

# UNIT AGREEMENT

## BIRDTAIL UNIT NO. 1

<b>PETROLEUM DOCUMENT REGISTRY</b>	
Document No.	<u>99-413</u>
Registered:	<u>July 21, 1999</u>
	<u><i>C.D. Mautman</i></u>
Petroleum Registrar	

# UNIT AGREEMENT

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UNIT AGREEMENT  
BIRDTAIL UNIT NO. 1

# **UNIT AGREEMENT**

## **BIRDTAIL UNIT NO. 1**

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

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

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

### **ARTICLE I**

#### **INTERPRETATION**

##### **101. Definitions**

In this Agreement, including the premises and the exhibits hereto:

- (a) "Affiliate" means, with respect to any person, any other person, which is affiliated with such person, and for the purposes hereof:
  - (i) two persons will be considered to be affiliated with one another if one of them controls the other, or if both of them are controlled by a common third person, and
  - (ii) one person will be considered to control another person if it has the power to direct or cause the direction of the management and policies of the other person, whether directly or indirectly, through one or more intermediaries or otherwise, and whether by virtue of the ownership of shares or other equity interests, the holding of voting rights or contractual rights, or otherwise;
- (b) "Crown" means Her Majesty the Queen in right of the Province of Manitoba;
- (c) "Effective Date" means the time and date referred to in clause 1301;
- (d) "Lease" means an instrument granting a Working Interest of the kind described in paragraph 101(s)(i) in respect of any portion of the Unitized Zone;
- (e) "Outside Substances" means any substances which were initially obtained from any source other than the Unitized Zone, and with respect to which there is no royalty liability outstanding;
- (f) "Party" means a person who is bound by this Agreement;

- (g) "Petroleum Substances" means petroleum, natural gas and related hydrocarbons (other than coal) and any other substances, whether hydrocarbons or not, which are produced in association therewith, or any of them;
- (h) "Royalty Interest" means:
  - (i) a Crown or other sovereign ownership interest, or a fee simple or similar freehold ownership estate, in respect of Petroleum Substances in or producible from the Unitized Formation, but does not include a Working Interest, the interest of a purchaser of such Petroleum Substances after production, a mortgage, charge or other security interest, or any right of a government or governmental agency to a payment in respect of taxes or similar assessments;
- (i) "Royalty Owner" means a Party owning a Royalty Interest in or in respect of Unitized Substances;
- (j) "Tract" means a parcel of land described and given a Tract number in Exhibit "A", and shown outlined in Exhibit "B";
- (k) "Tract Participation" means the participation percentage assigned to a Tract pursuant to Article VI;
- (l) "Unit Area" means the lands described in Exhibit "A" and shown outlined on Exhibit "B";
- (m) "Unit Operating Agreement" means the agreement entitled "Unit Operating Agreement – " Birdtail Unit No. 1" entered into by the Working Interest Owners;
- (n) "Unit Operations" means any operations or activities undertaken on behalf of the Working Interest Owners in connection with the development or exploitation of the Unitized Zone, the production or other handling of Unitized Substances or the installation, operation, maintenance or removal of equipment or facilities, insofar as such operations or activities have been authorized or provided for under this Agreement or the Unit Operating Agreement;
- (o) "Unit Operator" means the Working Interest Owner which is from time to time designated as Unit Operator under the Unit Operating Agreement;
- (p) "Unit Participation" means, with respect to each Working Interest Owner, the sum of all of its Tract Participation shares as set forth in Part of Exhibit "A";
- (q) "Unitized Substances" means Petroleum Substances in or obtained from the Unitized Zone;
- (r) "Unitized Zone" means the Middle Member of the Bakken Formation within the Unit Area;

- (s) "Working Interest" means an interest in a profit à prendre or similar interest entitling the owner thereof to produce and dispose of Petroleum Substances from the Middle Member of the Bakken Formation, but does not include a mortgage, charge or other security interest;
- (t) "Working Interest Owner" means a Party owning a Working Interest in or in respect of Unitized Substances; and
- (u) "Middle Member of the Bakken Formation" means the Bakken Sand occurring between the depths of -37.8 mss metres and -41.3 mss metres on the Gamma Ray Log of Jan/97 situated in legal subdivision 9 of section 5, township 16, range 27, west of the 1 meridian, as identified in Exhibit "C".

102. Headings

The headings of the Articles and clauses of this Agreement have been inserted for convenience of reference only and shall not affect the construction or interpretation hereof.

103. Number and Gender

In this Agreement words importing the singular include the plural and vice versa, words importing gender include the masculine, feminine and neuter genders, and references to persons include individuals, corporations, partnerships, bodies politic and other entities, all as the context may require.

104. Time

In this Agreement all times are Central Standard Time or Daylight Saving Time, whichever is then being used and observed in accordance with the Daylight Saving Time Act (Manitoba).

105. Statutory References

In this Agreement references to Oil and Gas Act and other statutes of Manitoba shall be construed as references to the relevant statute as amended from time to time, and shall include any statutory replacements of the whole or any part thereof, and all regulations and other subordinate legislation issued from time to time thereunder.

## **ARTICLE II**

### **EXHIBITS**

201. Exhibits

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



- (a) Exhibit "A", Part I of which numbers and describes each Tract and, with respect to each Tract:
  - (i) sets forth its Tract Participation,
  - (ii) sets forth the names of the owners of the Working Interests therein, their respective percentage Working Interests therein, and their respective shares of the Tract Participation therefor,
  - (iii) sets forth the names of the owners of the Royalty Interests therein, and
  - (iv) identifies the Lease relating thereto, if any,
 and Part II of which lists all of the Working Interest Owners and sets forth their respective Unit Participations;
- (b) Exhibit "B", which is a plat showing the Unit Area and identifying the Tracts;
- (c) Exhibit "C", which is a reproduction of a portion of the log referred to in subclause 101(u); and
- (d) Exhibit "D", which sets forth the procedure for dealing with failure to make adequate arrangements for the disposition of Unitized Substances upon production.

202. Correction of Exhibits

If an error of a clerical nature occurs in an exhibit, the Unit Operator shall, forthwith upon discovering or being notified of the same, effect appropriate corrections to the exhibit. The provisions of this clause do not extend to any error occurring in the course of the compilation and evaluation of technical data for purposes of establishing the respective Tract Participations, it being agreed that the results of such evaluation process are conclusive and shall not be subject to challenge or dispute.

203. Effective Time of Exhibits

Except as otherwise expressly provided in this Agreement:

- (a) the exhibits attached to the original execution version of this Agreement shall [, unless subsequently revised pursuant to the provisions of clause 503,] be effective as of the Effective Date;
- (b) any exhibit which is revised pursuant to the provisions of this Agreement shall be effective in its revised form as of the time specified by the provision requiring or authorizing such revision; and
- (c) any exhibit which is corrected pursuant to clause 202 shall be effective in its corrected form as of 08:00 on the first day of the calendar month next following the date on which the Unit Operator first discovers or is notified of the error requiring correction; provided, however, that if the Unit

Operator discovers or is notified of a clerical error in an exhibit within thirty (30) days of the date of issuance by the Unit Operator of the version of the exhibit containing the error, the corrected version of the exhibit shall be effective as of the date on which the version of the exhibit containing the error would otherwise have been effective, and the version of the exhibit containing the error shall be deemed conclusively never to have been effective.

204. Exhibits Deemed Correct

Subject to the proviso set forth in subclause 203(c), each exhibit, and each revised or corrected version thereof, shall for purposes of this Agreement be deemed conclusively to be correct and binding on the Parties from the time at which it becomes effective until the time at which a revised or corrected version thereof becomes effective.

205. Identification of Exhibits

Revised and corrected versions of exhibits shall be numbered consecutively, shall indicate the date on which they become effective, and shall indicate whether they are revised or corrected versions of an exhibit, or both.

206. Preparation and Distribution of Exhibits

Each time that an exhibit is to be revised or corrected pursuant to this Agreement the Unit Operator shall effect the required revisions or corrections in a timely and diligent manner and shall forthwith:

- (a) provide the Crown with two copies of the revised or corrected version of the exhibit, and
- (b) provide each of the Working Interest Owners with one copy of the revised or corrected version of the exhibit.

The Working Interest Owners shall provide their Royalty Owners, other than the Crown, with a copy of the revised or corrected version of the exhibit forthwith upon receipt of the same from the Unit Operator.

207. Conflicts

In the event of any conflict between the provisions of the principal text of this Agreement and the provisions of Exhibit "D" hereto, the provisions of the principal text hereof shall take precedence.

## **ARTICLE III**

### **UNITIZATION AND EFFECT**

#### **301. Unitization**

The interests of each Royalty Owner and each Working Interest Owner in and in respect of the Unitized Substances and the Unitized Zone are hereby unitized in accordance with the provisions of this Agreement.

#### **302. Continuation of Leases**

Until such time as the unitization provided for herein terminates pursuant to the provisions of clause 1401, such unitization shall continue in force and effect each Lease and other agreement or instrument relating to the Unitized Zone or Unitized Substances to the same extent as if a well had been drilled to, and was throughout the term of such unitization producing Petroleum Substances from, all of the Unitized Zone in each Tract and each spacing unit or other parcel forming part thereof; provided, however, that if under the terms of any Lease or other agreement or instrument relating to the Unitized Zone or Unitized Substances any Party would at any time be required to make any shut-in royalty or similar payment in the absence of actual production of Unitized Substances from the Unit Area, whether as an unconditional obligation or as a condition to continuing such Lease or other agreement or instrument in effect, such payment requirement shall continue to apply notwithstanding the deemed production provisions of this clause 302.

#### **303. Extraneous Defaults**

If any Lease should at any time during the term of the unitization provided for herein become terminable in whole or in part, whether automatically in accordance with its terms or at the option of the lessor thereunder, as a result of any default in obligations relating to any lands or zones other than the Unitized Zone, such Lease or terminable part thereof shall nonetheless continue in effect insofar as it relates to the Unitized Zone, as though it had been granted only in respect of the Unitized Zone in the Tract or Tracts to which it relates. The provisions of this clause 303 shall not apply with respect to any default in obligations relating in whole or in part to the Unitized Zone.

#### **304. Amendment of Leases**

Subject to the provisions of clause 1512, in the event of any conflict between the provisions of this Agreement and the provisions of any Lease or other agreement or instrument relating to the Unitized Zone or Unitized Substances, the provisions of this Agreement shall take precedence, and each Lease and other agreement or instrument relating to the Unitized Zone or Unitized Substances is accordingly hereby amended to the extent necessary to make it conform with the provisions of this Agreement; provided, however, that except as specifically required to give effect to the provisions of this Agreement, the respective rights and obligations of the Parties under the various Leases and other agreements and instruments relating to the Unitized Zone or Unitized Substances shall not be either diminished or increased hereby.

305. Ratification of Leases

Except for a Lease with respect to which a Royalty Owner is involved in a court action which has been commenced and is pending on the date on which such Royalty Owner executes and delivers a counterpart of this Agreement, each Royalty Owner hereby ratifies each Lease, as amended by this Agreement, to which it is a party, and hereby confirms that no notice of default has been given and remains outstanding with respect to any such Lease, and that each such Lease is in effect as of the date of such execution and delivery. The provisions of this clause 305 do not constitute a waiver, and shall not give rise to an estoppel, of any right to pursue the enforcement of any outstanding obligation under any such Lease.

306. Effect of Unitization on Titles

Nothing in this Agreement or the Unit Operating Agreement shall be construed as effecting any transfer or exchange of any interest in the Leases, the Tracts or the Unitized Zone, or in the Unitized Substances before production thereof.

307. Equipment and Facilities

All equipment and facilities used in connection with Unit Operations and heretofore or hereafter installed, affixed or constructed by any of the Working Interest Owners on or in any lands within the Unit Area are and shall remain the personal property of the Working Interest Owners, or such of them as may from time to time have an interest therein, and, except as otherwise provided in clause 1404, no interest in any such equipment and facilities shall vest in the Royalty Owners by virtue of the provisions of this Agreement.

308. Name

The name of the unit hereby constituted is Birdtail Unit No. 1.

## **ARTICLE IV**

### **AUTHORITY TO WORKING INTEREST OWNERS**

401. Operations

The Working Interest Owners are hereby granted the right to develop, produce and otherwise operate the Unitized Zone without regard to the boundary lines of the Tracts or the provisions of the Leases, in such manner and by such means and methods as the Working Interest Owners may consider appropriate. Without limiting the generality of the foregoing, the Working Interest Owners shall have the right to inject any substance or combination of substances into the Unitized Zone and to 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 the 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 shall 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 as of Effective Date

The Tracts to be included in the Unit Area as of the Effective Date are those Tracts which qualify for such inclusion pursuant to clause 502 before the Effective Date

502. Qualification of Tracts

A Tract qualifies for inclusion in the Unit Area when [its title has been approved by the Working Interest Owners pursuant to clause 902 and the owners of one hundred (100%) percent of the Working Interests therein have become Parties and parties to the Unit Operating Agreement and the owners of one hundred (100%) percent of the Royalty Interests therein have become Parties.

503. Revision of Exhibits

If any of the Tracts originally set forth in Exhibit "A" do not qualify for inclusion in the Unit Area by the date 15 days following the Effective Date, the Unit Operator shall revise Exhibits "A" and "B" so as to include therein only those Tracts which have qualified for inclusion in the Unit Area by such date. If Exhibits "A" and "B" are required to be so revised the Tract Participations ascribed to the qualifying Tracts in the revised version of Exhibit "A" shall be adjusted such that their summation is one hundred (100%) percent and they remain proportionately the same, relative to one another, as they were in the original version of Exhibit "A"; and the revised versions of such Exhibits shall be effective as of the Effective Date.]

**ARTICLE VI**

**TRACT PARTICIPATION**

601. Tract Participation

Each Tract has the Tract Participation assigned to it in Exhibit "A".

**ARTICLE VII**

**ALLOCATION OF UNITIZED SUBSTANCES PRODUCED**

701. Allocation Among Tracts

Subject to the provisions of clauses 706, 801 and 802, Unitized Substances shall when produced be allocated among the Tracts in accordance with their respective Tract Participations, and the amount of Unitized Substances so 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 Unitized Zone in the Tract.

702. Allocation Among Parties

The Unitized Substances allocated to a Tract shall be further allocated among the Working Interest Owners thereof in accordance with their respective percentage Working Interests in the Tract as set forth in Exhibit "A", and in the event that any portion of any Unitized Substances so allocated to a Working Interest Owner is deliverable in kind to, or is otherwise subject to proprietary rights in favour of, an owner of a Royalty Interest in respect of such Unitized Substances, such Working Interest Owner shall ensure that such royalty delivery or other proprietary rights are given effect to, subject to the provisions of Article XI.

703. Calculation of Royalty

The amount of any royalty payable or deliverable to a Royalty Owner in respect of Unitized Substances under any Lease or other agreement or instrument applicable to a Tract shall be calculated (at the applicable rate under such Lease or other agreement or instrument, and having regard to any minimum royalty obligations thereunder) on the basis only of the amount of Unitized Substances deemed to have been produced from such Tract pursuant to the provisions of clause 701, as if such amount of Unitized Substances had been produced from a single well located on such Tract, and the payment or delivery, as the case may be, of royalty so calculated shall satisfy the obligation to pay or deliver royalty in respect of Unitized Substances under any such Lease or other agreement or instrument. Without limiting the generality of the provisions of clause 1512, in the event of any conflict between the provisions of this clause 703 and the manner in which Crown royalty rates are determined, the latter shall take precedence.

704. Satisfaction of Royalty Obligations

The Working Interest Owners of each Tract shall be responsible for accounting to the owners of Royalty Interests in respect of such Tract for any royalty payable or deliverable to such owners in respect of Unitized Substances, and, except as otherwise expressly provided in subclause 1101(c) and clause 1104, nothing in this Agreement shall be construed as giving rise to any right entitling an owner of a Royalty Interest in respect of a Tract to look to any Working Interest Owners other than the Working Interest Owners of such Tract for the satisfaction of royalty obligations in respect of such Tract; provided, however, that in the event that the beneficial Working Interest Owners of a Tract are not the same persons as the lessee under a Lease relating to the Tract, the provisions of this clause 704 shall not be construed as relieving such lessee of any obligation to account for royalty payable or deliverable to the lessor under such Lease if the Working Interest Owners fail to comply with their obligations in that respect.

**705. Disposition of Unitized Substances**

The share of Unitized Substances allocated to each Working Interest Owner pursuant to the provisions of clauses 701 and 702 shall be a several share, and the right to possession of, and the responsibility for, such share shall vest in each Working Interest Owner upon production. Each Working Interest Owner shall, not less than 15 days prior to the commencement of production of Unitized Substances pursuant hereto, and thereafter not less than 15 days prior to any change in disposition arrangements, provide the Unit Operator with a written notice setting forth such information with respect to such Working Interest Owner's arrangements for the disposition of its allocated share of Unitized Substances (including any portion thereof which is to be taken in kind by a Royalty Owner) as the Unit Operator may reasonably require in order to facilitate such arrangements. Such notice shall remain in effect and shall bind such Working Interest Owner until the later of the date specified in any written replacement notice in respect thereof and the date 15 days following the date on which such replacement notice is delivered to the Unit Operator. In the event that a Working Interest Owner fails to provide such a notice, or in the event that any of the disposition arrangements specified in such a notice are inadequately provided for or are otherwise unworkable or impracticable, or at any time cease to be adequately provided for or otherwise become unworkable or impracticable, the Unit Operator shall forthwith so notify such Working Interest Owner, and the provisions of Exhibit "D" shall apply. The Working Interest Owners may from time to time change the time for giving a notice pursuant to this clause 705, or specify the required form or contents of such a notice, in which event the Unit Operator shall notify the Crown, and each Working Interest Owner shall notify its Royalty Owners, other than the Crown, of such change in notice requirements not less than thirty (30) days prior to the date upon which such change becomes effective.

**706. Recovery of Outside Substances**

If any Outside Substances are injected into the Unitized Zone, the first like substances subsequently produced from the Unitized Zone for sale or for use other than for Unit Operations shall be deemed conclusively to be such Outside Substances until a quantity equal to the quantity of the Outside Substances injected into the Unitized Zone is recovered. Unitized Substances which are so deemed to be Outside Substances shall not be allocable to the Tracts, and accordingly no royalty shall be payable or deliverable in respect of such substances as Unitized Substances.

**ARTICLE VIII**

**USE, LOSS AND RE-INJECTION OF UNITIZED SUBSTANCES**

**801. Use or Loss**

The Working Interest Owners shall be entitled to use as much of the Unitized Substances as may reasonably be required for Unit Operations. No Unitized Substances consumed through such use, and no Unitized Substances lost in the conduct of Unit Operations, shall be allocable to the Tracts, and accordingly no royalty shall be payable or deliverable in respect thereof. The provisions of this clause 801 shall not be construed as relieving the Unit Operator or any other Working Interest

Owner from any liability which it would have for any loss of Unitized Substances resulting from its negligence or willful misconduct.

802. Re-Injection

The Working Interest Owners are hereby granted the right to re-inject Unitized Substances into the Unitized Zone for any purpose related to Unit Operations. No Unitized Substances so re-injected shall be allocable to the Tracts until such time as they are ultimately recovered for sale or for use other than for Unit Operations, and accordingly no royalty shall be payable or deliverable in respect thereof until such time.

## **ARTICLE IX**

### **APPROVAL OF TITLES**

901. Titles Committee

The Working Interest Owners shall appoint a titles committee to investigate the ownership of the Working Interests and Royalty Interests in all Tracts, and each Working Interest Owner shall be entitled to be represented thereon. 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 for the purposes of such investigation. The titles committee shall report the result of its investigation to the Working Interest Owners and shall make recommendations with respect to approval of titles to Tracts, identifying those Tracts the titles to which it unanimously recommends for approval.

