

East Manson Unit No. 9

UNIT AGREEMENT

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UNIT AGREEMENT

East Manson Unit No. 9

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 Substances be developed, produced and operated as a Unit, as hereinafter provided;

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

ARTICLE I: DEFINITIONS

101. Definitions

In this Agreement:

- (a) "Crown" means Her Majesty the Queen in Right of the Province of Manitoba
- (b) "Effective Date" means the time and date referred to in Article XIV;
- (c) "Lease" means an instrument granting a Working Interest in any lands in the Unit Area;
- (d) "Outside Substances" means any substances initially obtained from any source other than the Unitized Zone or any Unitized Substances with respect to which royalty has been paid;
- (e) "Party" means a person who is bound by this Agreement;
- (f) "Petroleum Branch" means Growth, Enterprise and Trade, Petroleum Branch established under The Oil and Gas Act;
- (g) "Petroleum Substances" means petroleum, natural gas and related hydrocarbons (except coal) and all substances whether gaseous, liquid or solid, which are produced in association therewith, or any of them;
- (h) "Royalty Interest" means
 - i) an ownership, fee simple, or similar estate in Petroleum Substances in the Unitized Zone, or
 - ii) a right to a 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 or such Petroleum Substances after production, or a mortgage, charge or like interest granted as security in a financial transaction;
- (i) "Royalty Owner" means a Party owning a Royalty Interest in or in respect of Unitized Substances;
- (j) "Spacing Unit" means the area allocated to a well by the Petroleum Branch with respect to the Unitized Zone for the purpose of drilling for or producing Petroleum Substances;
- (k) "this Agreement", "herein", "hereto", "hereof" and similar expressions mean and refer to this Unit Agreement
- (l) "Tract" means a parcel of land described and given a Tract number in Exhibit "A" and shown outlined on Exhibit "B";
- (m) "Tract Participation" means the Participation percentage allocated to a Tract pursuant to Article VI and set forth in Exhibit "A";
- (n) "Unit Area" means the lands described in Exhibit "A" and shown outlined on Exhibit "B"
- (o) "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.
- (p) "Unit Operator" means TORC Oil & Gas Ltd.;
- (q) "Unitized Substances" means Petroleum Substances in or obtained from the Unitized Zone;
- (r) "Unitized Zone" means the Bakken / Three Forks Formation underlying the lands within the Unit Area as is shown on the Neutron - Density Log of the 100/07-16-013-28W1 well between 659 mKB and 696.5 mKB.

- (s) "Working Interest" means any interest which entitles the owner thereof to produce and dispose of, or to participate in the production and disposition of, Petroleum Substances from the Unitized Zone, and with which is associated a responsibility to bear all or a portion of the costs of recovering such Petroleum Substances;
- (t) "Working Interest Owner" means a party owning a Working Interest in or in respect of Unitized Substances;
- (u) "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.

ARTICLE II: EXHIBITS

201. Exhibits

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

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

202. Exhibits Correct

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

203. Correction of Exhibits

If any mistake or mechanical error occurs in an exhibit, Unit Operator 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 8:00 a.m. on the first day of the calendar month next following its preparation or on such other date as is determined by the Working Interest Owners.

205. Supplying of Exhibits

Each time that an exhibit is revised or corrected pursuant to this Agreement, Unit Operator shall supply the Petroleum Branch with two copies and shall supply the Royalty Owners, excepting the Crown, with a copy thereof.

206. Form of Revised or Corrected Exhibits

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

ARTICLE III: UNITIZATION AND EFFECT

301. Unitization

On and after the Effective Date the interests of each Royalty Owner and of the Working Interest Owner in the Unitized Substances and in the Unitized Zone are hereby unitized, in accordance with the provisions of this Agreement.

302. Continuation of Leases

All Unit Operations and all 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, or a well had been drilled and was producing from each Tract or Spacing Unit, or portion thereof, in the Unit Area. Until such time as the unitization provided for herein terminates pursuant to the provisions of clause 1502, 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 provision of this clause 302.

If from time to time during the term of this Agreement the production of Unitized Substances and the conduct of other Unit Operations is temporarily interrupted or suspended:

- (a) for any period not exceeding ninety (90) consecutive days or
- (b) for any period during which an event of force majeure contemplated by Clause 1305 is in effect,

then, for the purposes of this Clause 302, Unitized Substances shall be deemed to have been produced throughout any such period.

