Unitized Substances from the Unit Well including the pump (or other artificial lift equipment), the acquisition and installation of flow lines and production tankage serving the Unit Well and where necessary a heater, dehydrator or other facility for the initial treatment of the Unitized Substances 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 or will be operated pursuant to a separate agreement.
- (f) "First Level Field Supervisor" means the employee whose primary function is the direct field supervision of other employees and contract labour directly employed in a field operating capacity.
- (g) "Joint Account" means the account showing the charges paid and credits received as a result of the Unit Operations and which are to be shared by the Working Interest Owners in accordance with the terms of the Plan.
- (h) "Material" means the equipment, machinery and supplies acquired for the Joint Account and classified as follows:
  - (i) Condition "A" means that which is new;
  - (ii) Condition "B" means that which has been used but is suitable for its original function without reconditioning;

- (iii) 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;
- (iv) Condition "D" means that which is not suitable for its original function but is usable for another function;
- (v) Condition "E" means that which is junk.

- (i) "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 50.8 mm (2 inches) in diameter and over shall be priced on a carload basis. Any cash discount that may be allowed by dealer shall not be deducted in determining New Price.
- (j) "Technical Employee" means the employee having special and specific engineering, geological or other professional skills such as, but not limited to engineers, geologists, geophysicists, technologists and landmen whose primary function is the handling of specific operating conditions and problems for the benefit of Unit Operations.

102. Records

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. Additions of such items will be accounted for as additional capital expenditure. Retirements of such items will be accounted for as reductions of capital expenditures. Replacements may be expensed.

103. Bills

Unit Operator shall bill each Working Interest Owner 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 lease, or facility, and all charges and credits, summarized by appropriate classifications of investment and expense. Items of Controllable Material and unusual charges and credits shall be identified and described in detail.

104.     Payments

Bills shall be paid in accordance with clause 16.05 of the Plan.

105.     Advances

The Working Interest Owners shall pay, in accordance with clauses 16.03 and 16.04 of the Plan, any advances required by Unit Operator thereunder.

106.     Right to Protest or Question Bills

A Working Interest Owner may protest or question the correctness of a bill, notwithstanding the payment of it, if such protest or question is made in writing to Unit Operator within twenty-six (26) months following the end of the calendar year in which the bill was presented. If a Working Interest Owner does not protest or question within the time limited, the bill shall be deemed conclusively to be correct for all purposes. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of Material as provided for in Part V of this Accounting Procedure.

107.     Audits

Any Working Interest Owner, upon notice in writing to Unit Operator and all other Working Interest Owners, shall have the right to audit Unit Operator's accounts and records maintained for the Joint Account for any calendar year within the twenty-four (24) month period next following the end of such calendar year. Where two or more Working Interest Owners desire to conduct such audits, they shall make every reasonable effort to conduct joint or simultaneous audits in a

manner which will result in a minimum of inconvenience to Unit Operator. The cost of audits shall be borne by all Working Interest Owners, except Unit Operator. Any claims of discrepancies disclosed by such audit shall be made in writing to Unit Operator within two (2) months of the completion of such audit. Unit Operator shall ensure that all necessary information which would be required for any audit will be made available in Alberta.

Unit Operator shall respond to any claims of discrepancies within six (6) months of receipt of such claims. If Unit Operator is unable to respond to the claims during the six month period, one extension of three (3) months may be presented by Unit Operator to the Working Interest Owners for approval in accordance with Clause 8.04 (b) of the Plan. Claims unanswered after the above six month period or additional three month extension, shall be credited forthwith to the Joint Account as originally submitted, until such claims of discrepancies are resolved.

## PART II

### CHARGES

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

201. Rentals and Other Payments

Rentals, renewal fees and other payments that are required to maintain the interest of the Working Interest Owners in the Unit Area or Unit Facilities.

202. Labour

- (a) (i) Salaries and wages of Unit Operator's field employees directly employed at the Unit Area or on the site of the Unit Facilities in conduct of Unit Operations;
- (ii) Salaries of First Level Field Supervisors in the field;
- (iii) Salaries and wages of Technical Employees directly

- employed at the Unit Area or on the site of the Unit Facilities in conduct of Unit Operations;
- (iv) 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 with the 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.
  - (v) 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 by a percentage assessment:

- (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 labour for the Joint Account under subclauses 202 (a) and (b), shall be chargeable at Unit



Operator's actual cost not to exceed twenty percent (20%) of such labour cost.

204. Travel and Moving

- (a) Costs of personnel transfers (excluding commissions, mortgage and interest payments and any loss on the sale of real estate) and personal expenses for the required staffing of the Unit Area and Unit Facilities, and subsequent replacements when such replacements are not for the primary benefit of the Unit Operator whose salaries and wages are chargeable to the Joint Account.
- (b) Costs of travelling and personal expenses to and from and within the Unit Area and Unit Facilities for those employees whose salaries and wages are chargeable to the Joint Account.

205. Material

Material purchased or furnished by Unit Operator for use in Unit Operations as provided under Part IV including transportation cost 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 Facilities 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, or as agreed by the Working Interest Owners.
- (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 work and supervision of drilling operations.

207.     Unit Operator's Facilities and Equipment

- (a) 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 cost of ownership and operation thereof, including depreciation and interest on the depreciated investment. 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 (1%) determined at the beginning of each calendar year.
- (b) 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 twenty percent (20%).
- (c) Unit Operator may charge operating costs for Unit Operator's owned or leased automotive equipment used in Unit Operations. Costs shall be charged on a kilometrage (mileage), hourly or other equitable basis, based on the Unit Operator's actual cost experience.
- (d) When requested to do so, Unit Operator shall inform the Working Interest Owners in advance of the rates to be charged.

208.     Replacement or Repairs

Costs of replacement or repairs to the Unit Facilities for which Unit Operator is not liable. Unit Operator shall furnish the Working Interest Owners with written notice of damages or losses incurred, as soon as practicable after the damage or loss has been discovered.

209.     Surface Rights and Legal Services

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

210.     Taxes  
Taxes paid for the Joint Account.
211.     Insurance  
Premiums paid for insurance that Unit Operator is required to carry for the Joint Account.
212.     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 Operating Committee.
213.     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 (1%) 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.
214.     Central Production Control  
(a) 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.

- (b) Electronic or computerized gas chart reading and other computer usage shall not be charged to the Joint Account without the prior approval of the Operating Committee.

215.     Ecological and Environmental

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

216.     Engineering and Design

With the prior approval of the Operating Committee, design of Construction Projects shall be for the Joint Account including the salaries and expenses of Unit Operator's employees directly engaged in design work.

217.     Warehouse Handling

- (a) If a warehouse is not maintained as a Unit Facility, Unit Operator may, with respect to Material delivered from its warehouse, charge:
  - (i) two and one-half percent (2-1/2%) of the cost of tubular goods, 50.8 mm (two inches) in diameter and over, and each other item of Material having a New Price in excess of \$5,000.00; and
  - (ii) five percent (5%) 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.

218.     Limits of 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 single undertaking, the total esti-

mated cost of which is not in excess of Twenty-five Thousand Dollars (\$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 Working Interest Owners; and
- (c) expenditures not in excess of Ten Thousand Dollars (\$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". Unit Operator will furnish notice of damage or loss to each Working Interest Owner as soon as possible after notice of damage or loss has been received by Unit Operator.

219. Other Costs

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

PART III

OVERHEAD

301. Definitions

In this Part III:

- (a) "Cost" means total expenditures described in PART II (excluding those expenditures referred to in Paragraph 201 and expenses of litigation, judgements, settlement of claims, salvage credits for Material retired and the value of injected substances purchased for enhanced recovery) incurred in conducting Unit Operations.
- (b) "Overhead" means the cost to Unit Operator of salaries, wages, employee benefits and all other expenses of employees and the cost of maintaining and operating all offices, camps, housing and other facilities that are not Unit Facilities, other than those costs covered in Part II hereof.

- (c) "Producing Well" means a Unit Well that in a calendar month:
- (i) is capable of economic production of Unitized Substances and has an allowable assigned thereto but not including wells shut-in for three (3) consecutive months; or
  - (ii) is connected to a source, injection, disposal system or to a permanent gas sales outlet; or
  - (iii) is used as an observation well in the Unitized Zone; provided that a well that is Drilling during the entire month or is permanently shut in and waiting abandonment, shall not be considered a Producing Well, and a well completed in and producing selectively from more than one zone shall be considered a separate Producing Well for each such zone (two or more zones that are commingled shall be counted as a single zone); and provided further that a source, injection or disposal well or a well connected to a permanent gas sales outlet which is shut in for the entire month shall not be considered a Producing Well.

302. Overhead Rates

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

- (a) for each Drilling Well:
  - (i) three percent (3%) of the first \$50,000.00 of Cost; plus
  - (ii) two percent (2%) of the next \$100,000.00 of Cost; plus
  - (iii) one percent (1%) of Cost exceeding \$150,000.00.
- (b) for each Producing Well \$200.00 per month.
- (c) for each Construction Project:
  - (i) five percent (5%) of the first \$50,000.00 of Cost; plus
  - (ii) three percent (3%) of the next \$100,000.00 of Cost; plus
  - (iii) one percent (1%) of Cost exceeding \$150,000.00.

## PART IV

### PRICING OF JOINT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

#### 401. Material

Unit Operator shall make proper and timely charges and credits for all Material movements affecting the Unit Facilities. Unit Operator shall provide all required Material; however, at Unit Operator's option, such Material may be supplied by another Working Interest Owner. Unit Operator shall make timely disposition of idle or surplus Material either through sale to Unit Operator or any other Working Interest Owner, division in kind, or sale to outsiders. Unit Operator may purchase, but shall be under no obligation to purchase, the interests of the other Working Interest Owners in surplus Material. All sales of surplus Material, the New Price of which is greater than Ten Thousand Dollars (\$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 Working Interest Owners 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. Unit Operator shall purchase for, or transfer to, the Unit Area or Unit Facilities only such Material as is required for immediate use.

#### 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")

(i) Condition "B" Material moved to the Unit Area at seventy-five percent (75%) of New Price;

(ii) Condition "B" Material moved from the Unit Area  
- at seventy-five percent (75%) of New Price if Material was originally for the Joint Account as Condition "A" Material; or  
- at sixty-five percent (65%) of New Price if Material was originally for the Joint Account as Condition "B" Material at seventy-five percent (75%) of New Price.

(c) Other Used Material (Condition "C", "D" or "E")

(i) Condition "C" Material shall be priced at fifty percent (50%) of New Price;

(ii) Condition "D" Material shall be priced at a value commensurate with its use or at prevailing prices;

(iii) Condition "E" Material moved from the Unit Area shall be priced at the best price currently available.

Notwithstanding the Material condition, the Operating Committee may approve a price for Material not in accordance with the foregoing.

404. 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 obtainable because of causes over which Unit Operator has no control, in making it suitable for use and in transporting it to the Unit Area.

405. Transportation of Material

Unit Operator may, for transporting Material supplied by Unit Operator, charge the actual cost of transportation to or from the Unit



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

## PART V INVENTORIES

### 501. Inventories by Unit 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.

### 502. Notice of Inventory

Unit Operator shall give each Working Interest Owner notice that a periodic inventory will be conducted at least sixty (60) days before an inventory will begin. Each Working Interest Owner may elect to be represented during the taking of an inventory.

### 503. Frequency of Inventory and Expense

A periodic inventory shall be conducted by the Unit Operator at least once in every five (5) years, or whenever the Operating Committee so directs. The costs of conducting periodic inventories of Joint Account Controllable Material shall be charged to the Joint Account. Costs shall be determined in the same manner as audit costs that are generally accepted by the industry. The costs of conducting inventories initiated at more frequent intervals by the Unit Operator shall be borne by the Unit Operator.

### 504. Reconciliation of Inventory

A reconciliation of the physical inventory with the Joint Account records shall be made by Unit Operator and approved by the Working Interest Owners conducting the physical inventory. Unit Operator shall submit a list of overages and shortages to the Working

Interest Owners and shall make adjustments to the Joint Account records to reflect the physical inventory.

505.     Special Inventories

Each Working Interest Owner shall have the right at any time to request in writing the taking of a special inventory of Controllable Material which shall be commenced within sixty (60) days of receipt of the written notice. Such Working Interest Owner shall be entitled to be represented at the taking of the special inventory.

All expenses incurred by the Unit Operator in conducting the special inventory, including reconciliation if requested, shall be borne by the requesting Working Interest Owner.

EXHIBIT "G"

ATTACHED TO AND MADE PART OF A PLAN FOR UNIT OPERATION  
GOVERNING THE UNITIZED MANAGEMENT OPERATION AND FURTHER  
DEVELOPMENT OF WASKADA UNIT NO. 6"

INSURANCE

(a) Unit Operator shall, in conducting operations under the Plan, maintain insurance in accordance with the provisions of subclause (b) of this Clause. If so requested by a Working Interest Owner, Unit Operator shall deliver to such Working Interest Owner documentary evidence of full compliance with this Clause.

(b) Without in any way limiting the liability of Unit Operator under the Plan, it shall be the Unit Operator's responsibility to maintain and keep in force during the term of the Plan the following insurance:

- (i) Comprehensive General Liability Insurance - covering operations in connection with the Plan (other than the operation of licensed vehicles), including employer's liability, the Unit Operator's contingent liability with respect to the operations of sub-contractors, and contractual liability as respects the liability assumed by Unit Operator under the Plan. The policy or policies shall not contain any exclusion as respects loss or damage to property arising from fire, explosion or blowout. The limits of such insurance shall be not less than:

Bodily Injury and Property Damage: \$1,000,000.00 inclusive any one accident, or equivalent limits.

- (ii) Automobile Liability Insurance - covering vehicles used in connection with operations under the Plan. In respect of such vehicles not owned by the Unit Operator, it shall maintain and keep in force as aforesaid, non-owned automobile liability insurance protecting its liability including that assumed under the Plan. The limits of such insurance shall not be less than:

Bodily Injury (including Passenger Hazard) and Property Damage: \$1,000,000.00 inclusive of any accident, or equivalent limits.

These policies, together with any other policies carried by Unit Operator, the cost of which is chargeable to the Joint Account, shall include a waiver of subrogation in favour of the Working Interest Owners to the Plan.

(c) Each Working Interest Owner which carries on any operations on its own behalf pursuant to the Plan, unless otherwise agreed among the Working Interest Owners, shall maintain at its own expense insurance with limits not less than those set forth in Subclause (b) of this Clause.

(d) Unit Operator or the contractor at Unit Operator's direction shall carry and place in force, prior to the commencement of 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 thirty (30) days.

Such insurance shall include the Working Interest Owners, contractors and subcontractors as named insured as their respective interests may appear, and the amount of insurance shall be for the total completed value of the work.

(e) If so requested by any Working Interest Owner, Unit Operator shall furnish evidence of compliance with the foregoing insurance provisions.

(f) Each Party waives any and every right of subrogation against Unit Operator arising out of, or in any way connected with, the insurance coverage provided for in, or required by, this Exhibit "G".

(g) Each Working Interest Owner shall be responsible for insuring its own interest in the Unit Facilities with respect to physical damage, loss of income and any insurance other than that referred to in subclause (b) above. Any such insurance policies shall contain a waiver on the part of the insurer of all rights, by subrogation or otherwise, against the Working Interest Owners. Should any Working Interest Owner not adequately insure its own interests, it shall be deemed to be a self-insurer granting a full release from all liability with respect to such interests in favour of the Unit Operator and the other Working Interest Owners.

UNIT AGREEMENT  
WASKADA UNIT NO. 6

UNIT AGREEMENT,  
WASKADA UNIT NO. 6

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UNIT AGREEMENT

WASKADA UNIT NO. 6

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, all 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";
- (k) "Tract Participation" means the effective percentage allotted to a Tract pursuant to Article VI and set forth in Exhibit "A";
- (l) "Unit Area" means the lands described in Exhibit "A" and shown outlined on Exhibit "B";
- (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. 6" 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 sonic log depths of 897.3 metres and 926.4 metres, as measured from the Kelly Bushing at Chevron et al Waskada 8-12-1-26 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 interim and final 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 sonic 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 ninety (90) days thereafter shall be effective on the Effective Date. Any corrected exhibit prepared after the said ninety (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 one (1) copy 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 interest 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. 6".

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 Tracts 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 ninety (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 one hundred percent (100%) of the Working Interest therein have become Parties and parties to the Unit Operating Agreement and owners of one hundred percent (100%) of the Royalty Interest therein have become Parties; or
- (b) owners of one hundred percent (100%) of the Working Interest therein have become Parties and parties to the Unit Operating Agreement and owners of less than one hundred percent (100%) 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 Interests 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 subclause (a) or (b) of this clause.

503. Revision of Exhibits

Within one hundred and twenty (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 one hundred percent (100%). The exhibits as so revised shall be effective as of the Effective Date.

## ARTICLE VI TRACT PARTICIPATION

### 601. Tract Participation

Each Tract has an interim Tract Participation and a final Tract Participation as shown on Exhibit "A". The interim Tract Participation shall be effective from the Effective Date until 8:00 a.m. on the first day of the month immediately following the expiry of a one (1) year period from the Effective Date and thereafter the final Tract Participation shall be effective.

## 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 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 one (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 operation 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 ninety (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 or of a Working 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.

902.     Adjustment of Tract Participations

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 one hundred percent (100%).

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 one hundred percent (100%). 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 the parties thereto have each 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.

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 8:00 a.m. official time of the first day of the first calendar month following 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 July, A.D. 1986.



## 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. This agreement inures to the benefit of and is binding upon the heirs, executors, administrators, successors and assigns of the Parties, 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 ninety (90) days after the Effective Date.

#### 1502. Termination

This agreement terminates ninety (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 six (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 thirty (30) days thereafter.

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



Minister of Energy and Mines

Date: June 6, 1986

EXECUTION PAGE

UNIT AGREEMENT - WASKADA UNIT NO. 6

### AFFIDAVIT OF EXECUTION

C A N A D A )  
 )  
PROVINCE OF )  
 )  
TO WIT: )

I, \_\_\_\_\_ of the \_\_\_\_\_ of \_\_\_\_\_  
in the Province of \_\_\_\_\_, \_\_\_\_\_,  
make oath and say:

1. THAT I was personally present and did see \_\_\_\_\_  
who is personally known to me to be the person(s) named therein, duly sign,  
seal and execute the same for the purposes therein named.

2. THAT the same was executed at \_\_\_\_\_, in the Province of \_\_\_\_\_ and that I am the subscribing witness thereto.

3. THAT I know the said \_\_\_\_\_ and he (or she) is (or they are each) in my belief of the full age of eighteen years.

SWORN BEFORE ME at the \_\_\_\_\_ )  
 of \_\_\_\_\_ in the Province )  
 of \_\_\_\_\_ this \_\_\_\_\_ )  
 day of \_\_\_\_\_, A.D. 198\_\_.

A Commissioner for Oaths in and for  
the Province of

**DOWER AFFIDAVIT**

C A N A D A )  
 )  
PROVINCE OF )  
 )  
TO WIT: )

I, \_\_\_\_\_ of the \_\_\_\_\_ of \_\_\_\_\_  
in the Province of \_\_\_\_\_, \_\_\_\_\_,  
(Occupation)  
make oath and say:

1. THAT I am a party to the within instrument.
2. THAT I am not married.

**OR**

THAT neither myself nor my spouse have resided on the within mentioned land at any time since our marriage.

SWORN BEFORE ME at the \_\_\_\_\_ )  
of \_\_\_\_\_ in the Province )  
of \_\_\_\_\_ this \_\_\_\_\_ )  
day of \_\_\_\_\_, A.D. 198\_\_.

A Commissioner for Oaths in and for  
the Province of

CONSENT OF SPOUSE

I, \_\_\_\_\_, being married to the above named \_\_\_\_\_, do hereby give my consent to the disposition of our homestead, made in this instrument, and I have executed this document for the purpose of giving up my life estate and other dower rights in the said property given to me by The Dower Act to the extent necessary to give effect to the said disposition.

