

BIRDTAIL

UNIT NO'S 1 & 2

CORRESPONDENCE

FAX

Date 07-NOV-00

Number of pages including cover sheet

5

TO: Rick Bawol
PROGRESS ENERGY

Phone

Fax Phone (403) 216-2514

CC:

FROM: John Fox, P.Eng.
Manitoba Conservation
Petroleum & Energy Branch
360, 1395 Ellice Avenue
Winnipeg MB R3G 2P3

Phone 945-6574

Fax Phone 945-0586

e-mail jfox@em.gov.mb.ca

REMARKS: ☐ Urgent ☐ For your review ☐ Reply ASAP ☐ Please Comment

OF LETTER
SIGNED COPY, AGREEING TO CLAUSE 1303 ATTACHMENT
+ LETTER CONFIRMING REGISTRATION OF BIRDTAIL
UNIT NO. 2 UNIT AGREEMENT.

*** TX REPORT ***

TRANSMISSION OK

TX/RX NO	4296
DEPT. ACCESS CODE	6577
CONNECTION TEL	914032182514
SUBADDRESS	
CONNECTION ID	PROGRESS ENERGY
ST. TIME	11/07 12:38
USAGE T	01'16
PGS.	5
RESULT	OK

FAX

Date 07. NOV. 00

Number of pages including cover sheet 5

TO: RICK BAWOL
PROGRESS ENERGY

Phone

Fax Phone (403) 216-2514

FROM: John Fox, P.Eng.
Manitoba Conservation
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SIGNED COPY, AGREEING TO CLAUSE 1303 ATTACHMENT
+ LETTER CONFIRMING REGISTRATION OF BIRDTAIL
UNIT NO. 2 UNIT AGREEMENT.

Manitoba



Conservation

Petroleum & Energy

1395 Ellice Avenue Suite 360
Winnipeg MB R3G 3P2
CANADA

PH: (204) 945-6577

Fax: (204) 945-0586

November 7, 2000

Mr. Rick Bawol
Exploitation Manager
Progress Energy Ltd.
1110, 520 – Fifth Avenue SW
Calgary AB T2P 3R7

Dear Mr. Bawol:

Re: Birdtail Unit No. 2

The Petroleum and Energy Branch is in receipt of a copy of the signed execution pages for each owner in Birdtail Unit No. 2. The Branch is also in receipt of written consents from all parties to the Unit Agreement, except the Crown, to amend Clause 1303 to read, "This agreement shall cease to bind the Parties if the unitization provided herein has not become effective on or before the first day of January, 2001." The Crown hereby agrees to the aforementioned amendment of Clause 1303 and has registered the Unit Agreement. The effective date for Birdtail Unit No. 2 is December 1, 2000.

Water injection into the unit may commence on December 1, 2000 in accordance with the conditions of Waterflood Order No. 8 (attached).

If you have any questions in respect of this matter, please contact John N. Fox, Chief Petroleum Engineer at (204) 945-6574.

Yours truly,

A handwritten signature in cursive script, reading "L. R. Dubreuil".

L. R. Dubreuil
Director

c.c. Administration

**MINISTERIAL ORDER
WATERFLOOD ORDER NO. 8**

**Pertaining to Waterflood Operations
in the Birdtail Bakken C Pool**

PETROLEUM DOCUMENT REGISTRATION

Document No. 98-353
Registered: December 11, 1998
C.D. MacInnes
Petroleum Registrar

- 1.0 The Operator shall conduct waterflood operations by injecting water into the Bakken Formation underlying the Birdtail Field through the wells listed in Schedule A. The Director may approve the conversion of additional wells to water injection.
- 1.1 Every injection well shall be completed as approved under Section 47 of the Drilling and Production Regulation.
- 1.2 The maximum wellhead pressure at which water may be injected is 9 000 Kpa.
- 1.3 The Director may, from time to time, establish a maximum or minimum rate at which water may be injected into a well.
- 1.4 The annulus of each injection well shall be pressure tested in accordance with Section 50 of the Drilling and Production Regulation.
- 2.0 The Operator shall conduct an annual survey to determine the level and distribution of reservoir pressure. A summary of the results of any pressure surveys conducted during the year are to be included in the annual waterflood progress report required under Section 73 of the Drilling and Production Regulation.
- 2.1 The frequency of pressure surveys may be reduced where the Director is satisfied that more frequent surveys will not assist the Unit Operator in monitoring the effectiveness of the waterflood.
- 2.2 The Operator is responsible for monitoring the effectiveness of the waterflood and for collecting such reservoir data and other information as is necessary to evaluate and optimize waterflood performance.
- 2.3 The Operator is to advise the Petroleum Branch of the suspension of water injection at any well, any indication of channeling or breakthrough of injected water to a producing well or out of zone and any other detrimental effects that may be attributable to the waterflood operations.
- 3.0 The Operator shall file a report of production or injection for each well in the Unit in accordance with Section 120 of the Drilling and Production Regulation.
- 4.0 The Operator shall file an annual waterflood progress report in accordance with Section 73 of the Drilling and Production Regulation.

Dec 10/98
Date

L.R. Dubrow
Director of Petroleum for
Minister of Energy and Mines

Schedule A

Birdtail Bakken C Pool

Water Injection Wells

Progress Birdtail Prov. WIW 15-18-16-27 (WPM)
Northrock Birdtail WIW 7-19-16-27 (WPM)



November 6, 2000

Manitoba Petroleum and Energy Branch
360 - 1395 Ellice Avenue
Winnipeg, Manitoba
R3G 3P2

Attn: John Fox
Chief Petroleum Engineer


Dear Mr. Fox:

RE: BIRDTAIL UNIT 2 - UNITIZATION AGREEMENT

I received your phone message today and hereby request that the Crown approve the same amendment to the Unit Agreement that the freehold royalty owners approved last month. I understand that since the Crown is a royalty owner in the Unit, this request should have been submitted to the Crown at the same time it was submitted to the other royalty owners. I regret any inconvenience this may have caused.

To approve this amendment, please sign below and fax this letter back to me at 403-216-2514. If you have any questions or concerns about this matter, please give me a call at 403-216-2510 ext. 109. Your cooperation is greatly appreciated.

Sincerely,
PROGRESS ENERGY LTD.



Rick Bawol
Exploitation Manager

On behalf of the Crown, I hereby agree to amend Clause 1303 of the Birdtail Unit No. 2 Unit Agreement to read, "This Agreement shall cease to bind the Parties if the unitization provided for herein has not become effective on or before the first day of January, 2001."



Signature

Nov 7, 2000
Date

for THE MINISTER OF CONSERVATION
UNDER ORDER IN COUNCIL 295/2000
(DELEGATION OF MINISTER'S AUTHORITY)

Fox, John (EM)

To: Rick Bawol
Subject: RE: Birdtail New Tract Factor Calcs.xls

Rick, I've reviewed the tract factor calculations using recent production data and the Crown is satisfied with the original tract factors.
I agree revising the tract factors is not in anyone's best interests. I think your best bet is to request the parties consent in writing the amendment of clause 1303 to read "on or before 31-Dec-00".

-----Original Message-----

From: Rick Bawol [SMTP:rbawol@progressenergy.com]
Sent: 2000-Oct-25 10:26 AM
To: jfox@em.gov.mb.ca
Subject: Birdtail New Tract Factor Calcs.xls

John, here are my spreadsheets for Birdtail. Tab "Unit2(3)" shows what the tract factors would be using this year's production. Tab "Unit2(2)" uses 1999 production and the tract factors calculated are the same as those used in the unitization agreement. Tracts 1 through 6 are Crown and 7 through 9 are freehold. If we revise the tract factors, the Crown would go up from 60% to 64% and the freehold owners would drop from 40% to 36% (which they will see as a 10% reduction in their interest). If we leave the tract factors alone, I think my chances of getting the freehold owners to agree to extending the unitization deadline are reasonably good. If we try to cut their tract factors, I'd say my chance of success is fairly poor. I will begin phoning them today and start drafting a letter for them to sign. Please let me know if you have any questions about these spreadsheets.

Rick Bawol
Exploitation Manager
Progress Energy Ltd.
403-216-2510 ext. 109
fax 216-2514 << File: Birdtail New Tract Factor Calcs.xls >>

Fox, John (EM)

From: Rick Bawol [rbawol@progressenergy.com]
Sent: 2000-Oct-25 10:26 AM
To: jfox@em.gov.mb.ca
Subject: Birdtail New Tract Factor Calcs.xls



Birdtail New Tract
Factor Calc...

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Rick Bawol
Exploitation Manager
Progress Energy Ltd.
403-216-2510 ext. 109
fax 216-2514

- Clause 1303.

if unitization provided
for has become effective on or before
01-Nov-99.

BIRDTAIL UNIT NO. 2									
TRACT FACTOR DATA									
EXHIBIT "A"									
Tract Factor Calculation = 50% Production (Mar-Jun/00)									
+ 50% OOIP (Developed Spacing Units Only)									
Unit Tract Number	Unit Tract	Production m3 (Mar-Jun00)	Production Factor	0% Production Factor	OOIP (m3)	OOIP Factor	50% OOIP Factor	Tract Participation	
1	15-18-16-27W1M	0	0.000%	0.000%	20359	7.220%	3.610%	3.6102%	Crown
2	16-18-16-27W1M	86	8.152%	4.076%	25448	9.025%	4.513%	8.5884%	"
3	1-19-16-27W1M	204	19.336%	9.668%	40717	14.440%	7.220%	16.8884%	"
4	2-19-16-27W1M	21	1.991%	0.995%	38172	13.538%	6.769%	7.7642%	"
5	7-19-16-27W1M	129	12.227%	6.114%	42753	15.162%	7.581%	13.6950%	"
6	8-19-16-27W1M	132	12.512%	6.256%	40717	14.440%	7.220%	13.4762%	"
7	3-20-16-27W1M	279	26.445%	13.223%	25448	9.025%	4.513%	17.7353%	Freehold
8	4-20-16-27W1M	48	4.550%	2.275%	15269	5.415%	2.708%	4.9825%	"
9	5-20-16-27W1M	156	14.787%	7.393%	33083	11.733%	5.866%	13.2599%	2
Total		1055	100.000%	50.000%	281966	100.000%	50.000%	100.0000%	

CROWN SHARES BASED ON RECENT P200 - 64.0224 %

Vs. 59.6443% BASED ON 99 P200

Production by Licence #

4807	100.16-18-016-27/W1.00	2000	OIL	11.6	9.8	20.8	20.5	22.8	21.4	11.7	21.9	.0	.0	.0	.0	.0	140.5
			H2O	4.9	4.2	8.2	6.6	6.2	5.6	14.3	5.1	.0	.0	.0	.0	.0	55.1
			DAY	10.0	12.0	31.0	30.0	31.0	30.0	31.0	31.0	.0	.0	.0	.0	.0	206.0
	100.16-18-016-27/W1.00	1999	OIL	.0	.0	.0	10.1	22.0	21.0	21.7	18.6	19.6	21.0	18.2	18.5	170.7	
			H2O	.0	.0	.0	9.3	9.5	9.0	9.3	7.9	8.4	9.0	7.8	8.0	78.2	
			DAY	.0	.0	.0	19.0	31.0	29.0	31.0	31.0	30.0	31.0	30.0	29.0	261.0	

Production by Licence #

4714	100.01-19-016-27W1.00	2000	OIL	54.0	52.0	52.9	48.7	50.1	51.5	52.4	50.6	.0	.0	.0	.0	.0	412.2
			H2O	29.1	27.9	29.6	30.9	31.4	29.5	30.1	32.4	.0	.0	.0	.0	.0	240.9
			DAY	31.0	29.0	31.0	30.0	31.0	30.0	31.0	31.0	.0	.0	.0	.0	.0	244.0
	100.01-19-016-27W1.00	1999	OIL	60.2	52.0	58.1	54.6	61.8	55.2	56.9	51.3	53.3	55.9	54.0	56.7		670.0
			H2O	32.4	28.0	31.3	29.4	33.2	29.8	30.6	27.7	28.7	30.1	29.0	30.6		360.8
			DAY	31.0	28.0	31.0	30.0	31.0	30.0	31.0	31.0	30.0	31.0	30.0	31.0		365.0

Production by Licence #

4754	100.07-19-016-27W1.00	2000	OIL	2.8	.5	13.4	31.9	37.1	46.9	51.9	52.2	.0	.0	.0	.0	236.7
			H2O	8.4	1.5	66.5	53.3	53.2	58.2	50.4	49.9	.0	.0	.0	.0	341.4
			DAY	9.0	1.0	24.0	30.0	31.0	30.0	31.0	31.0	.0	.0	.0	.0	187.0
	100.07-19-016-27W1.00	1999	OIL	25.5	14.6	22.2	16.3	14.5	16.6	14.6	12.6	11.0	14.9	11.2	9.5	183.5
			H2O	76.5	62.7	66.6	49.0	43.6	49.9	43.5	37.9	33.0	44.8	33.6	28.5	669.6
			DAY	31.0	28.0	31.0	30.0	31.0	30.0	31.0	29.0	30.0	31.0	30.0	28.0	360.0

Production by Licence #

4784	100.08-19-016-27W1.00	2000	OIL	34.0	30.8	33.5	31.1	34.0	33.3	36.3	35.8	.0	.0	.0	.0	268.3
			H2O	18.3	16.6	17.8	18.6	18.7	16.7	16.3	15.8	.0	.0	.0	.0	138.3
			DAY	31.0	29.0	31.0	30.0	31.0	30.0	31.0	31.0	.0	.0	.0	.0	244.0
	100.08-19-016-27W1.00	1999	OIL	21.5	21.8	34.1	33.5	36.8	33.8	32.2	32.9	30.8	34.6	29.4	35.0	376.4
			H2O	11.5	16.0	18.3	18.1	19.8	18.2	17.3	17.8	16.5	18.7	15.8	18.9	206.9
			DAY	14.0	22.0	31.0	30.0	31.0	30.0	31.0	31.0	30.0	31.0	30.0	31.0	342.0

Production by Licence #

4755	100.03-20-016-27W1.00	2000	OIL	73.1	61.9	69.2	69.3	72.3	69.1	72.3	73.5	.0	.0	.0	.0	560.7
			H2O	31.3	26.6	32.8	29.8	30.7	28.9	29.7	28.5	.0	.0	.0	.0	238.3
			DAY	31.0	26.0	31.0	30.0	31.0	30.0	31.0	31.0	.0	.0	.0	.0	241.0
	100.03-20-016-27W1.00	1999	OIL	82.6	74.9	81.2	68.6	74.6	75.9	76.6	80.2	73.1	76.7	71.7	73.9	910.0
			H2O	35.4	32.5	34.4	29.4	32.0	32.5	32.9	34.3	31.4	32.8	30.8	31.7	390.1
			DAY	31.0	28.0	31.0	30.0	31.0	30.0	31.0	31.0	30.0	31.0	28.0	31.0	363.0

Production by Licence #

4785	100.04-20-016-27W1.00	2000	OIL	10.8	12.2	11.6	9.0	12.9	14.4	14.5	14.7	.0	.0	.0	.0	.0	100.1
			H2O	14.2	16.3	24.9	24.5	21.5	18.2	20.0	20.3	.0	.0	.0	.0	.0	159.9
			DAY	18.0	18.0	31.0	30.0	31.0	30.0	31.0	31.0	.0	.0	.0	.0	.0	220.0
	100.04-20-016-27W1.00	1999	OIL	13.1	19.8	25.7	23.1	21.5	21.2	23.0	23.3	21.2	20.0	15.9	15.7	15.7	243.5
			H2O	17.3	26.3	34.2	30.5	28.5	28.2	30.5	30.8	28.2	26.5	21.1	20.8	20.8	322.9
			DAY	12.0	25.0	31.0	30.0	31.0	30.0	27.0	31.0	30.0	31.0	30.0	31.0	31.0	339.0

Manitoba



Energy and Mines

Petroleum and Energy Branch

1395 Ellice Avenue Suite 360
Winnipeg MB R3G 3P2
CANADA

PH: (204) 945-6577
PH: (204) 945-3760
FAX: (204) 945-0586

July 21, 1999

Mr. Rick Bawol
Progress Energy Ltd.
1110, 520 - Fifth Avenue S.W.
Calgary AB T2P 3R7

Dear Rick:

**Re: Birdtail Unit No. 1
Unit Agreement**

1560A

Waterflood - 1

The Branch is in receipt of a copy of the signed execution pages for each owner in Birdtail Unit No. 1 and has registered the unit agreement. The effective date for Birdtail Unit No. 1 is August 1, 1999.

Water injection into the unit may commence on August 1, 1999 in accordance with the conditions of Waterflood Order No. 7.

If you have any questions please don't hesitate to call the undersigned at 945-6574.

Yours truly,

John N. Fox, P.Eng.
A/Director

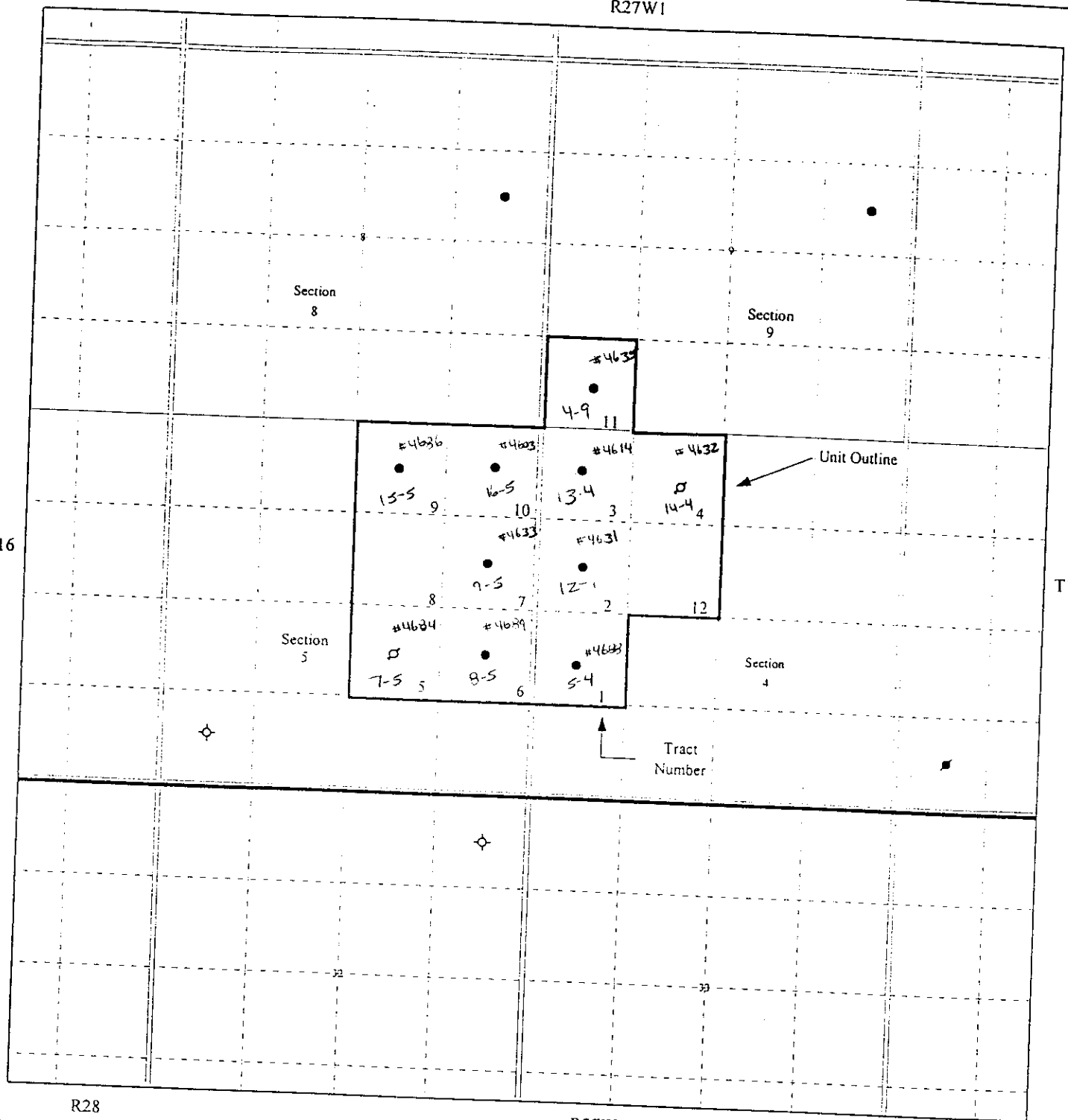
cc: Administration

R28

R27W1

T16

T16



R28

R27W1

Exhibit "B"

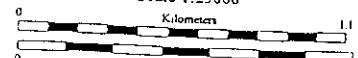
Birdtail Unit No. 1
Unit Outline; Tract by LSD



Map Software by
AccuMap EnerData,
A Division of QC Data
Version 4.35, Feb 18 1999
(403) 243-5051

Author: Jeff Screen
Date: March 25, 1999
File: Birdtail.MAP
Scale: 1:25000

Scale 1:25000



**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

FAX

Date

20-OCT-00

Number of pages including cover sheet

2

TO: JEFF SCREEN
PROGRESS ENERGY

Phone

Fax Phone (403) 216-2514

CC:

FROM:

John Fox, P.Eng.
Manitoba Conservation
Petroleum & Energy Branch
360, 1395 Ellice Avenue
Winnipeg MB R3G 2P3

Phone 945-6574

Fax Phone 945-0586

e-mail jfox@em.gov.mb.ca

REMARKS: ☐ Urgent ☐ For your review ☐ Reply ASAP ☐ Please Comment

BIRDTAIL NO. 2 - RE-EXECUTION OF UNIT AGREEMENT
UNIT

*** TX REPORT ***

TRANSMISSION OK

TX/RX NO	4144
DEPT. ACCESS CODE	6577
CONNECTION TEL	914032162514
SUBADDRESS	
CONNECTION ID	PROGRESS ENERGY
ST. TIME	10/20 16:11
USAGE T	03'01
PGS.	2
RESULT	OK

FAX

Date 20-OCT-00

Number of pages including cover sheet 2

TO: JEFF SCREEN
PROGRESS ENERGY

FROM: John Fox, P.Eng.
Manitoba Conservation
Petroleum & Energy Branch
360, 1395 Ellice Avenue
Winnipeg MB R3G 2P3

Phone

Fax Phone (403) 216-2514

Phone 945-6574

Fax Phone 945-0586

CC:

e-mail jfox@em.gov.mb.ca

REMARKS: ☐ Urgent ☐ For your review ☐ Reply ASAP ☐ Please Comment

BIRDTAIL NO. 2 - RE-EXECUTION OF UNIT AGREEMENT
UNIT



October 18, 2000

Mr. Jeff Screen
Progress Energy Ltd.
1110-520 5th Ave SW
Calgary AB T2P 3R7

Dear Mr. Screen:

Re: Birdtail Unit No. 2 – Unit Agreement

The Branch has reviewed its files pertaining to Birdtail Unit No. 2 to determine what is required to be submitted before the Unit Agreement can be registered by the Branch under Section 132 of The Oil and Gas Act.

The Branch has on file copies of the execution page of the Unit Agreement signed by all parties to the Agreement except Neil Bertram, a royalty owner in Unit Tract No. 9. However, I note that the Unit Agreement Clause 1303 - Release Date states – “The 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.”

The Branch's interpretation of Clause 1303, is that Progress would have to have all parties to the Unit Agreement re-execute a new Unit Agreement or agree in writing to an amendment of Clause 1303 extending the November 1, 1999 deadline. Due to the passage of time, between the parties execution of the Unit Agreement and the commencement of waterflooding, it is probably appropriate to review the Unit tract participation to determine if the individual tract participation is still equitable.

Progress is requested to provide its comments on the issues raised by the Branch. If you have any questions please contact the undersigned at (204) 945-6574.

Yours truly,



John Fox
Chief Petroleum Engineer

cc: Administration



Energy and Mines

Petroleum and Energy Branch

1395 Ellice Avenue Suite 360
Winnipeg MB R3G 3P2
CANADA

PH: (204) 945-6577
PH: (204) 945-3760
FAX: (204) 945-0586

July 21, 1999

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Progress Energy Ltd.
1110, 520 – Fifth Avenue S.W.
Calgary AB T2P 3R7

Dear Rick:

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Unit Agreement**

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Water injection into the unit may commence on August 1, 1999 in accordance with the conditions of Waterflood Order No. 7.

If you have any questions please don't hesitate to call the undersigned at 945-6574.

Yours truly,

A handwritten signature in black ink, appearing to be 'J. N. Fox'.

John N. Fox, P.Eng.
A/Director

cc: Administration



Energy and Mines

Petroleum and Energy Branch

1395 Ellice Avenue Suite 360
Winnipeg MB R3G 3P2
CANADA

PH: (204) 945-6577
PH: (204) 945-3760
FAX: (204) 945-0586

DATE: July 22

TOTAL NO. OF PAGES (including this page) 2

PLEASE DELIVER THE FOLLOWING PAGES TO:

NAME: RICK BALWOL
BRANCH: PROGRESS ENERGY
FAX NO: (403) 216-2514

COMMENTS: _____

Manitoba



FROM: **Energy and Mines**
Petroleum and Energy Branch

360-1395 Ellice Avenue
Winnipeg, Manitoba
R3G 3P2

Dan Surzyszyn
Senior Petroleum Technician



(204) 945-8102
(204) 945-0586 Fax
dsurzyszyn@em.gov.mb.ca

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ORIGINALS WILL BE:

☒ Mailed to you: _____ Delivered to you: _____ Picked up
_____ Mailed/Delivered upon request: _____ Remain on our file.

*** TX REPORT ***

TRANSMISSION OK

TX/RX NO 0889
DEPT. ACCESS CODE 6577
CONNECTION TEL 914032162514
SUBADDRESS
CONNECTION ID PROGRESS ENERGY
ST. TIME 07/22 07:40
USAGE T 00'38
PGS. 2
RESULT OK

Manitoba



Energy and Mines

Petroleum and Energy Branch

1395 Ellice Avenue Suite 360
Winnipeg MB R3G 3P2
CANADA

PH: (204) 945-6577
PH: (204) 945-3760
FAX: (204) 945-0586

RE: EXECUTION
PAGE RECEIVED

DATE:

JULY 22

TOTAL NO. OF PAGES (including this page)

2

PLEASE DELIVER THE FOLLOWING PAGES TO:

NAME:

RICK BALWOL

BRANCH:

PROGRESS ENERGY

FAX NO:

(403) 216-2514

COMMENTS:

Manitoba



FROM:

Energy and Mines
Petroleum and Energy Branch

360-1395 Ellice Avenue
Winnipeg, Manitoba
R3G 3P2

Dan Surzyahyn
Senior Petroleum Technician



(204) 945-8102
(204) 945-0586 Fax
dsurzyahyn@em.gov.mb.ca

This message is intended only for the use of the individual or entity to which it is addressed, and may contain information that is privileged, confidential and exempt from disclosure under applicable law.

If the reader of this message is not the intended recipient, or the employee or agent responsible for delivering the message to



Energy and Mines

Petroleum and Energy Branch

1395 Ellice Avenue Suite 360
Winnipeg MB R3G 3P2
CANADA

PH: (204) 945-6577
PH: (204) 945-3760
FAX: (204) 945-0586

July 21, 1999

Mr. Rick Bawol
Progress Energy Ltd.
1110, 520 - Fifth Avenue S.W.
Calgary AB T2P 3R7

Dear Rick:

**Re: Birdtail Unit No. 1
Unit Agreement**

The Branch is in receipt of a copy of the signed execution pages for each owner in Birdtail Unit No. 1 and has registered the unit agreement. The effective date for Birdtail Unit No. 1 is August 1, 1999.

Water injection into the unit may commence on August 1, 1999 in accordance with the conditions of Waterflood Order No. 7.

If you have any questions please don't hesitate to call

Yours truly,

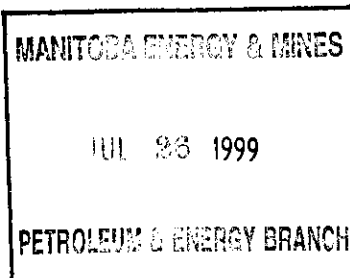
John N. Fox, P.Eng.
A/Director

cc: Administration

DAN
① HAVE TRACY REGISTER A
COPY OF THE UNIT
AGREEMENT

② PAULETTE NEEDS A
COPY OF CERTAIN
EXHIBITS FOR THE
UNIT AGREEMENT

③ ASK PAULETTE WHAT
JUDI & CAROL NEED.



July 20, 1999

Manitoba Energy and Mines
Petroleum and Energy Branch
1395 Ellice Avenue, Suite 360
Winnipeg, Manitoba
R3G 3P2

Attention: Dan Surzyshyn

Dear Mr. Surzyshyn:

RE: BIRDTAIL UNITS NO. 1 AND 2 - UNITIZATION AGREEMENTS

As you requested, I am enclosing copies of the signed counterpart execution pages for Unit 1. All of the parties to this unitization agreement have signed it. Therefore in accordance with Article 13 of the agreement, the effective date of the unitization will be August 1, 1999.

I am also enclosing an updated version of Exhibit "A", Part 1 for Unit 2. When this exhibit was first prepared, it accurately reflected the original royalty ownership within the unitized lands. However it did not reflect the subsequent sale of 25% of the royalty interest in 5-20-16-27W1 from Wattview Resources to Neil Bertram. The interests of the Crown and the other royalty owner, Cynthia Slevin, remain unchanged.

To date, all parties to the unitization agreement for Unit 2 have signed with the exception of Mr. Bertram. We are still having discussions with him and hope to resolve this matter within a reasonable time frame. In your last phone message you mentioned that it may be helpful for me to have Mr. Bertram call John Fox. Please advise John that he may be getting a call from Mr. Bertram since I will likely take you up on this offer.

I am also enclosing the counterpart execution pages from all the other parties to Unit 2. I'll send you a copy signed by Mr. Bertram if and when it is obtained. Thank you for your cooperation in this matter. If you have any questions about this matter, please feel free to call me at 403-216-2510 ext. 109.

Sincerely,
PROGRESS ENERGY LTD.

Rick Bawol
Exploitation Manager

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.

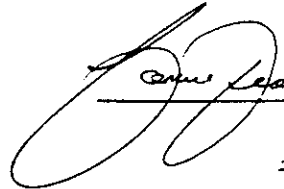
IN WITNESS WHEREOF each of the Parties has executed this Agreement on the date shown opposite its name hereunder.

WORKING INTEREST OWNER:

Progress Energy Ltd.
Company

DATE: July 15, 1999

Kim 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

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:

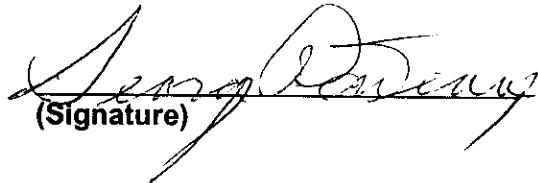
Company

DATE: _____, 1999

ROYALTY OWNER:

GEORGE HARRISON BARTEUX
(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:

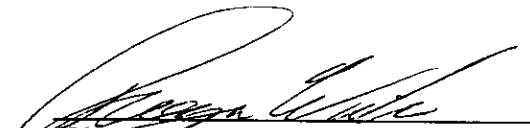
Company

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

**ATTACHED TO AND MADE PART OF
UNIT AGREEMENT ENTITLED BIRDTAIL UNIT NO. 2
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	15-18-16-27W1M	Crown	100%	Progress	100%	3.6102%
2	16-18-16-27W1M	Crown	100%	Progress	100%	5.8811%
3	1-19-16-27W1M	Crown	100%	Progress	100%	18.6620%
4	2-19-16-27W1M	Crown	100%	Progress	100%	7.0487%
5	7-19-16-27W1M	Crown	100%	Progress	100%	11.5800%
6	8-19-16-27W1M	Crown	100%	Progress	100%	12.8623%
7	3-20-16-27W1M	Wattsvew Resources Cynthia Slevin	50%	Progress	100%	20.1465%
8	4-20-16-27W1M	Wattsvew Resources Cynthia Slevin	50%	Progress	100%	6.8641%
9	5-20-16-27W1M	Wattsvew Resources Cynthia Slevin Neil Bertram	25%	Progress	100%	13.3451%
			25%			100.0000%

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 Bous x

[Signature]

ROYALTY OWNER:

(Print)

DATE: _____, 1999

(Signature)

This is the Execution Page of the Agreement entitled "Unit Agreement" Birdtail Unit No. 2

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:

CYNTHIA SHEVIN
(Print)

DATE: June 28, 1999

Cynthia Shevin
(Signature)

This is the Execution Page of the Agreement entitled "Unit Agreement" Birdtail Unit No. 2

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:

FREIDA BUTCHER
(Print)

DATE: July 13, 1999

[Signature]
(Signature)

PRESIDENT,
WATTSVIEW RESOURCES LTD.

This is the Execution Page of the Agreement entitled "Unit Agreement" Birdtail Unit No. 2

**FAX COVER SHEET**

DATE:

July 20/99

TO:

Don Surzyshyn

DEPARTMENT:

COMPANY:

Manitoba Energy & Mines

FAX NUMBER:

(204) 945-0586

FROM:

Rick Barwal

Total number of pages (Including Cover):

2.9

Comments:

Original to follow via mail

IF NOT RECEIVED IN GOOD ORDER, PLEASE CALL DARLA MANGEL AT 216-2510 ext. 0.



July 20, 1999

Manitoba Energy and Mines
Petroleum and Energy Branch
1395 Ellice Avenue, Suite 360
Winnipeg, Manitoba
R3G 3P2

Attention: Dan Surzyshyn

Dear Mr. Surzyshyn:

RE: BIRDTAIL UNITS NO. 1 AND 2 - UNITIZATION AGREEMENTS

As you requested, I am enclosing copies of the signed counterpart execution pages for Unit 1. All of the parties to this unitization agreement have signed it. Therefore in accordance with Article 13 of the agreement, the effective date of the unitization will be August 1, 1999.

