

UNIT AGREEMENT

EAST MANSON UNIT NO. 1

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UNIT AGREEMENT

EAST MANSON UNIT NO. 1

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

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

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

ARTICLE 1

DEFINITIONS

1

1.01 Definitions

In this agreement:

- a. "Crown" means Her Majesty the Queen in Right of the Province of Manitoba;
- b. "Drainage Unit" means an area allocated to a well by the Minister for the purpose of producing Petroleum Substances;
- c. "Effective Date" means the time and date referred to in Article 15;
- d. "Lease" means an instrument granting a Working Interest in the Unitized Zone;
- e. "Minister" means the member of the Executive Council charged by the Lieutenant Governor in Council with the administration of *The Oil and Gas Act* of Manitoba;
- f. "Outside Substances" means any substances initially obtained from any source other than the Unitized Zone or any Unitized Substances which have been produced, with respect to which royalty has been paid;
- g. "Party" means a person who is bound by this agreement;

- h. "Petroleum Branch" means the Department of Innovation, Energy and Mines, Petroleum Branch established under *The Oil and Gas Act*;
- i. "Petroleum Substances" means petroleum, natural gas and related hydrocarbons (except coal), and all substances whether gaseous. Liquid or solid, which are produced in association therewith, or any of them;
- j. "Royalty Interest" means:
 - i. an ownership, fee simple, or similar estate in Petroleum Substances in the Unitized Zone, or;
 - ii. a right to a share of Petroleum Substances produced from the Unitized zone, to a share of the proceeds from the sale of such Petroleum Substances, or to a payment based on the quantity or value of such Petroleum Substances, but does not include a Working Interest, the interest of a purchaser or such Petroleum Substances after production, or a mortgage, charge or like interest granted as security in a financial transaction;
- k. "Royalty Owner" means a Party owning a Royalty Interest in or in respect of Unitized Substances;
- l. "Spacing Unit" means the area allocated to a well by the Petroleum Branch with respect to the Unitized Zone for the purpose of drilling for or producing Petroleum Substances;
- m. "Torquay Formation" means that portion of the Torquay Formation within the Three Forks Group shown on that portion of the Gamma Ray Compensated Neutron Formation Density Log of the Fort Calgary East Manson Prov. 2-29-13-28 W1M, unique identifier 100/02-29-013-28W1/00 between the depths of 651 metres and 689 metres TVD as identified on Exhibit "C";
- n. "Tract" means a parcel of land described and given a Tract number in Exhibit "A" and shown outlined on Exhibit "B";
- o. "Tract Participation" means the participation percentage allocated to a Tract pursuant to Article 6 and set forth in Exhibit "A";
- p. "Unit Area" means the lands described in Exhibit "A" and shown in Exhibit "B";

- q. "Unit Operations" means any operations or activities undertaken in connection with the Unitized Zone, the production or handling of Unitized Substances or the installation, operation, maintenance or removal of equipment or facilities, insofar as such operations or activities has been authorized or provided for under this agreement;
- r. "Unit Operator" means initially **Fort Calgary Resources Ltd.** or such other Operator as may be appointed by the Working Interest Owners;
- s. "Unitized Substances" means Petroleum Substances in or obtained from the Unitized Zone;
- t. "Unitized Zone" means the Torquay Formation underlying the lands within the Unit Area as shown on cross-section attached as Exhibit "C";
- u. "Working Interest" means any interest which entitles the owner thereof the right to produce and dispose of, or to participate in the production and disposition of, Petroleum Substances from the Unitized Zone, including a responsibility to bear all or a portion of the costs of recovering such Petroleum Substances therefrom;
- v. "Working Interest Owner" means a Party owning a Working Interest in or in respect of Unitized Substances.