902. Approval of Titles by Working Interest Owners

The Working Interest Owners may approve or decline to approve the titles for each Tract on such basis as they consider appropriate in the circumstances. A decision of the Working Interest Owners to approve a title notwithstanding knowledge of subsisting or prospective deficiencies therein shall not be construed as an acceptance of or acquiescence in any such deficiency, and shall not relieve any Party of any liability which it might have under the provisions of clause 903, or of any obligations assumed by it as a Working Interest Owner under any other provision of this Agreement or the Unit Operating Agreement.

903. Warranty of Title

Each of the Parties having a Working Interest ascribed to it in Exhibit "A" represents and warrants that it is the owner of the Working Interests ascribed to it in Exhibit "A", and that it has full right, power and authority to commit the said Working Interests to unitization in accordance with the provisions of this Agreement, and to thereby bind the same; and shall be liable to each of the other Parties for, and shall indemnify and save harmless each of the other Parties against and from, any liability, loss, costs, claims or damages of any nature sustained by such Party as a result of any breach or failure of such representation and warranty, whether in whole or in part.



904. Title Failure Clarification

Without in any manner limiting the generality of the meaning of failure of title, the cancellation, surrender or other termination of a Lease for any reason whatsoever shall for the purposes of this Agreement be regarded as a failure of title.

**ARTICLE X**

**ENLARGEMENT**

1001. Lateral Enlargement

If at any time following the Effective Date the Working Interest Owners wish to enlarge the Unit Area to include any lands in the vicinity of the Unit Area appearing to be potentially productive of Petroleum Substances from the Unitized Formation, the Working Interest Owners may approve the enlargement of the Unit Area to include such lands on such terms and conditions as the Working Interest Owners may consider appropriate, and, if such lands qualify for inclusion in the Unit Area pursuant to clause 502, the Unit Area shall be enlarged to include such lands. Notwithstanding that any owner of a Working Interest or a Royalty Interest in such lands is already a Party, such owner shall not, for the purposes of the qualification of such lands pursuant to clause 502, be considered to have executed and delivered this Agreement until it executes and delivers to the Unit Operator an additional counterpart of this Agreement incorporating exhibits which reflect the proposed enlargement and which are stated to be effective as of the effective date of such enlargement.

1002. Adjustment of Tract Participations

The Tract Participation to be assigned to each Tract added to the Unit Area in accordance with the provisions of this Article X shall be determined by the Working Interest Owners in conjunction with their approval of the enlargement giving rise to such addition, and upon such enlargement becoming effective the Tract Participations shall be adjusted such that the total of all Tract Participations remains one hundred (100%) percent; and the Tract Participations of all Tracts other than those being added remain proportionately the same, relative to one another, as they were immediately prior to the enlargement.

1003. Effective Time of Enlargement

Each time that an enlargement is effected pursuant to the provisions of this Article X, the Unit Operator shall revise Exhibits "A" and "B" to reflect such enlargement, and the enlargement and the revised versions of such Exhibits shall become effective as of 08:00 on the first day of the calendar month following the date on which the lands to be included in the enlargement have qualified for inclusion pursuant to clause 502.

#### 1004. No Retroactive Adjustment

Without limiting the generality of the provisions of clauses 203 and 204, no enlargement effected pursuant to the provisions of this Article X shall at any time give rise to any retroactive adjustment of the allocation of Unitized Substances.

#### 1005. Title Matters

The provisions of Article IX shall apply, mutatis mutandis, with respect to any lands to be added to the Unit Area pursuant to the provisions of this Article X, and for the purposes thereof the term "Working Interest Owners" shall be construed as including the owners of the Working Interests in the lands proposed to be added to the Unit Area under the relevant enlargement proposal.

### **ARTICLE XI**

#### **TITLE DISPUTES**

##### 1101. Working Interest Title Disputes

If the title of a Party to a Working Interest ascribed to it in Exhibit "A" is disputed at any time, both that Party and any other Party which is a party to such dispute shall be obligated to provide the Unit Operator with notice of such dispute forthwith upon initiating or being advised of the same. Upon receipt of any such notice, or upon being directed to do so by the Working Interest Owners in the event that no such notice is given, the Unit Operator shall, and is hereby expressly authorized to, take possession of all Unitized Substances from time to time allocable to the owner of the disputed Working Interest pursuant to the provisions of clauses 701 and 702, sell such Unitized Substances on such reasonable terms as may be available to it in the circumstances, and, after deduction of such amounts as are deductible pursuant to the provisions of clause 1112, deposit the remaining proceeds from the sale thereof in an interest bearing trust account until the Party whose Working Interest title is in dispute furnishes security, in form and substance satisfactory to the Working Interest Owners, for its obligation to account to the rightful owner of the disputed Working Interest should the title of such Party fail in whole or in part, whereupon the Unit Operator shall cease withholding the affected share of Unitized Substances, and shall release any sales proceeds deposited in trust, together with any interest accrued thereon, to such Party; or in the performance of its obligations under this clause 1101 the Unit Operator shall endeavor where practicable to honor existing marketing arrangements of which it is aware, and shall not be obligated to take any steps which would adversely affect any arrangements for the marketing of its own Petroleum Substances. In the event that the Unit Operator is unable to reasonably effect suitable marketing arrangements for any Unitized

Substances withheld by it pursuant to the provisions of this clause 1101, the provisions of Exhibit "D" shall apply.

1102. Failure to Notify

Any Party which is a party to a Working Interest title dispute and fails to give the Unit Operator notice of such dispute forthwith upon initiating or being advised of the same shall be liable for any liability, loss, costs, claims or damages suffered or incurred by the Unit Operator or any other Party as a result of such failure to notify in a timely manner.

1103. Notification of Other Parties

Forthwith upon becoming aware of any situation in which it is required to withhold Unitized Substances pursuant to the provisions of clause 1101, the Unit Operator shall provide notice thereof to all Working Interest Owners, and to all Royalty Owners which it is aware hold Royalty Interests relating to the particular disputed Working Interest.

1104. Interim Royalty Arrangements

The Unit Operator shall not in its capacity as such be obligated to account to any Royalty Owner for any royalty payable or deliverable to such Royalty Owner in respect of any Unitized Substances withheld by the Unit Operator pursuant to the provisions of clause 1101, unless the Unit Operator is provided with a written notice from the applicable Royalty Owner, setting forth in reasonable detail the terms and conditions of such Royalty Owner's royalty rights in respect of the Unitized Substances being withheld, directing the Unit Operator to give effect to such royalty rights, and agreeing to indemnify and save harmless the Unit Operator and all of the other Working Interest Owners against and from any liability, loss, costs, claims or damages arising out of the Unit Operator's compliance with such direction, in which event the Unit Operator shall, if it is satisfied, acting reasonably, with the ability of the Royalty Owner to fulfil its indemnification obligations, comply with the direction of such notice to the extent that it is practicable so to do.

1105. Clarification of Obligations

In clarification of the obligations of the Unit Operator with respect to notices and orders with which it is required to comply pursuant to the provisions of clause 1104:

- (a) the Unit Operator shall not at any time be obligated to satisfy any royalty payment obligation out of any funds other than the sales proceeds paid or payable into trust in respect of the Unitized Substances withheld;
- (b) if any royalty rights to which the Unit Operator is required to give effect pursuant to the provisions of clause 1104 involve the delivery of any Unitized Substances in kind:
  - (i) the obligation of the Unit Operator to deliver such Unitized Substances in kind in compliance with the relevant notice or order shall take precedence over its obligation to withhold and sell such

Unitized Substances pursuant to the provisions of clause 1101, and

- (ii) the Unit Operator shall be entitled to recover from the relevant Royalty Owner all costs which are properly chargeable to such Royalty Owner in respect of such delivery in kind under the terms of the relevant royalty rights; and
- (c) any amounts required to be paid into or released from trust in accordance with the provisions of clause 1101 shall be net of any payments made by the Unit Operator in compliance with any notice or order with which the Unit Operator is required to comply pursuant to the provisions of clause 1104.

#### 1106. Royalty Owner Recourse

The provisions of clauses 1101 and 1104 shall not be construed as restricting in any manner any rights of recourse which a Royalty Owner may have against the Party whose Working Interest title is in dispute, or any other person having royalty obligations in respect of the disputed Working Interest, for any default in royalty obligations owing to such Royalty Owner, unless such Royalty Owner is itself disputing the Working Interest title in dispute, or unless the Working Interest title has been put in dispute by virtue of a dispute with respect to such Royalty Owner's title to a Royalty Interest ascribed to it in Exhibit "A" hereto. If a Royalty Owner is itself disputing the Working Interest title in dispute, or if the Working Interest title has been put in dispute by virtue of a dispute with respect to a Royalty Owner's title to a Royalty Interest ascribed to in Exhibit "A" hereto, such Royalty Owner shall not be entitled to terminate or seek the termination of any Lease or other agreement or instrument on the basis of the non-payment or non-delivery of any royalty withheld in accordance with the provisions of clauses 1101 and 1104; provided, however, that:

- (a) the provisions of clauses 1101 and 1104 shall not otherwise be construed as restricting in any manner any rights of recourse which such Royalty Owner may have against the Party whose Working Interest title is in dispute, or any other person having royalty obligations in respect of the disputed Working Interest, for any default in royalty obligations owing to such Royalty Owner, including, without limitation, any right which such Royalty Owner may have to sue such Party or other person for restitution or damages, and, subject to the provisions of clause 303, any right which such Royalty Owner may have to terminate or seek the termination of such Lease or other agreement or instrument on the basis of any matter other than the non-payment or non-delivery of royalty withheld in accordance with the provisions of clauses 1101 and 1104; and
- (b) the termination right limitations contemplated by this clause 1106 shall not apply with respect to a failure of the Unit Operator to comply in any material respect with any notice or order with which the Unit Operator is required to comply pursuant to the provisions of clause 1104.

#### 1107. Exclusion of Tract

If the title of a Party to a Working Interest ascribed to it in Exhibit "A" fails, and if no other Party then owns or is otherwise entitled to the benefit of the Working Interest in respect of which title has failed, and if the Tract to which such Working Interest relates does not re-qualify for inclusion in the Unit Area in the time and manner provided for in clause 1110, such Tract shall be deemed conclusively to have been excluded from the Unit Area and to have ceased to have a Tract Participation as of 08:00 on the first day of the calendar month in which the failure of title is confirmed.

#### 1108. Existing Party Beneficiary

If the title of a Party to a Working Interest ascribed to it in Exhibit "A" fails, and if any other Party then owns or is otherwise entitled to the benefit of the Working Interest in respect of which title has failed, that Party shall, as of 08:00 on the first day of the calendar month in which the failure of title is confirmed, be bound by this Agreement and the Unit Operating Agreement as a Working Interest Owner with respect to such Working Interest; provided, however, that if any such failure of title is the result of the cancellation, surrender or other termination of a Crown Lease, or of a portion of a Crown Lease, the Crown shall not be bound as a Working Interest Owner with respect to the Working Interest in respect of which title has failed, but shall be obligated to provide, within thirty (30) days of the day on which such failure of title is confirmed, a bona fide written offer to issue to the Unit Operator, on behalf of the Working Interest Owners as a whole, for a consideration not to exceed the amount of any outstanding royalty liability relating to Unitized Substances allocated to the subject Tract prior to 08:00 on the first day of the calendar month in which such failure of title is confirmed, a new Lease in respect of the Unitized Formation in such Tract, covering the same Unitized Substances, and having substantially the same terms (other than as to the primary term thereof, which shall be the minimum primary term then permitted by the Manitoba Oil & Gas Act) as the Lease, or portion of a Lease, which has terminated; If any such failure of title is the result of the cancellation, surrender or other termination of a freehold Lease, or of a portion of a freehold Lease, the lessor thereunder shall not be bound as a Working Interest Owner with respect to the Working Interest in respect of which title has failed if within thirty (30) days of the day on which such failure of title is confirmed such lessor makes a bona fide written offer to grant to the Unit Operator, on behalf of the Working Interest Owners as a whole, for a consideration not to exceed the amount of any outstanding royalty and freehold mineral tax liability relating to Unitized Substances allocated to the subject Tract prior to 08:00 on the first day of the calendar month in which such failure of title is confirmed, a new lease in respect of the Unitized Formation in such Tract, covering the same Unitized Substances, and having substantially the same terms (other than as to the primary term thereof, which shall be a nominal primary term of ninety (90) days), as the Lease, or portion of a Lease, which has terminated.

#### 1109. Response to New Lease Offer

If a new Lease offered pursuant to the provisions of clause 1108 is not accepted by the Working Interest Owners within sixty (60) days of the date the offer is received by the Unit Operator, the provisions of clause 1107 shall apply as though no other Party owned or was otherwise entitled to the benefit of the Working Interest in respect of which

title had failed. If a new Lease offered pursuant to the provisions of clause 1108 is accepted within sixty (60) days of the date the offer is received by the Unit Operator:

- (a) the new Lease shall be deemed to have been effective as and from the first day following the day on which the failure of title was confirmed;
- (b) the ownership of the Working Interest granted by the new Lease shall vest in the Working Interest Owners as tenants-in-common, each as to an undivided interest equal to the ratio of its Unit Participation to the sum of all Tract Participations, with both components of such ratio to be determined:
  - (i) as of 08:00 on the first day of the calendar month in which the failure of title was confirmed, and
  - (ii) without taking into account the Tract Participation of the Tract in respect of which the new Lease has been granted; and
- (c) notwithstanding the effective date of the new Lease, and without limiting the generality of the provisions of clause 1114, the revision of Exhibit "A" to reflect the ownership of the Working Interest granted by the new Lease shall be effective as of 08:00 on the first day of the calendar month in which the failure of title was confirmed.

#### 1110. Re-Qualification

If the title of a Party to a Working Interest ascribed to it in Exhibit "A" fails, and if no other Party then owns or is otherwise entitled to the benefit of the Working Interest in respect of which title has failed, but by the last day of the calendar month next following the calendar month in which the failure of title is confirmed the Tract to which the subject Working Interest relates re-qualifies for inclusion in the Unit Area on the basis of the criteria set forth in clause 502, then such Tract shall continue to be included in the Unit Area, and the provisions of clause 1114 shall apply with respect to any changes in the ownership of the Working Interests and Royalty Interests in such Tract.

#### 1111. Interim Working Interest Rights

If the title of a Party to a Working Interest ascribed to it in Exhibit "A" fails, then until such time as a conclusive determination has been made with respect to whether the Tract to which such Working Interest relates is to be excluded from the Unit Area pursuant to the provisions of clause 1107:

- (a) the Unit Operator shall, and is hereby expressly authorized to, take possession of all Unitized Substances allocated to such Tract pursuant to clause 701, sell such Unitized Substances on such reasonable terms as may be available to it in the circumstances, and, after deduction of such amounts as are deductible pursuant to the provisions of clause 1112, deposit the remaining proceeds from the sale of such Unitized Substances in an interest bearing trust account for the benefit of the person or persons rightfully entitled thereto; and

- (b) the provisions of the last two sentences of clause 1101, and the provisions of clauses 1103 through 1106, shall apply, mutatis mutandis, during any period in which the Unit Operator is so withholding such Unitized Substances.

#### 1112. Deductible Costs

At any time at which the Unit Operator is taking possession of and selling any Unitized Substances pursuant to the provisions of either clause 1101 or clause 1111, it shall be entitled to deduct from the proceeds from the sale of such Unitized Substances, or to withdraw from any such proceeds deposited in trust, without duplication:

- (a) the amount of all costs reasonably incurred by it in connection with the post-production handling and sale of such Unitized Substances, and
- (b) the amount of all capital and non-capital Unit Operations costs which are chargeable to the Working Interest the title to which is in dispute;

provided, however, that if the Unit Operator has become obligated to give effect to any Royalty Interest rights pursuant to the provisions of clause 1104, it shall not be entitled to deduct or withdraw from any Royalty Interest share of such proceeds the amount of any such costs which are not properly chargeable to such Royalty Interest.

#### 1113. Royalty Interest Title Failure

If the title of a Party to a Royalty Interest ascribed to it in Exhibit "A" fails, and if any other Party then owns or is otherwise entitled to the benefit of the Royalty Interest in respect of which title has failed, that Party shall, as of 08:00 on the first day of the calendar month in which the failure of title is confirmed, be bound by this Agreement as a Royalty Owner with respect to such Royalty Interest.

#### 1114. Revision of Exhibits

Forthwith upon becoming aware of any changes required to be made to Exhibits "A" and "B" as the result of the failure of any Working Interest or Royalty Interest title, the Unit Operator shall revise such Exhibits to reflect such changes, and the revised versions of such Exhibits shall be effective as of 08:00 on the first day of the calendar month in which the failure of title is confirmed. In instances in which a Tract is excluded from the Unit Area pursuant to clause 1107, the Tract Participations of the remaining Tracts shall be adjusted such that their summation is one hundred (100%) percent and they remain proportionately the same, relative to one another, as they were prior to such exclusion.

#### 1115. Liability

None of the provisions of this Article XI shall be construed as relieving any Party of any liability which it might have under clause 903.

## **ARTICLE XII**

### **CHANGES IN INTERESTS**

#### **1201. Dispositions**

In this Article XII the term "disposition" means any disposition of a Working Interest or a Royalty Interest, or any interest therein, whether legal or equitable, by way of sale, assignment, transfer, lease, sublease, conveyance, gift, change of possession or other transaction, and includes, without limitation, any realization upon any mortgage, charge or other security interest, but shall be deemed conclusively not to include the grant or other creation of any such security interest. A disposition of an interest in a Tract by a Party shall cover the whole of or an undivided interest in the whole of such Party's interest in the Tract, and no disposition shall be binding on the Unit Operator or the other Parties which are not parties to such disposition until:

- (a) at least one of the parties to such disposition has given the Unit Operator written notice of such disposition, together with a copy of a document evidencing such disposition; and
- (b) any acquiring parties which are not Parties have executed and delivered to the Unit Operator a counterpart of this Agreement and, in the event that the disposition is a disposition of a Working Interest, any acquiring parties which are not parties to the Unit Operating Agreement have executed and delivered to the Unit Operator a counterpart of the Unit Operating Agreement.

Upon being provided with all of such items in respect of a disposition the Unit Operator shall revise Exhibit "A" to reflect such disposition, and the revised version of Exhibit "A" shall be effective as of 08:00 on the first day of the calendar month next following the calendar month in which such items are received by the Unit Operator.

#### **1202. Other Changes**

If a Party changes its name or undergoes any other change affecting the information contained in Exhibit "A", other than by way of a disposition, such Party shall provide the Unit Operator with written notice of such change, together with a copy of a document evidencing the same. The Unit Operator shall thereupon revise Exhibit "A" to reflect such change, and the revised version of Exhibit "A" shall be effective as of 08:00 on the first day of the calendar month next following the calendar month in which such items are received by the Unit Operator.

## **ARTICLE XIII**

### **EFFECTIVE DATE**

#### **1301. Effective Date**

The unitization provided for herein shall become effective at 08:00 on the first day of the first calendar month following the date of the qualification under clause 502 of Tracts



having a combined Tract Participation of 100 percent of the total Tract Participations as originally set forth in Exhibit "A" and the date of the Unit Agreement is registered by Petroleum and Energy Branch.

**1302. Notice of Effective Date**

As soon as practicable after the Effective Date, the Unit Operator shall notify all Working Interest Owners and the Crown of the Effective Date [, and of the Tracts which were included in the Unit Area as of the Effective Date pursuant to clause 501,] and the Working Interest Owners shall advise their Royalty Owners, other than the Crown, of the Effective Date.

**1303. Release Date**

This Agreement shall cease to bind the Parties if the unitization provided for herein has not become effective on or before the 1st day of November, 1999.

**ARTICLE XIV**

**TERMINATION**

**1401. Termination**

The unitization provided for herein shall terminate upon the occurrence of the earliest of:

- (a) its termination by the Working Interest Owners by vote taken under the Unit Operating Agreement,
- (b) the expiration of a period of ninety (90) days following the time at which all wells used for the production of Unitized Substances have been abandoned, plugged or disposed of, and
- (c) its termination in accordance with the provisions of clause 1402,

and the Parties shall thereupon cease to be bound by the provisions of this Agreement (other than the provisions of clauses 1404 and 1405), and shall thereafter be governed by the terms and provisions of their respective surviving Leases and other agreements and instruments relating to the Unitized Zone or Unitized Substances; provided, however, that the provisions of this clause 1401 shall not be construed as relieving any person from any obligation or liability accruing on its part under this Agreement prior to the termination of the unitization provided for herein.