I am also enclosing an updated version of Exhibit "A", Part 1 for Unit 2. When this exhibit was first prepared, it accurately reflected the original royalty ownership within the unitized lands. However it did not reflect the subsequent sale of 25% of the royalty interest in 5-20-16-27W1 from Wattsvie Resources to Neil Bertram. The interests of the Crown and the other royalty owner, Cynthia Slevin, remain unchanged.

To date, all parties to the unitization agreement for Unit 2 have signed with the exception of Mr. Bertram. We are still having discussions with him and hope to resolve this matter within a reasonable time frame. In your last phone message you mentioned that it may be helpful for me to have Mr. Bertram call John Fox. Please advise John that he may be getting a call from Mr. Bertram since I will likely take you up on this offer.

I am also enclosing the counterpart execution pages from all the other parties to Unit 2. I'll send you a copy signed by Mr. Bertram if and when it is obtained. Thank you for your cooperation in this matter. If you have any questions about this matter, please feel free to call me at 403-216-2510 ext. 109.

Sincerely,
PROGRESS ENERGY LTD.

Rick Bawol
Exploitation Manager

**ATTACHED TO AND MADE PART OF
UNIT AGREEMENT ENTITLED BIRDTAIL UNIT NO. 2
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	15-18-16-27W1M	Crown	100%	Progress	100%	3.6102%
2	16-18-16-27W1M	Crown	100%	Progress	100%	5.8811%
3	1-19-16-27W1M	Crown	100%	Progress	100%	18.6620%
4	2-19-16-27W1M	Crown	100%	Progress	100%	7.0487%
5	7-19-16-27W1M	Crown	100%	Progress	100%	11.5900%
6	8-19-16-27W1M	Crown	100%	Progress	100%	12.8623%
7	3-20-16-27W1M	Wattisview Resources	50%	Progress	100%	20.1485%
		Cynthia Slevin	50%			
8	4-20-16-27W1M	Wattisview Resources	50%	Progress	100%	6.8641%
		Cynthia Slevin	50%			
9	5-20-16-27W1M	Wattisview Resources	25%	Progress	100%	13.3451%
		Cynthia Slevin	50%			
		Nell Bertram	25%			100.0000%

Table 4

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

Kenn Bennis x

[Signature]
=

ROYALTY OWNER:

(Print)

DATE: _____, 1999

(Signature)

This is the Execution Page of the Agreement entitled "Unit Agreement" Birdtail Unit No. 2

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:

CYNTHIA SHEVIN
(Print)DATE: June 28., 1999

Cynthia Shevin
(Signature)

This is the Execution Page of the Agreement entitled "Unit Agreement" Birdtail Unit No. 2

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:

FREIDA BUTCHER
(Print)

DATE: July 12, 1999

Freida Butcher
(Signature)

PRESIDENT,
WATTSVIEW RESOURCES LTD.

This is the Execution Page of the Agreement entitled "Unit Agreement" Birdtail Unit No. 2



Energy and Mines

Petroleum and Energy Branch

1395 Ellice Avenue Suite 360
Winnipeg MB R3G 3P2
CANADA

PH: (204) 945-6577
PH: (204) 945-3760
FAX: (204) 945-0586

July 12, 1999

Mr. Rick Bawol
Progress Energy Ltd.
1110, 520 – Fifth avenue S.W.
Calgary AB T2P 3R7

Dear Rick:

**Re: Birdtail Unit No. 2
Unit Agreement**

Attached is a copy of the execution page from the subject unit agreement signed by the Minister of Energy and Mines. Please forward copies of the execution pages signed by all royalty and working interest owners.

If you have any questions please don't hesitate to call the undersigned at 945-6574.

Yours truly,

A handwritten signature in black ink, appearing to read "J. N. Fox". The signature is fluid and cursive, with a large loop at the end.

John N. Fox, P.Eng.
A/Director

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 5, 1999

David Newman
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. 2



Energy and Mines

Petroleum and Energy Branch

1395 Ellice Avenue Suite 360
Winnipeg MB R3G 3P2
CANADA

PH: (204) 945-6577
PH: (204) 945-3760
FAX: (204) 945-0586

July 12, 1999

Mr. Rick Bawol
Progress Energy Ltd.
1110, 520 – Fifth avenue S.W.
Calgary AB T2P 3R7

Dear Rick:

**Re: Birdtail Unit No. 1
Unit Agreement**

Attached is a copy of the execution page from the subject unit agreement signed by the Minister of Energy and Mines. Please forward copies of the execution pages signed by all royalty and working interest owners.

If you have any questions please don't hesitate to call the undersigned at 945-6574.

Yours truly,

A handwritten signature in black ink, appearing to be 'John N. Fox'.

John N. Fox, P.Eng.
A/Director

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 5, 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

FILE
BIRDTAIL UNIT NO
1 + 2
CORRESPONDENCE

June 1, 1999

Mr. Rick Bawol
Progress Energy Ltd.
1110, 520 – Fifth avenue S.W.
Calgary AB T2P 3R7

Dear Rick:

**Re: Birdtail Unit No. 1
Unit Agreement**

Attached is a copy of the execution page from the subject unit agreement signed by the Minister of Energy and Mines. Please forward copies of the execution pages signed by all royalty and working interest owners.

If you have any questions please don't hesitate to call the undersigned at 945-6574.

Yours truly,

John N. Fox, P.Eng.
A/Director

Comments - UNIT
AGREEMENT

UNIT AGREEMENT
BIRDTAIL BAKKEN "C" SAND UNIT

June 1/99

Unit Agreement – Birdtail Bakken "C" Sand Unit

UNIT AGREEMENT
BIRDTAIL BAKKEN "C" SAND UNIT

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UNIT AGREEMENT
BIRDTAIL BAKKEN "C" SAND UNIT

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

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

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

ARTICLE I

DEFINITIONS

101. Definitions

In this Agreement:

- (a) ~~"Bakken Sand"~~ ^{"UNITIZED ZONE"} means that portion of the Bakken Sand which is identified in the well Northrock Birdtail 9-5-16-27W1, located in legal subdivision 09 of Section 05 in Township 16 in Range 27, West of the Prime Meridian (W1M), between the depths of 517 and 523 meters below the Kelly Bushing as shown on the 523 portion of the Neutron-Density Log recorded in the said well and attached hereto as Exhibit "C".
- (b) ~~"Drainage Unit"~~ ^{"SPACING UNIT"} means the area allocated to a well by the ~~Minister~~ ^{PETROLEUM BRANCH} with respect to the ~~Bakken Sand~~ ^{UNITIZED ZONE} for the purpose of drilling for or producing Petroleum Substances;

* MEANS THE TIME AND DATE
REFERRED TO IN ARTICLE ^(c) XIV

"Effective Date" April 1, 1999;

- ✓ (d) "Lease" means an instrument granting a Working Interest in the Unitized Zone;

- (e) "Minister" means the ~~Minister of Energy and Mines of the Government of the Province of Saskatchewan;~~ ^{MEMBER OF THE EXECUTIVE COUNCIL CHARGED BY THE}
^{LIEUTENANT GOVERNOR IN COUNCIL WITH THE ADMINISTRATION OF THE OIL AND GAS ACT OF MANITOBA}

(f) ✓ **"Outside Substances"** means any substance initially obtained from any source other than the Unitized Zone or any Unitized Substances with respect to which royalty has been paid;

(g) ✓ **"Party"** means a person who is bound by this Agreement

(h) **"Petroleum Substances"** means ~~X~~ petroleum, natural gas and ^{RELATED} other hydrocarbons (except coal) ~~or any of them~~; **AND ALL SUBSTANCES WHETHER GASEOUS, LIQUID OR SOLID, WHICH ARE PRODUCED IN ASSOCIATION HERewith, OR ANY OF THEM;**

(i) **"Royalty Interest"** means any interest (other than a Working Interest) in Petroleum Substances or the proceeds from the sale of such interest, produced from the Unitized Zone, but does not include the interest of a person as a purchaser of Petroleum Substances after production;

i) AN OWNERSHIP, FEE SIMPLE, OR SIMILAR ESTATE IN PETROLEUM SUBSTANCES IN THE UNITIZED ZONE, OR
(j) ✓ **"Royalty Owner"** means a Party owning a Royalty Interest in or in respect of Unitized Substances;

ii) A RIGHT TO SHARE OF PETROLEUM SUBSTANCES PRODUCED FROM THE UNITIZED ZONE, TO A SHARE OF THE PROCEEDS FROM THE SALE OF SUCH PETROLEUM SUBSTANCES, OR TO A PAYMENT BASED ON THE QUANTITY OR VALUE OF SUCH PETROLEUM SUBSTANCES, BUT DOES NOT INCLUDE A WORKING INTEREST, THE INTEREST OF A PURCHASER OF SUCH PETROLEUM SUBSTANCES AFTER PRODUCTION, OR A MORTGAGE CHARGE OR LIKE INTEREST GRANTED AT SECURITY IN A FINANCIAL TRANSACTION;
(k) ✓ **"Tract"** means a parcel of land described and given a Tract number in Exhibit "C" and shown on Exhibit "B";

OUTLINED PARTICIPATION
ALLOCATED
"Tract Participation" means the effective percentage allotted to a Tract pursuant to Article VI and set forth in Part 1 Of Exhibit "C";

OUTLINED ON
(m) **"Unit Area"** means the lands described in Exhibit "C" and shown on Exhibit "B";

"Unit Participation" means, with respect to each Working Interest Owner, the sum of all of its Tract Participation shares as set forth in Part 2 of Exhibit "C";

(o) ✓ **"Unitized Substances"** means Petroleum Substances in or obtained from the Unitized Zone;

(b) ~~**"Unitized Zone"** means the Bakken Sand zone within the Unit Area;~~

(q) **"Working Interest"** means any ~~right~~ ^{INTEREST WHICH ENTITLES THE OWNER THEREOF} to produce and dispose of, OR TO PARTICIPATE IN THE PRODUCTION AND DISPOSAL OF, PETROLEUM SUBSTANCES FROM THE UNITIZED ZONE, INCLUDING AN INTEREST ~~chargeable with any costs of drilling for, recovery of and disposal of~~ ^{AND WITH WHICH} Petroleum Substances therefrom;

(r) **"Working Interest Owner"** means a Party owning a Working interest. IN OR IN RESPECT OF UNITIZED SUBSTANCES;

"UNIT OPERATIONS" MEANS ANY OPERATIONS OR ACTIVITIES UNDERTAKEN IN CONNECTION WITH THE UNITIZED ZONE, THE PRODUCTION OR 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 ~~Unit Agreement~~ ^{Unit Agreement - Birdtail Bakken "C" Sand Unit} THE UNIT OPERATING AGREEMENT;

"UNIT OPERATOR" MEANS THE PERSON WHO IS SO DESIGNATED UNDER THE UNIT OPERATING AGREEMENT

"UNIT OPERATING AGREEMENT" MEANS THE AGREEMENT ENTITLED "UNIT OPERATING AGREEMENT - BIRDTAIL BAKKEN "C" SAND UNIT

ARTICLE II

EXHIBITS

201. Exhibits

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

- (a) Exhibit "C", Part 1 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, andPart 2 of which lists all of the Working Interest Owners and sets forth their respective Unit Participations;
- (b) Exhibit "B" which is a plan or map of the Unit Area; and
- (c) Exhibit "C" which is a reproduction of a portion of the Neutron-Density Log of the well known as Northrock Birdtail 9-5-16-27W1M.

202. Exhibits Correct

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

203. Correction of Exhibits

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

204. Effective Time

Any corrected exhibit prepared on or before the Effective Date or within ninety (90) days thereafter shall be effective on the Effective Date. Any corrected exhibit prepared after the said ninety (90) days shall be effective at 7:00 a.m., Central Standard Time, on the first day of the first calendar month after it has been supplied to the ~~Minister~~ in accordance with clause 205.

PETROLEUM BRANCH

205. Supplying of Exhibits

Each time that an exhibit is revised or corrected pursuant to this Agreement, the Unit Operator shall supply the ~~Minister~~ ^{PETROLEUM BRANCH} with one or more copies, as required and shall supply each Working Interest Owner with the number of copies of the exhibit that it requests. Each Working Interest Owner shall supply each of its Royalty Owners, except the ~~Minister~~ ^{CROWN}, with a copy of the revised exhibit.

206. Form of Revised or Corrected Exhibits

Exhibits that are revised or corrected shall show the effective time of the revision or correction in accordance with clause 204 and shall be numbered consecutively.

ARTICLE III

UNITIZATION AND EFFECT

301. Unitization

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

302. Personal Property Excepted

All lease and well equipment heretofore or hereafter placed by any of the Working Interest Owners on lands in the Unit Area shall be deemed conclusively to be and shall remain personal property belonging to and may be removed by the Working Interest Owners.

303. Continuation of Leases

All operations conducted with respect to the Unitized Zone or production of Unitized Substances shall, except for the purpose of calculating payments to Royalty Owners, be deemed conclusively to be operations upon or production from all of the Unitized Zone in each Tract, and such operations or production shall continue in force and effect each Lease and any other agreement or

instrument relating to the Unitized Zone or Unitized Substances as if such operations had been conducted on and a well was producing from each Tract or ~~Drainage~~ Unit, or portion thereof, in the Unit Area.

SPACING

304. Lease Amended

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

305. Ratification of Leases

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

THE PROVISIONS OF THIS CLAUSE 305 DO NOT CONSTITUTE A WAIVER, AND SHALL NOT GIVE RISE TO AN ESTOPPEL, OR ANY RIGHT TO PURSUE THE ENFORCEMENT OF ANY OUTSTANDING OBLIGATION UNDER ANY SUCH LEASE.

306. Effect of Unitization on Titles

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

307. Name

The name of the unit hereby constituted is Birdtail Bakken "C" Sand Unit.

7. — *EQUIPMENT AND FACILITIES*

ARTICLE IV

AUTHORITY TO WORKING INTEREST OWNERS

401. Operations

SPACING
The Working Interest Owners are hereby granted the right to develop and operate the Unitized Zone without regard to the provisions of the Leases or the boundary lines of the Tracts or ~~Drainage~~ Units in such manner and by such means and methods as the Working Interest Owners consider necessary and proper and, without limiting the generality of the foregoing, the right to inject any substance or combination of substances into the Unitized Zone and convert and use as injection wells any wells now existing or hereafter drilled into the Unitized Zone.

ARTICLE V

~~INCLUSION AND QUALIFICATION OF TRACTS~~

501. Tracts Included on Effective Date

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

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

502. Qualification of Tracts

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

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

503. Revision of Exhibits

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

* 1102. Approval of Titles by Working Interest Owners

The Working Interest Owners may approve:

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

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

402. Delegation

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

ARTICLE V

TRACT PARTICIPATION

→ INCLUSION AND QUALIFICATION OF TRACT

501. Tract Participation

Each Tract has a Tract Participation as shown on Exhibit "C". Tract Participation as shown on Exhibit "C" will "not" be altered in the event that the unit is infill drilled.

ARTICLE VI

ALLOCATION OF UNITIZED SUBSTANCES PRODUCED

601. Allocation to Tracts

Subject to clauses ~~701~~ ²⁰¹ ~~401~~ ⁴⁰ and ~~801~~ ⁸⁰¹ the Unitized Substances when produced shall be allocated to the Tracts in accordance with their Tract Participation~~x~~. The amount of Unitized Substances allocated to each Tract, and only that amount, regardless of whether it is more or less than the amount of actual production of Unitized Substances from the well or wells, if any, on the Tract, shall be deemed conclusively to have been produced from the Tract.

602. Distribution within Tracts

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

603. Calculation of Royalty

For the purpose of calculating royalty with respect to each Tract, the royalty payable under the respective Lease, agreement or other instrument covering such Tract shall be calculated on the Unitized Substances allocated to the Tract, and at the applicable rate under such Lease, agreement or other instrument. The Royalty Owners of each Tract agree to accept payment of royalty so calculated in satisfaction of the obligation of a Working Interest Owner to make royalty payments on Unitized Substances under the Lease, agreement or other instrument covering such Tract; but a lessee under a Lease shall not be relieved from making payment of royalty to its lessor if payment is not made by the Working Interest Owner as aforesaid.

604. Taking Unitized Substances in Kind

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

605. Failure to Take in Kind

To the extent that a Party entitled to take in kind any of the Unitized Substances, fails to take or otherwise dispose of them at the time and place of production, then so long as such failure continues, the Unit Operator, as agent and for the account and at the expense of such Party, may sell, store, inject or otherwise dispose of them. Where there is a sale, the net proceeds shall be paid to the Party. The Unit Operator may contract for sale thereof only for the minimum term obtainable, which in no event shall exceed one (1) year. When the Unit Operator has so contracted, the Party may take its share of the Unitized Substances in kind upon the expiration of the current sales contract that it intends to take its share in kind. Any Party not taking in kind may revoke at will the Unit Operator's authority hereunder by taking in kind all of its share of the Unitized Substances not previously contracted for sale by the Unit Operator.

606. Royalty on Outside Substances

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

607. Several Royalty Liability

Without limiting the generality of the provisions of Clause 602 and ~~604~~, nothing in this Agreement shall be construed as giving rise to any right entitling the Royalty Owners 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 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 607 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.

600. Oil in Lease Tankage and Over-Production as of the Effective Date

- (a) A proper and timely gauge shall be made of all tanks delivered to the Unit Operator to ascertain the amount of oil in such tanks as of the Effective Date. If any wells producing into such tanks have made more than their cumulative production allowables as set by the Department of Energy & Mines, the amount of such over-production of oil then in such tanks that has, prior to the Effective Date, been produced from those zones, which on the Effective Date, became the Unitized Zone, shall be deemed to be Unitized Substances. Except as aforesaid, the oil in such tanks shall remain and be at the risk of and be the property of the person owing the same prior to the Effective Date and upon request shall be delivered in kind to such person or, in the absence of such request, shall be sold by the Unit Operator for the credit of and on behalf of such person at not less than the prevailing wellhead price, and the proceeds thereof shall be paid the purchaser directly to such person.
- (b) If any production from those zones, which on the Effective Date became the Unitized Zone, was in excess of the cumulative production allowable of any Tract as of the Effective Date and such excess production was sold prior to the Effective Date, the Unit Operator, during each subsequent month after the fifth month next following the Effective Date, shall withhold seventy five percent (75%) of the Unitized Substances that would otherwise be allocated to such Tract except for the provisions of this subclause, and the amount of production so withheld shall be reallocated to all of the Tracts in proportion to their respective Tract Participations. The withholding from such Tract of oil that would otherwise be allocated shall be continued until the accumulated total of such withholding is equal to the amount of production in excess of the cumulative production allowable of such Tract as of the Effective Date.
- (c) No allowance shall be made with respect to any wells that have produced, up to the Effective Date, less than their cumulative production allowables as set by the Department of Energy & Mines.

ARTICLE VII

USE, LOSS AND STORAGE OF UNITIZED SUBSTANCES

701. Use or Loss

The Working Interest Owners may use as much of the Unitized Substances,

other than crude oil, as they deem necessary for the operation and development of the Unitized Zone including, but not limited to, the injection thereof into the Unitized Zone and in the operation of any plants handling Unitized Substances. Unitized Substances so used or injected and Unitized Substances lost shall be excluded in allocating Unitized Substances to Tracts, and no royalty or other payment shall be payable in respect thereof, except that in the case of Unitized Substances that have been so injected, royalty shall be payable in respect thereof when such Unitized Substances are ultimately recovered from the Unitized Zone and sold or used other than for operations hereunder.

702. Storage

The Working Interest Owners are hereby granted the right to inject Unitized Substances into the Unitized Zone for storage. Unitized Substances so injected shall be excluded in allocating Unitized Substances to Tracts, and no royalty or other payment shall be payable in respect thereof until they are recovered from storage and sold or used other than for operations hereunder.

ENLARGEMENT OF UNIT AREA
ADJUSTMENT OF TRACT PARTICIPATION
ARTICLE VIII
EXHIBIT
EFFECTIVE TIME OF ENLARGEMENT
801. Minister's Consent

ENLARGEMENT OF UNIT AREA

Notwithstanding anything to the contrary contained in this Agreement, if the Minister is the owner of any Royalty Interest or Working Interest in any Tract included in the Unit Area, or in any lands proposed to be admitted to the Unit Area pursuant to this Article, no enlargement of the Unit Area shall be carried out until the Minister has in writing consented to such enlargement.

DISPUTES
APPROVAL OF TITLE
ARTICLE IX
TRANSFER OF INTEREST
901. Disposition

In this Article IX 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 unit.

- (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 "C" to reflect such disposition, and the revised version of Exhibit "C" shall be effective as of 07:00 on the first day of the calendar month next following the calendar month in which such items are received by the Unit Operator.

902. Other Changes

If a Party changes its name or undergoes any other changes affecting the information contained in Exhibit "C", other than by way of 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 "C" to reflect such change, and the revised version of Exhibit "C" 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.

903. Notices

All notices to the Unit Operator pursuant to this Article IX 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 ~~Alberta~~.

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; or
- (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 Alberta, or in Saskatchewan.

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 Alberta, or in Saskatchewan 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 purpose of this Clause 903, 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 given 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.

*PAULINE DUPOSITION
NOT TO INCREASE
COSTS*

** — EXECUTION IN COUNTERPART
* — DUAL CAPACITY
* — SUBSEQUENT EXECUTION
* — NO PARTNERSHIP*

ARTICLE X

IN GENERAL

1001. Force Majeure

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

relating to the Unitized Zone or Unitized Substances shall terminate by reason of suspension of unit operations for the cause set forth in this clause.

1002. Taxes

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

1003. Rights of Redemption

A Working Interest Owner may, at any time and from time to time, with full rights of subrogation, redeem for its Royalty Owner any agreement for sale, mortgage, or other lien or encumbrance of any kind or nature affecting any interest in the Unit Area in the event of default of payment by the Royalty Owner and may deduct the amount of any payment made hereunder from the Royalty Owner's royalty.

1004. Interpretation

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

1005. 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.

1006. Time is of the Essence

In this Agreement time is of the essence.

* - IN THIS AGREEMENT ALL TIMES ARE "OFFICIAL TIMES" AS DEFINED IN THE OFFICIAL TIME ACT OF THE PROVINCE OF MANITOBA.

1007. Inuring Clause

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

← COMPLIANCE WITH LEGISLATION

1008. 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.

ARTICLE XI

EFFECTIVE DATE

1101. Effective Date

The unitization provided for herein shall become effective at 7:00 a.m., Central Standard Time, on the first day of the first calendar month following the date of:

- (a) ~~the filing of an executed copy of this Agreement with the Minister.~~ **THE DATE THE UNIT AGREEMENT IS REGISTERED IN THE PETROLEUM BRANCH**

1102. Notice of Effective Date

As soon as possible after the Effective Date, the Unit Operator shall notify its Royalty Owners, except the Crown, of the Effective Date.

* **RELEASE OF PARTIES - ?**

ARTICLE XII

TERM

* **EFFECT OF EXECUTION AND DELIVERY**

1201. Termination

This Agreement terminates ninety (90) days after all wells for the production of Unitized Substances in the Unit Area have been abandoned or plugged, and thereafter the Parties shall be governed by the terms and provisions of their Leases and contracts.

1202. Salvaging Equipment upon Termination

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

1203. Notice to Royalty Owners

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

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

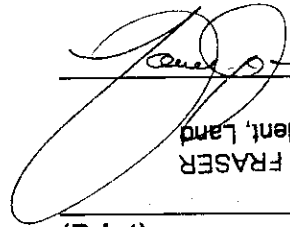
WORKING INTEREST OWNER:

Progress Energy Ltd.
Company

February 12, 1999
Date

Ken Bawn

ROYALTY OWNER:


Cameron Fraser
Vice-President, Land
(Print)

Date

(Signature)

Execution Page of the
Unit Agreement – Birdtail Bakken “C” Sand Unit

Unit Agreement – Birdtail Bakken “C” Sand Unit

PROPOSED TRACT PARTICIPATION

Formula:

- The unit working interest will be calculated by combining 50% of original oil in place with 50% of the production from the same lands.

$$\text{TRACT Factor} = 50\% (A) + 50\% (B)$$

A = The average production from wells in a TRACT from Aug, Sept, Oct and Nov 98.

B = Proven, Develop Producing Original Oil in Place plus 50% Probable Original Oil in Place.

Factors for A are found in Table 1, 5

Factors for B are found in Table 2, 4

TRACT FACTORS are found in Table 3

TABLE 1**CALCULATION OF "A" FACTORS**

TRACT#	LEGAL TWP 16 R27 W1	PROD. RATE 4 MOS. M³	% PROD. A	.5% OF PROD.
1	15-18-16-27W1 16-18-16-27W1	9.3 91.5	7.889	3.944
2	01-19-16-27W1 02-19-16-27W1	240.9 54.7	23.134	11.569
3	No Production			
4	No Production			
5	03-20-16-27W1 04-20-16-27W1 05-20-16-27W1	332.8 17.3 173.8	48.827	24.413
6	07-19-16-27W1 08-19-16-27W1	105.4 152.1	20.152	10.074

TABLE 2

Progress Energy Ltd.
Birdtail North Bakken Reserves

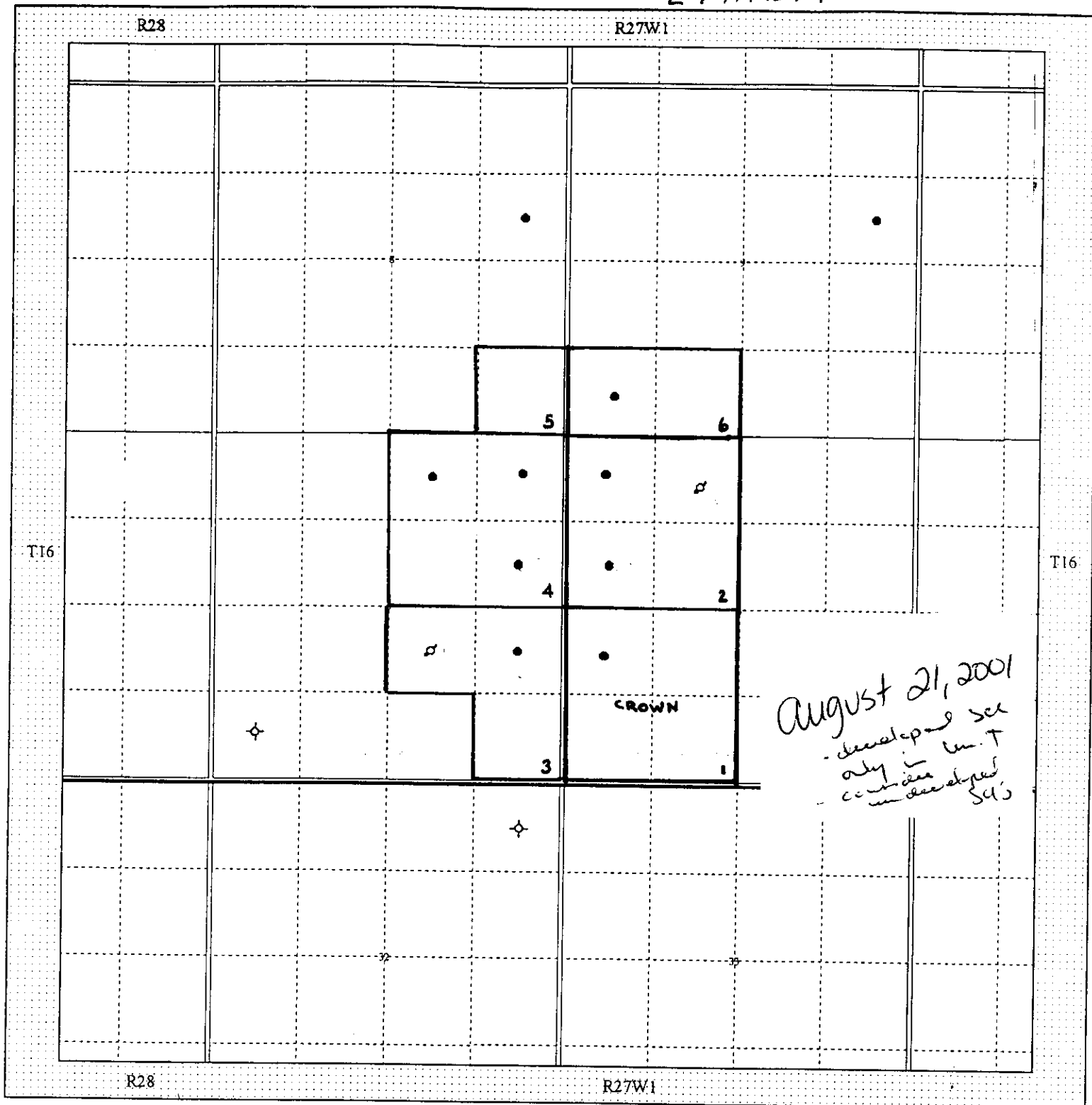
Manitoba

Well	Well Status	Reserve Class	Net Pay m	Net Pay x Por. Fr.	Water Sat. Fr.	OOIP m3	Rec. Fr.	ROIP m3	Cum. to date m3	W.I. Fr.	Volume. Reserves m3	Decline Reserves m3	Prod. Rate m3/d
15-18-16-27w1	Producing	PDP		0.20		20,359	0.04	814	0	1.00	814		
16-18-16-27w1	Producing	PDP		0.25		25,448	0.04	1,018	0	1.00	1,018		
01-19-16-27w1	Producing	PDP		0.40		40,717	0.08	3,257	875	1.00	2,382		2.4
02-19-16-27w1	Producing	PDP		0.38		38,172	0.04	1,527	0	1.00	1,527		
03-19-16-27w1				0.15		15,269							
06-19-16-27w1				0.20		20,359							
07-19-16-27w1	Producing	PDP		0.42		42,753	0.04	1,710	0	1.00	1,710		
08-19-16-27w1	Producing	PDP		0.40		40,717	0.06	2,443	0	1.00	2,443		1.8
09-19-16-27w1				0.16		16,287							
10-19-16-27w1				0.20		20,359							
03-20-16-27w1	Producing	PDP		0.25		25,448	0.14	3,563	0	1.00	3,563		4.5
04-20-16-27w1	Producing	PDP		0.15		15,269	0.06	916	0	1.00	916		1.1
05-20-16-27w1	Producing	PDP		0.33		33,083	0.08	2,647	875	1.00	1,772		1.8
06-20-16-27w1	no well	Prob		0.13		12,724		0			0		
Totals						366,964		17,895			16,145		12
Totals, barrels						2,309,258		112,612			101,600		73

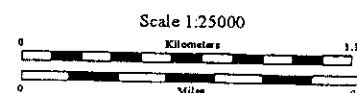
Assumptions	Well spacing, ha	16.4
	Water Saturation	0.37
	Boi	1.02

Waterflood Recovery will be 20% of OOIP.

