

INTER - DEPARTMENTAL MEMORANDUM

FROM F. S. Gamey  
Reservoir Engineer



DATE December 1, 1970

TO The Oil and Natural Gas Conservation Board  
✓ W. Winston Mair - Chairman  
M. J. Gobert - Member

SUBJECT WHITewater UNIT No. 1

"PLAN" for Unit Operation

*fact*

The "Plan" for the Whitewater Unit operation is similar in wording to previous Unit plans approved by the Board except for Part XXI - page 58, which states as follows:

- 21.01 In the event that and for so long as there is only one Working Interest Owner in the Unit:
- (a) the following terms of this Plan shall not apply:  
Parts V, VI, Section 7.04 of Part VII, Parts VIII, X, XI, XII except Section 12.02, Parts XXVI and XXVII;
  - (b) all reference in this Plan to "Working Interest Owners", "Operating Committee" or "Unit Operator" shall refer to such single Working Interest Owner only and such single Working Interest Owner shall take the place of or perform the function of "Working Interest Owners", "Operating Committee" or "Unit Operator".

The parts of the Plan not applicable deal with the following:

- Part V - Organization of the Operating Committee
- VI - Powers and duties of the Operating Committee
- Section 7.04 of Part VII - Unit Operator's authority for expenditures
- Part VIII - Expenditures and Liabilities
- Part X - Delivery of wells and equipment  
Investment account
- Part XI - Surface rights
- Part XII - Indemnity

except Section 12.02 which provides for maintenance of leases

- Part XXVI - Participating Interests
- Part XXVII - Accounting Procedure

It is my understanding that Chevron Standard Limited is acquiring the wells operated by Copperhead Oil Company Limited, namely: Tracts 13-16 and 4-21, and as a result will be the only Working Interest Owner in the Unit. Part XXI will then apply.

No well name changes have been made and the wells on Tracts 13-16 and 4-21 are under the name of Copperhead.

cc: J. S. Richards

*J. S. Richards*



# CHEVRON STANDARD LIMITED

400 FIFTH AVENUE S.W., CALGARY 1, ALBERTA

November 23, 1970

The Oil and Natural Gas Conservation Board  
Department of Mines and Natural Resources  
Province of Manitoba  
Winnipeg 1, Manitoba

Attention: Mr. W. Winston Mair, Chairman

Gentlemen:

Chevron Standard Limited, under and pursuant to the Mines Act, being Chapter M160 of the Revised Statutes of Manitoba 1970, and amendments thereto, hereby requests the Board to hold a hearing to consider and approve the following:

1. Proposed "Plan for Unit Operation Governing the Unitized Management Operation and Further Development of Whitewater Unit No. 1," pursuant to Section 76 of the Mines Act.
2. "Application for Implementation of Enhanced Recovery, Proposed Whitewater Unit No. 1," pursuant to Section 62 of the Mines Act.
3. "Application for a Unit Maximum Permissible Rate of Production, Proposed Whitewater Unit No. 1," pursuant to Section 62 of the Mines Act.

Enclosed please find ten copies of each of the following:

1. "Plan for Unit Operation Governing the Unitized Management Operation and Further Development of Whitewater Unit No. 1."
2. "Application for Implementation of Enhanced Recovery - Proposed Whitewater Unit No. 1" which includes:
  - a) Appendix I - Investigation of the feasibility of water-flooding.
  - b) Appendix II - Details of operation to be conducted in proposed Unit area.

3. "Application for a Unit Maximum Permissible Rate of Production, Proposed Whitewater Unit No. 1."

In addition, we are enclosing the following information:

- 1) Engineering report entitled "Feasibility of Enhanced Recovery - Whitewater Field - August 1970."
- 2) A discussion of the Unitization and Participation Formula for the Proposed Whitewater Unit No. 1.
- 3) A prima facie list of Royalty Owners in the Proposed Unit area, which may assist the Board in sending out notices of hearing.

An early consideration of our request will be greatly appreciated.

Chevron Standard Limited, as sole Working Interest Owner, hereby consents and agrees to the Board approving this application and issuing any necessary orders.

Yours very truly,

*for* *Phineas P. Brown*  
J. G. TROWELL  
Division Superintendent  
Producing Department  
Calgary Division

BMc/bb  
Enclosure

APPLICATION FOR A UNIT MAXIMUM PERMISSIBLE RATE OF PRODUCTION  
PROPOSED WHITEWATER UNIT NO. 1

The applicant proposes that a degree of production flexibility, which is consistent with good engineering practice, be provided for Whitewater Unit No. 1.

It is possible that, with the implementation of the enhanced recovery scheme, some wells will be capable of producing oil at rates in excess of the current allowable producing rate.

Since the Whitewater wells have been produced at capacity for the life of the field with no evident reservoir damage, there is no reason to believe that unrestricted production at these wells when their capabilities increase would cause reservoir damage.

It is the applicant's contention that all Unit wells should be allowed to produce at unrestricted rates in order to fulfill the basic objective of the enhanced recovery scheme, which is to recover the greatest amount of oil economically. There is no reason to believe that reservoir damage within the Unit area would result by producing these wells at capacity, nor is there any reason to believe that non-Unit oil would be produced within the Unit, since the Unit well capacities would increase only as a direct result of the unitized waterflood and, therefore, the increased production would be made up of oil from within the Unit area only. There is also no reason to believe that reservoir damage outside the Unit area would result or that the production at any future offsetting non-Unit wells would be in any way

affected by the production of Unit boundary wells at unrestricted rates.

The applicant respectfully requests that, on and after the first day that Whitewater Unit No. 1 becomes effective, the Unit be excluded from any provisions governing the limitations of oil production.

DISCUSSION OF THE UNITIZATION AND PARTICIPATION FORMULAE  
PROPOSED WHITEWATER UNIT NO. 1

To facilitate the installation of an enhanced recovery scheme in the White-water field comprised of six capable wells on 40-acre spacing, it will be necessary to unitize, since the field has various royalty ownerships. The working interest in the entire area is held by Chevron Standard Limited.

During the course of unitizing several oil production units in Manitoba, the most equitable basis for participation was found to be the production history. Porosity, permeability and effective oil saturation are all factors which contribute to well performance. Where porosity, permeability and oil saturation are high, they should generally be reflected by a good producing rate and low water cut. These conditions will generally reflect a high effective reserve. Conversely, low producing rates and high water cut would be indicative of a lower effective reserve.

The first consideration in determining participation is to provide a fair basis for sharing the remaining primary reserves. There is a certain amount of month-to-month variation in production from the wells, so a six-month test period was used to arrive at a representative current production rate for each well. This has been expressed as a current production factor (C.P.) which represents the current worth of each well and can be thought of as the basis for allocation of the primary depletion oil that is recoverable under primary depletion operations.

A further consideration in determining participation is to provide a fair

basis for sharing the additional oil which will be recovered as a result of the enhanced recovery operations. Production history is a measure of the effective reserves for each well, with the wells having higher effective reserves displaying a better production history. Inasmuch as it is desirable to allocate the additional reserves in proportion to the effective reserves, it is reasonable to make the allocation on the basis of production history. The relative worth of a well, based on production history, must recognize, as measures of effective reserves, cumulative oil production, current water cut and the length of time the well has been on production. A factor which is readily calculable and recognizes these parameters is a cumulative average monthly producing rate to which has been applied a water production penalty. This factor is referred to as the penalized average monthly oil production factor (P.A.M.).

The current production period chosen was June 1, 1969 to November 30, 1969. Of the six capable wells remaining in the pool, three had current production. The water cut penalty applied to the monthly production factor was based on the average water cut for the current production period of the three producers and the average water cut for the six months prior to suspension of the three former producers. A detailed description of the method followed in arriving at the C.P. and P.A.M. factors is outlined in the "Plan for Unit Operations."

A further consideration then becomes the relative weighting to give to each factor in providing a participation formula. It is apparent that greater emphasis must be placed on reserves recoverable under primary operations as compared to additional reserves recoverable under enhanced recovery operations.

By applying the discounted present worth concept to recoverable reserves under primary and secondary operations, the ratio of the present value of additional crude recoverable under waterflood compared to the present value of primary recoverable crude was calculated to be approximately 7:3. A summary of tract factors based 70% on the P.A.M. factor and 30% on the C.P. factor is as follows:

<u>Tract</u>	<u>Tract Factor</u>
12-16	25.68730
13-16	31.89932
8-17	4.12793
9-17	1.00141
16-17	35.33119
4-21	1.95285

This in summary outlines the development of the participation formula which is being presented and the reasoning behind the recommendation that it is an equitable basis for unitization.



for all  
addendums  
leases

---

PLAN FOR UNIT OPERATION  
GOVERNING THE UNITIZED MANAGEMENT  
OPERATION AND FURTHER DEVELOPMENT OF  
WHITEWATER UNIT NO. 1

DEC 15 1970

## I N D E X

<u>PART NO.</u>		<u>PAGE NO.</u>
I.	INTERPRETATION	1
II.	UNIT OPERATION	5
III.	TRACT PARTICIPATION	8
IV.	ALLOCATION OF PRODUCTION	10
V.	ORGANIZATION OF THE OPERATING COMMITTEE	14
VI.	POWERS AND DUTIES OF THE OPERATING COMMITTEE	18
VII.	POWERS AND DUTIES OF UNIT OPERATOR AND CHANGE OF UNIT OPERATOR	21
VIII.	EXPENDITURES AND LIABILITIES	26
IX.	RESPONSIBILITY FOR PAYMENTS	33
X.	DELIVERY OF WELLS AND EQUIPMENT INVESTMENT ACCOUNT	33
XI.	SURFACE RIGHTS	39
XII.	INDEMNITY	42
XIII.	APPROVAL OF TITLES	44
XIV.	DISPUTES	45
XV.	FILING	46
XVI.	TRANSFER OF INTEREST	46
XVII.	INDIVIDUAL RIGHTS AND PRIVILEGES OF THE WORKING INTEREST OWNERS	49
XVIII.	INSURANCE	52
XIX.	GENERAL	54
XX.	TERM OF PLAN	56
XXI.	SINGLE WORKING INTEREST OWNER	58

<u>PART NO.</u>		<u>PAGE NO.</u>
XXII.	WELLS DELIVERED TO UNIT OPERATOR PURSUANT TO PART X	59
XXIII.	THE LANDS IN THE PROVINCE OF MANITOBA WHICH COMPRISE THE WHITEWATER UNIT NO. 1	60
XXIV.	MAP OF UNIT AREA	61
XXV.	TRACT PARTICIPATIONS	62
XXVI.	PARTICIPATING INTERESTS	63
XXVII.	ACCOUNTING PROCEDURE	64
XXVIII.	ELECTRICAL LOG CHEVRON WHITEWATER 16-17-3-21	75

PLAN FOR UNIT OPERATION  
GOVERNING THE UNITIZED MANAGEMENT  
OPERATION AND FURTHER DEVELOPMENT OF  
WHITEWATER UNIT NO. 1

PART I

INTERPRETATION

- |                                     |  |
|-------------------------------------|--|
| References to terms and expressions | 1.01 This Plan shall be construed with reference to "The Interpretation Act" and the terms and interpretation of "The Mines Act" and regulations thereunder. |
| Definitions                         | 1.02 In this Plan unless the context otherwise requires:   |
| "Accounting Procedure"              | (a) "Accounting Procedure" means the rules, provisions and conditions set forth in Part XXVII hereof;  |
| "Common Account"                    | (b) "Common Account" means the account set up and maintained by Unit Operator on behalf of the Working Interest Owners as provided in Part VIII hereof;      |
| "Conservation Board"                | (c) "Conservation Board" or "Board" means The Oil and Natural Gas Conservation Board;  |
| "Effective Date"                    | (d) "Effective Date" means the hour of seven o'clock in the forenoon, Central Standard Time, on the first day of _____, A.D. 197__;                          |
| "Gas"                               | (e) "Gas" means natural gas both before and after it has been subjected to any processing and includes all fluid hydrocarbons not defined as Oil;            |
| "Investment Account"                | (f) "Investment Account" means the account set up and maintained by Unit Operator on behalf of the Working Interest Owners as provided in Part X hereof;     |

