

## JOINT OPERATING AGREEMENT

THIS AGREEMENT made as of the 18th day of July, 2006

BETWEEN:

**BIRCHCLIFF ENERGY LTD.**, a body corporate, having an office at the City of Calgary, in the Province of Alberta (hereinafter called "Birchcliff")

OF THE FIRST PART

- and -

**SHININGBANK ENERGY LTD.**, a body corporate, having an office at the City of Calgary, in the Province of Alberta (hereinafter called "Shiningbank")

OF THE SECOND PART

**WHEREAS** Birchcliff and Shiningbank each hold an interest in a certain Petroleum and Natural Gas Lease as more specifically set out in Schedule "A" attached hereto;

**WHEREAS** the Parties wish to enter into this Agreement to cover all operations on the Joint Lands and Title Documents from and after the Effective Date.

**WHEREAS** pursuant to Petroleum, Natural Gas and Related Rights Conveyance dated July 25<sup>th</sup>, 2006 and made effective July 1, 2006, the Parties interests in the Joint Lands are as set forth on Schedule "A".

**NOW THEREFORE THIS AGREEMENT WITNESSETH THAT** in consideration of the mutual covenants and agreements herein contained, the Parties hereto agree as follows:

### 1. DEFINITIONS

In this Agreement, including the recitals and all Schedules attached to and made part of this Agreement, unless the context otherwise requires, the definitions contained in Clause 101 of the Operating Procedure shall apply and:

- (a) "AMI Lands" means Sections 17 Township 81 Range 12W6M as to Petroleum and Natural Gas below base Halfway.
- (b) "Assignment Procedure" means the 1993 CAPL Assignment Procedure that will be deemed to apply as if it had been included as a schedule to this Agreement. Notwithstanding Clause 2.02 of the Assignment Procedure, no provision of the Assignment Procedure shall be construed so as to make the assignee responsible for any obligation or liability which had arisen or accrued prior to the Transfer Date (as defined in the Assignment Procedure).
- (c) "Title Document" means all instruments from which is derived the right to explore for and produce petroleum substances from the Joint Lands, and includes the instrument described in Schedule "A" and any renewal or extension thereof or further documents issued pursuant thereto, but only insofar as such instruments cover the Joint Lands.

### 2. SCHEDULES

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

- (a) Schedule "A" which sets forth and describes certain Title Documents, the Joint Lands, Working Interests and Encumbrances

- (b) Schedule "B" which is the rates and elections to the 1990 CAPL Operating Procedure, together with the 1996 PASC Accounting Procedure.

**3. HEADINGS**

The headings of the clauses of this Agreement and the Schedules are inserted for convenience of reference only and shall not affect the meaning or construction thereof.

**4. INTERPRETATION**

Whenever the singular or masculine or neuter is used in this Agreement or the Schedules, the same shall be construed as meaning plural or feminine or body politic or corporate and vice versa as the context so requires.

**5. CONFLICT OF PROVISIONS**

If any term or condition of this Agreement conflicts with a term or condition of the Title Documents, then such term or condition in the Title Documents shall prevail and this Agreement shall be deemed to be modified accordingly. If any term or condition of this Agreement conflicts with any term or condition of the Operating Procedure, then such term or condition in this Agreement shall prevail and the Operating Procedure shall be deemed modified accordingly.

**6. WORKING INTERESTS**

From and after the date hereof, and unless otherwise provided herein, all costs and expenses incurred in the exploration, development or operation of the Joint Lands and all petroleum substances produced, or revenues received, as a result of operations on the Joint Lands and all wells on the Joint Lands and information obtained in connection with the Joint Lands shall be shared, allocated and owned according to the Working Interests set forth in Schedule "A" hereto.

**7. OPERATING PROCEDURE**

As of and from the date hereof, the Operating Procedure shall, without any further execution by the Parties be deemed to be incorporated into this Agreement and govern the relationship of the Parties with respect to all operations conducted in connection with the exploration and development of the Joint Lands and the maintenance of the Title Documents for the production of petroleum substances.

**8. AREA OF MUTUAL INTEREST**

- (a) If at any time during the period from the date hereof until July 1, 2007, any AMI Lands become subject to a crown sale the parties shall consult with each other no later than twenty-four (24) hours prior to the crown sale and endeavor to agree on a joint bid for the lands. The parties shall have the right to share in a joint bid as follows:

Birchcliff	50.0%
Shiningbank	50.0%

- (b) If the parties cannot agree on a joint bid, each shall disclose to the others the bid or bids that it proposes to make and each may make such bid or bids at the crown sale. Except as hereinafter provided, if any such bid is successful, the bidder shall hold the interest so acquired free of any obligations to any other party. If, however, any party submits or participates in a bid at the crown sale which differs by more than five (5%) percent from the bid which that party previously stated to the other parties that it was prepared to make, and such bid results in the acquisition of any interest in the lands, then the party making the acquisition shall promptly give the other parties notice of the acquisition, including the consideration and costs payable with respect thereto (hereinafter called "the acquisition notice"). Each recipient may acquire an interest in such acquisition equal in the interests set forth in Clause 8(a) and pay its proportionate share of the consideration and costs paid with respect to the acquisition. The said right

shall terminate on the expiry of ten (10) full days after the service on the recipient of the acquisition notice.