EXHIBIT



Progress Energy	
Birdtail	
Bakken A Sand Unit	
	Map Software by: AceMap EnerData A Division of QC Data Version 4.50, Jan 24 1999 (407) 281-5055
Author: Jeff Screen Date: February 11, 1999 File: Birdtail.MAP Scale: 1:25000	



Birdtail Bakken A Pool

Tract Factor Calculation - 50% Production (Aug-Nov/98) + 50% OOIP (Developed Spacing Units + 50% OOIP 10-5-16-27)

Unit Tract	Days On	Production (Aug-Nov/98)	Production Factor	Cum. Production to 30-Nov-98	OOIP	OOIP Factor	Tract Participation (0.5* Production Factor + 0.5*OOIP Factor)
5-4-16-27	122	332.8	0.2033	1816.9	33083	0.1285	0.1659
12-4-16-27	122	279.3	0.1707	1980.2	23412	0.0909	0.1308
13-4-16-27	116	144.9	0.0885	1426.5	27484	0.1067	0.0976
14-4-16-27	120	35	0.0214	263.5	7126	0.0277	0.0245
7-5-16-27	0	0	0.0000	129.8	19341	0.0751	0.0375
8-5-16-27	122	200.3	0.1224	268.2	33083	0.1285	0.1254
9-5-16-27	119	242.3	0.1481	1865.2	37663	0.1462	0.1471
10-5-16-27	0	0	0.0000	0	12724	0.0494	0.0247
15-5-16-27	118	110.9	0.0678	672.3	20359	0.0791	0.0734
16-5-16-27	118	183.9	0.1124	1615.6	22903	0.0889	0.1006
4-9-16-27	118	107.2	0.0655	791.8	20359	0.0791	0.0723
		1636.6	1.0000		257537	1.0000	1.0000

Birdtail Bakken A Pool

Tract Factor Calculation - 50% Production (Aug-Nov/98) + 50% Remaining ROIP (OOIP*0.25-Cum. Production)

Unit Tract	Days On	Production (Aug-Nov/98)	Production Factor	Cum. Production to 30-Nov-98	OOIP	ROIP	Rem. ROIP	Rem. ROIP Factor	Tract Participation (0.5* Production Factor + 0.5*Rem. ROIP Factor)
5-4-16-27	122	332.8	0.2033	1816.9	33083	8270.8	6453.85	0.1138	0.1586
12-4-16-27	122	279.3	0.1707	1980.2	23412	5853.0	3872.8	0.0683	0.1195
13-4-16-27	116	144.9	0.0885	1426.5	27484	6871.0	5444.5	0.0960	0.0923
14-4-16-27	120	35	0.0214	263.5	7126	1781.5	1518	0.0268	0.0241
7-5-16-27	0	0	0.0000	129.8	19341	4835.3	4705.45	0.0829	0.0415
8-5-16-27	122	200.3	0.1224	268.2	33083	8270.8	8002.55	0.1411	0.1317
9-5-16-27	119	242.3	0.1481	1865.2	37663	9415.8	7550.55	0.1331	0.1406
10-5-16-27	0	0	0.0000	0	25448	6362.0	6362	0.1121	0.0561
15-5-16-27	118	110.9	0.0678	672.3	20359	5089.8	4417.45	0.0779	0.0728
16-5-16-27	118	183.9	0.1124	1615.6	22903	5725.8	4110.15	0.0724	0.0924
4-9-16-27	118	107.2	0.0655	791.8	20359	5089.8	4297.95	0.0758	0.0706
		1636.6	1.0000	10830	270261	67565.3	56735.25	1.0000	1.0000

Birdtail Bakken A Pool

Tract Factor Calculation - 50% Production (Aug-Nov/98) + 50% OOIP (Developed Spacing Units Only)

Unit Tract	Days On	Production (Aug-Nov/98)	Production Factor	Cum. Production to 30-Nov-98	OOIP	OOIP Factor	Tract Participation (0.5* Production Factor + 0.5*OOIP Factor)
5-4-16-27	122	332.8	0.2033	1816.9	33083	0.1351	0.1692
12-4-16-27	122	279.3	0.1707	1980.2	23412	0.0956	0.1331
13-4-16-27	116	144.9	0.0885	1426.5	27484	0.1123	0.1004
14-4-16-27	120	35	0.0214	263.5	7126	0.0291	0.0252
7-5-16-27	0	0	0.0000	129.8	19341	0.0790	0.0395
8-5-16-27	122	200.3	0.1224	268.2	33083	0.1351	0.1288
9-5-16-27	119	242.3	0.1481	1865.2	37663	0.1538	0.1509
15-5-16-27	118	110.9	0.0678	672.3	20359	0.0832	0.0755
16-5-16-27	118	183.9	0.1124	1615.6	22903	0.0936	0.1030
4-9-16-27	118	107.2	0.0655	791.8	20359	0.0832	0.0743
		1636.6	1.0000		244813	1.0000	1.0000
				OOIP/16 ha	24481.3		

**ATTACHED TO AND MADE PART OF AN AGREEMENT ENTITLED
"UNIT AGREEMENT – BIRDTAIL BAKKEN "A" SAND UNIT**

EXHIBIT "A" – PART 1

TRACT PARTICIPATIONS

Tract Number	Land Description	Royalty Owner	Tract Participation (%)	Working Interest Owner	Share of Working Interest (%)	Share of Tract Participation (%)	2012 10-5 Prod
1	LSD 3,4,5,6 Sec 04-16-27W1M 20.33	Crown ✓	100%	Progress	100%	COIP Prod 18.807% 16.92 16.59	2012 10-5 Prod
2	LSD 11,12,13,14 Sec 04-16-27W1M 28.06	R.M. of Birtle ✓	100%	Progress	100%	25.87 25.29	23.53
3	LSD 1,7,8 Sec 05-16-27W1M 12.24	George Barteau ✓ John Barteau ✓	50% 50%	Progress	100%	16.83 16.29	17.32
4	LSD 9,10,15,16 Sec 05-16-27W1M 32.63	Crown No R.M. of Birtle ✓	100%	Progress	100%	32.94 34.58	36.19
5	LSD 1, Sec 08-16-27W1M	Kent Salmon ✓ Presidential Trust Co. ✓	50% 50%	Progress Progress	100% 100%	0.534% 0	0
6	LSD 3,4 Sec 09-16-27W1M 6.45	R.M. of Birtle ✓	100%	Progress	100%	7.43 7.23	7.06

R28

R27W1

T16

T16

R28

R27W1

UNIT AREA

E/2 Sec 18
August 21, 2001
SE/4 Sec 19

May 13, 2003
SW/4 Sec 19

Progress Energy

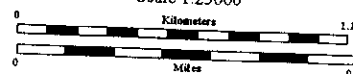
Birdtail
Bakken C Sand Unit



Map Software by
Accubase Error Data
A Division of QC Data
Version 4.50, Jan 31 1999
(408) 883-5055

Author: Jeff Screen
Date: February 11, 1999
File: Birdtail.MAP
Scale: 1" = 25000'

Scale 1:25000



R28

R27W1

T16

T16

R28

R27W1

UNIT AREA

Progress Energy

Birdtail

Bakken C Sand Unit



Map Software by:
AccuMap EnerData,
A Division of QC Data
Version 4.50, Jan. 34 1999
(403) 233-5035

Author: Jeff Screen
Date: February 11, 1999
File: Birdtail.MAP
Scale: 1" = 25000'

Scale 1:25000



Birdtail Bakken C Pool

Tract Factor Calculation - 50% Production (Aug-Nov/98) + 50% Remaining ROIP (OOIP*0.20-Cum. Production)

Unit Tract	Days On	Production (Aug-Nov/98)	Production Factor	Cum. Production to 30-Nov-98	OOIP	ROIP	Rem. ROIP	Rem. ROIP Factor	Tract Participation (0.5* Production Factor + 0.5*Rem. ROIP Factor)
15-18-16-27	40	9.3	0.0073	17	20359	4071.8	4054.8	0.0779	0.0426
16-18-16-27	122	91.5	0.0715	129.3	25448	5089.6	4960.3	0.0953	0.0834
1-19-16-27	122	240.9	0.1883	1221.1	40717	8143.4	6922.3	0.1329	0.1606
2-19-16-27	122	54.7	0.0428	72.7	38172	7634.4	7561.7	0.1452	0.0940
7-19-16-27	119	105.4	0.0824	155.9	42753	8550.6	8394.7	0.1612	0.1218
8-19-16-27	122	152.1	0.1189	385.7	40717	8143.4	7757.7	0.1490	0.1339
3-20-16-27	121	332.8	0.2601	879.2	25448	5089.6	4210.4	0.0809	0.1705
4-20-16-27	122	117.3	0.0917	224.8	15269	3053.8	2829	0.0543	0.0730
5-20-16-27	122	175.3	0.1370	1232.5	33083	6616.6	5384.1	0.1034	0.1202
		1279.3	1.0000	4318.2	281966	56393.2	52075	1.0000	1.0000

Birdtail Bakken C Pool

Tract Factor Calculation - 50% Production (Aug-Nov/98) + 50% OOIP (Developed Spacing Units Only)

Unit Tract	Days On	Production (Aug-Nov/98)	Production Factor	Cum. Production to 30-Nov-98	OOIP	OOIP Factor	Tract Participation (0.5* Production Factor + 0.5*OOIP Factor)
15-18-16-27	40	9.3	0.0073	17	20359	0.0722	0.0397
16-18-16-27	122	91.5	0.0715	129.3	25448	0.0903	0.0809
1-19-16-27	122	240.9	0.1883	1221.1	40717	0.1444	0.1664
2-19-16-27	122	54.7	0.0428	72.7	38172	0.1354	0.0891
7-19-16-27	119	105.4	0.0824	155.9	42753	0.1516	0.1170
8-19-16-27	122	152.1	0.1189	385.7	40717	0.1444	0.1316
3-20-16-27	121	332.8	0.2601	879.2	25448	0.0903	0.1752
4-20-16-27	122	117.3	0.0917	224.8	15269	0.0542	0.0729
5-20-16-27	122	175.3	0.1370	1232.5	33083	0.1173	0.1272
		1279.3	1.0000	4318.2	281966	1.0000	1.0000
				OOIP/16 ha	31329.56		

**ATTACHED TO AND MADE PART OF AN AGREEMENT ENTITLED
"UNIT AGREEMENT – BIRDTAIL BAKKEN "C" SAND UNIT**

**EXHIBIT "A" – PART 1
TRACT PARTICIPATIONS**

Tract Number	Land Description	Royalty Owner	Tract Participation (%)	Working Interest Owner	Share of Working Interest (%)	Share of Tract Participation (%)	PROD ROIP
1	LSD 15,16 Sec 18-16-27W1M	Crown ✓	100%	Progress	100% 100%	11.003% 12.06% PROD 100% ROIP	12.60
2	LSD 1,2 Sec 19-16-27W1M	Crown ✓	100%	Progress	100% 23.11	23.723% 25.55	25.46
3	LSD 3,6 Sec 19-16-27W1M	Noah Bartley ✓ Crown	100%	Progress	100% 0	2.746% 0	0
4	LSD 9,10 Sec 19-16-27W1M	Leila G. Whitmore Ph.D. ✓ Crown	100%	Progress	100% 0	2.823% 0	0
5	LSD 3,4,5,6 Sec 20-16-27W1M	Wattview Resources Ltd. ✓ Cynthia Slevin ✓	50% 50%	Progress Progress	100% 100% 48.33	36.767% 37.53	36.37
6	LSD 7,8 Sec 19-16-27W1M	Crown ✓	100%	Progress	100% 20.13 40.11	22.938% 24.86	25.57

Surzyshyn, Dan (EM)

From: Rick Bawol [rbawol@progressenergy.com]
Sent: 1999-May-13 3:41 PM
To: Dan Surzyshyn (E-mail)
Cc: Darla
Subject: Birdtail Tract Factors.xls



Birdtail Tract
Factors.xls

Here are the tract factor spreadsheets with the changes you requested:

They all add up to 100.0000%.

The calculation columns have been hidden. When the spreadsheets are printed out, the only columns that will show are the tract numbers, tract locations and tract participations. If you would like to see the calculations, you just need to unhide the missing columns.

The production factors were updated by using January to April 99 production rather than August to November 98. Not only does this make more sense than using numbers that are at least 6 months old, but it also slightly increases the participation of the freehold owner in Unit 2 which may help address Dennis' prior concern.

Assuming that these changes meet your approval, would you like us to mail the new spreadsheets out to you or would it be faster and easier for you to just print them out on your end?

Rick Bawol
Exploitation Manager
Progress Energy Ltd.
403-216-2510

EXT. 109

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	Production (Jan-Apr/99)	Production Factor	50% Production Factor	OOIP	OOIP Factor	50% OOIP Factor	Tract Participation
1	5-4-16-27W1M	298.7	21.539%	10.769%	33083	12.783%	6.391%	17.1608%
2	12-4-16-27W1M	259	18.676%	9.338%	23412	9.046%	4.523%	13.861%
3	13-4-16-27W1M	129.8	9.360%	4.680%	27484	10.619%	5.310%	9.9895%
4	14-4-16-27W1M	8.6	0.620%	0.310%	7126	2.753%	1.377%	1.6868%
5	7-5-16-27W1M	0	0.000%	0.000%	19341	7.473%	3.737%	3.7365%
6	8-5-16-27W1M	166.2	11.984%	5.992%	33083	12.783%	6.391%	12.3836%
7	9-5-16-27W1M	195.8	14.119%	7.059%	37663	14.552%	7.276%	14.3356%
8	10-5-16-27W1M	0	0.000%	0.000%	12724	4.916%	2.458%	2.4582%
9	15-5-16-27W1M	82.4	5.942%	2.971%	20359	7.866%	3.933%	6.9041%
10	16-5-16-27W1M	170.1	12.266%	6.133%	22903	8.849%	4.425%	10.5575%
11	4-9-16-27W1M	76.2	5.495%	2.747%	20359	7.866%	3.933%	6.6805%
12	11-4-16-27W1M	0	0.000%	0.000%	1272.5	0.492%	0.246%	0.2458%
Total		1386.8	100.000%	50.000%	258810	#####	50.000%	100.0000%

49.999

BIRDTAIL UNIT NO. 2
TRACT FACTOR DATA
EXHIBIT "A"

Tract Factor Calculation = 50% Production (Jan-Apr/99)
+ 50% OOIP (Developed Spacing Units Only)

Unit Tract Number	Unit Tract	Production m3 (Jan-Apr/98)	^{100%} Production Factor	50% Production Factor	OOIP (m3)	OOIP Factor	50% OOIP Factor	Tract Participation
1	15-18-16-27W1M	0	0.000%	0.000%	20359	7.220%	3.610%	3.6102% ✓
2	16-18-16-27W1M	26.9	2.737%	1.369%	25448	9.025%	4.513%	5.8811% ✓
3	1-19-16-27W1M	224.9	22.884%	11.442%	40717	#####	7.220%	18.6620% ✓ 18.6619%
4	2-19-16-27W1M	5.5	0.560%	0.280%	38172	#####	6.769%	7.0487% ✓
5	7-19-16-27W1M	78.6	7.998%	3.999%	42753	#####	7.581%	11.5800% ✓
6	8-19-16-27W1M	110.9	11.284%	5.642%	40717	#####	7.220%	12.8623% ✓ 12.8622%
7	3-20-16-27W1M	307.3	31.268%	15.634%	25448	9.025%	4.513%	20.1465% ✓
8	4-20-16-27W1M	81.7	8.313%	4.156%	15269	5.415%	2.708%	6.8641% ✓
9	5-20-16-27W1M	147	14.957%	7.479%	33083	#####	5.866%	13.3451% ✓
	Total	982.8	100.000%	50.000%	281966	#####	50.000%	100.0000% ✓

TYPE LOG

TYPE LOG of UNITIZE ZONE

NORT ROCK BIRD TAIL

9-5-16-27 U1

K.B. 481.7

MISS/LOOSE

U. BAKKEN SHALE

BAKKEN SAND

DEVONIAN/
TORQUAY

NO DST
NO CORES

Manitoba



Energy and Mines

Petroleum

1395 Ellice Avenue Suite 360
Winnipeg MB R3G 3P2
CANADA

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Fax: (204) 945-0586

DATE: MAY 5/99

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BRANCH: PROGRESS ENERGY
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Senior Petroleum Technician



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FOR OUR
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FROM:

Energy and Mines
 Petroleum and Energy Branch

360-1395 Ellice Avenue
 Winnipeg, Manitoba
 R3G 3P2

Dan Surzyshyn
 Senior Petroleum Technician



(204) 945-8102
 (204) 945-0586 Fax
 dsurzyshyn@em.gov.mb.ca

FOR OUR
 UNIT
 AGREEMENT
 FILES



(403) 216-2514
RICK BAWOL

- Don check to
see if all
recommended
changes made +
check that participant
exhibit for
accuracy

FAX COVER SHEET

DATE: April 22/99
TO: Mr. John Fox
DEPARTMENT: _____
COMPANY: Manitoba Energy & Mines
FAX NUMBER: (204) 945-0586
FROM: Darla

Total number of pages (Including Cover): 15

Comments:

As per your fax of April 8th, attached
are the requested revisions I
I have highlighted the changes, please
call if you need any more information.

Thnx,
Darla

IF NOT RECEIVED IN GOOD ORDER, PLEASE CALL DARLA MANGEL AT 216-2510 ext. 0.

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 ~~XXXXXX~~, 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 Utilized Substances; and
- (u) *S/b MIDDLE MEMBER OF THE BAKKEN FORMATION* "Bakken "A" Formation" means the Bakken ~~XXXX~~ Sand occurring between the depths of ~~XXXX~~ metres and ~~XXXX~~ 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". *DELETE*

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

OIL & GAS ACT
In this Agreement references to the Mines and Minerals Act and other statutes of ~~XXXXXX~~ 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

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

WE HAVE
THE CALCULATION
SO THERE IS
NO NEED TO
SHOW THAT
SECTION.

BIRDTAIL UNIT NO. 1
TRACT FACTOR DATA AND CALCULATIONS PART I
EXHIBIT "A"

Tract Factor Calculation - 50% Production (Aug-Nov/98) + 50% OOIIP (Developed Spacing Units + 50% OOIIP 10-5-16-27 + 50% OOIIP 11-4-16-27)

Unit Tract Number	Unit Tract	Production (Aug-Nov/98)	Production Factor	50% Production Factor	OOIIP	OOIIP Factor	50% OOIIP Factor	Final Tract Participation (0.5 Production Factor + 0.5 OOIIP Factor)
1	5-4-16-27W1M	332.8	20.335%	10.168% .168	33083	12.783%	6.397% ²	16.559% ✓
2	12-4-16-27W1M	279.3	17.066%	8.533% ✓	23412	9.046%	4.523%	13.058% ✓
3	13-4-16-27W1M	144.9	8.854%	4.427% ✓	27484	10.619%	5.310%	9.737% ✓
4	14-4-16-27W1M	35	2.139%	1.069% .070	7126	2.753%	1.377%	2.446% + .002 2.447
5	7-5-16-27W1M	0	0.000%	0.000% ✓	19341	7.473%	3.737%	3.737% ✓
6	8-5-16-27W1M	200.3	12.239%	6.119% ✓	33083	12.783%	6.397% ✓	12.511% ✓
7	9-5-16-27W1M	242.3	14.805%	7.403% ✓	37663	14.552%	7.276%	14.679% ✓
8	10-5-16-27W1M	0	0.000%	0.000% ✓	12724	4.916%	2.458%	2.458% ✓
9	15-5-16-27W1M	110.9	6.776%	3.388% ✓	20359	7.866%	3.933%	7.321% ✓
10	16-5-16-27W1M	183.9	11.237%	5.618% .618	22903	8.849%	4.425%	10.042% 10.043
11	4-9-16-27W1M	107.2	6.550%	3.275% ✓	20359	7.866%	3.933%	7.208% ✓
12	11-4-16-27W1M	0	0.000%	0.000% ✓	1272.5	0.492%	0.246%	0.246% ✓
Total		1636.6	100.000%	50.000% 50.002	258809.5	100.000% 99.998	50.000% ²	100.000%

MUST EQUAL 100.000%

The Branch has a record of the
Tract Park calculation in order to
record the various to zero a number
of additional desired places could be
acquired, therefore it is suggested
that Progress Energy show the unit tract no
unit tract factoring column show tract fact.

Table 1

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 [REDACTED]. The courts of the [REDACTED] 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.

UNIT AGREEMENT

BIRDTAIL UNIT NO. 2

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 Alberta~~
- (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. 2" 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 [REDACTED], 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) ^{36.1} "Bakken "A" Formation" means the Bakken ^{40.2} Sand occurring between the depths of [REDACTED] mss metres and [REDACTED] 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 for convenience of reference only and shall not affect the c interpretation hereof.

103. Number and Gender

In this Agreement words importing the singular include the plural and words importing gender include the masculine, feminine and neuter references to persons include individuals, corporations, partners, 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 the Mines and Minerals Act and other statutes of [REDACTED] 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

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

BIRDTAIL UNIT NO. 2
TRACT FACTOR DATA AND CALCULATIONS PART I
EXHIBIT "A"

Tract Factor Calculation - 50% Production (Aug-Nov/98) + 50% OOIP (Developed Spacing Units Only)

Unit Tract Number	Unit Tract	Production m3 (Aug-Nov/98)	Production Factor	50% Production Factor	OOIP (m3)	OOIP Factor	50% OOIP Factor	Tract Participation 0.5 Production Factor + 0.5 OOIP Factor
1	15-18-16-27W1M	9.3	0.727%	0.363%	20359	7.220%	3.610%	3.973%
2	16-18-16-27W1M	91.5	7.152%	3.576%	25448	9.025%	4.513%	8.089%
3	1-19-16-27W1M	240.9	18.831%	9.415%	40717	14.440%	7.220%	16.666% .635
4	2-19-16-27W1M	54.7	4.276%	2.138%	38172	13.538%	6.769%	8.907%
5	7-19-16-27W1M	105.4	8.239%	4.119%	42753	15.162%	7.581%	11.701% .700
6	8-19-16-27W1M	152.1	11.889%	5.945%	40717	14.440%	7.220%	13.165%
7	3-20-16-27W1M	332.8	26.014%	13.007%	25448	9.025%	4.513%	17.520%
8	4-20-16-27W1M	117.3	9.169%	4.585%	15269	5.415%	2.708%	7.292% .293
9	5-20-16-27W1M	175.3	13.703%	6.851%	33083	11.733%	5.866%	12.717%
Total		1279.3	100.000%	50.000% 49.999	281966	100.000%	50.000% 5.866	100.000% 99.999

DO NOT

SHOW

MUST

EQUAL 100.000%

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 Manitoba. The courts of the Province of Manitoba 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.

FAX

Date

08-APRIL-99

Number of pages including cover sheet

3

TO: DENNIS STRINGER
PROGRESS ENERGY

Phone

Fax Phone (403) 216-2514

CC:

FROM: John Fox, P.Eng.
Manitoba Energy & Mines
Petroleum & Energy Branch
360, 1395 Ellice Avenue
Winnipeg MB R3G 2P3

Phone 945-6574

Fax Phone 945-0586

e-mail jfox@em.gov.mb.ca

REMARKS: ☐ Urgent ☐ For your review ☐ Reply ASAP ☐ Please Comment

COMMENTS ON BIRDTAIL UNIT NO.'S 1 & 2
UNIT AGREEMENTS. CALL ME IF YOU HAVE
ANY QUESTIONS.



Energy and Mines

Petroleum and Energy Branch

1395 Ellice Avenue Suite 360
Winnipeg MB R3G 3P2
CANADA

PH: (204) 945-6577
PH: (204) 945-3760
FAX: (204) 945-0586

April 7, 1999

Mr. Dennis Stringer
Engineering Consultant
Progress Energy Ltd.
520, 520-5th Avenue SW
Calgary AB T2P 3R7

Dear Mr. Stringer:

Re: Birdtail Unit Agreements

The Branch has reviewed the revised unit agreements for Birdtail Unit No.'s 1 and 2 and proposes the following minor changes/corrections.

- 1) 101. Definitions - The following changes to the definitions are suggested:
 - (a) "Crown" - Change "Province of Alberta" to "Province of Manitoba";
 - (b) "Unitized Zone" & "Bakken "A" Formation"- In accordance with the Branch's geological nomenclature the unitized zone is referred to as the Middle Member of the Bakken Formation, not the Bakken "A" Formation. It is recommended that the Branch's geological nomenclature be used. The term "Bakken "A" Formation also appears in the definition of "Working Interest".

The interval included in the definition of Unitized Zone in Unit No. 1 is incorrectly listed as "-35.3 mss metres and -37.8 mss metres". It should read "-37.8 mss metres and -41.3 mss metres". For your reference the Branch picks for the top of the Devonian/Torquay are; 9-5-16-27 well - 43.3 metres subsea and 5-20-16-27 well - 43.8 metres subsea.

- 2) 105. Statutory References - The reference to the Mines and Minerals Act should be changed to "In this Agreement reference to The Oil and Gas Act and other statutes of Manitoba".
- 3) 201. Exhibits - Minor correction, change "Party II" to "Part II".
- 4) 1006. Non-Application of Enlargement Provisions - This clause does not apply in Manitoba and should be deleted. Due to the number of different royalty owners typically involved in a unit in Manitoba, when a unit is enlarged the provisions of clauses 1001 to 1005 must always apply.
- 5) 1401. Termination - The Branch does not support the Working Interest Owners right to terminate the unitization as provided for in clause 1401 (a). The Branch believes a unit

Manitoba



Message

To JOHN F

Person calling DENNIS STRINGER

Of PROGRESS ENERGY

☒ Telephoned ☐ Will call again ☐ Called to see you
☒ Please call ☐ Returned your call ☐ Will return

Telephone No. <u>(403) 216-2510</u>	Time
-------------------------------------	------

Message RE. BIRATAIK
BAKKE A/C POOLS.

Date 11/Jan/99 Message taken by E.L.

PS-I-36 8940100379

should only terminate when all the wells are abandoned, especially in the case of a waterflood where some producing wells have been converted to injection. However, in recognition that there maybe some circumstances in which it is beneficial to all parties, royalty and working interest owners, to terminate a unit, the Branch does not require the deletion of clause 1401 (a).

- 6) Exhibits A – Some columns in the tables showing the tract factor data and calculations do not total exactly 50% or 100%. The Branch understands the difficulty in getting the columns to round to 50% or 100%. All that is required for Exhibit "A" is the tract participation table. It is suggested that if the tract factor data and calculations are included in the unit agreement that the numbers be rounded so the columns total exactly 50% or 100%, as the case may be.

7) Additional Comments

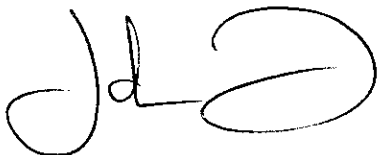
It should be noted that with the changes made by Progress to clause 502, as suggested by the Branch in our previous correspondence, clauses 503 and 1504 are no longer applicable. The clauses need not be deleted from the unit agreements, as they have no effect.

The Branch is not party, to and has no concerns with, the unit operating agreement. Clause 1915 of the unit operating agreement should be changed to read "Province of Manitoba".

Progress expressed concerns that the freehold owner in the SW/4 of Section 20-16-27 may not sign the unit agreement for Birdtail Unit No. 2 because of a 23% reduction in royalties. The Branch notes that the current tract factors for LSD's 3, 4 & 5 of Section 20 total 37.529%, slightly higher than Progress's original unit proposal of 36.767%, which also included the undeveloped 6-20 tract. Progress may wish to point out, during unit discussions with the freehold owner, that production from the wells on Section 20 declined 29% between March and December 1998 and will continue to decline if a waterflood is not implemented. Progress should also review recent production from all the wells in the proposed Birdtail Unit No. 2 to determine if using a more recent production period to determine the tract factors (November/98 to February/99), would be beneficial to the freehold owner. The Branch is not opposed to changing the production period for determination of the tract factors.

Please incorporate the changes to the unit agreements and forward two copies of each agreement to the Branch, for execution by the Minister on behalf of the Crown. It is anticipated the execution by the Minister will take two weeks. If you have any questions please contact the undersigned at (204) 945-6574.

Yours truly,

A handwritten signature in black ink, appearing to be 'Jd' followed by a large, stylized loop.

John N. Fox, P.Eng.
Chief Petroleum Engineer

cc: Administration

- also point out drop in production to freehold owner.
 MAR/98 - 201.5m³ DEC/98 143.5m³
 drop of 29% in production.

Birdtail Bakken C Pool

Tract Factor Calculation - 50% Production (Aug-Nov/98) + 50% OOIP (Developed Spacing Units Only+ 50% OOIP 6-20-16-27)

Unit Tract Number	Unit Tract	Production (m3) (Aug-Nov/98)	Production Factor	50% Production Factor	OOIP (m3)	OOIP Factor	50% OOIP Factor	Tract Participation (0.5* Production Factor + 0.5* OOIP Factor)
1	15-18-16-27 C	9.3	0.727%	0.363%	20359	7.061%	3.531%	3.894%
2	16-18-16-27 C	91.5	7.152%	3.576%	25448	8.826%	4.413%	7.989%
3	1-19-16-27 C	240.9	18.831%	9.415%	40717	14.122%	7.061%	16.476%
4	2-19-16-27 C	54.7	4.276%	2.138%	38172	13.239%	6.620%	8.757%
5	7-19-16-27 C	105.4	8.239%	4.119%	42753	14.828%	7.414%	11.533%
6	8-19-16-27 C	152.1	11.889%	5.945%	40717	14.122%	7.061%	13.006%
7	3-20-16-27 F	332.8	26.014%	13.007%	25448	8.826%	4.413%	17.420%
8	4-20-16-27 F	117.3	9.169%	4.585%	15269	5.296%	2.648%	7.232%
9	5-20-16-27 F	175.3	13.703%	6.851%	33083	11.474%	5.737%	12.588%
10	6-20-16-27	0	0.000%	0.000%	6362	2.207%	1.103%	1.103%
Total								100.000%

Crown - 61.657%
 Freehold - 38.343%
 - extra tract

• in letter dated 26-MAR-99 Progress expressed concern that freehold owner in the surf of sec 20 will see a significant reduction in royalty revenue

current production split Crown ~ 51.114%
 Freehold ~ 48.886%

50% prod / 50% OOIP (Progress)
 Crown ~ 62.471%
 Freehold ~ 37.529%

original 50% prod / 50% OOIP (Progress)
 Freehold (SW/4 Sec 20) ~ 36.767%

60% prod / 40% OOIP + 6-20 tract.
 Crown
 Freehold

FAX

Date 03-MAR-99

Number of pages including cover sheet 12

TO: KEN BOWIE
PROGRESS ENERGY

Phone

Fax Phone (403) 216-2514

CC:

FROM: John Fox, P.Eng.
Manitoba Energy & Mines
Petroleum & Energy Branch
360, 1395 Ellice Avenue
Winnipeg MB R3G 2P3

Phone 945-6574

Fax Phone 945-0586

e-mail jfox@em.gov.mb.ca

REMARKS: ☐ Urgent ☐ For your review ☐ Reply ASAP ☐ Please Comment

COMMENTS ON PROPOSED UNIT AGREEMENTS.

DENNIS STREIBER
CALL 17 MAR 99

403 216-2514 ext. 108

FAX

Date 18-Mar-99

Number of pages including cover sheet 2

TO: Dennis Stringer
Progress Energy

Phone

Fax Phone (403) 216-2514

CC:

FROM: John Fox, P.Eng.
Manitoba Energy & Mines
Petroleum & Energy Branch
360, 1395 Ellice Avenue
Winnipeg MB R3G 2P3

Phone 945-6574

Fax Phone 945-0586

e-mail jfox@em.gov.mb.ca

REMARKS: ☐ Urgent ☐ For your review ☒ Reply ASAP ☐ Please Comment

As per our discussion this morning, the Crown lease covering the S/2 of Section 4-16-27 is in its 1st term. When the lease expires, August 21, 2001, the productive quarter sections are renewed. The producing well at 5-4-16-27 will hold the SW/4 of Section 4-16-27 until August 2006.

The Branch has reviewed your request to include the undeveloped spacing unit at 11-4-16-27 in the A Pool Unit. Based on Progress's mapping the 11-4 location has the lowest OOIP, 2545 m³, of any LSD undeveloped spacing unit within the phi-h limits of the pool. The Branch is prepared to allow the 11-4 spacing unit to be included in the unit but questions whether much oil will be swept from this spacing unit. Attached is the Branch's revised tract factor calculations.

*** TX REPORT ***

TRANSMISSION OK

TX/RX NO	4971
DEPT. ACCESS CODE	6577
CONNECTION TEL	914032162514
SUBADDRESS	
CONNECTION ID	
ST. TIME	03/18 11:35
USAGE T	00'36
PGS.	2
RESULT	OK

FAX**Date** 18-Mar-99**Number of pages including cover sheet** 2

TO: Dennis Stringer
Progress Energy

Phone**Fax Phone** (403) 216-2514**CC:**

FROM: John Fox, P.Eng.
Manitoba Energy & Mines
Petroleum & Energy Branch
360, 1395 Ellice Avenue
Winnipeg MB R3G 2P3

Phone 945-6574**Fax Phone** 945-0586**e-mail** jfox@em.gov.mb.ca

REMARKS: ☐ Urgent ☐ For your review ☒ Reply ASAP ☐ Please Comment

As per our discussion this morning, the Crown lease covering the S/2 of Section 4-16-27 is in its 1st term. When the lease expires, August 21, 2001, the productive quarter sections are renewed. The producing well at 5-4-16-27 will hold the SW/4 of Section 4-16-27 until August 2006.

The Branch has reviewed your request to include the undeveloped spacing unit at 11-4-16-27 in the A Pool Unit. Based on Progress's mapping the 11-4 location has the lowest OOIP, 2545 m³ of oil. The Branch is

Table 1b - Birdtail A Pool Unit

Tract Factor Calculation - 50% Production (Aug-Nov/98) + 50% OOIP (Developed Spacing Units + 50% OOIP 10-5-16-27 + 50% OOIP 11-4-16-27)

Unit Tract Number	Unit Tract	Production (Aug-Nov/98)	Production Factor	50%*Production Factor	OOIP	OOIP Factor	50%*OOIP Factor	Tract Participation (0.5* Production Factor + 0.5*OOIP Factor)
1	5-4-16-27	332.8	20.335%	10.167%	33083	12.783%	6.391%	16.559%
2	12-4-16-27	279.3	17.066%	8.533%	23412	9.046%	4.523%	13.056%
3	13-4-16-27	144.9	8.854%	4.427%	27484	10.619%	5.310%	9.737%
4	14-4-16-27	35	2.139%	1.069%	7126	2.753%	1.377%	2.446%
5	7-5-16-27	0	0.000%	0.000%	19341	7.473%	3.737%	3.737%
6	8-5-16-27	200.3	12.239%	6.119%	33083	12.783%	6.391%	12.511%
7	9-5-16-27	242.3	14.805%	7.403%	37663	14.552%	7.276%	14.679%
11	10-5-16-27	0	0.000%	0.000%	12724	4.916%	2.458%	2.458%
8	15-5-16-27	110.9	6.776%	3.388%	20359	7.866%	3.933%	7.321%
9	16-5-16-27	183.9	11.237%	5.618%	22903	8.849%	4.425%	10.043%
10	4-9-16-27	107.2	6.550%	3.275%	20359	7.866%	3.933%	7.208%
11	11-4-16-27	0	0.000%	0.000%	1272.5	0.492%	0.246%	0.246%
Total		1636.6	100.000%	50.000%	258809.5	100.000%	50.000%	100.000%



February 26, 1999

Mr. Kenneth J. Bowie
Progress Energy Ltd.
520, 520-5th Avenue SW
Calgary AB T2P 3R7

Dear Mr. Bowie:

Re: Proposed Birdtail Unit Agreements

The Branch has reviewed the proposed unit agreements for the Birdtail Bakken A & C Pool Sand Units. The Branch proposes a number of changes to the unit agreements to conform to the provisions of The Oil and Gas and to address deficiencies in the agreements. The Branch has also reviewed the proposed unit tracts and tract participation and has a number of concerns.

Comments on the Unit Agreements

The Branch would prefer to see the Petroleum Joint Venture Association (PJVA) model unit agreement followed as closely as possible. Attached for your reference is a copy of the PJVA model agreement dated June 1, 1992 which is referred to in this letter. The proposed unit agreements are missing a number of Articles including Inclusion and Qualification of Tracts, Title Disputes and Approval of Titles. These Articles should be included in the unit agreements even though Progress currently has 100% of the working interest ownership.

The Branch proposes the following changes and corrections to the unit agreements.