- "Leases" (g) "Leases" means severally and collectively the petroleum and natural gas leases, petroleum leases, natural gas leases, subleases, agreements to grant a lease and any other agreements whether similar or dissimilar to the foregoing covering the lands described in Part XXIII hereof;
- "Oil" (h) "Oil" means crude oil and all other hydrocarbons regardless of gravity, that are or can be recovered in liquid form from a pool through a well by ordinary production methods;
- "Operating Committee" (i) "Operating Committee" means the committee created pursuant to Part V hereof;
- "Outside Substances" (j) "Outside Substances" means all substances obtained from any sources other than the Unitized Strata for injection into the Unitized Strata;
- "Participating Interest" (k) "Participating Interest" means with respect to each Working Interest Owner the sum of the products obtained by multiplying its respective working interest in each Tract by the respective Tract Participation of each such Tract;
- "Royalty Owner" (l) "Royalty Owner" means a person, other than a Working Interest Owner, who has any interest in a right to receive a portion of the Unitized Substances or a portion of the proceeds from the sale thereof, including a reversionary interest, a royalty interest reserved to the lessors named in any Lease, and any overriding royalty interest, or

- an interest in a payment under, or encumbrance on, a Lease that does not carry with it the right to search for or produce the Unitized Substances;
- "Salt Water Disposal Well" (m) "Salt Water Disposal Well" means those wells drilled for the purpose of, or converted to, salt water disposal;
- "Spacing Unit" (n) "Spacing Unit" means the area allocated by any governmental body having jurisdiction with respect thereto for each well drilled for the purpose of producing Oil and Gas from the Unitized Strata;
- "Stock Tank Barrel" (o) "a Stock Tank Barrel" means 34.9722 Canadian gallons at sixty (60<sup>o</sup>) degrees Fahrenheit;
- "Tract" (p) "Tract" means each parcel of land described as such and given a Tract number in Part XXIII hereof;
- "Tract Participation" (q) "Tract Participation" means the percentage set forth for each Tract in Part XXV hereof;
- "Unit Area" (r) "Unit Area" means and comprises the lands set forth and described in Part XXIII hereof and included within the boundaries of the solid black outline on the map shown in Part XXIV hereof, insofar as these lands relate to the Unitized Strata;
- "Unit Facilities" (s) "Unit Facilities" means all tangible property of every kind, nature and description (excepting Unitized Substances, Unit Operated Wells, rental equipment and Unit Operator's exclusively owned equipment) in the possession of Unit Operator hereunder acquired from a Working Interest Owner

pursuant to the provisions of Part X hereof,  
together with all facilities and equipment purchased, constructed or acquired by Unit Operator pursuant hereto;

"Unit Operated Wells" (t) "Unit Operated Wells" means all wells (including wells drilled for the production of Unitized Substances, wells drilled for the purpose of producing water only, wells drilled for the purpose of water disposal and wells drilled for the purpose of pressure maintenance operations or secondary recovery operations) in the possession of Unit Operator hereunder, whether acquired from a Working Interest Owner or drilled by Unit Operator pursuant to the terms hereof, but excluding Unit Facilities in and on the said wells;

"Unit Operator" (u) "Unit Operator" means the person appointed to manage and conduct the operations hereunder who shall be a Working Interest Owner unless the Operating Committee unanimously otherwise agrees;

"Unitized Strata" (v) "Unitized Strata" means the Upper Whitewater Lake and Lower Whitewater Lake members of the Lodgepole Formation of the Mississippian Age underlying the lands described in Part XXIII hereof, as same are shown on the Electrical Log of Chevron Whitewater 16-17-3-21 well in Legal Subdivision Sixteen (16) of Section Seventeen (17), Township Three (3), Range Twenty-One (21), West of the First (W.1st)



Meridian, in the Province of Manitoba between the interval 2,492 feet and 2,580 feet as measured from the Kelly Bushing;

"Unitized Substances"

(w) "Unitized Substances" means the Oil and Gas that are within or are produced from the Unitized Strata;

"Well"

(x) "Well" means any well within the Unit Area which has been drilled to the Upper Whitewater Lake or Lower Whitewater Lake members of the Lodgepole Formation of the Mississippian Age for the production of Oil and Gas which at some time since such drilling has produced a minimum of three (3) barrels of Oil per day for at least one month's duration;

"Working Interest Owner"

(y) "Working Interest Owner" means a person who has the right, in whole or in part, to search for and produce and to appropriate the Unitized Substances, either for himself or for others having an interest therein, or for both, whether such right is derived from ownership in fee simple or from a Lease.

## PART II

### UNIT OPERATION

Unit Name

2.01 The name of the Unit shall be "Whitewater Unit No. 1" (hereinafter sometimes called the "Unit").

Operation as a Unit

2.02 On and after the Effective Date, the respective interests of the Working Interest Owners and Royalty Owners, in and to the Unit Area, the Unitized Strata and the Unitized Substances, shall be unitized for the

purposes of carrying out in the Unit Area and the Unitized Strata any and all operations which may at any time and from time to time be deemed necessary or advisable by the Operating Committee for the purpose of preventing waste, obtaining ultimately the greatest possible recovery of the Unitized Substances and accomplishing the more efficient and more economical development and production of the Unitized Substances under prudent and proper operations and practices to the end that all operations for drilling and producing and all other operations in the Unitized Strata may be conducted without regard to the separate Leases or boundary lines of separate Tracts within the Unit Area and as though the Unitized Strata were covered by a single Lease subject to all the terms and conditions hereof.

Effect of Unit  
Operation

2.03 Without limiting its general effect, the unitization shall have the following specific effects:

Amendment of  
Leases

(a) On and after the Effective Date, the terms and provisions of the Leases are hereby amended to the extent necessary to make them conform to the terms and provisions hereof and, the Leases as amended, shall continue in full force and effect.

Continuation  
of Leases

(a) Any operations conducted with respect to the Unitized Strata, or production of Unitized Substances shall, except for the purposes of determining payments to Royalty Owners, be considered as operations upon or

production from each Tract and such operations or production shall operate to continue in force and effect each Lease as if such operations had been conducted and a Well had been drilled on and was producing from each Spacing Unit or portion thereof covered by each Lease.

Authority for  
Operations

2.04 The Working Interest Owners are hereby collectively authorized to develop and operate the Unitized Strata without regard to the separate Leases or the boundary lines of separate Tracts within the Unit Area, and to drill, use and produce such wells as the Operating Committee deems advantageous to operations on or production from the Unitized Strata, to abandon such wells as they deem unnecessary and in general to do all other things that the Operating Committee deems advisable for the purpose of accomplishing the most efficient and most economical development and operation of the Unitized Strata. Without limiting the generality of the foregoing, the Working Interest Owners are hereby authorized to inject Oil, Gas, water, or other substances, or any combination of them into the Unitized Strata and from time to time to convert and use as injection wells any Well now drilled or hereafter drilled into the Unitized Strata.

Royalty Owners  
Not Obligated to  
Pay Unitization  
Costs, etc.

2.05 Nothing contained in this Plan shall be construed as imposing upon any Royalty Owner any obligation to pay for any of the expenses of the unitization

herein provided for or for any of the costs and expenses incurred in operations hereunder unless such Royalty Owner is obligated to pay for the same by the terms of any Lease.

### PART III

#### TRACT PARTICIPATION

Tract  
Participation

3.01 The Tract Participation of each Tract is shown in Part XXV hereof.

Determination of  
Tract Participa-  
tion

3.02 The Tract Participation for each Tract is the sum of the following factors:

- (a) A current production factor. Such factor is that number expressed as a percentage arrived at by dividing the oil production of each Tract during the interval June 1, 1969 to November 30, 1969, both days inclusive, by the Oil production for all Tracts during the same interval, and multiplying by thirty one hundredths (30/100) and;
- (b) An average monthly Oil production factor penalized for water production. Such factor is arrived at by:
  - 1) determining average monthly Oil production of the Tract by dividing its cumulative Oil production through November 30, 1969 by the number of calendar months since the Well on such Tract first went on production, PROVIDED, THAT, the first calendar month shall not be counted as such unless the Oil production from the Well on

any such Tract for the first calendar month was greater than one-half (1/2) of the oil production from such Well for the next succeeding month;

- ii) calculating a fractional water cut for the Tract by dividing the water production for the interval set out in paragraph (a) hereof by the sum of its water and Oil production for the same interval, PROVIDED, THAT, with respect to those Tracts which did not produce during the interval referred to, the fractional water cut shall be calculated by dividing the water production for each such Tract during the consecutive six (6) month interval that ends with the last recorded production by the sum of such Tract's water and Oil production for the said interval;
- iii) multiplying the average monthly Oil production for the Tract obtained in sub-paragraph (i) hereof by the fraction one minus the water cut appropriate to the Tract as determined in sub-paragraph (ii) hereof;
- iv) dividing the product obtained in sub-paragraph (iii) hereof by the sum of all the products obtained in sub-paragraph (iii) hereof for all the Tracts and multiplying by seventy one hundredths (70/100).

Tract Participations Equal 100%

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

Part III  
Explanatory

3.04 This Part III is explanatory and the Tract Participations shown in Part XXV shall be deemed to be correctly made in accordance with this Part III.

PART IV

ALLOCATION OF PRODUCTION

Allocation  
to Tracts

4.01 All Unitized Substances produced and saved shall be apportioned among and allocated to the several Tracts in accordance with their respective Tract Participations. 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 the actual production of Unitized Substances from the Well or Wells, if any, on such Tract, shall for all intents, uses and purposes, be deemed to have been produced from such Tract.

Delivery of  
Unitized  
Substances  
in Kind

4.02 The Working Interest Owners entitled to the Unitized Substances allocated to each Tract shall have the right to take such Unitized Substances in kind. Such Working Interest Owners shall have the right to construct, maintain and operate within the Unit Area all necessary facilities for taking production in kind provided the same are so constructed, maintained and operated as not to interfere with unit operations. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be

borne by the Working Interest Owner receiving the same.

Distribution  
Within Tracts

4.03 The Unitized Substances allocated to each Tract shall be distributed by the Working Interest Owners of such Tract among, or accounted for, to the persons entitled to share in the production from such Tract in the manner provided for in the Lease covering such Tract. The Royalty Owners shall accept royalty calculated on the allocated production in full settlement, satisfaction and discharge of the obligation of any Working Interest Owner to make royalty payments on Unitized Substances under their respective Leases.

Failure to  
Take in Kind

4.04 To the extent that any Working Interest Owner entitled to take and receive in kind any portion of the Unitized Substances shall fail to take or otherwise adequately dispose of the same currently as and when produced, then so long as such conditions continue, Unit Operator, as agent and for the account and at the expense of such Working Interest Owner may, and upon the instructions of the Operating Committee shall, in order to avoid curtailing the operation of the Unitized Strata, dispose of such production and the account of such Working Interest Owner shall be credited therewith as having received the same. The proceeds of the sale of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner entitled thereto. The authority of the Unit

Operator to enter into contracts for the sale of such production shall be limited to contracts that are limited in time to the minimum needs of the industry and in any event not exceeding one (1) year. Any Working Interest Owner not taking in kind may revoke at will Unit Operator's authority hereunder by notice in writing to Unit Operator and by taking in kind all of its share of production not previously contracted for sale.

