

## **WATER DISPOSAL AGREEMENT**

THIS AGREEMENT made as of the 6<sup>th</sup> day of October, 2017

BETWEEN:

**DRAGOS ENERGY CORP.**, a corporation incorporated under the laws of the Province of Alberta ("Dragos")

- and -

**PROGRESS ENERGY CANADA LTD.**, a corporation incorporated under the laws of the Province of Alberta ("Progress")

(Dragos and Progress may sometimes herein be referred to individually as a "Party" or collectively as the "Parties".)

WHEREAS Dragos owns and operates the Disposal Facility as hereinafter defined, together with all equipment contained therein and thereon;

AND WHEREAS Progress desires that Dragos receive Produced Water, as hereinafter defined, for disposal into the Disposal Facility for the account of Progress upon the terms and conditions set forth.

NOW THEREFORE in consideration of the mutual covenants and agreements herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by each Party, the Parties agree as follows:

### **1. Definitions**

In addition to other terms defined elsewhere in this Agreement, as used in this Agreement and any amendment to this Agreement, the following terms have the following meanings:

- (a) "**Agreement**" means this Water Disposal Agreement, including all exhibits attached hereto;
- (b) "**Applicable Law**" means, in respect of a Party, the Disposal Facility or any other matter contemplated herein, any and all:
  - (i) statutes (including regulations enacted thereunder);
  - (ii) judgments, decrees and orders of courts of competent jurisdiction;
  - (iii) regulations, orders, ordinances and directives issued by Government Authorities; and
  - (iv) the terms and conditions of all permits, licenses, approvals and authorizations;which are applicable to such Party, the Disposal Facility or any other matter contemplated herein;

- (c) "**Business Day**" means every day except Saturdays, Sundays and statutory holidays in the Province of Alberta;
- (d) "**Claim**" means any claim, demand, lawsuit, proceeding, arbitration or governmental investigation, in each case, whether asserted, threatened, pending or existing;
- (e) "**Disposal Facility**" means the disposal well(s) and associated disposal facilities including all real and personal property of every kind, nature and description situated therein or thereon as set forth in Exhibit "A";
- (f) "**Disposal Fee**" means the fee payable per cubic meter (m<sup>3</sup>) of Disposal Water delivered by Progress, and received and disposed by Dragos as set forth in Exhibit "A";
- (g) "**Government Authority**" means any federal, national, provincial, territorial, municipal or other government, any political subdivision thereof, and any ministry, sub-ministry, agency or sub-agency, court, board, bureau, office, or department, including any government-owned entity, having jurisdiction over a Party, the Disposal Facility or any other matter contemplated herein;
- (h) "**Losses and Liabilities**" means, in respect of a Party and in relation to a matter, any and all:
  - (i) losses, costs, damages, expenses and charges (including all penalties, assessments and fines) which such Party suffers, sustains, pays or incurs, directly or indirectly, in connection with such matter and includes costs of legal counsel (on a full indemnity basis) and other professional advisors and reasonable costs of investigating and defending Claims arising from the matter, regardless of whether such Claims are sustained and includes taxes payable on any settlement payment or damage award in respect of such matter; and
  - (ii) liabilities and obligations (whether under common law, in equity, under Applicable Law or otherwise; whether tortious, contractual, vicarious, statutory or otherwise; whether absolute or contingent; and whether based on fault, strict liability or otherwise) which such Party suffers, sustains, pays or incurs, directly or indirectly, as a result of or in connection with such matter;

but excluding indirect, incidental, consequential, exemplary, special or punitive losses or damages or loss of profits suffered, sustained, paid or incurred by such Party;
- (i) "**Produced Water**" means water produced from or originating from Progress' well(s) and facility operations and delivered to the Disposal Facility; and
- (j) "**Term**" means the period of time commencing and ending on the dates set forth in Exhibit "A".

## 2. Interpretation

### (a) Headings

The headings in this Agreement are for convenience of reference only, are not part of this Agreement and do not affect its interpretation.

(b) Recitals

The Parties hereby acknowledge and declare that the foregoing recitals are true and correct.