- 1) Unit Names - The Branch proposes the unit names be changed from Birdtail Bakken A Sand Unit to Birdtail Unit No. 1 and from Birdtail Bakken C Sand Unit to Birdtail Unit No. 2, in accordance with the custom for naming units in Manitoba. ✓
- 2) 101. Definitions - The following changes to the definitions and additional definitions are suggested:

- (a) "Drainage Unit" - change "Drainage Unit" to "Spacing Unit" means the area allocated to a well under The Oil and Gas Act of Manitoba with respect to the Unitized Zone for the purpose of producing Petroleum Substances; No
 - (b) "Effective Date" - means the time and date referred to in Article XIV; ✓
 - (c) "Minister" means the member of the executive Council charged by the Lieutenant Governor in Council with the administration of The Oil and Gas Act of Manitoba; No
 - (d) "Petroleum Substances" means petroleum, natural gas and; ✓
 - (e) "Petroleum and Energy Branch" means the Department of Energy and Mines, Petroleum and Energy Branch established under The Oil and Gas Act of Manitoba; No
 - (f) "Crown" means Her Majesty the Queen in the right of the Province of Manitoba; ✓
 - (g) In addition definitions for Unit Operations, Unit Operating Agreement and Unit Operator from the PJVA model should be added because if the working interest ownership in the unit changes in the future, as a result of a unit enlargement or disposition of a working interest, there are no provisions for a Unit Operating Agreement. ✓
- 3) 210. Exhibits
- (a) In the C Pool unit agreement subclause (a) should read Exhibit "A", not Exhibit "C", this error is carried forward through the entire agreement. ✓
 - (b) There is no Part 2 shown in Exhibit "A". ✓
 - (c) Exhibit "B" should be more formal with the unit area outlined by a bold line and the exhibit labelled "Exhibit "B" - Attached to and made part of an Agreement Entitled Unit Agreement - _____". No
 - (d) Exhibit "C" should also be labelled "Exhibit "C" - Attached to and made part of an Agreement Entitled Unit Agreement - _____". The type log for the C Pool unit should be from a well within the unit. No
- 4) 204. Effective Time - change the reference from "Minister" to "Petroleum and Energy Branch" ✓
- 5) 205. Supplying of Exhibits - change the reference from "shall supply the Minister" to "shall supply the Petroleum and Energy Branch" and the reference "excepting the Minister" to "excepting the Crown". ✓
- 6) 303. Continuation of Leases - change "Drainage Unit" to "Spacing Unit". N/A

- 7) 401. Operations - change "Drainage Unit" to "Spacing Unit".
- 8) Inclusion and Qualification of Tracts - Article V from the PJVA model is not included in the proposed unit agreements. Progress also states that the freehold mineral owners have approved unitization, as set out in Clause 9 of their petroleum and natural gas leases, by signing the lease. However, the Branch can only register a unit agreement that has been executed by all royalty and working interest owners in the unit area. The PJVA model, as modified below for use in Manitoba, provides for the execution of the unit agreement by 100% of the royalty and working interest owners in each tract as follows:

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 under 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. ✓

- 9) 601. Allocation to Tracts - refers to clauses "707, 801 and 802" which should be changed to "606, 701 and 702". ✓

- 10) Article VIII - Enlargement of Unit Area - The Branch would like to see this Article changed as follows:

801. 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 Zone, 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. ✓

802. Adjustment of Tract Participation

The Tract Participation to be assigned to each Tract added to the Unit Area in accordance with the provisions of this Article VIII 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 Participation shall be adjusted such that: ✓

(a) the total of all Tract Participation remains one hundred percent (100%); and

(b) the Tract Participation of all Tracts other than those being added remain proportionately the same, relative to one another, as they were immediately prior to the enlargement.

803. Effective Time of Enlargement

Each time that an enlargement is effected pursuant to the provisions of this Article VIII, 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 7:00 a.m. on the first day of the first calendar month following the date on which the lands to be included in the enlargement have qualified for inclusion pursuant to clause 502. ✓

804. 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 VIII shall at any time give rise to any retroactive adjustment of the allocation of Unitized Substance. ✓

11) 903 Notices - Should make reference to delivery in Manitoba.

12) 1101. Effective Date - In order to conform to the provisions of the proposed Article - Inclusion and Qualification of Tracts and the requirements of The Oil and Gas Act this clause should read:

The unitization provided for herein shall become effective on 7:00 a.m. Central Standard Time, on the first day of the calendar month following:

(a) the date of the qualification under clause 502 of Tracts having a combined Tract Participation of one hundred percent (100%) as set out in Exhibit "A"; and

(b) the date the Unit Agreement is registered by the Petroleum and Energy Branch. ✓

Note: The Branch will register the unit agreement when it is in receipt of copies of the execution page of the unit agreement signed by 100% of the royalty and working interest owners.

Comments on the Unit Tracts and Tract Participation

The Branch does not agree with the proposed unit tracts and tract participation. The unit tracts should be the same size as the spacing units, one legal subdivision. Progress has proposed unit tracts that range in size from one legal subdivision to a quarter-section. Under unitization each tract pays Crown royalty and freehold production tax on production allocated to the tract. For example in November 1998, the three wells in proposed Tract 4 in the A Pool unit, 9-5, 15-5 & 16-5, would have paid a combined production tax of 3 % or 3.8 m³, if the wells were not producing holiday oil. Under unitization using November's production, Tract 4 with a tract participation of 32.789% would pay a production tax rate of 12.9 % or 15.9 m³. As you can see there are significant royalty/tax savings associated with limiting the unit tract size to one spacing unit.

The Branch also feels that only under exceptional circumstances should undeveloped spacing units be included in a unit. The Branch believes that undeveloped spacing units along the edge of a pool, where there is limited well control, cannot be equitably included in a unit. The Branch prefers to see a unit enlarged to include additional lands when those lands are developed. Another option, if Progress plans to do additional drilling after break-up, would be to establish interim and final tract factors. Final tract factors for the undeveloped spacing units would be determined, at a future date after a well is drilled; using actual porosity and net pay values and well production.

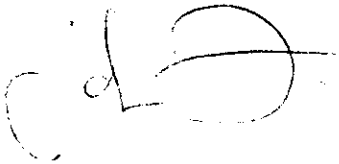
Progress has included 8 undeveloped spacing units in the A Pool unit and 5 undeveloped spacing units in the C Pool unit. The Branch proposes revising the unit areas and unit tracts as shown on Figures 1 & 2. The revised unit areas contain only developed spacing units and each spacing unit is a unit tract. The Branch would consider including the 10-5-16-27 tract in the A Pool Unit as reserves from this tract are likely to be swept by the waterflood to producers at 9-10 and 15-10.

Tables 1, 1a and 2 show revised tract participation for the units using the tracts proposed by the Branch. Tract factors for the A Pool Unit have been calculated with and without the 10-5-16-27 tract. Tract participation has been determined using Progress's tract participation formula, well production for August - November 1998 and Progress's OOIP estimates. The Branch's records shown a discrepancy in production for the following wells; 15-5-16-27, Progress - 110.7 m³, Branch - 110.9 m³; and 5-20-16-27, Progress - 173.8 m³, Branch - 175.3 m³.

The Branch requests Progress review the royalty owners listed on Exhibit "A" for both units. The Crown does not own the NE/4 of Section 5 in the A Pool Unit and the Crown is the owner of Lsd's 3 & 6 of Section 19 in the C Pool Unit.

Please provide your comments on the changes proposed by the Branch. When the unit agreements have been modified to the satisfaction of the Branch, they will be forwarded to the Minister for execution on behalf of the Crown. Progress is also reminded that, if the waterflood is implemented after April 1, 1999, incremental reserves associated with the waterflood will qualify for reduced third tier royalty and tax. If you have any questions please contact the undersigned at (204) 945-6574.

Yours truly,

A handwritten signature in black ink, appearing to be 'J. N. Fox', written over a faint circular stamp or background.

John N. Fox, P.Eng.
Chief Petroleum Engineer

cc: Administration

Table 1 - Birdtail A Pool Unit

Tract Factor Calculation - 50% Production (Aug-Nov/98) + 50% OOIP (Developed Spacing Units Only)

Unit Tract Number	Unit Tract	Production (m3) (Aug-Nov/98)	Production Factor	50%*Production Factor	OOIP (m3)	OOIP Factor	50%*OOIP Factor	Tract Participation (0.5* Production Factor + 0.5*OOIP Factor)
1	5-4-16-27	332.8	20.335%	10.167%	33083	13.514%	6.757%	16.924%
2	12-4-16-27	279.3	17.066%	8.533%	23412	9.563%	4.782%	13.315%
3	13-4-16-27	144.9	8.854%	4.427%	27484	11.227%	5.613%	10.040%
4	14-4-16-27	35	2.139%	1.069%	7126	2.911%	1.455%	2.525%
5	7-5-16-27	0	0.000%	0.000%	19341	7.900%	3.950%	3.950%
6	8-5-16-27	200.3	12.239%	6.119%	33083	13.514%	6.757%	12.876%
7	9-5-16-27	242.3	14.805%	7.403%	37663	15.384%	7.692%	15.095%
8	15-5-16-27	110.9	6.776%	3.388%	20359	8.316%	4.158%	7.546%
9	16-5-16-27	183.9	11.237%	5.618%	22903	9.355%	4.678%	10.296%
10	4-9-16-27	107.2	6.550%	3.275%	20359	8.316%	4.158%	7.433%
Total		1636.6	100.000%	50.000%	244813	100.000%	50.000%	100.000%

Table 1a - Birdtail A Pool Unit

Tract Factor Calculation - 50% Production (Aug-Nov/98) + 50% OOIP (Developed Spacing Units + 50% OOIP 10-5-16-27)

Unit Tract Number	Unit Tract	Production (Aug-Nov/98)	Production Factor	50%*Production Factor	OOIP	OOIP Factor	50%*OOIP Factor	Tract Participation (0.5* Production Factor + 0.5*OOIP Factor)
1	5-4-16-27	332.8	20.335%	10.167%	33083	0.1285	6.423%	16.590%
2	12-4-16-27	279.3	17.066%	8.533%	23412	0.0909	4.545%	13.078%
3	13-4-16-27	144.9	8.854%	4.427%	27484	0.1067	5.336%	9.763%
4	14-4-16-27	35	2.139%	1.069%	7126	0.0277	1.383%	2.453%
5	7-5-16-27	0	0.000%	0.000%	19341	0.0751	3.755%	3.755%
6	8-5-16-27	200.3	12.239%	6.119%	33083	0.1285	6.423%	12.542%
7	9-5-16-27	242.3	14.805%	7.403%	37663	0.1462	7.312%	14.715%
11	10-5-16-27	0	0.000%	0.000%	12724	0.0494	2.470%	2.470%
8	15-5-16-27	110.9	6.776%	3.388%	20359	0.0791	3.953%	7.341%
9	16-5-16-27	183.9	11.237%	5.618%	22903	0.0889	4.447%	10.065%
10	4-9-16-27	107.2	6.550%	3.275%	20359	0.0791	3.953%	7.228%
Total		1636.6	100.000%	50.000%	257537	1.0000	50.000%	100.000%

Table 2 - Birdtail C Pool Unit

Tract Factor Calculation - 50% Production (Aug-Nov/98) + 50% OOIP (Developed Spacing Units Only)									
Unit Tract Number	Unit Tract	Production (m3) (Aug-Nov/98)	Production Factor	50%*Production Factor	OOIP (m3)	OOIP Factor	50%*OOIP Factor	Tract Participation (0.5* Production Factor + 0.5*OOIP Factor)	
1	15-18-16-27	9.3	0.727%	0.363%	20359	7.220%	3.610%	3.974%	
2	16-18-16-27	91.5	7.152%	3.576%	25448	9.025%	4.513%	8.089%	
3	1-19-16-27	240.9	18.831%	9.415%	40717	14.440%	7.220%	16.636%	
4	2-19-16-27	54.7	4.276%	2.138%	38172	13.538%	6.769%	8.907%	
5	7-19-16-27	105.4	8.239%	4.119%	42753	15.162%	7.581%	11.701%	
6	8-19-16-27	152.1	11.889%	5.945%	40717	14.440%	7.220%	13.165%	
7	3-20-16-27	332.8	26.014%	13.007%	25448	9.025%	4.513%	17.520%	
8	4-20-16-27	117.3	9.169%	4.585%	15269	5.415%	2.708%	7.292%	
9	5-20-16-27	175.3	13.703%	6.851%	33083	11.733%	5.866%	12.718%	
Total		1279.3	100.000%	50.000%	281966	100.000%	50.000%	100.000%	

FIGURE 1

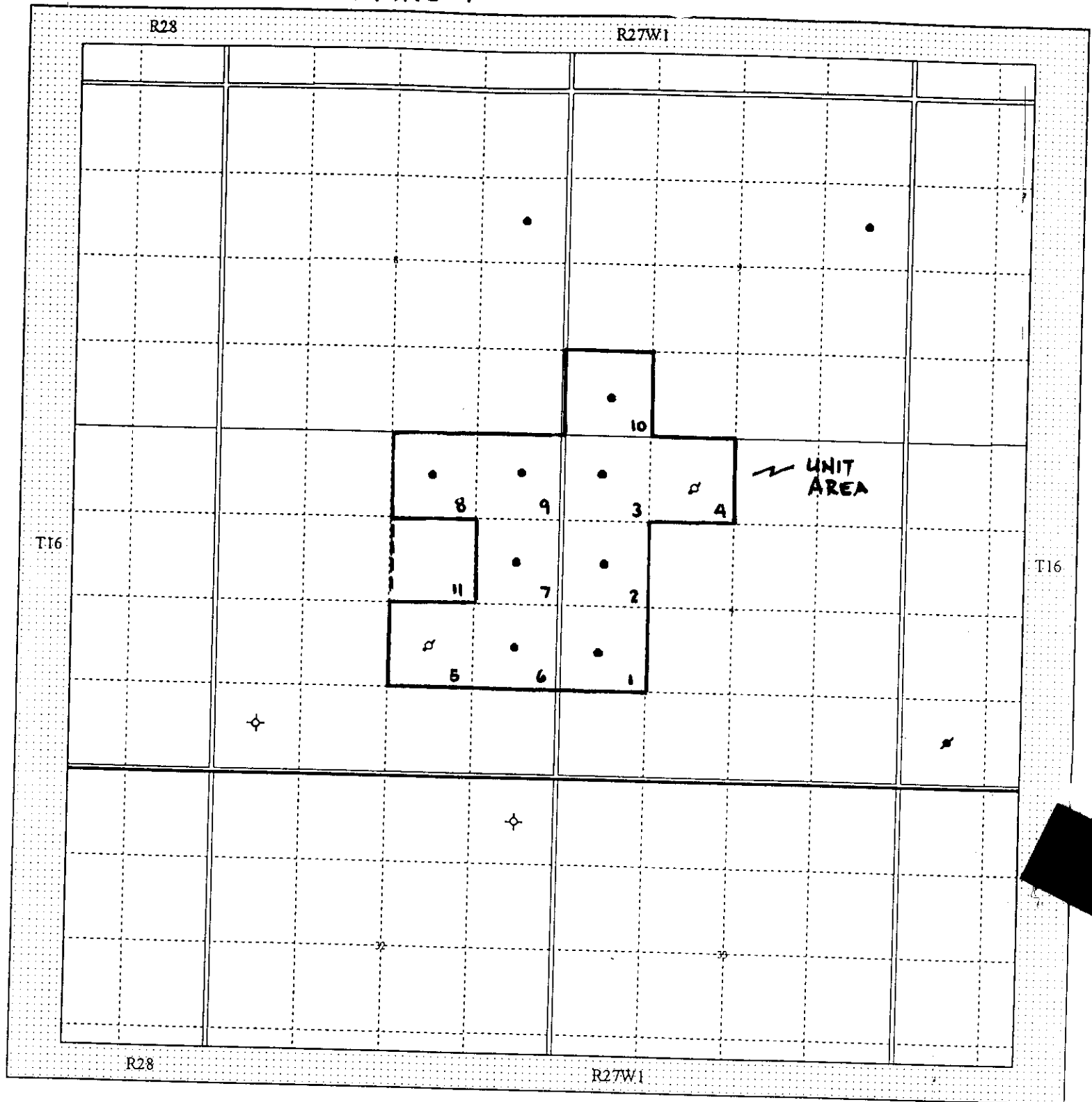

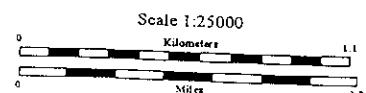


EXHIBIT B - ATTACHED TO AND
MADE PART OF AN
AGREEMENT ENTITLED
UNIT AGREEMENT -
BIRDTAIL UNIT NO. 1

Progress Energy	
Birdtail	
Bakken A Sand Unit	
 Map Software by AccuMap EnrData A Division of QC Data Version 4.50, Jan. 30, 1999 (408) 281-5055	Author: Jeff Soren Date: February 11, 1999 File: Birdtail.MAP Scale: 1" = 25000'



R28

R27W1

T16

T16

R28

R27W1

EXHIBIT B - ATTACHED TO AND PART OF
AN AGREEMENT ENTITLED
UNIT AGREEMENT - BIRDTAIL
UNIT NO.2

Progress Energy

Birdtail
Bakken C Sand Unit



Map Software by:
ArcuMap EverData,
A Division of QC Data
Version 4.50, Jan. 24 1999
(403) 281-5055

Author: Jeff Screen
Date: February 11, 1999
File: Birdtail.MAP
Scale: 1" = 25000

Scale 1:25000



PETROLEUM JOINT VENTURE ASSOCIATION

UNIT AGREEMENT

[NAME OF UNIT]

PJVA MODEL FORM

VERSION NO. 1

JUNE 1 1992

PETROLEUM JOINT VENTURE ASSOCIATION

UNIT AGREEMENT

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PETROLEUM JOINT VENTURE ASSOCIATION

UNIT AGREEMENT [NAME OF UNIT]

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 Alberta;
- (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:
 - (i) any substances which were initially obtained from any source other than the Unitized Zone, or
 - (ii) any Unitized Substances which have been produced,
 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 _____ Formation, or
- (ii) a right to a share of Petroleum Substances produced from the _____ Formation, to a share of the proceeds from the sale of such Petroleum Substances, or to a payment based on the quantity or value of such Petroleum Substances,

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 - _____" 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 I of Exhibit "A";
- (q) **"Unitized Substances"** means Petroleum Substances in or obtained from the Unitized Zone;
- (r) **"Unitized Zone"** means the _____ Formation within the Unit Area;
- (s) **"Working Interest"** means an interest in:
 - (i) a profit à prendre or similar interest entitling the owner thereof to produce and dispose of Petroleum Substances from the _____ Formation, or
 - (ii) the production and disposition rights associated with 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 _____ Formation, if such rights are not subject to an interest of the kind described in paragraph (i) of this sub-clause,

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) "_____ Formation" means the _____ occurring between the depths of _____ metres and _____ metres on the _____ Log of _____ situated in legal subdivision _____ of section _____, township _____, range _____, west of the _____ 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 Mountain Standard Time or Daylight Saving Time, whichever is then being used and observed in accordance with the *Daylight Saving Time Act (Alberta)*.

105. Statutory References

In this Agreement references to the *Mines and Minerals Act* and other statutes of Alberta 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,
 - (iia) 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(); and
- (d) Exhibit "D", which sets forth the procedure for dealing with failure to make adequate arrangements for the disposition of Unfired 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 06:00 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 _____.

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:

- (a) before the Effective Date; (or
- (b) on or within _____ days following 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]:

- (a) 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; or

- (b) 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 less than one hundred (100%) percent of the Royalty Interests therein have become Parties, and the owners of the Working Interests therein provide the other Working Interest Owners with an indemnification in form and substance satisfactory to them, protecting them against any loss or damages that may be suffered by them in respect of claims and demands that, because of the inclusion of the Tract in the Unit Area, may be made by those owners of Royalty Interests in the Tract who have not become Parties; or
- (c) the owners of Working Interests therein have satisfied such other requirements as the other Working Interest Owners may consider appropriate as a basis for qualifying such Tract, where the Tract cannot be qualified pursuant to either subclause (a) or (b) of this clause 502.

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 _____ 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:

- (a) 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
- (b) 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:

- (a) 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; or
- (b) if the Royalty Interest relates to less than 100% of the Working Interests in the Tract, to look to any Working Interest Owners other than the owners of the particular Working Interests encumbered by the Royalty Interest for the satisfaction of obligations in respect thereof;

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 _____ days prior to the commencement of production of Unitized Substances pursuant hereto, and thereafter not less than _____ 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 _____ 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 [, other than crude oil,] 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 wilful 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":

- (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
- (b) 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:

- (i) any breach or failure of such representation and warranty, whether in whole or in part, or
- (ii) any failure of, or defect in, the title to any of the Working Interests ascribed to it in Exhibit "A", no matter when occurring or arising.

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 [subsequent to the expiration of _____ days] 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 _____ 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:

- (a) the total of all Tract Participations remains one hundred (100%) percent; and
- (b) 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.

1006. Non-Application of Enlargement Provisions

The provisions of this Article X shall not apply during any period in which all of the Working Interests in all of the Tracts are owned by a single Working Interest Owner, or by a group of Working Interest Owners all of which are Affiliates of one another, unless at least one of the owners of the Working Interest in the lands added to the Unit Area is different from, and is not an Affiliate of, the Working Interest Owners.

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:

- (a) 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
- (b) all of the parties to the dispute provide the Unit Operator with a joint written notice directing the Unit Operator to continue to treat the Party whose Working Interest is in dispute as the rightful owner of the disputed Working Interest pending final resolution of the dispute, 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, 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 the Party whose Working Interest is in dispute; or
- (c) the title to the disputed Working Interest is established by a final judgement of a court of competent jurisdiction, or otherwise to the satisfaction of the Working Interest Owners, 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 the person rightfully entitled thereto.

In the performance of its obligations under this clause 1101 the Unit Operator shall endeavour where practicable to honour 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:

- (a) 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; or
- (b) the Unit Operator is provided with a joint written notice from all of the parties to the Working Interest dispute, 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 comply with the direction of such notice to the extent that it is practicable so to do; or
- (c) the Unit Operator is served with an order of a court of competent jurisdiction directing the Unit Operator to take any particular steps with respect to any royalty rights in respect of the Unitized Substances being withheld, in which event the Unit Operator shall comply with the direction of such order to the extent required by law.

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:

- (a) 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 _____ 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 *Mines and Minerals Act*) as the Lease, or portion of a Lease, which has terminated; and

- (b) 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 _____ 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:

- (a) if no other Party then owns or is otherwise entitled to the benefit of the Working Interest in respect of which title has failed, or
- (b) if a new Lease offered pursuant to the provisions of clause 1108 is not accepted within the sixty (60) day acceptance period provided therefor,

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 _____ percent [or more] of the total Tract Participations as originally set forth in Exhibit "A".

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 _____, 19__.

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 _____ of the Effective Date, or if Unit Operations are at any time after their commencement interrupted or suspended for any period in excess of _____, 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:

- (a) 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;
- (b) the ninety (90) day period contemplated by the second sentence of this clause 1402 shall be exclusive of any period of time during which the postponement, interruption or suspension of Unit Operations is attributable to the occurrence or subsistence of an event of force majeure contemplated by clause 1507, and such ninety (90) day period shall be extended accordingly by any period of time following the giving of a termination notice during which the postponement, interruption or suspension of Unit Operations is so attributable; and
- (c) the phrase "production of Unitized Substances on a sustained basis" shall be construed as meaning production of Unitized Substances on a substantially continuous basis, subject to normal course interruptions attributable to such factors as governmental regulation, generally accepted production optimization practices, marketing arrangements involving seasonal or other periodic interruptions in take nominations and events of force majeure contemplated by clause 1507.

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 situated 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 in subclause 801(b), or] 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, lock-out 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 Alberta;
- (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 Alberta.

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 Alberta 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 Alberta. 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 Alberta, and each of the Parties submits to the jurisdiction of the courts of the Province of Alberta 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: _____, 19____.

(NAME)

(seal)

(seal)

ADDRESS FOR SERVICE:

Fax No. _____

This is the execution page of the Agreement entitled "Unit Agreement" - (Name of Unit)

EXHIBIT "2"**SAMPLE FORM EXHIBIT "D"
TO PJVA MODEL AGREEMENT**

[Note: This sample form of Exhibit "D" adopts the same general approach to failure to take as is set forth in the 1990 CAPL Operating Procedure. Other PJVA task forces have also generated gas "banking" and "balancing" provisions to be attached to a Unit Agreement in certain circumstances. Please note that this is a rough sample form only, and is provided only to demonstrate the types of matters which might be dealt with in Exhibit "D". It is anticipated that the provisions of Exhibit "D" will be negotiated on a unit-by-unit basis, and the Task Force has accordingly not attempted to produce a definitive form of the Exhibit.]

EXHIBIT "D" to Unit Agreement – _____

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:

- (a) 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;
- (b) by selling such Affected Substances to an arm's length buyer at a Market Price, or
- (c) by selling such Affected Substances to itself or an Affiliate at a Market Price (with or without the right to re-sell at a profit?).

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 [_____ % of the net proceeds of sale of such Affected Substances.] OR
- (i) in the case of crude oil and wellhead condensate, (\$ _____ /m³) or [_____ % of the net proceeds of sale],
- (ii) in the case of natural gas or solution gas sold in gaseous form, (\$ _____ /10m³) or _____ % 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), (\$ _____ /m³ or [_____ % of the net proceeds of sale], and
- (iv) in the case of sulphur, (\$ _____ /tonne) or [_____ % 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.

5. Reporting and Accounting

[Unit Operator's reporting and accounting obligations with respect to dispositions of Affected Substances; should there also be an associated audit right for the Non-Taking Party?]

6. Restoration

[what is the appropriate time for a Non-Taking Party to restore its position? the end of the term of any authorized sales arrangement? how much notice should be given?]

7. Satisfaction of Royalty Obligations

[provisions of clause 704 to continue to apply; provision with respect to Unit Operator failure to account pursuant to paragraph 5.]

8. Indemnification

[Non-Taking Party indemnifies Unit Operator for any title problems; fit with Article XI.]

9. Disposition of other Working Interest Owners

[two situations: (i) Unit Operator simply delegates/assigns to another WIO, and (ii) Unit Operator is the Non-Taking Party; the first situation is easy, but in the second situation who should have the paramount right/responsibility to market?]

[mutatis mutandis application of paragraphs 2 through 8]

DAN

FOR THE PROPOSED UNITS. PLEASE REVIEW THE FOLLOWING:

- ① Confirm Branch tops for the Middle Bakken Sand and hyleton match Prognosis's tops shown on Exhibit C.
- ② Check production data for Aug-Nov/98 to ensure Prognosis's "A" factor calculations are correct.
- ③ For your information Prognosis's "B" factor calculation is not Proven Reserves + 50% Probable Reserves, its OOIP developed spacing units + 50% OOIP undeveloped spacing units.
- ④ Verify ϕh estimates for each well.
- ⑤ Do a ~~comparison~~ calculation of different tract factors using
 - (a) 100% production
 - (b) 100% OOIP
 - (c) 100% recoverable reserves (need to calculate individual well reserves using Merak)

UNIT AGREEMENT - BIRDTAIL BAKKEN A SAND UNIT ①

- Freehold lease clause 9(d) - requires notice to Lessee of unitization - manner of allocating unitized production among the several tracts shall be the sole discretion & determination of the Lessee

- 9(e) - the said Lessee shall also have the right & power to withdraw the said land from the Unit Agreement and shall give the Lessee written notice

COMMENTS:

101. DEFIN

(a) Bakken Sand - Branch tops 9-5-16-27

(b) Drainage Unit - should refer to spacing unit as defined in The Oil & Gas Act.
- 1st day of month, following the month it is registered by the Branch

(c) Effective Date - see S132 of Oil & Gas Act

(e) Minister - Province of "Manitoba"

(k) Tract - appear to be ~~traced~~ ^{determined} along lease boundaries

Tract & spacing unit should be synonymous

501. Tract Participation - "not" be altered in the event that the unit is infilled drilled.
801. Unit Enlargement - minister consent to unit enlargement
901. Disposition
 - is there a line missing at the end of the 1st paragraph.
- Should include "Manitoba", where there is a reference to a specific province see clause 903. NOTICES.
1101. Effective Date - see 8132 of Oil & Gas Act

UNITS TRACTS

- 6 tracts of various size from one LSD to a quarter-section
- some unit tracts contain a single well (on a quarter-section) to 3 wells per tract (on a quarter section) & one tract that is undeveloped
- Participation Formula - prod. rate - 4 months (which four months Aug-Nov/98) - 50%
- note: one well 7-5-16-27 is shut-in

note: there appears to be a fair correlation between production & OOIP

(3)

- 18 spacing units within the 6 tracts, 8 of the spacing units are undeveloped including 4 Crown spacing units

RESERVES 50% (Proven + 0.5 Probable)

- more details on calculation of the "B" Factors required

$$1-8 \text{ (Tract 5)} \quad \text{OOIP} * .5$$

$$\text{Tract 1} \quad \text{OOIP of well} + 0.5 * \text{OOIP undeveloped SU.}$$

$$\text{actual formula.} \quad \text{OOIP developed SU} + 0.5 \text{OOIP undeveloped SU}$$

REVIEW.

- Royalty/Tax implications of multi-well tracts. (new & third-tier)
NOV/99

- remind company of 3rd tier royalty/tax.

- expiring of primary term of Crown leases. ~~5/2~~ - see 4-16-27
Aug 21/2001.

- recalculate reserves tract factor as
Proven Reserves (decline curve) + 50% (25% OOIP)
Probable Reserves.

- planimeter companies Oh map (check companies Oh estimates)

- calculate Crown share developed spacing units only for the following participation formulae
 - 1/ 100% production
 - 2/ 100% O&P
- Def'n for payment of tax & royalty different (?) ~~same~~
- Crown does not own the NE/4 of Sec 5 as indicated on exhibit "A"



March 26, 1999

MANITOBA ENERGY AND MINES
360, 1395 ELLICE AVENUE
WINNIPEG MB R3G 2P3

ATTENTION: JOHN FOX

Dear Mr. Fox:

RE: BIRDTAIL UNIT 1 AND UNIT 2 AGREEMENTS

In response to your letter of February 26, 1999, Progress Energy Ltd. has incorporated all your input into the attached agreements. We have used your Tract Factors for both units and submitted a Unit Operating Agreement.

We wish to get your approval first and then we will submit this package to Royalty Owners for approval.

I would appreciate it if you could call me about any issues with the agreements so that I can deal with the Royalty Owners as soon as possible.

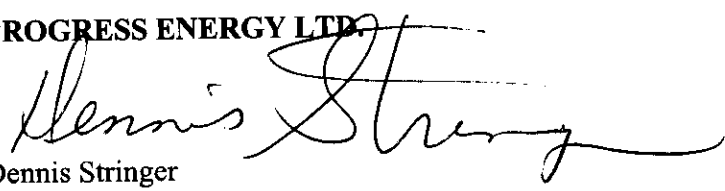
In Unit #2, the Freehold Owner will see a 23% reduction in income and thus we may have a problem getting a written approval.

I have submitted a working copy of the PJVA model so that you can see where the changes have been made, I hope that this helps you.

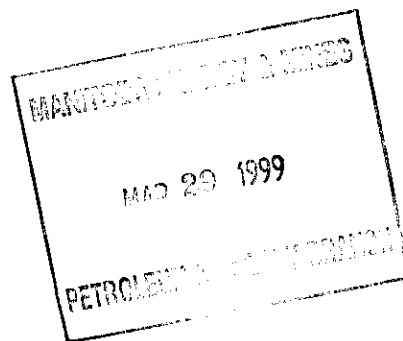
Please contact me at (403) 216-2510 ext. 109 or Jeff Screen at (403) 216-2510 ext. 105 if you have any further questions or concerns.

Yours truly,

PROGRESS ENERGY LTD.


Dennis Stringer
Engineering Consultant

Encl.



①.

UNIT AGREEMENT

[NAME OF UNIT]

BIRDTAIL UNIT

PJVA MODEL FORM

VERSION NO. 1

JUNE 1 1992

John: most changes
in clauses were marked
in yellow.

Dennis
Stinger

John Fox:

I am sending you this working copy
for unit agreement. Clauses with
yellow were changed. I hope this
will help you.

Dennis Stinger

UNIT AGREEMENT

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PETROLEUM JOINT VENTURE ASSOCIATION

UNIT AGREEMENT
[NAME OF UNIT]

BIRD TAIL 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 Alberta;
- (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:
 - (i) any substances which were initially obtained from any source other than the Unitized Zone, or
 - (ii) any Unitized Substances which have been produced,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, ~~or~~
 - (ii) a right to a share of Petroleum Substances produced from the _____ Formation, to a share of the proceeds from the sale of such Petroleum Substances, or to a payment based on the quantity or value of such Petroleum Substances,
- 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 I of Exhibit "A";
- (q) "Unitized Substances" means Petroleum Substances in or obtained from the Unitized Zone;
- (r) "Unitized Zone" means the Bakken "A" Formation within the Unit Area;
- (s) "Working Interest" means an interest in:
- (i) a profit à prendre or similar interest entitling the owner thereof to produce and dispose of Petroleum Substances from the Bakken "A" Formation, ~~or~~
 - (ii) the production and disposition rights associated with 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 _____ Formation, if such

rights are not subject to an interest of the kind described in paragraph (i) of this subclause,

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) "Bakken ^{"A"} ~~Formation~~" means the Bakken "A" SAND occurring between the depths of _____ metres and _____ metres on the _____ Log of _____ situated in legal subdivision _____ of section _____, township _____, range _____, west of the _____ 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

Central Standard Time.