303. Leases Amended

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

Except for a Lease in respect of which a Royalty Owner is involved in a court action which has been commenced and is pending on the Effective Date, 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 Lease is in effect as of the Effective Date. The provisions of this Clause 304 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.

In the case of a discrepancy between any Lease and this Agreement, the Agreement shall take precedence.

305. Effect of Unitization on Titles

Nothing in this agreement 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.

306. Name

The name of the Unit hereby constituted is "East Manson Unit No.9"

307. Equipment and Facilities

All equipment and facilities used in connection with the Unit Operations and heretofore or hereafter installed, affixed or constructed by the Working Interest Owners on or in 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 1503, no interest in any such equipment and facilities shall vest in the Royalty Owners by virtue of the provisions of this Agreement.

ARTICLE IV: AUTHORITY TO WORKING INTEREST OWNERS

401. Operations

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

The Working Interest Owners are also hereby granted the right, subject to Petroleum Branch approval, to pool Spacing Units located in the Unit Area with spacing units located outside of the Unit Area for the purpose of drilling a horizontal well. The Spacing Unit for such horizontal wells shall be deemed to be the area as specified in the Oil and Gas Act and the Crown Royalty and Incentive Regulation (Manitoba). The share of production from such horizontal wells shall be calculated using the same methodology as set out in the above-noted Act and Regulation.

The Working Interest Owners are also hereby granted the right, subject to Petroleum Branch approval, to drill horizontal or vertical injection wells within, upon, over or across the unit boundaries of East Manson Unit No.9 and the Working Interest Owners consent to such wells being produced prior to their conversion to injection wells.

402. Delegation

The Working Interest Owners delegate TORC Oil & Gas Ltd. as Unit Operator.

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 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 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 Parties as to the basis on which the Tract shall become qualified, where the Tract cannot be qualified pursuant to Subclause (a) or (b) of this Clause.

503. Revision of Exhibits

Within one hundred and twenty (120) days after the Effective Date the exhibits shall be revised, if necessary, to set out only those Tracts included in the Unit Area under this Article. The revised Exhibit "A" shall set forth the Tract 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.

ARTICLE VI: TRACT PARTICIPATION

601. Tract Participation

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

ARTICLE VII: ALLOCATION OF UNITIZED SUBSTANCES PRODUCED

701. Allocation to Tracts

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

702. 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 the Working Interest Owners of each Tract shall account to the Royalty Owners of such Tract for any royalty payable or deliverable to such Royalty Owners in respect of the Unitized Substances allocated to such Tract.

703. Calculation of Royalty

The Working Interest Owners of each Tract shall calculate royalty on the Unitized Substances allocated to the Tract at the applicable rate under the Lease, other agreement or instrument relating to the Tract. The Royalty Owners of each Tract agree to accept payment of royalty so calculated in satisfaction of the obligation of a Working Interest Owner to make royalty payments on Unitized Substances under the Lease, agreement or other instrument covering such Tract; but a Lessee under a Lease shall not be relieved from making payment of royalty to its Lessor if payment is not made by the Working Interest Owner as aforesaid.

All royalty calculations and rights of the Royalty Owner regarding take in kind provisions under the terms of the Lease shall be in accordance with the Lease.

704. Taking Unitized Substances in Kind

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

705. Failure to Take in Kind

To the extent that a Working Interest Owner is entitled to take in kind any of the Unitized Substances, fails to take or otherwise dispose of them at the time and place of production, then so long as such failure continues, Unit Operator, as agent and for the account and at the expense of such Working Interest Owner may sell, store, inject or otherwise dispose of them. Where there is a sale the "net proceeds" remaining from the sale shall be paid to the Working Interest Owner. Unit Operator may contract for the sale thereof only for the minimum term obtainable which in no event shall exceed one (1) month. When Unit Operator has so contracted, the Working Interest Owner may take its share of the Unitized Substances in kind upon the expiration of the current sales contract. The "net proceeds" for the purpose of this Clause shall mean the proceeds from the sale of the non-taking Working Interest Owner's share of production, less all direct costs of the sale, including processing and shipping costs.