(c) Entire Agreement

This Agreement, including the documents and instruments contemplated by or delivered under or in connection herewith and the schedules and exhibits hereto, supersedes all prior representations, arrangements, negotiations, understandings and agreements between the Parties, both written and oral, relating to the subject matter hereof and its execution has not been induced by, nor do any of the Parties rely upon or regard as material, any representation or writing whatsoever not incorporated herein and made a part hereof.

(d) Conflict

In the event, and to the extent, of conflict between any of the terms of the body of this Agreement, the terms of the schedules or exhibits attached hereto, or the terms of a document or instrument to be delivered hereunder, the terms of the body of this Agreement shall prevail. In the event of a conflict between any of the terms of the schedules or exhibits attached hereto or the terms of a document or instrument to be delivered hereunder, the terms of the schedules or exhibits attached hereto shall prevail.

(e) Governing Law and Attornment

This Agreement, including the documents and instruments contemplated by or delivered under or in connection herewith and the schedules and exhibits hereto, are governed by and are to be construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein and treated in all respects as an Alberta contract. The Parties hereby irrevocably and unconditionally attorn to the exclusive jurisdiction of the courts of the Province of Alberta and all courts competent to hear appeals therefrom.

(f) Currency

All references herein to "dollars" or "\$" are to Canadian dollars, unless otherwise indicated.

(g) Invalidity

If at any time any one or more of the provisions hereof is or becomes invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions hereof will not in any way be affected or impaired thereby to the fullest extent possible by law.

### **3. Exhibits**

(a) The following exhibit is attached to and incorporated into this Agreement:

(i) Exhibit "A" - setting out the specifics of the Term, Volume, Disposal Facility and Disposal Fee.

(b) Exhibits may be revised by mutual agreement of Dragos and Progress.

- (c) Exhibits that are revised will show the effective date of the revision and will be numbered consecutively. Upon the revision of an exhibit, Dragos will provide Progress with a copy.

#### **4. Delivery**

- (a) During the Term and at times that are acceptable to both Parties, acting reasonably and in accordance with Exhibit "A", Progress may deliver Produced Water by tank truck to the Disposal Facility.
- (b) Subject to the terms and conditions of this Agreement, Dragos will accept and dispose of Produced Water delivered by Progress in accordance with Applicable Law and good oil field practice.
- (c) The volume of Produced Water received into the Disposal Facility shall be determined based on the tank truck delivery ticket or other methods of measurement as agreed between the Parties.
- (d) The delivery of Produced Water by Progress to Dragos shall only commence after each Party has obtained all necessary permits, licenses, approvals and authorizations to dispose of the Produced Water into the Disposal Facility in accordance with Applicable Laws.
- (e) All deliveries shall be made in accordance with Dragos' safety policies governing the Disposal Facility as such policies are communicated to Progress.

#### **5. Specification of Disposal Water**

- (a) Progress will only deliver Produced Water for disposal at the Disposal Facility.
- (b) Dragos shall have the right to test, at its sole discretion and cost, the Produced Water delivered by Progress to ensure that the Disposal Facility is licensed to handle such Produced Water and to ensure the Produced Water is within the guidelines set forth by the Alberta Energy Regulator. Dragos has the right to refuse delivery of Produced Water from Progress in the event Dragos, in its sole discretion, determines that the Produced Water does not meet such standards.
- (c) Progress will notify Dragos prior to the delivery of any Produced Water containing workover fluids, spent acids or any other contaminants. Dragos, in its sole opinion, will determine if such Produced Water is acceptable for disposal.

## 6. Temporary Capacity Limitations

Dragos, at its sole discretion, acting reasonably and without incurring any liability to Progress, reserves the right to refuse or limit acceptance of the Produced Water from Progress when the Disposal Facility is shut down for maintenance, or when the Disposal Facility's capacity is reduced by temporary operational difficulties or operating limitations, until such time as capacity is no longer restricted. Dragos will provide Progress notice of any planned maintenance and/or scheduled outages of the Disposal Facility at least fourteen (14) days in advance of any such maintenance or scheduled outage. Dragos will promptly provide Progress notice of any unplanned capacity restrictions or operating limitations.