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

MANITOBA

105. Statutory References

In this Agreement references to the *Mines and Minerals Act* and other statutes of Alberta 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(); 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:

- (a) before the Effective Date; [or
- (b) on or within _____ days following 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]:

- (a) 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; or
- (b) 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 less than one hundred (100%) percent of the Royalty Interests therein have become Parties, and the owners of the Working Interests therein provide the other Working Interest Owners with an indemnification in form and substance satisfactory to them, protecting them against any loss or damages that may be suffered by them in respect of claims and demands that, because of the inclusion of the Tract in the Unit Area, may be made by those owners of Royalty Interests in the Tract who have not become Parties; or
- (c) the owners of Working Interests therein have satisfied such other requirements as the other Working Interest Owners may consider appropriate as a basis for qualifying such Tract, where the Tract cannot be qualified pursuant to either subclause (a) or (b) of this clause 502.

[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:

- (a) 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
- (b) 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:

- (a) 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; or
- (b) if the Royalty Interest relates to less than 100% of the Working Interests in the Tract, to look to any Working Interest Owners other than the owners of the particular Working Interests encumbered by the Royalty Interest for the satisfaction of obligations in respect thereof;

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 [~~other than crude oil~~ ^{omit}] 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 wilful 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":

- (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
- (b) 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:
 - (i) any breach or failure of such representation and warranty, whether in whole or in part, or
 - (ii) any failure of, or defect in, the title to any of the Working Interests ascribed to it in Exhibit "A", no matter when occurring or arising.

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 [subsequent to the expiration of _____ days] 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:

- (a) the total of all Tract Participations remains one hundred (100%) percent; and
- (b) 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.

1006. Non-Application of Enlargement Provisions

The provisions of this Article X shall not apply during any period in which all of the Working Interests in all of the Tracts are owned by a single Working Interest Owner, or by a group of Working Interest Owners all of which are Affiliates of one another, unless at least one of the owners of the Working Interest in the lands added to the Unit Area is different from, and is not an Affiliate of, the Working Interest Owners.

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:

- (a) 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
- (b) all of the parties to the dispute provide the Unit Operator with a joint written notice directing the Unit Operator to continue to treat the Party whose Working Interest is in dispute as the rightful owner of the disputed Working Interest pending final resolution of the dispute, 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, 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 the Party whose Working Interest is in dispute; or

- (c) the title to the disputed Working Interest is established by a final judgement of a court of competent jurisdiction, or otherwise to the satisfaction of the Working Interest Owners, 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 the person rightfully entitled thereto.

In the performance of its obligations under this clause 1101 the Unit Operator shall endeavour where practicable to honour 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:

- (a) 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; or
- (b) the Unit Operator is provided with a joint written notice from all of the parties to the Working Interest dispute, 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 comply with the direction of such notice to the extent that it is practicable so to do; or
- (c) the Unit Operator is served with an order of a court of competent jurisdiction directing the Unit Operator to take any particular steps with respect to any royalty rights in respect of the Unitized

Substances being withheld, in which event the Unit Operator shall comply with the direction of such order to the extent required by law.

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:

- (a) 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 ~~Mines and Minerals Act~~ as the Lease, or portion of a Lease, which has terminated; and Oil and Gas Act of Manitoba.
- (b) 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:

- (a) if no other Party then owns or is otherwise entitled to the benefit of the Working Interest in respect of which title has failed, or
- (b) if a new Lease offered pursuant to the provisions of clause 1108 is not accepted within the sixty (60) day acceptance period provided therefor,

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 ~~or more~~ of the total Tract Participations as originally set forth in Exhibit "A". **AND**

1302. Notice of Effective Date

*the date of the Unit agreement is registered by the
Petroleum and Energy Branch*

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 Nov, 1994

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 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, 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:

- (a) 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;
- (b) the ninety (90) day period contemplated by the second sentence of this clause 1402 shall be exclusive of any period of time during which the postponement, interruption or suspension of Unit Operations is attributable to the occurrence or subsistence of an event of force majeure contemplated by clause 1507, and such ninety (90) day period shall be extended accordingly by any period of time following the giving of a termination notice during which the postponement, interruption or suspension of Unit Operations is so attributable; and

- (c) the phrase "production of Unitized Substances on a sustained basis" shall be construed as meaning production of Unitized Substances on a substantially continuous basis, subject to normal course interruptions attributable to such factors as governmental regulation, generally accepted production optimization practices, marketing arrangements involving seasonal or other periodic interruptions in take nominations and events of force majeure contemplated by clause 1507.

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

omit
Took this out.
[within the time specified in subclause 501(b), or] 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:

- Keep this like this?*
- (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 ~~Alberta~~ *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 ~~Alberta~~ *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 ~~Alberta~~ *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. *MANITOBA?*

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 ~~Alberta~~ *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

MANITOBA.

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

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

DATE: _____, 19____.

(NAME)

_____ {seal}

_____ {seal}

ADDRESS FOR SERVICE:

Fax No. _____

This is the execution page of the Agreement entitled "Unit Agreement" - BIRDTAIL UNIT NO 1
(Name of Unit)"

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:

- (a) 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;
- (b) by selling such Affected Substances to an arm's length buyer at a Market Price, ~~✗~~
- (c) by selling such Affected Substances to itself or an Affiliate at a Market Price [with or without the right to re-sell at a profit?].

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, [\$_____/m³] or [3 % of the net proceeds of sale],
- (ii) in the case of natural gas or solution gas sold in gaseous form, [~~\$_____/10³m³~~] 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), [\$_____/m³ or [3 % of the net proceeds of sale], and
- (iv) in the case of sulphur, [\$_____/tonne] 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.

5. Reporting and Accounting *omit*

[Unit Operator's reporting and accounting obligations with respect to dispositions of Affected Substances; should there also be an associated audit right for the Non-Taking Party?]

6. Restoration

[what is the appropriate time for a Non-Taking Party to restore its position? the end of the term of any authorized sales arrangement? how much notice should be given?]

7. Satisfaction of Royalty Obligations

[provisions of clause 704 to continue to apply; proviso with respect to Unit Operator failure to account pursuant to paragraph 5.]

8. Indemnification

[Non-Taking Party indemnifies Unit Operator for any title problems; fit with Article XI.]

9. Disposition of other Working Interest Owners

[two situations: (i) Unit Operator simply delegates/assigns to another WIO, and (ii) Unit Operator is the Non-Taking Party; the first situation is easy, but in the second situation who should have the paramount right/responsibility to market?]

[mutatis mutandis application of paragraphs 2 through 8]

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: _____, 1999

(NAME)

(seal)

(seal)

ADDRESS FOR SERVICE:

Fax No. _____

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

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, [\$_____/m3] or 3% of the net proceeds of sale],
 - (ii) in the case of natural gas or solution gas sold in gaseous form, [\$_____/103m3] 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), [\$_____/m3 or 3% of the net proceeds of sale], and
 - (iv) in the case of sulphur, [\$_____/tonne] 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.



February 12, 1999

**MANITOBA ENERGY & MINES
PETROLEUM AND ENERGY BRANCH**
360 – 1395 ELLICE AVENUE
WINNIPEG MB R3G 3P2

DRAFT
UNIT
AGREEMENT

ATTENTION: MR. JOHN FOX

RE: BIRDTAIL BAKKEN "C" POOL UNIT

Dear Mr. Fox:

Progress Energy Ltd. as working interest owner of the above pool located in section 18,19,20-16-27 W1M is requesting approval to Unitize the Birdtail Bakken "C" Pool Unit.

The freehold mineral owners have approved the Unitization by signing the attached Petroleum and Natural Gas Lease (refer to Clause 9 in Attachment I). When we have Crown approval we will forward one copy to the freehold Lessee and answer any of their questions.

The Tract factors were calculated using Production and Reserves. Reserves will be given a 50% weighting factor (refer to Exhibit "A", Table 1,2,3,4) based on Proven Reserves + 50% of the Probable Reserves. The production data was taken as the average production over a four-month period.

Since the working interest owner is Progress Energy Ltd. 100%, we have only submitted the following information.

1. Unitization Agreement which includes:

- (a) Tract and Unit participation
- (b) Map of the Unit Area
- (c) Type log of Unitized Zone and Geological Maps

Progress Energy would also like to draw to your attention the Lessee located on the NE ¼ of section 19-16-27W1M. We have included LSD 9 and 10 of section 19-16-27 W1M as Tract 4 and given the parcel of land a Tract Participation factor of 2.823%. Attached is a copy of the letter sent to Leila Gwendolyn Whitmore the Lessee and it is assumed that the Lessee will sign the offer to lease prior to March 15, 1999. If the offer is not signed, we

will up grade the remaining owners by their prorata share. Progress will notify the Governments after March 15, 1999 of Mrs. Whitmore's decision.

We would appreciate getting approval as soon as possible, so that we can start implementation of this waterflood as submitted October 21, 1998.

If you have any questions, please contact Jeff Screen, Production Operations Manager at (403) 216-2510 (ext. 105).

Yours truly,

PROGRESS ENERGY LTD.

A handwritten signature in cursive script, appearing to read "Ken Bowie".

Kenneth J. Bowie, P. Eng., M.B.A.
President & C.E.O.

/dm

MANSON RESOURCE MANAGEMENT LTD.

PROGRESS ENERGY LTD.

JAN 27 1999

RECEIVED

COPY

1020, 910 - 7 AVE S.W.
CALGARY, ALBERTA T2P 3N8
(403) 265 6033 PHONE
(403) 233 2907 FAX

January 25, 1999

Ian Jessiman,
P.O. Box 5697,
Victoria, B. C.
V8R 6S5

Dear Mr. Jessiman:

Re: Offer to Lease
Mineral rights owned by
Leila Gwendolyn Whitmore
NE 1/4 19, 16 - 27 - WPM

Our client Progress Energy Ltd., is currently proposing to create a Unit for the enhanced recovery of oil in the Birdtail Area and have proposed to include Mrs. Whitmore's quarter section within the Unit boundaries. Progress will be injecting water within the producing formation with the intention of increasing production from the existing pool. The purpose of the Unit is to arrive at a fair and equitable allocation of revenues between royalty owners based upon the respective values of the lands (reserves) they have contributed to the unit as mapped by Progress.

Over the past year we have made numerous attempts to lease these rights starting with a phone call to Mrs. Whitmore in February of 1998. We were directed to her niece, Ms. Marilyn Taylor, who ultimately directed us to you, indicating that you held a Power of Attorney over the assets of Mrs. Whitmore. On March 9, 1998, after contacting you by phone, we faxed a letter setting forth the terms of the lease and included a copy of the lease drawn in the terms described in the letter and subsequently forwarded a copy to you at your postal address.


During subsequent conversations you advised that the Power of Attorney would not be sufficient and that you would need to name a Committee (if properly phrased). Over the past few months you have indicated that the terms were acceptable to you and that you had not received any other offers to lease the subject rights. We contacted you on January 22, 1999 and advised you of our clients intention to pursue the formation of a Unit. You indicated that lawyers acting on your behalf were pursuing the appointment and that it would be finalized within four to six weeks. Once the appointment has been approved, you would be in a position to sign the lease pursuant to the terms proposed last March.

Our client will be forwarding a copy of this letter along with their application to the Manitoba Government for their approval. If on or before March 15, 1999, we are not in possession of a executed and legally binding lease, their Unit application will be automatically amended to exclude Mrs. Whitmore's quarter section from the Unit.

A copy of this letter will be forwarded to your Victoria address and delivered to you in Palm Springs, California along with duplicate copies of the leases.

Your very truly,

MANSON RESOURCE MANAGEMENT LTD.



Donald A. Manson



PETROLEUM AND NATURAL GAS LEASE

This Indenture made on the 06 17 day of April, 1996
 BETWEEN: THE RURAL MUNICIPALITY OF BIRTLE, Birtle, Manitoba

(herein called the "Lessor")

- AND -

MANSON RESOURCE MANAGEMENT LTD., a body corporate, registered to do business in the
 Province of Manitoba (herein called the "Lessee")

THE LESSOR, being registered as owner, or entitled to become registered as owner of the leased substances (as hereinafter defined) within, upon or under that certain parcel or tract of land legally described in Schedule "A" attached hereto and made a part hereto as more particularly described and set forth in Certificate(s) of Title No. or **46974**

NEEPAWA

Old System Deed No. _____ in the Land Titles Office for the _____ Land Registration District (herein called the "said lands") in consideration of the sum of \$10.00 paid to the Lessor by the Lessee, the receipt of which is hereby acknowledged by the Lessor and of an additional consideration as stipulated in Schedule "A" under the heading "Consideration" attached hereto and made a part hereof and in consideration of the covenants of the Lessee hereinafter contained, HEREBY GRANTS AND LEASES exclusively unto the Lessee all the leased substances (as hereinafter defined) subject to the royalties hereinafter reserved, within, upon or under the said lands, together with all of the present or future right, title right, title estate and interest, if any, of the Lessor in and to the leased substances or any of them within, upon or under any lands excepted from the said lands and any roadways, lanes or rights of way adjoining the said lands, together with the exclusive right and privilege to explore for, drill for, operate for, produce, win, take, remove, store, treat and dispose of the leased substances and the right to inject substances into the said lands for the purpose of obtaining, maintaining or increasing production from the said lands, the pooled lands or the unitized lands and to store and recover any such substances injected into the said lands.

TO HAVE AND ENJOY the same for the term stipulated in Schedule "A" hereto under the heading "Term" (hereinafter called the "primary term") commencing on the date hereof and continuing so long thereafter as operations (as hereinafter defined) are conducted upon the said lands, the pooled lands or the unitized lands, with no cessation, in the case of each cessation of operations, of more than 90 consecutive days.

THE LESSOR AND THE LESSEE HEREBY COVENANT AND AGREE AS FOLLOWS:

1. INTERPRETATION

In this Lease the following expressions shall have the following meanings:

- (a) "anniversary date" means the date corresponding to the date first above written in each year during which this Lease remains in force;
- (b) "commercial production" means the output from a well of such quantity of the leased substances or any of them as, considering the cost of drilling and production operations and price and quality of the leased substances, after a production test of suitable duration and nature in accordance with good oil field practice, would commercially and economically warrant the drilling of a like well in the vicinity thereof;
- (c) "force majeure" means any cause beyond the Lessee's reasonable control and, without limitation, includes an act of God, strike, lockout, or other industrial disturbance, act of any public enemy, war, blockade, riot, lightning, fire, storm, flood, explosion, unusually severe weather conditions, government restraints, including road bans, but shall not include lack of finances;
- (d) "lease year" means a period of one year commencing on the date first above written or any anniversary date and ending at midnight of the day immediately preceding the next anniversary date;
- (e) "leased substances" means all petroleum, natural gas and related hydrocarbons (except coal), and all materials and substances (except valuable stone), whether liquid, solid or gaseous and whether hydrocarbons or not, produced in association with petroleum, natural gas or related hydrocarbons or found in any water contained in any reservoir;
- (f) "offset well" means any well drilled on any spacing unit laterally adjoining the said lands, which spacing unit does not include lands owned by the Lessor or, if owned by the Lessor, not under lease to the Lessee;
- (g) "operations" means any of the following:
 - (i) drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing a well or equipment on or in the said lands or injecting substances by means of a well, in search for or in an endeavour to obtain, maintain or increase production of any leased substance from the said lands, the pooled lands or the unitized lands;
 - (ii) the production of any leased substance;
 - (iii) the recovery of any injected substance; or
 - (iv) any acts for or incidental to any of the foregoing;
- (h) "pooled lands" means all or any portion of the said lands and such other lands as may have been pooled, which pooling shall not exceed a spacing unit in accordance with the terms hereof or pursuant to any agreement, or any statute, regulation, order or directive of any government or any governmental agency;
- (i) "rental" shall have the meaning given in paragraph 2;
- (j) "said lands" means all the lands and all zones and formations underlying the lands described above as the "said lands", or such portion or portions thereof as shall not have been surrendered;
- (k) "spacing unit" means the area allocated to a well from time to time on or in the vicinity of the said lands, for the purpose of drilling for or producing, as the case may be, the leased substances or any of them, as defined or prescribed by or under any statute, regulation, order or directive of any government or any governmental agency;
- (l) "suspended well payment" shall have the meaning given in paragraph 3;
- (m) "unitized lands" means all or any portion of the said lands and such other lands as may have been unitized in accordance with the terms hereof or pursuant to any agreement, statute, or any regulation, order or directive of any government or any governmental agency;
- (n) "Unit Agreement" means any agreement for the development or operation of all or any portion of the said lands together with other lands as a single unit without regard to separate ownership and for the allocation of costs and benefits on a basis as defined in the agreement.

2. RENTALS

The Lessee shall, on or before the date on which the additional consideration provided for above is payable, pay to the Lessor a sum as stipulated in Schedule "A" hereto under the heading "Rentals (Lump Sum)"

3. SUSPENDED WELLS

If, at the expiration of the primary term or at any time or times thereafter, there is any well on the said lands, the pooled lands, or the unitized lands, capable of producing the leased substances or any of them, and all such wells are shut-in or suspended, this Lease shall, nevertheless, continue in force as though operations were being conducted on the said lands, for so long as all the said wells are shut-in or suspended and so long thereafter as operations are conducted upon the said lands, the pooled lands or the unitized lands, with no cessation, in the case of each cessation of operations, of more than 90 consecutive days. If no royalties are otherwise payable hereunder during a lease year after the primary term within which such shut-in period or periods occur and during such lease year no other operations are conducted on the said lands, the pooled lands, or the unitized lands then, on or before the end of such lease year, the Lessee shall pay to the Lessor a sum of money in the amount stipulated in Schedule "A" hereto under the heading "Suspended Well Payments", within 90 days after the expiry of such lease year (herein called the "suspended well payment").

4. ROYALTIES

(a) The Lessee shall pay to the Lessor, at the rate stipulated in Schedule "A" hereto under the heading "Royalties", a royalty on all of the leased substances produced, saved and sold, or used by the Lessee for a purpose other than that described in subclause (b) hereof, from the said lands; provided that in no event shall the current market value be deemed to be in excess of the value actually received by the Lessee pursuant to a bona fide, arm's length sale or transaction. The royalty as determined under this clause shall be payable on or before the 15th day of the second month following the month in which the leased substances, with respect to which the royalty is payable, were produced, saved and sold, or used by the Lessee for a purpose other than that described in subclause (b). No royalty shall be payable to the Lessor with respect to any substance injected into and recovered from the said lands, other than leased substances originally produced from the said lands for which a royalty has not been paid or payable. ~~The Lessor shall bear its reasonable proportion of any expense incurred by the Lessee for separating, treating, processing and transportation at the point of sale beyond the point of measurement~~

(b) Notwithstanding anything to the contrary herein contained or implied, the Lessee shall be entitled to use such part of the production of leased substances from the said lands as reasonably may be required and used by the Lessee in its operations hereunder on the said lands, the pooled lands or the unitized lands and the Lessor shall not be entitled to any royalty with respect to leased substances so used.

(c) The Lessor agrees that the royalty reserved and payable hereunder in respect of the leased substances shall be inclusive of any prior disposition of any royalty or other interest in the leased substances, and agrees to make all payments required by any such disposition out of the royalty received hereunder and to indemnify and save the Lessee harmless from its failure to do so; provided, however, that the Lessee may elect by notice in writing to the Lessor to make such payments on behalf of the Lessor and shall have the right to deduct any such payments made from the royalty, rental and suspended well payments otherwise payable to the Lessor.

(d) The Lessee shall make available to the Lessor during normal business hours at the Lessee's address for notice, the Lessee's records relating to the leased substances produced from or allocated to the said lands.

5. LESSOR INTEREST

If the Lessor's interest in the leased substances is less than the entire and undivided fee simple estate, the royalties, rentals and suspended well payments herein provided shall be paid to the Lessor only in the proportion which such interest bears to the entire and undivided fee.

6. TAXES PAYABLE BY THE LESSOR

The Lessor shall promptly pay all taxes, rates and assessments that may be assessed or levied, directly or indirectly, against the Lessor by reason of the Lessor's interest in production of leased substances obtained from the said lands, or the Lessor's ownership of the leased substances.

7. TAXES PAYABLE BY THE LESSEE

The Lessee shall pay all taxes, rates and assessments that may be assessed or levied in respect of the operations of the Lessee on, in, over or under the said lands, and shall further pay all taxes, rates and assessments that may be assessed or levied directly or indirectly against the Lessee by reason of the Lessee's interest in production of leased substances from the said lands. The Lessee shall on the written request of the Lessor, accompanied by such tax receipts, statements or tax notices as the Lessee may require, and at the rate stipulated in Schedule "A" hereto under the heading "Taxes payable by the Lessee", reimburse the Lessor for any taxes assessed or imposed on the Lessor while this Lease remains in force by reason of the Lessor being the registered owner of the leased substances or being entitled to become such owner; provided that the Lessee shall, at the written request of the Lessor, pay the Lessor's said percentage of said tax and be reimbursed from any sums payable to the Lessor under this Lease.

8. OFFSET WELLS

If commercial production is obtained after the date of this Lease from an offset well, then unless (i) a well has been or is being drilled on the spacing unit of the said lands laterally adjoining the spacing unit of the offset well and into the zone or formation from which commercial production is being obtained from the offset well, or (ii) all or part of the spacing unit of the said lands laterally adjoining the spacing unit of the offset well has been pooled or included in a unit in which the pooled or unitized substances include production from the same zone or formation from which production is being obtained from the offset well, the Lessee shall within 6 months from the later of the date of the offset well being placed on commercial production or, if information with respect to the amount of production from the offset well is restricted pursuant to any statute, regulation, order or directive of any government or governmental agency and such information is unknown to the Lessee, until one month after such information is made public:

(a) commence or cause to be commenced operations for the drilling of a well on the spacing unit of that portion of the said lands which comprises or is included in the spacing unit laterally adjoining the spacing unit of the offset well and thereafter drill, or cause to be drilled the same to the zone or formation from which production is being obtained from the offset well;

(b) pool or unitize that portion of the said lands which comprises or is included in the spacing unit laterally adjoining the spacing unit of the offset well, such pooling or unitization to include production from the same zone or formation from which the offset well is being produced;

(c) surrender all or any portion of the said lands pursuant to the provisions hereof, provided that the surrender shall include but may be limited to the zone or formation from which production is being obtained from the offset well underlying that portion of the said lands which comprises or is included in the spacing unit laterally adjoining the spacing unit of the offset well; or

(d) pay to the Lessor at such times as royalty would be payable pursuant to the provisions of this Lease, until the provisions of paragraphs (a), (b) or (c) of this clause are met, a royalty which shall be proportionately equivalent on an acreage basis to such royalty as would have been payable to the Lessor if the leased substances produced from the offset well were actually being produced from a well on the said lands which commenced production on the last day of the said 6-month period; provided however, that should any spacing unit of the said lands laterally adjoin more than one spacing unit upon which is located an offset well, the royalty which the Lessee may elect to pay to the Lessor pursuant to this subclause shall be calculated on the average of the production from the offset wells, such average to be calculated by dividing the total production from all of such offset wells by the number of all such offset wells.

Notwithstanding anything herein contained, the obligations imposed by this clause shall be deemed not to have arisen if (a) the offset well shall cease to be capable of or ceases commercial production during the said 6-month period, or (b) the offset well is productive primarily or only of natural gas and the Lessee has not previously arranged an adequate and commercial market for the natural gas which might be produced from any well to be drilled pursuant to this clause.

9. POOLING AND UNITIZATION

(a) The Lessee is hereby given the right and power at any time and from time to time during and after the primary term to pool the said lands, or any portion thereof, or any zone or formation underlying the said lands or any portion thereof, or any of the leased substances therein, with any other lands or any zone or formation underlying such other lands or any portion thereof, or any of the leased substances therein, but so that the other lands or any zone or formation thereof, together with the said lands or any zone or formation thereof, shall not exceed one spacing unit. The Lessee shall thereafter give written notice to the Lessor describing the extent to which the said lands are being pooled and describing the spacing unit with respect to which they are so pooled. In the event of pooling there shall be allocated to that portion of the said lands included in the spacing unit that proportion of the total production of the leased substances from the spacing unit, after deducting any leased substances used in operations on the pooled lands, which the surface area of that portion of the said lands placed in the spacing unit bears to the total surface area of the lands in the spacing unit. The production so allocated shall be considered for all purposes, including the payment of royalty, to be the entire production of the leased substances from the portion of the said lands included in the pooling in the same manner as though produced from the said lands under the terms of this Lease.

(b) The Lessee may terminate any pooling pursuant to subclause (a) of this clause and thereafter shall give written notice to the Lessor.

(c) If the spacing unit pooled under this clause is varied or terminated by any statute, regulation, order or directive of any government or governmental agency, or if the pooling is terminated or invalidated by reason of the termination or expiration of a lease covering any lands, other than the said lands, within the spacing unit, or any other cause beyond the Lessee's reasonable control, and this Lease would otherwise terminate as a result of such variation or termination of the spacing unit or such termination or invalidation of the pooling, this Lease shall nonetheless continue in force for a period of 90 days after the Lessee receives notice that the spacing unit has been varied or terminated or the pooling has been terminated or invalidated and the term of the Lease may be extended further pursuant to other provisions of this Lease, including without limitation the commencement of operations, within the said 90-day period.

(d) The Lessee is hereby given the right and power at any time and from time to time during and after the primary term to include the said lands or any portion thereof or any zone or formation underlying the said lands or any portion thereof, or any of the leased substances therein, in a Unit Agreement for the unitized development or operation thereof with any other lands, or any zone or formation underlying such other lands, or any of the leased substances, therein, if such becomes necessary or desirable in the opinion of the Lessee. The Lessee shall thereafter give written notice to the Lessor stating that the said lands are being or have been unitized. The basis and manner of any such unitization, the manner of allocating unitized production among the several tracts of unitized lands, and the contents of any such Unit Agreement shall be in the sole discretion and determination of the Lessee, exercised bona fide, and when so determined shall be binding upon the Lessor.

(e) In the event of unitization, the production of leased substances which are unitized shall be allocated to that portion of the said lands included in the unit in accordance with the terms of the Unit Agreement. The production so allocated shall be considered for all purposes, including the payment of royalty, to be the entire production of the leased substances from the portion of the said lands included in the unit in the same manner as though produced from the said lands under the terms of this Lease. Upon notice from the Lessor, the Lessee shall provide the Lessor with a copy of the Unit Agreement within a reasonable time after the right and power granted hereunder has been exercised. The Lessee shall also have the right and power to withdraw the said lands, or any portion or portions of the said lands or the leased substances, from the Unit Agreement and shall give the Lessor written notice thereof.

(f) Any operations conducted on the pooled lands or the unitized lands, whether conducted before, after or during the exercise of the rights and powers granted under this clause, or the presence of a shut-in or suspended well on the pooled lands or the unitized lands, shall have the same effect in continuing this Lease in force and effect during the term hereby granted or any renewal or extension thereof as if such operations were upon the said lands, or as if said shut-in or suspended well were located on the said lands.

10. CONDUCT OF OPERATIONS

The Lessee shall conduct all operations on the said lands in a diligent, careful and workmanlike manner and in compliance with the provisions of any statutes, regulations, orders or directives of any government or governmental agency applicable to such operations, and where such provisions conflict with the terms of this Lease, such provisions shall prevail.

11. INDEMNIFICATION

The Lessee shall indemnify the Lessor against all actions, suits, claims and demands by any person or persons whomsoever in respect of any loss, injury or damage arising out of or connected with any operations carried out by the Lessee on the said lands, the pooled lands, or the unitized lands unless such loss, injury or damage was caused by the act or omission of the Lessor, its agents, employees or contractors.

12. DISCHARGE OF TAXES AND ENCUMBRANCES

The Lessee may at the Lessee's option pay or discharge the whole or any portion of any withholding or other tax, charge, mortgage, lien or encumbrance payable, incurred or created by the Lessor or the Lessor's predecessors or successors in title or interest which may now or hereafter exist on or against or in any way affect the said lands or the leased substances, in which event the Lessee shall be subrogated to the rights of the holder or holders thereof and, at the Lessee's option, may reimburse itself by applying the amount so paid by the Lessee against the consideration payable hereunder, the rentals, suspended well payments, royalties, or other sums accrued or accruing to the Lessor under the terms of this Lease, and any sums so applied shall, for all purposes of this Lease, be deemed to have been paid to and received by the Lessor in payment of the consideration payable hereunder, rentals, suspended well payments, or royalties, or other sums accrued or accruing to the Lessor under the terms of this Lease, as the case may be.

13. SURRENDER

(a) Notwithstanding anything herein contained, the Lessee may, at any time or from time to time, by written notice to the Lessor, surrender this Lease as to the whole or any part of the leased substances or the said lands or both of them, and this Lease shall thereupon terminate as to the whole or any part of the leased substances or of the said lands or both of them so surrendered.

(b) Upon the said termination, the Lessee shall be released from all obligations accrued or to accrue respecting the said lands or the leased substances or both of them so surrendered excepting accrued royalty, rentals, suspended well payments, taxes and assessments. Any rentals paid shall not be refunded.

(c) Upon the said termination, suspended well payments and the obligation to pay rental and royalties shall be extinguished or proportionately reduced as the case may be; provided that if the Lessee surrenders all or any part of the said lands by zone or formation the rental hereinbefore specified shall not abate.

14. REMOVAL OF EQUIPMENT

The Lessee shall have at all times during the currency of this Lease and for a period of 6 months after its termination, the right to remove from the said lands all or any of its machinery, equipment, structures, pipelines, casing and materials whether placed upon, within or under the said lands.

15. DEFAULT

(a) If, before or after the expiry of the primary term, the Lessor considers that the Lessee has not complied with any provision or obligation of this Lease, including but not limited to a failure to give notice or to pay in the manner specified any rental, suspended well payments, royalty or other sums for which specific provision is made in this Lease, the Lessor shall notify the Lessee in writing, describing in reasonable detail the alleged breach or breaches. The Lessee shall have 30 days after receipt of such notice to:

(i) remedy or commence to remedy the breach or breaches alleged by the Lessor, and thereafter diligently continue to remedy the same; or

(ii) commence and diligently pursue proceedings for a judicial determination as to whether the alleged acts or omissions constitute a breach or breaches on the part of the Lessee.

(b) The performance of any act by the Lessee intended to remedy all or any of the alleged breaches shall not be deemed an admission by the Lessee that it has failed to perform its obligations hereunder. If the Lessee fails to remedy or commence to remedy a breach or breaches within the 30-day period, or if having so commenced to remedy a breach or breaches thereafter fails to continue diligently to remedy the same, and if proceedings have not been commenced for a judicial determination as aforesaid, this Lease, except for the Lessee's right with respect to the removal of equipment and its obligation to remove any registered document in relation to this Lease, shall thereupon terminate and it shall be lawful for the Lessor to re-enter the said lands and to repossess them. If proceedings for a judicial determination are commenced within the aforesaid period of time, this Lease shall not terminate until the existence of such breach has been finally judicially determined; nor shall it terminate if the Lessee within 30 days of such final determination has remedied or commenced to remedy the breach or breaches, and having so commenced to remedy the breach or breaches, thereafter diligently continues to remedy the same.

(c) Notwithstanding anything contained in this Lease, this Lease shall not terminate nor be subject to forfeiture or cancellation if there is located on the said lands or on the pooled lands or on the unitized lands a well capable of producing leased substances or any of them, or on which operations are being conducted; and, in that event, the Lessor's remedy for any default under this Lease shall be for damages only.

16. FORCE MAJEURE

(a) If operations are interrupted or suspended or cannot be commenced as a result of force majeure, this Lease shall not terminate during any such period of interruption, suspension or inability to commence caused thereby or for 30 days thereafter.

(b) If the Lessee is unable, in whole or in part, by force majeure to carry out its obligations hereunder, other than any obligation to make payment of any monies due hereunder, then the obligations of the Lessee, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused; and the cause of the force majeure so far as possible shall be remedied with all reasonable dispatch.

(c) Nothing herein shall require the settlement of strikes, lockouts or other labour disturbances except in the sole discretion of the Lessee.

17. QUIET ENJOYMENT

The Lessor covenants and warrants that, subject only to such mortgages and encumbrances contained in the existing Certificate of Title, the Lessor has not disposed of the Lessor's interest in all or any part of the said lands and the leased substances, and has the right and full power to enter into this Lease and to grant and demise the said lands and the leased substances and that the Lessee, upon observing and performing the covenants and conditions on the Lessee's part to be observed and performed, shall and may peaceably possess and enjoy the same during the primary term of this Lease and any extensions thereof without any interruption or disturbance from or by the Lessor or any person claiming under or through the Lessor.

18. FURTHER ASSURANCES

The Lessor and the Lessee shall each do and perform all such further acts and execute and deliver all such deeds, documents and writings and give all such further assurances as may be reasonably required in order to fully perform and carry out the terms of this Lease.

19. MANNER OF PAYMENT

(a) All payments to the Lessor provided for in this Lease shall, at the Lessee's option, be paid or tendered either to the Lessor or to the depository named in or pursuant to this clause, and all such payments or tenders may be made by cheque or draft of the Lessee either mailed or delivered to the Lessor or to said depository, which cheque or draft shall be payable in Canadian Funds. If payment is made by the Lessee to the depository, the Lessor does hereby appoint the bank, trust company, credit union or treasury branch named in Schedule "A" hereto under the heading "Manner of Payment" as the sole depository for the receipt of all monies payable under this Lease, and the Lessor agrees that said depository and its successors shall be and continue as its agent for the receipt of any and all sums payable hereunder, regardless of changes of ownership (whether by assignment, succession or otherwise and whether in whole or in part) of the said lands or the leased substances or of the consideration payable hereunder, rentals, suspended well payments or royalties to accrue hereunder. Any payment mailed to the Lessor or to the depository shall be deemed to have been paid 4 days (excluding Saturdays, Sundays and statutory holidays) after deposit in any mail box or post office.