**1402. Notice to Terminate**

If Unit Operations are not commenced within 90 days of the Effective Date, or if Unit Operations are at any time after their commencement interrupted or suspended for any period in excess of 90 days, any Party may give the Unit Operator written notice of its desire to terminate the unitization provided for herein. If upon the expiration of a period of ninety (90) days following the giving of any such notice the Working Interest

Owners have not commenced, or re-commenced, Unit Operations with a view to diligently pursuing the production of Unitized Substances on a sustained basis, the unitization provided for herein shall terminate. For purposes of this clause 1402 the term "Unit Operations" shall be construed as including only those Unit Operations involving the production of Unitized Substances on a sustained basis, and those Unit Operations of a substantive physical nature undertaken for purposes of facilitating or enhancing the production of Unitized Substances or the post-production handling of Unitized Substances.

#### 1403. Delivery of Notice

Notwithstanding the provisions of clause 1510, no notice of a desire to terminate given under clause 1402 shall be effective unless delivered to the Unit Operator by hand or by courier, on a day on which the Unit Operator's offices at its address for service are open for regular business, and any such notice so given shall be deemed conclusively to have been given and received on the date so delivered. Forthwith upon receipt of any such notice the Unit Operator shall provide the Crown and each of the Working Interest Owners with a copy of the same, and the Working Interest Owners shall forthwith thereupon provide their Royalty Owners, other than the Crown, with a copy of the same.

#### 1404. Salvaging Equipment Upon Termination

Subject to any provisions to the contrary contained in any Lease or other agreement or instrument relating to the Unitized Zone or Unitized Substances, or in any surface lease agreement, easement agreement or other applicable surface rights agreement or instrument, if the Working Interest Owners fail to salvage any equipment or facilities used in Unit Operations within six (6) months of the termination of the unitization provided for herein, the Royalty Owners for each Tract upon which any such equipment or facilities are situate shall, unless any such equipment and facilities are then being used, or are expected to be used, for other operations, be entitled, but not obligated, to salvage, use, sell or otherwise dispose of such equipment and facilities for their own benefit. The six (6) month period contemplated by this clause 1404 shall be exclusive of any period of time during which the Working Interest Owners are prevented from salvaging any equipment or facilities by reason of the occurrence or subsistence of an event of force majeure contemplated by clause 1507, and such six (6) month period shall be extended accordingly by any period of time following the termination of the unitization provided herein during which the Working Interest Owners are so prevented from salvaging any equipment or facilities.

#### 1405. Notice to Royalty Owners

Each of the Working Interest Owners shall within thirty (30) days of the termination of the unitization provided for herein give notice thereof to its Royalty Owners in accordance with the applicable Leases and other agreements and instruments.

## **ARTICLE XV**

### **MISCELLANEOUS**

#### **1501. Execution in Counterpart**

This Agreement may be executed in separate counterparts, and all of the executed counterparts shall together constitute one instrument and have the same force and effect as if all of the persons executing such counterparts had executed the same instrument. The Unit Operator shall, upon request therefor, provide a complete set of photocopied counterpart execution pages to each Party requesting the same.

#### **1502. Effect of Execution and Delivery**

Subject to the provisions of clause 1303, this Agreement shall be binding upon a person who executes and delivers a counterpart hereof to the Unit Operator, and such person shall be bound by this Agreement as of the time of such delivery; provided, however, that if a proposed Tract fails to qualify for inclusion in the Unit Area within the time specified by the Working Interest Owners for the purposes of a proposed enlargement under clause 1001, the Parties owning interests in such proposed Tract shall upon the expiration of such specified time be completely released from this Agreement with respect to such proposed Tract

#### **1503. Dual Capacity**

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

#### **1504. Subsequent Execution**

An owner of an interest in a Tract who has not executed and delivered a counterpart of this Agreement as of the date the Tract was included in the Unit Area under either Article V or Article X may not thereafter become entitled to exercise the rights of a Party with respect to such interest except on such terms and conditions as may be prescribed by the Working Interest Owners.

#### **1505. Enurement**

Subject to the provisions of clause 1201, and to the proviso to clause 1502, this Agreement shall enure to the benefit of, and be binding upon, the respective heirs, executors, administrators, successors and assigns of the Parties.

#### **1506. No Partnership**

Nothing herein contained shall be read or construed as creating a partnership, or as imposing upon any Party any partnership duty, obligation or liability of any kind, it being the express intention of the Parties that the respective rights, obligations and liabilities of each of the Parties under this Agreement, and in respect of the subject matter hereof generally, shall be several, and not joint or joint and several.

#### 1507. Force Majeure

In this clause 1507 the term "event of force majeure" means any event the occurrence or subsistence of which prevents a Party from conducting Unit Operations or other operations or activities related to the subject matter of this Agreement, or from performing any obligation under this Agreement, and which is not reasonably within the control of such Party, and includes, without limitation, an act of God, a governmental directive or restriction, a labour dispute, and an act of war or other unlawful act against public order or authority, but does not include a lack of financial resources or available funds or similar financial predicament. Any Party which is at any time prevented by an event of force majeure from conducting any operation or activity, or from performing any obligation hereunder (other than an obligation to pay money), shall promptly so notify all other Parties affected thereby, providing reasonable particulars of the event of force majeure and the operation, activity or obligation the conduct or performance of which is prevented thereby, and shall take all such steps as may be reasonable in the circumstances to remedy such event of force majeure; provided, however, that no Party shall be required by the provisions hereof to settle any strike, lockout or other labour dispute on terms which it would not otherwise so settle. If any Party is at any time prevented by an event of force majeure from performing any obligation hereunder (other than an obligation to pay money), such obligation shall, to the extent that its performance is prevented by such event of force majeure, be suspended for so long as the event of force majeure continues to prevent such performance, and the non-performance of such obligation to such extent during such period of suspension shall not constitute a breach or default hereunder.

#### 1508. Taxes

As between the Working Interest Owners and the Royalty Owners for each Tract, all taxes levied in respect of the ownership, production or sale of the Unitized Substances associated with or allocated to such Tract shall be borne in accordance with the provisions of the applicable Lease or other agreement or instrument relating thereto. In the event that a Royalty Owner, other than the Crown, fails to pay when due any such taxes which are payable by it, the Working Interest Owners for such Tract may pay such taxes on such Royalty Owner's behalf and, without limiting any other rights of recovery which they might have, deduct the Royalty Owner's share of any payment so made from any royalty payable or deliverable to it in respect of such Tract.

#### 1509. Delinquent Payment Obligations

In the event that a Royalty Owner, other than the Crown, fails to pay when due any amount owing under or in respect of any mortgage, agreement for sale or other instrument or arrangement by virtue of which a third party claims an interest in a Tract, the Working Interest Owners for such Tract may, with full right of subrogation, pay such amount on such Royalty Owner's behalf and, without limiting any other rights of recovery which they might have, deduct the Royalty Owner's share of any payment so made from any royalty payable or deliverable to it in respect of such Tract.

#### 1510. Notices

Except with respect to notices and communications between a Working Interest Owner and its Royalty Owners, the giving of which shall be governed by the applicable

Lease or other agreement or instrument, all notices and other communications to be given in connection with this Agreement shall be in writing and shall be sufficiently given:

- (a) if delivered by hand or by courier to a Party at its address for service as hereinafter provided, on any day other than a Saturday, a Sunday or a statutory holiday in Manitoba;
- (b) except during any period of actual or impending postal disruption, if sent by first class mail, postage prepaid, posted within Canada or the United States, to a Party at its address for service as hereinafter provided; and
- (c) to any Party which has provided a direct telecommunication number as part of its address for service, if sent by telecommunication to such Party at such number on any day other than a Saturday, a Sunday or a statutory holiday in Manitoba.

Any notice or communication given by delivery as aforesaid shall be deemed conclusively to have been given and received on the date of delivery, any notice or communication given by mail as aforesaid shall be deemed conclusively to have been given and received on the fourth day following the date of mailing (Saturdays, Sundays and statutory holidays in Manitoba excepted), and any notice or communication given by telecommunication as aforesaid shall be deemed conclusively to have been given and received on the date on which the transmission thereof has been completed.

For the purposes of this clause 1510, the address for service for each Party shall be the address set forth below the place of its execution of the counterpart hereof delivered to the Unit Operator. The Unit Operator may change its address for service by giving written notice thereof to each of the other Parties, and any other Party may change its address for service by giving written notice thereof to the Unit Operator. The Unit Operator shall, upon request therefor, furnish any Party with the address for service of any other Party.

#### 1511. Time of the Essence

Time is of the essence in this Agreement.

#### 1512. Compliance With Laws and Regulations

In exercising their respective rights, and discharging their respective obligations, under this Agreement, the Parties shall comply in all material respects with all statutes, regulations and other lawful governmental directives from time to time in force in the Province of Manitoba. In the event of any conflict between the provisions of this Agreement and the provisions of any such statute, regulation or other lawful governmental directive, the provisions of such statute, regulation or directive shall take precedence.

1513. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Manitoba, and each of the Parties submits to the jurisdiction of the courts of the Province of Manitoba for the interpretation and enforcement hereof.

IN WITNESS WHEREOF each of the Parties has executed this Agreement on the date shown opposite its name hereunder.

DATE: July 6, 1999, 1999

  
Minister Energy and Mines

ADDRESS FOR SERVICE:

Department of Energy and Mines

Petroleum and Energy Branch

360 – 1395 Ellice Avenue

Winnipeg Manitoba R3G 3P2

Fax No. (204) 945-0586

This is the execution page of the Agreement entitled "Unit Agreement" Birdtail Unit No. 1

1513. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Manitoba, and each of the Parties submits to the jurisdiction of the courts of the Province of Manitoba for the interpretation and enforcement hereof.

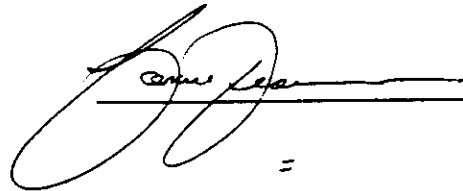
IN WITNESS WHEREOF each of the Parties has executed this Agreement on the date shown opposite its name hereunder.

**WORKING INTEREST OWNER:**

Progress Energy Ltd.  
Company

DATE: July 15, 1999

Ken Bennis x

  
\_\_\_\_\_

**ROYALTY OWNER:**

\_\_\_\_\_  
(Print)

DATE: \_\_\_\_\_, 1999

\_\_\_\_\_  
(Signature)

This is the Execution Page of the Agreement entitled "Unit Agreement" Birdtail Unit No. 1

1513. Governing Law

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IN WITNESS WHEREOF each of the Parties has executed this Agreement on the date shown opposite its name hereunder.

**WORKING INTEREST OWNER:**

\_\_\_\_\_  
Company

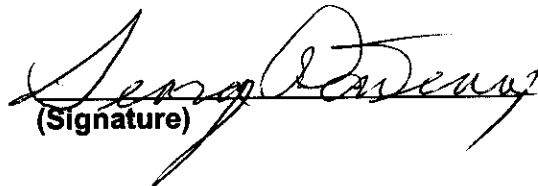
DATE: \_\_\_\_\_, 1999

\_\_\_\_\_  
\_\_\_\_\_

**ROYALTY OWNER:**

GEORGE HARRISON BARTEAUX  
(Print)

DATE: JUNE 29, 1999

  
(Signature)

This is the Execution Page of the Agreement entitled "Unit Agreement" Birdtail Unit No. 1



1513. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Manitoba, and each of the Parties submits to the jurisdiction of the courts of the Province of Manitoba for the interpretation and enforcement hereof.

IN WITNESS WHEREOF each of the Parties has executed this Agreement on the date shown opposite its name hereunder.

**WORKING INTEREST OWNER:**

\_\_\_\_\_  
**Company**

DATE: \_\_\_\_\_, 1999


**ROYALTY OWNER:**

Roger Wilson, Reeve  
**(Print)**

DATE: July 13/99, 1999

  
**(Signature)**

Debbie Jensen, CAO  
**(Print)**

  
**(Signature)**

This is the Execution Page of the Agreement entitled "Unit Agreement" Birdtail Unit No. 1

RN OF BIRTLÉ

EXHIBIT "A"

**BIRDTAIL UNIT NO. 1  
TRACT FACTOR DATA  
EXHIBIT "A"**

Tract Factor Calculation = 50% Production (Jan-Apr/99)  
+ 50% OOIP (Developed Spacing Units  
+ 50% OOIP 10-5-16-27 + 50% OOIP 11-4-16-27)

Unit Tract Number	Unit Tract	Tract Participation
1	5-4-16-27W1M	17.1608%
2	12-4-16-27W1M	13.8611%
3	13-4-16-27W1M	9.9895%
4	14-4-16-27W1M	1.6868%
5	7-5-16-27W1M	3.7365%
6	8-5-16-27W1M	12.3836%
7	9-5-16-27W1M	14.3356%
8	10-5-16-27W1M	2.4582%
9	15-5-16-27W1M	6.9041%
10	16-5-16-27W1M	10.5575%
11	4-9-16-27W1M	6.6805%
12	11-4-16-27W1M	0.2458%
Total		100.0000%

Table 1

**ATTACHED TO AND MADE PART OF  
UNIT AGREEMENT ENTITLED BIRDTAIL UNIT NO. 1  
EXHIBIT "A" TRACT PARTICIPATION PART I**

Unit Tract Number	Unit Tract Legal Description	Royalty Owner	Tract Participation % Royalty Owner	Working Interest Owner	Share of Working Interest %	Tract Participation Share of Unit %
1	5-4-16-27W1M	Crown	100%	Progress	100%	17.1608%
2	12-4-16-27W1M	R.M. of Birtle	100%	Progress	100%	13.8611%
3	13-4-16-27W1M	R.M. of Birtle	100%	Progress	100%	9.9895%
4	14-4-16-27W1M	R.M. of Birtle	100%	Progress	100%	1.6868%
5	7-5-16-27W1M	George Barteaux	100%	Progress	100%	3.7365%
6	8-5-16-27W1M	George Barteaux	100%	Progress	100%	12.3836%
7	9-5-16-27W1M	R.M. of Birtle	100%	Progress	100%	14.3356%
8	10-5-16-27W1M	R.M. of Birtle	100%	Progress	100%	2.4582%
9	15-5-16-27W1M	R.M. of Birtle	100%	Progress	100%	6.9041%
10	16-5-16-27W1M	R.M. of Birtle	100%	Progress	100%	10.5575%
11	4-9-16-27W1M	R.M. of Birtle	100%	Progress	100%	6.6805%
12	11-4-16-27W1M	R.M. of Birtle	100%	Progress	100%	0.2458%
Total						100.0000%

**BIRDTAIL UNIT NO. 1**

**EXHIBIT "A" PART II**

**WORKING INTEREST OWNERS**

**PROGRESS ENERGY LTD.**

**PARTICIPATION**

**100%**

EXHIBIT "B"

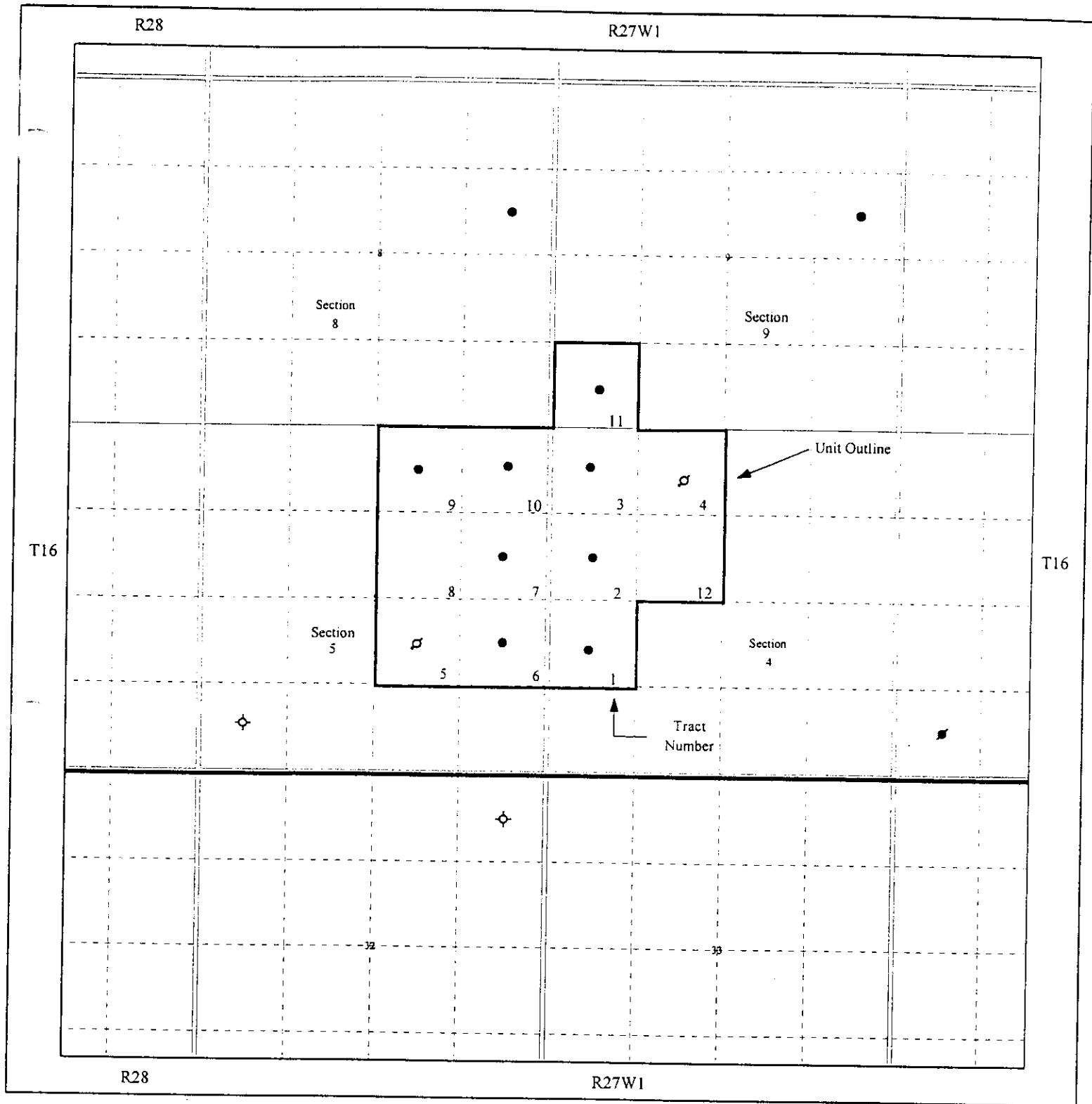



Exhibit "B"	
Birdtail Unit No. 1	
Unit Outline; Tract by LSD	
 <p>Map Software by AccuMap EnerData, A Division of QC Data Version 4.31, Feb 18 1999 (403) 285-1855</p>	<p>Author: Jeff Screen Date: March 25, 1999 File: Birdtail.MAP Scale: 1 : 25000</p>