\_\_\_\_\_  
(Signature of Spouse)

CERTIFICATE OF ACKNOWLEDGEMENT OF SPOUSE

1. This document was acknowledged before me by \_\_\_\_\_ apart from her husband (or his wife).
2. \_\_\_\_\_ acknowledged to me that she (or he)
  - (a) is aware of the nature of the disposition (or agreement),
  - (b) is aware that The Dower Act gives her (or him) a life estate in the homestead and the right to prevent disposition of the homestead by withholding consent,
  - (c) consents to the disposition (or agreement) for the purpose of giving up the life estate and other dower rights in the homestead given to her (or him) by The Dower Act to the extent necessary to give effect to the said disposition (or agreement),
  - (d) is executing the document freely and voluntarily without any compulsion on the part of her husband (or his wife).

DATED at \_\_\_\_\_, in the Province of \_\_\_\_\_.  
this \_\_\_\_\_ day of \_\_\_\_\_, A.D. 198\_\_.

\_\_\_\_\_  
(Title of Officiating Officer)

EXHIBIT "A"

ATTACHED TO AND MADE PART OF AN AGREEMENT ENTITLED  
 "UNIT AGREEMENT -  
 WASKADA UNIT NO. 6"

<u>Tract Number</u>	<u>Land Description (Lsd.)</u>	<u>Working Interest</u>		<u>Royalty Interest</u>		<u>Tract Participation</u>	
		<u>Owner</u>	<u>Share (%)</u>	<u>Owner</u>	<u>Share</u>	<u>Interim (%)</u>	<u>Final (%)</u>
1.	12-6-1-25 WPM	Chevron	25.0	Dome	50.000%	3.0287	3.1186
		Newscope	30.0	H & F Lawrence	50.000%		
		Colenco	25.0				
		Can-Am	10.0				
		New McManus	10.0				
2.	13-6-1-25 WPM	Chevron	25.0	Dome	50.000%	1.0621	1.2874
		Newscope	30.0	H & F Lawrence	50.000%		
		Colenco	25.0				
		Can-Am	10.0				
		New McManus	10.0				
3.	4-7-1-25 WPM	Chevron	50.0	R.O.Young	25.000%	0.4658	1.0347
		Newscope	27.5	59643 Man.	75.000%		
		Colenco	12.5				
		Can-Am	5.0				
		New McManus	5.0				
4.	5-7-1-25 WPM	Chevron	50.0	R.O.Young	25.000%	3.7525	3.7728
		Newscope	27.5	59643 Man.	75.000%		
		Colenco	12.5				
		Can-Am	5.0				
		New McManus	5.0				

EXHIBIT "A"

ATTACHED TO AND MADE PART OF AN AGREEMENT ENTITLED  
"UNIT AGREEMENT -  
WASKADA UNIT NO. 6"

Tract Number	Land Description (Lsd.)	Working Interest		Royalty Interest		Tract Participation	
		Owner	Share (%)	Owner	Share	Interim (%)	Final (%)
5.	11-7-1-25 WPM	Chevron	25.0	Rushton	50.000%	0.9792	1.6078
		Newscope	27.5	PanCanadian	50.000%		
		PanCanadian	25.0				
		Colenco	10.0				
		Can-Am	5.0				
6.	12-7-1-25 WPM	New McManus	7.5				
		Chevron	25.0	Rushton	50.000%	2.8486	6.5387
		Newscope	27.5	PanCanadian	50.000%		
		PanCanadian	25.0				
		Colenco	12.5				
7.	13-7-1-25 WPM	Can-Am	5.0				
		New McManus	5.0				
		Newscope	55.0	Rushton	50.000%	2.8272	3.1379
		Colenco	25.0	PanCanadian	50.000%		
		Can-Am	10.0				
8.	14-7-1-25 WPM	New McManus	10.0				
		Chevron	25.0	Rushton	50.000%	5.4691	4.0914
		Newscope	27.5	PanCanadian	50.000%		
		PanCanadian	25.0				
		Colenco	10.0				
		Can-Am	5.0				
		New McManus	7.5				

EXHIBIT "A"

ATTACHED TO AND MADE PART OF AN AGREEMENT ENTITLED  
"UNIT AGREEMENT -  
WASKADA UNIT NO. 6"

Tract Number	Land Description (Lsd.)	Working Interest		Royalty Interest		Tract Participation	
		Owner	Share (%)	Owner	Share	Interim (%)	Final (%)
9.	15-7-1-25 WPM	Chevron Newscope	50.0 50.0	Rushton PanCanadian	50.000% 50.000%	2.1235	3.3804
10.	16-7-1-25 WPM	Chevron Newscope	50.0 50.0	Rushton PanCanadian	50.000% 50.000%	5.1574	3.6057
11.	3-18-1-25 WPM	Chevron	100.0	Hernefield	100.000%	2.9755	5.1391
12.	4-18-1-25 WPM	Chevron	100.0	Hernefield	100.000%	1.3794	1.7664
13.	5-18-1-25 WPM	Chevron	100.0	Hernefield	100.000%	1.6329	2.5048
14.	6-18-1-25 WPM	Chevron	100.0	Hernefield	100.000%	0.6015	1.2087
15.	7-1-1-26 WPM	Chevron	100.0	Smart	100.000%	0.2761	1.6224
16.	8-1-1-26 WPM	Chevron	100.0	Smart	100.000%	1.4894	1.6856
17.	9-1-1-26 WPM	Chevron	100.0	Smart	100.000%	1.2929	3.0059
18.	10-1-1-26 WPM	Chevron	100.0	Smart	100.000%	2.5993	2.7255



EXHIBIT "A"

ATTACHED TO AND MADE PART OF AN AGREEMENT ENTITLED  
"UNIT AGREEMENT -  
WASKADA UNIT NO. 6"

Tract Number	Land Description (Lsd.)	Working Interest		Royalty Interest		Tract Participation	
		Owner	Share (%)	Owner	Share	Interim (%)	Final (%)
19.	15-1-1-26 WPM	Chevron	100.0	Smart	100.000%	3.1988	2.2590
20.	16-1-1-26 WPM	Chevron	100.0	Smart	100.000%	3.0902	4.4877
21.	1-12-1-26 WPM	Chevron Newscope Gt. Amer.	31.25 25.00 43.75	R. Stead Hernefield M. Ballantyne Hill Estate M. Westlie Smith Estate C & J Whyte ) P & M Boyle ) W & N Wittman Westlie Estate P. Boyle	6.250% 25.000% 6.250% 25.000% 6.250% 6.250% 3.125% 3.125% 12.500% 6.250%	2.9072	3.2093
22.	2-12-1-26 WPM	Chevron Newscope Gt. Amer.	31.25 25.00 43.75	R. Stead Hernefield M. Ballantyne Hill Estate M. Westlie Smith Estate C & J Whyte ) P & M Boyle ) W & M Wittman Westlie Estate P. Boyle	6.250% 25.000% 6.250% 25.000% 6.250% 6.250% 3.125% 3.125% 23.500% 6.250%	7.2547	3.7575

EXHIBIT "A"

ATTACHED TO AND MADE PART OF AN AGREEMENT ENTITLED  
"UNIT AGREEMENT -  
WASKADA UNIT NO. 6"

<u>Tract Number</u>	<u>Land Description (Lsd.)</u>	<u>Working Interest</u>		<u>Royalty Interest</u>		<u>Tract Participation</u>	
		<u>Owner</u>	<u>Share (%)</u>	<u>Owner</u>	<u>Share</u>	<u>Interim (%)</u>	<u>Final (%)</u>
23.	3-12-1-26 WPM	Chevron	100.0	Man. Crown	100.000%	6.0402	4.0556
24.	5-12-1-26 WPM	Chevron	100.0	Man. Crown	100.000%	0.0001	0.4638
25.	6-12-1-26 WPM	Chevron	100.0	Man. Crown	100.000%	4.8497	3.2165
26.	7-12-1-26 WPM	Chevron Newscope Gt. Amer.	31.25 25.00 43.75	R. Stead Hernefield M. Ballantyne Hill Estate M. Westlie Smith Estate C & J Whyte ) P & M Boyle ) W & N Wittman Westlie Estate P. Boyle	6.250% 25.000% 6.250% 25.000% 6.250% 6.250% 3.125% 3.125% 12.500% 6.250%	2.5585	3.4868

# EXHIBIT "A"

## ATTACHED TO AND MADE PART OF AN AGREEMENT ENTITLED "UNIT AGREEMENT - WASKADA UNIT NO. 6"

Tract Number	Land Description (Lsd.)	Working Interest		Royalty Interest		Tract Participation	
		Owner	Share (%)	Owner	Share (%)	Interim (%)	Final (%)
27.	8-12-1-26 WPM	Chevron Newscope Gt. Amer.	31.25 25.00 43.75	R. Stead	6.250%	1.1706	3.1893
				Hernefield	25.000%		
				M. Ballantyne	6.250%		
				Hill Estate	25.000%		
				M. Westlie	6.250%		
				Smith Estate	6.250%		
				C & J Whyte )			
				P & M Boyle )	3.125%		
				W & N Witteman	3.125%		
				Westlie Estate	12.500%		
28.	9-12-1-26 WPM	Chevron Newscope Colenco Can-Am New McManus	50.0 27.5 10.0 5.0 7.5	Hernefield	100.000%	9.1546	4.7848
29.	10-12-1-26 WPM	Chevron Newscope Colenco Can-Am New McManus	50.0 27.5 10.0 5.0 7.5	Hernefield	100.000%	8.6616	5.7960

EXHIBIT "A"

ATTACHED TO AND MADE PART OF AN AGREEMENT ENTITLED  
"UNIT AGREEMENT -  
WASKADA UNIT NO. 6"

Tract Number	Land Description (Lsd.)	Working Interest		Royalty Interest		Tract Participation	
		Owner	Share (%)	Owner	Share	Interim (%)	Final (%)
30.	15-12-1-26 WPM	Chevron	50.0	Hernefield	100.000%	3.7403	4.0447
		Newscope	27.5				
		Colenco	10.0				
		Can-Am	5.0				
		New McManus	7.5				
31.	16-12-1-26 WPM	Chevron	50.0	Hernefield	100.000%	7.4124	6.0152
		Newscope	27.5				
		Colenco	12.5				
		Can-Am	5.0				
		New McManus	5.0				

Effective as of the  
Effective Date

EXHIBIT "A" Cont'd.

List of Abbreviations

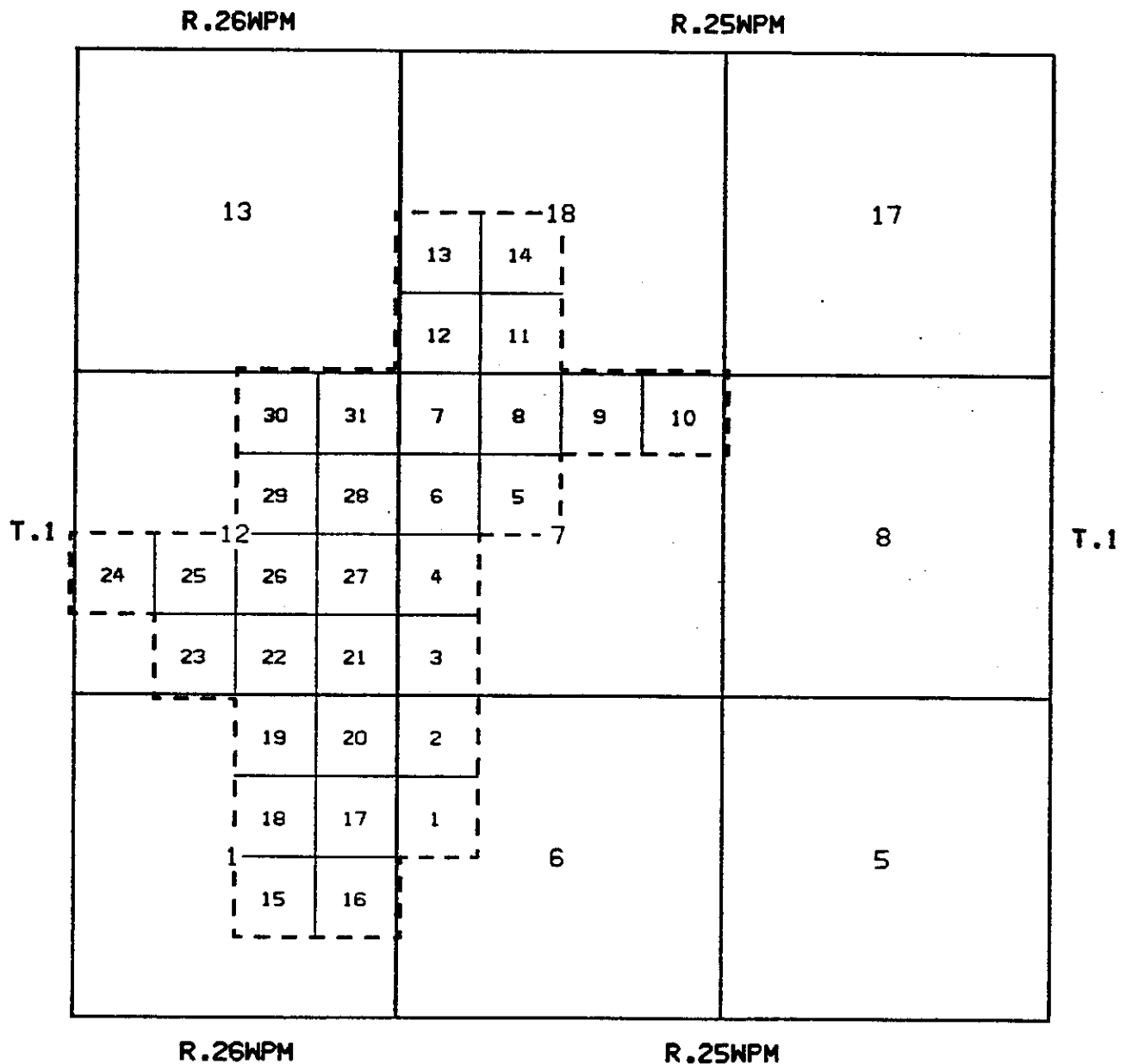
Working Interest Owners

Chevron	Chevron Canada Resources Limited
Newscope	Newscope Resources Limited
PanCanadian	PanCanadian Petroleum Limited
Gt. Amer.	Great American Energy, Inc.
Colenco	Colenco Petroleum Ltd.
Can-Am	Can-Am Drilling Ltd.
New McManus	New McManus Red Lake Gold Mines

Royalty Interest Owners

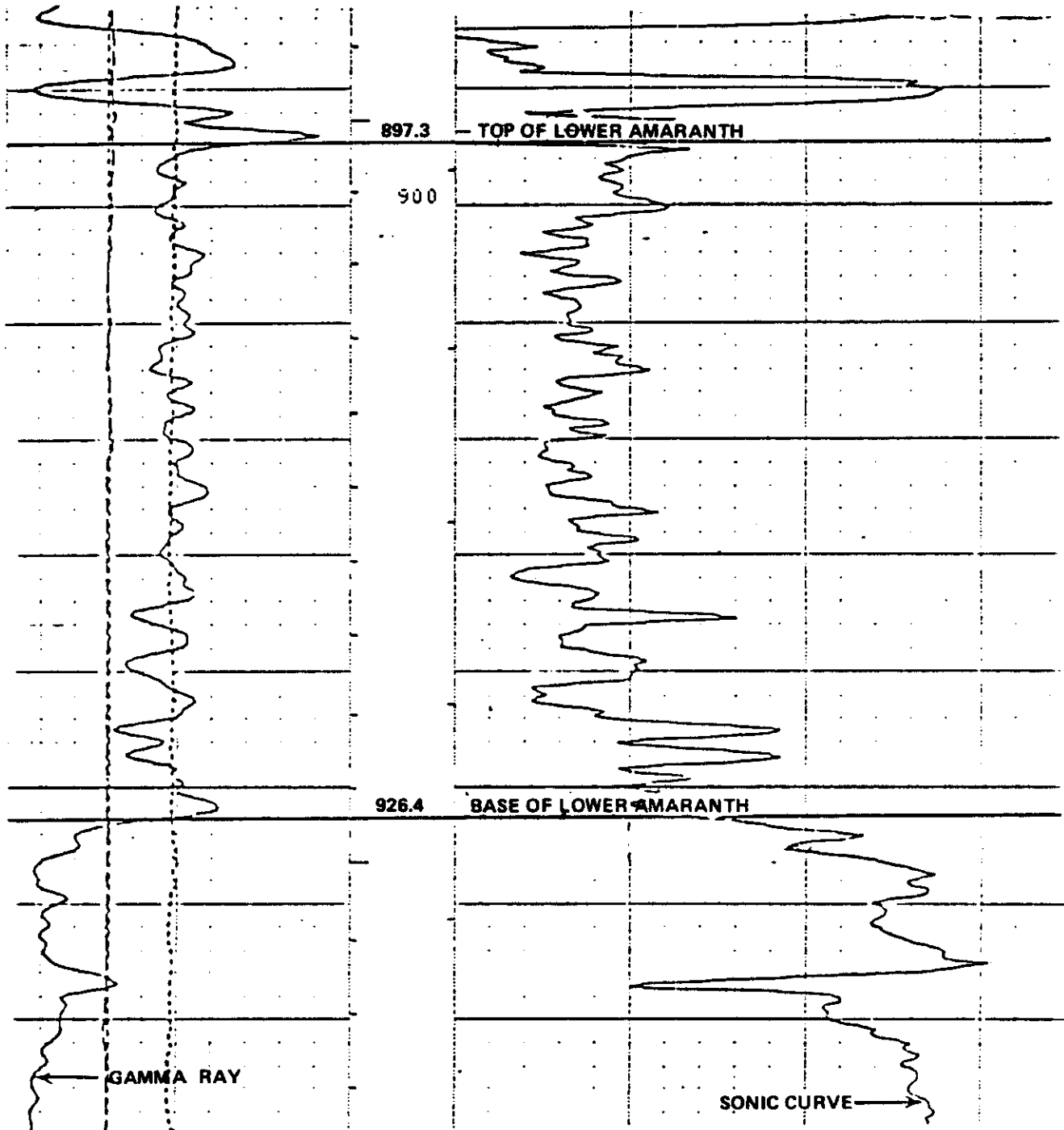
Dome	Dome Petroleum Limited
H & F Lawrence	Herbert Joseph Lawrence and Francis Hedley Lawrence
R.O. Young	Roy Ovey Young
59643 Man.	59643 Manitoba Ltd.
Rushton	Rushton Resources Ltd.
PanCanadian	PanCanadian Petroleum Limited
Hernefield	Hernefield Enterprises Ltd.
Smart	Smart Oils Ltd. (Frank Robert Smart)
R. Stead	Robert Stead
M. Ballantyne	Melvin Ballantyne
Hill Estate	William Jennings Hill (Estate)
M. Westlie	Marilyn R. Westlie, heir to the Estate of Aloysius Raymond Weinhold
Smith Estate	Richard H. Friedman, Personal Representative of the Estate of Dorothy Ebba Smith
C & J Whyte	Carl Whyte and Jean Whyte
P & M Boyle	Paul Boyle and Mary Boyle
W & N Witteman	William Witteman and Nellie Witteman
Westlie Estate	Charles Westlie, Administrator of the Estate of Henry Westlie
P. Boyle	Paul Boyle
Man. Crown	Her Majesty the Queen in Right of the Province of Manitoba.

**EXHIBIT "B"**  
**ATTACHED TO AND MADE PART OF AN AGREEMENT ENTITLED**  
**"UNIT AGREEMENT**  
**WASKADA UNIT NO.6"**



EFFECTIVE AS OF THE  
EFFECTIVE DATE

**EXHIBIT "C"**  
**ATTACHED TO AND MADE PART OF AN AGREEMENT ENTITLED**  
**" UNIT AGREEMENT**  
**WASKADA UNIT NO. 6"**



Portion of Sonic Log Recorded at Well  
Chevron et al Waskada 8-12-1-26 WPM  
Kelly Bushing 469.9 m

Effective as of the  
Effective Date

WASKADA JOINT VENTURE #3

File No. 36508

Between:

Chevron Canada Resources Limited  
and  
Great American Energy, Inc.



JOINT VENTURE AGREEMENT

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MEMORANDUM OF AGREEMENT made this 1st day of February, A.D. 1983.