Over-production 4.05

- (a) A proper and timely gauge shall be made of all tanks delivered to 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 allowable as set by the Conservation Board, the amount of such over-production of Oil then in such tanks which has been produced from the Upper Whitewater Lake member and the Lower Whitewater Lake member of the Lodgepole Formation of the Mississippian Age 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 Working Interest Owner owning the same prior to the Effective Date, and upon request shall be delivered in kind to such Working Interest Owner, or, in the absence of such request, shall be sold by Unit Operator for the credit of and



on behalf of such Working Interest Owner at not less than the prevailing wellhead price, and the proceeds thereof shall be paid by the purchaser directly to such Working Interest Owner.

- (b) If any production in excess of the cumulative production allowable of any Tract as of the Effective Date was sold prior to the Effective Date, the Unit Operator during the month or months next following the Effective Date shall withhold from the Unitized Substances which, except for the provisions of this subparagraph, would have been allocated to a Tract or Tracts from which the Oil sold was produced in excess of the cumulative production allowable, an amount equal to such excess production on the Effective Date, and the amount or amounts so withheld shall be reallocated to all of the Tracts in proportion to their respective Tract Participations. Such withholding and reallocation shall be continued until the full amount of any such excess production in respect to any Tract or Tracts has been withheld and reallocated.

- (c) No allowance shall be made to any interested person for any under-production of Oil from its Wells prior to the Effective Date.

Royalty on Outside Substances

- 4.06 If any Outside Substance is injected into the Unitized Strata, any like substance contained in Unitized Substances subsequently produced and sold or

used for other than operations hereunder, shall be deemed to be an Outside Substance until the volume of such Outside Substance injected into the Unitized Strata is recovered. No payments shall be due or payable to Royalty Owners on any substance which is deemed to be an Outside Substance.

Use of Unitized Substances	4.07 The Working Interest Owners may use as much of the Unitized Substances (excluding Oil) as they deem necessary for the operation and development of the Unitized Strata, including, but not limited to, their injection into the Unitized Strata and in the operation of any plant or plants handling Unitized Substances. No royalty or other payment shall be payable in respect thereto or in respect to Unitized Substances unavoidably lost. Such Unitized Substances so used, injected or lost shall be excluded in allocating production.
----------------------------	--

#### PART V

##### ORGANIZATION OF THE OPERATING COMMITTEE

Operating Committee	5.01 There is hereby created an Operating Committee which shall be composed of one representative of each Working Interest Owner designated as hereinafter provided.
Representatives on the Operating Committee	5.02 Each Working Interest Owner shall, at least ten (10) days prior to the Effective Date, designate by notice in writing to the Chairman of the Conservation Board

the name and address of its representative on the Operating Committee and shall further designate an alternate representative, or alternate representatives on the Operating Committee who, in the absence of the designated representative, shall have the rights and powers of such representative. In the event any Working Interest Owner fails to designate a representative on the Operating Committee as aforesaid the Chairman of the Conservation Board shall designate the Working Interest Owner himself as such representative or in the case of a Working Interest Owner that is not a natural person shall designate any member or officer of such Working Interest Owner as such representative.

Organization  
Meeting of the  
Operating  
Committee

5.03

- (a) The Chairman of the Conservation Board shall, at least five (5) days prior to the Effective Date, select the representative of a Working Interest Owner to act as chairman pro tem of the organization meeting of the Operating Committee and shall forthwith forward the name and address of each Working Interest Owner's representative, or alternate representative, or alternate representatives, to the person so selected.
- (b) The chairman pro tem of the Operating Committee shall call and hold an organization meeting of the Operating Committee prior to the Effective Date.
- (c) The Operating Committee, at such organization meeting shall appoint the Unit Operator, and the chairman pro

tem of such organization meeting shall promptly notify the Chairman of the Conservation Board of such appointment and thereafter the representative of Unit Operator shall act as Chairman of each meeting of the Operating Committee without in any manner restricting or limiting his rights to represent Unit Operator as a Working Interest Owner.

Change of  
Representative

5.04 Each Working Interest Owner may change its designated representative, or designated alternate representative or alternate representatives, by notice in writing to the Chairman of the Operating Committee and the Chairman of the Conservation Board. Nothing herein shall preclude two (2) or more Working Interest Owners from designating one (1) member on the Operating Committee to represent them and to vote and act for them thereon and such member shall, if so required by his principals cast his vote for each principal separately.

Voting Interest

5.05 Each member of the Operating Committee, in voting on all matters coming before the Operating Committee, shall have a voting interest equal to the Participating Interest of the Working Interest Owner represented.

Meetings

5.06 The Operating Committee shall meet on the call of Unit Operator, or at the request of a representative of any Working Interest Owner. Unit Operator shall notify all members of the Operating Committee in writing at least ten (10) days in advance of any

meeting of the time and place of the proposed meeting, and of the specific matters affecting unit operations which will be presented, discussed and voted upon at such meeting, and no other matters shall be voted upon at such meeting unless each Working Interest Owner is represented thereat and agrees that such further matters may be voted upon.

Voting by  
Telegram, etc.

5.07 Any member of the Operating Committee not represented at any particular meeting may vote, by letter or telegram addressed to and received by the Unit Operator prior to the hour fixed for the meeting, on any question presented thereat of which it has been notified. Members so voting shall be considered present as regards such matters on which they so vote, but not for other purposes.

Polls

5.08 Any question within the province of the Operating Committee to decide may be determined in the absence of a formal meeting by a poll of all of the individual representatives. If such poll is taken it shall be conducted by the Unit Operator, either by letter or telegram, and he shall keep a written record of the results and report the results thereof to the Working Interest Owners within a reasonable time, either by notice in writing to each of them, or by report to them at the next meeting. The voting interests necessary to act upon and determine matters or questions submitted by letter or telegram shall be the

same as otherwise herein provided for. Such vote shall be made within not less than fifteen (15) days of the giving of such notice; PROVIDED, THAT, any failure to vote within the stipulated time, shall be considered as an affirmative vote.

Minutes of  
Proceedings

- 5.09 Unit Operator shall keep minutes of the proceedings of each meeting of the Operating Committee and a copy thereof shall be forwarded to each member thereof. Such minutes need not be a verbatim record of all the proceedings, but shall show the names of the representatives present at the meeting, all motions and resolutions offered or acted upon, together with the results of such action and such other formal action as may be taken by the Operating Committee, and shall include a record of all matters voted on by letter or telegram ballot since the date of the last meeting.

PART VI

POWERS AND DUTIES OF  
THE OPERATING COMMITTEE

Voting

- 6.01 The Working Interest Owners acting through the Operating Committee and Unit Operator shall carry out the purposes of this Plan and shall determine and decide all matters by concurring vote of members of the Operating Committee representing at least two (2) Working Interest Owners owning at least seventy-five (75%) percent of the Participating Interests and such vote shall be binding on

all Working Interest Owners; PROVIDED, HOWEVER, that any abstention or other failure to vote shall be considered as an affirmative vote.

Quorum

6.02 At any meeting of the Operating Committee a quorum shall consist of the representatives personally present of not less than two (2) of the Working Interest Owners having, in the aggregate, seventy-five (75%) percent or more of the total Participating Interests.

Rights Granted  
the Operating  
Committee

- 6.03 All rights, powers, privileges and duties hereunder not specifically delegated to Unit Operator or reserved to the individual Working Interest Owners are hereby granted collectively to the Operating Committee. Without limiting the generality of the foregoing, the following rights and powers are granted to the Operating Committee:
- (a) To instruct Unit Operator concerning all unit operations for the production of Unitized Substances;
  - (b) To approve or disapprove the drilling of additional wells to the Unitized Strata either for the production of water, Unitized Substances or for injection purposes;
  - (c) Subject to the rights of Unit Operator pursuant to Section 7.04 hereof, to approve or disapprove in whole or in part each and every estimate and item of expenditures submitted by Unit Operator, except those that were included in a previous approved budget;
  - (d) To appoint an Audit Committee to represent all Working

- Interest Owners to arrange proper annual audits of the accounts of Unit Operator with respect to the operation and development of the Unit Area, approve or disapprove the same and make available to the Working Interest Owners the results of such audit;
- (e) To fill any vacancy occurring in the position of Unit Operator; PROVIDED, THAT, no Unit Operator shall vote to succeed itself in the position of Unit Operator;
  - (f) To represent, or determine who shall represent, the Working Interest Owners before any governmental body having jurisdiction with respect to matters pertaining to unit operations; PROVIDED, HOWEVER, that this shall never be construed as authorization to speak on behalf of any Working Interest Owner dissenting from the views to be expressed or to prevent any Working Interest Owner from presenting its own view on such matters;
  - (g) To appoint and grant powers to such committees as they may deem proper and requisite;
  - (h) To approve an annual budget as in Section 8.04 hereof provided;
  - (i) To approve the method of disposal of surplus Major Material;
  - (j) To amend Part XXVII hereof from time to time whether in whole or in part; PROVIDED, THAT, no amendment increasing the charges to be made by Unit Operator under Section 27.07 (k) hereof shall become effective



until the approval of the Conservation Board to such increase in charges has been obtained.

#### PART VII

##### POWERS AND DUTIES OF UNIT OPERATOR AND CHANGE OF UNIT OPERATOR

#### Powers and Duties

- 7.01 Unit Operator shall, subject to the provisions hereof and orders given or imposed by the Operating Committee as herein provided;
- (a) Have exclusive charge, management and control of the development, operation and production of the Unitized Strata, and shall have the right and duty to conduct all operations in connection therewith including, but not limited to the following: the drilling, operating, maintaining, repairing, suspension and abandonment of all Unit Operated Wells whether for production, injection or water supply, including wells drilled after the date hereof and wells taken over under the provisions hereof; and the installation, construction and operation of Unit Facilities of whatsoever character necessary or convenient for the conduct of operations hereunder;
- (b) Conduct operations in a good and workmanlike manner and in the absence of specific instructions from the Operating Committee shall have the right and duty to act in accordance with what a prudent operator would do under the same or similar circumstances;
- (c) Keep true and correct books, accounts and records of

its operations hereunder, and shall furnish to each Working Interest Owner, on or before the fifteenth (15th) day of each month, a statement of the amount of production from the Unitized Strata, sales and inventory during the preceding calendar month;

- (d) Keep the lands and leases used in connection with unit operations free from liens and encumbrances occasioned by its operations, excepting the lien of Unit Operator granted hereunder and excepting liens in connection with which there is a bona fide dispute;
- (e) Freely consult with the Operating Committee and keep it advised of all matters arising in connection with unit operations, which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall furnish to the members of the Operating Committee such reports in connection with unit operations as the Operating Committee may direct.

Hiring of  
Employees

- 7.02 Unit Operator shall fix the number of, hire and dismiss and pay and supervise all employees required for the operations hereunder and shall determine the hours of labour and compensation to be paid to such employees. Such employees shall be the employees solely of Unit Operator.

Letting of  
Contracts

- 7.03 Unit Operator shall let all contracts for the drilling, reworking, deepening, plugging back of, or other operations in connection with any Unit Operated Well on a competitive basis at the usual rates and terms

prevailing in the area; PROVIDED, HOWEVER, that Unit Operator shall have the right to use its own equipment in carrying out such drilling, reworking, deepening, plugging back of, or other operations in connection with any Unit Operated Well.

Unit  
Operator's  
Authority for  
Expenditures

7.04 In addition to any expenditures which Unit Operator is specifically authorized to make, Unit Operator is authorized to make an expenditure not in excess of Five Thousand (\$5,000.00) Dollars in respect of any single undertaking without the approval of the Operating Committee. Unit Operator may, without approval of the Operating Committee, take such action and make such expenditures for the Common Account as it may deem necessary in order to protect life or property. Within ten (10) days after taking any such action or making such expenditures, Unit Operator shall advise the Operating Committee of such action and expenditures.

Unit Operator  
to Have Rights  
of Working  
Interest Owner

7.05 Unit Operator shall continue to have all the rights, duties and liabilities of a Working Interest Owner in addition to its rights, duties and liabilities as Unit Operator as long as it continues to own a working interest in the Unit Area.