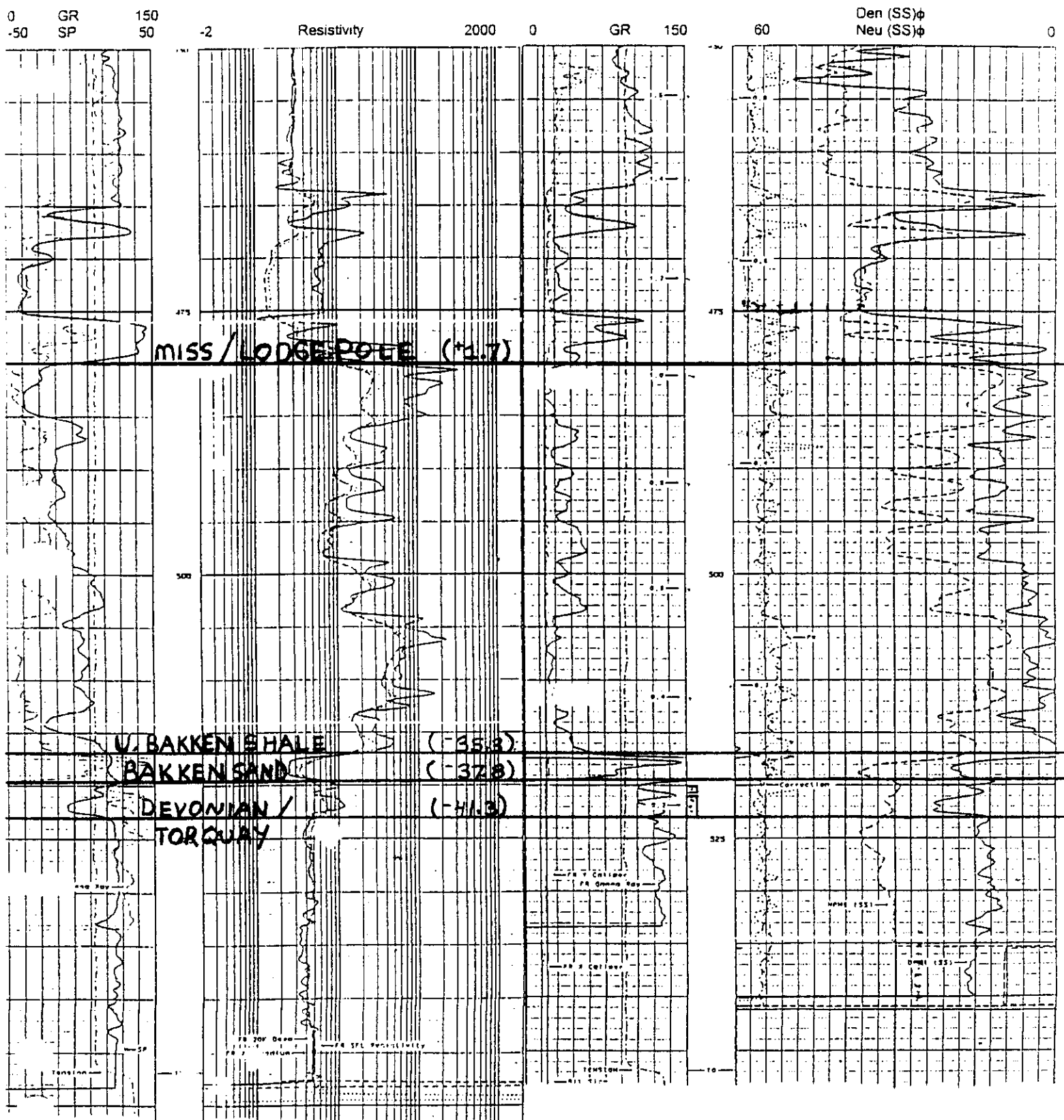


EXHIBIT "C"



9-5-16-27W1

K.B. - 481.7



No DST  
No Cores  
Perf'd Interval

520.0 - 520.5  
521.0 - 523.0

Date Logged  
December 14, 1996

EXHIBIT "D"

## **EXHIBIT "D" to**

### **UNIT AGREEMENT BIRDTAIL UNIT NO. 1**

#### **FAILURE TO MAKE ADEQUATE DISPOSITION ARRANGEMENTS**

##### **1. Definitions**

In addition to the definitions set forth in clause 101 of the Unit Agreement of which this Exhibit forms part, for the Purposes of this Exhibit:

- (a) "Affected Substances" has the meaning ascribed thereto in paragraph 2 hereof;
- (b) "Market Price" means, with respect to any Affected Substances being disposed of pursuant to the provisions of this Exhibit, a sales price therefor which is not unreasonable having regard to prevailing market conditions and all other relevant factors, including, without limitation, the kind, quality and volume of such Affected Substances, the term of the sale agreement, the point of sale of such Affected Substances, and the type of transportation service available to effect delivery of such Affected Substances to such point of sale; and
- (c) "Non-Taking party" has the meaning ascribed thereto in paragraph 2 hereof.

##### **2. Disposition by Unit Operator**

In the event that a Working Interest Owner (the "Non-Taking Party") fails to provide timely notice of its production disposition arrangements as required by clause 705, or in the event that the disposition arrangements specified in any such notice are inadequately provided for or are otherwise unworkable or impracticable, or at any time cease to be adequately provided for or otherwise become unworkable or impracticable, the Unit Operator shall have the authority to take possession of all or any part of the affected Unitized Substances (the "Affected Substances") and as agent for the Non-Taking Party, to dispose of such Affected Substances in one or more of the following ways, namely by selling such Affected Substances together with and at the same price as the Unit Operator is receiving for its own share of Unitized Substances under an arm's length production sale contract; by selling such Affected Substances to an arm's length buyer at a Market Price.

##### **3. Term of Arrangement**

No agreement for the sale of Affected Substances entered into pursuant to paragraph 2 of this Exhibit shall have a term in excess of one month unless such term may be terminated without penalty on no more than one month's notice, or unless the Non-Taking Party has otherwise agreed in writing.

#### 4. Costs and Fees

In connection with any sale of Affected Substances pursuant to paragraph 2 hereof the Unit Operator shall be entitled to charge to the account of the Non-Taking Party:

- (a) all direct processing and transportation costs incurred by the Unit Operator on behalf of the Non-Taking Party in rendering such Affected Substances suitable for sale and delivering them to the point of sale;
- (b) all incremental third party and internal administrative costs incurred by the Unit Operator in connection with the disposition of such Affected Substances on behalf of the Non-Taking Party; and
- (c) except in the case of a sale of Affected Substances pursuant to subparagraph 2(c) hereof, a marketing fee equal to 3% of the net proceeds of sale of such Affected Substances.] OR
  - (i) in the case of crude oil and wellhead condensate, or 3% of the net proceeds of sale],
  - (ii) in the case of natural gas or solution gas sold in gaseous form, or 3% of the net proceeds of sale],
  - (iii) in the case of natural gas liquids and substances other than those contemplated by clauses (i), (ii) and (iv) of this subparagraph (c), or 3% of the net proceeds of sale], and
  - (iv) in the case of sulphur, or 3% of the net proceeds of sale],

and for the purposes of this subparagraph (c), the phrase "net proceeds of sale" means gross proceeds of sale less costs chargeable pursuant to subparagraphs (a) and (b) of this paragraph 4.

Without limiting the Unit Operator's rights to recover such costs and fees from the Non-Taking Party, the Unit Operator shall be entitled to deduct all such costs and fees from any proceeds of sale, and shall have a lien against all such proceeds of sale as security for the recovery of such costs and fees.

UNIT OPERATING  
AGREEMENT  
BIRDTAIL UNIT NO. 1

# **UNIT OPERATING AGREEMENT**

## **BIRDTAIL UNIT NO. 1**

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Exhibit "F"	List of Unit Wells and Other Tangible Unit Facilities
Exhibit "G"	Accounting Procedure
Exhibit "H"	Schedule of Insurance

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

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the covenants herein contained the Owners agree as follows:

## **ARTICLE I DEFINITIONS**

### **101. Definitions**

The terms defined in clause 101 of the Unit Agreement shall have the same meanings herein as in the Unit Agreement. In addition, in this Agreement, including the Exhibits:

- (a) **"Accounting Procedure"** means the procedure set forth in Exhibit "G" hereto;
- (b) **"Commencement Date"** means the time and date referred to in Article XVII;
- (c) **"Joint Account"** means the account established and maintained by the Unit Operator for the benefit and risk and at the expense of the Owners in accordance with their Unit Participations;
- (d) **"Operating Committee"** means the committee formed pursuant to Clause 401 and composed of the duly authorized representatives of each Owner;
- (e) **"Owner"** means a person who owns a Working Interest and who is bound by this Agreement;
- (f) **"Unit Agreement"** means the agreement entitled "Unit Agreement Birdtail Unit No. 1";
- (g) **"Unit Facilities"** means collectively the Unit Wells, all other equipment, facilities and structures used or intended to be used in connection with Unit Operations and listed in Exhibit "F" or acquired, constructed or installed for the Joint Account, and all other real and personal property of every kind, nature and description (including, without limitation, surface rights, licences and permits, books, records and data, and contracts and agreements, but excluding Working Interests, Royalty Interests and Unitized Substances) contributed pursuant to Article X or Article XIV or otherwise acquired for the Joint Account; and

- (h) **"Unit Well"** means a well listed in Exhibit "F" or drilled or acquired for the Joint Account.

## **ARTICLE II**

### **CONFIRMATION OF UNIT AGREEMENT**

**201. Confirmation of Unit Agreement**

In the event of any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall prevail. Without limitation, in the event of any conflict between Exhibit "E" and Part II of Exhibit "A", the latter shall prevail. With respect to all matters not specifically provided for in this Agreement, the relevant provisions of the Unit Agreement shall apply, mutatis mutandis.

## **ARTICLE III**

### **EXHIBITS**

**301. Exhibits Incorporated**

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

**302. Exhibits Attached**

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

- (a) Exhibit "E", which is a list of the Owners and their respective Unit Participations;
- (b) Exhibit "F", which is a list of Unit Wells and other tangible Unit Facilities;
- (c) Exhibit "G", which is the Accounting Procedure; and
- (d) Exhibit "H", which is the Schedule of Insurance.

**303. Revision of Exhibits "E" and "F"**

Whenever Exhibit "A" is revised or corrected, corresponding revisions or corrections of Exhibit "E" shall be made with concurrent effect. Whenever new Unit Wells or other new tangible Unit Facilities are drilled, constructed or acquired, or whenever existing Unit Wells or other tangible Unit Facilities are disposed of, Exhibit "F" shall be revised accordingly.

**304. Revision of Exhibits "G" and "H"**

The Operating Committee may revise, Exhibit "G" or Exhibit "H" by a vote in accordance with Clause 404. In all cases such a revision shall be effective on the first day of the month following agreement by the Operating Committee or as of such date as is specified by the Operating Committee.

**305. Corrections**

If Unit Operator becomes aware of a mistake or clerical error in an Exhibit, Unit Operator shall prepare a corrected Exhibit and supply each Owner with a copy thereof. Any correction made hereunder shall be effective on a date to be specified by the Operating Committee.

**306. Conflicts**

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

**307. Form**

Exhibits that are revised or corrected shall show the effective date of the revision or correction and shall be numbered consecutively. Unit Operator shall supply each Owner with a copy of each Exhibit that is revised or corrected.

## **ARTICLE IV**

### **SUPERVISION AND CONTROL OF UNIT OPERATIONS**

**401. Operating Committee**

Owners shall form an Operating Committee. Each Owner shall notify Unit Operator in writing of the names and addresses of its representative and one (1) or more alternate representatives who shall be authorized to represent and bind Owner in respect to any matter pertaining to Unit Operations. An Owner may change any of its appointed representatives at any time and from time to time by written notice to Unit Operator. Two (2) or more Owners may appoint the same person as their representative, who shall in such cases cast a separate vote for each of his principals.

**402. Chairman**

The representative of Unit Operator shall be Chairman of the Operating Committee and chair all meetings called pursuant to Clause 403.

**403. Meetings**

All meetings for the purpose of considering and acting upon any matter pertaining to Unit Operations shall be called by Unit Operator on its own motion or at the request of one (1) or more Owners having Unit Participations collectively totalling five percent (5%) or more. Meetings called at the request of an Owner or Owners will be held within thirty (30) days of the request unless Unit Operator and the Owner requesting the meeting agree that the meeting can be held at a later date. At least ten (10) days' advance written notice of each meeting shall be given to Owners, with an agenda attached, setting out in reasonable detail the matters to be voted on at the meeting, unless the representatives of all Owners in writing waive their right to such notice. Matters not contained in the agenda shall not be voted upon at a meeting unless the representatives of all Owners, whether or not present at the meeting, unanimously agree to add such matters to the agenda.

**404. Voting Procedure**

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

- (a) Voting Interest - Except as provided in this Clause and Clause 405, in voting on any matter each Owner shall have a voting interest equal to its Unit Participation. Owners that are Affiliates shall be deemed to be one (1) Owner and be entitled to one (1) vote representing their entire voting interest.
- (b) Vote Required - Generally - Except as otherwise provided in this Agreement, the Operating Committee shall determine matters by the affirmative vote of one (1) or more Owners having voting interests totalling eighty percent (80%) or more.
- (c) Vote Required - Special Matters
  - (i) Removal of Unit Operator - Subject to the provisions of Clause 702, Unit Operator may be removed by the affirmative vote of one (1) or more Owners having voting interests totalling eighty percent (80%) or more of the remaining voting interest after excluding the voting interest of Unit Operator and its Affiliates, provided that the provisions of Subclause 404(f) shall not apply.



- (ii) Qualification of Tracts - Matters in respect of the qualification of Tracts for inclusion in the Unit Area shall be determined by the affirmative vote of one (1) or more Owners having voting interests totalling eighty percent (80%) or more.
  - (iii) Enlargement of Unit Area - Matters in respect of the enlargement of the Unit Area shall be determined by the affirmative vote of two (2) or more Owners having voting interests totalling eighty percent (80%) or more.
  - (iv) Amendment or Replacement of Exhibits "G" and "H" - Exhibits "G" and "H" may each be amended or replaced by the affirmative vote of one (1) or more Owners having voting interests totalling eighty percent (80%) or more.
  - (v) Termination - The unitization provided for in the Unit Agreement may be terminated by the affirmative vote of one (1) or more Owners having voting interests totalling ninety percent (90%) or more, provided that the provisions of Subclause 404(f) shall not apply.
  - (vi) Resolution of Audit - All items of query that have not been resolved in accordance with the Accounting Procedure will be decided by the affirmative vote of Owners having voting interests totalling eighty percent (80%) or more.
- (d) Vote by Absentee
- (i) An Owner not represented at a meeting may vote on any matter on the agenda by prior notice to the Chairman.
  - (ii) Unit Operator may, without calling a meeting, call for a vote on any matter by submitting said matter, with reasonable details, to each Owner by mail ballot notice. Each Owner shall by notice cause its vote to be received by Unit Operator within fifteen (15) days from the date the mail ballot notice is deemed received pursuant to Clause 1911. Such vote shall be binding unless an Owner or Owners within ten (10) days from the receipt of the mail ballot notice pursuant to Clause 1911 requests that a meeting be called pursuant to Clause 403. Unit Operator shall promptly notify each Owner of the results of a vote hereunder.
- (e) Vote by Proxy

- (i) An Owner may appoint a proxy to attend any meeting on its behalf who shall be authorized to represent and bind Owner.
- (ii) The appointment of a proxy shall be in writing and executed by Owner or his attorney authorized in writing, or, if Owner is a corporation, by an authorized officer or attorney.
- (iii) To be effective, the appointment of a proxy must be received by Unit Operator not less than twenty-four (24) hours prior to the meeting.
- (iv) An Owner who has submitted a proxy may revoke it at any time prior to its use with respect to any particular matter.
- (f) Failure to Vote - An Owner who does not vote or abstains from voting on any matter shall be deemed conclusively to have voted affirmatively, but in recording the vote in the minutes, the 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.
- (g) Negative Vote - If any vote of the Operating Committee would be defeated by the negative vote of one (1) Owner by itself holding a sufficient voting interest to defeat such motion, the motion shall carry unless an Owner casting a negative vote holds a voting interest of at least fifty percent (50%).

**405. Initial Voting Interest**

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

**406. Minutes**

Unit Operator shall keep minutes of the proceedings of each meeting of the Operating Committee and a copy thereof shall be forwarded within thirty (30) days after a meeting to each Owner. The minutes shall include the names of the representatives present, 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 of the date on which they are received or deemed to be received by Owners pursuant to Clause 1911. Copies of corrections shall be forwarded promptly to each Owner.

**407. Owners Bound by Voting**

A determination of a matter by the vote of the Operating Committee in accordance with the provisions of this Agreement shall be binding upon all the Owners.

**ARTICLE V  
POWERS OF THE OPERATING COMMITTEE**

**501. Powers**

The Operating Committee shall exercise overall supervision and control of, and shall determine all matters arising under or which are left to the determination of the Operating Committee pursuant to this Agreement. The matters to be passed and decided upon by the Operating Committee shall include, but not be limited to, the following:

- (a) the approval of Unit Operator's forecasts referred to in Clause 1202;
- (b) the approval of expenditures costing in excess of the authority of Unit Operator as set forth in the Accounting Procedure for any single undertaking;
- (c) the sale or other disposition of any jointly owned item of surplus material or equipment, having in either case an original new cost equal to or greater than the amounts set forth in the Accounting Procedure;
- (d) the appointment of auditors and the approval or disapproval of any recommendations based upon or arising out of any audit of Unit Operator's books and records pertaining to Unit Operations, and the approval of the auditor's fees;
- (e) the appointment or designation of committees or subcommittees to study and make recommendations to the Operating Committee regarding any matter in connection with Unit Operations;
- (f) the taking of periodic inventories pursuant to the Accounting Procedure;
- (g) the designation of a representative to appear before a court or regulatory body considering matters pertaining to Unit Operations, but not so as to prevent any Owner from having its own representative appear on its behalf;
- (h) the settlement of damage claims in excess of the amount specified in the Accounting Procedure;
  - (i) the terms and conditions for transporting or handling non-Unitized Substances in the Unit Facilities;

- (j) the removal of Unit Operator and the designation of a successor; and
- (k) generally all problems of importance and policy matters which may arise from time to time in respect to Unit Operations.

## **ARTICLE VI**

### **INDIVIDUAL RIGHTS AND PRIVILEGES OF THE OWNERS**

#### **601. Reservation of Rights**

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

#### **602. Specific Rights**

Each 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 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 Owner shall protect the Unitized Zone and prevent interference with Unit Operations. Each Owner that exercises this right agrees to indemnify all other 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.

## **ARTICLE VII**

### **UNIT OPERATOR**

#### **701. Unit Operator**

The Owners hereby designate Progress Energy Ltd. as the initial Unit Operator, and Progress Energy Ltd. hereby accepts such designation.

**702. Resignation or Removal**

Unit Operator may resign at any time by giving ninety (90) days' written notice to Owners. Unit Operator may be removed by a vote of the Operating Committee pursuant to Subclause 404(c)(i). A Unit Operator who resigns or is removed shall continue to have all its rights, powers, duties and obligations as Unit Operator hereunder until 8:00 o'clock a.m. on the first day of the month immediately following the expiration of said ninety (90) days from the delivery of said notice of removal or resignation, or until a successor Unit Operator has taken over Unit Operations hereunder, whichever is sooner. If Unit Operator becomes bankrupt or insolvent or ceases to be a Working Interest Owner it shall thereupon cease to be Unit Operator.

**703. Designation of Successor**

If, in accordance with Clause 702, Unit Operator resigns or ceases to be Unit Operator, an Owner shall forthwith be designated by the Operating Committee as successor Unit Operator. In voting on the successor a departing Unit Operator or any of its Affiliates shall not vote to have departing Unit Operator or any of its Affiliates succeed the departing Unit Operator.

**704. 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 Owners or to any one (1) 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 the departing Unit Operator except those duties and obligations that accrued prior to the effective date 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 solely in the name of the departing Unit Operator, it shall immediately transfer such property to the successor Unit Operator in trust for the Owners unless otherwise directed by the Operating Committee.

**705. Accounts Audited When Unit Operator Changes**

Within ninety (90) days of the effective time of Unit Operator's resignation, removal or cessation, the Operating Committee shall cause an audit to be made of the records of the departing Unit

Operator and shall cause an inventory to be conducted. The cost of such audit and such inventory shall be for the Joint Account.

**706. No Assignment**

Except as provided in Clause 704 herein, Unit Operator shall not assign or otherwise dispose of its rights or obligations as Unit Operator under this Agreement.