B E T W E E N:

CHEVRON CANADA RESOURCES LIMITED, a body corporate,  
having an office and carrying on business at  
the City of Calgary, in the Province of Alberta,  
(hereinafter referred to as "Chevron")

- and -

GREAT AMERICAN ENERGY, INC., a body corporate,  
having an office and carrying on business at  
the Town of Boissevain in the Province of Manitoba,  
(hereinafter referred to as "Great American")

WHEREAS the parties hold or are entitled to hold undivided percentage  
of interests in the Joint Lands as hereinafter defined;

AND WHEREAS the parties are desirous of providing for the exploration,  
development and maintenance of the Joint Lands on the terms and conditions set  
forth herein;

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the  
premises and of the mutual covenants and conditions hereinafter set forth, the  
parties covenant and agree as follows:

1. DEFINITIONS

In this Agreement, including the recitals, unless the context otherwise  
requires, the definitions contained in Clause 101 of the Operating  
Procedure shall apply and:

- A. "Accounting Procedure" shall mean the rules, provisions and conditions  
set forth and contained in Part I of the Operating Procedure;
- B. "Joint Lands" shall mean the lands set forth and described in  
Schedule "A", or so much thereof as shall from time to time remain  
subject to this Agreement;

- C. "Operating Procedure" shall mean the document so entitled attached to and forming a part of this Agreement as Schedule "B", and requires no further execution to become effective;
- D. "operator" shall mean the party appointed as such by this Agreement;
- E. "participating interests" shall mean the percentage undivided interest held by each Party in the Joint Lands, as set forth in this Agreement;
- F. "party" shall mean a person, firm or corporation which is bound by this Agreement;
- G. "petroleum and natural gas" or "petroleum substances" shall mean petroleum and natural gas or either of them and any other substances, the right to which is granted by the Title Documents;
- H. "regulations" shall mean all statutes, laws, rules, orders and regulations in effect from time to time and made by governmental authorities having jurisdiction over the Joint Lands and the operations conducted thereon;
- I. "rentals or rental payments" shall mean all payments payable under the regulations or the Title Documents which, without limiting the generality of the foregoing, shall include rents, renewals, extension fees, taxes, delay rentals and royalties;
- J. "Title Documents" shall mean the document or documents set forth and described in Schedule "A" attached hereto including any renewals or extension thereof insofar as they affect and relate to the Joint Lands.

## 2. SCHEDULES

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

- A. Schedule "A", which sets forth and describes the Title Documents and Joint Lands;
- B. Schedule "B", which sets forth the Operating Procedure and Accounting Procedure.

## 3. OPERATOR

Chevron is hereby appointed as Operator under the Operating Procedure.

4. SUBSEQUENT OPERATIONS

From and after the effective date, all operations undertaken on all or any of the Joint Lands shall be subject to and carried out in accordance with the provisions of the Operating Procedure, subject to the provisions of this Agreement.

5. EFFECTIVE DATE

The effective date for this Agreement and the Operating Procedure shall be February 1, 1983.

6. PARTICIPATING INTERESTS

- A. Subject to the terms of this Agreement, the parties do hereby pool, consolidate, and integrate their respective interests in the Joint Lands and the petroleum substances contained therein and produced therefrom such that all operations on the Joint Lands shall be conducted without regard to the boundary lines of the Title Documents and as though the Joint Lands were held under a single document of title;
- B. From and after the effective date above noted, the participating interests of the parties in the Joint Lands shall be as follows:

Chevron	56.25%
Great American	43.75%
	<u>100.00%</u>

(hereinafter referred to as "participating interests")

7. CREDITS

Any credits, grants or payments which may accrue pursuant to the regulations from operations conducted on the Joint Lands shall be shared by the parties in accordance with their respective participating interests.

8. MAINTENANCE OF TITLE DOCUMENTS

- A. No party warrants title to the Title Documents which that party has contributed to this Agreement. Each party covenants that it has paid all rentals and other payments required to be made as of the effective date of this Agreement under the terms of the Title Documents which it has contributed to this Agreement with respect to the Joint Lands, and

has not assigned, transferred or conveyed its interest therein except as set forth in Schedule "A", but makes no further warranties as to title;

- B. (a) Subject to Subclause A of this Clause 8, each party hereto covenants that it shall, during the term of this Agreement continue to pay or cause to be paid when the same shall become due all rentals, delay rentals, taxes, overriding royalties, lessor royalties and such other payments as may be necessary in order to keep the Title Documents which it has contributed to this Agreement in full force and effect;
- (b) It is understood and agreed that all sums paid by a party pursuant to this Subclause B shall be entirely borne by such party, for its own account, according to its participating interest in the Joint Lands and shall not be a charge to the Joint Account.

9. TERM OF AGREEMENT

Except as otherwise herein provided, this Agreement shall continue in full force and effect so long as all of the Title Documents, including any renewals or extensions thereof effected by production, pursuant to the regulations or otherwise, continue in full force and effect with respect to the Joint Lands, or any of them, and until all materials, equipment and personal property used in connection with the operations hereunder have been removed and disposed of, and final settlement has been made between the parties hereto in liquidating all accounts by prompt payment each to the other of any balance which may be shown, to the end that each of the parties hereto shall have shared all benefits and burdens hereunder in proportion to its respective participating interest.

10. GENERAL

- A. Confidential Information: Except as otherwise provided herein, all data and information of whatsoever nature acquired by the parties from any operations pursuant to this Agreement and the Farmout Agreement or supplied by one party to the other pursuant hereto shall be for the sole and exclusive use and benefit of the parties hereto and their affiliate corporations, unless the parties agree to the dissemination

of such information or unless a party hereto is required to give such information to any governmental department, body or agency, or any recognized association within the petroleum industry, of which it is a member, that engages in the exchange of factual information relating to the type of operations contemplated by this Agreement. In no event shall information of any type or character relating to wells drilled on a confidential basis by the parties be disclosed, except to an affiliate corporation. Upon the termination of this Agreement, any relationship of a fiduciary nature between the parties hereto, or either of them, that may have been created with respect to any information as described above, shall terminate;

- B. Conflict: In case of conflict between the terms and provisions of this Agreement and those in the Schedules, the terms and conditions hereof shall govern and prevail;
- C. Covenants Run With Land: All terms, covenants, provisions and conditions of this Agreement shall run with and be binding upon the Joint Lands during the term of the Title Documents and any renewals or extensions thereof;
- D. Entire Agreement: The parties hereto acknowledge that they have expressed herein the entire understanding and obligations of this Agreement and it is expressly understood and agreed that no implied covenant, condition, term or reservation, shall be read into this Agreement relating to or concerning any matter or operation provided for herein;
- E. Enurement: This Agreement shall be binding upon and enure to the benefit of the parties hereto and their respective successors and assigns;
- F. Execution in Counterpart: This Agreement may be executed in separate counterparts and all of the executed counterparts, when taken together, shall constitute one agreement;
- G. Governing Law: This Agreement shall be interpreted and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein;
- H. Headings: The headings of the clauses of this Agreement and the Schedules are inserted for convenience of reference only and shall not affect the meaning or construction of the clauses;

- I. Singular, Plural, etc.: Whenever the singular or masculine or neuter is used in this Agreement, the same shall be construed as meaning the plural or feminine or body politic or corporate, and vice versa, where the context so requires;
- J. Use of Name: The parties hereto covenant and agree that, except where required by law, they will not use, suffer or permit to be used, directly or indirectly, the name of any other party hereto for the purpose of or in connection with the financing or the promotion of any corporate enterprise, syndicate, partnership or other association designed, intended or purported to control, direct or finance, directly or indirectly, operations contemplated by this Agreement.

notwithstanding any provision of the operating procedure, the parties agree to use the Spanish unless unanimously agreed otherwise.

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be executed as of the day and year first above written.

CHEVRON CANADA RESOURCES LIMITED

Per: [Signature]  
VICE PRESIDENT

Per: [Signature]  
ASSISTANT SECRETARY

GREAT AMERICAN ENERGY, INC.

Per: [Signature]  
President

Per: [Signature]  
Secretary

SCHEDULE "A" attached to and made part of an Agreement in writing made between CHEVRON CANADA RESOURCES LIMITED, AND GREAT AMERICAN ENERGY, INC. bearing date the 1st day of February, A.D. 1983  
(hereinafter referred to as "the Agreement")

In this Agreement the "Title Documents" shall mean:

FREEHOLD PETROLEUM AND NATURAL GAS LEASE

Lease Date: November 14th, 1978

Lessor: William Jennings Hill, by his Attorney Fern Hill, under Power of Attorney dated November 10, 1978.

Lessee: Chevron Standard Limited (Troy Oils Ltd., original Lessor assigned its entire 100% interest to Chevron Standard Limited by instrument dated January 3rd, 1979. Chevron Canada Resources Limited is successor in interest to Chevron Standard Limited).

Term: 5 Years

Land Description: Township One (1), Range Twenty-six (26)  
West of the Principal Meridian (WPM)

An undivided One-Quarter (1/4) interest in all mines and minerals (except coal and valuable stone) within, upon or under the South-east Quarter (SE-1/4) of Section Twelve (12).

FREEHOLD PETROLEUM AND NATURAL GAS LEASE

Lease Date: November 22nd, 1978

Lessor: Melvin James Lee

Lessee: Chevron Standard Limited (Troy Oils Ltd., original Lessor assigned its entire interest to Chevron Standard Limited by instrument dated January 10th, 1979. Chevron Canada Resources Limited is successor in interest to Chevron Standard Limited).



Term: 5 Years

Land Description: Township One (1), Range Twenty-six (26)  
West of the Principal Meridian (WPM)

An undivided One-Quarter (1/4) interest in all mines and minerals (except coal and valuable stone) within, upon or under the South-east Quarter (SE-1/4) of Section Twelve (12).

FREEHOLD PETROLEUM AND NATURAL GAS LEASE

Lease Date: January 14th, 1983

Lessor: Robert Stead

Lessee: Chevron Canada Resources Limited

Term: 2 Years

Land Description: Township One (1), Range Twenty-six (26)  
West of the Principal Meridian (WPM)

An undivided One-sixteenth (1/16) interest in the South-east Quarter (SE-1/4) of Section Twelve (12)

FREEHOLD PETROLEUM AND NATURAL GAS LEASE

Lease Date: October 8th, 1979

Lessor: Charles Westlie as Administrator of the Estate of Henry Westlie, deceased.

Lessee: Great American Energy, Inc.

Land Description: Township One (1), Range Twenty-six (26)  
West of the Principal Meridian (WPM)

An undivided One-eighth (1/8) interest in all the mines and minerals within, upon or under the South-east Quarter (SE-1/4) of Section Twelve (12).

FREEHOLD PETROLEUM AND NATURAL GAS LEASE

Lease Date: February 6th, 1980

Lessor: Dorothy Ebba Smith, beneficiary to the Estate of Crawford Smith, Father and Dorothy Smith, Mother.

Lessee: Great American Energy, Inc.

Term: 10 Years

Land Description: Township One (1), Range Twenty-six (26)  
West of the Principal Meridian (WPM)

An undivided One-sixteenth (1/16) interest in all the mines and minerals within, upon or under the South-east Quarter (SE-1/4) of Section Twelve (12).

FREEHOLD PETROLEUM AND NATURAL GAS LEASE

Lease Date: November 22nd, 1979

Lessor: Melvin Ballantyne

Lessee: Great American Energy, Inc.

Land Description: Township One (1), Range Twenty-six (26)  
West of the Principal Meridian (WPM)

An undivided One-sixteenth (1/16) interest in all the mines and minerals within, upon or under the South-east Quarter (SE-1/4) of Section Twelve (12); and  
An undivided One thirty-second (1/32) interest in all the mines and minerals within, upon or under the East-Half (E-1/2) of Section Thirteen (13).

FREEHOLD PETROLEUM AND NATURAL GAS LEASE

Lease Date: October 10th, 1979

Lessors: William Witteman and Nellie Witteman as joint tenants and not as tenants in common.

Lessee: Great American Energy, Inc.

Land Description: Township One (1), Range Twenty-six (26)  
West of the Principal Meridian (WPM)

An undivided One-thirty-second (1/32) interest in all the mines and minerals within, upon or under the South-east Quarter (SE-1/4) of Section Twelve (12); and An undivided One-sixty fourth (1/64) interest in all the mines and minerals within, upon or under the East-Half (E-1/2) of Section Thirteen (13).

FREEHOLD PETROLEUM AND NATURAL GAS LEASE

Lease Date: October 10th, 1979

Lessor: Paul Boyle and Margaret Boyle  
Carl and Jean White

Lessee: Great American Energy, Inc.

Land Description: Township One (1), Range Twenty-six (26)  
West of the Principal Meridian (WPM)

An undivided One-thirty-second (1/32) interest in all the mines and minerals within, upon or under the South-east Quarter (SE-1/4) of Section Twelve (12); and An undivided One-sixty-fourth (1/64) interest in all the mines and minerals within, upon or under the East-Half (E-1/2) of Section Thirteen (13).

FREEHOLD PETROLEUM AND NATURAL GAS LEASE

Lease Date: October 10th, 1979

Lessors: Paul Boyle

Lessee: Great American Energy, Inc.

Land Description: Township One (1), Range Twenty-six (26)  
West of the Principal Meridian (WPM)

An undivided One-sixteenth (1/16) interest in all the mines and minerals within, upon or under the South-east Quarter (SE-1/4) of Section Twelve (12); and  
An undivided One-thirty-second (1/32) interest in all the mines and minerals within, upon or under the East-Half (E-1/2) of Section Thirteen (13).

FREEHOLD PETROLEUM AND NATURAL GAS LEASE

Lease Date: November 13th, 1979

Lessor: Marilyn R. Westlie as heir to the Estate of Aloysius Raymond Weinhandl

Lessee: Great American Energy, Inc.

Land Description: Township One (1), Range Twenty-six (26)  
West of the Principal Meridian (WPM)

An undivided One-sixteenth (1/16) interest in all the mines and minerals within, upon or under the South-east Quarter (SE-1/4) of Section Twelve (12); and  
An undivided One-twenty-fourth (1/24) interest in all the mines and minerals within, upon or under the East-Half (E-1/2) of Section Thirteen (13).

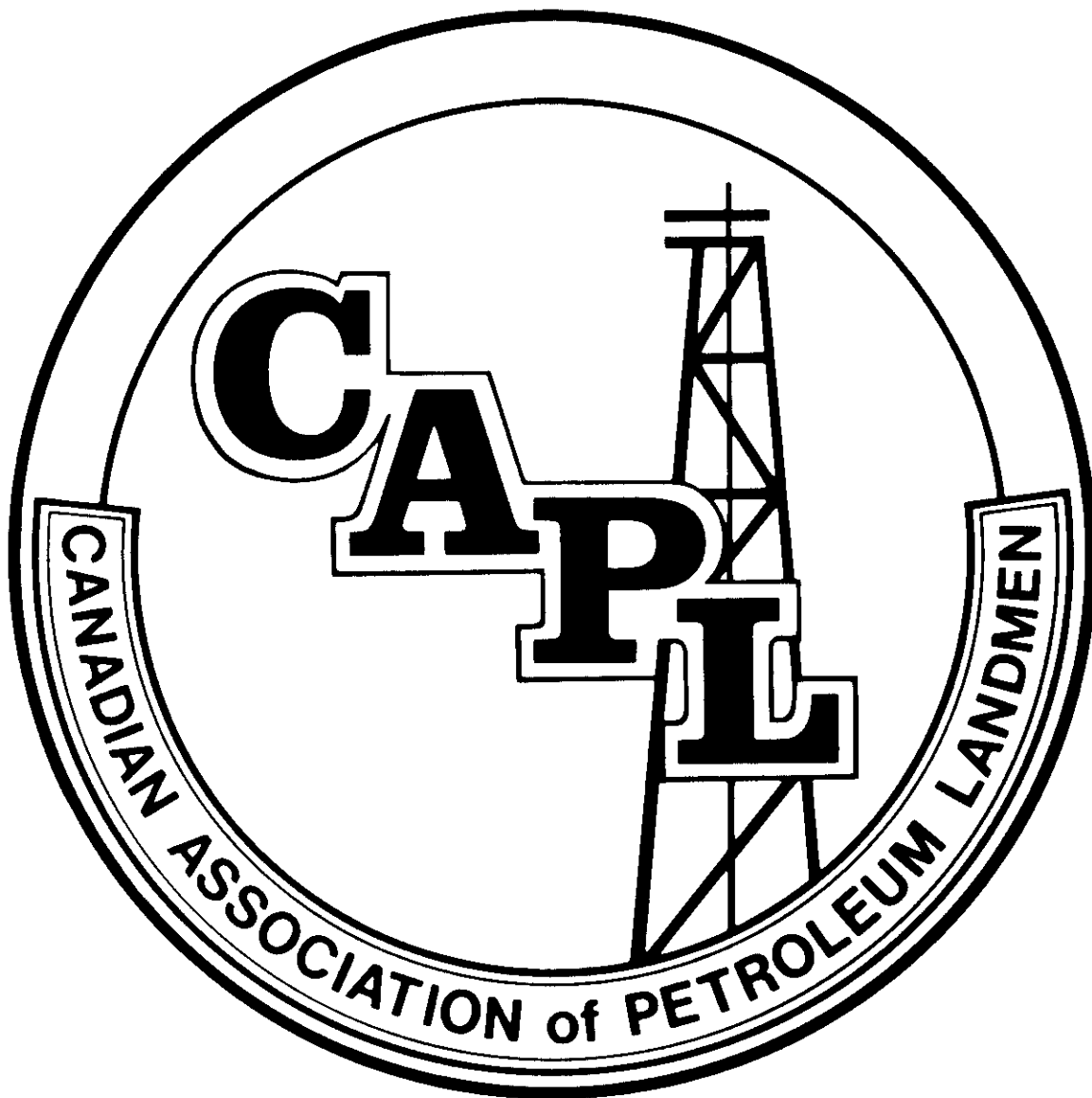
In this Agreement the "Joint Lands" shall mean:

Township One (1), Range Twenty-six (26) West  
of the Principal Meridian (WPM)

All mines and minerals excepting coal and valuable stone within, upon or under the South-east Quarter (SE-1/4) Section Twelve (12).

SCHEDULE "B" attached to and made part of an  
Agreement in writing made between CHEVRON CANADA  
RESOURCES LIMITED and GREAT AMERICAN ENERGY INC.,  
bearing date the 1st day of February, A.D. 1983  
(hereinafter referred to as "the Agreement")

# OPERATING PROCEDURE



**CANADIAN ASSOCIATION OF PETROLEUM LANDMEN**  
**1981**

**AS REVISED BY CHEVRON STANDARD LIMITED**

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## OPERATING PROCEDURE

Attached to and forming part of the Agreement dated the 1st day of February A.D. 19 83

BETWEEN: (AMONG)

CHEVRON CANADA RESOURCES LIMITED, a body corporate,  
having an office and carrying on business at  
the City of Calgary, in the Province of Alberta,  
(hereinafter referred to as "Chevron")

- and -

GREAT AMERICAN ENERGY, INC., a body corporate,  
having an office and carrying on business at  
the Town of Boissevain in the Province of Manitoba,  
(hereinafter referred to as "Great American")

## ARTICLE I

### DEFINITIONS, HEADINGS AND REFERENCES

101 DEFINITIONS — In this Operating Procedure, including this Article I, the following words and phrases shall have the following respective meanings, namely:

- (a) "Accounting Procedure" means the schedule entitled Accounting Procedure which is attached hereto and is hereby made a part hereof and as such, part of the Agreement.
- (b) "Affiliate" means, with respect to the relationship between corporations, that one of them is controlled by the other or both of them are controlled by the same person, corporation or body politic; and for this purpose a corporation shall be deemed controlled by those persons, corporations or bodies politic who own or effectively control sufficient voting shares of the corporation (whether directly through the ownership of shares of the corporation or indirectly through the ownership of shares of another corporation which owns shares of the corporation) to elect the majority of its board of directors.
- (c) "Agreement" means that Agreement to which this Operating Procedure is attached and made a part.
- (d) "casing point" means that point in time with respect to a well that has been drilled to total depth and the authorized logs and tests have been run, when a decision must be made by the Joint-Operators whether or not to set production casing and attempt to complete the well for the taking of petroleum substances.
- (e) "commercial quantities" means with respect to a well, that the anticipated output of petroleum substances from that well would be sufficient to economically warrant the drilling of a well in the same area to the formation or formations indicated to be productive, having regard to drilling costs, completion costs, equipping costs, operating costs, the kind and quality of petroleum substances indicated, the availability of markets therefor, the royalties and other burdens payable with respect thereto, the probable life of the well and the price to be received for the petroleum substances as and when sold.