ARTICLE 2

EXHIBITS

2

2.01 Exhibits

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

- a. Exhibit "A" which numbers and describes each Tract and sets forth its Tract Participation, the names of the owners of the Working Interest and their respective share of the Tract Participation, together with the names of the owners of the Royalty Interest and the Lease relating thereto, if any, and which lists all of the Working Interest Owners and sets forth, with respect to each Working Interest Owner, the sum of all its Tract Participation shares;
- b. Exhibit "B" which is a plan or map of the Unit Area; and
- c. Exhibit "C" which is a reproduction of a portion of the Gamma Ray Compensated Neutron-Formation Density Log referred to in subclauses 1.01 (m) hereof.

2.02 Exhibits Correct

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

2.03 Correction of Exhibits

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

2.04 Effective Time

Any corrected exhibit prepared on or before the Effective Date, or within ninety (90) days thereafter, shall take effect on the Effective Date. Any corrected exhibit prepared after the said ninety (90) days shall take effective at 08:00 hours, on the first day of the first calendar month next after it has been issued by Unit Operator and transmitted to the Petroleum Branch in accordance with section 2.05.

2.05 Supplying of Exhibits

Each time that an exhibit is revised or corrected pursuant to this agreement, the Unit Operator shall supply the Petroleum Branch with two copies and shall supply each Working Interest Owner, excepting the Crown, with a copy thereof. Each Working Interest Owner shall supply each of its Royalty Owners, except the Crown, with a copy of the exhibit.

2.06 Form of Revised or Corrected Exhibits

Exhibits that are revised or corrected shall show the effective time of the revision or correction in accordance with section 2.04 and shall be numbered consecutively.

2.07 Conflicts

In the event of any conflict between the provisions of the principal text of this agreement and the provisions of any exhibit hereto, the provisions of the principal text hereof shall take precedence.

ARTICLE 3

UNITIZATION AND EFFECT

3

3.01 Unitization

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

3.02 Personal Property Excepted

All lease and well equipment heretofore or hereafter installed, affixed or constructed by any of the Working Interest Owners on or in land in the Unit Area are and shall be deemed conclusively to be and shall remain personal property belonging to and may be removed by the Working Interest Owners, or such of them as may from time to time have an interest therein, and, except as otherwise provided in clause 16.03, no interest in any such equipment and facilities shall vest in the Royalty owners by virtue of the provisions of this agreement.

3.03 Continuation of Leases

All Unit Operations conducted with respect to the Unitized Zone or production of Unitized Substances shall, except for the purpose of calculating payments to Royalty Owners, be deemed conclusively to be operations upon or production from all of the Unitized Zone in each Tract, and such operations or production shall continue in force and effect each Lease and any other agreement or instrument relating to the Unitized Zone or Unitized Substances as if such operations had been conducted on and a well was producing from each Tract or Drainage Unit, or portion thereof, in the Unit Area.

If from time to time during the term of this Agreement the production of Unitized Substances and the conduct of other Unit Operations is temporarily interrupted or suspended for any period, not exceeding ninety (90) consecutive days, or for any period during which an event of force majeure, contemplated in Clause 14.05 is in effect, then, for the purposes of this clause 3.03, Unitized Substances shall be deemed to have been produced throughout any such period.

3.04 Leases Amended

Each lease and any other agreement or instrument relating to the Unitized Zone or Unitized Substances is hereby amended only to the extent necessary to make it conform to this agreement. If any lease should at any time during the term of the unitization provided for herein become terminable in whole or in part, whether automatically in accordance with its terms or at the option of the lessor thereunder, as a result of any default of any default in obligations relating to any lands or zones other than the Unitized Zone, such Lease or terminable part thereof shall nonetheless continue in effect insofar as it relates to the Unitized Zone, as though it had been granted only in respect of the Unitized Zone in the Tract or Tracts to which it relates. The provisions of this clause 3.04 shall not apply with respect to any default in obligations relating in whole or in part to the Unitized Zone.

3.05 Ratification of Leases

Except for a Lease in respect of which a Royalty Owner is involved in a court action which has been commenced and is pending on the Effective Date, each Royalty Owner hereby ratifies and confirms each Lease, as amended by this agreement, to which it is a party, and hereby confirms that no notice of default has been given and remains outstanding with respect to any such Lease, and that each lease is in effect as of the Effective Date. The provisions of this Clause 3.05 do not constitute a waiver, and shall not give rise to an estoppel, of any right to pursue the enforcement of any outstanding obligation under any such Lease.