- (c) A party shall not disclose to any third party any information whatsoever concerning the bid which any other party stated it intends to make at the crown sale.
- (d) If, any time during the period specified in Clause 8 (a) hereof, any party acquires an interest in the AMI Lands other than lands acquired at a crown sale then the acquiring party shall promptly offer to the other parties an interest in such acquisition. Each other party, by notice given to the acquiring party within ten (10) days after service on it of such offer, may acquire from the acquiring party an interest in such acquisition equal to its interest shown in Clause 8 (a) hereof, by paying or assuming, as the case may be, its proportionate share of the consideration and costs paid for the acquisition.
- (e) Any AMI Lands acquired jointly by the parties shall be governed by the terms of this Agreement.

9. **OPERATOR**

Birchcliff is appointed Operator of the joint lands.

10. **SUPERCEDES**

This Agreement supercedes and replaces all previous agreements, memoranda or correspondence, whether written or oral among the Parties or any of them with respect to the operation of the Joint Lands.

11. **TITLE**

Subject to the further provisions of this clause, the Parties do not make any representations or warranties as to the Joint Lands or the Title Documents but covenant that they have complied with and shall during the term of this Agreement continue to comply with the terms of the Title Documents to the extent necessary to keep the Title Documents in full force and effect.

No Party shall do or cause to be done any act, nor make or cause to be made, any omission whereby the Title Documents become encumbered in any way as to adversely affect the interest of the other Party/(ies) or render such interest liable to termination or forfeiture.

With the exception of those Encumbrances disclosed by the Parties herein, the Joint Lands and Title Documents are free and clear of all Encumbrances or burdens of any nature created by, through or under, the Parties.

Each Party covenants that it has good right, full power and authority to enter into this Agreement.

12. **ENCUMBRANCES**

If the participating interest of any Party in the Joint Lands is now or hereafter becomes encumbered by any royalty, overriding royalty, production payment, carried interest or other charge of a similar nature (herein called "Encumbrances"), other than the royalties as set forth under the terms of the Title Documents or as otherwise identified herein such Encumbrances shall be charged to and paid entirely by the Party whose participating interest is or becomes thus Encumbered. Such Party shall ensure that any such Encumbrances shall either be terminated upon that Party ceasing to have an interest in the Joint Lands so Encumbered or shall be assumed by the transferee to which such party transfers its interest. Provided, however, that in no event shall a Party acquiring an interest in the Lands by virtue of the operation of any provision of the body of this agreement or of the Operating Procedure (where applicable) ever be required to assume any part of such Encumbrances and the Party which has so Encumbered its interest shall at all times indemnify and hold the other Parties harmless.

13. **CREDITS**

Any exploratory drilling incentive credits, geophysical incentive credits, any other credits and grouping rights obtained from Her Majesty the Queen in the right of the Province of Alberta pursuant to any law, statute, rule, order or regulation of the Province of Alberta on account of any operations conducted on the Joint Lands hereunder shall be shared by the Parties participating in such operation in proportion to the interest in which they respectively participate in such operation.

**14. GST**

In executing this Agreement each and every Party authorizes the operator on its' behalf as participant, to make an election or elections jointly with the operator under subsection 273(1) of the Excise Tax Act. The Parties agree to be bound by the election when made, for the duration of the Agreement.

**15. ASSIGNMENT PROCEDURE**

The 1993 CAPL Assignment Procedure is incorporated by reference into the Agreement, and will be deemed to apply as if it had been included as a Schedule to the Agreement. Assignment of the Party's interest in this Agreement must be performed in accordance with the 1993 CAPL Assignment Procedure. If there is a conflict between the Assignment Procedure and the provisions of this Agreement, the Assignment Procedure shall prevail.

**16. ENUREMENT**

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

**17. FURTHER ASSURANCES**

Each of the Parties shall from time to time and at all times do such further acts and execute and deliver such further deeds and documents as shall be reasonably required in order to fully perform and carry out the terms of this Agreement.

**18. EFFECTIVE DATE**

This Agreement is effective as of the 1<sup>st</sup> day of July, 2006.

**19. GOVERNING LAW**

This Agreement shall be governed by the laws of the Province of Alberta and the Parties hereby irrevocably attorn to the jurisdiction of the courts, including all courts of appeal, of the said Province.

**20. LIMITATION ACT**

The two-year period for seeking a remedial order under Section 3(1)(a) of the Limitations Act, R.S.A. 2000 c. L-12, as amended, for any claim (as defined in that Act) arising in connection with this agreement is extended to:

- (a) for claims disclosed by an audit, two years after the time this agreement permitted that audit to be performed; or
- (b) for all other claims, four years

### SCHEDULE "A"

Attached to and forming part of that certain Joint Operating Agreement dated as of the 18th day of July, 2006 between Birchcliff Energy Ltd. and Shiningbank Energy Ltd.

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Title Documents	Joint Lands	Encumbrances	Working Interests
Alberta Crown PNG Lease No. 0503010709	Twp. 081 Rge. 12W6M: Section 18 All P&NG	Crown Sliding Scale	Birchcliff 50.0% Shiningbank 50.0%