(f) "completion costs" means, with respect to a well, all moneys expended for acquiring and installing casing left in the hole (except surface and intermediate casing) and the costs incurred subsequent to casing point in attempting to complete the well for the taking of petroleum substances, up to and including:

(i) in the case of a gas well, the wellhead and the cost of running adequate back pressure tests;

\* (ii) in the case of an oil well, the wellhead and the cost of running adequate production tests of not less than thirty (30) consecutive days;

which, without restricting the generality of the foregoing, shall include costs incurred in perforating, stimulating, treating, fracing and swabbing the well. ("complete", "completing", "completed" and other derivatives of complete, shall have corresponding meanings and relate to those operations in which completion costs are anticipated or incurred.)

\* (g) "drilling costs" means all moneys expended (exclusive of completion costs and equipping costs) in or incidental to the drilling of a well, including the cost and expense of acquiring all land surface rights, constructing access roadways, drilling, coring, logging, testing, acquiring and installing all surface and intermediate casing and all other material and services in respect thereof and, in the case of a well which is not completed for the taking of production, includes the costs of abandoning the well pursuant to the Regulation and costs of restoring the drilling site. ("Drill", "drilling", "drilled" and other derivatives of drill shall have corresponding meanings and relate to those operations in which drilling costs are anticipated or incurred.)

\* (h) "equipping costs" means with respect to a well, all moneys expended beyond completion to acquire and install equipment required to produce petroleum substances from the well including, without restricting the generality of the foregoing, 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 wellsite facility for the initial treatment of the petroleum substances produced from the well to prepare such production for transport, but specifically excluding costs incurred beyond the point of entry into a gathering system, plant or other common facility which is or will be operated pursuant to a separate agreement. ("equip", "equipping", "equipped" and other derivatives of equip, shall have corresponding meanings and relate to those operations in which equipping costs are anticipated or incurred.)

(i) "for the joint account" means for the benefit, interest, ownership, risk, cost, expense and obligation of the parties hereto in proportion to each party's participating interest ("to the joint account" and "joint account" shall have corresponding meanings.)

(j) "joint lands" means those lands or interests therein which by the Agreement have been made subject hereto and, except where the context necessarily otherwise requires, shall include the petroleum substances within, upon or under those lands or interests.

(k) "Joint-Operator" means a party to the Agreement having a participating interest in the joint lands (including the Operator if it has a participating interest in the joint lands.)

(l) "Operating costs" means all moneys expended, exclusive of drilling costs, completion costs and equipping costs, to operate a well or wells for the recovery of petroleum substances, as more particularly set forth in the Accounting Procedure. ("operate", "Operating", "operated" and other derivatives of operate, shall have corresponding meanings and relate to those operations in which operating costs are anticipated or incurred.)

(m) "Operator" means the party appointed by the Joint-Operators to carry out operations hereunder for the joint account.

(n) "party" means a person, corporation or body politic bound by this Operating Procedure.

(o) "participating interest" means the percentage of undivided interest in the joint lands (or the respective parcels thereof) held by a party as provided in the Agreement.

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(p) "paying quantities" means:

- (i) in the case of a well not completed and equipped: the anticipated output from the well of that quantity of petroleum substances which, considering the completion costs, equipping costs, operating costs, kind and quality of petroleum substances indicated, the availability of markets therefor, the royalties and other burdens payable with respect thereto, the probable life of the well and the price to be received for the petroleum substances as and when sold, would economically warrant incurring the completion costs and equipping costs of the well:

- OR -

- (ii) in the case of a well completed and equipped for production: the output from the well of that quantity of petroleum substances which, considering the same factors as in (i) except completion costs and equipping costs, would economically warrant the taking of production from the well.

(q) "petroleum substances" means petroleum, natural gas and every other mineral or substance, or any of them, an interest in which is granted or acquired under the title documents.

(r) "proportionate share" means, with respect to a party hereto, a percentage share equal to that party's participating interest.

(s) "Regulations" means all statutes, laws, rules, orders and regulations in effect from time to time and made by governmental authorities having jurisdiction over the joint lands and over the operations to be conducted thereon.

(t) "spacing unit" means (at the relevant time with respect to which the term is used):

- (i) with respect to a well which has not been completed for production of petroleum substances: the area allocated to the well by the Regulations for the purpose of drilling that well provided in the absence of such allocation by the Regulations or specific designation in the Agreement, the spacing unit for the well shall be deemed to be the quarter-section, unit or similar geographical area, containing the well; and
- (ii) in every other case: the area allocated to the well pursuant to the Regulations for the purpose of producing petroleum substances.

(u) "title documents" means the documents of title by virtue of which the parties hereto are entitled to drill for, win, take or remove petroleum substances underlying all or any part of the joint lands and all renewals or extensions thereof or further documents of title issued pursuant thereto.

102 HEADINGS — Article headings and any other headings or captions or index hereto shall not be used in any way in construing or interpreting any provision hereof.

103 REFERENCES — Unless otherwise expressly stated:

- (a) references to articles, clauses or subclauses herein shall mean articles, clauses or subclauses of this Operating Procedure.
- (b) whenever the singular or masculine or neuter is used in this Operating Procedure, the same shall be construed as meaning plural or feminine or body politic or corporate or vice versa, as the context so requires.

104 OPTIONAL AND ALTERNATE PROVISIONS — Where alternate or optional provisions are provided for herein but the parties have failed to designate which alternate shall apply or whether a respective optional provision shall be included, the first alternate provision in each such case shall apply, and the remaining optional provision shall be deemed not to form part hereof

## ARTICLE II

### APPOINTMENT AND REPLACEMENT OF OPERATOR

201 ASSUMPTION OF DUTIES OF OPERATOR — The Operator named in the Agreement or any succeeding Operator appointed hereunder, shall assume the duties and obligations of the Operator hereunder and shall have all the rights of the Operator hereunder.

202 REPLACEMENT OF OPERATOR —

(a) The Operator shall be replaced immediately and another Operator appointed pursuant to Clause 206, in any one of the following circumstances:

- (i) If the Operator becomes bankrupt or insolvent or commits or suffers any act of bankruptcy or insolvency, or makes any assignment for the benefit of creditors, or causes any judgement to be registered against its participating interest.
- (ii) If the Operator assigns or purports or attempts to assign its general powers and responsibilities of supervision and management as Operator hereunder.

(b) The Operator shall be replaced and another Operator appointed pursuant to Clause 206, in any one of the following circumstances:

- (i) If the Operator is also a Joint-Operator and as such ceases to hold or represent at least ten (10%) percent of the participating interests.
- (ii) If the Operator defaults in its duties or obligations or any of them hereunder and does not commence to rectify the default within thirty (30) days after written notice from a majority in interest of the Joint-Operators (excluding the Operator), specifying the default and requiring the Operator to remedy the same.

203 CHALLENGE OF OPERATOR — At any time after an Operator has been Operator for at least two (2) years, any Joint-Operator, other than the Operator, may give notice ("the challenge notice") to all other parties hereto that it is ready, able and willing to conduct operations for the joint account on more favourable terms and conditions. The challenge notice shall contain sufficient detail to enable the receiving parties to evaluate the nature of the challenge notice and to measure the effect the revised terms and conditions would have on the joint operations. The Operator shall within sixty (60) days after receipt of the challenge notice advise the Joint-Operators either that:

(a) it is prepared to operate on the terms and conditions set out in the challenge notice, whereupon it shall forthwith proceed to do so;

- OR -

(b) it is unable or unwilling to operate on the terms and conditions set out in the challenge notice and that it will resign as Operator effective not later than ninety (90) days following the sixty (60) days above provided.

Failure to advise the Joint-Operators within the sixty (60) days above provided, shall be deemed to be an election by the Operator to resign. If the Operator resigns, a new Operator shall be appointed pursuant to Clause 206 and such new Operator shall operate on the terms and conditions set out in the challenge notice. If no other Joint-Operator is prepared to act as Operator on the terms and conditions set out in the challenge notice, then the Joint-Operator giving the challenge notice shall become the new Operator and shall thereafter conduct operations pursuant to the undertakings made by it in the challenge notice. Any costs in excess of those set out in the challenge notice shall be for the new Operator's sole account. The new Operator shall not resign from the position of Operator until it has acted as Operator for a period of at least two (2) years. A Joint-Operator may not issue a challenge notice or become Operator pursuant thereto if at the time of issuing the challenge notice or assuming its duties as Operator it would be disqualified to act as Operator by reason of any item contained in Clause 202.

204 RESIGNATION OF OPERATOR — Except as provided in Clause 203, at any time after an Operator has been Operator for one (1) year it may resign as Operator on giving each of the Joint-Operators ninety (90) days notice of its intention to do so.

205 MODIFICATION OF TERMS AND CONDITIONS BY OPERATOR — At any time after an Operator has been Operator for a continuous period of two (2) years, it may give notice ("the Operator's notice") to all other parties hereto of the revised terms and conditions on which it is prepared to continue to conduct operations for the joint account. Within sixty (60) days of receipt of the Operator's notice, each Joint-Operator shall advise the Operator whether or not it agrees to the Operator continuing as Operator and conducting operations for the joint account on the terms and conditions contained in the Operator's notice, provided any failure to respond shall be deemed to be agreement. If any Joint-Operator does not so agree, it shall give notice ("counter proposal") to all parties hereto of the terms and conditions upon which it would conduct operations for the joint account. Any such counter proposal shall be deemed to be a challenge of Operator and shall be subject to all of the terms and conditions of Clause 203 as though such counter proposal was "the challenge notice" provided therein, except that in determining the merits of the counter proposal it shall be compared to the terms and conditions contained in the Operator's notice rather than to existing operating terms and conditions.

#### 206 APPOINTMENT OF NEW OPERATOR —

(a) If an Operator resigns or is to be replaced, an Operator shall be appointed by the affirmative vote of two (2) or more parties representing a majority of the participating interests, provided if there are only two (2) Joint-Operators to this Operating Procedure and the Operator that resigned or is to be replaced is one (1) of the Joint-Operators, then, notwithstanding the foregoing, the other Joint-Operator shall have the right to become the Operator.

(b) No party shall be appointed Operator hereunder unless it has given its written consent to the appointment; provided that if the parties fail to appoint a replacing Operator or if any appointed Operator fails to carry out its duties hereunder, the party having the greatest participating interest shall act as Operator pro tem, with the right, should a similar situation re-occur after a new Operator has been appointed, to require the party having the next greatest participating interest to act as Operator pro tem and so on as occasion demands.

(c) No provision of this Article shall be construed to re-appoint as next-succeeding Operator an Operator who has been replaced under Clause 202, except with the unanimous consent of the parties.

(d) Except as provided in Subclause (a) of Clause 202 (in which case the Operator shall be replaced immediately), every replacement of Operator shall take effect at eight (8:00) o'clock a.m. on the first (1st) day of the calendar month following the expiration of any period of notice effecting a change of Operator, notwithstanding anything hereinbefore contained.

207 TRANSFER OF PROPERTY ON CHANGE OF OPERATOR — At the effective date of the resignation or replacement of an Operator as hereinbefore provided, the Operator being replaced shall deliver to the successor Operator possession of the wells being drilled or operated by the Operator pursuant to this Operating Procedure (except any wells in respect of which the succeeding Operator is not entitled to information, which shall be operated by a party hereto determined pursuant to Clause 1004 until the successor Operator becomes entitled to such information) and of all other facilities and all funds held for the joint account, together with all production, if any, which has not theretofore been delivered in kind, and copies of books of account and records kept for the joint account and on wells delivered and all documents, agreements and other papers relating thereto. Upon delivery of the said property, books and records, the Operator shall be released and discharged and the successor Operator shall assume all duties and obligations of the Operator, except the unsatisfied duties and obligations of the Operator accrued prior to the effective date of the change of Operator and for which the Operator shall, notwithstanding its release or discharge, continue to remain liable.

208 AUDIT OF ACCOUNTS ON CHANGE OF OPERATOR — Upon every change of Operator and by not later than sixty (60) days after the new Operator commences to act as Operator the parties shall cause an audit to be made of the books of account and records kept for the joint account. The cost of the audit shall be charged to the joint account.

## ARTICLE III

### FUNCTIONS AND DUTIES OF OPERATOR

**301 CONTROL AND MANAGEMENT OF OPERATIONS** — The Operator is hereby delegated the control and management of the exploration, development and operation of the joint lands for the joint account, provided it shall consult with the Joint-Operators from time to time with respect to decisions to be made for the exploration, development and operation of the joint lands, and keep the Joint-Operators informed with respect to operations planned or conducted for the joint account.

Subject to Clause 304, the Operator shall be entitled to make or commit to such operating expenditures for the joint account as it shall consider necessary and prudent in order to carry on a good and workmanlike operation for the joint account, provided the Operator shall not make or commit to an expenditure for the joint account for any single operation, the total estimated cost of which is in excess of twenty-five thousand (\$25,000) dollars without a written Authority for Expenditure from Joint-Operators, unless the expenditure is considered by Operator to be necessary by reason of an event endangering life or property. Particulars of each such event shall be reported promptly to the Joint-Operators.

Notwithstanding the foregoing, if the Operator while conducting any single operation for the joint account, which operation is covered by a written Authority for Expenditure, incurs or expects to incur expenditures for the joint account in excess of the total amount authorized in writing by the Joint-Operators for that operation plus ten (10%) percent thereof, the Operator shall forthwith so advise the Joint-Operators and submit for their approval a written supplementary authority for such excess expenditures.

**302 OPERATOR AS JOINT-OPERATOR** — The Operator shall also have all the rights and obligations of a Joint-Operator with respect to its participating interest.

**303 INDEPENDENT STATUS OF OPERATOR** — The Operator in its operations hereunder is an Independent Contractor. The Operator shall furnish or cause to be furnished all material, labor and services necessary for the exploration, development and operation of the joint lands. The Operator shall determine the number of employees, their selection and the hours of labor and the compensation for services to be paid them in connection with its operations hereunder. All employees and contractors used in its operations hereunder shall be the employees and contractors of the Operator.

**304 PROPER PRACTICES IN OPERATIONS** — The Operator shall carry on all operations diligently, in a good and workmanlike manner, in accordance with good oilfield practices and in accordance with the Regulations. If any term or provision of this Operating Procedure is found to be inconsistent with or contrary to anything contained in the Regulations from time to time, the Regulations shall apply and this Operating Procedure shall be deemed modified to the extent necessary to comply with the Regulations and as so modified shall continue in full force and effect.

**305 BOOKS, RECORDS AND ACCOUNTS** — The Operator shall keep and maintain the records and accounts required of it in the Accounting Procedure and, with respect to all operations conducted by it hereunder for the joint account, keep and maintain true and correct books, records and accounts showing the development and progress made, drilling done, other operations carried out, the quantity of the petroleum substances taken out of each well and the disposition thereof; and shall, upon request of a Joint-Operator, make available in Alberta and there permit each Joint-Operator during normal business hours to inspect the said books, records and accounts and to make extracts or copies therefrom and thereof, and to audit the Operator's books, records and accounts as provided in the Accounting Procedure; provided that a Joint-Operator while not entitled to information with respect to a well, shall not have the rights granted under this Clause with respect to that well.

**306 PROTECTION FROM LIENS** — The Operator shall pay, or cause to be paid, as and when they become due and payable all accounts of contractors and claims for wages and salaries for services rendered or performed and for materials supplied on, to or in respect of the joint lands or any operations for the joint account thereon, and keep the joint lands free from liens and encumbrances resulting therefrom, unless there be a bona fide dispute with respect thereto.

**307 JOINT-OPERATOR'S RIGHTS OF ACCESS** — The Operator shall, except as otherwise herein provided, permit each Joint-Operator or its duly authorized representative, at the Joint-Operator's sole risk, cost and expense, full and free access at all reasonable times, for the purpose of inspection and observation, to all operations of every kind and character being conducted for the joint account upon the joint lands and to the records of operations conducted thereon.



308 **SURFACE RIGHTS** — The Operator shall acquire for the joint account all necessary surface rights for purposes of joint operations hereunder.

309 **MAINTENANCE OF LEASES** — Except as otherwise provided herein or in the Agreement, the Operator shall on behalf of the parties and for the joint account comply with all the terms and conditions of the title documents including: (i) the payment of rentals, and (ii) the payment of other encumbrances agreed to be borne for the joint account; and (iii) all things necessary to maintain the title documents in good standing and in full force and effect, provided that nothing in this Clause shall be construed to require or permit the Operator to drill a well or conduct any operation for the joint account which operation otherwise would be preceded by an approved Authority for Expenditure.

310 **PRODUCTION STATEMENTS AND REPORTS** — The Operator shall furnish each Joint-Operator before the twenty-fifth (25th) day of each month with a statement showing production, inventories, sales and deliveries in kind to the parties of petroleum substances during the preceding month.

The Operator shall also make all necessary reports relating to operations for the joint account on the joint lands as required by the Regulations and shall upon request of a Joint-Operator provide it with a copy of each such report filed by Operator with any governmental agency.

311 **INSURANCE** — In respect of operations conducted for the joint account, the Operator shall prior to the commencement of such operations, comply with the provisions of ALTERNATE A below (Specify A or B): *313*

**ALTERNATE - A:**

(a) In respect of operations hereunder for the joint account, the Operator shall comply with the requirements of all Unemployment Insurance and Workers' Compensation legislation and all other similar Regulations and legislation applicable to workers employed for the joint account and shall not suffer any bona fide claims of, or dues to or on behalf of any such Regulations or legislation to become in arrears. The Operator 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. The insurance required pursuant to this Subclause shall apply to each separate claim and shall be as follows:

- (i) Employer's Liability Insurance covering each employee engaged in the operations hereunder to the extent of two hundred and fifty thousand (\$250,000.00) dollars where such employee is not covered by Workers' Compensation.
- (ii) Automobile Liability Insurance covering all motor vehicles, owned or non-owned, operated and/or licensed by the Operator and used in the joint operation hereunder (but only insofar as any such motor vehicles are used in the joint operation) with a bodily injury, death and property damage limit of one million (\$1,000,000.00) dollars inclusive.
- (iii) Comprehensive General Liability Insurance with a bodily injury, death, and property damage limit of one million (\$1,000,000.00) dollars 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 Completed Operations Liability.
- (iv) Aircraft Liability Insurance covering all aircraft, owned or non-owned, operated and/or licensed by the Operator and used in the joint operation hereunder (but only insofar as any such aircraft are used in the joint operation), with a bodily injury, death and property damage limit of two million (\$2,000,000.00) dollars inclusive.

With respect to any insurance carried for the joint account, the amount of the deductible specified therein for each separate claim shall not exceed the amount set forth in Clause 301 without the prior approval of the Joint-Operators.

(b) The Operator shall use every reasonable effort to have its contractors and sub-contractors:

- (i) comply with Unemployment Insurance and Workers' Compensation legislation and all other similar Regulations and legislation applicable to workers employed by them; and
- (ii) carry such insurance (if any) in such amounts as the Operator deems necessary.

(c) Each party hereto shall be responsible for insuring its own interest in the joint lands with respect to physical damage to property; loss of income and any insurance other than that referred to in Subclause (a) of this Clause.

\* (d) Insurance policies maintained by the Operator for the joint account shall include a waiver of subrogation in favor of the other Joint-Operators, their respective servants, agents and employees.

(e) If so requested by any party, the operator shall furnish evidence of compliance with the foregoing insurance provisions.

- OR -

ALTERNATE - B:

(a) In respect of operations hereunder for the joint account, the Operator shall comply with the requirements of all Unemployment Insurance and Workers' Compensation legislation and all other similar Regulations and legislation applicable to workers employed for the joint account and shall not suffer any bona fide claims of, or dues to or on behalf of any such Regulations or legislation to become in arrears. The Operator 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, only that insurance as is specifically required to comply with all applicable Regulations and legislation and the cost thereof shall be charged to the joint account.

(b) The Operator shall use every reasonable effort to have its contractors and sub-contractors:

- (i) comply with Unemployment Insurance and Workers' Compensation legislation and all other similar Regulations and legislation applicable to workers employed by them; and
- (ii) carry such insurance (if any) in such amounts as the Operator deems necessary.