**ARTICLE VIII  
PERFORMANCE BY UNIT OPERATOR**

**801. Status**

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

**802. Rights, Powers, Duties and Obligations**

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

- (a) keep Owners advised of all matters arising in connection with Unit Operations that Unit Operator or the Operating Committee considers important;
- (b) make all necessary reports relating to Unit Operations to the appropriate governmental agencies;
- (c) be hereby authorized to enter into contracts required in connection with operation of Unit Facilities;
- (d) keep in the Province of Alberta true and correct books, accounts and records relating to Unit Operations and at all reasonable times extend to each Owner at that Owner's sole cost and expense the right to examine and inspect same and to make extracts and copies thereof;
- (e) furnish to each Owner on or before the twenty-fifth (25th) day of each month a statement for the preceding month of the amount and ownership of Unitized Substances produced and the sales and inventory of such production in the

preceding month and such other data and information as may be necessary for the proper accounting and settlement among the parties concerned;

- (f) conduct all Unit Operations hereunder in a good and workmanlike manner, in accordance with good operating practices and in accordance with all applicable laws, orders, rules, regulations and Unit Operator's corporate policy;
- (g) keep the Leases, Unit Area and Unit Facilities free from all liens and encumbrances occasioned by Unit Operations, except the lien of Unit Operator and liens being contested in good faith;
- (h) pay and discharge promptly for and on behalf of Owners all costs, expenses and applicable taxes incurred or required to be paid in connection with Unit Operations;
- (i) procure and maintain for the Joint Account the insurance set forth in Exhibit "H" and make all reasonable efforts to ensure that contractors and sub-contractors employed by it carry the insurance set forth in such Exhibit;
- (j) prepare and submit to the Operating Committee for approval the forecasts provided for in Clause 1202 herein;
- (k) make application, for and on behalf of all Owners, for any and all necessary approvals or orders of governmental bodies or duly constituted authorities having jurisdiction;
- (l) extend to each Owner, at that Owner's sole risk and expense, the right to examine and inspect the Unit Facilities at all reasonable times in the presence of a representative of Unit Operator and after giving Unit Operator reasonable notice, except for portions of the Unit Facilities which are proprietary to a licensor to the extent that such licensor expressly prohibits examinations and inspection by such Owner; and
- (m) be entitled to access the lands, leases, easements, rights-of-way and similar rights of the Owners to enter upon, use and occupy the surface underlying the Unit Facilities for the purpose of conducting Unit Operations.

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

**803. Employees**

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

**804. Expenditures**

Unit Operator shall not make or incur any expenditure for the Joint Account, other than an expenditure allowed by an approved forecast and those expenditures identified in the Accounting Procedure, without the prior approval of the Operating Committee.

**ARTICLE IX  
LIABILITIES AND OBLIGATIONS**

**901. Liability of Unit Operator**

- (a) Unit Operator, its Affiliates, directors, officers, employees and agents shall not be liable to the other Owners for any loss or damage suffered by 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 Affiliates, directors, officers, employees or agents. Each Owner, in the proportion of its Unit Participation, hereby indemnifies and agrees to hold harmless Unit Operator, its Affiliates, directors, officers, employees or agents, against any claim of, or liability to, any third party resulting from acts or omissions of Unit Operator, its Affiliates, directors, officers, employees or agents with respect to the Unit Operations hereunder, 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 Affiliates, directors, officers, employees and agents. For the purposes of this Clause, an act or omission by Unit Operator, its Affiliates, directors, officers, employees or agents shall not be deemed as 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.



- (b) Neither Unit Operator nor its Affiliates, nor any Owners shall be liable for any loss of profits, indirect damages, consequential losses or business losses of Unit Operator, its Affiliates or any Owner.

**902. Taxes, Rentals and Royalties**

Subject to Clause 903, each Owner shall pay or be responsible for the payment of all taxes (other than taxes on Unit Facilities and those taxes described in the Accounting Procedure which shall be paid by Unit Operator for the Joint Account), rentals and royalties applicable to the Owner's Working Interest in the respective Tracts and shall indemnify and save harmless all other Owners from all claims, suits, loss, costs, expenses and damages paid or incurred by them as a result of its failure to do so.

**903. GST Election**

Each of the Owners hereby authorizes and directs the Unit Operator to make an election on its behalf under subsection 273(1) of the *Excise Tax Act* (Canada) with respect to all Unit Operations.

**ARTICLE X  
UNIT FACILITIES**

**1001. Delivery of Wells and Other Facilities**

Upon the Effective Date each Owner shall deliver to Unit Operator the exclusive use and possession of such Owner's interest in the Unit Wells (including all casing, tubing, wellhead equipment, valves, pumps, separators, dehydrators and other wellsite equipment) and other tangible Unit Facilities listed in Exhibit "F".

**1002. Delivery of Records**

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

**1003. Testing of Unit Wells**

If by a test conducted by Unit Operator within one hundred and eighty (180) days after the Effective Date, or the effective date of an enlargement, any Unit Well is found by Unit Operator not to be in sound working condition, the Owner delivering it shall bear the entire cost and risk of putting it in sound working condition; provided that if an Owner disagrees with Unit Operator's finding, the matter shall be finally decided by the Operating Committee. Either the 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 Owner to Unit Operator for the Joint Account. All costs incurred by Unit Operator hereunder, or the amount to be paid by the Owner in lieu thereof, shall be deemed conclusively to be amounts owing by the Owner within the meaning of Article XII.

**1004. Adequacy of Access, Wellsite and Operating Equipment**

If within one hundred and eighty (180) days after the Effective Date, or the effective date of an enlargement, Unit Operator determines that a Unit Well does not have adequate access roads, wellsite and operating equipment, the Owner delivering it shall bear the entire cost and risk of providing and putting in place the requisite access roads, wellsite or operating equipment; provided that if an Owner disagrees with Unit Operator's decision, the matter shall be finally decided by the Operating Committee. Either the Owner shall authorize Unit Operator to provide and put in place the requisite access roads, wellsite and operating equipment on its behalf or the Operating Committee shall determine who shall provide and put in place the same or the amount that, in lieu of the same being provided and put in place, shall be paid by the Owner to Unit Operator for the Joint Account. All costs incurred by Unit Operator hereunder or the amount to be paid by the Owner in lieu thereof, shall be deemed conclusively to be amounts owing by the Owner within the meaning of Article XII.

**1005. Representation and Indemnity**

Each Owner represents that the Unit Facilities which it delivers pursuant to Clause 1001 are free and clear of any liens, charges, encumbrances, suits or actions of whatsoever kind or nature, and each Owner indemnifies and agrees to hold harmless the other 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.

**1006. Agreements for Use of Facilities** With the 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.

## **ARTICLE XI**

### **ADJUSTMENT OF INVESTMENT**

#### **1101. Value of Unit Wells and Flowlines**

For the purpose of Clause 1103:

- (a) each Unit Well delivered pursuant to Clause 1001 shall be deemed conclusively to have a value of Two Hundred and Fifty Thousand dollars (\$250,000), provided however, that each Unit Well is complete with pumping unit; and
- (b) the value of all flowlines delivered pursuant to Clause 1001 shall be deemed conclusively to have a value of Thirty Thousand dollars (\$30,000) per diameter inch mile.

#### **1102. Inventory and Evaluation**

The Operating Committee shall appoint an inventory committee which shall make an inventory and evaluation of such of the Unit Facilities delivered to Unit Operator (other than those described in Clause 1101) as the Operating Committee considers to be controllable equipment. Each Owner shall, upon request by the inventory committee, submit to it promptly a complete statement of such controllable equipment delivered by the Owner to Unit Operator. The inventory committee shall price the controllable equipment at its current new price adjusted for condition as of the Effective Date, and report its inventory and evaluation to the Operating Committee.

**[Note:** Clauses 1101 and 1102 will not be required if equalization takes place prior to execution of the Unit Operating Agreement.]

#### **1103. Investment Adjustment - Initial Unit**

Upon approval by the Operating Committee of the report of the inventory committee, each Owner shall be credited with the value of its interests in the Unit Facilities contemplated by Clauses 1101 and 1102, and charged with an amount equal to that obtained by multiplying the total value of all

such Unit Facilities by the Owner's Unit Participation. If the charge against any Owner is greater than the amount credited to it, the resulting net charge shall be payable and in all other respects treated as an expense chargeable against the Owner. If the credit to any Owner is greater than the amount charged against it, the resulting net credit shall be paid to the Owner by Unit Operator out of funds received from other Owners in settlement of net charges against them.

**11.04            General Facilities**

With the approval of the Operating Committee Unit Operator may acquire warehouses, warehouse stock, housing, camps, office buildings and automobiles and other service equipment required for Unit Operations.

**1105.            Ownership of Unit Facilities**

Each Owner shall own an undivided interest in the Unit Facilities equal to its Unit Participation. Title to the Unit Facilities shall be held in the name of Unit Operator, but shall be held in trust for the benefit and at the risk and expense of all Owners, each in proportion to their respective Unit Participation.

**1106.            Adjustment on Failure of Title**

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

**1107.            Pre-Unit Costs**

With the approval of the Operating Committee costs and expenses incurred prior to the Effective Date that are directly related to effecting unitization pursuant to the Unit Agreement and this Agreement shall be for the Joint Account.

**ARTICLE XII  
COSTS OF UNIT OPERATIONS**

**1201.            Basis of Charges to Owners**

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

**1202. Forecasts**

As soon as practicable after the Effective Date, Unit Operator shall submit to the Operating Committee a forecast of proposed expenditures for Unit Operations for the remainder of the calendar year, and on or before the last day of October in each calendar year thereafter shall submit to the Operating Committee such a forecast for the succeeding calendar year. Such 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 Owner. Approval by the Operating Committee of a forecast or revised forecast shall constitute approval of all expenditures set forth therein. Except as otherwise provided in Clause 804, all capital expenditures set forth in a forecast shall be approved in accordance with Clause 404 of this Agreement.

**1203. Advance Billings for Capital Items**

Capital advances by Owners shall be made in accordance with the Accounting Procedure.

**1204. Operating Fund**

Unit Operator may by notice require the Owners to advance monies for an operating fund as provided in the Accounting Procedure.

**1205. Regular Billings**

Unit Operator shall bill each Owner for its share of all costs and expenses incurred for the Joint Account in each month as determined in accordance with the Accounting Procedure.

**1206. Commingling of Funds**

Funds advanced to the Unit Operator by an Owner or received by the Unit Operator for the account of an Owner shall be dealt with by the Unit Operator in the manner provided for in this Agreement. All such funds are trust funds and are not to be used by the Unit Operator for its own purposes. Unit Operator may commingle funds received by it under this Agreement with its own funds but such right to commingle is granted to the Unit Operator as an administrative aid in its duties hereunder and does not alter the characterization of such funds advanced to or received by the Unit Operator as trust funds.

**1207. Unit Operator's Remedies**

- (a) If any Owner fails to pay its proportionate share of any costs and expenses, including any interest thereon, within ninety (90) days after receiving a bill or request for payment, such Owner shall be deemed to be in default and a lien in favour of Unit Operator shall come into existence on such Owner's share of production.
- (b) Unit Operator may, while the lien exists, sell and deliver all or any part of the defaulting Owner's share of production and collect and receive the proceeds of any sales contracts therefor made by or on behalf of the defaulting Owner. Service of an executed counterpart of this Agreement, or a true copy hereof, upon any purchaser of all or any part of a defaulting Owner's share of production, shall constitute written authorization by the defaulting Owner for the purchaser to pay the proceeds from such sale to Unit Operator during the period of default. Unit Operator shall apply all monies collected against the defaulting Owner's unpaid share of costs, expenses and interest hereunder, and all monies so applied shall be considered as received from the defaulting Owner. The "Net Proceeds" shall be paid by Unit Operator to the defaulting Owner. "Net Proceeds" shall be the total proceeds received from the sale of a defaulting Owner's share of products during each month, less an administration fee payable to Operator equal to five percent (5%) of total proceeds and less any charges for tank car rental, applicable taxes, pipeline transportation costs and similar costs and expenses incurred or made in connection with the sale.
- (c) Unit Operator may similarly set off against the amount unpaid any monies due to the defaulting Owner from Unit Operator under this Agreement or the Unit

Agreement, other than lessor royalty payments due to a defaulting Owner who is also an owner of freehold mineral rights.

- (d) The rights granted to Unit Operator in this Subclause shall not be exclusive remedies but shall be in addition to all rights, privileges and remedies afforded Unit Operator by other provisions of this Agreement and by law. Books and records kept by Unit Operator with respect to the Unit Operations hereunder 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 Agreement.
- (e) During any period in which an Owner is in default hereunder, defaulting Owner shall not be entitled to vote on any matter pursuant to provisions of Article IV hereof. During such period of default, each Owner's revised voting interest will be calculated such that the numerator is that Owner's voting interest and the denominator is the sum of the voting interests of all Owners, exclusive of those Owners in default.

**1208. Contributions by Owners**

If Unit Operator has not received full payment of an Owner's share of the costs and expenses of Unit Operations within ninety (90) days following the date when payment was due, each of the other Owners shall, upon being billed therefor by Unit Operator, contribute a fraction of the unpaid amount, excluding interest thereon, having as its numerator the Owner's Unit Participation and as its denominator the aggregate of the Unit Participations of all of the Owners exclusive of the Unit Participation of the defaulting Owner; and thereupon each Owner so contributing shall be proportionately subrogated to Unit Operator's rights pursuant to Clause 1207.

**1209. Prior Commitments**

The Owners hereby acknowledge that prior to the execution of this Agreement, Unit Operator has contracted with various parties for the design and construction of Unit Facilities and related infrastructure facilities. The Owners hereby acknowledge that the commitments, expenditures, covenants, obligations, duties, responsibilities, rights and agreements of Unit Operator made, arising or incurred as a result thereof have been made, incurred or performed by Unit Operator on behalf of the Owners. The Owners hereby ratify and confirm the actions taken by Unit Operator to the extent the Owners are aware of such actions.

**ARTICLE XIII**  
**[IF APPLICABLE]**  
**OIL IN LEASE TANKAGE AND OVERPRODUCTION**  
**AS OF THE EFFECTIVE DATE**

**1301. Gauge of Merchantable Oil**

Unit Operator shall gauge all lease and other tanks delivered to it to ascertain the amount of merchantable oil in them as of the Effective Date. If any well producing into them has made more than its cumulative allowable production of oil from the proposed Unitized Zone as set by the Conservation Board, the amount of such overproduction then in the tanks shall be deemed to be Unitized Substances produced after the Effective Date. Except as aforesaid, the oil in the tanks shall remain at the risk of and be the property of the persons owning it prior to the Effective Date, and upon request shall be delivered in kind to them, or in the absence of their request, shall be sold by Unit Operator for their account.

**1302. Overproduction**

If any overproduction of oil from the proposed Unitized Zone has been sold by an Owner prior to the Effective Date and if on such date there is still a balance of overproduction, such Owner shall pay to Unit Operator for the Joint Account, the gross proceeds thereof less any royalty paid or payable thereon.

**ARTICLE XIV**  
**SURFACE RIGHTS**

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

As soon as reasonably possible after executing this Agreement, each 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.



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

Unit Operator shall, as soon as practicable after the receipt of each of the aforesaid lists, advise in writing the 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 Article XIV, each 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 Owner for rentals so paid and the amounts thereof shall be for the Joint Account. Notwithstanding the foregoing, each 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 1404, provided that the Owner so assigning shall, at Unit Operator's request, warrant title to the surface rights so assigned.

**1403. Surface Rights Jointly Used**

Where there is a well or wells on a Tract in addition to a Unit Well, and surface rights are being used for production jointly from one (1) or more of such other wells and the Unit Well, the rentals applicable to the surface rights shall be divided equally between the wells with respect to which the surface rights are being jointly used, and Unit Operator shall only be billed for the portion of such rentals which is applicable to the production of Unitized Substances from the Unit Well. For the purpose of this Clause, a well producing from more than one (1) formation shall be considered as two (2) or more wells.

**1404. Assignment of Surface Rights**

Unit Operator may require that any surface rights which are being used solely for Unit Operations be assigned to it. Any such assignment shall, however, contain an express reservation to the assignor of the right at any time upon request to use the assigned surface rights jointly with Unit Operator on the basis provided in Clause 1403. When the assigned surface rights are no longer required, Unit Operator shall so notify the assignor who may require Unit Operator to re-assign the surface rights to the assignor. The provisions of Clause 1405 shall apply, mutatis mutandis, in respect of any surface rights which are the subject of a notice given under this Clause 1404.

**1405. Surface Rights No Longer Required**

Unit Operator may notify an 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 Owner holding them from responsibility and liability as to the surface rights, which shall not thereafter be subject to this Agreement.

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

Subject to any prior grant thereof, Unit Operator may use for Unit Operations any surface rights held in fee simple by an Owner upon payment to the Owner of consideration commensurate with rentals paid for other surface rights in the Unit Area.

**1407. Acquisition of Additional Surface Rights**

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

**1408. Sharing of Surface Rights**

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

**ARTICLE XV**

**ABANDONMENT OF WELLS**

**1501. Rights of Former Owners**

If the Operating Committee decides to plug and permanently abandon any Unit Well, Unit Operator shall give notice of such decision to the Owners owning the Working Interest in the Tract upon which such well is located. Such Owners may each individually elect by notice given 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 such well and deepen or plug it back to a formation other than the Unitized Zone. If more than one such Owner elects to take over such well as aforementioned, the benefits, rights, responsibilities and liabilities relating thereto, shall be shared by all such Owners so electing in

proportion to the ratios that their individual Working Interest in the Tract upon which such well is located bear to their total combined Working Interest in the same. Within ten (10) days after any such Owners have so elected they shall pay the Unit Operator for the Joint Account the fair net salvage value of the production casing and equipment in and on the well, as estimated and fixed by the Operating Committee. Unit Operator shall seal off the Unitized Zone in the well before handing it over to such Owners and thereupon Unit Operator shall be relieved of its responsibility and liability with respect to such well, except any obligations already accrued, and shall be denied all benefit with respect to such well, and shall thereafter be indemnified and held harmless by the Owners so electing from responsibility and liability regarding such well. Except as provided in this Clause, upon any Owner entitled to take over such well electing to take over the same, such well shall cease to be subject to this Agreement, and the Owners electing to take over such well shall be fully responsible for such well including the responsibility to abandon such well and to reclaim the surface therefor at their sole cost, risk and expense in accordance with applicable laws and regulations and to the satisfaction of any governmental body having jurisdiction with respect thereto.

**1502. Abandonment**

If an Owner receiving a notice pursuant to Clause 1501 does not elect to take over the Unit Well proposed for abandonment as hereinbefore provided, Unit Operator shall abandon such well in accordance with applicable laws and regulations and the cost of such abandonment and any clean-up and restoration associated therewith shall be for the Joint Account.

**1503. Surface Clean-up**

Upon the abandonment of any well in the Unit Area, Unit Operator or the Owner abandoning such well shall clean up and restore the surface at the well site in accordance with applicable laws and regulations, to the satisfaction of any governmental body having jurisdiction, and to the reasonable satisfaction of the owner or occupier thereof.

**ARTICLE XVI  
TERM OF AGREEMENT**

**1601. Term**

This Agreement is binding upon a person who executes and delivers a counterpart thereof to Unit Operator, and that person is bound by this Agreement as of the time of such delivery. Subject to Article XVIII, this Agreement shall remain in full force and effect while Unitized Substances are produced or are capable of being produced from the Unitized Zone in paying quantities and thereafter until all Unit Wells have been plugged and abandoned, or taken over pursuant to Clause 1801, and the Unit Facilities have been salvaged, reclamation completed and the accounts between the Owners have been settled; provided that those provisions related to audit, liability, indemnity, disposal and salvage of material and enforcement of default shall survive thereafter. Notwithstanding anything herein contained, this Agreement may be terminated by the vote provided for in paragraph 404(c)(v).