(b) The Lessor may not cancel the appointment of a depository without designating a successor but may at any time designate a new depository by giving written notice to the Lessee specifying the name and address of such new depository; provided that

i) only a bank, trust company, credit union, or treasury branch in Canada may be designated as a depository.

ii) only one depository shall be designated at any one time, regardless of whether or not any monies payable hereunder are, or become, payable to more than one person, and

iii) the Lessee shall not be required to recognize any new depository until the expiration of 45 days from the receipt by it of the notice in writing, but this shall not prohibit the Lessee from making payment to the new depository prior to the expiration of the 45-day period. All payments or tenders made to such new depository shall be deemed to have been made in accordance with the terms of this Lease.

(c) If any depository shall at any time resign, or fail or refuse to act as the depository hereunder and a new depository is not designated by the Lessor pursuant to the terms of his clause within 10 days from such resignation, failure or refusal to act, then the Lessee at its option may designate a depository hereunder, which depository shall be entitled to charge its usual fees and collect same from the Lessor, and said depository shall be the depository to all intents and purposes as if originally appointed by the Lessor.

(d) Should the Lessor be a non-resident of Canada, the Lessor acknowledges and agrees that the Lessee may deduct income, withholding or other taxes from any payment to the Lessor in compliance or intended compliance with the provisions of the Income Tax Act, tax agreements or treaties or other statutes of Canada or its Provinces as are from time to time enacted and amended, whereupon the timely remittance by the Lessee of the balance of the payment to the Lessor shall be deemed to constitute full performance by the Lessee in respect of such payment.

20. ASSIGNMENT

Each of the parties hereto may delegate, assign, sublet or convey to any other person, firm or corporation all or any of the property, powers, rights and interests obtained by or conferred upon them respectively by this Lease and may enter into all agreements, contracts and writings and do all necessary acts and things to give effect to the provision of this clause; provided that no assignment by the Lessor shall be binding upon the Lessee, notwithstanding any actual or constructive notice or knowledge thereof, unless and except when the same be for the entire interest of the Lessor. The Lessee need not act on any assignment until 45 days after the Lessee has been actually furnished with the evidence satisfactory to it of such assignment. All payments made within the aforesaid period to the party or parties who would have been entitled to the same in the absence of such assignment shall be deemed to have been made in accordance with the terms of this Lease. The foregoing shall not, however, prohibit the Lessee from acting upon the assignment prior to the expiration of the aforesaid 45-day period and all payments or tenders made in accordance with such assignment shall be deemed to have been made in accordance with the terms of this Lease; provided further that if the Lessee shall assign this Lease as to any part or parts of the said lands, then the rental, suspended well payments and royalties shall be apportioned among the several lease holders ratably according to the surface area of each and should the assignee or assignees of any such part or parts fail to pay the proportionate part of the rental, suspended well payments and royalties payable by him or them, such failure to pay shall not affect this Lease insofar as it relates to and comprises the part or parts of the said lands in respect of which the Lessee or its assignees shall have made due payment.

21. NOTICES

(a) All notices, communications and statements (herein called "notices") required or permitted hereunder shall be in writing. Notices may be served:

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

ii) by telegraph or telecommunication (or by any other like method by which a written and recorded message may be sent) directed to the party on whom they are to be served at the party's address hereinafter given. Notices so served shall be deemed received by the respective addressees thereof (1) when actually received by them if received within the normal working hours of a business day, or (2) at the commencement of the next ensuing business day following transmission thereof, whichever is the earlier; or

iii) by mailing them first class (air mail if to or from a location outside of Canada) post, postage prepaid, to the party on whom they are to be served. Notices so served shall be deemed to be received by the addressee at noon, local time, on the earlier of the actual date of receipt or the 4th day (excluding Saturdays, Sundays or statutory holidays) following the mailing thereof. No notice shall be effective if mailed during any period in which postal workers are on strike or if a strike of postal workers is imminent and may be anticipated to affect normal delivery of the notice.

(b) The address for service of notices shall be as designated in Schedule "A" hereto under the heading "Notices".

(c) Any party may change its address for service by notice to the other party served as aforesaid.

(d) Nothing herein shall in any way affect the method of the payment of monies as set out in clauses 19 and 20 of this Lease.

22. ENTIRE AGREEMENT

The terms of this Lease constitute the entire agreement between the parties, and no implied covenant or liability of any kind is created or shall arise by reason hereof or anything contained herein. This Lease supersedes and replaces all previous oral or written agreements, memoranda, correspondence or other communications between the parties relating to the subject matter hereof. The parties recognize that the terms of this Lease may be modified or affected by statute, regulation, order, or directive of any government or governmental agency.

23. NO AMENDMENT EXCEPT IN WRITING

No amendment or variation of the terms of this Lease shall be binding on any party unless it is evidenced in writing executed by the parties.

24. TIME OF THE ESSENCE

Time shall be of the essence.

25. ENUREMENT

This Lease shall enure to the benefit of and shall be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns.

26. SEVERABILITY

If any provision hereof becomes illegal or unenforceable, the provision will be deemed to be severed and the Lease shall continue as amended.

SIGNED, SEALED AND DELIVERED in the presence of:

Witness as to signature of Lessor

MANSON RESOURCE MANAGEMENT LTD.

Lessor

Lessee

MANSON RESOURCE MANAGEMENT LTD.

UNIT AGREEMENT
BIRDTAIL BAKKEN "C" SAND UNIT

June 1/99

UNIT AGREEMENT
BIRDTAIL BAKKEN “C” SAND UNIT

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UNIT AGREEMENT
BIRDTAIL BAKKEN "C" SAND UNIT

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

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

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

ARTICLE I

DEFINITIONS

101. Definitions

In this Agreement:

- (a) **"Bakken Sand"** means that portion of the Bakken Sand which is identified in the well Northrock Birdtail 9-5-16-27W1, located in legal subdivision 09 of Section 05 in Township 16 in Range 27, West of the Prime Meridian (W1M), between the depths of 517 and 523 meters below the Kelly Bushing as shown on the 523 portion of the Neutron-Density Log recorded in the said well and attached hereto as Exhibit "C".
- (b) **"Drainage Unit"** means the area allocated to a well by the Minister with respect to the Bakken sand for the purpose of drilling for or producing Petroleum Substances;
- (c) **"Effective Date"** April 1, 1999;
- (d) **"Lease"** means an instrument granting a Working Interest in the Unitized Zone;
- (e) **"Minister"** means the Minister of Energy and Mines of the Government of the Province of Saskatchewan;

- (f) **"Outside Substances"** means any substance initially obtained from any source other than the Unitized Zone or any Unitized Substances with respect to which royalty has been paid;
- (g) **"Party"** means a person who is bounded by this Agreement;
- (h) **"Petroleum Substances"** means a petroleum natural gas and other hydrocarbons (except coal) or any of them;
- (i) **"Royalty Interest"** means any interest (other than a Working Interest) in Petroleum Substances or the proceeds from the sale of such interest, produced from the Unitized Zone, but does not include the interest of a person as a purchaser of Petroleum Substances after production;
- (j) **"Royalty Owner"** means a Party owning a Royalty Interest in or in respect of Unitized Substances;
- (k) **"Tract"** means a parcel of land described and given a Tract number in Exhibit "C" and shown in Exhibit "B";
- (l) **"Tract Participation"** means the effective percentage allotted to a Tract pursuant to Article VI and set forth in Part 1 Of Exhibit "C";
- (m) **"Unit Area"** means the lands described in Exhibit "C" and shown in Exhibit "B";
- (n) **"Unit Participation"** means, with respect to each Working Interest Owner, the sum of all of its Tract Participation shares as set forth in Part 2 of Exhibit "C";
- (o) **"Unitized Substances"** means Petroleum Substances in or obtained from the Unitized Zone;
- (p) **"Unitized Zone"** means the Bakken Sand zone within the Unit Area;
- (q) **"Working Interest"** means any right to produce and dispose of Petroleum Substances from the Unitized Zone, including an interest chargeable with any costs of drilling for, recovery of and disposal of Petroleum Substances therefrom;
- (r) **"Working Interest Owner"** means a Party owning a Working interest.

ARTICLE II

EXHIBITS

201. Exhibits

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

- (a) Exhibit "C", Part 1 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, andPart 2 of which lists all of the Working Interest Owners and sets forth their respective Unit Participations;
- (b) Exhibit "B" which is a plan or map of the Unit Area; and
- (c) Exhibit "C" which is a reproduction of a portion of the Neutron-Density Log of the well known as Northrock Birdtail 9-5-16-27W1M.

202. Exhibits Correct

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

203. Correction of Exhibits

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

204. Effective Time

Any corrected exhibit prepared on or before the Effective Date or within ninety (90) days thereafter shall be effective on the Effective Date. Any corrected exhibit prepared after the said ninety (90) days shall be effective at 7:00 a.m., Central Standard Time, on the first day of the first calendar month after it has been supplied to the Minister in accordance with clause 205.

205. Supplying of Exhibits

Each time that an exhibit is revised or corrected pursuant to this Agreement, the Unit Operator shall supply the Minister with one or more copies, as required and shall supply each Working Interest Owner with the number of copies of the exhibit that it requests. Each Working Interest Owner shall supply each of its Royalty Owners, except the Minister, with a copy of the revised exhibit.

206. Form of Revised or Corrected Exhibits

Exhibits that are revised or corrected shall show the effective time of the revision or correction in accordance with clause 204 and shall be numbered consecutively.

ARTICLE III

UNITIZATION AND EFFECT

301. Unitization

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

302. Personal Property Excepted

All lease and well equipment heretofore or hereafter placed by any of the Working Interest Owners on lands in the Unit Area shall be deemed conclusively to be and shall remain personal property belonging to and may be removed by the Working Interest Owners.

303. Continuation of Leases

All operations conducted with respect to the Unitized Zone or production of Unitized Substances shall, except for the purpose of calculating payments to Royalty Owners, be deemed conclusively to be operations upon or production from all of the Unitized Zone in each Tract, and such operations or production shall continue in force and effect each Lease and any other agreement or

instrument relating to the Unitized Zone or Unitized Substances as if such operations had been conducted on and a well was producing from each Tract or Drainage Unit, or portion thereof, in the Unit Area.

304. Lease Amended

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

305. Ratification of Leases

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

306. Effect of Unitization on Titles

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

307. Name

The name of the unit hereby constituted is Birdtail Bakken "C" Sand Unit.

ARTICLE IV

AUTHORITY TO WORKING INTEREST OWNERS

401. Operations

The Working Interest Owners are hereby granted the right to develop and operate the Unitized Zone without regard to the provisions of the Leases or the boundary lines of the Tracts or Drainage Units in such manner and by such means and methods as the Working Interest Owners consider necessary and proper and, without limiting the generality of the foregoing, the right to inject any substance or combination of substances into the Unitized Zone and convert and use as injection wells any wells now existing or hereafter drilled into the Unitized Zone.

402. Delegation

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

ARTICLE V

TRACT PARTICIPATION

501. Tract Participation

Each Tract has a Tract Participation as shown on Exhibit "C". Tract Participation as shown on Exhibit "C" will "not" be altered in the event that the unit is infill drilled.

ARTICLE VI

ALLOCATION OF UNITIZED SUBSTANCES PRODUCED

601. Allocation to Tracts

Subject to clauses 707, 801 and 802, the Unitized Substances when produced shall be allocated to the Tracts in accordance with their Tract Participations. The amount of Unitized Substances allocated to each Tract, and only that amount, regardless of whether it is more or less than the amount of actual production of Unitized Substances from the well or wells, if any, on the Tract, shall be deemed conclusively to have been produced from the Tract.

602. Distribution within Tracts

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

603. Calculation of Royalty

For the purpose of calculating royalty with respect to each Tract, the royalty payable under the respective Lease, agreement or other instrument covering such Tract shall be calculated on the Unitized Substances allocated to the Tract, and at the applicable rate under such Lease, agreement or other instrument. The Royalty Owners of each Tract agree to accept payment of royalty so calculated in satisfaction of the obligation of a Working Interest Owner to make royalty payments on Unitized Substances under the Lease, agreement or other instrument covering such Tract; but a lessee under a Lease shall not be relieved from making payment of royalty to its lessor if payment is not made by the Working Interest Owner as aforesaid.

604. Taking Unitized Substances in Kind

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

605. Failure to Take in Kind

To the extent that a Party entitled to take in kind any of the Unitized Substances, fails to take or otherwise dispose of them at the time and place of production, then so long as such failure continues, the Unit Operator, as agent and for the account and at the expense of such Party, may sell, store, inject or otherwise dispose of them. Where there is a sale, the net proceeds shall be paid to the Party. The Unit Operator may contract for sale thereof only for the minimum term obtainable, which in no event shall exceed one (1) year. When the Unit Operator has so contracted, the Party may take its share of the Unitized Substances in kind upon the expiration of the current sales contract that it intends to take its share in kind. Any Party not taking in kind may revoke at will the Unit Operator's authority hereunder by taking in kind all of its share of the Unitized Substances not previously contracted for sale by the Unit Operator.

606. Royalty on Outside Substances

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

607. Oil in Lease Tankage and Over-Production as of the Effective Date

- (a) A proper and timely gauge shall be made of all tanks delivered to the Unit Operator to ascertain the amount of oil in such tanks as of the Effective Date. If any wells producing into such tanks have made more than their cumulative production allowables as set by the Department of Energy & Mines, the amount of such over-production of oil then in such tanks that has, prior to the Effective Date, been produced from those zones, which on the Effective Date, became the Unitized Zone, shall be deemed to be Unitized Substances. Except as aforesaid, the oil in such tanks shall remain and be at the risk of and be the property of the person owing the same prior to the Effective Date and upon request shall be delivered in kind to such person or, in the absence of such request, shall be sold by the Unit Operator for the credit of and on behalf of such person at not less than the prevailing wellhead price, and the proceeds thereof shall be paid the purchaser directly to such person.
- (b) If any production from those zones, which on the Effective Date became the Unitized Zone, was in excess of the cumulative production allowable of any Tract as of the Effective Date and such excess production was sold prior to the Effective Date, the Unit Operator, during each subsequent month after the fifth month next following the Effective Date, shall withhold seventy five percent (75%) of the Unitized Substances that would otherwise be allocated to such Tract except for the provisions of this subclause, and the amount of production so withheld shall be reallocated to all of the Tracts in proportion to their respective Tract Participations. The withholding from such Tract of oil that would otherwise be allocated shall be continued until the accumulated total of such withholding is equal to the amount of production in excess of the cumulative production allowable of such Tract as of the Effective Date.
- (c) No allowance shall be made with respect to any wells that have produced, up to the Effective Date, less than their cumulative production allowables as set by the Department of Energy & Mines.

ARTICLE VII

USE, LOSS AND STORAGE OF UNITIZED SUBSTANCES

701. Use or Loss

The Working Interest Owners may use as much of the Unitized Substances,

other than crude oil, as they deem necessary for the operation and development of the Unitized Zone including, but not limited to, the injection thereof into the Unitized Zone and in the operation of any plants handling Unitized Substances. Unitized Substances so used or injected and Unitized Substances lost shall be excluded in allocating Unitized Substances to Tracts, and no royalty or other payment shall be payable in respect thereof, except that in the case of Unitized Substances that have been so injected, royalty shall be payable in respect thereof when such Unitized Substances are ultimately recovered from the Unitized Zone and sold or used other than for operations hereunder.

702. Storage

The Working Interest Owners are hereby granted the right to inject Unitized Substances into the Unitized Zone for storage. Unitized Substances so injected shall be excluded in allocating Unitized Substances to Tracts, and no royalty or other payment shall be payable in respect thereof until they are recovered from storage and sold or used other than for operations hereunder.

ARTICLE VIII

ENLARGEMENT OF UNIT AREA

801. Minister's Consent

Notwithstanding anything to the contrary contained in this Agreement, if the Minister is the owner of any Royalty Interest or Working Interest in any Tract included in the Unit Area, or in any lands proposed to be admitted to the Unit Area pursuant to this Article, no enlargement of the Unit Area shall be carried out until the Minister has in writing consented to such enlargement.

ARTICLE IX

TRANSFER OF INTEREST

901. Disposition

In this Article IX 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 unit.

- (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 "C" to reflect such disposition, and the revised version of Exhibit "C" shall be effective as of 07:00 on the first day of the calendar month next following the calendar month in which such items are received by the Unit Operator.

902. Other Changes

If a Party changes its name or undergoes any other changes affecting the information contained in Exhibit "C", other than by way of 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 "C" to reflect such change, and the revised version of Exhibit "C" 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.

903. Notices

All notices to the Unit Operator pursuant to this Article IX 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 Alberta.

- (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; or
- (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 Alberta, or in Saskatchewan.

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 Alberta, or in Saskatchewan 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 purpose of this Clause 903, 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 given 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.

ARTICLE X

IN GENERAL

1001. Force Majeure

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

relating to the Unitized Zone or Unitized Substances shall terminate by reason of suspension of unit operations for the cause set forth in this clause.

1002. Taxes

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

1003. Rights of Redemption

A Working Interest Owner may, at any time and from time to time, with full rights of subrogation, redeem for its Royalty Owner any agreement for sale, mortgage, or other lien or encumbrance of any kind or nature affecting any interest in the Unit Area in the event of default of payment by the Royalty Owner and may deduct the amount of any payment made hereunder from the Royalty Owner's royalty.

1004. Interpretation

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

1005. 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.

1006. Time is of the Essence

In this Agreement time is of the essence.

1007. Inuring Clause

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

1008. 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.

ARTICLE XI
EFFECTIVE DATE

1101. Effective Date

The unitization provided for herein shall become effective at 7:00 a.m., Central Standard Time, on the first day of the first calendar month following the date of:

- (a) the filing of an executed copy of this Agreement with the Minister.

1102. Notice of Effective Date

As soon as possible after the Effective Date, the Unit Operator shall notify its Royalty Owners, except the Crown, of the Effective Date.

ARTICLE XII
TERM

1201. Termination

This Agreement terminates ninety (90) days after all wells for the production of Unitized Substances in the Unit Area have been abandoned or plugged, and thereafter the Parties shall be governed by the terms and provisions of their Leases and contracts.

1202. Salvaging Equipment upon Termination

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

1203. Notice to Royalty Owners

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

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

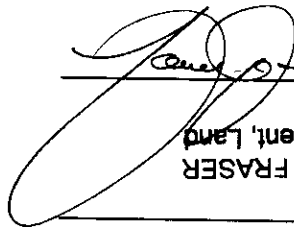
WORKING INTEREST OWNER:

Progress Energy LTD.
Company

February 12, 1999
Date

Kim Bawn

ROYALTY OWNER:


Cameron Fraser
Vice-President, Land
(Print)

Date

(Signature)

Execution Page of the
Unit Agreement – Birdtail Bakken “C” Sand Unit

Unit Agreement – Birdtail Bakken “C” Sand Unit

PROPOSED TRACT PARTICIPATION

Formula:

- The unit working interest will be calculated by combining 50% of original oil in place with 50% of the production from the same lands.

$$\text{TRACT Factor} = 50\% (A) + 50\% (B)$$

A = The average production from wells in a TRACT from Aug, Sept, Oct and Nov 98.

B = Proven, Develop Producing Original Oil in Place plus 50% Probable Original Oil in Place.

Factors for A are found in Table 1, 5

Factors for B are found in Table 2, 4

TRACT FACTORS are found in Table 3

TABLE 1**CALCULATION OF "A" FACTORS**

TRACT#	LEGAL TWP 16 R27 W1	PROD. RATE 4 MOS. M³	% PROD. A	.5% OF PROD.
1	15-18-16-27W1 16-18-16-27W1	9.3 91.5	7.889	3.944
2	01-19-16-27W1 02-19-16-27W1	240.9 54.7	23.134	11.569
3	No Production			
4	No Production			
5	03-20-16-27W1 04-20-16-27W1 05-20-16-27W1	332.8 17.3 173.8	48.827	24.413
6	07-19-16-27W1 08-19-16-27W1	105.4 152.1	20.152	10.074

TABLE 2

Progress Energy Ltd.
Birdtail North Bakken Reserves

Manitoba

Well	Well Status	Reserve Class	Net Pay m	Net Pay x Por. Fr.	Water Sat. Fr.	OOIP m3	Rec. Fr.	ROIP m3	Cum. to date m3	W.I. Fr.	Volume. Reserves m3	Decline Reserves m3	Prod. Rate m3/d
15-18-16-27w1	Producing	PDP		0.20		20,359	0.04	814	0	1.00	814		
16-18-16-27w1	Producing	PDP		0.25		25,448	0.04	1,018	0	1.00	1,018		
01-19-16-27w1	Producing	PDP		0.40		40,717	0.08	3,257	875	1.00	2,382		2.4
02-19-16-27w1	Producing	PDP		0.38		38,172	0.04	1,527	0	1.00	1,527		
03-19-16-27w1				0.15		15,269							
06-19-16-27w1				0.20		20,359							
07-19-16-27w1	Producing	PDP		0.42		42,753	0.04	1,710	0	1.00	1,710		
08-19-16-27w1	Producing	PDP		0.40		40,717	0.06	2,443	0	1.00	2,443		1.8
09-19-16-27w1				0.16		16,287							
10-19-16-27w1				0.20		20,359							
03-20-16-27w1	Producing	PDP		0.25		25,448	0.14	3,563	0	1.00	3,563		4.5
04-20-16-27w1	Producing	PDP		0.15		15,269	0.06	916	0	1.00	916		1.1
05-20-16-27w1	Producing	PDP		0.33		33,083	0.08	2,647	875	1.00	1,772		1.8
06-20-16-27w1	no well	Prob		0.13		12,724		0			0		
Totals						366,964		17,895			16,145		12
Totals, barrels						2,309,258		112,612			101,600		73

Assumptions Well spacing, ha 16.4
 Water Saturation 0.37
 Boi 1.02

Waterflood Recovery will be 20% of OOIP.

EXHIBIT "A"

**ATTACHED TO AND MADE PART OF AN AGREEMENT ENTITLED
"UNIT AGREEMENT – BIRDTAIL BAKKEN "C" SAND UNIT**

**EXHIBIT "A" – PART 1
TRACT PARTICIPATIONS**

Tract Number	Land Description	Royalty Owner	Tract Participation (%)	Working Interest Owner	Share of Working Interest (%)	Share of Tract Participation (%)
1	LSD 15,16 Sec 18-16-27W1M	Crown	100%	Progress	100%	11.003%
2	LSD 1,2 Sec 19-16-27W1M	Crown	100%	Progress	100%	23.723%
3	LSD 3,6 Sec 19-16-27W1M	Noah Bartley	100%	Progress	100%	2.746%
4	LSD 9,10 Sec 19-16-27W1M	Whitmore	100%	Progress	100%	2.823%
5	LSD 3,4,5,6 Sec 20-16-27W1M	Wattview Resources Ltd. Cynthia Slevin	50% 50%	Progress Progress	100% 100%	36.767%
6	LSD 7,8 Sec 19-16-27W1M	Crown	100%	Progress	100%	22.938%

TABLE 3

BIRDTAIL BAKKEN "C" SAND UNIT
TRACT FACTORS FOR BIRDTAIL BAKKEN "C" SAND UNIT

Tract #	50% (PDP + 50% Prob) 0.5 x A	+	50% (Production rate) 0.5 x B	= WI
1	3.944	+	7.059	= 11.003
2	11.566	+	12.157	= 23.723
3	N/A	+	2.746	= 2.746
6	10.076	+	12.862	= 22.938
4	N/A	+	2.823	= 2.823
5	24.414	+	12.353	= 36.767
TOTAL	50.00	+	50.00	= 100.00

TABLE 4

**BIRDTAIL BAKKEN "C" SAND UNIT
CALCULATION OF "B" FACTORS**

Tract #	PDP + 50% PROB	WORKING INTEREST	50% (PDP + 50% PROB) B
1	14.118		7.059
2	24.313		12.157
3	5.491		2.746
6	25.725		12.862
4	5.647		2.823
5	24.706		12.353
TOTAL	100.00		50.00

PROGRESS ENERGY LTD.
TABLE 5

Well	F/C	Licence No.	Field/ Pool Code	Unit	Status	On Prod. Date	Aug-98	Sep-98	Oct-98	Nov-98	Four Month Total
03-20-16-27	F	4755	1560C	N. Unit	Coop	19-Feb-98	88.2	82.2	84	78.4	332.8
04-20-16-27	F	4785	1560C	N. Unit	Coop	19-Feb-98	37.2	31.1	25.3	23.7	117.3
07-19-16-27	C	4754	1560C	N. Unit	Coop	11-Feb-98	27.2	27.3	26	24.9	105.4
08-19-16-27	C	4784	1560C	N. Unit	Coop	19-Feb-98	38	38	38.4	37.7	152.1
15-18-16-27	C	4806	1560C	N. Unit		15-Jul-98	7.5	1.8	0	0	9.3
16-18-16-27	C	4807	1560C	N. Unit		3-Jul-98	25.9	24.2	22.9	18.5	91.5
2/2-19-16-27	C	4811	1560C	N. Unit		10-Jul-98	22.1	19	5.7	7.9	54.7
01-19-16-27	C	4714	9960D	N. Unit	Coop	3-Jul-97	63.7	60.2	59.4	57.6	240.9
05-20-16-27	F	4656	9960D	N. Unit	Coop	17-Jan-97	45.2	43.6	43.3	41.7	173.8
02-19-16-27	C	4693	Conf.	N. Unit	Coop	5-May-98	0	0	0	0	0
Four Month Total - All Wells:											1277.8

EXHIBIT B

R28

R27W1

T16

T16

R28

R27W1

Progress Energy

Birdtail

Bakken C Sand Unit



Map Software by:
Accubase EnerData,
A Division of QC Data
Version 4.50, Jan. 14 1999
(403) 885-5655

Author: Jeff Screen
Date: February 11, 1999
File: Birdtail.MAP
Scale: 1" = 25000'

Scale 1:25000



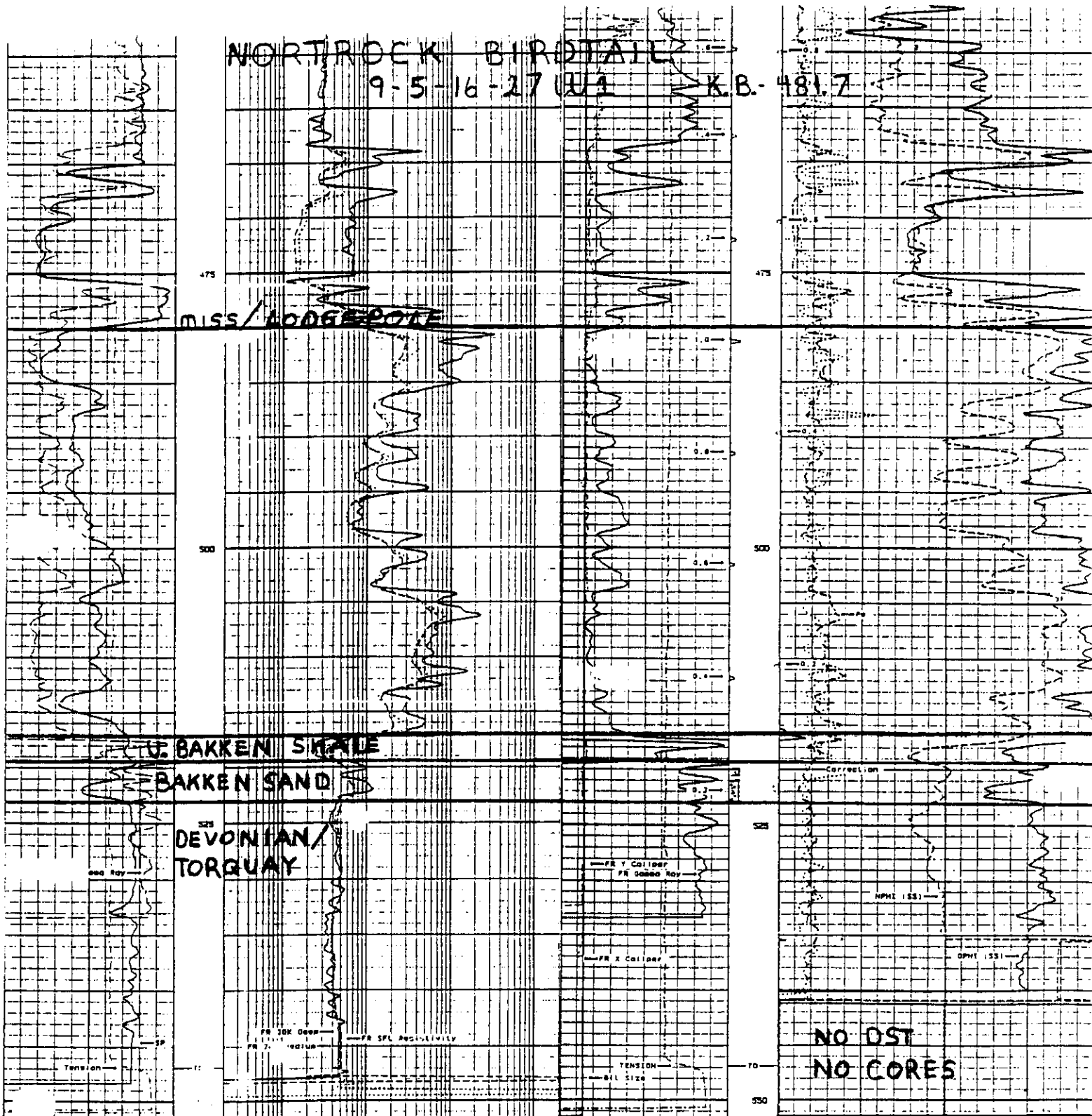
EXHIBIT **B**

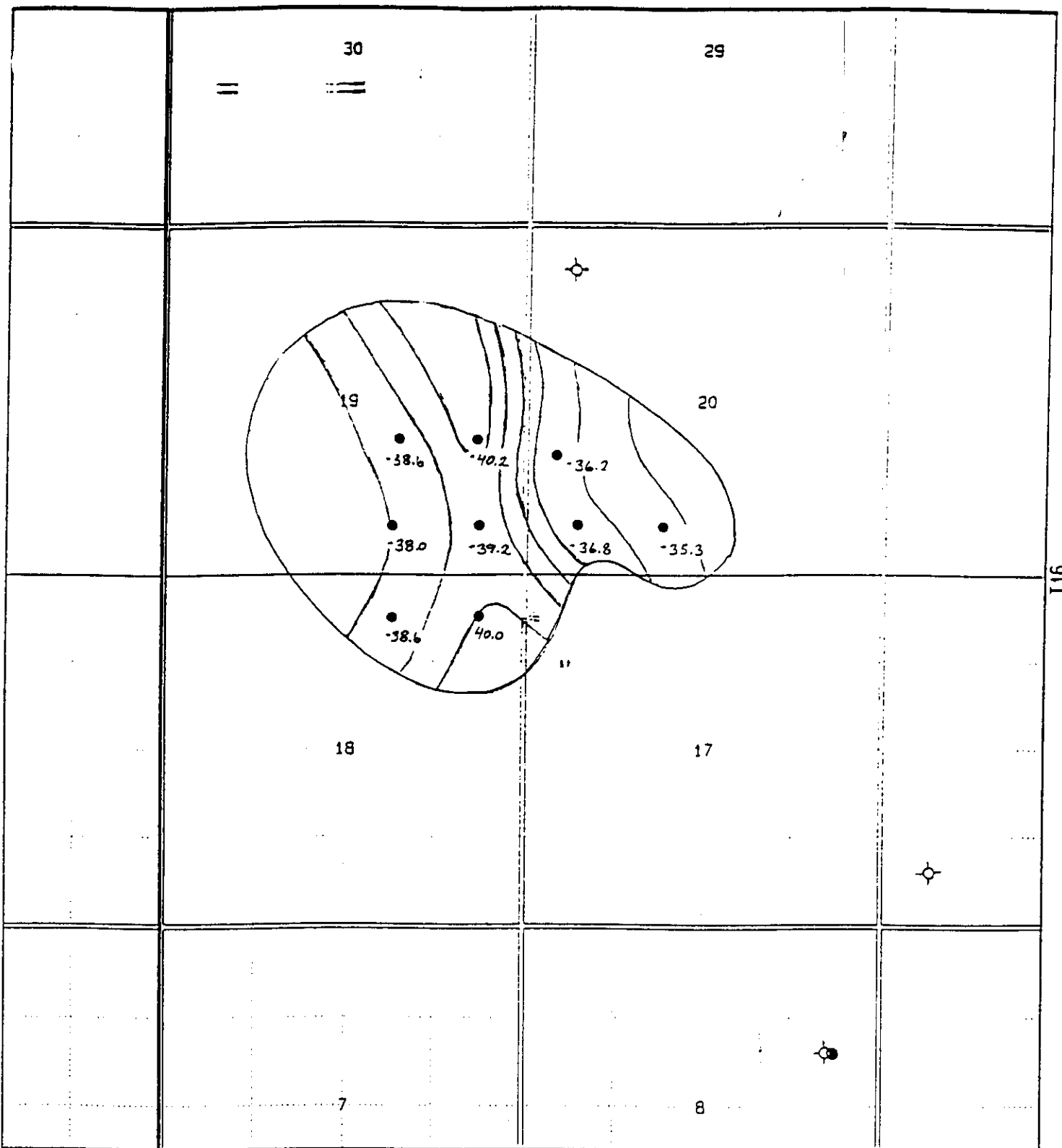
EXHIBIT "C"