(c) It is the intention of the parties that the cost of any accidental loss of or damage to joint property and any claim of or liability to third parties or to each other for bodily injury, death or property damage arising out of any operation conducted hereunder shall be borne individually by the parties participating in the operation, proportionate to their respective participating interests in the operation.

Except as provided in Subclause (a) of this Clause each party shall be responsible for its own interest in the joint lands and in any joint operation hereunder and for insuring its own interest to the extent and in the amounts it would have, if any. The cost of any such insurance so carried by an individual party shall be for its sole account and not charged to the joint account.

\* (d) Any insurance policies maintained by the Operator for the joint account shall include a waiver of subrogation in favor of the other Joint-Operators, their respective servants, agents and employees.

(e) If so requested by any party, the operator shall furnish evidence of compliance with the foregoing insurance provisions.

\* 312 TAXES - Except as otherwise provided herein or in the Agreement, the Operator shall initially pay for the joint account all taxes with respect to property held for the joint account, provided nothing herein contained shall require or permit the Operator to pay for the joint account income taxes, mineral taxes, or any other taxes, assessments or levies

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based on reserves or on a unit of production or on the value thereof. The Operator shall promptly forward to each applicable Joint-Operator copies of all tax notices or assessments received by it relative to property held for the joint account and for which payment is not the responsibility of the Operator.

## ARTICLE IV

### INDEMNITY OF OPERATOR

401 **LIMIT OF LIABILITY** — The Operator shall not be liable to the Joint-Operators for any loss or damage incurred by any of them relative to any operations carried out pursuant to this Operating Procedure except that:

(a) the Operator shall be solely responsible for and shall indemnify and save harmless each Joint-Operator from and against all actions, causes of action, suits, claims and demands by any person or persons whomsoever in respect of any loss, injury, damage or obligation to compensate to the extent of the risks against which the Operator is required to carry insurance as provided in Clause 311 and within the limits of such insurance, except that if an insurer is financially unable to pay all or any portion of a valid claim, the Operator shall be released from the indemnity and responsibility assumed by it under this Clause to the extent only of such inability to pay; and

(b) in addition to the provisions of Subclause (a) of this Clause, the Operator shall be solely liable for any loss or damage of whatsoever nature when such loss or damage is caused by the Operator's gross negligence or wilful misconduct but no act or omission of the Operator, its agents or employees, shall of itself be deemed gross negligence or wilful misconduct if it is done or omitted at the instruction of or with the concurrence of the Joint-Operators. If the Operator is liable under this Clause, the Operator shall indemnify and save harmless each Joint-Operator from and against all actions, causes of action, suits, claims and demands by any person or persons whomsoever in respect of any loss, injury, damage or obligation to compensate.

402 **INDEMNIFICATION OF OPERATOR** — Except as provided in Clause 401 all liabilities incurred by the Operator in the carrying out of any operations pursuant to this Operating Procedure, whether contractual or tortious, shall be for the joint account and shall be borne by the parties in accordance with their respective participating interests.

## ARTICLE V

### COSTS AND EXPENSES

501 **ACCOUNTING PROCEDURE AS BASIS** — The Accounting Procedure shall be the basis for all charges and credits to the joint account except as the Accounting Procedure may be in conflict herewith or with the Agreement.

502 **OPERATOR TO PAY AND RECOVER FROM PARTIES** — Subject to the provisions of Clause 503, the Operator in its operations for the joint account shall initially advance and pay all costs and expenses of operations conducted for the joint account. The Operator shall charge to each Joint-Operator its proportionate share of the said costs and expenses, and each respective Joint-Operator shall pay the same to the Operator within thirty (30) days after receipt of the Operator's statement thereof. Failing payment when due, the amount unpaid may, at the Operator's option, bear interest from the day such payment is due for the account of the Operator at a rate two (2%) percentage points higher than the then prevailing prime bank interest rate charged by the chartered bank in Canada used by the Operator with respect to operations hereunder, until the amount is paid.

503 **ADVANCE OF COSTS AND EXPENSES** — The Operator may, at its election, require each Joint-Operator to advance its proportionate share of all costs and expenses to be incurred for the joint account. If the Operator so elects, it may not earlier than thirty (30) days prior to the first (1st) day of a calendar month, submit to each Joint-Operator an itemized estimate of the costs and expenses proposed to be a charge for the joint account in that calendar month, with a request for payment by each Joint-Operator of its proportionate share thereof. Each Joint-Operator shall pay the Operator its proportionate share of the costs and expenses so estimated or secure the payment thereof in a manner satisfactory to the Operator on or before the fifteenth (15th) day after receipt by it of such estimate or by the fifteenth (15th) day of the calendar month to which the estimate relates, whichever is the later. If any Joint-Operator fails so to make or secure such payment, the unpaid amount may, at the Operator's option, bear interest (payable by that Joint-Operator for the account of the Operator) at the rate provided for in

Clause 502, from the day such payment is due until it is paid. Amounts advanced by a Joint-Operator hereunder shall be recorded as a credit to the account of that Joint-Operator and the Operator shall adjust the monthly billing in accordance with the Accounting Procedure to reflect such advances received by it from a Joint-Operator. Any amounts advanced by a Joint-Operator hereunder and then not required by Operator for charges to the Joint Account within the time and in the manner proposed, shall be refunded to that Joint-Operator in a prompt and timely manner but in any event prior to the end of the calendar month following the month to which such advance applied, following which any amounts not so refunded may, at that Joint-Operator's option bear interest (payable by the Operator for the account of that Joint-Operator) at the rate provided for in Clause 502, from the day such refund is due until it is paid.

504 FORECAST OF OPERATIONS — The Operator shall from time to time at the request of a Joint-Operator, furnish the Joint-Operators with a written forecast outlining all operations which it proposes to carry out on the joint lands for the joint account during the forecast period (which shall be no less than three (3) months and no more than twelve (12) months) together with the estimated costs thereof. It is specifically understood that such forecasts are for informational purposes only and shall not bind any of the parties.

#### 505 OPERATOR'S LIEN

(a) The Operator shall have a lien on the interest of each Joint-Operator in the joint lands and in production, wells and equipment therefrom and thereon to secure payment of each Joint-Operator's proportionate share of the cost and expense of all operations carried on by the Operator for the joint account.

(b) If a Joint-Operator fails to pay or advance any of the costs hereby agreed to be paid or advanced by it, and the default continues for thirty (30) days after the Operator has served notice upon the Joint-Operator specifying the default and requiring the same to be remedied, the Operator may, without limiting the Operator's other rights at law:

- (i) withhold from such Joint-Operator any further information and privileges with respect to operations;
- (ii) treat the default as an immediate and automatic assignment to the Operator of the proceeds of the sale of such Joint-Operator's share of the petroleum substances; and from and after the Operator making such election, the Operator may require the purchaser of such Joint-Operator's share of the petroleum substances to make payment therefor to the Operator while the default continues, and
- (iii) enforce the lien created by the default in payment by taking possession of all or any part of the interest of the defaulting Joint-Operator in the joint lands or in all or any part of the production therefrom and equipment thereon; and the Operator may sell and dispose of any interest, production or equipment of which it has so taken possession either in whole or in part or in separate parcels at public auction or by private tender at a time and on whatever terms it shall arrange, having first given notice to the defaulting Joint-Operator of the time and place of the sale. The proceeds of the sale shall be first applied by the Operator in payment of any costs to be paid by the defaulting Joint-Operator and not paid by it and any balance remaining shall be paid to the defaulting Joint-Operator after deducting reasonable costs of the sale. Any sale made as aforesaid shall be a perpetual bar both at law and in equity against the defaulting Joint-Operator and its assigns and against all other persons claiming the property or any part or parcel thereof sold as aforesaid by, from, through or under the defaulting Joint-Operator or its assigns.

506 REIMBURSEMENT OF OPERATOR — If the Operator has not received full payment of a Joint-Operator's share of the costs and expenses of operations hereunder within three (3) months following the date the payment was due, each other Joint-Operator, upon being billed therefor by the Operator, shall contribute a fraction of the unpaid amount, excluding interest thereon, which fraction shall have:

- (i) as its numerator — the participating interest of that Joint-Operator being billed; and
- (ii) as its denominator — the aggregate participating interests of all parties hereto except the defaulting Joint-Operator,

and thereupon each contributor shall be proportionately subrogated to the Operator's rights pursuant to Clause 505, and to the interest thereafter payable under Clauses 502 and 503 on the unrecovered portion of its contribution.

507 COMMINGLING OF FUNDS — The Operator may commingle with its own funds the moneys which it receives from or for the account of the Joint-Operators pursuant to this Operating Procedure.

## ARTICLE VI

### OWNERSHIP AND DISPOSITION OF PRODUCTION

601 EACH PARTY TO OWN AND TAKE ITS SHARE — Each of the parties shall own its proportionate share of the petroleum substances produced from wells operated for the joint account and shall have the right, at its own expense, to take in kind and separately dispose of its proportionate share of production exclusive of the production which may be used by the Operator in developing and producing operations and of production unavoidably lost.

602 FAILURE TO TAKE IN KIND — When and so often as a Joint-Operator shall fail or refuse to take in kind and separately dispose of its proportionate share of any production, the Operator shall have the authority, revocable by that Joint-Operator at will (subject to existing sales contracts), to sell for the account and at the expense of that Joint-Operator its proportionate share of production to others at the same price which the Operator receives for its own share of the production or to purchase the same for its own account at the field price prevailing in the area. All sales made by the Operator of a Joint-Operator's share of production as aforesaid shall be for such periods of time only as are consistent with the minimum needs of the industry under the circumstances but in no event shall any contract for the sale of the Joint-Operator's share of production be made for a period in excess of one (1) year.

603 OPERATOR'S FAILURE TO TAKE IN KIND — If the Operator is the party who fails or refuses to take in kind and separately dispose of its proportionate share of production, the Joint-Operators, or any one or more of them, shall have the same rights, mutatis mutandis, with respect to production, (including the Operator's share thereof), as the Operator has with respect to a Joint-Operator's share of production under the foregoing provisions of this Article; and in that case the Operator shall follow the instructions with respect to production and marketing given by the Joint-Operators who wish to market and/or take in kind their respective shares of production and to market the Operator's and other Joint-Operators' shares of production as aforesaid. Two or more Joint-Operators exercising their rights under this Clause shall do so in proportion to their participating interests.

604 PAYMENT OF LESSOR'S ROYALTY — Each of the parties hereto shall pay or cause to be paid the Lessor's royalty and all other payments required pursuant to the title documents attributable to its proportionate share of petroleum substances.

605 DISTRIBUTION OF PROCEEDS — Subject to the foregoing provisions of this Article, any party that receives income or proceeds from the sale of another party's share of production, shall forthwith distribute such income or proceeds to the party or parties entitled thereto. If a party fails to distribute such income or proceeds within ten (10) days following its receipt, the undistributed amount may, at the option of the party entitled thereto, bear interest (payable by the party holding such income or proceeds for the account of the party entitled thereto) at the rate provided for in Clause 502, from and after the aforesaid ten (10) days until it is paid.

## ARTICLE VII

### OPERATOR'S DUTIES RE DRILLING AND COMPLETING WELLS FOR JOINT ACCOUNT

701 PRE-COMMENCEMENT INFORMATION — Prior to commencing any well for the joint account, the Operator shall submit to each Joint-Operator:

- (a) an Authority for Expenditure which shall contain the location and intended total depth of the well and summarize the anticipated drilling costs and completion costs of the well. If the Authority for Expenditure does not contain the expected time of commencement of the well, a Joint-Operator may make its approval conditional upon the well being

commenced within a specified time and upon approval of such condition by all parties to the Authority for Expenditure, such condition shall become an essential part of the approved Authority for Expenditure. If the Authority for Expenditure is not subject to a time specification as above provided, any party to the approved Authority for Expenditure may at any time prior to the time the well is commenced, serve notice on the other parties thereto requiring that the well be commenced within sixty (60) days of such notice, failing which the Joint-Operator's approval of the Authority for Expenditure shall be void. (In the absence of other specified and agreed designation, a well shall be deemed commenced when actually spudded, that is, when a drill rig of adequate capacity to drill that well to proposed total depth is rigged-up on location and a drilling bit has penetrated the surface). Submission or approval of the Authority for Expenditure shall not preclude any party from giving an operation notice under Clause 1002 with respect to the well, provided that approval of the Authority for Expenditure by all parties before expiration of the period provided in Clause 1002 for notice by the receiving parties in response to the operation notice shall nullify the said operation notice;

- (b) the Operator's proposed program of drilling, coring, logging and testing the well; and
- (c) the Operator's proposed completion program, provided that participation in any completion operation by a Joint-Operator shall at all times be subject to Article IX.

702 DRILLING INFORMATION AND PRIVILEGES OF JOINT-OPERATORS — During the drilling of the well, the Operator shall provide to each Joint-Operator participating therein:

- (a) prompt notice of the date of spudding in of the well;
- (b) daily drilling and geological reports;
- (c) if requested, a complete set of washed samples of the cuttings of the formations penetrated;
- (d) access to all cores taken and copies of any core analysis conducted for the joint account;
- (e) immediate advice of any porous zones with showings of petroleum substances encountered and the proposed tests, if any, to be run on those porous zones, and a reasonable opportunity for each Joint-Operator participating therein to have a representative present to witness and observe any such tests;
- (f) derrick floor privileges as set forth in Clause 307; and
- (g) upon request, estimates of current and cumulative costs incurred for the joint account.

703 LOGGING AND TESTING INFORMATION TO JOINT-OPERATORS — Upon the well reaching total depth, (or during the drilling of the well if any such operations are to be conducted prior to the well reaching final total depth), the Operator shall:

- (a) test it in accordance with the approved program;
- (b) make such further tests as are warranted in the circumstances, of any porous zones with showings of petroleum substances encountered or indicated by any survey;
- (c) take representative mud samples and drillstem test fluid samples in order to obtain accurate resistivity, mud filtrate and formation water readings and supply each Joint-Operator participating therein with all information relative thereto;
- (d) supply each Joint-Operator participating therein with copies of the drillstem test and service report on each drillstem test run, including copies of pressure charts; and
- (e) run all log surveys agreed upon among the participating parties and supply each such party with copies of each log so run.

**704 COMPLETION AND PRODUCTION INFORMATION TO JOINT-OPERATORS** — During any completion operation conducted on the well, the Operator shall:

- (a) complete in accordance with the approved program and supply each Joint-Operator participating in the completion operation with current reports on all completion activities which, without restricting the generality of the foregoing, shall include:
  - (i) summary of the casing program;
  - (ii) location and density of perforations;
  - (iii) details of formation treatment and stimulation;
  - (iv) results of back pressure tests; and
  - (v) upon request, estimates of current and cumulative costs incurred for the joint account; and
- (b) promptly provide each Joint-Operator participating in the completion operation with all relevant information pertaining to any formation tests and production tests conducted on the well and current advice as to the nature, rate and amount of petroleum substances and other fluids produced from the well.

\* Upon completion or abandonment of a well, the Operator shall provide all Joint Operators with three (3) copies of a completion report, which report shall contain complete geological data, final summary of survey log formation tops, detailed drillstem test data, detailed lithologic core and sample report and copies of any core, water, gas and oil analyses, all in respect of the well.

**705 ADDITIONAL TESTING BY LESS THAN ALL JOINT-OPERATORS** — A Joint-Operator after giving written notice to each of the other Joint-Operators of its intention to do so, may at its sole risk and expense (including rig costs) conduct such other or additional tests of its choosing in a well to which it is entitled to have access, unless the Operator advises such Joint-Operator that in the Operator's opinion the hole is not in satisfactory condition for that purpose. Except as provided in Clause 801 and subject always to Clause 1801, the Joint-Operator so conducting any such tests shall retain all rights thereto and shall not be required to make the results thereof available to any other Joint-Operator pursuant to this Operating Procedure. Any Joint-Operator so conducting any such tests shall indemnify the other Joint-Operators from and against all actions, causes of action, claims and demands for all loss, injury or damages such other Joint-Operators may incur or suffer by reason of the exercise of the rights granted by this Clause.

## ARTICLE VIII

### VELOCITY SURVEYS AND OTHER GEOPHYSICAL TESTS

**801 VELOCITY SURVEYS AND OTHER GEOPHYSICAL TESTS** — A Joint-Operator after giving written notice to each of the other Joint-Operators of its intention to do so, may at its sole risk and expense (including rig costs) conduct a velocity survey or other geophysical survey or test in well to which it is entitled to have access, unless the Operator advises such Joint-Operator that in the Operator's opinion the hole is not in satisfactory condition for that purpose. Each Joint-Operator entitled to information from the well shall have the right to receive one (1) copy of the results of any velocity survey so run upon paying to the Joint-Operator that conducted the velocity survey an amount equal to the greater of its participating interest hereunder or one-sixth (1/6th) of the cost thereof. A Joint-Operator conducting a geophysical survey or test other than a velocity survey shall not be required to make the results thereof available to any other Joint-Operator pursuant to this Operating Procedure. Subject to Clause 1801, any Joint-Operator so conducting a velocity survey or other geophysical survey or test shall retain all trading rights with respect thereto. Any Joint-Operator so conducting a velocity survey or other geophysical survey or test shall indemnify the other Joint-Operators from and against all actions, causes of action, claims and demands for all loss, injury or damages such other Joint-Operators may incur or suffer by reason of the exercise of the rights granted by this Clause.

## ARTICLE IX

### CASING POINT ELECTION

**901 AGREEMENT TO DRILL NOT AUTHORITY TO COMPLETE** — Agreement by the parties to drill or deepen a well for the joint account shall not be deemed to include agreement by any Joint-Operator to participate in the setting of production casing

or to attempt completion of the well or to the completion program as set forth in the Authority for Expenditure submitted pursuant to Subclause 701 (a).

902 ELECTION BY JOINT-OPERATORS RE CASING AND COMPLETION — The Operator shall immediately notify the Joint-Operators when the well has been drilled to the authorized total depth and the logs and tests required or permitted pursuant to Articles VII and VIII have been run. Subject to Clause 1015, each Joint-Operator shall have a period of twenty-four (24) hours after the logs and results of the tests in which it participated have been made available to it to inform the Operator whether it wishes to participate in the cost of setting production casing and making a completion attempt. Failure to reply to the notice from the Operator shall be deemed an election by a party to participate to the extent of its participating interest provided at least one Joint-Operator (which may include or be the Operator) other than a Joint-Operator that failed to reply, has actually confirmed its election to participate in the completion attempt. If one or more Joint-Operators elect to participate in the completion attempt, the participating party(s) shall proceed to run production casing and attempt to complete the well for the taking of petroleum substances. If none of the Joint-Operators elects to participate, the Operator shall plug and abandon the well.

903 LESS THAN ALL PARTIES PARTICIPATE — If one or more, but not all, of the parties elect to set production casing and attempt to complete the well and the well is completed for the taking of petroleum substances in at least paying quantities, then ALTERNATE A below (Specify A or B) shall apply, namely:

ALTERNATE - A:

The setting of production casing and the completion shall be considered an independent operation under the provisions of Article X (including the provisions of Clause 1009 if the well is abandoned before the penalty is recovered) as if the independent operation were with respect to a development well.

OR -

ALTERNATE - B:

Each party not participating in the setting of production casing and the completion attempt shall assign to the party(s) that paid such non-participating party(s) share of such costs, all the assignor's interest in the spacing unit of the well insofar only as it relates to the zone or zones in which the well is so completed, and the assignee(s) shall forthwith pay to the assignor(s) the latter's share of the estimated salvage value of the material and equipment placed in or on the well prior to commencement of the completion attempt; provided, if the well is abandoned within six (6) months of the expiry of the twenty-four (24) hour period provided in Clause 902, such abandonment shall be for the joint account except that: (i) the participants in the completion attempt shall bear all extra costs of the abandonment incurred by reason of the completion attempt; and (ii) income received by the participants from the sale of petroleum substances produced from the well within the said six (6) months plus income from the sale of salvageable material and equipment shall firstly be applied to abate costs incurred by the participants in the completion attempt and the balance, if any, credited to the joint account. If the well is not abandoned within the said six (6) months, the cost of abandonment shall be the responsibility of the participants in the completion attempt only.