## **ARTICLE XVII COMMENCEMENT DATE**

### **1701. Commencement Date**

Although this Agreement is binding upon a person from the time that person executes and delivers one (1) counterpart thereof to Unit Operator, the Commencement Date for actions to be taken by the Owners to carry out the purposes of this Agreement in accordance with its provisions shall be 08:00 hours on the day next following the day when Unit Operator is satisfied that Working Interest Owners having initial Unit Participations totalling one hundred percent (100%) or more as set forth in the original Exhibit "E" have become Owners. Unit Operator shall notify the Owners thereof. If the unitization provided for in the Unit Agreement has not become effective within the time limited therein, this Agreement shall thereupon terminate. If this Agreement so terminates, all expenditures made in anticipation of the unitization becoming effective shall be borne by the Owners in the proportion that the Unit Participation of each bears to the combined Unit Participation of all the Owners.

## **ARTICLE XVIII ABANDONMENT OF OPERATIONS**

### **1801. Right to Operate**

The owner of the Working Interest in a Tract desiring to take over and continue to operate a Unit Well located thereon may, upon the termination of this Agreement, do so by paying Unit

Operator for the Joint Account, the fair net salvage value of the casing and equipment in and on the well as estimated and fixed by the Operating Committee, and by agreeing to plug the well when it is finally abandoned.

**1802. Salvaging Wells**

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

**1803. Cost of Salvaging**

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

**ARTICLE XIX  
MISCELLANEOUS PROVISIONS**

**1901. Affects Working Interest Only**

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

**1902. Execution Without Prejudice**

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

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

If any interest of an 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 Agreement in writing, agrees that such lien, assignment or encumbrance shall, from the Effective Date continue in effect, but shall apply only to such

interest as the same is amended, modified and affected by this Agreement and the Unit Agreement, and shall be subject to such agreements as to such Owner and such interest.

**1904. Partition**

No Owner shall resort to any action for partition, or sale in lieu of partition, of the real property comprised in the Unit Facilities, or any portion thereof.

**1905. No Surrender Without Consent**

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

**1906. Waiver**

A waiver of any breach of a provision hereof shall not be binding upon an Owner unless the waiver is in writing and signed and the waiver shall not affect such Owner's rights with respect to any other or future breach.

**1907. Suits**

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

**1908. Further Assurances**

Each 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 Agreement.

**1909. Restriction on Dispositions**

An 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.

**1910. United States Tax Provision**

Each Owner who is subject to United States Income Tax elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954 or 1986, as the case may be, to be excluded from

the application of any and all sections of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954 or 1986, as the case may be, or any other Internal Revenue Codes substituted therefor, to the extent approved by the Secretary of the Treasury of the United States or his delegates. Unit Operator is hereby authorized to execute such election on behalf of any Owners who are entitled to make such election, and to file such evidence of any election as is required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including, without limitation, all returns, statements and data required by the Code and any applicable regulations provided that, if Unit Operator is not subject to the Code, the obligations of Unit Operator under this clause shall be carried out by the Owner hereto which is subject to the said Code and which holds the greatest Unit Participation. Should there be any requirement that each Owner who is entitled to elect file further evidence of this election, each Owner who is entitled to make such election agrees to execute or join in the execution thereof.

**1911. Notices and Communications**

All notices, bills, statements and communications hereunder shall be in writing and, in lieu of personal service may be given by prepaid written telecommunication, delivered by prepaid courier or by mailing in a sealed and properly addressed envelope with postage prepaid. Notices, bills, statements and communications shall be deemed to have been received at the opening of business in the office of the addressee on the business day following transmission in the case of a telecommunication and prepaid courier and on the fourth (4th) business day after the date of mailing in the case of a notice mailed by prepaid post provided there is no disruption of mail service. In the case of a disruption of mail service, all notices, bills, statements and communications shall be given by prepaid written telecommunication or delivered by prepaid courier. The address appearing below the execution of each Owner shall be the address to which notices, bills, statements and communications to it shall be personally served or directed. An Owner may change its address by notice to Unit Operator. Upon request, Unit Operator shall furnish to any Owner the address for service of any of the other Owners. "Business day" means any day when the usual complement of the addressee is present for the conduct of regular business at its address for service.

**1912. Enurement**

This Agreement shall enure to the benefit of and be binding upon the Owners and their respective successors and permitted assigns.

**1913. Execution in Counterpart**

This Agreement may be executed in as many counterparts as are necessary and all executed counterparts shall constitute one (1) Agreement.

**1914. 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 all as the context requires.

**1915. Applicable Law**

This Agreement shall be governed by and construed and the relations between the parties determined in accordance with the law of the Province of Alberta. The courts of the Province of Alberta shall have exclusive jurisdiction with respect to all matters relating to or arising out of this Agreement.

**1916. Relationship of Owners**

It is understood that it is not the intention of the Owners to create a partnership or association. The duties, obligations and liabilities of Owners are intended to be separate and not joint or collective; and nothing contained in this Agreement or in any agreement made pursuant thereto shall ever be construed to create a partnership or association or impose a partnership duty, obligation or liability with respect to any one (1) or more Owners. Each Owner shall be individually responsible only for its obligations as set out in this Agreement.

**1917. Mortgages**

An Owner may mortgage its interest in the Unit Facilities. Any such mortgage shall expressly provide that the mortgagee shall hold the interest subject to all the terms and provisions of this Agreement, and shall also provide that upon any realization of the security the mortgagee or the purchaser as the case may be shall be required to assume all future obligations of the mortgagor under this Agreement.



**IN WITNESS WHEREOF** the Owners have executed this Agreement each on the date shown opposite its execution hereof.

Date: \_\_\_\_\_

Per: \_\_\_\_\_

Per: \_\_\_\_\_

ADDRESS FOR SERVICE:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

This is the Execution Page of the Agreement entitled "Unit Operating Agreement – Birdtail Unit No. 1".

EXHIBIT "E"

**EXHIBIT "E"**

ATTACHED TO AND MADE PART OF THE AGREEMENT ENTITLED  
"UNIT OPERATING AGREEMENT -  
BIRDTAIL UNIT NO. 1"

**LIST OF OWNERS AND THEIR  
RESPECTIVE UNIT PARTICIPATIONS**

PROGRESS ENERGY LTD. – 100% WORKING INTEREST OWNER

EXHIBIT "F"

**EXHIBIT "F"**

ATTACHED TO AND MADE PART OF THE AGREEMENT ENTITLED  
"UNIT OPERATING AGREEMENT -  
BIRDTAIL UNIT NO. 1"

**LIST OF UNIT FACILITIES**

**PART I - UNIT WELLS**

<u>Well Name</u>	<u>Unique Identifier</u>
<b>Producers</b>	
5-4-16-27 W1M	100050401627W100
12-4-16-27W1M	100120401627W100
13-4-16-27W1M	100130401627W100
8-5-16-27W1M	100080501627W100
9-5-16-27W1M	100090501627W100
10-5-16-27W1M	No Well
15-5-16-27W1M	100150501627W100
16-5-16-27W1M	100160501627W100
4-9-16-27W1M	100040901627W100
11-4-16-27W1M	No Well
 <b><u>Water Injection Wells (Produced and Fresh Water)</u></b>	
14-4-16-27WW1M	100140401627W100
7-5-16-27W1M	100070501627W100

## PART II - OTHER TANGIBLE UNIT FACILITIES

### Water Source Well

### Unique Identifier

2-19-16-27W1M

100021901627W100

Water Source Well is owner 50% by Birdtail Unit No. 1 and 50% by Birdtail Unit No. 2

The Oil Battery located at 1-19-16-27W1M will be owned 50%/50% between Birdtail Unit No. 1 and Birdtail Unit No. 2

The pipeline that sends oil, water and gas from Birdtail Unit No. 1 to the 1-19-16-27W1M Battery will be owned 100% by the unit.

The (fresh water and produced) water lines that will start at 1-19-16-27W1M and go to the two (2) injection wells at Unit (14-4-16-27W1M and 7-4-16-27W1M) will also be owned 100% by the unit.



## EXHIBIT "G"

ATTACHED TO AND MADE PART OF THE AGREEMENT ENTITLED  
"UNIT OPERATING AGREEMENT -  
BIRDTAIL UNIT NO. 1"

### ACCOUNTING PROCEDURE

101. Accounting Procedure Chosen

The Accounting Procedure is the 1996 Petroleum Accountants Society of Canada's Accounting Procedure and has been modified only as shown in Clause 102 (b) hereof. The elections chosen and values inserted are described in Clause 102 (a) hereof.

102. Rates, Elections and Modifications to the 1996 PASC Accounting Procedure

- (a) The following clauses of the Accounting Procedure are modified to include the indicated election, alternate, option or value:

105. Operating Fund: 10 %

110. Approvals: Clause 404(b) of the Unit Operating Agreement;

112. Expenditure Limitations:

- (a) excess of twenty five thousand dollars (\$25,000)
- (c) excess of ten thousand dollars (\$10,000)

202. Employee Benefits:

- (b) exceed twenty-two percent ( 22%)

213. Camp and Housing:

- (b) shall X /shall not \_\_\_\_\_

216. Warehouse Handling:

five percent ( 5%)

221. Allocation Options:

- 204. Percentage of direct Costs
- 207(c) Percentage of Direct Costs
- 212. Percentage of Direct Costs
- 213.(a) Percentage of Direct Costs
- 214. Percentage of Direct Costs

302. Overhead Rates:



(a) Exploration Project n/a

(b) Drilling of a well \_\_\_\_\_ percent (\_\_\_\_ %)

OR

- (1) three percent (3%) ; fifty thousand dollars (\$ 50,000)
- (2) two percent ( 2%) ; one hundred thousand dollars (\$ 100,000)
- (3) one percent ( 1%)

(c) Initial Construction \_\_\_\_\_ percent (\_\_\_\_\_%)

OR

- (1) five percent (5%) ; fifty thousand dollars (\$ 50,000)
- (2) three percent ( 3%) ; one hundred thousand dollars (\$ 100,000)
- (3) one percent ( 1%)

(d) Construction Project \_\_\_\_\_ percent (\_\_\_\_\_%)

OR

- (1) five percent ( 5%) ; fifty thousand dollars (\$50,000)
- (2) three percent ( 3%) ; one hundred thousand dollars (\$100,000)
- (3) one percent ( 1%)

(e) Operations and Maintenance:

- (1) ten percent ( 10%)
- (2) one hundred and fifty dollars (\$150 )
- (3) \_\_\_\_\_ dollars (\$ \_\_\_\_\_ )

The rates in Subclauses 302(e)(2) and 302(e)(3) hereof shall\_\_\_\_/ shall not X be adjusted.....

406. Dispositions:

twenty five thousand dollars (\$25,000)

(b) Modifications to the PASC Accounting Procedure

The Accounting Procedure is modified as follows:

The following clauses are deleted and replaced:

Clause 201(a)(6) - Salaries and wages of the Operator's employees engaged in Production Engineering who are either temporarily or permanently assigned to and directly employed off-site in direct support of Joint Operations.

Clause 207(d) - Maintaining and operating an On-Site Warehouse that is part of the Joint Property. When additional operations or activities are served by the On-Site Warehouse, the cost of maintaining and operating the On-Site Warehouse shall be allocated among all operations and activities served, on an equitable basis or as otherwise agreed to by the Owners pursuant to Clause 216 of the Accounting Procedure.

Clause 406 - The Operator shall make timely disposition of idle and/or surplus Material, either through sale to the Non-Operators or sale to other

parties. The Operator may purchase but shall be under no obligation to purchase, the interest of the Non-Operator's surplus Material. All sales of Material, regardless of Condition, the proceeds from disposition of which is greater than \_\_\_\_\_ dollars (\$\_\_\_\_\_) shall be subject to approval by the Owners. All other disposals of Material shall be at the discretion of the Operator excepting sale to the Operator or its Affiliates. Exceptions shall be priced pursuant to Clause 402 of this Accounting Procedure unless prior approval by the Owners is obtained.

Clause 501(b) - The Operator shall conduct an inventory of stock maintained in a Warehouse which is part of Joint Operations on an annual basis or as otherwise approved by the Owners.

103. **Warranty as to Modifications**

Except as otherwise provided for in Clause 101 and 102 hereof, the Accounting Procedure published by the Petroleum Accountants Society of Canada 1996 (copyright) is hereby incorporated in its entirety in this Agreement and the Owners so warrant that the said Accounting Procedure has been amended only to the extent set forth herein.

Effective as of the Effective Date

PASC  
PASC ACCOUNTING PROCEDURE

Recommended by the Petroleum Accountants Society of Canada

EXHIBIT   "   "

Attached to and a part of \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

ARTICLE I - GENERAL PROVISIONS

101. Definitions

In this Accounting Procedure the following words and phrases shall have the following respective meanings, namely:

- (a) "Administrative Services" means support services such as accounting, purchasing, clerical, secretarial, and administrative whether On-Site or not.
- (b) "Affiliate" means, with respect to the relationship between corporations, that one of them is controlled by the other or that both of them are controlled by the same person, corporation or body politic; and for this purpose a corporation shall be deemed to be controlled by those persons, corporations or bodies politic who own or effectively control, other than by way of security only, 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, provided that a partnership which is a party and which is comprised solely of corporations which are Affiliates, as described above, shall be deemed to be an Affiliate of each such corporation and its other Affiliates.
- (c) "Agreement" means the Agreement to which this Accounting Procedure is attached.
- (d) "Alliance" means a contractual arrangement whereby a third party provides services to the Operator and which involves the sharing of employees and/or office spaces.

- (e) "Completion" means the installation in, on, or with respect to a well of all such production casing, tubing and wellhead equipment and all such other equipment and material necessary for the permanent preparation of the well for the taking of petroleum substances therefrom up to and including the outlet valve on the wellhead and includes, as necessary, the perforating, stimulating, treating, fracturing and swabbing of the well and the conduct of such production tests with respect to such well as are reasonably required to establish the initial production of the well.
- (f) "Construction Project" means construction, abandonment and reclamation of facilities or installation activity undertaken for the Joint Account, including each subsequent addition thereto or alteration thereof and Equipping wells but does not include Drilling. For purposes of Clause 302 of this Accounting Procedure, each addition or alteration 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. Replacement of Material in kind should be considered Operations and Maintenance unless the Owners agree otherwise.
- (g) "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 Canada.
- (h) "Drilling" means all activities with respect to the drilling of a well, including surface access and the construction of roads to and from the site of the well, preparation of the site of the well, the installation of all surface and intermediate casing respecting the well, logging, coring, capping, deepening, abandoning, reclaiming, plugging back, sidetracking, re-drilling, production testing of a well or the converting of a well to a source, injection, observation or producing well and including stratigraphic tests, and includes Completion but does not include Equipping, routine clean-out and pump or rod pulling operations which are Operations and Maintenance. Without limiting the generality of the foregoing this also includes environmental or socioeconomic studies required by governmental authorities as a prerequisite to the issuance of approval for the drilling of such well.
- (i) "Equipping" means the installation of such equipment as is required to produce petroleum substances from a completed well, including, without restricting the generality of the foregoing, a pump (or other artificial lift equipment), the installation of the flow lines and production tankage serving the well and, if necessary, a heater, dehydrator or other wellsite facility for the initial treatment of petroleum substances produced from the well to prepare such production for transportation to market, but specifically excludes any such equipment, installation, or facility that is (or is intended to be) a production facility.

- (j) "Exploration" means geological, geophysical and geochemical examinations and other investigations relating to geology, and any related environmental studies, other than Drilling, for the purpose of defining field limits or defining development well locations, conducted pursuant to the terms of the Agreement.
- (k) "Initial Construction" means construction conducted to place the Joint Property on stream to the date of initial operations.
- (l) "Joint Account" means the account showing, in Canadian funds, the charges paid and credits received as a result of Joint Operations and which are to be shared by the Owners in accordance with the terms of the Agreement.
- (m) "Joint Operations" means Exploration, Drilling, Completion, Equipping, Construction Projects, and Operations and Maintenance activities conducted pursuant to the terms of the Agreement.
- (n) "Joint Property" means all property subject to the Agreement.
- (o) "Material" means equipment or supplies acquired for use in the conduct of Joint Operations, which shall be classified as follows:
  - (1) Condition "A" means that which is new;
  - (2) Condition "B" means that which has been used but is suitable for its original function without reconditioning;
  - (3) Condition "C" means that which has been used and would be suitable for its original function after reconditioning or that which cannot be reconditioned for, but has a limited service in, its original function;
  - (4) Condition "D" means that which is not suitable for its original function but is usable for another function;
  - (5) Condition "E" means that which is junk.
- (p) "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 Joint Property. Tubular goods fifty and eight tenths millimetres (50.8 mm) or two inches (2 inches) in diameter and over shall be priced on a carload basis. Costs of special services to tubular goods, including transportation for that service, shall be included when determining the New Price. Any cash discount that may be allowed by a dealer shall not be deducted in determining the New Price.
- (q) "Non-Operator" means an Owner or a Party to the Agreement other than the Operator.

- (r) "Operations and Maintenance" means activities and Material required to directly operate, repair, and maintain wells and facilities on the Joint Property.
- (s) "Operator" means the Owner or Party designated pursuant to the Agreement to conduct Joint Operations.
- (t) "On-Site" means within the legal boundaries of the Joint Property or in the Production Office or in the general vicinity of the Joint Property when in direct conduct of Joint Operations.
- (u) "Owner" or "Party" means a person, partnership, corporation or other entity who is bound by the Agreement.
- (v) "Production Engineering" means facilities and operations engineering support for Operations and Maintenance. This includes the following activities:
  - (1) facilities engineering which includes evaluation, optimization, testing, and if required, modifications to wellsite facilities, pipelines, production satellites, oil treating facilities, gas treating facilities, production storage and custody transfer facilities, gas and natural gas liquid injection facilities, produced water handling and injection facilities, fresh water supply and handling facilities, gas compression facilities, controls and data acquisition, loss prevention, utilities, corrosion control and classification, environmental protection, quality control and assurance, operational problem resolution and process optimization and maintenance planning.
  - (2) operations engineering which includes preparation of expense recompletion programs, remedial workover and stimulation programs (acidizing, fracturing, slick line and wireline programs, coiled tubing, snubbing, nitrogen and carbon dioxide programs); preparation of well control and safety programs; design and optimization of artificial lift systems (dynamometer and fluid level analysis, well bore gradient and interpretation, water analysis, pressure, volume, temperature data, open and cased hole logs, absolute open flow data and the like required to evaluate well performance and workover candidate); and optimization of downhole completion assemblies excluding reservoir performance optimization but including tubing force analysis and packer design, wellhead design, sand control equipment and procedures, downhole equipment for quality assurance and quality control as well as metallurgical design for critical service, selection of workover candidate to rectify mechanical problems, design and implementation of field bottom hole pressure survey and interpretation of pressure data, and interpretation of data required for optimization of downhole completion assemblies.
- (w) "Production Office" means an office or a portion of an office, the primary function of which is to directly serve the daily Operations and Maintenance.

- (x) "Professional Consulting Services" means the services of a professional individual or firm employed to provide professional advice for the benefit of Joint Operations.
- (y) "Supervision" means the supervision of employees and/or contract labour directly employed On-Site in the conduct of Joint Operations.
- (z) "Technical Services" means the services providing specific engineering, geological or other professional skills such as, but not limited to those performed by engineers, geologists, geophysicists, technologists, environmentalists, safety specialists, and surface landmen required to handle specific operating conditions and problems for the benefit of Joint Operations which are not Production Engineering or Administrative Services.
- (aa) "Warehouse" means a building, pipe yard and/or storage point where idle equipment is stored.

#### 102. Statement and Billings

The Operator shall bill each Non-Operator on or before the last day of each month for its proportionate share of the Joint Account for the preceding month. Such bills shall be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized in accordance with the Joint Interest Billing Exchange Chart of Accounts as most recently recommended by the Petroleum Accountants Society of Canada classifications, as a minimum.

In the event that production revenue settlement statements are submitted by the Operator, sufficient volumetric, pricing, and revenue information by product, production month and year shall be provided to enable each Non-Operator to correctly calculate and record its income and pay its obligations attached thereto.

#### 103. Payments by Non-Operators

Unless otherwise provided in the Agreement, each Non-Operator shall pay all bills as rendered pursuant to Clause 102 of this Accounting Procedure within thirty (30) days of receipt thereof. When the due date falls on a weekend or a statutory holiday, the payment will be due on the preceding business day.