## 7. Disposal Fees

The disposal charge to apply for the disposal of Produced Water for each month during the Term of this Agreement will be determined by multiplying the volume of Produced Water from any submitted truck tickets received in that month by the Disposal Fee as set forth in Exhibit "A".

## 8. Billing

Dragos will bill Progress on or before the tenth (10<sup>th</sup>) day of each month for the charges payable by Progress attributable to disposing of Disposal Water in the previous month. Progress will pay all of these bills within thirty (30) days after deemed receipt. If Progress fails to pay a bill within the said thirty (30) day period, Dragos will have the right at any time thereafter, such default continuing, to refuse to accept deliveries of Produced Water for disposal.

## 9. Liability and Indemnification

- (a) Subject to Subsection 9(b) and (c), Progress shall be liable for and as a separate covenant, indemnify, defend and hold Dragos, its directors, officers, servants, agents, advisors, employees, consultants and representatives of Dragos, and each of their respective successors and assigns (each, a "**Dragos Entity**") harmless from and against all Losses and Liabilities incurred or suffered by a Dragos Entity to the extent arising out of, relating to, or resulting from with the receipt and disposal by Dragos of Produced Water delivered by Progress at the Disposal Facility in accordance with this Agreement.
- (b) Once the Disposal Water is disposed of into the Disposal Facility, Progress' liability and responsibility of indemnification will be in the proportion that Progress' volume of water disposed of into the Disposal Facility bears to the total volume of water disposed of into the Disposal Facility from all sources at the time that such Claim arises.
- (c) The indemnity provided for in Subsection 9(a) will not extend to and Dragos agrees to be liable for, and as a separate covenant, indemnify, defend and hold Progress, its directors, officers, servants, agents, advisors, employees, consultants and representatives of Progress, and each of their respective successors and assigns (each, a "**Progress Entity**"), harmless from and against all Losses and Liabilities incurred or suffered by a Progress Entity to the extent arising out of, relating to, or resulting from the negligence or willful misconduct of Dragos, or those for whom Dragos is responsible at law, nor will it extend to Losses and Liabilities resulting from breach of this Agreement by Dragos.
- (d) This Section 9 shall survive the termination of this Agreement and shall remain in full force and effect to the extent of any Losses and Liabilities incurred, or rights or benefits

acquired, prior to the termination of this Agreement and each Party shall be responsible for any liabilities or obligations it incurs, or entitled to any rights or benefits it acquired, prior to termination.

#### **10. Force Majeure**

- (a) If Performance under this Agreement by Dragos and Progress, except for the payment of money, is excused to the extent that such performance is prevented or materially affected by strikes, lockouts, civil disturbances, riots, fire, floods, tornadoes, lightning, landslides, earthquakes, storms, breakage of or accident to machinery or lines of pipe, explosion, acts of God or the Queen's enemies, Provincial and Federal Government laws, rules, orders and regulations, injunctions or other legal proceedings based upon any claim or infringement or any letter patent, and other happenings (excluding financial) that are beyond the reasonable control of the Party claiming to be excused; but the one claiming will use reasonable diligence to put itself again in a position to carry out its obligations hereunder. Nothing herein contained will be construed to require any Party to settle a strike or lockout by acceding against its judgment to the demands of opposing persons in any labour dispute.
- (b) Where the performance of a Party is prevented or materially affected, the Party will give notice and full particulars to the other Party within a reasonable period of time after the occurrence of the cause relied upon and will give notice to the other Party when such cause ceases to operate.

#### **11. Assignment**

Either Party may assign this Agreement, including all rights and liabilities hereunder, at any time by providing the other Party with a fully executed instrument effecting such assignment, provided that no such assignment shall be effective unless the assignee agrees to be bound by the terms of this Agreement.

#### **12. Waiver**

A waiver of a provision of this Agreement, whether for future or past actions, shall not be binding upon a Party unless it is in writing and signed by its duly authorized representative(s), and such a waiver shall not operate as a waiver in the future of any provision, whether of a like or different character.