Notwithstanding anything to the contrary contained in this Clause, if and when the well is abandoned as a producer of petroleum substances from any zone, an interest in which was assigned to the participating parties as hereinabove provided, then upon such abandonment, the participating parties shall each re-assign to the applicable assignor, all of the interest in that zone assigned to it by the assignor and such interest shall again be vested in the assignor and included in the joint lands.

## ARTICLE X

### INDEPENDENT OPERATIONS

1001 DEFINITIONS USED IN THIS ARTICLE — For the purpose of this Article X, the "proposing party" shall mean the party (whether one or more) giving notice of its intention to have a certain operation conducted on the joint lands (hereinafter called "the operation") and that it is prepared to conduct the operation independently if necessary; "operation notice" shall



mean such notice of intention; "*receiving parties*" shall mean the parties (whether one or more) other than the proposing party; "*participating parties*" shall mean the parties (whether one or more) participating in the operation and shall include the proposing party; "*non-participating parties*" shall mean the parties hereto (whether one or more) not participating in the operation; "*development well*" shall mean a well insofar as the geological formations penetrated or proposed to be penetrated in the drilling thereof as provided in the operation notice are not deeper than the deepest geological formation in which another well within two (2) miles thereof is or has been capable of production of petroleum substances in commercial quantities; and "*exploratory well*" shall mean a well insofar as it is not a development well.

**1002 PROPOSAL OF INDEPENDENT OPERATION** — The parties normally shall consult with respect to decisions to be made for the exploration, development and operation of the joint lands. Whether or not such consultation has occurred or has been requested, a party may at any time become a proposing party and give to the receiving parties an operation notice for an operation on the joint lands, stating in the operation notice the nature of the operation, the proposed location, the expected time of commencement, the purpose and estimated cost of the operation (it being understood that the estimate of expenditures shall be in sufficient detail to enable the receiving parties to identify in summary form the estimated cost of the various aspects of the operation; such estimate may be in the form of an Authority for Expenditure provided an Authority for Expenditure otherwise submitted under this Operating Procedure shall not in itself be construed as an operation notice unless it is specifically part of an operation notice served pursuant to this Article X), and indicating whether it is a development well or an exploratory well or, if applicable, the extent to which it is both. Each receiving party shall give notice to the proposing party within thirty (30) days after receipt of the operation notice whether that receiving party will participate in the operation, provided if the operation notice relates to the drilling of a well for the purpose of evaluating lands which have been offered for public tender by a governmental authority or which it is known will be so offered within sixty (60) days after receipt of the operation notice (which information shall be contained in the operation notice), the said thirty (30) day period within which the receiving party shall give notice to the proposing party shall be reduced to fifteen (15) days. No well shall be considered as being drilled for such evaluation if the lands proposed to be evaluated are all at a distance greater than one (1) mile from the location of the proposed well. If a receiving party fails to give notice to the proposing party within the time provided, that receiving party shall be deemed to have given notice to the proposing party that it will not participate in the operation. As soon as the said thirty (30) or fifteen (15) day period (as the case may be) has expired, or as soon as all receiving parties have replied to the operation notice if such occurs earlier, the proposing party shall forthwith give notice to all the participating parties specifying how the costs, risks and benefits of the operation will be shared, having regard to Clause 1015.

A party may become a proposing party with respect to more than one operation at any given time and may serve as many operation notices as it so wishes and proceed to conduct operations pursuant thereto provided no single operation notice shall relate to more than one well and provided further that if the operation proposed is the drilling of a well, the receiving parties shall not be required to operate as having received the operation notice served by a party unless and until all operation notices previously served by that party relative to wells located within three (3) miles of the proposed well have expired, been withdrawn or the operation proposed thereunder has been completed and the information therefrom has been provided to the receiving parties and the receiving parties have been so advised by that proposing party. If a party serves more than one (1) operation notice at one time, it shall, subject to the foregoing provisions of this Clause, state the order in which the operation notices are to be deemed received by the receiving parties. Otherwise, operation notices shall be deemed received in accordance with Clause 2201.

**1003 TIME FOR COMMENCING THE OPERATION** — The proposing party may begin the operation without waiting for the thirty (30) or fifteen (15) day period provided under Clause 1002 to lapse, but shall not commence the operation more than sixty (60) days after the operation notice is deemed to be received by the receiving parties although the proposing party may serve a new operation notice for the same operation within or after the expiration of the said sixty (60) day period.

**1004 OPERATOR FOR INDEPENDENT OPERATIONS** — Notwithstanding anything to the contrary contained in this Operating Procedure, if the Operator is a participating party, it shall carry out the operation for the account of the participating parties; provided, if the Operator is not a participating party, the participating parties shall, as and among themselves and in accordance with the provisions of Clause 206, mutatis mutandis, appoint an Operator for the operation. If the operation is commenced prior to the time the Operator becomes a participating party (and it is specifically understood the nothing in this Clause shall restrict or prohibit the proposing party from actually commencing operations as provided in Clause 1003) the Operator, upon becoming a participating party, shall have the right to take over and carry out the operation for the participating parties.

## 1005 SEPARATE ELECTION WHERE WELL STATUS DIVIDED —

(a) If the operation is the drilling of a well which is in part a development well and in part an exploratory well, each receiving party electing to participate in the well shall elect to participate:

- (i) to the extent only that it is a development well; or
- (ii) to the extent that it is both a development well and an exploratory well.

(b) If the participation in the well varies between the well as a development well and the well as an exploratory well the following shall apply:

- (i) The drilling costs and completion costs of the well shall be allocated between the well as a development well and the well as an exploratory well as nearly as can reasonably be determined and such allocation shall be stated in the operation notice. (For the purpose of this Article X, development well costs shall be only those costs which would have been incurred had the well been drilled (and completed, if applicable) as a development well only. All drilling costs and completion costs of the well additional to those designated as development well costs shall be deemed to be exploratory well costs).
- (ii) If the well is capable of producing petroleum substances in at least paying quantities from more than one geological formation and such petroleum substances can be produced simultaneously from all such formations through the well, then the Operator for the participating parties in the deepest producing formation shall operate the well, apportioning the operating costs of the well to each formation on an equitable basis, and deliver to the Operator for the participating parties in each productive formation their respective total share of production from each formation and each such Operator shall account for such production to their respective participating parties in accordance with Clause 1007 as if each producing formation was a separate operation.

- \* (iii) Notwithstanding anything to the contrary contained in Subclause (ii) above, if the well is capable of producing petroleum substances in at least paying quantities from a geological formation that is contained in the part of the well that is designated as exploratory and the participants in the exploratory part of the well wish to complete the well in any such formation, they shall have the pre-emptive right to do so, provided, if the well is also capable of producing petroleum substances in at least paying quantities from a geological formation contained in the part of the well that is designated as development and the participating parties in the exploratory part of the well exercise their pre-emptive right as above provided, they shall reimburse the participating parties in the development part of the well for all costs incurred by them in drilling (and completing, if applicable) the well as a development well and thereafter the well shall be deemed to be a single operation, ab initio, involving the drilling of an exploratory well only and conducted by the participating parties in the exploratory part of the well pursuant to this Article X, except that the drilling costs and completion costs (if applicable) reimbursed to the participating parties in the development part of the well as above provided, shall be deemed to be operating costs and included as a charge under Subclause 1007(b) (ii). Thereafter, any party may propose and drill a development well in order to produce from the development horizons from which production was pre-empted by the aforesaid exploratory completion. This right shall terminate at such time as the exploratory well is recompleted in the development horizons capable of production.

1006 ABANDONMENT OF INDEPENDENT WELL — If the operation is the drilling of a well, and the well is not capable of production of petroleum substances in paying quantities, the participating parties shall abandon the well in accordance with the Regulations.

1007 PENALTY WHERE INDEPENDENT WELL RESULTS IN PRODUCTION — If an operation is conducted by a proposing party pursuant to this Article X and the operation is the drilling of a well, then the following shall apply as and between the participating parties and the non-participating parties with respect thereto:

- (a) If the well is completed for the production of petroleum substances from one or more formations in which the well is a development well, then with respect to those formations only and the production therefrom, the participating parties shall be entitled to retain possession of the well and all production therefrom until the gross proceeds of such production equals the sum total of:

- (i) one hundred (100%) percent of the lessor's royalty and any overriding royalties or other encumbrances thereon which otherwise would have been borne by the joint account with respect to the said production; plus
- (ii) one hundred (100%) percent of the costs of operating the well as a development well; plus
- (iii) one hundred (100%) percent of the costs of equipping the well as a development well, plus interest on the unrecovered amount thereof at the rate set forth in Clause 502, calculated monthly from and after the date of the first contract sales of production therefrom; plus
- (iv) 300 % of the drilling costs and completion costs of the well as a development well;

at which time the Operator for the participating parties shall forthwith notify the non-participating parties and each of the non-participating parties shall have thirty (30) days following receipt of the notice within which to elect to accept or refuse participation in the well, the said formation(s) and the production therefrom. If a non-participating party refuses participation as above provided, it thereby shall, subject to Clause 1022, have forfeited its right of participation in and to the well and to the spacing unit of the well insofar as it relates to the producing formations only and the production therefrom. If a non-participating party elects to accept participation in the well and the said formation(s) and the production therefrom as above provided, its participation shall be equal to its participating interest and be effective as of the time when the gross proceeds of production from the well equalled the sum total of items (i), (ii), (iii) and (iv) above and the accounts of the parties shall be adjusted accordingly. Thereafter the well shall be held for the account of the parties then participating and shall be operated by the Operator if it is one of the parties then participating, or if it is not, an Operator shall be appointed pursuant to Clause 1004 by the parties then participating. If a non-participating party fails to reply to the said notice within the time and in the manner above provided, it shall be deemed to have elected to accept participation to the extent of its participating interest in the well, the said formation(s) and the production therefrom as above provided.

(b) If the well is completed for the production of petroleum substances from one or more formations in which the well is an exploratory well, then with respect to those formations only and the production therefrom, the participating parties therein shall be entitled to retain possession of the well and all production therefrom until the gross proceeds of such production equals the sum total of:

- (i) one hundred (100%) percent of the lessor's royalty and any overriding royalties or other encumbrances thereon which otherwise would have been borne by the joint account with respect to the said production; plus
- (ii) one hundred (100%) percent of the costs of operating the well as an exploratory well; plus
- (iii) one hundred (100%) percent of the costs of equipping the well as an exploratory well, plus interest on the unrecovered amount thereof at the rate set forth in Clause 502, calculated monthly from and after the date of the first contract sales of production therefrom; plus
- (iv) 500 % of the drilling costs and completion costs of the well as an exploratory well, provided that with respect to a well that was in part a development well and in part an exploratory well which is completed for production pursuant to this Subclause (b) only, all of the drilling costs and completion costs of the well shall be deemed to be costs incurred to drill and complete the well as an exploratory well only, provided any part of such costs paid by a party while participating in the well as a development well, (excluding those costs reimbursed to a party pursuant to Subclause 1005 (b) (iii) which shall be handled in accordance with that Subclause), shall be credited to that party and excluded from the provisions of this Subclause (b) when determining that party's penalty hereunder;

at which time the Operator for the participating parties shall forthwith notify the non-participating parties and each of the non-participating parties shall have thirty (30) days following receipt of the notice within which to elect to accept or refuse participation in the well, the said formation(s) and the production therefrom. If a non-participating party refuses participation as above provided, it thereby shall, subject to Clause 1022, have forfeited its right of participation in and to the well and to the spacing unit of the well insofar as it relates to the producing formations only and the production

therefrom. If a non-participating party elects to accept participation in the well and the said formation(s) and the production therefrom as above provided, its participation shall be equal to its participating interest and be effective as of the time when the gross proceeds of production from the well equalled the sum total of items (i), (ii), (iii), and (iv) above and the accounts of the parties shall be adjusted accordingly. Thereafter the well shall be held for the account of the parties then participating and shall be operated by the Operator if it is one of the parties then participating, or if it is not, an Operator shall be appointed pursuant to Clause 1004 by the parties then participating. If a non-participating party fails to reply to the said notice within the time and in the manner above provided, it shall be deemed to have elected to accept participation to the extent of its participating interest in the well, the said formation(s) and the production therefrom as above provided.

(c) Throughout the time that participating parties are retaining production from a well pursuant to Subclauses (a) or (b) of this Clause, the proceeds from such production shall be applied on a current basis and in order, to items (i), (ii), (iii) and (iv) of the respective Subclause.

(d) Any cash contributions received by the participating parties from a non-governmental source in support of any of the items set forth in Subclauses (a) (i) to (iv) and (b) (i) to (iv) inclusive of this Clause, shall firstly be applied to the cost of such item and operate to reduce the cost thereof before any penalty is calculated thereon; provided nothing in this Subclause shall be construed to permit any party to release information relative to a well until it has complied with Clause 1801.

(e) Notwithstanding anything to the contrary contained in this Article, it is specifically understood that any cash payments, incentives, grants, credits, waivers, exemptions, abatements or other benefits received by or available to the participating parties from any governmental source pursuant to the Regulations with respect to an operation conducted by less than all parties hereunder, shall not be taken into account when calculating any of the items set forth in Subclauses (a) (i) to (iv) and (b) (i) to (iv) inclusive of this Clause.

#### 1008 INDEPENDENT DEEPENING, PLUGGING BACK, WHIPSTOCKING, RE-COMPLETING, REWORKING OR EQUIPPING —

(a) No operation notice for a deepening, plugging back, whipstocking, re-completing or reworking operation may be given with respect to a well producing or capable of producing petroleum substances in paying quantities, nor shall any drilling well be deepened below the authorized total depth if one or more parties wish to attempt to complete the well at or above that depth and proceed to do so pursuant to Article IX.

(b) A non-participating party in a well may not propose any operation in the well unless and until (and only to the extent that) it has regained the right to participate in production from the well.

(c) Where a drilling rig is on location, the period for response to the operation notice under Clause 1002 with respect to a deepening, plugging back, whipstocking, re-completing or reworking operation shall be reduced to forty eight (48) hours. Any additional costs incurred for rig time resulting from any such operation notice, shall be at the expense of the participating parties, regardless of whether the operation is carried out or not.

(d) If the operation is or relates to a deepening, plugging back, whipstocking, re-completing, reworking or equipping operation which results in the production of petroleum substances in paying quantities from one or more formations in which the well is:

- (i) a development well — then with respect to those formations and the petroleum substances produced therefrom, the provisions of Subclauses 1007 (a), (c), (d) and (e) shall apply, mutatis mutandis, to the operation and the recovery of costs of the operation (including the penalty provided therein) to the extent that such operation and production relates to the well as a development well; or
- (ii) an exploratory well — then with respect to those formations and the petroleum substances produced therefrom, the provisions of Subclauses 1007 (b), (c), (d) and (e) shall apply, mutatis mutandis, to the recovery of costs of the operation (including the penalty provided therein) to the extent that such operation and production relates to the well as an exploratory well.

(e) If the operation is or relates to a deepening, plugging back, whipstocking, re-completing, reworking or equipping operation and within six (6) months of receipt of the operation notice by the receiving parties, the participating parties elect to terminate the operation or propose to abandon the well, they shall so notify the non-participating parties and thereby be deemed to have returned the well and the formations to the parties that were participants therein before the operation was proposed and all further operations thereon, including abandonment, shall be deemed proposed for the joint account except that:

- (i) the salvable materials and equipment placed in and on the well by the participating parties shall be salvaged by and for the account of the participating parties; and
- (ii) the participating parties shall bear all extra costs of abandonment incurred by reason of the operation.

If the participating parties do not propose termination of the operation or abandonment of the well within the six (6) month period as above provided, they shall forthwith thereafter pay to the non-participating parties, each non-participating party's proportionate share of the salvage value of materials and equipment located in and on the well at the time the operation notice was received by the non-participating parties and the amounts so paid shall be charged to the well as completion costs; thereafter the non-participating parties shall have no liability with respect to the well or for the abandonment thereof unless and until (and only to the extent that) they have individually regained and elected to resume participation in the well and the production therefrom.

#### 1009 WHERE WELL ABANDONED BEFORE PENALTY RECOVERED —

(a) If the operation involves the drilling of a well and the well is to be abandoned before the gross proceeds of production from a development well drilled pursuant to Subclause (a) of Clause 1007 or an exploratory well drilled pursuant to Subclause (b) of Clause 1007, as the case may be, equalled the sum total of items (i), (ii), (iii) and (iv) contained in that Subclause, then the participating parties shall carry-out the abandonment of the well and restore the drillsite pursuant to the Regulations and record as a credit to the well the salvage value of materials and equipment recoverable from the well as if such value was proceeds from production and report same in the monthly statement provided for in Clause 1013. If the gross proceeds from production from the well then exceeds the sum total of items (i), (ii), (iii) and (iv) contained in the respective Subclause (a) or (b) of Clause 1007, the excess amount shall be credited to the joint account.

(b) Subject to Subclause (e) of Clause 1008, if the operation involves the deepening, plugging back, whipstocking, re-completing, reworking or equipping of a well pursuant to Clause 1008 and the participating parties propose to abandon the well before the gross proceeds of production received therefrom by the participating parties after commencement of the operation equals the sum total of the costs and penalties to be recovered by the participating parties prior to the time they are required to offer participation therein to the non-participating parties, then the participating parties shall carry-out the abandonment of the well and restore the drillsite pursuant to the Regulations and record as a credit to the well the salvage value of materials and equipment recoverable from the well as if such value was proceeds from production and report same in the monthly statement provided for in Clause 1013. If the gross proceeds of production from the well then exceeds the sum total of the items chargeable to the well pursuant to Clause 1008, the excess amount shall be credited to the joint account.

1010 EXCEPTION TO CLAUSE 1007 WHERE WELL PRESERVES TITLE — Notwithstanding Clause 1007, if the operation is the drilling of a well required to preserve title, the drilling of which is commenced during the final one-sixth (1/6th) or the final three hundred sixty five (365) days, whichever is the shorter period, of the term of a title document which is due to terminate as to all or part of the lands or formations contained therein unless a well similar to the proposed well is sooner drilled on the joint lands, (which terminating lands and formations and expected preserved lands and formations shall be described in the operation notice) the non-participating parties shall, effective upon the well reaching sufficient depth to prevent such termination, assign to the participating parties (proportionate to the participating parties' participation in the operation) all the non-participating parties' interest in and under the title documents insofar as they relate to the lands or formations with respect to which such termination would have occurred had the well not been drilled, unless the non-participating parties have prior to the date upon which such termination would have occurred, drilled (or are in course of drilling) another well which also has prevented or will prevent such termination. The non-participating parties' rights with respect to access to the wellsite and information with respect to a well subject to this Clause shall be as provided in Clause 1018.

1011 **INDEPENDENT GEOLOGICAL OR GEOPHYSICAL OPERATION** — Nothing in this Operating Procedure shall be interpreted to preclude a party from conducting a geological or geophysical operation on or over the joint lands for its own account provided that such operation shall not interfere with other operations being conducted on the joint lands for the joint account. The parties not participating in such operation shall not be entitled to any information or data with respect thereto unless such operation was the subject of an operation notice in which case any non-participating party may pay to the participating parties two hundred (200%) percent of what its share of the cost of such operation would have been had all the parties participated therein, whereupon such non-participating party shall be entitled to a copy for its own use of all basic data obtained from the operation, specifically excluding any trading rights and interpretations of such data made by or for the participating parties, or any of them. The right of a non-participating party to so acquire any such information and data shall terminate at the end of the calendar year following the calendar year in which the operation was completed.

1012 **USE OF BATTERY AND OTHER EQUIPMENT FOR INDEPENDENT WELL** — To the extent that battery, gathering or processing facilities, or any similar facilities or installations owned by the parties, are available on the joint lands, the participating parties in an operation shall be permitted to make use of and to share them in the same manner as if the operation had been carried out for the joint account provided: (i) operations for the joint account shall have priority in all cases where any such facilities may be inadequate and (ii) an equitable division of capital and operating costs is made with respect to all such joint facilities.

1013 **ACCOUNTS AND AUDIT DURING PENALTY RECOVERY** — Subject to Clauses 305 and 1018, during the period of recovery of costs and penalties under any preceding Clauses of this Article, the Operator for the operation shall supply all parties with a monthly statement showing the status of the recovery of such costs and penalties. The provisions of the Accounting Procedure relating to audit of accounts shall apply mutatis mutandis to the audit of accounts with respect to recovery of costs and penalties by participating parties under this Article.