3.06 Effect of Unitization on Titles

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

3.07 Name

The name of the unit hereby constituted is **East Manson Unit No. 1**.

ARTICLE 4

AUTHORITY TO WORKING INTEREST OWNERS

4

4.01 Operations

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

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

The Working Interest Owners are also hereby granted the right, subject to Petroleum Branch approval, to drill horizontal or vertical injection wells within 50 metres of the boundary of the East Manson Unit No. 1 and the Working Interest Owners consent to such wells being produced prior to their conversion to injection wells.

4.02 Delegation

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

ARTICLE 5

INCLUSION AND QUALIFICATION OF TRACTS

5

5.01 Tracts Included on Effective Date

The Tracts that are included in the Unit Area as of the Effective Date are those Tracts that are qualified under section 5.02 before the Effective Date or on or within 90 days after the Effective Date.

5.02 Qualification of Tracts

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

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

5.03 Revision of Exhibits

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

the Tracts recalculated on the same basis and using the same data as that used in the calculation of Tract Participation in the original Exhibit "A" and so that their summation is one hundred (100%) percent. The exhibits as so revised shall be effective as of the Effective Date.

ARTICLE 6

TRACT PARTICIPATION

6

6.01 Tract Participation

Each Tract has a Tract Participation as shown on Exhibit "A".

ARTICLE 7

ALLOCATION OF UNITIZED SUBSTANCES PRODUCED

7

7.01 Allocation to Tracts

Subject to Sections 7.08, 8.01 and 8.02, the Unitized Substances when produced shall be allocated to the Tracts in accordance with their Tract Participations. The amount of Unitized Substances allocated to each Tract, and only that amount, regardless of whether it is more or less than the amount of actual production of Unitized Substances from the well or wells, if any, on the Tract, shall be deemed conclusively to have been produced from the Tract.

7.02 Distribution Within Tracts

The Unitized Substances allocated to a Tract shall be further allocated among the Working Interest Owners thereof in accordance with their respective percentage Working Interests in the Tract as set forth in Exhibit "A", and the Working Interest Owners of each Tract shall account to the Royalty Owners of such Tract for any royalty payable or deliverable to such Royalty Owners in respect of the Unitized Substances allocated to such Tract.

7.03 Calculation of Royalty

The Working interest Owners of each Tract shall calculate royalty on the Unitized Substances allocated to the Tract at the applicable rate under the Lease, other agreement or instrument relating to the Tract. The Royalty owners of each Tract agree to accept payment of royalty so calculated in satisfaction of the obligation

of a Working Interest Owner to make royalty payments on Unitized Substances under the Lease, agreement or other instrument cover such Tract; but a lessee under a Lease shall not be relieved from making payment of royalty to its lessor if payment is not made by the Working Interest Owner as aforesaid.

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

7.04 Taking Unitized Substances in Kind

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

7.05 Failure to Take in Kind

To the extent the Party entitled to take in kind any of the Unitized Substances, fails to take or otherwise dispose of them at the time and place of production, then so long as such failure continues, Unit Operator, as agent and for the account and at the sole risk, cost and expense of such Party, may sell, store, inject or otherwise dispose of them as it, in its sole discretion may determine. Where there is a sale, the "net proceeds" shall be paid to the Party. Unit Operator may contract for the sale thereof only for the minimum term obtainable, which in no event shall exceed one (1) year. When Unit Operator has so contracted, the Party may take its share of the Unitized Substances in kind upon the expiration of the current sales contract, if it has given Unit Operator sixty (60) days' notice prior to the expiration of the current sales contract that it intends to take its share in kind. Any Party not taking in kind may revoke at will Unit Operator's authority hereunder by taking in kind its entire share of the Unitized Substances not previously contracted for sale by the Unit Operator provided it has given Unit Operator no less than thirty (30) days' notice thereof. The "net proceeds" for the purpose of this Clause shall mean the proceeds from the sale of the non-taking Working Interest Owner's share of production, less all direct costs of the sale, including processing and shipping costs.