Change of  
Operator

7.06 Unit Operator:  
(a) Shall forthwith cease to act as Unit Operator in the event it should become bankrupt or insolvent, or make any general assignment for the benefit of creditors;

- (b) May be removed as Unit Operator by an affirmative vote of members of the Operating Committee representing Working Interest Owners, other than Unit Operator, who own at least eighty-five (85%) percent of the remaining Participating Interests;
- (c) May resign at any time upon one hundred and eighty (180) days' written notice to the Operating Committee and to the Board.

Release from  
Duties

7.07 In the event of a removal or resignation of Unit Operator pursuant to paragraphs (b) or (c) of Section 7.06, Unit Operator shall be released from its duties and obligations hereunder at the hour of seven o'clock in the forenoon, Central Standard Time on the first day of the calendar month following the expiration of one hundred and eighty (180) days from the date of delivery of notice of such removal or resignation, or such earlier date as a successor Unit Operator shall have been designated by the Operating Committee, and shall have assumed the duties of Unit Operator.

Surrender of  
Operating  
Rights

7.08 At the effective time of the release from its duties of any Unit Operator, or upon the selection of a successor Unit Operator, the preceding Unit Operator shall surrender possession of, and deliver to, the successor Unit Operator the exclusive charge, management and control of the development, operation and production of the Unitized Strata and all Unit

Operated Wells, Unit Facilities, common funds in the possession of Unit Operator and all production, if any, which has not theretofore been delivered in kind, or sold, copies of all pertinent books of account and records of the unit operations and all documents, agreements and other papers relating thereto. Upon the transfer and delivery thereof, the preceding Unit Operator shall be released and discharged from and the successor Unit Operator shall assume all duties and obligations of Unit Operator hereunder except the unsatisfied duties and obligations of the preceding Unit Operator accrued prior to the effective time of the change of Unit Operator and for which the preceding Unit Operator shall, notwithstanding its release or discharge, continue to remain liable.

Selection of  
Successor Unit  
Operator

7.09 Forthwith upon the removal or resignation of Unit Operator, or at any time when there is no Unit Operator, the Operating Committee shall select a successor Unit Operator to take office contemporaneously with the effective time of the release from its duties of Unit Operator.

Audit

7.10 The Operating Committee shall cause an audit of the accounts of the preceding Unit Operator with respect to the operation and development of the Unit Area to be made forthwith to the effective time of the appointment of a successor Unit Operator.

PART VIII

EXPENDITURES AND LIABILITIES

- Common Account      8.01 Unit Operator shall set up a Common Account on behalf of the Working Interest Owners for all costs and expenses incurred by it and all monies received by it in connection with the development and operation of the Unit and all of the said costs and expenses shall be charged, and all of the said monies shall be credited to the Working Interest Owners in accordance with the provisions hereof.
- Charges to  
Common Account      8.02 Subject to the other provisions hereof, all costs, expenses and liabilities, whether contractual or tortious, incurred by Unit Operator on account of the operations hereunder shall be for the Common Account and shall be borne by the Working Interest Owners in proportion to their respective Participating Interests.
- For the purposes of this Plan capital expenditures shall be as determined by the Operating Committee.
- Unit Operator  
to Make Initial  
Payment      8.03 Unit Operator shall initially pay and discharge all costs and expenses incurred in the operations hereunder. Unit Operator shall bill each Working Interest Owner for its share of all costs and expenses and

each Working Interest Owner shall reimburse Unit Operator for its share of such costs and expenses in accordance with the provisions of Part XXVII hereof. Each Working Interest shall pay all such bills within thirty (30) days after receipt thereof, and should any Working Interest Owner fail to pay its proportionate share of such costs and expenses within the said thirty (30) day period, the unpaid amount shall, at Unit Operator's discretion, bear interest at a rate equivalent to the prime lending rate of interest then quoted by the chartered bank used by Unit Operator in Manitoba plus one percent (1%) per annum, such interest to be calculated from the end of the said period until paid, and shall be for Unit Operator's sole account, and Unit Operator shall have the right at its option at any time thereafter, such default continuing, to enforce the lien hereinafter provided for upon the respective interests of such Working Interest Owner.

Annual Budget,  
etc.

8.04 As soon as practicable after the Effective Date hereof, Unit Operator shall prepare a budget of estimated costs and expenses for the period from the Effective Date to the 31st day of December, A.D. 1971 and on or before the first day of each November after the Effective Date shall prepare a budget of estimated costs and expenses for the ensuing calendar year. Such budget shall set forth the estimated costs and

expenses by quarterly periods. Budgets so prepared shall be subject to adjustment and correction by the Working Interest Owners from time to time whenever it shall appear that an adjustment or correction is proper; PROVIDED, HOWEVER, that if Unit Operator's total expenditures for the year are within ten (10%) percent of those costs and expenses approved in any budget, such expenditures shall be considered as having been approved. A copy of each such budget and adjusted budget shall be promptly furnished each Working Interest Owner.

Approval of the budget by the Working Interest Owners shall constitute authorization to the Unit Operator to make the expenditures therein detailed.

Advances to  
Unit Operator  
- Capital Fund

8.05 Unit Operator, in lieu of advancing monies for the capital expenditures of unit operations may, at its election, require the Working Interest Owners to advance their respective proportionate share of such capital expenditures by submitting to each Working Interest Owner on or before the last day of each calendar month an estimate of such capital expenditures for the succeeding calendar month based on an approved budget of estimated costs and expenses or authority for expenditure together with a request for payment of such proportionate share. Within fifteen (15) days from the receipt of such request each Working Interest Owner shall pay its proportionate share to Unit Operator. If any Working Interest Owner defaults in respect



to such request for payment the same shall, at Unit Operator's discretion, bear interest at a rate equivalent to the prime lending rate of interest then quoted by the chartered bank used by Unit Operator in Manitoba plus one percent (1%) per annum, such interest to be calculated from the end of the said fifteen (15) day' period until paid, which interest shall be for the Unit Operator's sole account. The accounts between the Working Interest Owners shall be adjusted to actual costs by Unit Operator in the month's statement following the month covered by the estimate.

Advances to  
Unit Operator  
- Operating Fund

8.06 Unit Operator, in lieu of advancing monies for the costs and expenses incurred in the maintenance and operation of the Unit Area may, at its election, require the Working Interest Owners to advance their respective proportionate share of such costs and expenses by submitting to each Working Interest Owner on or before the last day of any calendar month a request for an operating fund equal to one-twelfth (1/12th) of the expenses as approved in the annual budget of estimated expenditures for the unit operation. Within thirty (30) days from the receipt of such request, each Working Interest Owner shall pay its proportionate share to Unit Operator. If any Working Interest Owner defaults in respect of such request for an operating fund, the same shall, at Unit Operator's discretion, bear interest at a rate

equivalent to the prime lending rate of interest then quoted by the chartered bank used by Unit Operator in Manitoba plus one percent (1%) per annum, such interest to be calculated from the end of the said thirty (30) day' period until paid, which interest shall be for the Unit Operator's sole account. After the establishment of this operating fund, which will be separate from that required in Section 8.05 hereof, and which shall at no time exceed one (1) month's estimated expenditures, each Working Interest Owner shall remit to the Unit Operator its proportionate share of each month's actual billing within thirty (30) days of receipt, thus maintaining the operating fund intact. The adequacy of the fund in relation to current expenses will be reviewed annually or more often upon request by a Working Interest Owner and adjustments made as required.

Unit Operator's  
Lien

8.07 Unit Operator shall, subject to sub-section (4) (k) (i) (A) and (B) of Section 76 of "The Mines Act", have a lien upon the interest of each Working Interest Owner in any unsold Unitized Substances, upon the proceeds of the sale of any Unitized Substances, and upon the interest of each Working Interest Owner in the Unit Facilities and upon the title of each Working Interest Owner to and in the Unit Area and the Unitized Strata. Such lien shall have priority over any lien by any Working Interest Owner.

In the event of the failure of any Working Interest Owner to pay its share of the costs and expenses incurred hereunder when due, as provided herein, Unit Operator shall be entitled at any time, and from time to time, to collect and receive the proceeds of the sale of all or any part of such Working Interest Owner's share of the Unitized Substances, including the proceeds from previously executed sale contracts made by or for such defaulting Working Interest Owner. Unit Operator shall apply all such sums so collected against the defaulting Working Interest Owner's unpaid bills, the excess of such proceeds over the unpaid bills, if any, to be paid to the Working Interest Owner entitled thereto and all sums so applied shall be considered as received from such defaulting Working Interest Owner within the meaning of the provisions contained in Section 8.08 hereof relating to contributions by the other Working Interest Owners to Unit Operator in the case of default in payment when due. Unit Operator may likewise take any other credit due any such defaulting Working Interest Owner pursuant hereto and apply the same against amounts due from such Working Interest Owner. The rights granted to Unit Operator in this Section shall not be construed as exclusive remedies but shall be in addition to all rights, privileges and remedies afforded Unit Operator by other provisions hereof and by law. Service of a true copy of this Plan shall constitute written authorization on the

part of such defaulting Working Interest Owner for such purchaser to pay the proceeds from such sale to Unit Operator during such default, but such purchaser shall not be considered as having been notified of such authorization prior to the time of such service. Books and records kept by Unit Operator with respect to operations hereunder shall constitute conclusive proof of the existence of non-existence of any such default insofar as the right of Unit Operator to collect proceeds from the sale of all or any part of the defaulting Working Interest Owner's share of the Unitized Substances is concerned, subject, however, to all rights of inspection, verification and audit provided herein.

Contributions  
to Unit Operator  
Upon Failure to  
Collect Certain  
Debts

8.08 If Unit Operator shall not have received full reimbursement for any indebtedness that may become due and payable by any Working Interest Owner to Unit Operator after reasonable efforts by Unit Operator to obtain such reimbursement, each of the Working Interest Owner upon the request of Unit Operator, shall, unless contrary to any then existing law, contribute to the reimbursement of Unit Operator the portion of any such unsatisfied amount equal to the portion that such Working Interest Owner's Participating Interest bears to the total Participating Interests of all of the Working Interest Owners exclusive of the Participating Interests of the defaulting Working Interest Owner; and thereupon, each Working Interest Owner so contributing shall be proportionately subrogated to Unit Operator's right

and lien under Section 8.07 hereof.

Pre-unit  
Expense

8.09 Each Working Interest Owner shall pay a part of the reasonable cost, as approved by the Operating Committee, of unitizing the Unit Area in proportion to its Participating Interest hereunder.

Commingling  
of Funds

8.10 No funds received by Unit Operator hereunder need be segregated by Unit Operator or maintained by it as a joint fund but may be commingled with its own funds.

#### PART IX

##### RESPONSIBILITY FOR PAYMENTS

Responsibility  
for Payments

9.01 Each Working Interest Owner shall pay or be responsible for the payment of and shall indemnify all other Working Interest Owners, including Unit Operator, against any liability for any Lease rentals, taxes, (excepting any taxes assessed on Unit Facilities which shall be paid by Unit Operator and charged to the Common Account), royalties, overriding royalties, oil payments, net profit contracts and all payments out of, or burdens on, the Lease or Leases and Tracts contributed by it and received into the Unit Area.

#### PART X

##### DELIVERY OF WELLS AND EQUIPMENT INVESTMENT ACCOUNT

Delivery of  
Wells - Salt  
Water Disposal  
Wells

10.01 Each Working Interest Owner shall, as of the Effective Date, contribute to the Working Interest Owners, acting through Unit Operator, the exclusive use for all purposes of all of its Salt Water Disposal Wells shown listed in Part XXII hereof which in the opinion of the

Operating Committee, are in bona fide use as of the Effective Date and all wells, both active and inactive that it has in the Unit Area, together with all information, or true copies thereof, that it has obtained in connection with the drilling, testing, completing and operating of said contributed wells, such as drilling logs, electrical logs, records of coring, testing and special work of every nature, laboratory analyses, records of the amount of production obtained and all other information pertinent to the said wells and Leases of the Working Interest Owners. Each Working Interest Owner shall also contribute to the Working Interest Owners, acting through Unit Operator, without compensation, the non-exclusive use of roads, dikes, ditches, fire walls, pits, and fences it holds in connection with its operations in the Unit Area.