1014 **PARTICIPANT'S RIGHTS AND DUTIES RE INDEPENDENT OPERATION** — As among the participating parties in any independent operation, the provisions of this Operating Procedure relating to the rights, duties and obligations of the Operator and the Joint-Operators, including the provisions of Article IX, shall apply, mutatis mutandis, to the conduct of the operation and to the operation of any well during the recovery of costs and penalties with respect thereto under this Article.

1015 **PARTICIPATION IN INDEPENDENT OPERATIONS** — The parties participating in an independent operation hereunder shall have the right to do so in the proportions that their respective participating interests bear one to the other except that a receiving party may in its election to participate in the operation specify that it will participate only to the same percentage as its participating interest. In the latter case the proposing party shall promptly notify the other participants and determine from them whether they wish to assume, with the proposing party, their respective proportionate shares of the percentage not assumed by the party so limiting its participation. Failure to respond to the proposing party's notice within forty eight (48) hours of receipt, shall be deemed an election by a party to not assume any additional percentage.

1016 **ASSIGNMENTS AND FORFEITURES TO BE PROPORTIONAL** — Any assignment or forfeiture of any interest in the joint lands as herein provided shall be made to the applicable assignees in the proportions that their respective participating interests bear one to the other, unless the contrary is expressly otherwise provided herein.

1017 **INDEMNIFICATION OF NON-PARTICIPATING PARTIES** — The participating parties in an independent operation shall, in proportion to their respective participating interests in the operation, indemnify and hold harmless the non-participating parties from all costs, expenses, suits, claims, liens, liabilities and losses resulting from the carrying out of the operation.

During recovery of costs and penalties out of production resulting from an operation under this Article X, the participating parties in proportion to their respective participating interests in the operation, shall pay the Lessor's royalties and any overriding royalties and/or other payments and encumbrances relative thereto which otherwise would be borne for the joint account and shall save harmless the non-participating parties from and against all such payments.

**1018 NON-PARTICIPATING PARTY DENIED INFORMATION** — If the operation involves the drilling of a well or a well which has been drilled, the following shall apply with respect thereto:

- (a) If the operation involves the drilling of a well, a party shall not be entitled to access to the wellsite or any information with respect to the well, including monthly statements and audit privileges as provided in Clause 1013, until it becomes a participating party or until the expiration of ninety (90) days after the date of the release of the drilling rig used to conduct the operation, whichever first occurs; or
- (b) If the operation involves a well which has been drilled, a party shall not be entitled to access to the wellsite or any information with respect to the well, including monthly statements and audit privileges as provided in Clause 1013, until it becomes a participating party or until the expiration of one hundred twenty (120) days after the date the operation notice is deemed received by it, whichever first occurs;

provided if a party is required to make an assignment pursuant to Clause 1010, such party shall not be entitled to access to the wellsite or any information with respect to the well pursuant to this Operating Procedure at any time.

**1019 NO JOINT OPERATIONS UNTIL INFORMATION RELEASED** — A party withholding well information as provided in Clause 1018, shall not propose or conduct any joint interest operations on the joint lands within three (3) miles of such well (except regular production and maintenance operations on producing wells) until it has released such information to the non-participating parties.

**1020 CONTRIBUTION TO INDEPENDENT OPERATIONS** — If any party receives a cash contribution towards the cost of the operation, it shall be received and allocated in accordance with Subclause 1007(d). If the contribution is an acreage contribution, the party offered the contribution shall give each other participating party the right to participate therein to the extent of its share of the cost of the operation at the time the operation was conducted, provided nothing in this Clause shall be construed to permit any party to release information relative to a well until it has complied with Clause 1801.

**1021 UNITIZATION PRIOR TO RECOVERY** — If the operation involves the drilling of a well (or a well which has been drilled) and the well and its spacing unit become subject to a unit operation, (it being understood that nothing herein contained shall operate to restrict or prohibit the participating parties from including the well and its spacing unit in a unit operation) the participating parties shall retain the production allocated to the spacing unit until they have recovered all costs and penalties to which they are entitled pursuant to this Article X. The credits and debits accruing to the participating parties under any adjustment of investment for well costs paid and equipment supplied by them, shall be allocated to the payout account of the well by the participating parties consistent with the terms of Clauses 1007 and 1008 and shall be recorded in the monthly statement referred to in Clause 1013.

**1022 REVERSION OF ZONE OR FORMATION UPON ABANDONMENT** — Except as provided in Clause 1010, if and when a zone or formation in a well is abandoned as a producer of petroleum substances, which zone or formation was assigned to the participating parties or the right to production therefrom was forfeited by a party pursuant to the provisions of this Article X (excluding Clause 1010), then upon such abandonment, the participating parties shall each re-assign or quit claim to the applicable party, all of the interest assigned or forfeited to it by that party in that zone or formation and such interest or right shall again be vested in that party and included in the joint lands. An assignment made by a party pursuant to Clause 1010 shall not be subject to re-assignment pursuant to this Clause.

## ARTICLE XI

### SURRENDER AND QUIT CLAIM OF JOINT LANDS

**1101 INITIATION OF SURRENDER PROPOSAL AND QUIT CLAIM OF INTERESTS** — A party may at any time surrender and quit claim unto the other parties its participating interest in part or all of the joint lands provided there is not then existing with respect to those joint lands an obligation which cannot be avoided by surrender or quit claim to the grantor of the title documents affected and provided further that such notice of surrender and quit claim is received by the other parties not later than sixty (60) days before a rental date or other obligation date, which rental or obligation can be avoided by the surrender of the joint lands affected; otherwise a party may at anytime prior to but not later than sixty (60) days before a rental date or other obligation date with respect to the joint lands affected (except an obligation to pay royalty or a drilling obligation not being

enforced under the title documents) give notice to the other parties proposing that some or all of the joint lands be surrendered to the grantor under the title documents. Not later than thirty (30) days before the next ensuing rental date or other obligation date under the respective title documents included in the surrender notice, the parties receiving the notice shall each give notice to all other parties stating whether or not they wish to join in the proposed surrender. Failure to respond to the said notice shall be deemed to be an election not to join in the surrender. Any party giving notice of the proposed surrender or giving notice of its intention to join in the proposed surrender may by notice to the other parties at any time up to but not later than thirty (30) days before the next ensuing rental date or other obligation date under the respective title documents, revoke its notice of intention to surrender.

The participating interest in and the dimensions of the joint lands affected under this Clause must be such that the grantor of the applicable title documents would be obliged to accept a surrender thereof pursuant to the title documents.

**1102 SURRENDER BY ALL PARTIES** — If all parties join in a surrender under Clause 1101, the Operator shall proceed forthwith to salvage for the joint account all salvable material and equipment upon the lands to be surrendered and all parties shall promptly execute and deliver to the Operator all documents necessary to effect the surrender. Operator shall thereafter forthwith deliver all such documents to properly effect the surrender.

**1103 SURRENDER BY LESS THAN ALL PARTIES** — If less than all parties join in the surrender, the parties not joining in the surrender shall (unless the Operator is one of them) promptly appoint an Operator pro tem for the parties retaining the said lands and interests, and such Operator shall be responsible for taking the necessary steps to ensure payment of rentals or the meeting of any other obligation to maintain the said lands and interests for the benefit of the retaining parties.

\* **1104 ASSIGNMENT OF INTEREST SURRENDERED** — Effective on the thirtieth (30) day before the rental or other obligation referred to in Clause 1101 is required to be paid or met with respect to a title document included in the surrender notice, the parties which elected to surrender shall assign proportionately to the retaining parties all their interest in the joint lands and interests which were the subject of the proposed surrender notice. The parties receiving the assignment shall within thirty (30) days after receipt of the assignment, pay to the assignors the assignors' participating interest share (prior to such surrender) of the salvage value of the recoverable material and equipment on the lands so assigned, the amount to be determined by the parties in accordance with the Accounting Procedure and billed by the Operator to the assignees.

**1105 RETAINING PARTIES TO MEET OBLIGATIONS** — Where failure by the retaining parties to meet any obligation which prompted the surrender proposal would prejudice the title of the parties in any other portion of the joint lands, which obligation could have been avoided without prejudice to the title of the parties had all parties joined in the proposed surrender, the retaining parties shall be deemed to have covenanted to meet that obligation in accepting the interests of the surrendering parties.

**1106 FAILURE TO SURRENDER AS AGREED** — Where all the parties have agreed to effect surrender under this Article, and whether or not some or all of them have taken any action by way of release or assignment pursuant to an intention to join in the surrender, the lands and interests which are the subject of the surrender notice shall be deemed to be held for the joint account until the surrender has been irrevocably effected, including the termination of any right to reinstate any title document, so that all the parties shall receive or have the right to participate in any benefits which might accrue during the period before the surrender is irrevocably effected. If, however, any party to whom any interest is conveyed or released for the purpose of effecting the surrender should not duly proceed with the surrender and thereby causes any further obligation to arise, that party shall be solely responsible for meeting the obligation and shall indemnify the other parties with respect thereto.

## ARTICLE XII

### ABANDONMENT OF WELLS

**1201 PROCEDURE FOR ABANDONMENT** — If a party proposed to abandon a well on the joint lands (except at casing point when Article IX shall apply) it shall give notice of the proposed abandonment to the other parties who may within thirty (30) days of receipt of the notice, elect by notice to the other parties to take over the well. Failure by a party to respond to the said notice shall be deemed to be an election by that party to take over, or participate in the take over, of the well. Subject to Clause 1202, the party or parties taking over the well shall be entitled to an assignment without consideration or warranty, of the abandoning parties' interest in the well and in the spacing unit of the well insofar as it relates to the producing zone or zones of the well. All



such assignments shall be proportionate to the parties respective participating interests each to the other prior to any such take over or assignment.

If all parties elect to join in the abandonment, the well shall be abandoned for the joint account.

**1202 ASSIGNMENT OF EQUIPMENT AND SURFACE RIGHTS** — If less than all parties elect to abandon a well under Clause 1201, the abandoning parties shall without warranty transfer to the other parties the materials and equipment appurtenant to the well, and such other parties shall promptly pay to the transferors the latter's share of the salvage value of the said materials and equipment, determined by the parties in accordance with the Accounting Procedure. The abandoning parties shall also transfer to the other parties without warranty or consideration, the surface rights appurtenant to the well.

**1203 REVERSION OF ZONES UPON SUBSEQUENT ABANDONMENT** — If a party or parties take over a well on the joint lands pursuant to Clause 1201 and the abandoning parties make an assignment of their interests in the spacing unit of the well and in the producing zone or zones as provided in Clause 1201 and the party or parties that took over the well subsequently cease to maintain the well as a producer of petroleum substances from a zone which was assigned as aforesaid, the party or parties that so received an assignment shall each re-assign to the applicable assignor, all of the interest assigned to it by the assignor in that zone or zones and such interest shall again be vested in the assignor and included in the joint lands; provided nothing in this Clause shall be construed to affect the ownership of the well and the materials and equipment appurtenant thereto as determined pursuant to Clauses 1201 and 1202 and the responsibility for its abandonment, which shall continue with the party or parties that took over the well.

## **ARTICLE XIII**

### **OPERATION OF LANDS SEGREGATED FROM JOINT LANDS**

**1301 OPERATING PROCEDURE TO APPLY** — Where by reason of the operation of any provision hereof any portion of the joint lands ceases to be owned by the parties hereto in the same percentages of interest as their participating interests hereunder or ceases to be owned by all the parties hereto, the parties acquiring the different percentages of interest in any portion of the former joint lands shall thereafter hold the same as if they are parties to a separate Operating Procedure, the terms of which are identical to the terms hereof, having regard only to the different ownership and percentages of ownership interest in those lands, and the said portion of the joint lands shall cease to be "joint lands" hereunder. If the Operator is a party participating in the lands ceasing to be joint lands under this Clause, it shall be the initial Operator under the said separate Operating Procedure.

## **ARTICLE XIV**

### **LITIGATION**

**1401 CONDUCT OF LITIGATION** — Litigation in connection with the title documents, the joint lands and/or any operation conducted for the joint account shall be conducted for and on behalf of all parties. Each party shall notify the other party or parties of any process served upon it, or of any process it intends to serve, in any action involving the title documents, the joint lands and/or with respect to any operation conducted for the joint account. The parties then shall decide whether the action for the joint account shall be handled by the solicitors of the parties or by joint counsel mutually selected by the parties. Notwithstanding the foregoing with respect to action to be conducted for the joint account, nothing contained in this Clause shall preclude a party from also acting on its own (and at its own expense) if in its sole opinion it considers such action advisable or necessary to protect its particular interest hereunder, provided a party so acting on its own shall not pursue a course of action contrary to litigation then being conducted for the joint account.

## **ARTICLE XV**

### **RELATIONSHIP OF PARTIES**

**1501 PARTIES TENANTS IN COMMON** — The rights, duties, obligations and liabilities of the parties hereto shall be several and not joint or collective, it being the express purpose and intention of the parties that their interest in the joint lands and in the wells, equipment and property thereon held for the joint account shall be as tenants in common. Nothing herein contained shall be construed as creating a partnership, joint venture or association of any kind or as imposing upon any party hereto any partnership duty, obligation or liability to any other party hereto.

## ARTICLE XVI

### FORCE MAJEURE

1601 DEFINITION OF FORCE MAJEURE — "force majeure" shall mean any one or more of the following events:

- (a) an act of God;
- (b) a war, revolution, insurrection, riot, blockade, or any other unlawful act against public order or authority;
- (c) a strike, lockout, or other industrial disturbance;
- (d) a storm, fire, flood, explosion or lightning;
- (e) a governmental restraint; and
- (f) any other event (whether or not of the kind enumerated in (a) to (e) of this Clause) which is not reasonably within the control of the party hereto claiming suspension of its obligations hereunder due to force majeure.

1602 SUSPENSION OF OBLIGATIONS DUE TO FORCE MAJEURE — If any party is prevented by force majeure from carrying out any obligation hereunder, the obligations of the party insofar as its obligations are affected by the force majeure, shall be suspended while (but only so long as) the force majeure continues to prevent the performance of the said obligations. Any party prevented from carrying out any obligation by force majeure shall promptly give the other parties notice of the force majeure including reasonably full particulars in respect thereof.

1603 OBLIGATION TO REMEDY — The party claiming suspension of its obligations as aforesaid shall promptly remedy the cause and effect of the force majeure described in the said notice insofar as it is reasonably able so to do; provided that the terms of settlement of any strike, lockout or other industrial disturbance shall be wholly in the discretion of the party claiming suspension of its obligations hereunder by reason thereof and that party shall not be required to accede to the demands of its opponents in any strike, lockout or industrial disturbance solely to remedy promptly the force majeure thereby constituted.

1604 EXCEPTION FOR LACK OF FINANCES — Notwithstanding anything contained in this Article, lack of finances shall not be considered a force majeure nor shall any force majeure suspend any obligation for the payment of money due hereunder.

## ARTICLE XVII

### CASH AND ACREAGE CONTRIBUTIONS

\* 1701 CONTRIBUTIONS TO JOINT OPERATIONS TO BE SHARED — Any party receiving a contribution of cash, credits, acreage (or an interest in acreage or in the proceeds therefrom) or other benefit of whatsoever kind (except Petroleum Incentive Program grants of Alberta Petroleum Incentive Program grants) towards the cost of or in support of any operation conducted for the joint account, shall:

- (a) If the contribution is in the form of cash — credit such contribution to the joint account; or
- (b) If the contribution is in any other form — give each other party the right to participate therein to the extent of its participating interest hereunder.

1702 NO WAIVER OF CONFIDENTIAL INFORMATION — Clause 1701 shall not permit a party to accept a contribution from a third party in return for information from an operation hereunder unless and until that party has complied with the terms of Clause 1801.

\* REVISED

## ARTICLE XVIII

### CONFIDENTIAL INFORMATION

\* 1801 CONFIDENTIAL INFORMATION — Except as otherwise provided herein, all data and information of whatsoever nature acquired by the parties from any operations pursuant to this Agreement or supplied by one party to the other pursuant hereto shall be for the sole and exclusive use and benefit of the parties hereto and their affiliate corporations, unless the parties agree to the dissemination of such information or unless a party hereto is required to give such information to any governmental department, body or agency (or any recognized association within the Petroleum Industry, of which it is a member, that engages in the exchange of factual information relating to the type of operations contemplated by this Agreement). In no event shall information of any type or character relating to wells drilled on a confidential basis by the parties be disclosed, except to an affiliate corporation. Upon the termination of this agreement, (including the Operating Procedure), any relationship of a fiduciary nature between the parties hereto, or either of them, that may have been created with respect to any information, as described above, shall terminate.

## ARTICLE XIX

### DELINQUENT PARTY

1901 CLASSIFICATION AS DELINQUENT PARTY — If any party moves its location and does not provide the other parties with notice of its change of address and subsequently cannot readily be located, or if any party becomes inactive or is struck off the register or otherwise refuses or neglects to answer communications addressed to it at its address for service, the Operator may send notice by registered mail to that party at its last address for service hereunder, advising the party that it shall thereafter be considered a delinquent party within the meaning of this Article.

1902 EFFECT OF CLASSIFICATION AS DELINQUENT PARTY — From the fifteenth (15th) day after the notice has been mailed by registered mail to the delinquent party under Clause 1901, the delinquent party shall thereafter:

- (a) not be entitled to any further notices or communications from the Operator or any other party hereto with respect to any matter hereunder; and
- (b) be deemed to have elected to not participate in any operations thereafter proposed or carried out by a party on the joint lands for the joint account; and
- (c) be deemed to have elected to join proportionate to its participating interest with the Operator in the joint lands affected, in all farmouts, assignments, surrenders and abandonments proposed and effected hereunder by the Operator for its own account and any such dispositions effected by the Operator or by any of the parties at the direction of the Operator, shall be binding on the delinquent party;

provided that the proceeds of the sale of the delinquent party's share of petroleum substances shall be retained in trust by the Operator for the account and benefit of the delinquent party after deducting the delinquent party's proportionate share of operating costs and all other relevant costs incurred for the joint account.

1903 RESTORATION OF STATUS — If a delinquent party subsequently communicates with the Operator, pays all arrears of moneys due the joint account, and undertakes in writing to comply from that time with the provisions of this Operating Procedure, the delinquent party thereafter shall be restored to the normal status of a party hereto.

1904 LIEN NOT AFFECTED — Nothing in this Article shall derogate from the enforcement of the lien of the Operator and the other parties pursuant to Clauses 505 and 506.

## ARTICLE XX

### WAIVER

2001 WAIVER MUST BE IN WRITING — No waiver by any party of any breach of any of the covenants, provisos, conditions, restrictions or stipulations herein contained shall take effect or be binding upon that party unless the same be expressed in writing under the authority of that party and any waiver so given shall extend only to the particular breach so waived and shall not limit or affect any rights with respect to any other or future breach.

## ARTICLE XXI

### FURTHER ASSURANCES

2101 PARTIES TO SUPPLY — Each of the parties shall from time to time and at all times do all such further acts and execute and deliver all further deeds and documents as shall be reasonably required in order fully to perform and carry out the terms of this Operating Procedure.

## ARTICLE XXII

### NOTICE

2201 SERVICE OF NOTICE — Whether or not so stipulated herein, all notices, communications and statements (herein called "notices") required or permitted hereunder shall be in writing. Notices may be served:

(a) personally by delivering them to the party on whom they are to be served at that party's address hereinafter given, provided such delivery shall be during normal business hours. Personally served notices shall be deemed received by the addressee when actually delivered as aforesaid; or

(b) by telegraph (or by any other like method by which a written and recorded message may be sent) directed to the party on whom they are to be served at that party's address hereinafter given. Notices so served shall be deemed received by the respective addressee thereof: (i) when actually received by them if received within the normal working hours of a business day; or, (ii) at the commencement of the next ensuing business day following transmission thereof; whichever is the earlier; or

\* (c) by mailing them first class (air mail if to or from a location outside of Canada) registered post, postage prepaid, to the party on whom they are to be served. Notices so served shall be deemed to be received by the addressee at noon, local time, on the earlier of the actual date of receipt or the fourth (4th) day (excluding Saturdays, Sundays and Statutory Holidays) following the mailing thereof. No notice given pursuant to this Subclause (c) shall be effective if there is a mail strike in effect or if it is reasonably foreseeable that a mail strike will occur within the ensuing four (4) business days.