Insofar as this clause relates to or affects the Crown, the Unit Operator shall be entitled to deduct only those costs and allowances which the Minister approves as deductible costs in determining the Crown's royalty share of Unitized Substances, pursuant to the *Oil and Gas Act*.

Insofar as this clause relates to or affects any other Royalty Owner, the Unit Operator shall be entitled to deduct only those costs and allowances which are provided for under its Lease.

7.06 Royalty on Outside Substances

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

7.07 Several Royalty Liability

Without limiting the generality of the provisions of Clauses 7.02 and 14.04, nothing in this Agreement shall be construed as giving rise to any right entitling the royalty owners of a Tract to look to any Working Interest owners other than the Working Interest Owners of such Tract for the satisfaction of royalty obligations in respect of such Tract; provided however, that in the event that the Working Interest Owners of a Tract are not the same persons as the lessee under a Lease relating to the Tract, the provisions of this Clause 7.07 shall not be construed as relieving such lessee of any obligation to account for royalty payable or deliverable to the lessor under such Lease if the Working Interest Owners fail to comply with their obligations in that respect.

7.08 Oil In Lease Tankage and Over-Production as of the Effective Date

- a. A proper and timely guage shall be made of all tanks delivered to the Unit Operator to ascertain the amount of oil in such tanks as of the Effective Date. If any wells producing into such tanks have made more than their cumulative production allowable as set by the Petroleum Branch, the amount of such over-production of oil then in such tanks that has, prior to the Effective Date, been produced from those zones, which on the Effective Date become the Unitized Zone, shall be deemed to be Unitized Substances. Except as aforesaid, the oil in such tanks shall remain and be at the risk of and be the property of the person owning the same prior to the Effective Date and upon request shall be delivered in kind to such person or, in the absence of such request, shall be sold by the Unit Operator for the credit of and on behalf of such person at not less than the prevailing wellhead price, and the proceeds thereof shall be paid by the purchaser directly to such person.

- b. If any production from those zones, which on the Effective Date became the Unitized Zone, was in excess of the cumulative production allowable of any Tract as of the Effective Date and such excess production was sold prior to the Effective Date, the Unit Operator, during each subsequent month after the fifth month next following the Effective Date, shall withhold ten (10%) percent of the Unitized Substances that would otherwise be allocated to such Tract except for the provisions of this sub section, and the amount of production so withheld shall be reallocated to all the Tracts in proportion of their respective Tract Participations. The withholding from such Tract of Unitized Substances that would otherwise be allocated shall be continued until the accumulated total of such withholding is equal to the amount of production in excess of the cumulative production allowable of such Tract as of the Effective Date.
- c. No allowances shall be made with respect to any wells that have produced, up to the Effective Date, less than their cumulative production allowable as set by the Petroleum Branch.

ARTICLE 8

USE, LOSS AND RE-INJECTION OF UNITIZED SUBSTANCES

8

8.01 Use or Loss

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

8.02 Re-injection

The Working Interest Owners are hereby granted the right to re-inject Unitized Substances into the Unitized Zone for any purpose related to Unit Operations. Unitized Substances so injected shall be excluded in allocating Unitized Substances to Tracts, and no royalty or other payment shall be payable in

respect thereof until they are recovered from storage and sold or used other than for Unit Operations, and accordingly no royalty shall be payable or deliverable in respect thereof until such time.

ARTICLE 9

ENLARGEMENT OF UNIT AREA

9

9.01 Application To Enlarge

After the expiry of ninety (90) days following the Effective Date, if an owner of a Working Interest in lands in the vicinity of the Unit Area indicated to be potentially productive of Petroleum Substances from the Torquay Formation makes application therefore, the Working Interest owners may upon such terms and conditions as they any determine, approve the admission of the lands into the Unit Area. If the lands qualify for inclusion in the Unit Area under section 5.02, the Unit Area shall, subject to this Article, be enlarged to include them. Even though an owner of a Royalty interest in lands approved hereunder for admission into the Unit Area is a Party, the lands shall not qualify for inclusion in the Unit Area unless the owner again executes and delivers two (2) counterparts of this agreement with the necessary amendments to the Unit Operator, or the lands otherwise qualify for inclusion in the Unit Area pursuant to clause (b) of section 5.02.