Warranty

10.02 Unit Operator shall, within sixty (60) days of the delivery of any well, or wellsite and operating equipment, carry out such tests as may be necessary to determine its mechanical condition as of the Effective Date and, in the event any such well or wellsite and operating equipment is in sound mechanical condition it shall be accepted by Unit Operator and thereupon become a Unit Operated Well, or Unit Facility. In the event that any such well or wellsite and operating equipment is not in sound mechanical condition as determined by the Operating Committee, the Working

Interest Owner who contributed such well or wellsite and operating equipment shall, within thirty (30) days after being requested to do so by Unit Operator as instructed by the Operating Committee, install the equipment necessary to place such well or wellsite and operating equipment in sound mechanical condition or pay to Unit Operator, for the credit of the Common Account, in cash, the cost of purchasing and/or installing such equipment.

Within sixty (60) days of the delivery of any roads, dikes, ditches, fire walls, pits, and fences Unit Operator shall determine which of them, if any, require additional expenses in order to permit efficient operation or to comply with government regulations or to honour surface leases. Unit Operator shall prepare an estimate of expenditure and after approval of the Operating Committee, the Working Interest Owner who contributed the properties at fault shall perform the work at its own cost and expense, or if such Working Interest Owner elects not to perform the work it shall be done by Unit Operator and charged to the Working Interest Owner at fault.

Controllable  
Material

10.03 As of the Effective Date all wellsite and operating equipment and salt water disposal facilities in, on and serving the Unit Area used in the normal operation of the Unit Operated Wells as required by the Operating Committee shall be delivered to and taken over separate

and apart from the unitization of the working interests and production affected herein and shall become Unit Facilities.

Wellsite and operating equipment shall include by way of example, "Controllable Material" as herein-after defined, but shall not include warehouses, warehouse stocks, lease houses, camps and office buildings, automobiles and other service equipment which shall remain the separate property of the several owners thereof.

For the purposes of this Part X "Controllable Material" shall be all material from time to time classified as such by the Operating Committee, but shall exclude surface and production casing, casing bowl and casing hanger and flow lines.

Appointment of Inventory Committee	10.04 The Operating Committee shall appoint an Inventory Committee for the purpose of making an inventory of the Controllable Material taken over by Unit Operator. Each Working Interest Owner, upon request by the Inventory Committee, shall submit to the Inventory Committee, promptly a complete inventory in writing of all said Working Interest Owner's Controllable Material so delivered to Unit Operator and a description of the condition of each item at the time of such delivery. In the event a Working Interest Owner has failed to supply such inventory as aforesaid, the Inventory Committee shall proceed
--	--



to inventory such Working Interest Owner's Controllable Material and shall supply such Working Interest Owner with a copy thereof which shall be binding upon such Working Interest Owner unless it protests or questions such inventory within fifteen (15) days of the receipt thereof. Said Inventory Committee shall take promptly an inventory of all said Controllable Material and check the same against the aforesaid inventories furnished by the Working Interest Owners. Such inventories shall then be priced at current new price, as defined in Part XXVII, by the Inventory Committee and submitted to the Operating Committee, who will determine the percentage of current new price which should be attributable to such Controllable Material. Copies of these priced inventories will then be furnished to all Working Interest Owners for their approval.

Working  
Interest  
Owner's Initial  
Share in Unit  
Facilities

10.05 Upon approval of the priced inventories report by the Operating Committee, each Working Interest Owner shall have, subject to Section 10.07 hereof, an initial share in the Unit Facilities which is equal to the proportion (expressed as a percentage) that the value of the Controllable Material delivered by it to Unit Operator is to the total value of all Controllable Material delivered by all of the Working Interest Owners to Unit Operator.

Investment  
Account

10.06 Unit Operator shall set up an Investment Account for Unit Facilities which shall be calculated at

the end of each calendar year and shall be;

- (a) The total value of all Controllable Material delivered by all of the Working Interest Owners to Unit Operator pursuant to this Part X; plus
- (b) The total value of all Controllable Material subsequently acquired for the Unit, the cost of which shall be borne by the Working Interest Owners in accordance with their respective Participating Interests; less
- (c) The total value of all Controllable Material subsequently sold, junked or otherwise disposed of.

For the purposes of calculating the Investment Account, Controllable Material which has been sold, junked or otherwise disposed of shall be given the same value as it was given when it was originally delivered to or acquired by Unit Operator. At the end of any calendar year the Investment Account shall be the net of paragraphs (a) plus (b) less (c) of this Section 10.06.

Working  
Interest  
Owner's Share  
in Investment  
Account

10.07 Each Working Interest Owner shall have a net credit in the Investment Account which shall be the value of all Controllable Material delivered by it to Unit Operator, plus its share of the value of all Controllable Material subsequently acquired for the Unit, less its share of the value of Controllable Material sold, junked or otherwise disposed of from the Unit. The relationship, expressed as a percentage, between each Working Interest Owner's net credit and the sum

of the net credits of all Working Interest Owners shall be its percentage share of the Investment Account. Such percentage shall be carried to five decimal places and rounded to the nearest four decimal places and shall be calculated at the end of each calendar year.

Proceeds from Disposal of Unit Facilities      10.08 Notwithstanding the provisions of Part VIII hereof the proceeds from disposal of Unit Facilities whether Controllable Material or otherwise up to the end of the first calendar year shall be credited to each Working Interest Owner in accordance with its respective initial percentage share established under Section 10.05 and, thereafter, such proceeds shall be credited to each of them in accordance with their respective percentage share calculated in accordance with Section 10.07.

## PART XI

### SURFACE RIGHTS

List of Easements, etc.      11.01 As soon as reasonably possible after the Effective Date, each Working Interest Owner shall submit to Unit Operator a list of all easements, rights-of-way, surface leases, rights-of-entry and other surface rights which it holds and which are required in connection with unit operations together with particulars thereof, including rentals payable, if any.

Unit Operator to Advise Surface Rights Required      11.02 Unit Operator shall, as soon as reasonably possible

after the receipt of the aforesaid lists, advise each Working Interest Owner in writing which, if any, of its said surface rights will be required for the operations hereunder. Each Working Interest Owner shall, upon request in writing by the Unit Operator, assign such rights to Unit Operator. Any such assignment shall, unless contrary to any then existing law, contain a provision permitting the assignor of the same the use thereof for exploration and production operations for strata other than the Unitized Strata without interfering with unit operations.

Surrender of  
Surface Rights

11.03 Unit Operator may also from time to time surrender said surface rights, or any of them, that are no longer required for the operations hereunder, provided that Unit Operator shall have cleaned up the surface to the satisfaction of any governmental body having jurisdiction with respect thereto and; PROVIDED, FURTHER, that Unit Operator shall give the Working Interest Owner who assigned the same sixty (60) days' notice of surrendering such surface rights and such Working Interest Owner may elect to receive from Unit Operator an assignment of such surface rights. Any surface rights not required for the operations hereunder may be held or disposed of by the Working Interest Owner holding the same in such manner as it may deem fit.

Surface  
Charges to  
Common Account

11.04 After the Effective Date hereof all costs of surface rights required for the operations hereunder and all liabilities accruing in connection therewith shall be for the Common Account.

Fee Simple

11.05 Where a Working Interest Owner holds in fee simple surface rights used in connection with the Unit or where a Working Interest Owner has made arrangements with the owner of any such surface rights for the use of them without cost to such Working Interest Owner, Unit Operator may use the same, provided that such Working Interest Owner shall be entitled to receive as rental therefor an amount commensurate with rentals paid for other surface rights of a like nature in the Unit Area.

Unit Operator  
May Acquire  
Additional  
Surface Rights

11.06 Unit Operator shall also have the right to acquire such additional surface rights as are necessary for the operations hereunder, and the expense thereof, including rentals, shall be charged to the Common Account.

Unit Operator may also, with approval of the Operating Committee, enter into an agreement with any Working Interest Owner for the right to share in the use of such Working Interest Owner's surface rights on a basis to be mutually agreed upon between them, and the cost thereof as so agreed shall be charged to the Common Account. Unit Operator may also, with the approval of the Operating Committee

enter into agreements with any of the Working Interest Owners or other persons for the non-exclusive use and partial maintenance of any roadways, access road, or similar surface right and the cost or proceeds thereof shall be charged or credited to the Common Account.

## PART XII

### INDEMNITY

#### Liability for Loss of Title

12.01 In the event any Working Interest Owner does not have the right to develop and operate any Tract in which such Working Interest Owner claims to have a working interest insofar as such Tract comprises the Unitized Substances, any loss resulting therefrom shall be borne by the contributing Working Interest Owner and to that end, such Working Interest Owner shall indemnify and hold harmless Unit Operator and all other Working Interest Owners from any and all liability, loss, cost or damage sustained by them and resulting from the failure to have such right; PROVIDED, HOWEVER, that to the extent that such liability, loss, cost or damage is based upon the value of the Unitized Substances produced from such Tract, such indemnity shall be limited to an amount equal to the value of that portion of Unitized Substances allocated hereunder to such Tract.

#### Maintenance of Leases

12.02 Each Working Interest Owner shall do all necessary acts and things and make all payments required in

order to maintain the Lease or Leases covering the Tracts contributed hereto by it in full force and effect during the term hereof, excepting only obligations arising out of or accruing with respect to the Unitized Strata and not required to be performed by such Working Interest Owner; PROVIDED, HOWEVER, in the event any Working Interest Owner shall fail or refuse to do any act or thing or make any payment required as aforesaid, Unit Operator, with the approval of the Operating Committee, on behalf of and for the Common Account, shall have the right to perform such act or make any such payment so required as aforesaid, and thereupon any monies expended by Unit Operator in connection therewith shall be charged to the account of such Working Interest Owner, and Unit Operator shall have the same rights and privileges with respect to enforcing the payment of such amounts owed by such Working Interest Owner as are given to Unit Operator with respect to any other amount owed by a Working Interest Owner to Unit Operator hereunder.

Liability for  
Loss of Title  
to Wellsite and  
Operating  
Equipment

12.03 Each Working Interest Owner shall be liable to each other Working Interest Owner, including Unit Operator for any and all liability, loss, cost or damage sustained by them and resulting from any claim or any cause of action arising in consequence of any failure or deficiency in such Working Interest Owner's title to any wellsite and operating equipment, or other

facility taken over by Unit Operator, or in consequence of any action of such Working Interest Owner with respect thereto.

### PART XIII

#### APPROVAL OF TITLES

Titles  
Committee

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



PART XIV

DISPUTES

Disputes and  
Non-approved  
Titles

- 14.01 If there is now or should hereafter be any dispute involving the working interest in a Tract then the Working Interest Owner concerned shall immediately give written notice thereof to Unit Operator and upon the receipt of such written notice or in the event that the Operating Committee does not approve the title documents to any Tract as in Section 13.01 provided, Unit Operator shall:
- (a) sell the Unitized Substances allocated to the Tract in respect of which the title documents have not been approved by the Operating Committee, or in respect of which the dispute arises;
  - (b) pay out of the proceeds of the sale
    - i) the portion of the costs and expenses allocated or apportioned to the Tract, and
    - ii) the amount of money properly payable to the Royalty Owner of the Tract pursuant to the provisions of this Section and the Lease pertaining to the Tract (unless any such dispute involves the ownership of the royalty interest in the Tract) and such payment shall be deemed conclusively to be a payment by the person who is subsequently declared to be the owner of the working interest in such Tract on a final determination of the dispute;

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

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

#### PART XV

##### FILING

Filing 15.01 Unit Operator shall file this Plan with the Department of Mines and Natural Resources for the Province of Manitoba and with the appropriate Land Titles Office for the Province of Manitoba in accordance with the provisions of "The Mines Act".