#### **13. Notices**

In this Agreement:

- (a) any notice or communication required or permitted to be given under this Agreement will be in writing and will be considered to have been given if delivered by hand or transmitted by facsimile transmission or email to the address, email address or facsimile transmission number of each Party set out below:

if to Dragos:

Dragos Energy Corp.  
911, 910 – 7<sup>th</sup> Avenue SW  
Calgary, Alberta  
T2T 6K3

Attention: Scott Lauinger, President and CEO  
Phone No: (403) 269-2459  
Email: scott.lauinger@dragosenergy.com

if to Progress:

Progress Energy Canada Ltd.  
1600, 215 – 2<sup>nd</sup> Street S.W.  
Calgary, Alberta  
T2P 1M4

Attention: Joint Interest Department  
Phone No: (403) 351-7332  
Email: cseto@progressenergy.com

or to such other address, email address or facsimile transmission number as any Party may designate in the manner set out above; and

- (b) notice or communication will be considered to have been received:
  - (i) if delivered by hand during business hours on a Business Day, upon receipt by a responsible representative of the receiver, and if not delivered during business hours, upon the commencement of business on the next Business Day; and
  - (ii) if sent by facsimile or email transmission during business hours on a Business Day, upon the sender receiving confirmation of the transmission, and if not transmitted during business hours, upon the commencement of business on the next Business Day.

#### **14. Time of the Essence**

Time is of the essence of this Agreement and all documents or instruments delivered hereunder.

***[Counterpart Execution Page Follows]***

**15. Counterparts**

This Agreement may be signed in one or more counterparts, originally, by facsimile or by “.pdf”, each such counterpart taken together will form one and the same agreement.

**IN WITNESS WHEREOF** each of the Parties has duly executed this Agreement as of the day and year first above written.

**DRAGOS ENERGY CORP.**

Per: \_\_\_\_\_  
Name: Scott Lauinger  
Title: President and CEO

**PROGRESS ENERGY CANADA LTD.**

Per: \_\_\_\_\_  
Name:  
Title:

Per: \_\_\_\_\_  
Name:  
Title:

**This is the execution page of the Water Disposal Agreement, dated October 6<sup>th</sup>, 2017, between Dragos Energy Corp. and Progress Energy Canada Ltd.**



**EXHIBIT "A" TO THE WATER DISPOSAL AGREEMENT, DATED OCTOBER 6<sup>TH</sup>, 2017,  
BETWEEN DRAGOS ENERGY CORP. AND PROGRESS ENERGY CANADA LTD.**

---

<b>Term</b>	This Agreement shall commence seven (7) days after Dragos provides Progress with written notice that it has received all necessary permits, licenses, approvals and authorizations to operate the Disposal Facility and shall continue for eighteen (18) months thereafter.
<b>Disposal Facility</b>	100/07-25-069-06W6/00  100/16-24-069-06W6/00
<b>Volume:</b>	Subject to Section 6 of the Agreement, Progress may deliver and Dragos will accept and dispose the following volumes of Produced Water:  (a) up to 120 m <sup>3</sup> per day; and  (b) up to 1200 m <sup>3</sup> per month.
<b>Disposal Fee:</b>	\$6.00 per cubic meter of Produced Water
<b>Deliveries and Priority:</b>	<p>Dragos will provide Progress with first priority access to a dedicated offload riser for all Progress deliveries of Produced Water to the Disposal Facility.</p> <p>Progress will provide Dragos with:</p> <p>(a) twelve (12) hours prior notice if it anticipates that its deliveries on any day will be 60 m<sup>3</sup> or less of Produced Water; and</p> <p>(b) forty-eight (48) hours prior notice for all deliveries larger than 61 m<sup>3</sup> of Produced water,</p> <p>such notice will include Progress' anticipated trucking schedule for the delivery of such volumes.</p> <p>On days when Progress does not provide notice to Dragos of deliveries, Dragos shall be entitled to utilize the dedicated offload riser and its capacity for other disposal volumes from its other third party clients.</p>
<b>Additional Volumes:</b>	Additional volumes received beyond the 120 m <sup>3</sup> maximum daily delivery volume or the 1200 m <sup>3</sup> maximum monthly delivery volume will be charged a fair market value fee that the Parties will negotiate in good faith on a case by case basis.