TYPE LOG OF UNITIZED ZONE AND GEOLOGICAL MAPS

TYPE LOG

TYPE LOG of UNITIZE ZONE

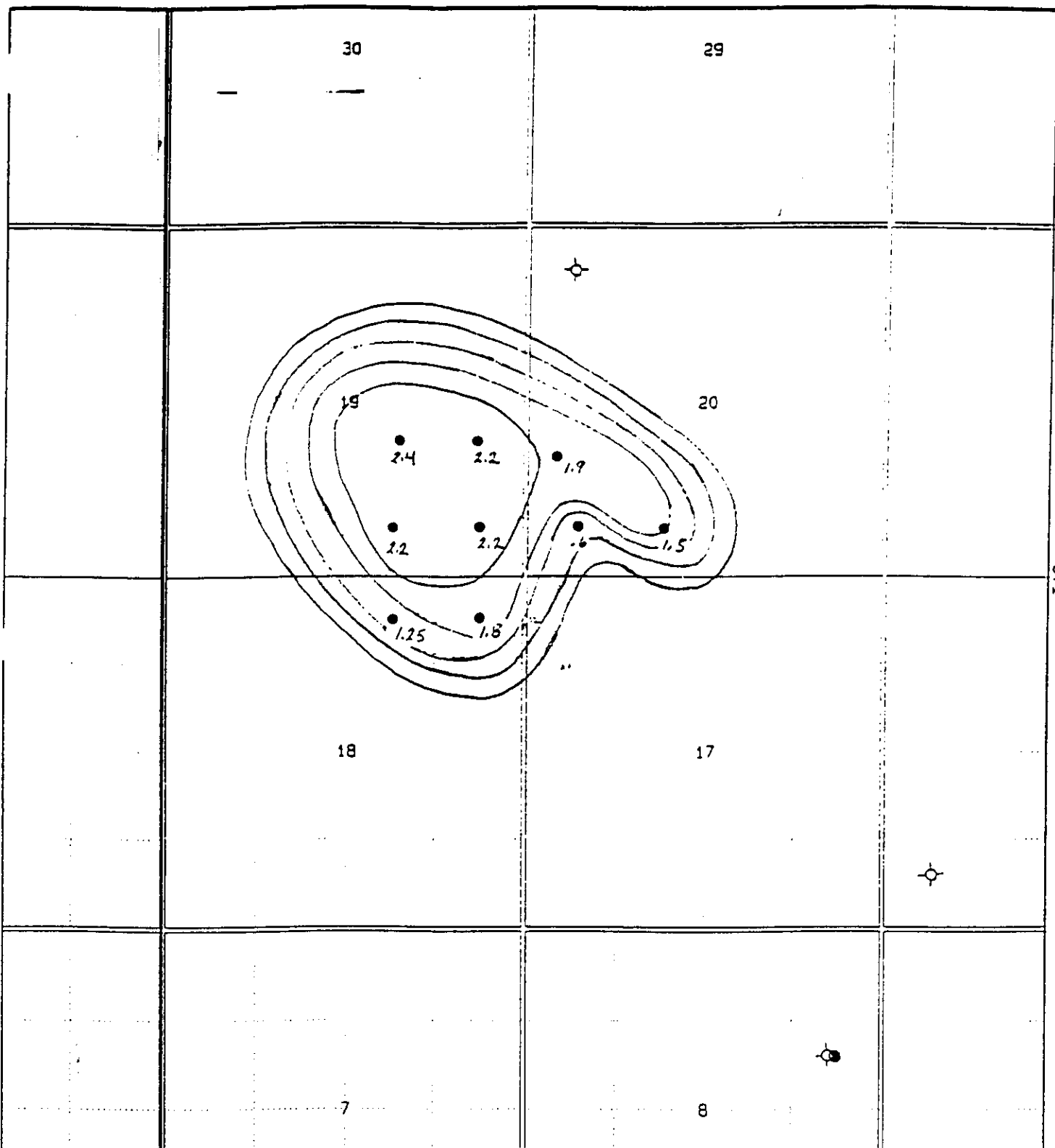




R28

R27W1

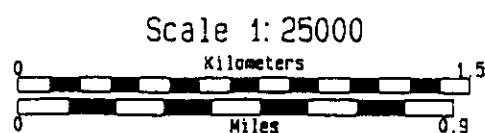
Well Symbols		Progress Energy	
<ul style="list-style-type: none"> o Drilling * Gas * Oil&Gas * Susp Oil * Susp Gas * Abnd Oil * Abnd Gas * Susp H Oil * Susp Oil&Gas * Abnd H Oil * Abnd Oil&Gas o Susp Undes o O & A = Service * Abnd Service o Injection * Gas Injection 	<ul style="list-style-type: none"> No Well Postings Specified 	<p>Scale 1:25000</p> <p>Kilometers</p> <p>Miles</p>	
		<p>BIRDTAIL North</p> <p>Structure Top Bakken Sand (m)</p> <p>Author: September 18, 1998</p> <p>Date: September 18, 1998</p>	



R28

R27W1

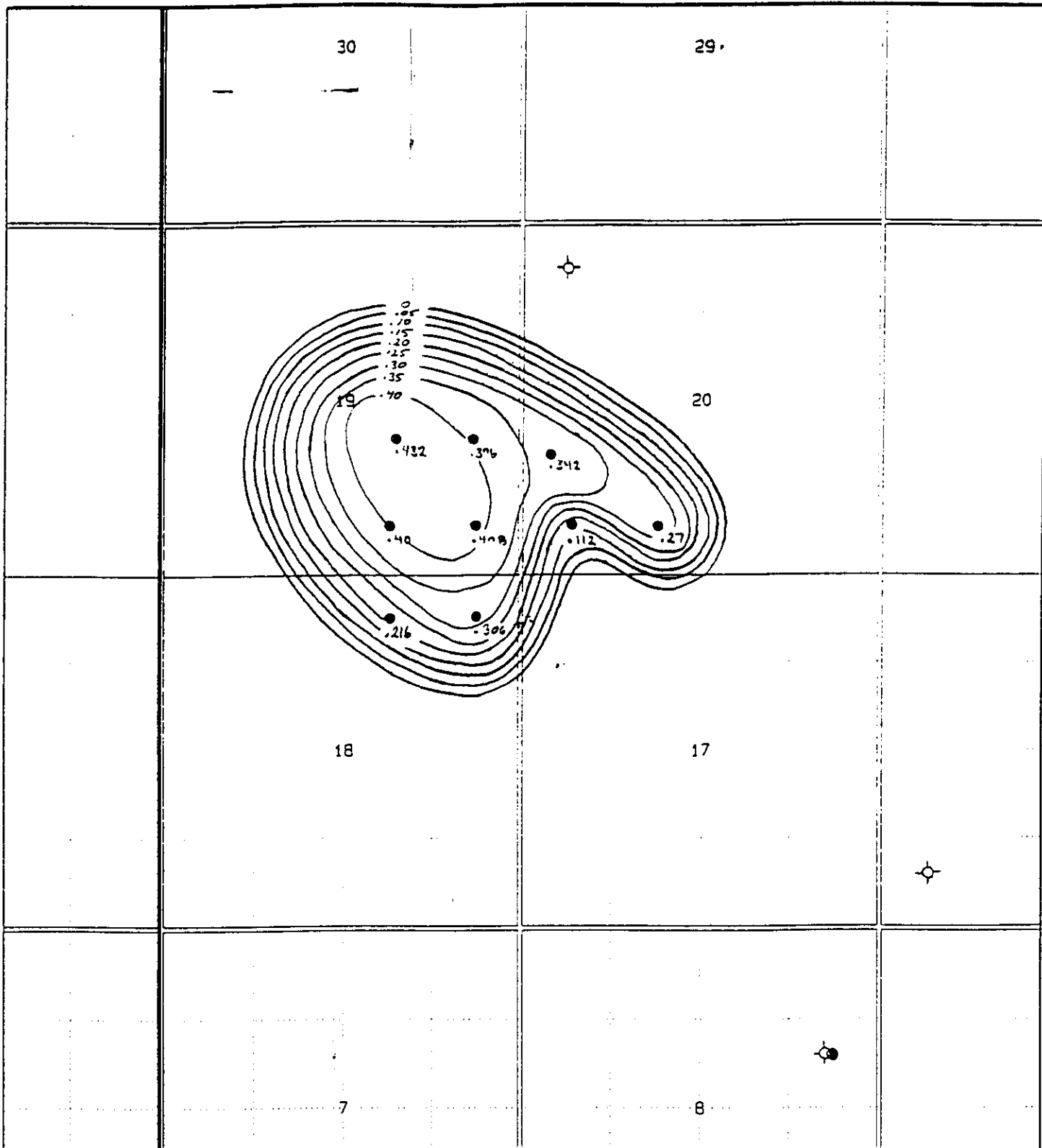
Well Symbols	
Location	Drilling
Oil	Gas
Susp Oil	Oil&Gas
Abnd Oil	Susp Gas
Susp H Oil	Abnd Gas
Abnd H Oil	Susp Oil&Gas
Susp Undes	Abnd Oil&Gas
Service	O & A
Injection	Abnd Service
	Gas Injection
No Well Postings Specified	

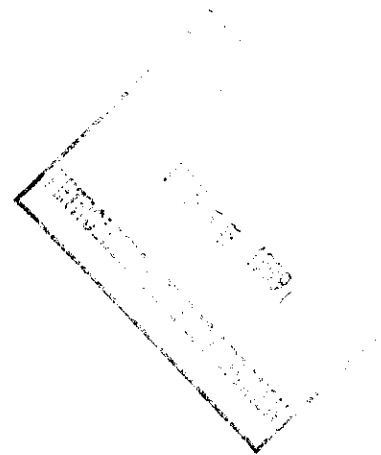


Progress Energy

BIROTAIL North
Net Oil Pay (m)

Author:
Date: September 18, 1998





February 12, 1999

**MANITOBA ENERGY & MINES
PETROLEUM AND ENERGY BRANCH
360 – 1395 ELLICE AVENUE
WINNIPEG MB R3G 3P2**

ATTENTION: MR. JOHN FOX

RE: BIRDTAIL BAKKEN "A" POOL UNIT

Dear Mr. Fox:

Progress Energy Ltd. as working interest owner of the above pool located in section 4,5,8,9-16-27 W1M is requesting approval to Unitize the Birdtail Bakken "A" Pool Unit.

The freehold mineral owners have approved the Unitization by signing the attached Petroleum and Natural Gas Lease (refer to Clause 9 in Attachment I). When we have Crown approval we will forward one copy to the freehold Lessee and answer any of their questions.

The Tract factors were calculated using Production and Reserves. Reserves will be given a 50% weighting factor (refer to Exhibit "A", Table 1,2,3,4) based on Proven Reserves + 50% of the Probable Reserves. The production data was taken as the average production over a four-month period.

Since the working interest owner is Progress Energy Ltd. 100%, we have only submitted the following information:

1. Unitization Agreement which includes:

- (a) Tract and Unit Participation
- (b) Map of the Unit Area
- (c) Type log of Unitized Zone and Geological Maps

We would appreciate getting approval as soon as possible so that we can start implementation of our waterflood scheme as submitted October 21, 1998. Our plan is to start injecting produced water into the 07-05-16-27W1M on April 1, 1999. Approval before April 1, 1999, would be greatly appreciated.

If you have any questions, please contact Jeff Screen, Production Operations Manager at (403) 216-2510 (ext. 105).

Yours truly,

PROGRESS ENERGY LTD.

A handwritten signature in cursive script that reads "Ken Bowie".

Kenneth J. Bowie, P. Eng., M.B.A.
President & C.E.O.

/dm

ATTACHMENT 1

PETROLEUM AND NATURAL GAS LEASE

This Indenture made on the 06 17 day of April, 19 96
 BETWEEN: THE RURAL MUNICIPALITY OF BIRTLE, Birtle, Manitoba

- AND -

(herein called the "Lessor")

MANSON RESOURCE MANAGEMENT LTD., a body corporate, registered to do business in the Province of Manitoba (herein called the "Lessee")

THE LESSOR, being registered as owner, or entitled to become registered as owner of the leased substances (as hereinafter defined) within, upon or under that certain parcel or tract of land legally described in Schedule "A" attached hereto and made a part hereto as more particularly described and set forth in Certificate(s) of Title No. or **46974**

NEEPAWA

Old System Deed No. _____ in the Land Titles Office for the _____ Land Registration District (herein called the "said lands") in consideration of the sum of \$10.00 paid to the Lessor by the Lessee, the receipt of which is hereby acknowledged by the Lessor and of an additional consideration as stipulated in Schedule "A" under the heading "Consideration" attached hereto and made a part hereof and in consideration of the covenants of the Lessee hereinafter contained, HEREBY GRANTS AND LEASES exclusively unto the Lessee all the leased substances (as hereinafter defined) subject to the royalties hereinafter reserved, within, upon or under the said lands, together with all of the present or future right, title right, title estate and interest, if any, of the Lessor in and to the leased substances or any of them within, upon or under any lands excepted from the said lands and any roadways, lanes or rights of way adjoining the said lands; together with the exclusive right and privilege to explore for, drill for, operate for, produce, win, take, remove, store, treat and dispose of the leased substances and the right to inject substances into the said lands for the purpose of obtaining, maintaining or increasing production from the said lands, the pooled lands or the unitized lands and to store and recover any such substances injected into the said lands.

TO HAVE AND ENJOY the same for the term stipulated in Schedule "A" hereto under the heading "Term" (hereinafter called the "primary term") commencing on the date hereof and continuing so long thereafter as operations (as hereinafter defined) are conducted upon the said lands, the pooled lands or the unitized lands, with no cessation, in the case of each cessation of operations, of more than 90 consecutive days.

THE LESSOR AND THE LESSEE HEREBY COVENANT AND AGREE AS FOLLOWS:

1. INTERPRETATION

In this Lease the following expressions shall have the following meanings:

- (a) "anniversary date" means the date corresponding to the date first above written in each year during which this Lease remains in force;
- (b) "commercial production" means the output from a well of such quantity of the leased substances or any of them as, considering the cost of drilling and production operations and price and quality of the leased substances, after a production test of suitable duration and nature in accordance with good oil field practice, would commercially and economically warrant the drilling of a like well in the vicinity thereof;
- (c) "force majeure" means any cause beyond the Lessee's reasonable control and, without limitation, includes an act of God, strike, lockout, or other industrial disturbance, act of any public enemy, war, blockade, riot, lightning, fire, storm, flood, explosion, unusually severe weather conditions, government restraints, including road bans, but shall not include lack of finances;
- (d) "lease year" means a period of one year commencing on the date first above written or any anniversary date and ending at midnight of the day immediately preceding the next anniversary date;
- (e) "leased substances" means all petroleum, natural gas and related hydrocarbons (except coal), and all materials and substances (except valuable stone), whether liquid, solid or gaseous and whether hydrocarbons or not, produced in association with petroleum, natural gas or related hydrocarbons or found in any water contained in any reservoir;
- (f) "offset well" means any well drilled on any spacing unit laterally adjoining the said lands, which spacing unit does not include lands owned by the Lessor or, if owned by the Lessor, not under lease to the Lessee;
- (g) "operations" means any of the following:
 - (i) drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing a well or equipment on or in the said lands or injecting substances by means of a well, in search for or in an endeavour to obtain, maintain or increase production of any leased substance from the said lands, the pooled lands or the unitized lands;
 - (ii) the production of any leased substance;
 - (iii) the recovery of any injected substance; or
 - (iv) any acts for or incidental to any of the foregoing;
- (h) "pooled lands" means all or any portion of the said lands and such other lands as may have been pooled, which pooling shall not exceed a spacing unit, in accordance with the terms hereof or pursuant to any agreement, or any statute, regulation, order or directive of any government or any governmental agency;
- (i) "rental" shall have the meaning given in paragraph 2;
- (j) "said lands" means all the lands and all zones and formations underlying the lands described above as the "said lands", or such portion or portions thereof as shall not have been surrendered;
- (k) "spacing unit" means the area allocated to a well from time to time on or in the vicinity of the said lands, for the purpose of drilling for or producing, as the case may be, the leased substances or any of them, as defined or prescribed by or under any statute, regulation, order or directive of any government or any governmental agency;
- (l) "suspended well payment" shall have the meaning given in paragraph 3;
- (m) "unitized lands" means all or any portion of the said lands and such other lands as may have been unitized in accordance with the terms hereof or pursuant to any agreement, statute, or any regulation, order or directive of any government or any governmental agency;
- (n) "Unit Agreement" means any agreement for the development or operation of all or any portion of the said lands together with other lands as a single unit without regard to separate ownership and for the allocation of costs and benefits on a basis as defined in the agreement.

2. RENTALS

The Lessee shall, on or before the date on which the additional consideration provided for above is payable, pay to the Lessor a sum as stipulated in Schedule "A" hereto under the heading "Rentals (Lump Sum)"

3. SUSPENDED WELLS

If, at the expiration of the primary term or at any time or times thereafter, there is any well on the said lands, the pooled lands, or the unitized lands, capable of producing the leased substances or any of them, and all such wells are shut-in or suspended, this Lease shall, nevertheless, continue in force as though operations were being conducted on the said lands, for so long as all the said wells are shut-in or suspended and so long thereafter as operations are conducted upon the said lands, the pooled lands or the unitized lands, with no cessation, in the case of each cessation of operations, of more than 90 consecutive days. If no royalties are otherwise payable hereunder during a lease year after the primary term within which such shut-in period or periods occur and during such lease year no other operations are conducted on the said lands, the pooled lands, or the unitized lands then, on or before the end of such lease year, the Lessee shall pay to the Lessor a sum of money in the amount stipulated in Schedule "A" hereto under the heading "Suspended Well Payments", within 90 days after the expiry of such lease year (herein called the "suspended well payment")

4. ROYALTIES

(a) The Lessee shall pay to the Lessor, at the rate stipulated in Schedule "A" hereto under the heading "Royalties", a royalty on all of the leased substances produced, saved and sold, or used by the Lessee for a purpose other than that described in subclause (b) hereof, from the said lands; provided that in no event shall the current market value be deemed to be in excess of the value actually received by the Lessee pursuant to a bona fide, arm's length sale or transaction. The royalty as determined under this clause shall be payable on or before the 15th day of the second month following the month in which the leased substances, with respect to which the royalty is payable, were produced, saved and sold, or used by the Lessee for a purpose other than that described in subclause (b). No royalty shall be payable to the Lessor with respect to any substance injected into and recovered from the said lands, other than leased substances originally produced from the said lands for which a royalty has not been paid or payable. ~~The Lessor shall bear its reasonable proportion of any expense incurred by the Lessee for separating, treating, processing and transportation at the point of sale beyond the point of measurement.~~

(b) Notwithstanding anything to the contrary herein contained or implied, the Lessee shall be entitled to use such part of the production of leased substances from the said lands as reasonably may be required and used by the Lessee in its operations hereunder on the said lands, the pooled lands or the unitized lands and the Lessor shall not be entitled to any royalty with respect to leased substances so used.

(c) The Lessor agrees that the royalty reserved and payable hereunder in respect of the leased substances shall be inclusive of any prior disposition of any royalty or other interest in the leased substances, and agrees to make all payments required by any such disposition out of the royalty received hereunder and to indemnify and save the Lessee harmless from its failure to do so; provided, however, that the Lessee may elect by notice in writing to the Lessor to make such payments on behalf of the Lessor and shall have the right to deduct any such payments made from the royalty, rental and suspended well payments otherwise payable to the Lessor.

(d) The Lessee shall make available to the Lessor during normal business hours at the Lessee's address for notice, the Lessee's records relating to the leased substances produced from or allocated to the said lands.

5.LESSER INTEREST

If the Lessor's interest in the leased substances is less than the entire and undivided fee simple estate, the royalties, rentals and suspended well payments herein provided shall be paid to the Lessor only in the proportion which such interest bears to the entire and undivided fee.

6.TAXES PAYABLE BY THE LESSOR

The Lessor shall promptly pay all taxes, rates and assessments that may be assessed or levied, directly or indirectly, against the Lessor by reason of the Lessor's interest in production of leased substances obtained from the said lands, or the Lessor's ownership of the leased substances.

7.TAXES PAYABLE BY THE LESSEE

The Lessee shall pay all taxes, rates and assessments that may be assessed or levied in respect of the operations of the Lessee on, in, over or under the said lands, and shall further pay all taxes, rates and assessments that may be assessed or levied directly or indirectly against the Lessee by reason of the Lessee's interest in production of leased substances from the said lands. The Lessee shall on the written request of the Lessor, accompanied by such tax receipts, statements or tax notices as the Lessee may require, and at the rate stipulated in Schedule "A" hereto under the heading "Taxes payable by the Lessee", reimburse the Lessor for any taxes assessed or imposed on the Lessor while this Lease remains in force by reason of the Lessor being the registered owner of the leased-substances or being entitled to become such owner; provided that the Lessee shall, at the written request of the Lessor, pay the Lessor's said percentage of said tax and be reimbursed from any sums payable to the Lessor under this Lease.

8.OFFSET WELLS

If commercial production is obtained after the date of this Lease from an offset well, then unless (i) a well has been or is being drilled on the spacing unit of the said lands laterally adjoining the spacing unit of the offset well and into the zone or formation from which commercial production is being obtained from the offset well, or (ii) all or part of the spacing unit of the said lands laterally adjoining the spacing unit of the offset well has been pooled or included in a unit in which the pooled or unitized substances include production from the same zone or formation from which production is being obtained from the offset well, the Lessee shall within 6 months from the later of the date of the offset well being placed on commercial production or, if information with respect to the amount of production from the offset well is restricted pursuant to any statute, regulation, order or directive of any government or governmental agency and such information is unknown to the Lessee, until one month after such information is made public:

(a) commence or cause to be commenced operations for the drilling of a well on the spacing unit of that portion of the said lands which comprises or is included in the spacing unit laterally adjoining the spacing unit of the offset well and thereafter drill, or cause to be drilled the same to the zone or formation from which production is being obtained from the offset well;

(b) pool or unitize that portion of the said lands which comprises or is included in the spacing unit laterally adjoining the spacing unit of the offset well, such pooling or unitization to include production from the same zone or formation from which the offset well is being produced;

(c) surrender all or any portion of the said lands pursuant to the provisions hereof, provided that the surrender shall include but may be limited to the zone or formation from which production is being obtained from the offset well underlying that portion of the said lands which comprises or is included in the spacing unit laterally adjoining the spacing unit of the offset well; or

(d) pay to the Lessor at such times as royalty would be payable pursuant to the provisions of this Lease, until the provisions of paragraphs (a), (b) or (c) of this clause are met, a royalty which shall be proportionately equivalent on an acreage basis to such royalty as would have been payable to the Lessor if the leased substances produced from the offset well were actually being produced from a well on the said lands which commenced production on the last day of the said 6-month period; provided however, that should any spacing unit of the said lands laterally adjoin more than one spacing unit upon which is located an offset well, the royalty which the Lessee may elect to pay to the Lessor pursuant to this subclause shall be calculated on the average of the production from the offset wells, such average to be calculated by dividing the total production from all of such offset wells by the number of all such offset wells.

Notwithstanding anything herein contained, the obligations imposed by this clause shall be deemed not to have arisen if (a) the offset well shall cease to be capable of or ceases commercial production during the said 6-month period, or (b) the offset well is productive primarily or only of natural gas and the Lessee has not previously arranged an adequate and commercial market for the natural gas which might be produced from any well to be drilled pursuant to this clause.

9.POOLING AND UNITIZATION

(a) The Lessee is hereby given the right and power at any time and from time to time during and after the primary term to pool the said lands, or any portion thereof, or any zone or formation underlying the said lands or any portion thereof, or any of the leased substances therein, with any other lands or any zone or formation underlying such other lands or any portion thereof, or any of the leased substances therein, but so that the other lands or any zone or formation thereof, together with the said lands or any zone or formation thereof, shall not exceed one spacing unit. The Lessee shall thereafter give written notice to the Lessor describing the extent to which the said lands are being pooled and describing the spacing unit with respect to which they are so pooled. In the event of pooling there shall be allocated to that portion of the said lands included in the spacing unit that proportion of the total production of the leased substances from the spacing unit, after deducting any leased substances used in operations on the pooled lands, which the surface area of that portion of the said lands placed in the spacing unit bears to the total surface area of the lands in the spacing unit. The production so allocated shall be considered for all purposes, including the payment of royalty, to be the entire production of the leased substances from the portion of the said lands included in the pooling in the same manner as though produced from the said lands under the terms of this Lease.

(b) The Lessee may terminate any pooling pursuant to subclause (a) of this clause and thereafter shall give written notice to the Lessor.

(c) If the spacing unit pooled under this clause is varied or terminated by any statute, regulation, order or directive of any government or governmental agency, or if the pooling is terminated or invalidated by reason of the termination or expiration of a lease covering any lands, other than the said lands, within the spacing unit, or any other cause beyond the Lessee's reasonable control, and this Lease would otherwise terminate as a result of such variation or termination of the spacing unit or such termination or invalidation of the pooling, this Lease shall nonetheless continue in force for a period of 90 days after the Lessee receives notice that the spacing unit has been varied or terminated or the pooling has been terminated or invalidated and the term of the Lease may be extended further pursuant to other provisions of this Lease, including without limitation the commencement of operations, within the said 90-day period.

(d) The Lessee is hereby given the right and power at any time and from time to time during and after the primary term to include the said lands or any portion thereof or any zone or formation underlying the said lands or any portion thereof, or any of the leased substances therein, in a Unit Agreement for the unitized development or operation thereof with any other lands, or any zone or formation underlying such other lands, or any of the leased substances, therein, if such becomes necessary or desirable in the opinion of the Lessee. The Lessee shall thereafter give written notice to the Lessor stating that the said lands are being or have been unitized. The basis and manner of any such unitization, the manner of allocating unitized production among the several tracts of unitized lands, and the contents of any such Unit Agreement shall be in the sole discretion and determination of the Lessee, exercised bona fide, and when so determined shall be binding upon the Lessor.

(e) In the event of unitization, the production of leased substances which are unitized shall be allocated to that portion of the said lands included in the unit in accordance with the terms of the Unit Agreement. The production so allocated shall be considered for all purposes, including the payment of royalty, to be the entire production of the leased substances from the portion of the said lands included in the unit in the same manner as though produced from the said lands under the terms of this Lease. Upon notice from the Lessor, the Lessee shall provide the Lessor with a copy of the Unit Agreement within a reasonable time after the right and power granted hereunder has been exercised. The Lessee shall also have the right and power to withdraw the said lands, or any portion or portions of the said lands or the leased substances, from the Unit Agreement and shall give the Lessor written notice thereof.

(f) Any operations conducted on the pooled lands or the unitized lands, whether conducted before, after or during the exercise of the rights and powers granted under this clause, or the presence of a shut-in or suspended well on the pooled lands or the unitized lands, shall have the same effect in continuing this Lease in force and effect during the term hereby granted or any renewal or extension thereof as if such operations were upon the said lands, or as if said shut-in or suspended well were located on the said lands.

10.CONDUCT OF OPERATIONS

The Lessee shall conduct all operations on the said lands in a diligent, careful and workmanlike manner and in compliance with the provisions of any statutes, regulations, orders or directives of any government or governmental agency applicable to such operations, and where such provisions conflict with the terms of this Lease, such provisions shall prevail.

11.INDemnIFICATION

The Lessee shall indemnify the Lessor against all actions, suits, claims and demands by any person or persons whomsoever in respect of any loss, injury or damage arising out of or connected with any operations carried out by the Lessee on the said lands, the pooled lands, or the unitized lands unless such loss, injury or damage was caused by the act or omission of the Lessor, its agents, employees or contractors.

12. DISCHARGE OF TAXES AND ENCUMBRANCES

The Lessee may at the Lessee's option pay or discharge the whole or any portion of any withholding or other tax, charge, mortgage, lien or encumbrance payable, incurred or created by the Lessor or the Lessor's predecessors or successors in title or interest which may now or hereafter exist on or against or in any way affect the said lands or the leased substances, in which event the Lessee shall be subrogated to the rights of the holder or holders thereof and, at the Lessee's option, may reimburse itself by applying the amount so paid by the Lessee against the consideration payable hereunder, the rentals, suspended well payments, royalties, or other sums accrued or accruing to the Lessor under the terms of this Lease, and any sums so applied shall, for all purposes of this Lease, be deemed to have been paid to and received by the Lessor in payment of the consideration payable hereunder, rentals, suspended well payments, or royalties, or other sums accrued or accruing to the Lessor under the terms of this Lease, as the case may be.

13. SURRENDER

(a) Notwithstanding anything herein contained, the Lessee may, at any time or from time to time, by written notice to the Lessor, surrender this Lease as to the whole or any part of the leased substances or the said lands or both of them, and this Lease shall thereupon terminate as to the whole or any part of the leased substances or of the said lands or both of them so surrendered.

(b) Upon the said termination, the Lessee shall be released from all obligations accrued or to accrue respecting the said lands or the leased substances or both of them so surrendered excepting accrued royalty, rentals, suspended well payments, taxes and assessments. Any rentals paid shall not be refunded.

~(c) Upon the said termination, suspended well payments and the obligation to pay rental and royalties shall be extinguished or proportionately reduced as the case may be; provided that if the Lessee surrenders all or any part of the said lands by zone or formation the rental hereinbefore specified shall not abate.

14. REMOVAL OF EQUIPMENT

The Lessee shall have at all times during the currency of this Lease and for a period of 6 months after its termination, the right to remove from the said lands all or any of its machinery, equipment, structures, pipelines, casing and materials whether placed upon, within or under the said lands.

15. DEFAULT

(a) If, before or after the expiry of the primary term, the Lessor considers that the Lessee has not complied with any provision or obligation of this Lease, including but not limited to a failure to give notice or to pay in the manner specified any rental, suspended well payments, royalty or other sums for which specific provision is made in this Lease, the Lessor shall notify the Lessee in writing, describing in reasonable detail the alleged breach or breaches. The Lessee shall have 30 days after receipt of such notice to:

- (i) remedy or commence to remedy the breach or breaches alleged by the Lessor, and thereafter diligently continue to remedy the same; or
- (ii) commence and diligently pursue proceedings for a judicial determination as to whether the alleged acts or omissions constitute a breach or breaches on the part of the Lessee.

(b) The performance of any act by the Lessee intended to remedy all or any of the alleged breaches shall not be deemed an admission by the Lessee that it has failed to perform its obligations hereunder. If the Lessee fails to remedy or commence to remedy a breach or breaches within the 30-day period, or if having so commenced to remedy a breach or breaches thereafter fails to continue diligently to remedy the same, and if proceedings have not been commenced for a judicial determination as aforesaid, this Lease, except for the Lessee's right with respect to the removal of equipment and its obligation to remove any registered document in relation to this Lease, shall thereupon terminate and it shall be lawful for the Lessor to re-enter the said lands and to repossess them. If proceedings for a judicial determination are commenced within the aforesaid period of time, this Lease shall not terminate until the existence of such breach has been finally judicially determined; nor shall it terminate if the Lessee within 30 days of such final determination has remedied or commenced to remedy the breach or breaches, and having so commenced to remedy the breach or breaches, thereafter diligently continues to remedy the same.

(c) Notwithstanding anything contained in this Lease, this Lease shall not terminate nor be subject to forfeiture or cancellation if there is located on the said lands or on the pooled lands or on the unitized lands a well capable of producing leased substances or any of them, or on which operations are being conducted; and, in that event, the Lessor's remedy for any default under this Lease shall be for damages only.

16. FORCE MAJEURE

(a) If operations are interrupted or suspended or cannot be commenced as a result of force majeure, this Lease shall not terminate during any such period of interruption, suspension or inability to commence caused thereby or for 30 days thereafter.

(b) If the Lessee is unable, in whole or in part, by force majeure to carry out its obligations hereunder, other than any obligation to make payment of any monies due hereunder, then the obligations of the Lessee, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused; and the cause of the force majeure so far as possible shall be remedied with all reasonable dispatch.

(c) Nothing herein shall require the settlement of strikes, lockouts or other labour disturbances except in the sole discretion of the Lessee.

17. QUIET ENJOYMENT

The Lessor covenants and warrants that, subject only to such mortgages and encumbrances contained in the existing Certificate of Title, the Lessor has not disposed of the Lessor's interest in all or any part of the said lands and the leased substances, and has the right and full power to enter into this Lease and to grant and demise the said lands and the leased substances and that the Lessee, upon observing and performing the covenants and conditions on the Lessee's part to be observed and performed, shall and may peaceably possess and enjoy the same during the primary term of this Lease and any extensions thereof without any interruption or disturbance from or by the Lessor or any person claiming under or through the Lessor.

18. FURTHER ASSURANCES

The Lessor and the Lessee shall each do and perform all such further acts and execute and deliver all such deeds, documents and writings and give all such further assurances as may be reasonably required in order to fully perform and carry out the terms of this Lease.

19. MANNER OF PAYMENT

(a) All payments to the Lessor provided for in this Lease shall, at the Lessee's option, be paid or tendered either to the Lessor or to the depository named in or pursuant to this clause, and all such payments or tenders may be made by cheque or draft of the Lessee either mailed or delivered to the Lessor or to said depository, which cheque or draft shall be payable in Canadian Funds. If payment is made by the Lessee to the depository, the Lessor does hereby appoint the bank, trust company, credit union or treasury branch named in Schedule "A" hereto under the heading "Manner of Payment" as the sole depository for the receipt of all monies payable under this Lease, and the Lessor agrees that said depository and its successors shall be and continue as its agent for the receipt of any and all sums payable hereunder, regardless of changes of ownership (whether by assignment, succession or otherwise and whether in whole or in part) of the said lands or the leased substances or of the consideration payable hereunder, rentals, suspended well payments or royalties to accrue hereunder. Any payment mailed to the Lessor or to the depository shall be deemed to have been paid 4 days (excluding Saturdays, Sundays and statutory holidays) after deposit in any mail box or post office.

(b) The Lessor may not cancel the appointment of a depository without designating a successor but may at any time designate a new depository by giving written notice to the Lessee specifying the name and address of such new depository; provided that

i) only a bank, trust company, credit union, or treasury branch in Canada may be designated as a depository.

ii) only one depository shall be designated at any one time, regardless of whether or not any monies payable hereunder are, or become, payable to more than one person, and

iii) the Lessee shall not be required to recognize any new depository until the expiration of 45 days from the receipt by it of the notice in writing, but this shall not prohibit the Lessee from making payment to the new depository prior to the expiration of the 45-day period. All payments or tenders made to such new depository shall be deemed to have been made in accordance with the terms of this Lease.