#### 104. Capital Advances

Unless otherwise provided in the Agreement, the Operator may require each Non-Operator to advance its proportionate share of the estimated costs to be paid in the succeeding month for approved capital projects for Joint Operations. If the Operator so elects, it shall, not earlier than thirty (30) days prior to the first day of each month,

submit to each Non-Operator a reasonably detailed estimate of the costs proposed to be paid for the Joint Account in that month, with a request for payment by each 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 fifteenth (15th) day of the month for which the advance is requested or twenty (20) days after receipt of such estimate, whichever is later.

The Operator shall adjust each monthly billing to reflect advances received from the Non-Operator. Expenditures in excess of the advances shall be billed to and paid by each Non-Operator pursuant to Clause 103 of this Accounting Procedure. Amounts advanced by each Non-Operator in excess of actual costs shall be refunded by the Operator with the related billing for the month in which the advance was paid. Any such excess amounts not refunded will, at each Non-Operator's option, bear interest, payable by the Operator for the account of each Non-Operator, at the rate specified pursuant to Clause 106 of this Accounting Procedure from the day the billing is rendered pursuant to Clause 102 of this Accounting Procedure.

105. Operating Fund

Unless otherwise provided in the Agreement, the Operator may require each Non-Operator to advance for an operating fund its proportionate share of \_\_\_\_\_ percent (\_\_\_\_%) of an approved forecast of expenditures for Operations and Maintenance for a year. The amount of this operating fund shall be increased or decreased annually in accordance with the current year's approved forecast of expenditures for Operations and Maintenance. This adjustment shall be done within ninety (90) days after the end of the previous year or when the current year's forecast is approved, whichever is later. Each Non-Operator shall remit such advance thirty (30) days after receipt of request for payment. After the establishment of the operating fund, each Non-Operator shall remit its share of actual costs in accordance with each month's billing, thus maintaining the operating fund intact.

106. Unpaid Accounts

Unless otherwise provided for in the Agreement, if payment of any bills or requests for advances is not made within the time stipulated in this Accounting Procedure, the unpaid amount may, at the Operator's option, bear interest payable by the Non-Operator and compounded monthly, for the account of the Operator at the rate of two percent (2%) per annum higher than the average prime rate charged by the principal Canadian Chartered bank used by the Operator, regardless of whether the Operator has notified such Non-Operator in advance of its intention to charge interest with respect to such unpaid amount, for the period in which such interest is payable.



107. Adjustment and Right to Protest/Question Bills

- (a) A Non-Operator shall not withhold payment of any portion of a bill presented by the Operator due to protest or question related to such a bill unless there is a significant item under dispute and the Operator agrees to the Non-Operator withholding payment for the disputed item. Questions by the Non-Operator related to bills shall be responded to by the Operator within fourteen (14) days of receipt of the Non-Operator's query. In the event the Operator agrees that the questioned charges require adjustment, such adjustment shall be made by the Operator within thirty (30) days after such agreement to the adjustment. Notwithstanding the foregoing provisions, the Operator shall not unreasonably deny the Non-Operator's request to withhold payment for significant disputed charges which require adjustment and for which written notice has been received.
- (b) Subject to Subclause 107(c) hereof, payment of any bills or requests for advances shall not prejudice the right of the Non-Operator to protest or question the correctness thereof; provided however, all bills and statements rendered to the Non-Operator during any calendar year shall be presumed to be true and correct after the later of twenty-six (26) months following the end of such calendar year or any approved extensions pursuant to Subclause 108(b) of this Accounting Procedure, unless before the end of the said twenty-six (26) months the Non-Operator takes written exception thereto and makes claim on the Operator for an adjustment.
- (c) If within the period referred to in Subclause 107(b) hereof, the Non-Operator or the Operator establishes that an error in the books, accounts and records relating to Joint Operations existing in the said period also existed previous to the period, the Operator shall make the required adjustments retroactively either to the inception of the error or in a manner as approved by the Owners. The provisions of this Subclause are neither intended to extend the Non-Operator's audit rights to access books and records beyond the twenty-four (24) month audit limitation pursuant to Subclause 108(a) of this Accounting Procedure; nor is it intended that the Non-Operator request such an adjustment without being able to adequately support the request. The adjustments shall be subject to the Non-Operator's right to audit.
- (d) The provisions of this Clause shall not prevent adjustments resulting from physical inventory of Controllable Material pursuant to Article V of this Accounting Procedure.

108. Audits

- (a) The Operator's books, accounts, and records relating to Joint Operations for a calendar year may be audited within twenty-four (24) months next following the end of the calendar year. In the event of a payout situation, the twenty-four (24) month period for expenditures commences with receipt of any payout statement. Where two or more Non-Operators desire to conduct an audit, they shall make every reasonable effort to conduct an audit by a joint committee which shall be appointed by the Non-Operators. The Non-Operators shall select a chairman and set the rates of remuneration and expenses, and provided that approvals are obtained from a Majority Interest of the Non-Operators, the costs of such audit shall be borne by all Owners, excluding the Operator and its Affiliates. For purposes of this Subclause, a "Majority Interest" means two (2) or more Non-Operators having interests totalling more than fifty percent (50%) of the remaining interest in the Joint Property after the exclusion of the interests of the Operator and its Affiliates. Nothing, however, shall prevent a Non-Operator from conducting an audit at its sole cost, provided notification has been given to the Operator and other Non-Operators. Each audit shall be conducted so as to cause a minimum of inconvenience to the Operator.
- (b) Any claims of discrepancies disclosed by such audit shall be made in writing to the Operator by the chairman of the audit committee within two (2) months of the completion of the field work unless the Operator has consented to a reasonable time extension, which consent shall not be unreasonably withheld.
- (c) The Operator shall respond in writing to any claims of discrepancies within six (6) months of receipt of such claims. If the Operator is unable to respond to the claims during the said six (6) month period, an adjustment to the Joint Account for the full amount of the unanswered queries shall be processed unless a request for a time extension supported by a clear work plan and a definite date for resolution is submitted and agreed upon, which approval shall not be unreasonably withheld. If the Operator does not agree with the claim, then the Operator shall include with its response a detailed and relevant explanation. If the Operator agrees with a claim, then adjustment shall be made by the Operator within thirty (30) days of such agreement. Evidence of such adjustment shall accompany the Operator's response. If adjustment cannot be made within a thirty (30) day period, the response shall include an explanation and an anticipated date for adjustment.
- (d) The status of all claims of discrepancies issued by the audit committee shall be reported to the Owners within twelve (12) months of the date the claims were issued. Claims reported as unresolved shall be submitted forthwith by the Operator to the Owners for resolution in accordance with the provisions of the Agreement for resolution of disputes. All necessary adjustments resulting from the Owners' resolution shall be reported by the Operator to the audit

committee and adjustments processed within thirty (30) days of the date of resolution.

- (e) With approval by the Owners, the cost of audits of contract services shall be for the Joint Account. To the extent that the Operator performs and charges the Joint Account for such audits, it is agreed that the Operator's auditor's working papers and findings will be available for inspection and inquiry by the Non-Operators.

109. Control of Assets

- (a) The Operator shall maintain records of Controllable Material to identify potential loss or underutilization of Controllable Material, and to provide adequate control and tracking of Controllable Material movements.
- (b) The Operator shall maintain records of all Controllable Material stored at joint stock locations.

110. Approvals

Where approval by the Owners is required in this Accounting Procedure, approval by the Owners pursuant to Clause \_\_\_\_ of the Agreement shall be binding on all the Owners. In the absence of provisions in the Agreement, approval shall be obtained by the Operator in writing from \_\_\_\_\_ or more Owners having interests in the Joint Property totalling \_\_\_\_\_ percent (\_\_\_\_%) or more. Each Owner shall, by notice, cast its vote with the Operator fifteen (15) days from receipt of request for approval and an Owner who does not vote on any matter shall be deemed conclusively to have voted affirmatively.

111. Rates and Limitations

All rates and limitations set forth in this Accounting Procedure may be amended from time to time pursuant to Clause 110 of this Accounting Procedure.

112. Expenditure Limitations

Unless otherwise specified in the Agreement, the Operator shall make or incur the following expenditures for the Joint Account in addition to operating expenditures allowed by an approved forecast, without approval by the Owners:

- (a) Expenditures including capital expenditures for any single undertaking, the total estimated cost of which is not in excess of \_\_\_\_\_ dollars (\$\_\_\_\_\_).
- (b) Expenditures which the Operator deems necessary in emergencies to protect lives or property, but if the Operator makes any such expenditure in excess of the limit specified pursuant to Subclause 112(a) hereof, it shall promptly advise the Owners.
- (c) Expenditures for full settlement of each damage claim resulting or arising from Joint Operations not in excess of \_\_\_\_\_ dollars (\$\_\_\_\_\_).
- (d) Expenditures which it deems necessary to remedy a violation of an environmental regulation or law, but if the Operator makes any such expenditures in excess of the limit specified pursuant to Subclause 112(a) hereof, it shall promptly advise the Owners.

113. Value Added Tax

For refundable value added, goods and services or sales taxes, the Operator is authorized to make all elections and file all forms or documents required to administer such taxes on behalf of the Joint Account, including any documents which are required to deem all purchases of goods and services to be purchases of the Operator, and all recoveries to be recoveries of the Operator.

114. Interpretation

The Explanatory Text for the 1996 PASC Accounting Procedure (Explanatory Text) forms part of and is incorporated into the 1996 PASC Accounting Procedure (Accounting Procedure) and shall assist in the interpretation of the Accounting Procedure. In the event of a conflict between the provisions of the Explanatory Text and the Accounting Procedure, the Accounting Procedure shall prevail.

ARTICLE II - DIRECT CHARGES

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

201. Labour

- (a)(1) Salaries and wages of the Operator's employees located On-Site in the conduct of Joint Operations, including Supervision, Technical Services, or Production Engineering but excluding Administrative Services.

- (2) Salaries and wages of the Operator's employees engaged in On-Site Administrative Services in support of Joint Operations, with approval by the Owners.
- (3) Salaries and wages of the Operator's employees working in a contractor's or supplier's main or field offices and travelling to contractor's offices or suppliers' plants for inspection and expediting of design and Materials during Initial Construction and subsequent additions or alterations to the Joint Property.
- (4) Salaries and wages of the Operator's employees chargeable pursuant to Subclause 201(a)(1) hereof, receiving familiarization training On-Site prior to startup of production facilities.
- (5) Salaries and wages of the Operator's employees engaged in Technical Services who are either temporarily or permanently assigned to and directly employed off-site of the Joint Property with approval by the Owners.
- (6) Salaries and wages of the Operator's employees engaged in Production Engineering located off-site in direct support of Joint Operations.
- (b) Charges for employees chargeable pursuant to Subclause 201(a) hereof, shall be limited to that portion of the salaries and wages attributable to and actually devoted to Joint Operations and supported by approved time sheets or an equitable allocation. Charges for off-site work shall be supported by a time sheet detailing work performed.
- (c) Salaries and wages of the Operator's employees who are chargeable pursuant to Subclause 201(a) hereof, and are working through secondment or otherwise part of an Alliance shall be charged at actual cost.
- (d) Earned or compensatory time off relating to the above wage or salary categories.
- (e) Holiday, vacation, sickness, and disability benefits and other customary allowances paid to employees whose salaries and wages are for the Joint Account. Costs pursuant to this Subclause, may 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 from either the preceding year's actual cost experience or the current year's cost.
- (f) For the purpose of charging the cost of the Operator's employees engaged in Technical Services pursuant to Clause 201 hereof, the Operator may use a per diem rate based on actual cost.

202. Employee Benefits

Employee benefits based on a percentage assessment applied to the amount of salaries and wages charged to the Joint Account. The percentage assessment shall be based on the Operator's actual cost experience, from either the preceding year's actual cost experience or the current year's cost. Such rates shall exclude the Operator's cost of administering such plans. In determining actual cost experience, any dividends or refunds received which are applicable to insurance or annuity policies shall be used to reduce the cost of such policies.

- (a) Compulsory - Payments made by the Operator pursuant to assessments imposed by government authority such as Unemployment Insurance, Workers Compensation, Canada Pension, or other payments of like nature that are applicable to the Operator's salaries and wages charged to the Joint Account.
- (b) Non-Compulsory - Established benefit plans which are made available to all employees on a regular basis. Such benefit plans may include employees' group life insurance, hospitalization, medical, dental, company pension, retirement (excluding early retirement and severance incentives), stock purchase, savings, bonus, and other benefit plans of a like nature. The cost of such plans may be borne entirely by the Operator or jointly by the Operator and the employees; however, only the Operator's share of these costs is chargeable to the Joint Account. The Operator shall charge the actual cost of such plans but not to exceed \_\_\_\_\_ percent (\_\_\_\_%) of the cost of labour charged pursuant to Clause 201 of this Accounting Procedure calculated on an annualized basis.

Bonuses given to selected employees and other special benefits available only to executives, certain employees, or groups on a selective basis shall be excluded from the employee benefits calculation and shall not be chargeable to the Joint Account.

203. Travel and Moving

- (a) Personnel transfers and personal expenses for the required initial staffing of the Joint Property, required staff increases, and subsequent replacements where such replacements are beyond the control of the Operator. Such costs shall include transportation of employee, spouse, and dependents, and their personal and household effects, and all other relocation costs in accordance with the Operator's normal reimbursement policy. Personnel transfers for normal staff rotation, corporate reorganization, and training assignments shall not be charged to the Joint Account.

- (b) Travel and personal expenses to and from and within the Joint Property as well as to and from other locations other than the Joint Property on behalf of Joint Operations for those employees whose salaries and wages are chargeable to the Joint Account.

204. Automotive

The Operator's owned or leased automotive equipment used in Joint Operations, including depreciation and interest on the depreciated investment pursuant to Subclause 207(e) or 207(f) of this Accounting Procedure. Costs shall be charged on a kilometre, hourly, or other equitable basis based on the Operator's cost experience, or as otherwise agreed by the Owners, pursuant to Clause 221 of this Accounting Procedure.

205. Engineering and/or Design

- (a) Engineering and/or design work for Drilling, Completion, Equipping and Construction Projects which have had prior approval by the Owners with engineering and/or design costs clearly identified separate from other costs on the approval document, or engineering and/or design work within the Operator's authority pursuant to Clause 112 of this Accounting Procedure, whether provided by the Operator's employees or contract services as follows:
  - (1) For work provided by the Operator's employees at cost, which shall mean salaries chargeable pursuant to Subclause 201(a), 201(b) and 201 (c) of this Accounting Procedure, benefits and travel expenses only, plus the cost of computerized equipment used in the engineering and/or design application at rates calculated pursuant to Subclauses 207(e) or 207(f) of this Accounting Procedure.
  - (2) For work provided by contract services, at the invoiced cost paid by the Operator.
  - (3) On a basis other than at cost, provided that such basis is clearly identified and explained on the cost estimate submitted for approval by the Owners.
- (b) The total amount charged pursuant to Subclause 205(a) hereof shall not exceed the following limits unless otherwise approved by the Owners:
  - (1) For projects requiring approval by the Owners pursuant to Subclause 112(a) of this Accounting Procedure, the amount stated for engineering and/or design in the approved project estimate plus two thousand dollars (\$2,000) or ten percent (10%), whichever is greater.

- (2) For projects within the Operator's approval authority pursuant to Subclause 112(a) of this Accounting Procedure, ten percent (10%) of the total project costs.

206. Material

Material purchased or furnished by the Operator for use in Joint Operations pursuant to Article IV of this Accounting Procedure.

207. Services

- (a) Services, equipment and utilities required for Joint Operations incurred pursuant to contracts entered into by the Operator, as follows:
  - (1) Equipment and utilities provided On-Site.
  - (2) Technical Services and Production Engineering performed On-Site and related off-site services specifically related to work performed On-Site.
  - (3) Production Engineering provided off-site.
  - (4) Technical Services performed off-site, except those pursuant to Subclause 207(a)(2) hereof, only with approval by the Owners.
  - (5) Professional Consulting Services with approval by the Owners.
  - (6) Chart integration services.
  - (7) Charges for any services provided pursuant to this Subclause 207(a) through an Alliance shall not include any charges for the Operator's own seconded employees, nor any administrative or overhead charges on the Operator's employees.
- (b) Use of the Operator's or its Affiliates' owned or leased facilities and equipment required for Joint Operations, as follows:
  - (1) Chart integration performed by the Operator. The Operator's charges shall not exceed commercial rates.
  - (2) Use of the Operator's or its Affiliates' laboratory facilities for the performance of testing and analysis required for Joint Operations at rates based on usage and actual costs. The rates used for laboratory services performed by the Operator and Affiliates shall not exceed those currently available from outside service laboratories unless approved by the Owners.



- (3) Use of the Operator's or its Affiliates' owned or leased facilities and equipment other than that pursuant to Subclauses 207(b)(1) or 207(b)(2) hereof. The Operator's charges shall be pursuant to Subclauses 207(e) or 207(f) hereof.
- (c) Maintaining and operating a Production Office. When additional operations or activities are served by the Production Office, the cost of maintaining and operating the Production Office shall be allocated among all operations or activities served, on an equitable basis or as otherwise agreed to by the Owners, pursuant to Clause 221 of this Accounting Procedure. Costs of other offices only with approval by the Owners.
- (d) Maintaining and operating an On-Site warehouse that is part of the Joint Property. When additional operations or activities are served by the On-Site warehouse, the cost of maintaining and operating the On-Site warehouse shall be allocated among all operations or activities served, on an equitable basis or as otherwise agreed to by the Owners pursuant to Clause 216 of this Accounting Procedure.
- (e) The Operator's charges pursuant to Subclauses 207(b)(3), 207(c) or 207(d), hereof may include actual operating costs, depreciation and interest on the depreciated investment. The annual interest rate on investment shall not exceed the prime bank rate of the principal Canadian Chartered bank used by the Operator plus one percent (1%), determined at the beginning of each calendar year.
- (f) In lieu of the calculation of charges provided for in Subclause 207(e) hereof, the Operator's charges pursuant to Subclause 207(b)(3) hereof may be at commercial rates available in the immediate area, less twenty percent (20%).

208. Damages and Losses

Repair or replacement of Joint Property made necessary by, but not limited to, damages or losses incurred by fire, flood, storm, theft, accident, or any other cause for which the Operator is not liable. The Operator shall notify each Non-Operator in writing of damages or losses incurred as soon as practicable after the damage or loss has been discovered. Proceeds arising from a claim with respect to damages or losses from any insurance carried by the Operator for the Joint Account shall be credited to the Joint Account when received by the Operator.

209. Surface and Subsurface Rights

- (a) Acquisition or renewal of surface rights and periodic rentals and related legal services for title work.

- (b) Acquisition of subsurface rights and related bonus costs, lease, license or permit deposits, rentals, renewal or extension fees, royalties, and other similar payments required to maintain the interest of the Owners in the Joint Property.

210. Taxes

All taxes paid by the Operator for the Joint Account. Taxes shall not include income taxes or taxes of a similar nature.

211. Insurance

- (a) Premiums paid for insurance as required by the Agreement to be carried for Joint Operations.
- (b) Any deductible or uninsured loss under any policy of insurance required to be carried by the Operator for Joint Operations.
- (c) That portion of any claim in excess of limits of insurance coverage required to be carried by the Operator for Joint Operations.

212. Communication

- (a) Communication equipment including microwave facilities, cellular telephones, mobile radios, walkie-talkies, satellite dishes, ancillary equipment, and tie-lines directly serving the Joint Property and outgoing communication charges incurred by the Operator directly from the Joint Property. Rental or ownership and any other related costs of operating transmitter/receiver equipment in vehicles, or Production Offices, either as a direct charge, or when operations in addition to the Joint Property are served by this equipment, allocated among all such operations on an equitable basis, or as otherwise agreed to by the Owners, pursuant to Clause 221 of this Accounting Procedure.
- (b) Other communication services and data transmission services other than those pursuant to Clause 214 of this Accounting Procedure, as approved by the Owners.