9.02 Adjustment of Tract Participation

The Tract Participation of each Tract added shall be determined by the Working Interest Owners. The Tract Participation shall then be adjusted so that:

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

9.03 Exhibits

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

9.04 Effective Time of Enlargement

An enlargement of the Unit Area and an adjustment of Tract Participations under this Article shall take effect at 08:00 hours, on the first day of the first calendar month following Tract qualification for inclusion in the Unit Area under section 5.02 and approval of admission thereof under section 9.01.

9.05 No Retroactive Adjustment

There shall be no retroactive adjustment of the allocation of Unitized Substances by reason of an enlargement of the Unit Area under this Article.

9.06 Minister's Consent

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

ARTICLE 10

DISPUTES

10

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

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

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

In the performance of its obligations under this clause 10.01, the Unit Operator shall endeavor where practicable to honour existing marketing arrangements of which it is aware, and shall not be obligated to take any steps which would adversely affect any arrangements for the marketing of its own Unitized Substances. In the event that the Unit Operator is unable to reasonable effect suitable marketing arrangements for any Unitized Substances withheld by it pursuant to the provisions of this clause 10.01, the provisions of clause 7.05 shall apply.

ARTICLE 11

APPROVAL OF TITLES

11

11.01 Warranty of Title

Each of the Working Interest Owners:

- a. represents and warrants that it is the owner of the Working Interests ascribed to it in Exhibit "A", and that it has full right, power and authority to commit the said Working Interests to unitization in accordance with the provisions of this agreement, and to thereby bind the same; and
- b. agrees to indemnify and save harmless each of the other Parties against and from any liability, loss, costs, claims or damages of any nature whatsoever arising out of any failure of, or defect in, the title to the said Working Interests, or any other breach or failure of such representation and warranty, whether in whole or in part.

11.02 Title Failure Clarification

Without any manner limiting the generality of the meaning of failure of title, the cancellation, surrender or termination of a Lease for any reason whatsoever shall for the purposes of this Article be regarded as a failure of title. If any such failure of title is the result of cancellation, surrender or other termination of a Crown Lease, or of a portion of a Crown Lease, the Crown shall not be bound as a Working Interest Owner with respect to the Working Interest in respect of which title has failed.

ARTICLE 12

TRANSFER OF INTEREST

12

12.01 Disposition

In this section "disposition" means a sale, assignment, transfer, lease, sublease, conveyance, parting with possession, or any transaction of a similar nature, whether by trust or otherwise. A disposition of an interest owned by a Party in a Tract shall cover the whole or an undivided interest in the Party's interest in such Tract. A disposition shall not be binding on the Unit Operator until the Parties or parties thereto have each given notice thereof to the Unit Operator and have signed counterpart pages to the Unit Agreement. The Unit Operator shall revise the exhibits to reflect each disposition of an interest in a Tract and the revised exhibits shall take effect as of 08:00 hours, on the first day of the calendar month next following the calendar month in which the notice and executed counterpart pages are received by the Unit Operator.

12.02 Other Changes

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

ARTICLE 13

TITLES

13

13.01 Subsequent Failure of Title

If the title of a Working Interest Owner to a Tract fails, the Tract shall be excluded from this agreement as of 08:00 on the first day of the calendar month in which the failure of title is finally determined unless:

- a. any other Party is held or declared to own the title in which event that Party shall thereafter be bound by this agreement in respect of the Tract; or

- b. by the last day of the next following calendar month the Tract qualifies for inclusion in the Unit Area pursuant to clause 5.02.

ARTICLE 14

IN GENERAL

14

14.01 Execution in Counterpart

This agreement may be executed in separate counterparts and all the executed counterparts together shall constitute one agreement.