#### PART XVI

##### TRANSFER OF INTEREST

Plan Binding on Successors 16.01 This Plan shall be binding upon every owner of any lands, Leases and interests in minerals covered hereby who acquires the same regardless of the manner in which the same shall have been acquired.

Assignments, etc. Subject to Terms of Plan 16.02 Any disposition of any interest owned by any Working Interest Owner in any land or part thereof in the Unit Area shall be made expressly subject to all the terms and provisions hereof. Such disposition of any

interest whether expressly so provided or not, shall operate to impose upon the person or persons acquiring such interest its or their proportionate part of all costs and expenses and other obligations, if any, chargeable hereunder to the interest affected by such disposition, and shall likewise operate to give and grant to the person or persons acquiring such interest its or their proportionate part of all Unitized Substances and other benefits which may accrue thereto under the provisions hereof.

When Change  
of Ownership  
Binding

16.03 No change in ownership of any interest or rights hereunder (by whatever means accomplished) of any Working Interest Owner shall be binding on Unit Operator or the other Working Interest Owners until Unit Operator has been furnished with notice of such change by the person claiming the benefit thereof, and such change shall become effective at seven o'clock in the forenoon, Central Standard Time on the first day of the month following the month in which the person acquiring such interest delivers to Unit Operator the original or certified copies of all instruments, documents and other information necessary in Unit Operator's opinion to establish a complete chain of title. No other kind of notice, whether actual or constructive, shall be binding on Unit Operator or the other Working Interest Owners.

Disposition Must Include Related Interest in Unit Facilities or Unit Area	16.04 Notwithstanding the foregoing, no interest in the Unit shall be disposed of unless such transaction shall include a like disposition of a related interest in the Unit Facilities and likewise, no disposition of any interest in the Unit Facilities shall be effective unless such transaction shall include a like disposition of a related working interest in the Unit Area, it being the intention hereunder that no working interest in the Unit Area shall be owned apart from a related interest in the Unit Facilities, and vice versa.
---	---

No Working Interest Owner shall dispose of an interest in the Unit Area unless such disposition shall cover its entire interest in a Tract which is subject thereto, or covers an undivided interest in its entire interest in each such Tract.

Any attempted disposition by any means in violation of the provisions of this Section shall be a nullity insofar as the other Working Interest Owners are concerned.

Assignment not to Relieve from Obligations	16.05 No disposition shall operate to relieve any Working Interest Owner of any obligation hereunder which accrued or was incurred prior to the effective date of such disposition.
--	---

Unit Operator not to Assign Rights	16.06 Unit Operator shall not assign its right to conduct operations hereunder.
--	---

No Surrender of Lease Without Consent	16.07 No Working Interest Owner shall surrender its interest in any Lease covering any portion of the Unitized
---	--

Strata without the written consent of the Operating Committee, and the approval of the Conservation Board.

What Term  
"disposition"  
Includes

16.08 The term "disposition" as used in this Part shall include, but not be limited to, the following; transfer, assignment, conveyance, and sale.

The term "disposition" as used in this Part shall not apply to a disposal by way of mortgage, pledge or hypothecation; PROVIDED, THAT, the mortgagee or pledgee shall hold its security subject to all the terms of this Plan and upon any realization or foreclosure of the security, the purchaser, mortgagee or pledgee, as the case may be, shall become bound by all the terms of this Plan.

#### PART XVII

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

Access to  
Unit Area

17.01 Each Working Interest Owner shall be entitled, at its own sole risk and expense, to have access to the Unit Area at all reasonable times upon notice to Unit Operator for the purpose of inspecting and observing unit operations, to have access at all reasonable times upon notice to Unit Operator to any and all information pertaining to the Unit Operated Wells, the records of production and the records of all other unit operations, to be present during the drilling, testing and completion of all Unit Operated Wells and to make copies of well logs, drilling progress and casing reports, and reports of production and storage. The presence of a Working

Interest Owner or its representative on the Unit Area or on the premises and their activities in connection therewith shall be at the sole risk and expense of such Working Interest Owner.

Plan Affects  
Only Unitized  
Strata

17.02 This Plan affects only the Unitized Strata. Each Working Interest Owner may, to the extent it may otherwise be entitled, conduct, at its own cost, risk and expense, operations on its Tracts for the discovery and/or production of other than Unitized Substance; PROVIDED, HOWEVER, that such operations shall be conducted in such a manner as to interfere as little as possible with the operations hereunder. Such Working Interest Owner shall take all reasonable precautions customary in the industry and as may be required by the Conservation Board and by Unit Operator to protect from waste, pollution, drainage and damage the Unitized Substances and the Unitized Strata.

Abandonment  
of Wells

17.03 If Unit Operator, with the approval of the Operating Committee, should decide to abandon any Unit Operated Well prior to the termination hereof, Unit Operator shall give to the Working Interest Owner of the Tract on which such well is located written notice of such decision, stating whether or not a drilling rig is in place at such well, and said Working Interest Owner shall have the right and option for a period of forty-eight (48) hours if a drilling rig is in place, or a period of sixty (60) days if no drilling rig is in place, after receipt of such notice to notify Unit

- Operator of its election to take over said well, and deepen or plug back said well to other than the Unitized Strata. Within ten (10) days after said Working Interest Owner has so notified Unit Operator, said Working Interest Owner shall pay to Unit Operator the value of the well equipment as determined in accordance with the provisions of Part XXVII hereof less the cost of salvaging the same as estimated and fixed by the Operating Committee, and at the same time shall agree by letter addressed to Unit Operator;
- (a) to case or seal off the Unitized Strata in said well in an efficient and workmanlike manner and in accordance with the applicable laws, rules, regulations and orders;
  - (b) to produce such well, if the same is produced, from other than the Unitized Strata while this Plan is in force;
  - (c) on the ultimate abandonment of said well, to plug and abandon it in a workmanlike manner and in accordance with the applicable laws, rules, regulations and orders.

It is understood, however, that such Tract shall continue to have allocated to it a percentage share of the Unitized Substances produced and saved from the Unit Area in accordance with its Tract Participation despite the cessation of the production therefrom and the abandonment of any Unit Operated Well or all wells thereon. In the event that the Working Interest Owner

of such Tract does not elect to take over such well, Unit Operator shall proceed properly to plug and abandon the same in accordance with the applicable laws, rules, regulations and orders, and shall salvage such casing and other equipment therefrom as is reasonably practicable, for the Investment Account.

Upon the abandonment of any well hereunder, the Working Interest Owner, or Unit Operator, as the case may be, abandoning same shall clean up the surface at the wellsite to the satisfaction of any governmental body having jurisdiction with respect thereto, and to the reasonable satisfaction of the owner and/or occupier thereof.

#### PART XVIII

##### INSURANCE

Workmen's  
Compensation

18.01 Unit Operator shall comply with all laws relating to Workmen's Compensation in the Province of Manitoba.

Insurance

18.02 Unit Operator shall carry, for the Common Account, such insurance as may be approved by the Operating Committee and shall notify each Working Interest Owner in writing currently as to the kind and amounts of such insurance. Notwithstanding anything herein contained each Working Interest Owner shall have the right to be a self-insurer as to its interest in the Unit Facilities.



Contractor's  
Insurance

18.03 Unit Operator shall require all contractors employed by it to comply with all laws relating to Workmen's Compensation in the Province of Manitoba and to carry such insurance as may be from time to time approved by the Operating Committee.

Settlement  
of Claims

18.04 Unit Operator may settle any claim arising out of unit operations and not discharged by insurance as herein provided, but no claim shall be settled by Unit Operator in an amount in excess of Two Thousand (\$2,000.00) Dollars unless Unit Operator first obtains the approval of the Operating Committee to such settlement.

Unit Operator's  
Liability

18.05 Unit Operator, as such, shall not be liable to the Working Interest Owners for any loss or damage except for loss or damage resulting from gross negligence or wilful misconduct of Unit Operator, or any of its employees exercising supervisory functions, and each Working Interest Owner proportionate to its Participating Interest herein, hereby indemnifies and holds harmless Unit Operator, as such, against any claim of, or liability to, any third person resulting from any act or omission of Unit Operator in acting upon instructions from the Operating Committee expressed or implied or otherwise in carrying out the provisions hereof; PROVIDED, HOWEVER, that Unit Operator shall not be indemnified or held harmless for any loss, damage, claim or liability resulting from the gross negligence or wilful misconduct of Unit Operator or any of its

employees exercising supervisory functions, but no act or omission of Unit Operator shall, of itself, be deemed gross negligence or wilful misconduct if such act or omission is done or omitted at the instructions of, or with the concurrence of, the Operating Committee.

## PART XIX

### GENERAL

No Right of  
Partition

19.01 No Working Interest Owner or Royalty Owner shall claim the benefit of any laws or statutes of the Province of Manitoba relating to partitioning of real or personal property and no person shall resort to any action at law or in equity to partition the aforesaid Unit Facilities and lands affected by this Plan, including the Unitized Strata.

Force  
Majeure

19.02 All obligations hereunder shall be suspended while, but only so long as, any person is prevented from complying therewith, in whole or in part, by strikes, lockouts or other industrial disturbances, fire, explosion, war, civil disturbances, tempest, floods, acts of God, or the Queen's enemies, unavoidable accidents, uncontrollable delays in transportation, Federal, Provincial or Municipal laws, rules, regulations or orders, inability to obtain necessary materials in open market, inadequate facilities for the transportation of materials or for the disposition of

Unitized Substances, or any other cause, whether similar or dissimilar to the foregoing, beyond the reasonable control of such person; PROVIDED, HOWEVER, that performance shall be begun or resumed within a reasonable time after such cause has been removed; and PROVIDED, FURTHER, that no person shall be required against its will to adjust or settle any labour dispute; and also PROVIDED, FURTHER, that lack of funds shall not be construed as a cause beyond the reasonable control of any person. This Plan shall not terminate while operations hereunder are prevented by reason of any of the aforesaid causes.

No Co-operative  
Marketing

19.03 Nothing herein shall be construed as providing directly or indirectly for any co-operative or joint sale or marketing of Unitized Substances.

Titles  
Unaffected by  
Unitization

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

Duties  
Separate not  
Joint or  
Collective

19.05 The duties and obligations hereunder shall be separate and not joint or collective, and nothing contained herein shall ever be construed to create a partnership of any kind, or an association, or as imposing any partnership duties, obligations or liabilities.

Individual  
Obligation

19.06 Except as otherwise expressly provided herein, each Working Interest Owner shall be individually responsible only for its own obligations as set out herein,

and shall be liable only for its proportionate share of the costs and expenses and liabilities.

PART XX

TERM OF PLAN

Term of Plan                    20.01 This Plan shall remain in full force and effect so long as Unitized Substances are produced or are capable of being produced from the Unitized Strata in paying quantities and as long as operations are conducted on the Unit Area, and thereafter until all Unit Operated Wells have been abandoned and plugged, or otherwise disposed of, and all personal property has been salvaged and all real estate has been disposed of by Unit Operator. Notwithstanding anything herein contained, this Plan shall, subject to the approval of the Conservation Board, terminate and be at an end upon the concurring vote of a majority of the Working Interest Owners owning at least ninety-five percent (95%) of the Participating Interests and such vote shall be binding upon all the Working Interest Owners and Royalty Owners.

Rights on  
Termination  
of Plan                    20.02 Upon the termination of this Plan, all rights in and to the Tracts shall revert to the owners and lessees thereof, and Unit Operator shall arrange for the salvaging, liquidation and other distribution of the Unit Facilities. The owner of the working interest in any such Tract desiring to take over and continue

to operate a Unit Operated Well located thereon may do so by notifying Unit Operator in writing of its election to take over said well and by paying Unit Operator, for the benefit of all Working Interest Owners, the fair net salvage value of the equipment used in the operation of such well and by agreeing to plug the well in accordance with the applicable laws, rules, regulations and orders at his expense at such time as it is abandoned.