(c) If any depository shall at any time resign, or fail or refuse to act as the depository hereunder and a new depository is not designated by the Lessor pursuant to the terms of his clause within 10 days from such resignation, failure or refusal to act, then the Lessee at its option may designate a depository hereunder, which depository shall be entitled to charge its usual fees and collect same from the Lessor, and said depository shall be the depository to all intents and purposes as if originally appointed by the Lessor.

(d) Should the Lessor be a non-resident of Canada, the Lessor acknowledges and agrees that the Lessee may deduct income, withholding or other taxes from any payment to the Lessor in compliance or intended compliance with the provisions of the Income Tax Act, tax agreements or treaties or other statutes of Canada or its Provinces as are from time to time enacted and amended, whereupon the timely remittance by the Lessee of the balance of the payment to the Lessor shall be deemed to constitute full performance by the Lessee in respect of such payment.

20. ASSIGNMENT

Each of the parties hereto may delegate, assign, sublet or convey to any other person, firm or corporation all or any of the property, powers, rights and interests obtained by or conferred upon them respectively by this Lease and may enter into all agreements, contracts and writings and do all necessary acts and things to give effect to the provision of this clause; provided that no assignment by the Lessor shall be binding upon the Lessee, notwithstanding any actual or constructive notice or knowledge thereof, unless and except when the same be for the entire interest of the Lessor. The Lessee need not act on any assignment until 45 days after the Lessee has been actually furnished with the evidence satisfactory to it of such assignment. All payments made within the aforesaid period to the party or parties who would have been entitled to the same in the absence of such assignment shall be deemed to have been made in accordance with the terms of this Lease. The foregoing shall not, however, prohibit the Lessee from acting upon the assignment prior to the expiration of the aforesaid 45-day period and all payments or tenders made in accordance with such assignment shall be deemed to have been made in accordance with the terms of this Lease; provided further that if the Lessee shall assign this Lease as to any part or parts of the said lands, then the rental, suspended well payments and royalties shall be apportioned among the several lease holders ratably according to the surface area of each and should the assignee or assignees of any such part or parts fail to pay the proportionate part of the rental, suspended well payments and royalties payable by him or them, such failure to pay shall not affect this Lease insofar as it relates to and comprises the part or parts of the said lands in respect of which the Lessee or its assignees shall have made due payment.

21. NOTICES

(a) All notices, communications and statements (herein called "notices") required or permitted hereunder shall be in writing. Notices may be served:

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

ii) by telegraph or telecommunication (or by any other like method by which a written and recorded message may be sent) directed to the party on whom they are to be served at the party's address hereinafter given. Notices so served shall be deemed received by the respective addressees thereof (1) when actually received by them if received within the normal working hours of a business day, or (2) at the commencement of the next ensuing business day following transmission thereof, whichever is the earlier; or

iii) by mailing them first class (air mail if to or from a location outside of Canada) post, postage prepaid, to the party on whom they are to be served. Notices so served shall be deemed to be received by the addressee at noon, local time, on the earlier of the actual date of receipt or the 4th day (excluding Saturdays, Sundays or statutory holidays) following the mailing thereof. No notice shall be effective if mailed during any period in which postal workers are on strike or if a strike of postal workers is imminent and may be anticipated to affect normal delivery of the notice.

(b) The address for service of notices shall be as designated in Schedule "A" hereto under the heading "Notices".

(c) Any party may change its address for service by notice to the other party served as aforesaid.

(d) Nothing herein shall in any way affect the method of the payment of monies as set out in clauses 19 and 20 of this Lease.

22. ENTIRE AGREEMENT

The terms of this Lease constitute the entire agreement between the parties, and no implied covenant or liability of any kind is created or shall arise by reason hereof or anything contained herein. This Lease supersedes and replaces all previous oral or written agreements, memoranda, correspondence or other communications between the parties relating to the subject matter hereof. The parties recognize that the terms of this Lease may be modified or affected by statute, regulation, order, or directive of any government or governmental agency.

23. NO AMENDMENT EXCEPT IN WRITING

No amendment or variation of the terms of this Lease shall be binding on any party unless it is evidenced in writing executed by the parties.

24. TIME OF THE ESSENCE

Time shall be of the essence.

25. ENUREMENT

This Lease shall enure to the benefit of and shall be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns.

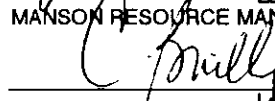
26. SEVERABILITY

If any provision hereof becomes illegal or unenforceable, the provision will be deemed to be severed and the Lease shall continue as amended.

SIGNED, SEALED AND DELIVERED in the presence of:

Witness as to signature of Lessor


Lessor
MANSON RESOURCE MANAGEMENT LTD.


Lessee
MANAGER, DRILLING OPERATIONS

UNIT AGREEMENT
BIRDTAIL BAKKEN “A” SAND UNIT

June 1/99

UNIT AGREEMENT
BIRDTAIL BAKKEN “A” SAND UNIT

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UNIT AGREEMENT
BIRDTAIL BAKKEN "A" SAND UNIT

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

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

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

ARTICLE I
DEFINITIONS

101. Definitions

In this Agreement:

- (a) **"Bakken Sand"** means that portion of the Bakken Sand which is identified in the well Northrock Birdtail 9-5-16-27W1, located in legal subdivision 09 of Section 05 in Township 16 in Range 27, West of the Prime Meridian (W1M), between the depths of 517 and 523 meters below the Kelly Bushing as shown on the reproduction portion of the Neutron-Density Log recorded in the said well and attached hereto as Exhibit "C".
- (b) **"Drainage Unit"** means the area allocated to a well by the Minister with respect to the Bakken sand for the purpose of drilling for or producing Petroleum Substances;
- (c) **"Effective Date"** April 1, 1999;
- (d) **"Lease"** means an instrument granting a Working Interest in the Unitized Zone;
- (e) **"Minister"** means the Minister of Energy and Mines of the Government of the Province of Saskatchewan;

- (f) **"Outside Substances"** means any substance initially obtained from any source other than the Unitized Zone or any Unitized Substances with respect to which royalty has been paid;
- (g) **"Party"** means a person who is bounded by this 'Agreement'
- (h) **"Petroleum Substances"** means a petroleum natural gas and other hydrocarbons (except coal) or any of them;
- (i) **"Royalty Interest"** means any interest (other than a Working Interest) in Petroleum Substances or the proceeds from the sale of such interest, produced from the Unitized Zone, but does not include the interest of a person as a purchaser of Petroleum Substances after production;
- (j) **"Royalty Owner"** means a Party owning a Royalty Interest in or in respect of Unitized Substances;
- (k) **"Tract"** means a parcel of land described and given a Tract number in Exhibit "A";
- (l) **"Tract Participation"** means the effective percentage allotted to a Tract pursuant to Article V and set forth in Part 1 of Exhibit "A";
- (m) **"Unit Area"** means the lands described in Exhibit "A" and shown in Exhibit "B";
- (n) **"Unit Participation"** means, with respect to each Working Interest Owner, the sum of all of its Tract Participation shares as set forth in Exhibit "A";
- (o) **"Unitized Substances"** means Petroleum Substances in or obtained from the Unitized Zone;
- (p) **"Unitized Zone"** means the Bakken Sand zone within the Unit Area;
- (q) **"Working Interest"** means any right to produce and dispose of Petroleum Substances from the Unitized Zone, including an interest chargeable with any costs of drilling for, recovery of and disposal of Petroleum Substances therefrom;
- (r) **"Working Interest Owner"** means a Party owning a Working interest.

ARTICLE II

EXHIBITS

201. Exhibits

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

- (a) Exhibit "A", 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
- (b) Exhibit "B" which is a plan or map of the Unit Area; and
- (c) Exhibit "C" which is a reproduction of a portion of the Neutron-Density Log of the well known as Northrock Birdtail 9-5-16-27W1M.

202. Exhibits Correct

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

203. Correction of Exhibits

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

204. Effective Time

Any corrected exhibit prepared on or before the Effective Date or within ninety (90) days thereafter shall be effective on the Effective Date. Any corrected exhibit prepared after the said ninety (90) days shall be effective at 7:00 a.m., Central Standard Time, on the first day of the first calendar month after it has been supplied to the Minister in accordance with clause 205.

205. Supplying of Exhibits

Each time that an exhibit is revised or corrected pursuant to this Agreement, the Unit Operator shall supply the Minister with one or more copies, as required and shall supply each Working Interest Owner with the number of copies of the exhibit that it requests. Each Working Interest Owner shall supply each of its Royalty Owners, except the Minister, with a copy of the revised exhibit.

206. Form of Revised or Corrected Exhibits

Exhibits that are revised or corrected shall show the effective time of the revision or correction in accordance with clause 204 and shall be numbered consecutively.

ARTICLE III

UNITIZATION AND EFFECT

301. Unitization

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

302. Personal Property Excepted

All lease and well equipment heretofore or hereafter placed by any of the Working Interest Owners on lands in the Unit Area shall be deemed conclusively to be and shall remain personal property belonging to and may be removed by the Working Interest Owners.

303. Continuation of Leases

All operations conducted with respect to the Unitized Zone or production of Unitized Substances shall, except for the purpose of calculating payments to Royalty Owners, be deemed conclusively to be operations upon or production from all of the Unitized Zone in each Tract, and such operations or production shall continue in force and effect each Lease and any other agreement or

instrument relating to the Unitized Zone or Unitized Substances as if such operations had been conducted on and a well was producing from each Tract or Drainage Unit, or portion thereof, in the Unit Area.

304. Lease Amended

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

305. Ratification of Leases

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

306. Effect of Unitization on Titles

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

307. Name

The name of the unit hereby constituted is Birdtail Bakken "A" Sand Unit.

ARTICLE IV

AUTHORITY TO WORKING INTEREST OWNERS

401. Operations

The Working Interest Owners are hereby granted the right to develop and operate the Unitized Zone without regard to the provisions of the Leases or the boundary lines of the Tracts or Drainage Units in such manner and by such means and methods as the Working Interest Owners consider necessary and proper and, without limiting the generality of the foregoing, the right to inject any substance or combination of substances into the Unitized Zone and convert and use as injection wells any wells now existing or hereafter drilled into the Unitized Zone.

402. Delegation

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

ARTICLE V

TRACT PARTICIPATION

501. Tract Participation

Each Tract has a Tract Participation as shown on Exhibit "A". Tract Participation as shown on Exhibit "A" will **not** be altered in the event that the unit is infill drilled.

ARTICLE VI

ALLOCATION OF UNITIZED SUBSTANCES PRODUCED

601. Allocation to Tracts

Subject to clauses 607, 801 and 702, the Unitized Substances when produced shall be allocated to the Tracts in accordance with their Tract Participations. The amount of Unitized Substances allocated to each Tract, and only that amount, regardless of whether it is more or less than the amount of actual production of Unitized Substances from the well or wells, if any, on the Tract, shall be deemed conclusively to have been produced from the Tract.

602. Distribution within Tracts

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

603. Calculation of Royalty

For the purpose of calculating royalty with respect to each Tract, the royalty payable under the respective Lease, agreement or other instrument covering such Tract shall be calculated on the Unitized Substances allocated to the Tract, and at the applicable rate under such Lease, agreement or other instrument. The Royalty Owners of each Tract agree to accept payment of royalty so calculated in satisfaction of the obligation of a Working Interest Owner to make royalty payments on Unitized Substances under the Lease, agreement or other instrument covering such Tract; but a lessee under a Lease shall not be relieved from making payment of royalty to its lessor if payment is not made by the Working Interest Owner as aforesaid.

604. Taking Unitized Substances in Kind

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

605. Failure to Take in Kind

To the extent that a Party entitled to take in kind any of the Unitized Substances, fails to take or otherwise dispose of them at the time and place of production, then so long as such failure continues, the Unit Operator, as agent and for the account and at the expense of such Party, may sell, store, inject or otherwise dispose of them. Where there is a sale, the net proceeds shall be paid to the Party. The Unit Operator may contract for sale thereof only for the minimum term obtainable, which in no event shall exceed one (1) year. When the Unit Operator has so contracted, the Party may take its share of the Unitized Substances in kind upon the expiration of the current sales contract that it intends to take its share in kind. Any Party not taking in kind may revoke at will the Unit Operator's authority hereunder by taking in kind all of its share of the Unitized Substances not previously contracted for sale by the Unit Operator.

606. Royalty on Outside Substances

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

607. Oil in Lease Tankage and Over-Production as of the Effective Date

- (a) A proper and timely gauge shall be made of all tanks delivered to the Unit Operator to ascertain the amount of oil in such tanks as of the Effective Date. If any wells producing into such tanks have made more than their cumulative production allowables as set by the Department of Energy & Mines, the amount of such over-production of oil then in such tanks that has, prior to the Effective Date, been produced from those zones, which on the Effective Date, became the Unitized Zone, shall be deemed to be Unitized Substances. Except as aforesaid, the oil in such tanks shall remain and be at the risk of and be the property of the person owing the same prior to the Effective Date and upon request shall be delivered in kind to such person or, in the absence of such request, shall be sold by the Unit Operator for the credit of and on behalf of such person at not less than the prevailing wellhead price, and the proceeds thereof shall be paid the purchaser directly to such person.
- (b) If any production from those zones, which on the Effective Date became the Unitized Zone, was in excess of the cumulative production allowable of any Tract as of the Effective Date and such excess production was sold prior to the Effective Date, the Unit Operator, during each subsequent month after the fifth month next following the Effective Date, shall withhold seventy five percent (75%) of the Unitized Substances that would otherwise be allocated to such Tract except for the provisions of this subclause, and the amount of production so withheld shall be reallocated to all of the Tracts in proportion to their respective Tract Participations. The withholding from such Tract of oil that would otherwise be allocated shall be continued until the accumulated total of such withholding is equal to the amount of production in excess of the cumulative production allowable of such Tract as of the Effective Date.
- (c) No allowance shall be made with respect to any wells that have produced, up to the Effective Date, less than their cumulative production allowables as set by the Department of Energy & Mines.

ARTICLE VII

USE, LOSS AND STORAGE OF UNITIZED SUBSTANCES

701. Use or Loss

The Working Interest Owners may use as much of the Unitized Substances,

other than crude oil, as they deem necessary for the operation and development of the Unitized Zone including, but not limited to, the injection thereof into the Unitized Zone and in the operation of any plants handling Unitized Substances. Unitized Substances so used or injected and Unitized Substances lost shall be excluded in allocating Unitized Substances to Tracts, and no royalty or other payment shall be payable in respect thereof, except that in the case of Unitized Substances that have been so injected, royalty shall be payable in respect thereof when such Unitized Substances are ultimately recovered from the Unitized Zone and sold or used other than for operations hereunder.

702. Storage

The Working Interest Owners are hereby granted the right to inject Unitized Substances into the Unitized Zone for storage. Unitized Substances so injected shall be excluded in allocating Unitized Substances to Tracts, and no royalty or other payment shall be payable in respect thereof until they are recovered from storage and sold or used other than for operations hereunder.

ARTICLE VIII

ENLARGEMENT OF UNIT AREA

801. Minister's Consent

Notwithstanding anything to the contrary contained in this Agreement, if the Minister is the owner of any Royalty Interest or Working Interest in any Tract included in the Unit Area, or in any lands proposed to be admitted to the Unit Area pursuant to this Article, no enlargement of the Unit Area shall be carried out until the Minister has in writing consented to such enlargement.

ARTICLE IX

TRANSFER OF INTEREST

901. Disposition

In this Article IX 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 unit.

- (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 07:00 on the first day of the calendar month next following the calendar month in which such items are received by the Unit Operator.

902. Other Changes

If a Party changes its name or undergoes any other changes affecting the information contained in Exhibit "A", other than by way of 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.

903. Notices

All notices to the Unit Operator pursuant to this Article IX 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 Alberta.

- (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; or
- (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 Alberta, or in Saskatchewan.

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 Alberta, or in Saskatchewan 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 purpose of this Clause 903, 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 given 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.

ARTICLE X

IN GENERAL

1001. Force Majeure

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

relating to the Unitized Zone or Unitized Substances shall terminate by reason of suspension of unit operations for the cause set forth in this clause.

1002. Taxes

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

1003. Rights of Redemption

A Working Interest Owner may, at any time and from time to time, with full rights of subrogation, redeem for its Royalty Owner any agreement for sale, mortgage, or other lien or encumbrance of any kind or nature affecting any interest in the Unit Area in the event of default of payment by the Royalty Owner and may deduct the amount of any payment made hereunder from the Royalty Owner's royalty.

1004. Interpretation

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

1005. 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.

1006. Time is of the Essence

In this Agreement time is of the essence.

1007. Inuring Clause

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

1008. 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.

ARTICLE XI
EFFECTIVE DATE

1101. Effective Date

The unitization provided for herein shall become effective at 7:00 a.m., Central Standard Time, on the first day of the first calendar month following the date of:

- (a) the filing of an executed copy of this Agreement with the Minister.

1102. Notice of Effective Date

As soon as possible after the Effective Date, the Unit Operator shall notify its Royalty Owners, except the Crown, of the Effective Date.

ARTICLE XII
TERM

1201. Termination

This Agreement terminates ninety (90) days after all wells for the production of Unitized Substances in the Unit Area have been abandoned or plugged, and thereafter the Parties shall be governed by the terms and provisions of their Leases and contracts.

1202. Salvaging Equipment upon Termination

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

1203. Notice to Royalty Owners

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

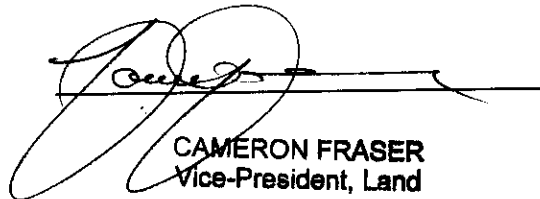
IN WITNESS WHEREOF the Parties have executed this Agreement each on the date shown opposite its execution hereof.

WORKING INTEREST OWNER:

PROGRESS ENERGY LTD.
Company

February 12, 1999
Date

Kim Bowie


CAMERON FRASER
Vice-President, Land

ROYALTY OWNER:

(Print)

Date

(Signature)

Execution Page of the
Unit Agreement – Birdtail Bakken “A” Sand Unit

Unit Agreement – Birdtail Bakken “A” Sand Unit

EXHIBIT "A"

**ATTACHED TO AND MADE PART OF AN AGREEMENT ENTITLED
“UNIT AGREEMENT – BIRDTAIL BAKKEN “A” SAND UNIT**

**EXHIBIT “A” – PART 1
TRACT PARTICIPATIONS**

Tract Number	Land Description	Royalty Owner	Tract Participation (%)	Working Interest Owner	Share of Working Interest (%)	Share of Tract Participation (%)
1	LSD 3,4,5,6 Sec 04-16-27W1M	Crown	100%	Progress	100%	18.807%
2	LSD 11,12,13,14 Sec 04-16-27W1M	R.M. of Birtle	100%	Progress	100%	24.404%
3	LSD 1,7,8 Sec 05-16-27W1M	George Barteau John Barteau	50% 50%	Progress	100%	16.274%
4	LSD 9,10,15,16 Sec 05-16-27W1M	Crown	100%	Progress	100%	32.789%
5	LSD 1, Sec 08-16-27W1M	Kent Salmon Presidential Trust Co.	50% 50%	Progress Progress	100% 100%	0.534%
6	LSD 3,4 Sec 09-16-27W1M	R.M. of Birtle	100%	Progress	100%	7.192%

PROPOSED TRACT PARTICIPATION

Formula:

- The unit working interest will be calculated by combining 50% of original oil in place with 50% of the production from the same lands.

$$\text{TRACT Factor} = 50\% (A) + 50\% (B)$$

A = The average production from wells in a TRACT from Aug, Sept, Oct and Nov 98.

B = Proven, Develop Producing Original Oil in Place plus 50% Probable Original Oil in Place.

Factors for A are found in Table 1, 5

Factors for B are found in Table 2, 4

TRACT FACTORS are found in Table 3

TABLE 1

CALCULATION OF "A" FACTORS

TRACT#	LEGAL TWP 16 R27 W1	PROD. RATE 4 MOS. M ³	% PROD. A	.5% OF PROD.
1	05-04-16-27W1	332.8	20.337	10.169
2	12-04-16-27W1	279.3	17.068	8.534
	13-04-16-27W1	144.9	8.555	4.427
	14-04-16-27W1	35.0	2.139	1.069
3	07-05-16-27W1	0.0		
	08-05-16-27W1	200.3	12.240	6.122
4	09-05-16-27W1	242.3	14.807	7.403
	15-05-16-27W1	110.7	6.765	3.382
	16-05-16-27W1	183.9	11.238	5.619
5	N/A			
6	04-09-16-27W1	<u>107.2</u>	<u>6.551</u>	<u>3.275</u>
	TOTAL	1636.4	100.0	50.00

TABLE 2

**Progress Energy Ltd.
Reserves**
Birdtail South Bakken Pool, Manitoba

Well	Well Status	Reserve Class	Net Pay x Por. Fr.	OOIP m3	Rec. Fr.	ROIP m3	Cum. to date m3	W.I. Fr.	Volume. Reserves m3	Decline Reserves m3	Prod. Rate m3/d
03-04-16-27w1	no well		0.050	5,090							
04-04-16-27w1	no well	Prob	0.150	15,269				1.00			
05-04-16-27w1	Producing	PDP	0.325	33,083	0.14	4,632	975	1.00	3,657	3950	4.40
06-04-16-27w1	no well		0.120	12,215							
11-04-16-27w1			0.025	2,545							
12-04-16-27w1	Producing	PDP	0.230	23,412	0.14	3,278	1335	1.00	1,943	2160	2.70
13-04-16-27w1	Producing	PDP	0.270	27,484	0.10	2,748	1050	1.00	1,698	1532	2.00
14-04-16-27w1	Producing	PDP	0.070	7,126	0.04	285	175	1.00		0	0.20
01-05-16-27w1			0.110	11,197							
07-05-16-27w1	Producing	PDP	0.190	19,341	0.04	774	95	1.00		0	0.20
08-05-16-27w1	Producing	PDP	0.325	33,083	0.14	4,632	0	1.00	4,632	3919	
09-05-16-27w1	Producing	PDP	0.370	37,663	0.10	3,766	1275	1.00	2,491	2225	2.80
10-05-16-27w1	no well	Prob	0.250	25,448				1.00			
15-05-16-27w1	Producing	PDP	0.200	20,359	0.14	2,850	335	1.00	2,515	1890	1.80
16-05-16-27w1	Producing	PDP	0.225	22,903	0.10	2,290	1200	1.00	1,090	1100	1.70
01-08-16-27w1			0.060	6,108							
03-09-16-27w1			0.040	4,072							
04-09-16-27w1	Producing	PDP	0.200	20,359	0.14	2,850	550	1.00	2,300	1200	1.25
Totals			3.210	326,756		28,105	6,990		20,326	17,976	17.05
Totals barrels				2,056,232		176,862	43,987		127,912	113,121	107
Assumptions	Well spacing, ha		16.4								
	Water Saturation		0.37								
	Boi		1.02								

Waterflood Recovery will be 25% of OOIP.

TABLE 3

UNIT INTERESTS

Tract #	50% (PDP + 50% Prob) 0.5 x B	+ 0.5 x A	50% (Production rate)	= WI
1	8.638	+	10.169	= 18.807
2	10.374	+	14.030	= 24.404
3	10.152	+	6.122	= 16.274
4	16.385	+	16.404	= 32.789
5	0.534	+	0.0	= 0.534
6	3.917	+	3.275	= 7.192

TABLE 4

CALCULATION OF "B" FACTORS

Tract #	PDP + 50% PROB	WORKING INTEREST	50% (PDP + 50% PROB) B
1	49370	17.275	8.638
2	59295	20.748	10.374
3	58023	20.303	10.152
4	93649	32.769	16.385
5	3054	1.069	0.534
6	22395	7.836	3.917

EXHIBIT B

EXHIBIT

R28

R27W1

T16

T16

R28

R27W1

Progress Energy

Birdtail

Bakken A Sand Unit



Map Software by
AceuMap EnerData
A Division of QC Data
Version 4.50, Jan. 24 1999
(903) 885-5055

Author: Jeff Screen
Date: February 11, 1999
File: Birdtail.MAP
Scale: 1:25000

Scale 1:25000



EXHIBIT **B**

EXHIBIT "C"

GEOLOGICAL MAPS AND TYPE LOG OF UNITIZED ZONE

TYPE LOG

NORTHERN BIRD TAIL

9-5-16-27 (U)

K.B. 481.7

MISS/LOOSE

U. BAKKEN SHALE

BAKKEN SAND

DEVONIAN/
TORQUAY

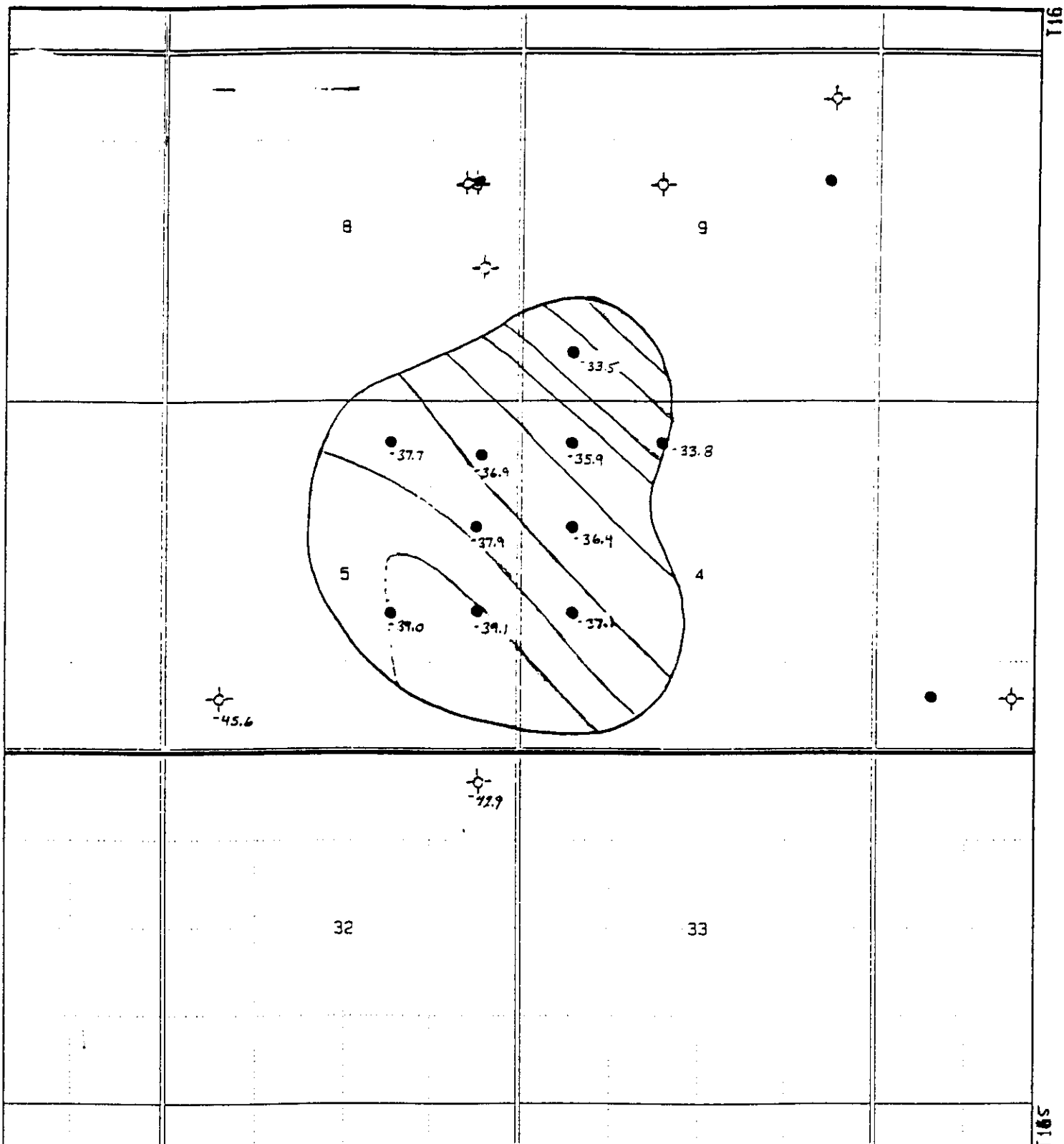
PR 7 Collar
PR 8 Collar

PR 9 Collar

PR 10K Deep
PR 11K Deep
PR 12K Deep

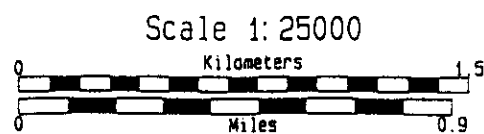
TENSION
BIL Size

NO DST
NO CORES



R27W1

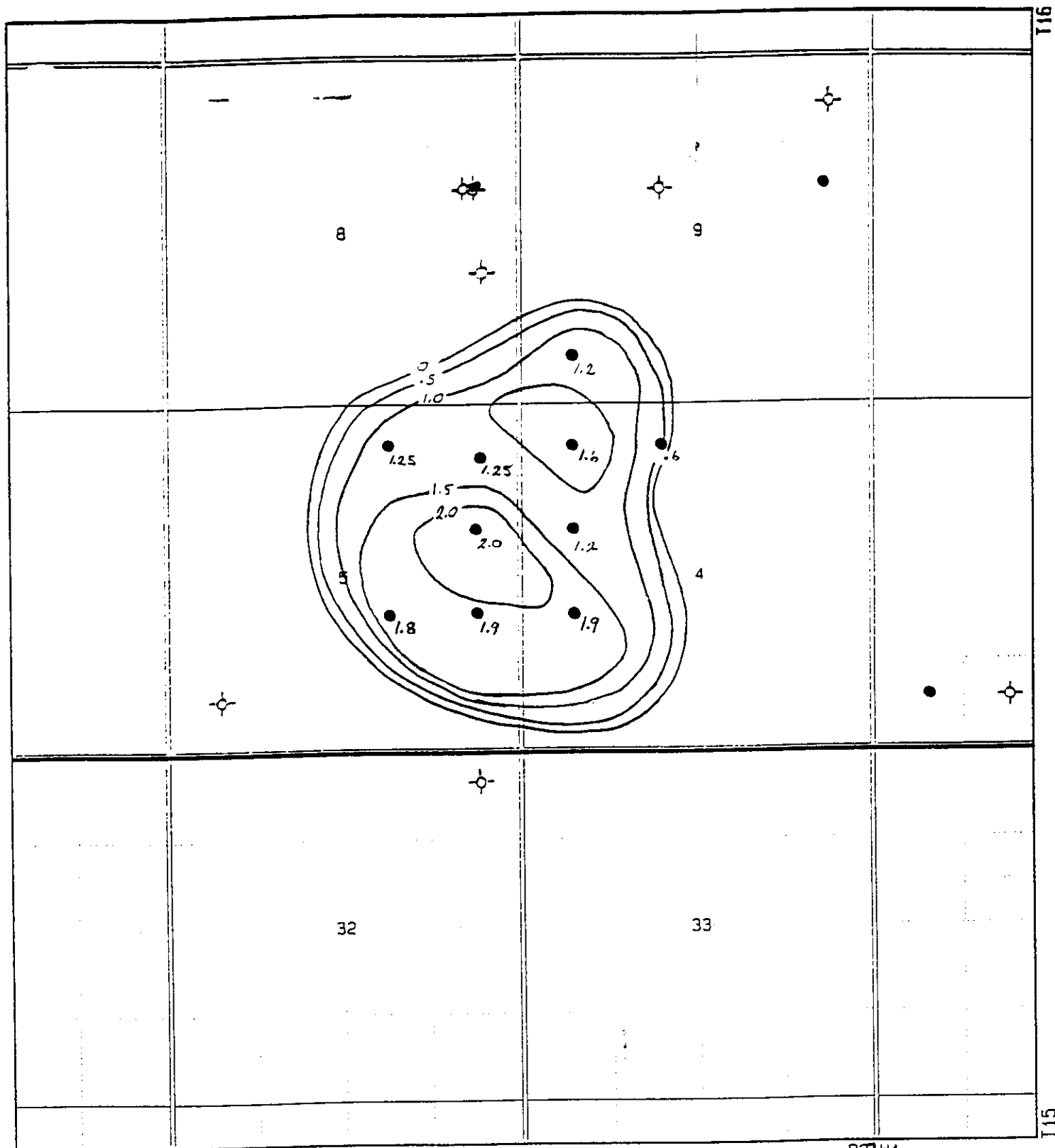
Well Symbols	
○ Location	○ Drilling
★ Oil	★ Gas
★ Susp Oil	★ Oil&Gas
★ Abnd Oil	★ Susp Gas
★ Susp H Oil	★ Abnd Gas
★ Abnd H Oil	★ Susp Oil&Gas
○ Susp Undes	★ Abnd Oil&Gas
★ Service	◇ O & A
★ Injection	★ Abnd Service
	★ Gas Injection
No Well Postings Specified	
★	



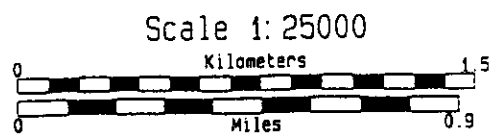
Progress Energy Ltd.

STRUCTURE TOP
BAKKEN SAND (m)
Birdtail South

Author:
Date: September 9, 1998



Well Symbols	
o Location	o Drilling
* Jil	* Gas
* Susp Oil	* Oil&Gas
* Abnd Oil	* Susp Gas
* Susp H Oil	* Abnd Gas
* Abnd H Oil	* Susp Oil&Gas
* Susp Undes	* Abnd Oil&Gas
* Service	* D & A
* Injection	* Abnd Service
	* Gas Injection
No Well Postings Specified	



Progress Energy Ltd.

Net Oil Pay (m)

Birdtail South

Author:
Date: September 9, 1998