706. Royalty on Outside Substances

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

707. Several Royalty Liability

Without limiting the generality of the provisions of Clauses 702 and 1304, 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 707 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.

ARTICLE VIII: USE, LOSS AND RE-INJECTION OF UNITIZED SUBSTANCES

801. Use or Loss

The Working Interest Owners may use as much of the Unitized Substances, other than crude oil, as they deem necessary for Unit Operations. 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. The provision of this clause 801 shall not be construed as relieving the Unit Operator or any other Working Interest Owner from any liability which it would have for any loss of Unitized Substances resulting from its negligence or willful misconduct.

802. Re-Injection

The Working Interest Owners are hereby granted the right to re-inject Unitized Substances into the Unitized Zone for any purpose related to the Unit Operations. 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 for sale or for use other than for Unit Operations.

ARTICLE IX: ENLARGEMENT OF UNIT AREA

901. Enlargement

After the expiration of ninety (90) days following the Effective Date, if an owner of a Working Interest in lands adjoining the Unit Area makes application to enlarge the Unit Area to include such adjoining lands which appear 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 adjoining lands on such terms and conditions as the Working Interest Owners may consider appropriate, and, if such adjoining lands qualify for inclusion in the Unit Area under Clause 502, the Unit Area shall be enlarged to include such adjoining lands. Notwithstanding that any owner of a Working Interest or a Royalty Interest in such adjoining lands is already a Party, such owner shall not, for the purposes of the qualification of such adjoining lands under 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.

902. Adjustment of Tract Participation

The Tract Participation of each Tract added pursuant to Clause 901 shall be determined by the Working Interest Owners. The Tract Participation shall then be adjusted in order that:

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

903. Exhibits

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

904. Effective Time of Enlargement

An enlargement pursuant to Clause 901 and an adjustment of Tract Participation under this Article shall become effective at 8:00 a.m. on the first day of the first calendar month following approval of admission under Clause 901, Tract qualification under Clause 502 and the date this Agreement is registered by the Petroleum Branch.

905. No Retroactive Adjustment

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

906. No Enlargement Without Royalty Owner Consent

No enlargement of the Unit Area may be implemented without the written consent of all Royalty Owners.

ARTICLE X: DISPUTES

1001. Disputes

If the title or right of a Party to receive in kind all or any portion of the Unitized Substances allocated to a Tract, or any share of the proceeds from the sale thereof, is in dispute, the Party concerned shall forthwith give notice thereof to Unit Operator. If Unit Operator is so notified or if Unit Operator is directed to do so by the Working Interest Owners in the event that it is otherwise informed of the dispute, Unit Operator shall withhold and sell the portion of the Unitized Substances the title or right to which is in dispute, and hold in trust the proceeds from the sale thereof until:

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

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

In the performance of its obligations under this clause 1001 the Unit Operator shall endeavor 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 Unitized 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 1001, the provisions of clause 705 shall apply.

ARTICLE XI: APPROVAL OF TITLES

1101. Titles Committee

The Working Interest Owners shall appoint a Titles Committee which shall investigate the ownership of all Tracts. Each Working Interest Owner shall submit to the Titles Committee such title data and information as the Titles Committee may reasonably require from time to time. The Titles Committee shall report the result of its investigation to the Working Interest Owners specifying the titles to Tracts which it unanimously recommends for approval.

1102. Approval of Titles by Working Interest Owners

The Working Interest Owners may approve:

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

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

1103. Subsequent Failure of Title

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

- (a) any other Party is held or declared to own the title in which event that Party shall be bound by this Agreement in respect of the Tract; or
- (b) by the last day of the next following calendar month the Tract qualifies for inclusion in the Unit Area pursuant to Clause 502.

1104. Revision of Exhibits

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

ARTICLE XII: TRANSFER OF INTEREST

1201. Disposition

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

If a Party changes its name or undergoes any other change 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 8:00 a.m. on the first day of the calendar month next following the calendar month in which the notice is received by the Unit Operator.

ARTICLE XIII: IN GENERAL

1301. Execution in Counterpart

This Agreement may be executed in separate counterparts and all the executed counterparts together shall constitute one agreement. Upon all parties having executed counterparts, the Unit Operator shall provide a complete set of photocopied counterpart execution pages to each Party.