213. Camp and Housing

- (a) Camp  
Operation and maintenance of all necessary camp facilities for, and boarding of, employees whose salaries and wages are for the Joint Account provided that the charges for the Operator's owned or leased facilities shall be

commensurate with the costs of ownership, leasing 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 the Operator plus one percent (1%) 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, or as otherwise agreed to by the Owners, pursuant to Clause 221 of this Accounting Procedure.

(b) Housing

The cost of housing On-Site employees employed directly in the conduct of Joint Operations shall \_\_\_\_\_/shall not \_\_\_\_\_ be chargeable. The charge to the Joint Account shall not exceed rental rates of moderate accommodation in the area and shall be reduced by actual or deemed rental revenues. This charge may be calculated using the cost of ownership, leasing and operation thereof, including depreciation and interest on the depreciated value less any revenue therefrom, pursuant to Subclause 213(a) hereof.

214. Computerized Measurement and Control

- (a) Automated measurement, field and facilities data capture and/or control systems owned or leased by the Operator, including employee costs for maintenance and operation of the control system and related computer facilities serving Joint Operations. Such costs shall be allocated to each operation and application served on an equitable basis, or as otherwise agreed to by the Owners, pursuant to Clause 221 of this Accounting Procedure.
- (b) On-Site and off-site computer usage other than that pursuant to Subclause 214(a) hereof and Clause 205 of this Accounting Procedure, as approved by the Owners.

215. Ecological and Environmental

- (a) Ecological and environmental requirements resulting from operation of the Joint Property, whether statutory, regulatory, or pursuant to industry association recommendations or the Operator's documented corporate policy relating to the ecology or environment resulting from operation of the Joint Property.
- (b) All costs other than those specified in Subclause 215(a) hereof require approval by the Owners.

216. Warehouse Handling

A warehouse handling fee for Material delivered from the Operator's Warehouse or an Alliance's Warehouse, if such Material is not currently or normally stored at the Joint Property Warehouse, on a percentage assessment basis of \_\_\_\_\_ percent (\_\_\_\_\_% ) of the cost of such Material.

For the purposes of this Clause, the cost of Material shall be determined pursuant to Clause 402 of this Accounting Procedure.

217. Recruitment, Training, and Safety

- (a) Recruitment, induction and training for initial staffing, expansion of the Joint Property and replacement of employees resulting from circumstances beyond the control of the Operator.
- (b) Training the Operator's employees chargeable pursuant to Subclause 201(a)(1) of this Accounting Procedure with respect to operational, environmental and safety matters for the primary benefit of Joint Operations, including off-site technical training courses for new On-Site equipment or processes. Developmental technical training or personal development or management courses, such as team building, performance coaching, or interpersonal skills shall not be charged to the Joint Account.
- (c) Safety articles such as, but not limited to, safety clothing, safety boots, safety glasses, and safety kits required in the operation of the Joint Property, as required by government regulations, industry association recommendations, or the Operator's documented corporate policy for the Operator's employees chargeable pursuant to Subclause 201(a)(1) of this Accounting Procedure.
- (d) Safety awards and dinners, the primary function of which is the recognition and promotion of safety practices and concepts in the operation of the Joint Property for employees and contract labor chargeable pursuant to Subclauses 201(a)(1), 207(a) and 207(b) of this Accounting Procedure. Costs of safety dinners shall be limited to food and meeting room only. The cost of safety awards shall be reasonable.
- (e) Preparing, implementing, and maintaining site-specific emergency procedures and safety manuals required for direct support of the Joint Property.

218. Litigation and Claims

Subject to the provisions of the Agreement, handling, investigating and settling litigation, discharging of liens, payment of judgements, and settlement of claims incurred by the Operator, whether through its own personnel or through third

parties, in or resulting from Joint Operations. Charges for services of the Operator's legal staff or fees or expenses of outside legal counsel shall be subject to prior approval by the Owners.

219. Abandonment and Reclamation

- (a) Abandonment and reclamation of the Joint Property, including those costs required under statutory regulations to restore the location to its natural state.
- (b) Upon abandonment and reclamation of the Joint Property, all payments made by the Operator for termination, early retirement, severance, or other similar type settlements made to the Operator's field employees engaged in Operations and Maintenance and chargeable pursuant to Subclause 201(a)(1) of this Accounting Procedure who cannot reasonably be relocated within the Operator's other operations. Each employee's settlement costs shall be charged to the Joint Account in proportion to that employee's service at the Joint Property compared to that employee's total service with the Operator or Operator's predecessor, unless otherwise agreed to by the Owners. Where more than one property is abandoned, such settlement costs must be equitably allocated among them.

220. Other Costs

Any other expenditure for which provision is not otherwise made within the Agreement nor this Accounting Procedure and is incurred by the Operator in the conduct of Joint Operations with the approval by the Owners.

## 221. Allocation Options

Notwithstanding anything to the contrary contained in this Article II, when operations in addition to the Joint Property are served, the Operator shall use an equitable allocation of the actual costs as the basis for charges to the Joint Account, except for the following fixed or percentage allocations which shall be in lieu of actual cost allocations.

CLAUSE	COST	OPTIONS FOR CHARGING JOINT ACCOUNT			
		Fixed \$/ Month		Percentage of Direct Cost	Other (Specify) (Well /mcf/BBL)
		Subject to 302 (e)	Not subject to 302 (e)		
204	Automotive				
207(c)	Production Office				
212	Communications				
213(a)	Camp				
214	Measurement and Controls				

## ARTICLE III - OVERHEAD

### 301. General

Notwithstanding anything to the contrary contained in this Article III, it is specifically understood that any cash payments, incentives, grants, credits, waivers, exemptions, abatements, or other benefits received by or available to the Operator from any governmental source pursuant to regulations with respect to Joint Operations and for the Joint Account, shall not be taken into account when calculating any of the items pursuant to Clause 302 of this Accounting Procedure.

#### In this Article III:

- (a) "Cost" means total expenditures pursuant to Article II of this Accounting Procedure, excluding those expenses pursuant to Subclause 209(b) and Clause 218 of this Accounting Procedure, and salvage credits for Material retired, the

value of injected substances purchased for enhanced recovery, custom processing revenues and charges and any additional exclusions as approved by the Owners.

- (b) "Overhead" means all costs to the Operator other than those costs pursuant to Article II of this Accounting Procedure.
- (c) "Producing Well" means a well for the Joint Account that in a calendar month:
  - (1) is equipped for and is capable of producing crude oil; or
  - (2) is connected to a permanent gas sales outlet, source or injection system; or
  - (3) 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; a well completed in more than one zone for segregated production shall be considered a separate Producing Well for each such zone; an injection, source or disposal well shall be active during at least one day of the month; and a temporarily shut-in oil or gas well shall not be charged for Overhead longer than three (3) consecutive months after being shut-in.

### 302. Overhead Rates

The Operator shall charge the Joint Account for Overhead at the following rates:

- (a) For each Exploration project \_\_\_\_\_ percent (\_\_\_\_%) of Cost.  
OR
  - (1) \_\_\_\_\_ percent (\_\_\_\_%) of the first \_\_\_\_\_ dollars (\$\_\_\_\_) of Cost plus
  - (2) \_\_\_\_\_ percent (\_\_\_\_%) of the next \_\_\_\_\_ dollars (\$\_\_\_\_) of Cost plus
  - (3) \_\_\_\_\_ percent (\_\_\_\_%) of Cost exceeding the sum of (1) and (2)
- (b) For the Drilling of a well \_\_\_\_\_ percent (\_\_\_\_%) of Cost.  
OR
  - (1) \_\_\_\_\_ percent (\_\_\_\_%) of the first \_\_\_\_\_ dollars (\$\_\_\_\_) of Cost plus
  - (2) \_\_\_\_\_ percent (\_\_\_\_%) of the next \_\_\_\_\_ dollars (\$\_\_\_\_) of Cost plus
  - (3) \_\_\_\_\_ percent (\_\_\_\_%) of Cost exceeding the sum of (1) and (2)
- (c) For Initial Construction \_\_\_\_\_ percent (\_\_\_\_%) of Cost.  
OR
  - (1) \_\_\_\_\_ percent (\_\_\_\_%) of the first \_\_\_\_\_ dollars (\$\_\_\_\_) of Cost plus
  - (2) \_\_\_\_\_ percent (\_\_\_\_%) of the next \_\_\_\_\_ dollars (\$\_\_\_\_) of Cost plus
  - (3) \_\_\_\_\_ percent (\_\_\_\_%) of Cost exceeding the sum of (1) and (2)

(d) For each subsequent Construction Project \_\_\_\_\_ percent (\_\_\_\_ %) of Cost.  
OR

- (1) \_\_\_\_\_ percent (\_\_\_\_ %) of the first \_\_\_\_\_ dollars (\$\_\_\_\_) of Cost plus
- (2) \_\_\_\_\_ percent (\_\_\_\_ %) of the next \_\_\_\_\_ dollars (\$\_\_\_\_) of Cost plus
- (3) \_\_\_\_\_ percent (\_\_\_\_ %) of Cost exceeding the sum of (1) and (2)

(e) For Operations and Maintenance:

- (1) \_\_\_\_\_ percent (\_\_\_\_ %) of Cost; and/or
- (2) \_\_\_\_\_ dollars (\$\_\_\_\_) per Producing Well per month; or
- (3) A flat rate of \_\_\_\_\_ dollars (\$\_\_\_\_) per month.

The rates in Subclauses 302(e)(2) and 302(e)(3) hereof shall \_\_\_\_\_/shall not \_\_\_\_\_ be adjusted as of the first day of July each year following the year in which the Agreement became effective. The adjustment will be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly wages and salaries of the Canadian Petroleum and Natural Gas Industry for the last calendar year compared with the calendar year next preceding such last calendar year as reported by Statistics Canada. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment rounded to the nearest dollar. Notwithstanding the provisions hereof, these rates may be adjusted from time to time upon approval by the Owners pursuant to Clause 110 of this Accounting Procedure.

#### ARTICLE IV - PRICING OF JOINT MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

The Operator shall make proper and timely charges and credits for all Material movements affecting the Joint Operations.

#### 401. Purchases

- (a) Material purchased shall be charged at the price paid by the Operator including duty and/or sales tax thereon and after deduction of all discounts and rebates received. Where Material is found to be defective or is returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.
- (b) The Operator shall, whenever practical, purchase Material for delivery to the Joint Property; provided that only such Material as may be required for the conduct of Joint Operations shall be purchased and transported to the Joint Property.



#### 402. Material Movements

Material movements to and from the Joint Property (for disposals see Clause 406 of this Accounting Procedure) shall be priced on the following basis, unless otherwise approved by the Owners. When the use of the Material is temporary and the reduced value as provided is not justified, then such material shall be valued on a basis commensurate with its usage on the Joint Property.

- (a) New Material (Condition A):  
Condition A Material at the New Price.
- (b) Good used Material (Condition B):
  - (1) Condition B Material at seventy-five percent (75%) of New Price, or
  - (2) Fair market value.
- (c) Material requiring conditioning (Condition C):
  - (1) Condition C Material at fifty percent (50%) of New Price, or
  - (2) Fair market value.
- (d) Other used Material (Conditions D and E):
  - (1) Condition D Material (damaged) at fair market value.
  - (2) Condition E Material at salvage value.

Fair market value is deemed to be the selling price that would result when a buyer and a seller agree upon the price of an item giving due consideration for like goods in the marketplace at the time of sale and considering applicable expenses to inspect, repair, refurbish, dismantle and/or move such equipment or Material. Fair market value shall be based on the selling price or replacement cost of the equipment as obtained from current supplier published prices, current Controllable Material Price Catalogue as most recently recommended by the Petroleum Accountants Society of Canada, or as a quotation from a supplier. For audit purposes, documentation must be available to support the use of fair market value.

#### 403. Transportation of Material

The Operator may, for transporting Material, charge the cost of transportation to or from the Joint Property provided that the charge for transporting Material furnished by the Operator shall not exceed the estimated costs of transporting such Material from the closer of the nearest reputable supply store or railway receiving point. Transportation costs incurred in transferring Material from the Joint Property to other operations where a change of ownership occurs shall not be charged to the Joint Account except with approval by the Owners.

404. Warranty of Material Furnished by the Operator

There shall be no obligation on the part of the Operator to warrant Material beyond the dealer's or manufacturer's warranty.

405. Premium Prices

Whenever the specifically required Material is not readily obtainable at published or listed prices because of national emergencies, strikes, or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property.

406. Dispositions

The Operator shall make timely disposition of idle and/or surplus Material, either through sale to the Non-Operators or sale to other parties. The Operator may purchase, but shall be under no obligation to purchase, the interest of the Non-Operator's surplus Material. All sales of Material, regardless of Condition, the proceeds from disposition of which is greater than \_\_\_\_\_ dollars (\$\_\_\_\_\_) shall be subject to approval by the Owners. All other disposals of Material shall be at the discretion of the Operator excepting sale to the Operator or its affiliates. Exceptions shall be priced pursuant to Clause 402 of this Accounting Procedure unless prior approval by the Owners is obtained.

ARTICLE V - INVENTORIES

501. Inventories

- (a) Inventories of Controllable Material shall be taken by the Operator as approved by the Owners.
- (b) The Operator shall conduct an inventory of stock maintained in a warehouse which is part of Joint Operations on an annual basis or as otherwise approved by the Owners.

502. Notice of Inventories

Written notice of the Operator's intention to conduct an inventory pursuant to Subclause 501(a) of this Accounting Procedure shall be given to each Non-Operator at least sixty (60) days prior to commencing such inventory, during which time each Non-Operator may elect to be represented. The Operator may limit the number of representatives of each Non-Operator for such purpose. Failure of an Owner to be represented at an inventory shall bind such Owner to accept the inventory taken by the Operator.

503. Reconciliation of Inventory

A reconciliation of the physical inventory with the Joint Account records shall be made by the Operator and approved by the Owners conducting the physical inventory. The Operator 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 costs of conducting inventories pursuant to Clause 501 of this Accounting Procedure shall be charged to the Joint Account. Costs shall be based on the per diem rates for joint interest audits as most recently recommended by the Petroleum Accountants Society of Canada.

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 sixty (60) days of the Operator's receipt of the written notice. Such Non-Operator giving notice 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 Non-Operator.

506. Construction Inventories

The Operator shall conduct an inventory and perform a reconciliation pursuant to Clause 503 of this Accounting Procedure for any major new facilities no later than twelve (12) months after completion of construction and the expense shall be for the Joint Account. In the event of undue delays, the Operator may request approval by the Owners of an extension.

EXHIBIT "H"

## EXHIBIT "H"

ATTACHED TO AND MADE PART OF THE AGREEMENT ENTITLED  
"UNIT OPERATING AGREEMENT -  
BIRDTAIL UNIT NO. 1"

### SCHEDULE OF INSURANCE

#### 101. Insurance

- (a) Unit Operator shall, prior to the commencement of Unit Operations, 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 Owners and their respective Affiliates, directors, officers, consultants, agents and employees, the insurance hereinafter set forth and any other insurance which is specifically required to comply with Saskatchewan Workers Compensation legislation. The insurance required pursuant to this Subclause shall, subject to Subclause 101 (c), be as follows:
- (i) insurance that is specifically required to comply with government regulations.
  - (ii) Shall \_\_\_\_/shall not X provide Builder's Risk Course of Construction Insurance in an amount not less than the full value of any work being performed in respect of the construction of Unit Facilities, which shall cover all risks of physical loss or damage to the of Unit Facilities or the work being performed in respect thereto, including all machinery, materials and supplies at the site of such work, in transit thereto and intended to become a part of the finished work, or on site awaiting erection or installation, testing or final acceptance by Unit Operator; and
  - (iii) Shall \_\_\_\_/shall not X provide Wrap-up General Liability Insurance for a combined single limit of \_\_\_\_\_ dollars (\$\_\_\_\_\_) for each occurrence or accident, including property damage, bodily injury (including death at any time resulting therefrom) and personal injuries sustained by any person because of bodily injury or destruction of property (including loss of use or occupancy); contractual liability and employer's liability. Such coverage shall extend to include contractors and sub-contractors, as additional insureds, in connection with the work.
- (b) It is the intention of the Owners that, except as provided in Subclause 101 (a) of this Exhibit and in Article IX of the Agreement, the cost of any

accident, loss or any claim of or liability to third parties or to each other for bodily injury, death or property damage arising out of any Unit Operation shall be borne individually by the Owners in proportion to their respective Unit Participations.

- (c) The amount of the deductible specified for each accident or occurrence in any insurance policy maintained for the Joint Account shall not exceed the single expenditure limit set forth in the Accounting Procedure without the prior approval of the Operating Committee.
- (d)
  - (i) If the policies which Unit Operator is required to obtain or maintain for the Joint Account are, in Unit Operator's reasonable opinion, unavailable or available only at an unreasonable cost, then Unit Operator shall promptly notify the Owners, in order that the Owners may redetermine the policies which shall be held for the Joint Account. Subject to the provisions of this Clause, policies obtained for the Joint Account pursuant to this Clause may contain terms, conditions or exclusions affecting or limiting the risks covered thereby or the circumstances under which the insurer may be required to indemnify or compensate the Owners thereunder, provided that such terms, conditions or exclusions are, in Unit Operator's reasonable opinion, the best available from the marketplace on reasonable terms and ordinary or appropriate. However, Unit Operator shall obtain the prior approval of the Owners with respect to any such change which is made after the relevant policy or policy renewal has been acquired for the Joint Account.
  - (ii) Except as provided in subparagraph (i), failure by the Unit Operator to maintain the insurance required to be maintained for the Joint Account shall be deemed to be gross negligence.
- (e) If Unit Operator makes any payments with respect to any losses, damages, claims or liabilities arising out of Unit Operations which are covered by insurance policies maintained for the Joint Account hereunder with the approval of the insurers thereof or if Unit Operator makes any payments authorized hereunder with respect to any other losses, damages, claims or liabilities arising out of such operations, such payments shall be a charge for the Joint Account. However, Unit Operator shall diligently attempt to process its claims under such policies with respect to such losses, damages, claims or liabilities, and shall promptly credit the Joint Account the amount it ultimately recovers under such policies. Insofar as such charge is one which is not to be borne for the Joint Account pursuant to Article XII of the Agreement, Unit Operator shall adjust the Joint Account accordingly at such time as it is determined that the charge is not to be borne for the Joint Account.
- (f) Unit Operator shall use reasonable efforts to ensure that each insurance policy maintained for the Joint Account pursuant to this Clause includes:

- (i) a provision that coverage is primary to any other coverage carried by the Owners (other than coverage maintained by an Owner to reduce its exposure to a deductible);
  - (ii) a provision that such policy shall survive the default or bankruptcy of the insured for claims arising out of an event before such default or bankruptcy; and
  - (iii) a provision that the insurer shall provide Unit Operator with sixty (60) days' written notice of cancellation of such policy.
- (g) Each Owner shall be responsible for insuring its own interest in the Unit with respect to physical damage to property, loss of income, Unit Operator's extra expense, seepage, pollution, contamination and clean-up costs relating to the well(s) and any insurance other than that referred to in Subclause 101 (a) of this Exhibit. Each Owner shall ensure that each policy maintained by it for its own account hereunder shall contain a waiver of all rights, by subrogation or otherwise, against the other Owners and their respective Affiliates, directors, officers, consultants, agents, contractors and employees.
- (h) Unit Operator shall provide each Owner with notice of damages or losses incurred hereunder as soon as practicable after the damage or loss has been discovered. Unit Operator shall provide the Owners with such assistance and materials as is required to substantiate such damages or losses for the purposes of the Owners' insurance coverage.
- (i) Operator shall, with respect to Unit Operations, use every reasonable effort to have its contractors and sub-contractors:
  - (i) comply with all legislation and regulations applicable to workers employed by them; and
  - (ii) carry such insurance in such amounts as Unit Operator deems necessary, provided that such insurance policies shall either include waivers of all rights, by subrogation or otherwise, against the Owners and their respective Affiliates, directors, officers, consultants, agents, contractors and employees, or include the Owners as named insureds under such policies.