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

Salvage Costs      20.03 The Working Interest Owners shall share the cost of salvaging, liquidation, or other distribution of assets and properties used in the development and operation of the Unitized Strata in proportion to their respective interests in the Unit Facilities.

On Termination  
of Plan -  
Operation Shall  
Cease      20.04 Upon termination of this Plan the further development and operation of the Unit Area as a Unit shall be abandoned, unit operations shall cease, and thereafter the Working Interest Owners and the Royalty Owners shall be governed by the terms and provisions of the Leases affecting the separate Tracts.

Working  
Interest Owners  
to Advise  
Royalty Owners  
of Termination

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

Rehearing,  
Amendments,  
etc.

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

- (a) a majority of the Working Interest Owners, owning at least seventy-five percent (75%) of the Participating Interests have agreed in writing to such application for a rehearing of the matters herein provided for, or for amendments to this Plan, or
- (b) the Conservation Board, on its own motion, decides to hold a rehearing, or
- (c) the Conservation Board, after full consideration of the application of any Working Interest Owner, decides that such application should be heard.

#### PART XXI

##### SINGLE WORKING INTEREST OWNER

Single Working  
Interest Owner

21.01 In the event that and for so long as there is only one Working Interest Owner in the Unit:

- (a) the following terms of this Plan shall not apply: Parts V, VI, Section 7.04 of Part VII, Parts VIII, X, XI, XII except Section 12.02, Section 26.01, Part XXVII;
- (b) all reference in this Plan to "Working Interest Owners", "Operating Committee" or "Unit Operator" and similar references shall refer to such single Working Interest Owner only and such single Working Interest Owner shall take the place of or perform the function of "Working Interest Owners", "Operating Committee" or "Unit Operator" or similar references.

PART XXII

WELLS DELIVERED TO UNIT OPERATOR PURSUANT TO PART X

Chevron Whitewater 12-16-3-21

Copperhead Whitewater 13-16-3-21

Chevron Whitewater 8-17-3-21

Chevron Whitewater 9-17-3-21

Chevron Whitewater 16-17-3-21

Copperhead Whitewater 4-21-3-21

— Removed from Plan  
Recompleted in Lower Ammanuth  
See Chevron's letter of 870826

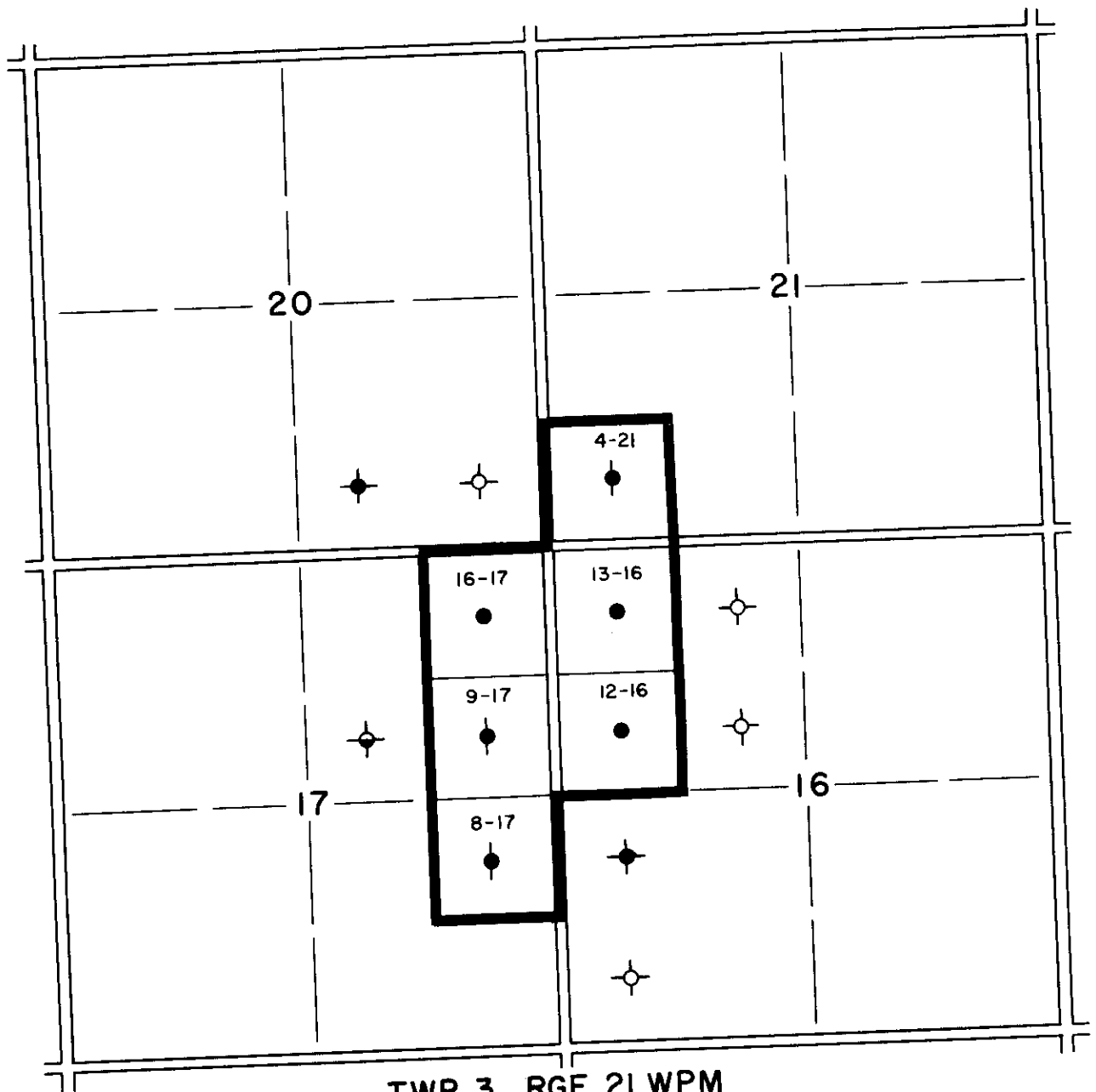
PART XXIII

THE LANDS IN THE PROVINCE OF MANITOBA WHICH COMPRISE  
THE WHITEWATER UNIT NO. 1 ARE AS FOLLOWS:

<u>TRACT NUMBER</u>	<u>LEGAL DESCRIPTION</u>
	<u>TOWNSHIP 3 RANGE 21 WPM</u>
12-16	LSD. 12, SECTION 16
13-16	LSD. 13, SECTION 16
8-17	LSD. 8, SECTION 17
9-17	LSD. 9, SECTION 17
16-17	LSD. 16, SECTION 17
4-21	LSD. 4, SECTION 21



PART XXIV  
 MAP OF UNIT AREA



TWP 3 RGE 21 WPM

LEGEND

- OILWELL
- 8-17 ● NUMBERED TRACT
- UNIT BOUNDARY

SCALE: 3" = 1 MILE

PART XXV

<u>TRACT NUMBER</u>	<u>TRACT PARTICIPATION</u>
12-16	25.68730
13-16	31.89932
8-17	4.12793
9-17	1.00141
16-17	35.33119
4-21	1.95285

PART XXVI

PARTICIPATING INTERESTS

Provision for  
Schedule of  
Working Interest  
Owners and  
Participating  
Interests

26.01 The Unit Operator shall as soon after approval of title by the Operating Committee under Part XIII is deemed to have been made, prepare and submit to the Working Interest Owners, Schedules setting out the Working Interest Owners of the Tracts and the Participating Interests in the Unit. Upon the approval of the Operating Committee the Unit Operator shall cause such Schedules to be published in one issue of The Manitoba Gazette.

The Unit Operator shall from time to time at the discretion of the Operating Committee prepare and submit to the Working Interest Owners, revised Schedules setting out any change of ownership in the Tracts or Participating Interests in the Unit, and shall cause such Schedules to be published in one issue of The Manitoba Gazette.

Single Working  
Interest Owner

26.02 In the event that there is only one (1) Working Interest Owner the Unit Operator shall as soon as possible after approval of titles under Part XIII prepare and cause to be published in one issue of The Manitoba Gazette Schedules setting out the Working Interest Owners of the Tracts and the Participating Interests in the Unit.

## ACCOUNTING PROCEDURE

"Joint Property" (a) "Joint Property" shall mean the respective Tracts and interests of the Working Interest Owners and where the context so requires shall include all wells, wellsite and operating equipment and salt water disposal facilities taken over by Unit Operator pursuant to Part X hereto, and all material purchased or furnished by the Unit Operator for use in the development, maintenance and operation of the Unit.

"Major Material" (b) "Major Material" means:

Tubing - 1,000 feet and over in 'A' or 'B' condition  
Sucker Rods - plain or scraped - 1,500 feet and over in 'A' or 'B' condition  
Pumping Unit  
Pumping Motor  
Automatic controls  
Separators  
Heaters  
Treaters  
Tank complete with thief hatches

and any other material the Current New Price of which exceeds One Thousand (\$1,000.00) Dollars.

"Material" (c) shall mean equipment and supplies.

With respect to classification of material:

"Condition 'A'" (i) New material (Condition 'A') being new material purchased for the Joint Property but never used thereon, at One Hundred (100%) percent of Current New Price.

"Condition 'B'" (ii) Good used material (Condition 'B') being good secondhand material which is further usable without reconditioning:

(a) at Seventy-five (75%) percent of Current New Price if material was charged to Common Account as new; or

(b) at Seventy-five (75%) of Current New Price less depreciation consistent with its usage on and service to the Joint Property, if

material was originally charged to the Common Account at Seventy-five (75%) percent of Current New Price.

- "Condition 'C'" (iii) Other used material (Condition 'C'), being material which:
- (a) after reconditioning will be further serviceable for original function as good secondhand material (Condition 'B'), or
  - (b) is serviceable for original function but substantially not suitable for reconditioning.
- shall be at Fifty (50%) percent of Current New Price.
- "Condition 'D'" (iv) Used material (Condition 'D') being material which cannot be classified as Condition 'B' or Condition 'C' shall be priced at a value commensurate with its use.
- "Condition 'E'" (v) Junk (Condition 'E'), being obsolete and unserviceable material, at prevailing junk prices in the district.
- "Temporarily Used Equipment" (vi) When the use of material is only temporary, and when the time of actual use does not justify the reduction in price as provided above such material shall be priced on a basis that will leave a net charge to the Common Account consistent with the value of the services rendered and adequate for the time the material was in use.
- "Current New Price" (d) "Current New Price" shall mean where possible the current cost of material as set forth in the then most recent issue of the "Controllable Equipment Price Catalogue" published by Petroleum Accountants Society of Western Canada.
- Fixed Asset Records 27.02 Fixed Asset Records shall be maintained for all Controllable Material as defined in Section 10.03.
- Statements and Billings 27.03 Unit Operator shall bill each of the other Working Interest Owners on or before the last day of each month for their proportionate share of charges and credits in respect of unit operations during the preceding month. Such bills shall be accompanied by the following statements:

- (a) Detailed statement of Controllable Material.
- (b) Statement of all ordinary charges and credits to the Common Account summarized by appropriate classification indicative of the nature thereof.
- (c) Detailed statement of all other charges and credits.

Payments by            27.04 See Sections 8.03, 8.05 and 8.06  
Working Interest  
Owners

Adjustments            27.05 Payments of any such bills shall not prejudice the right of any Working Interest Owner to protest or question the correctness thereof. Subject to the exception noted 27.06 below, all bills rendered to the Working Interest Owners by Unit Operator during any calendar year shall conclusively be presumed to be true and correct after Twenty-four (24) months following the end of any such calendar year, unless within the said Twenty-four (24) month period any Working Interest Owner takes written exception thereto and makes a written claim on Unit Operator for adjustment. Failure on the part of the Working Interest Owner to make such a claim on Unit Operator within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon.