1302. Dual Capacity

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

1303. Subsequent Execution

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

1304. No Partnership

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

1305. Force Majeure

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

1306. Taxes

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

1307. Right of Redemption

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

1308. 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, firms, corporations, partnerships, bodies politic and other entities, all as the context may require.

1309. Time

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

1310. Compliance with Legislation

The provisions of The Oil and Gas Act and regulations of Manitoba thereunder, as amended from time to time, take precedence over this Agreement.

1311. 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 non-exclusive jurisdiction of the courts of the Province of Manitoba for the interpretation and enforcement hereof.

ARTICLE XIV: EFFECTIVE DATE

1401. Effective Date

The unitization provided for herein shall become effective at 8:00 a.m. on the first day of the first calendar month following:

- (a) the date of the qualification under Clause 502 of Tracts having a combined Tract Participation of one hundred percent (100%) as originally set out in Exhibit "A"; and
- (b) the date this Agreement is registered by the Petroleum Branch.

1402. Notice of Effective Date

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

1403. Release of Parties

This Agreement shall cease to bind the Parties if the unitization provided for herein has not become effective on or before the first day of December, 2019.

ARTICLE XV: TERM

1501. Effect of Execution and Delivery

Subject to Clause 1403 this Agreement is binding upon a person who executes and delivers a counterpart thereof to Unit Operator, and that person is bound by this Agreement as of the time of such delivery. This Agreement enures to the benefit of and is binding upon the heirs, executors, administrators, successors and assigns of the Parties.

1502. Termination

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

1503. Salvaging Equipment Upon Termination

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

1504. Notice to Royalty Owners

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

1505. Enurement

Subject to the provisions of clause 1201, and to the proviso to clause 1501, this Agreement shall enure to the benefit of, and be binding upon the respective heirs, executors, administrators, successors and assigns of the Parties.

1506. 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 such delivery shall be deemed received by the Party when actually delivered, if such delivery is during the Party's normal business hours on any Day other than a Saturday, Sunday or statutory holiday. If such notice or other communication is not delivered during the Party's normal business hours, such notice or other communication shall be deemed to have been received by the Party on the Day next following the date of delivery, other than a Saturday, Sunday or statutory holiday;
- (b) Except during any period of actual or impending postal disruption, if sent by first class mail, or by airmail from outside Canada or the United States, postage prepaid, to a Party at its address for service shall be deemed received by the Party on the fourth Day following the date of mailing (Saturdays, Sundays and statutory holidays excepted). However, if postal service is interrupted or operating with unusual or imminent delay, such notice or other communication shall not be sent by such means during such interruption or period of delay; and
- (c) to a Party which has provided a direct telecommunication number as part of its address for service, if sent by telecommunication to the Party's designated telecommunication number, such a transmission shall be deemed received by the Party when actually received, if such transmission is during the Party's normal business hours on any Day other than a Saturday, Sunday or statutory holiday. If such notice or other communication is not received during the Party's normal business hours, such notice or other communication shall be deemed to have been

EXHIBIT 'A': TRACT PARTICIPATION

East Manson Unit No. 9								
					Oil Production			
Tract Number	Legal Description	Royalty Owner	Working Interest	OOIP (mbbl)	Wellbores	Cum production per Well (mbbl)	Gross Remaining OOIP (mbbl)	Tract Factor
1	NW 15-13-28W1	Brand 33 Farms Ltd. 50% Myrna Mack 50%	TORC Oil & Gas Ltd. 100%	904	100/11-15-013-28W1/0	42,661	852	39.191030401%
					100/14-15-013-28W1/0	5,297		
					100/16-16-013-28W1/0	4,056		
					100/10-16-013-28W1/0	1,268		
2	NE 16-13-28W1	Tundra Oil & Gas Limited 100%	TORC Oil & Gas Ltd. 100%	1,393	102/10-16-013-28W1/0	1,64	1,322	60.808969599%
					100/15-16-013-28W1/0	2,026		
					100/16-16-013-28W1/0	66,121		
Total				2,297			2,174	100.0%

EXHIBIT 'B': UNIT OUTLINE