2202 ADDRESSES FOR NOTICES — The address for service of notices hereunder of each of the respective parties shall be as follows:

\* REVISED

Great American Energy Inc.  
71-301 Highway III  
Suite #7 Rancho Mirage  
California 92270

Chevron Canada Resources Limited  
500 - Fifth Avenue S.W.  
Calgary, Alberta  
T2P 0L7

2203 RIGHT TO CHANGE ADDRESS — Any party may change its said address for service by notice to the other parties, served as aforesaid.

## ARTICLE XXIII

### NO PARTITION

2301 WAIVER OF PARTITION OR SALE — No party shall during the term of this Operating Procedure exercise any right to apply for any partition of the joint lands or sale thereof in lieu of partition.

## ARTICLE XXIV

### DISPOSITION OF INTERESTS

2401 RIGHT TO ASSIGN, SELL OR DISPOSE — Subject to Clause 2402, a party shall not assign, sell or dispose of any of its participating interest in the joint lands (other than as required and allowed one party to another elsewhere in this Operating Procedure) without first complying with the provisions of ALTERNATE ~~B~~ below (specify ~~A~~ or B): *383*

#### ALTERNATE - A:

~~The party wishing to make the assignment, sale or disposition shall notify the other parties and obtain their written consent, which shall not be unreasonably withheld.~~

- OR -

#### ALTERNATE - B:

If a party (in this Article called "the selling party") wishes to assign, sell or dispose of, or has received an offer which it is willing to accept for the assignment, sale or disposition of all or part of its interest in all or part of the joint lands (in this Article called "the subject interest"), the selling party shall give notice thereof to the other parties (in this Article called "the offerees"). The selling party's notice shall contain the terms and conditions of the proposed assignment, sale or disposition, including the consideration to be received for the subject interest and, if applicable, the name of the offering party. The offerees shall have the right for a period of twenty (20) days after receipt of the notice from the selling party (in this Article called "the notice period"), to elect in writing to acquire the subject interest from the selling party on the terms and conditions contained in the notice. The offerees so electing to acquire the subject interest (in this Article called "the buying parties") shall be obligated to acquire the subject interest in its entirety. The buying parties shall have the right to acquire the subject interest in the proportions that their respective participating interests bear one to the other. If all the offerees decline or fail to elect within the notice period to acquire the subject interest, the selling party shall be free for a period of sixty (60) days next following the expiry of the notice period, to assign, sell or dispose of the subject interest on the terms and conditions and to the offering party (if applicable) stipulated in its offer, but not after the said sixty (60) day period, nor otherwise than as so stipulated, without again complying with the provisions of this Article.

If the consideration stipulated in the offer for the subject interest is one which cannot be matched in kind by the offerees, the selling party may set out in its notice its bona fide estimate of the value in cash of the said consideration. If the selling party's notice did not include its bona fide estimate as aforesaid, the offerees, or any of them, may request such estimate, in which event the notice period shall be suspended until such estimate is received by all of the offerees. In case of dispute as to the reasonableness of the estimate, the matter shall be referred to arbitration under the provisions of the Arbitration Act or Ordinance of the province, state or territory where the joint lands are situated, but the notice period shall not be extended by such referral of the dispute to arbitration. If the equivalent cash consideration determined by the arbitration is lower than the estimate submitted by the selling party, the cash consideration determined by arbitration shall be the sale price for the subject interest and the accounts of the selling party and the buying parties shall be adjusted accordingly; if the equivalent cash consideration determined by arbitration is higher than the estimate submitted by the selling party, the estimate submitted by the selling party shall be the sale price for the subject interest.

2402 EXCEPTIONS TO CLAUSE 2401 — Clause 2401 shall not apply in the following instances, namely:

- (a) An assignment made by way of security for the assignor's indebtedness.
- (b) An assignment, sale or disposition to an affiliate of the assignor, or in consequence of a merger or amalgamation of the assignor with another company or pursuant to an assignment, sale or disposition made by a party of its entire participating interest in the joint lands to a corporation in return for shares in that corporation or to a registered partnership in return for an interest in that partnership.
- (c) An assignment, sale or disposition made by the assignor of all, or substantially all, or of an undivided interest in all or substantially all, of its petroleum and natural gas rights in the province, state or territory where the joint lands are situated.
- (d) An assignment, sale or disposition by a party in which the net acres being assigned, sold or otherwise disposed of by that party in the joint lands represents less than five (5%) percent of the total net acres being assigned, sold or otherwise disposed of by that party pursuant to the transaction affecting its interest in the joint lands.

2403 MULTIPLE ASSIGNMENT NOT TO INCREASE COSTS — If any assignment of an interest in the joint lands or any part thereof is made to multiple parties so that the expenses or duties of the Operator are thereby increased, the Operator may require the assignees (and the assignor if it retains an interest) to appoint one of their number as representing all of them for the purposes of this Operating Procedure, unless arrangements satisfactory to the Operator are made to compensate the Operator for the increased expenses or duties.

2404 NOVATION UPON ASSIGNMENT — No assignment of an interest in the joint lands (except pursuant to the abandonment, surrender and forfeiture provisions of this Operating Procedure) shall be effective against the parties hereto who are not parties to the assignment until the first (1st) day of the month next following the date upon which an executed copy of the assignment has been lodged with each party who is not a party to the assignment; provided, the other parties may require the assignor and assignee to enter into a novation agreement with and satisfactory to them under which the assignee will undertake to assume the obligations of the assignor hereto with respect to the interest assigned to the assignee. This Subclause shall not operate to affect or impede an assignment proposed or made by a party by way of security for the assignor's indebtedness.

## ARTICLE XXV

### PERPETUITIES

2501 LIMITATION ON RIGHT OF ACQUISITION — Notwithstanding anything elsewhere herein contained, but subject always to the Regulations relative to the laws of perpetuities as they relate to the joint lands, the right of any party to acquire any interest in the joint lands from any other party hereto shall not extend beyond twenty one (21) years after the lifetime of the last survivor of the lawful descendants now living of Her Majesty Queen Elizabeth II.

## ARTICLE XXVI

### UNITED STATES TAXES

2601 UNITED STATES TAXES — The parties agree that if for purposes of the United States Internal Revenue Code of 1954 this agreement or the relationship established thereby constitutes a partnership as defined in Section 761(a) of the said Code, each of the parties hereto who are entitled under the said section 761(a) to elect, hereby elects 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 delegate shall permit by election to be excluded therefrom. The 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 the 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 the Operator is not subject to the said Code with respect to the joint lands, the obligations of the Operator under this Clause shall be carried out by the party who is subject to the said Code with respect to the joint lands and who holds the greatest participating interest.

## **ARTICLE XXVII**

### **MISCELLANEOUS**

2701 SUPERSEDES PREVIOUS AGREEMENTS — Except for the Agreement (other than to the extent that the Agreement by its terms becomes ineffective when this Operating Procedure is made effective), this Operating Procedure supersedes all other agreements, documents, writings and verbal understandings among the parties relating to the joint lands.

2702 TIME OF ESSENCE — Time shall be of the essence of this Operating Procedure.

2703 NO AMENDMENT EXCEPT IN WRITING — No amendment or variation of the provisions of this Operating Procedure shall be binding upon any party unless it is evidenced in writing, executed by the party.

2704 BINDS SUCCESSORS AND ASSIGNS — Subject to the provisions of Article XXIV, this Operating Procedure shall enure to the benefit of and shall bind the parties hereto and their respective successors and assigns, and the heirs, executors, administrators and assigns of natural persons who are or become parties hereto.

2705 USE OF CANADIAN FUNDS — In this Operating Procedure all reference to "dollars" or "\$" shall mean lawful currency of Canada, and all payments and receipt shall be made and recorded in lawful currency of Canada.

\* 2706 LAWS OF JURISDICTION TO APPLY — The Parties agree that this Operating Procedure shall be interpreted and construed according to the laws of the Province of Alberta and the laws of Canada applicable therein, and the courts of the Province of Alberta shall have exclusive original jurisdiction in respect of any matter arising out of or relating to this Operating Procedure.

2707 USE OF NAME — The Parties covenant and agree not to use, suffer or permit to be used, directly or indirectly, the name of any of the other parties for the purpose of, or in connection with, the financing of or obtaining financial assistance for any of the operations hereunder or for the promotion of any corporate enterprise, syndicate, partnership or other association designed, intended or purporting to control, direct or finance, directly or indirectly, such operations.

## **ARTICLE XXVIII**

### **TERM**

2801 TO CONTINUE DURING ANY JOINT OWNERSHIP — This Operating Procedure shall terminate when no portion of the joint lands is owned jointly by two or more parties or at that later date upon which (joint ownership continuing) all documents of title (and all renewals and extensions thereof) to the joint lands have terminated and all wells on the joint lands have been plugged and abandoned, all equipment thereon salvaged, and final settlement of accounts has been made among the parties.

\* REVISED

PART I of SCHEDULE "B" attached to and made part of an Agreement in writing made between CHEVRON CANADA RESOURCES LIMITED and GREAT AMERICAN ENERGY INC., bearing date the 1st day of February, A.D. 1983  
(hereinafter referred to as "the Agreement")



PASWC - 1976  
Recommended by Petroleum  
Accountants Society of  
Western Canada

SCHEDULE "B"  
PART I

Attached to and made a part of an Agreement in writing made between CHEVRON CANADA RESOURCES LIMITED and GREAT AMERICAN ENERGY INC., dated the 1st day of February, A.D. 1983, (hereinafter referred to as "the Agreement").

ACCOUNTING PROCEDURE  
JOINT OPERATIONS

I. GENERAL PROVISIONS

101. Definitions

- (a) "Agreement" means the Agreement to which this Accounting Procedure is Schedule "B", Part I.
- (b) "Construction Project" means any construction or installation undertaken for the Joint Account, including each subsequent addition thereto or alteration thereof or replacement of Material thereon, but does not include Drilling.
- (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) "Drilling" means the installation of Material on or in a well and also 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 well (except routine cleanout and pump or rod pulling operations) or the converting of a well to a source, input, observation or producing well.
- (e) "Exploration" means geological, geophysical, and geochemical examinations and other investigations relating to exploration, other than Drilling, conducted under the terms of the Agreement.
- (f) "Joint Account" means the account showing the charges paid and credits received as a result of the Joint Operations and which are to be shared by the Parties in accordance with the terms of the Agreement.

- (g) "Joint Operation" means any operation conducted under the terms of the agreement.
- (h) "Joint Property" means all property subject to the Agreement.
- (i) "Material" means equipment or supplies acquired for use in the conduct of Joint Operations.
  - (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.
- (j) "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 railway receiving point to which such Material could be delivered, whichever is closer to the Joint Property. Tubular goods 2 inches 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.
- (k) "Non-Operator" means a party to the Agreement other than the Operator.
- (l) "Operation and Maintenance" means all operations other than Exploration, Drilling and Construction Projects conducted under the terms of the Agreement.
- (m) "Operator" means the Party designated to conduct the Joint Operations.
- (n) "Parties" means Operator and Non-Operators.
- (o) "First Level Supervisor" shall mean the employee whose primary function is the direct supervision of other employees and/or contract labour directly employed in a field operating capacity.
- (p) "Technical Employee" shall mean 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. Statement and Billings

Operator shall bill 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 lease, or facility, and all charges and credits 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 such bills within 30 days after receipt thereof.

104. Capital and Operating Advances

- (A) Unless otherwise provided in the Agreement, the Operator may require each Non-Operator to advance its proportionate share of the estimated cash outlay for the succeeding month's Joint Operations other than Operation and Maintenance. If the Operator so elects, it may, not earlier than 30 days prior to the first day of each calendar month, submit to each Non-Operator an estimate of the costs proposed for the Joint Account in that calendar month, with a request for payment by the Non-Operator of its proportionate share thereof. Each Non-Operator shall pay the Operator its proportionate share of the costs so estimated on or before the 15th day of the month for which the advance is requested, or 15 days after receipt, whichever is later. The Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.
- (B) Unless otherwise provided in the Agreement, the Operator may require each Non-Operator to advance for an operating fund its proportionate share of 10% of an approved forecast of expenditures for Operation and Maintenance of the Joint Property for a calendar year. Non-Operator shall remit such advance 30 days after receipt of request for payment. After the establishment of the operating fund, each Party shall remit its share of actual costs in accordance with each month's billing, thus maintaining the operating fund intact.

105. Unpaid Accounts

If payment of any bill or request for advances is not made within the time stipulated in Paragraphs 103 and 104, the unpaid amount, may, at Operator's election, bear interest (payable by that Non-Operator) for

the account of the Operator at the rate of 2% per annum higher than the average prime rate charged by the principal bank in Canada used by the Operator during the period with respect to which such interest is payable.

106. Right to Protest or Question Bills

Payment of such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 107, all statements rendered to Non-Operator by 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 Operator for adjustment. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of Controllable Material as provided for in Section V, Inventories, of this Accounting Procedure.

107. Audits

Any of Non-Operators, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records maintained for the Joint Account for any calendar year within the 24 month period next following the end of such calendar year. Any claims of discrepancies disclosed by such audit shall be made in writing to Operator within the 26 month period next following the end of such calendar year. Where two or more Non-Operators desire to conduct audits, they shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to Operator. The cost of audits shall be borne by all Non-Operators.

108. Records

The 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.

109. Approvals

Where approval of the Parties is required in this Accounting Procedure, approval by the Parties pursuant to the Agreement shall be binding on all Parties.

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In the absence of provisions in the Agreement, approval shall be obtained by Operator in writing from all Parties having interests in the Joint Property totalling 100 percent. Each Party shall by notice cast its vote with the Operator 15 days from receipt of request for approval and a Party who does not vote on any matter shall be deemed conclusively to have voted affirmatively.

#### 110. Rates

All rates set forth in this Accounting Procedure may be amended from time to time in accordance with Paragraph 109.

### II. CHARGES

Operator shall charge the Joint Account with the cost of the following items:

#### 201. Rentals and Other Payments

Acquisition and bonus costs, lease, license or permit deposits, rentals, renewal or extension fees, royalties, and other similar payments required to maintain the interest of the Parties in the Joint Property.

#### 202. Labour

- (A) (1) Salaries and wages of Operator's field employees directly employed on the site of the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the site of the Joint Property.
- (4) Earned or compensatory time off relating to the above wage or salary categories.
- (B) 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 202B 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 Operator's cost experience.

203. Employee Benefits

(A) Compulsory

Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to 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 Operator's labour for the Joint Account shall be chargeable at Operator's actual cost not to exceed 25 percent of such labour cost.

204. Travel and Moving

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

205. Material

Material purchased or furnished by Operator for use in the Joint Operations, as provided under Section IV, including transportation cost 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 Joint Property as may be required for the conduct of the Joint Operations.

206. Services

(A) Services relative to the Joint Operations incurred under contracts entered into by 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 Parties, except services provided for geological wellsite and drilling supervision.

(C) Operator may charge for use of 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. The annual interest rate on investment shall not exceed the prime bank rate of the principal bank in Canada used by Operator, plus 1 percent, determined at the beginning of each calendar year.

In lieu of the foregoing rates, 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, Operator shall inform Non-Operators in advance of the rates to be charged.

- (D) With approval of the Parties, design of Construction Projects shall be for the Joint Account including the salaries and expenses of Operator's employees directly engaged in design work.
- (E) With approval of the Parties, costs of interpreting technical data from Exploration operations furnished to the Parties.

207. Damages and Losses to Joint Property

Repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident or other causes. Operator shall furnish Non-Operators with 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 and related legal services for title work. Fees and related expenses associated with other legal services may be charged only with the approval of the Parties.

209. Taxes

Taxes paid for the Joint Account.

210. Insurance

Insurance premiums paid for the Joint Account.

211. Communications

Outgoing communications incurred by Operator directly from the Joint Property.

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 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 Operator, plus 1 percent, determined at the beginning of each year. When operations in addition to Joint 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 Operator including employee costs for maintenance and operation of the central production control system and related computer facilities serving the Joint 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 on the Joint Property. Costs of related studies shall be subject to the approval of the Parties.

215. Audit of Outside Services

With prior approval of the Parties, the cost of audits of outside services shall be for the Joint Account.

III. OVERHEAD

301. In This Section III

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

"Overhead" means the cost to Operator of salaries, wages, employee benefits and all other expenses of employees other than those covered by Paragraphs 202 and 206D; and the cost of maintaining and operating



offices, camps, housing and other facilities that are not Joint Property other than those costs covered by Paragraphs 212 and 213.

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

(A) For each Exploration Project:

- (1) 5 (%) percent of the first \$ 50,000 of Cost plus
- (2) 3 (%) percent of the next \$ 100,000 of Cost plus
- (3) 1 (%) percent of Cost exceeding the sum of (1) and (2).

(B) For each Drilling Well:

- (1) 3 (%) percent of the first \$ 50,000 of Cost plus
- (2) 2 (%) percent of the next \$ 100,000 of Cost plus
- (3) 1 (%) percent of Cost exceeding the sum of (1) and (2).

(C) For each Construction Project:

- (1) 5 (%) percent of the first \$ 50,000 of Cost plus
- (2) 3 (%) percent of the next \$ 100,000 of Cost plus
- (3) 1 (%) percent of Cost exceeding the sum of (1) and (2)

(D) For Operation and Maintenance:

- (1) - (%) percent of the Cost of Operation and Maintenance of the Joint Property; or
- (2) \$185.00 per Producing Well per month. For this purpose a Producing Well means a well for the Joint Account that in a calendar month:
  - (i) has an allowable for crude oil attributable to it; or
  - (ii) is connected to a permanent gas sales outlet, source or injection system; or
  - (iii) is used as a disposal well;

provided that a well that is drilling during the entire month or is permanently shut in and awaiting abandonment shall not be considered a Producing Well, and a well completed in more than one zone shall be considered a separate Producing Well for each such zone.

303. Warehouse Handling:

- (1) 2-1/2 (%) percent of the cost of tubular goods 2 inches in diameter and over and each other item of material having a new price in excess of \$ 3,000.00 delivered from Operator's

warehouse and 5 percent of the cost of all other Material delivered from Operator's warehouse, where Operator's warehouse is not maintained as part of the Joint Property.

- (2) Costs of maintaining warehouses which are part of the Joint Property.

#### IV. PRICING OF JOINT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option such Material may be supplied by Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Material. All sales of Condition A, B or C Material, the New Price of which is greater than \$ 5,000.00, shall be subject to approval by the Non-Operators. All other disposals of Material shall be at the discretion of the Operator, provided that any sales to the Parties or any of them shall be priced in accordance with Clause 402.

##### 401. Purchases

Material purchased shall be charged at the price paid by 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 Operator.

##### 402. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases, exclusive of cash discounts:

###### (A) New Material (Condition A)

New 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 Joint Property at seventy-five percent (75%) of New Price.
2. Condition B Material moved from the Joint Property
  - (a) At seventy-five percent (75%) of New Price if Material was originally for the Joint Account as New Material; or
  - (b) At sixty-five percent (65%) of New Price if Material was originally for the Joint Account as good used Material at seventy-five percent (75%) of New Price.

(C) Other Used Material (Condition C and D)

- (1) Condition C Material shall be priced at fifty percent (50%) of New Price.
- (2) Condition D Material shall be priced at a value commensurate with its use or at prevailing prices.

V. INVENTORIES

501. Periodic Inventory

Inventories of the Joint Account Controllable Material shall be taken by the Operator.

502. Notice

Written notice of the Operator's intention to conduct an inventory shall be given to each Non-Operator at least thirty (30) days prior to commencing such inventory, during which time each Non-Operator may elect to be represented.

503. Reconciliation of Inventory

A reconciliation of the physical inventory with the Joint Account records shall be made by the Parties conducting the physical inventory. Operators shall submit a list of overages and shortages to all Non-Operators and shall make adjustments to the Joint Account records to reflect the physical inventory.

504. Inventory Expense

The expense of conducting inventories shall not be for the Joint Account unless approved by the Parties.

505. Special Inventories

Each Non-Operator shall have the right at any time to request in writing the taking of a special inventory of Controllable material which shall be commenced within 60 days of receipt of the written notice. Such Non-Operator shall be entitled to be represented at the taking of the special inventory. All expenses incurred by the Operator in conducting the special inventory shall be borne by the requesting party.