Audits                27.06 Any audit committee appointed by the Operating Committee, upon notice in writing to the Unit Operator, shall have the right to audit Unit Operator's accounts and records relating to the accounting hereunder for any calendar year within the Eighteen (18) month period following the end of such calendar year. The Working Interest Owners shall have Six (6) months next following the examination of the Unit Operator's records within which to take written exception to and make any and all claims on the Unit Operator. Such audit committee shall make every reasonable effort to conduct such auditing in a manner which will result in a minimum of inconvenience to the Unit Operator. The cost of such an audit shall be charged to the Common Account. In addition to the foregoing right, any Working Interest Owner shall have the right to make an individual audit at its own cost and expense.

Charges to            27.07 Subject to the limitations hereinafter prescribed, Unit  
Common Account        Operator shall charge the Common Account with the following costs of development and operation of the Joint Property:

- (a) Salaries, wages and related expenses of Unit Operator's personnel directly employed on the Joint Property in the development, maintenance and operation thereof, including salaries and wages paid to landmen acquiring rights-of-way, settling damage claims, etc., and to technical employees, such as geologists, engineers and other employees who are temporarily assigned to and located at and directly engaged on the Joint Property.
- (b) Unit Operator's cost of vacation and expenditures or contributions imposed or assessed by any governmental body having jurisdiction with respect to such salaries and wages referred to in paragraph (a) of Section 27.07.
- (c) Unit Operator's current cost of established plans for employees' group life insurance, sickness and disability benefits, hospitalization, pension, retirement, stock purchases, thrift, bonus and other benefit plans of like nature, applicable to such salaries and wages provided for in paragraph (a) of Section 27.07. Provided that such charges shall not exceed twelve (12%) percent of the total of the salaries and wages charged under paragraph (a) of Section 27.07. It is agreed, however, that if this limitation of twelve (12%) percent shall be found to be insufficient, the same may be increased from time to time when authorized by a vote of the Operating Committee.
- (d) Material purchased or furnished by Unit Operator for use in connection with the operation of the Joint Property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the Joint Property as is required for immediate use, and the accumulation of surplus stocks shall be avoided whenever possible.
- (e) (i) Moving material to the Joint Property from vendor's or from Unit Operator's warehouse in the district or from the other properties of the Unit Operator, but in either of the last two events no charge shall be made to the Common Account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available except by specific approval of the Operating Committee.

- (ii) Moving surplus material from the Joint Property to outside vendees, if sold f.o.b. destination, or minor returns to Unit Operator's warehouse or other storage point. No charge shall be made to the Common Account for moving surplus material to Unit Operator's warehouse or other storage point for a distance greater than the distance to the nearest reliable supply store or railway receiving point, except by specific approval of the Operating Committee, and no charge shall be made to the Common Account for moving material to other properties belonging to Unit Operator, except by specific approval of the Operating Committee.
- (iii) Moving expenses of employees incurred by the initial staffing, additions and replacements beyond the control of the Unit Operator.
- (f) (i) Contract services and utilities procured from outside sources. Services of outside professional consultants shall not be charged unless approved by Operating Committee.
- (ii) Use of and service by Unit Operator's exclusively owned equipment and facilities as provided in Section 27.11.
- (g) Costs or expenses necessary to replace or repair Joint Property damaged or lost through fire, flood, storm or any other cause not controllable by Unit Operator through the exercise of reasonable diligence. Unit Operator shall furnish the Working Interest Owners with written notice of damage or losses incurred as soon as practical but not later than fifteen (15) days after report of same has been received by Unit Operator.
- (h) All costs and expenses of litigation or legal services necessary or expedient for the protection of the Joint Property, including legal fees and expenses as hereinafter provided, together with all judgments obtained against or chargeable to the Common Account or the Joint Property; actual expenses incurred by any Working Interest Owners in securing evidence for the purposes of defending any action or claim prosecuted or urged against the Common Account or the Joint Property.



- (i) If the Operating Committee agrees, actions or claims affecting the Common Account or the Joint Property hereunder may be handled by the legal staff of one or more of the Working Interest Owners. A charge commensurate with the services rendered and approved by the Operating Committee may be made against the Common Account.
- (ii) Fees and expenses of outside Counsel shall not be charged to the Common Account except where the employment of such outside Counsel is authorized by the Operating Committee.
- (i) All taxes of every kind and nature (other than income taxes) assessed upon or in connection with the Joint Property, the operation thereof or the products derived therefrom, and which taxes have been paid by the Unit Operator for the benefit of the Working Interest Owners.
- (j) Premiums paid for insurance required to be carried under Section 18.02 together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses including legal services, not recovered from the Insurer.
- (k) Area, Division and Administrative Overhead:

The rates set forth below shall be charged to the Common Account in lieu of a proportionate share of the costs incurred by the Unit Operator. These costs include, but are not limited to the following:

- (i) Salaries and expenses of the Unit Operator's area superintendent and other general area or field employees, managing officers and employees of the division and/or principal office other than those who are directly engaged on the Joint Property and whose salaries are chargeable to the Common Account under the provisions of paragraph (a) of Section 27.07.
- (ii) Cost of maintaining and operating an area office and all necessary camps, including housing facilities for employees if necessary. The expense of, less any revenue from, these facilities shall include depreciation or a fair monthly rental in lieu of depreciation on investment.

- (iii) Any other costs of operating the division and/or principal office of the Unit Operator.

The rates, which are subject to review annually, as set forth in paragraph (j) of Section 6.03 are as follows:

- (a) \_\_\_\_\_ per month for all producing operations.
- (b) \_\_\_\_\_ Dollars per day for each drilling well, wells being plugged back, drilled deeper, reworked, or converted to source or input wells; charges to commence on the date the well is spudded and terminate when the drilling rig or service rig as the case may be is released, except that no charge should be made during the suspension of drilling operations for Fifteen (15) or more consecutive days.
- (c) The charge in respect to construction of Unit Facilities, including, but not limited to, water injection plant, battery consolidation, injection pipeline systems and water supply systems shall be calculated on direct expenditures on the following basis:
- 5% of expenditures up to \$50,000.00, plus  
3% of expenditures over \$50,000.00 and up to \$100,000.00, plus  
1% of all expenditures over \$100,000.00.
- (l) A charge to cover the cost of handling material into and in Unit Operator's warehouse shall be assessed on new and used materials furnished from the warehouse on the basis of Two and one-half (2-1/2%) percent of the cost of tubular goods and Major Material and Five (5%) percent of the cost of all other material which shall in each case be deemed to be the actual cost thereof to Unit Operator.
- (m) Rentals, payments in lieu of actual production and royalties, when paid by Unit Operator for the Common Account.
- (n) Any other expenditures incurred by Unit Operator except that no charge shall be made for any interest or financing charges incurred by Unit Operator except where incurred with the approval of the Operating Committee.

Basis of  
Charges to  
Common Account

27.08 (i) Outside Purchases

Material purchases shall be charged to the Common Account at their invoice cost to Unit Operator after deduction of all discounts actually received.

(ii) Material Furnished by Unit Operator

Material shall be purchased for direct charge to the Common Account whenever practicable. Material from Unit Operator's stocks shall be priced as follows:

(a) New Material - Condition 'A'

(1) New material ~~transferred from~~ Unit Operator's warehouse or other properties shall be priced at One Hundred (100%) percent of Current New Price.

(b) Used Materials - Condition 'B' and 'C'

(1) Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classed as Condition 'B' and priced at Seventy-five (75%) percent of Current New Price.

(2) Material which cannot be classified as Condition 'B' but which

(i) after reconditioning will be further serviceable for original function as good secondhand material (Condition 'B'), or

(ii) is serviceable for original function but substantially not suitable for reconditioning,

shall be classed as Condition 'C' and priced at Fifty (50%) percent of Current New Price.

(3) Material which cannot be classified as Condition 'B' or Condition 'C' shall be priced at a value commensurate with its use.

(4) Any equipment involving erection costs will be charged on a basis not to exceed Seventy-Five (75%) percent of Current New Price for similar materials in a dismantled state.

- Premium Price 27.09 Whenever materials are not readily obtainable at the customary supply point and at Current New Prices because of national emergencies, strikes or other unusual causes over which Unit Operator has no control, Unit Operator may charge the Common Account for the required materials on the basis of Unit Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the Joint Property; PROVIDED, HOWEVER, that each Working Interest Owner is notified in writing prior to the acquisition of such material, whereupon each Working Interest Owner shall have the right by so electing and notifying Unit Operator within Forty-eight (48) hours after receiving notice from the Unit Operator, to furnish in kind or in tonnage as may be agreed, at the location, nearest railway point, or Unit Operator's storage point, within a comparable distance, all or part of his share of material suitable for use and acceptable to Unit Operator. Transportation costs on any such material furnished by a Working Interest Owner at any point other than at the location, shall be borne by such Working Interest Owner. If, pursuant to the provisions of this paragraph, a Working Interest Owner furnishes material in kind, Unit Operator shall make appropriate credits therefor to the account of such Working Interest Owner.
- Warranty of Material 27.10 Unit Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guarantee; and in case of defective material, credit shall not be passed until adjustment has been received by Unit Operator from the manufacturer or their agents.
- Unit Operator's Exclusively Owned Facilities 27.11 The Unit Operator shall charge the Common Account for services rendered by facilities and equipment owned exclusively by Unit Operator. The rates charged shall be commensurate with the cost of ownership and operation and shall not be in excess of current prevailing rates of like services and equipment available in the area.
- Whenever requested, Unit Operator shall inform the Working Interest Owners in advance of rates it proposes to charge. Rates shall be revised from time to time when found to be either excessive or insufficient.
- Disposal of Lease Equipment 27.12 (a) The term "minor equipment" shall mean any material or items of Unit Facilities not described as Major Material. Unit Operator may dispose of any item of minor equipment,

which it deems to be unnecessary for the Unit operation hereunder, to such person and for such price as it sees fit without reference to the Operating Committee.

- (b) Unit Operator may dispose of any item of Major Material which it deems to be surplus to the unit operations at current market demand prices prevailing in the area without obtaining prior approval of the Working Interest Owners. The Unit Operator will supply to each Working Interest Owner every Six (6) months details of Major Material deemed to be surplus or anticipated to become surplus during the ensuing Six (6) months. Further, any authority granted to the Unit Operator to dispose of a Non-Operator's share of material shall be revocable at the will of the Non-Operator.
- (c) Proceeds from the sale of Surplus Material shall be credited to the Common Account.

Inventories      27.13

- (a) Regular inventories of Controllable Material shall be taken by an Inventory Committee appointed by the Operating Committee and at intervals specified by the Operating Committee; PROVIDED, HOWEVER, that construction projects as outlined in the budget shall be inventoried by the Inventory Committee within one year of completion and copies of any such inventory shall be furnished to all Working Interest Owners.
- (b) Reconciliation of inventory with the Investment Account shall be made by the Inventory Committee, and a list of overages and shortages shall be submitted to the Working Interest Owners for their approval within Sixty (60) days from the taking of such inventory.
- (c) Inventory adjustments shall be made by Unit Operator with the Investment Account for overages and shortages but Unit Operator shall only be held accountable to the Working Interest Owners hereto for shortages resulting from lack of reasonable diligence.
- (d) The expense of the Inventory Committee shall be charged to the Common Account.

- (e) Any Working Interest Owner shall have the right at any time to request in writing the taking of a special inventory. The taking of such special inventory shall be commenced within Fifteen (15) days after the receipt of notice thereof. The expense of Unit Operator's representative in conducting any special inventory so requested shall be charged to the separate account of the requesting Working Interest Owner.

PART XXVIII  
ELECTRICAL LOG  
**Chevron Whitewater 16-17-3-21**  
K. B. Elevation 1645'