14.02 Dual Capacity

If a Party owns a Working Interest and a Royalty Interest, its execution of this agreement shall, subject to section 14.09, constitute execution in both capacities.

14.03 Subsequent Execution

An owner of an interest in a Tract who has not become a Party as of the date the Tract was included in the Unit Area under Articles 5 or 9 and 13, may become a Party with respect to that interest only on such terms and conditions as may be prescribed by the Working Interest Owners.

14.04 No Partnership

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

14.05 Force Majeure

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

suspension of Unit operations for the cause set forth in this section. Any Party prevented from carrying out any obligations for reasons of force majeure shall promptly give the other Parties notice of the force majeure including reasonable particulars in respect thereof.

14.06 Taxes

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

14.07 Right of Redemption

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

14.08 Interpretation

The section headings in this agreement have been inserted for convenience of reference only and shall not be considered in interpreting the text hereof.

14.09 Limitation on Effect of Minister's Execution

Notwithstanding anything to the contrary contained in this agreement, the execution of this agreement by the Minister shall not in any way constitute, or be deemed to be, the Minister's consent, approval or order under any Act or regulation of the Province of Manitoba governing operations with respect to the production or conservation of Petroleum Substances; such execution shall only be on behalf of the Crown as the owner of a Royalty Interest, as authorized by Section 133 of *The Oil and Gas Act*.

14.10 Number and Gender

In this agreement words importing the singular include the plural and vice versa; words importing the masculine gender include the feminine and vice versa; and words importing persons include firms or corporations and vice versa.

14.11 Time of Essence

Time is of the essence in this agreement.

14.12 Time

In this agreement all times are “official times” as defined in *The Official Time Act* of the Province of Manitoba.

14.13 Enurement

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

14.14 Compliance with Legislation

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

14.15 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Manitoba and each of the Parties submits to the jurisdiction of the courts of the Province of Manitoba and all courts of appeal therefrom.

14.16 Notices

Except with respect to notices and communications between a Working Interest Owner and its Royalty owners, the giving of which shall be governed by the applicable Lease or other agreement or instrument, all notices and other communications to be given in connection with this Agreement shall be in writing and shall be sufficiently given:

- a. If delivered by hand or by courier to a Party at its address for service such delivery shall be deemed received by the Party when actually delivered, if such delivery is during the Party’s normal business hours on any Day other than a Saturday, Sunday or statutory holiday. If such notice or other

communication is not delivered during the Party's normal business hours, such notice or other communication shall be deemed to have been received by the Party on the Day next following the date of delivery, other than a Saturday, Sunday or statutory holiday;

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

For the purposes of this clause 14.16, the address for service for each Party shall be the address set forth below its signature on the execution page hereof. Unit Operator may change its address for service by giving written notice thereof to each of the other Parties, and any other Party may change its address for service by giving written notice thereof to the Unit Operator.

ARTICLE 15

EFFECTIVE DATE

15

15.01 Effective Date

The unitization provided for herein shall become effective at 08:00 hours, on the first day of the first calendar month following the date of:

a. The qualification for inclusion in the Unit Area under section 5.02 of Tracts having a combined Tract Participation of one hundred (100%) percent of the total Tract Participation as originally set forth in Exhibit "A"; and

b. the date the Unit Agreement is registered by the Petroleum Branch.

15.02 Notice of Effective Date

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

15.03 Release of Parties

This agreement shall cease to bind the Parties if the unitization provided for herein has not become effective on or before the 31st day of December, 2013.

ARTICLE 16

TERM

16

16.01 Effect of Execution and Delivery

Subject to section 15.03, this agreement is binding upon a person who executes and delivers a counterpart thereof to the Unit Operator, and that person is bound by this agreement as of the time of such delivery.

16.02 Termination

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

16.03 Salvaging Equipment upon Termination

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

16.04 Notice to Royalty Owners

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

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

Date:

Company/
Name:

Address for service:

Facsimile:

This is the execution page for an agreement entitled

“EAST MANSON UNIT NO. 1”