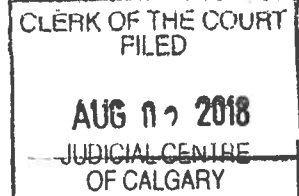


CLERK'S STAMP



COURT FILE NUMBER 1801- 10960

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

PLAINTIFF PRICEWATERHOUSECOOPERS INC., LIT, in its capacity as the TRUSTEE IN BANKRUPTCY OF SEQUOIA RESOURCES CORP. and not in its personal capacity

DEFENDANTS PERPETUAL ENERGY INC., PERPETUAL OPERATING TRUST, PERPETUAL OPERATING CORP., and SUSAN RIDDELL ROSE

DOCUMENT AFFIDAVIT

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT DE WAAL LAW  
1010, 505 – 3<sup>RD</sup> Street SW  
Calgary, AB T2P 3E6  
Phone: (403) 266-0012

Attention: Rinus de Waal/Luke Rasmussen  
Direct: (403) 266-0013  
Facsimile: (403) 266-2632  
E-mail: [rdewaal@dewaallaw.com](mailto:rdewaal@dewaallaw.com)

---

**AFFIDAVIT OF PAUL J. DARBY**  
SWORN ON AUGUST 2, 2018

---

I, Paul J. Darby, of Calgary, Alberta, SWEAR AND SAY THAT:

1. I am a Senior Vice President with PricewaterhouseCoopers Inc., LIT ("PwC"), the Applicant in this matter. I am a Chartered Accountant and a licensed insolvency trustee.

2. I have personal knowledge of the facts and matters herein deposed to, except where the context indicates otherwise. Where I have stated something on the basis of information provided to me, I believe that information to be true.
3. PwC is a licensed insolvency trustee and the trustee in bankruptcy (the “**Trustee**”) of the estate of Sequoia Resources Corp., previously known as Perpetual Energy Operating Corp. (“**PEOC**” or “**Sequoia**”).
4. I swear this affidavit in support of an application by PwC, in its capacity as Trustee of Sequoia, to set aside the transfer of certain assets and related liabilities to Sequoia in or about October, 2016 and for related or alternative relief.

### **The Parties**

5. Perpetual Energy Inc. (“**PEI**”) is an Alberta corporation. As at October 1, 2016, PEOC and Perpetual Operating Corp. (“**POC**”) were wholly-owned subsidiaries of PEI.
6. Perpetual Operating Trust (“**POT**”) is an unincorporated trust pursuant to the laws of Alberta. PEOC was the trustee for POT, until PEOC resigned and was replaced by POC.
7. Sequoia is an Alberta corporation. Its sole function, until it was replaced by POC, was to act as trustee for POT. Until October 1, 2016, Sequoia had no material assets or operations.
8. Susan Riddell Rose (“**Rose**”) is an individual, residing in the Province of Alberta. Rose is a director of PEI and the sole director of POC. Rose was the sole director and directing mind of Sequoia, then still known as Perpetual Energy Operating Corp., until she resigned on October 1, 2016. I will refer to Rose, PEI, POC and POT as the “**Perpetual Group**”.

### **Background**

9. On or about March 2, 2018, Sequoia filed a Notice of Intention to Make a Proposal pursuant to the *Bankruptcy and Insolvency Act*, RSC 1985 c B-3, as amended (the “**BIA**”) and on March 23, 2018, Sequoia assigned itself into bankruptcy.
10. As part of its investigation into the financial circumstances of Sequoia, the Trustee considered the terms and circumstances of various transactions leading up to the bankruptcy. The Trustee identified transactions involving PEOC and some of the Respondents which may be void as against the Trustee, as transfers at undervalue or on other grounds, and determined that some or all of the Perpetual Group may be liable to PEOC for the difference between the value of the consideration received by PEOC and the value of the consideration given by PEOC in those transactions, or on other grounds.

11. On May 28, 2018, the Trustee wrote to the Perpetual Group to request specific records, pursuant to s.164 of the *BIA*. A copy of the letter is attached, as **Exhibit A**. In response, the Perpetual Group provided the Trustee with access to some of its records relating to the transactions the Trustee had identified as potentially void (the “**Perpetual Disclosure**”).
12. On June 26, 2018, the Trustee again wrote to the Perpetual Group to advise of the Trustee’s preliminary conclusions from a review of the Perpetual Disclosure and to invite comments or additional information regarding specific aspects, or generally, for consideration by the Trustee. A copy of the letter is attached, as **Exhibit B**.
13. To date, no further records or information have been received from the Perpetual Group.

### **The Goodyear Restructuring**

14. On or about August 4, 2016, a presentation, referred to as the “Goodyear Presentation”, was made to the board of directors of PEI. Copies of the individual slides of the Goodyear Presentation are attached, as **Exhibit C**.
15. The Goodyear Presentation listed, among strategic goals for 2016, reduction of “ARO costs” by \$50 million. The presentation set out various steps in a proposed corporate restructuring and the related sale of specific assets to achieve this goal (the “**Goodyear Restructuring**”).
16. For the purposes of the Goodyear Restructuring, the assets of POT were divided into three categories:
  - 16.1. “Goodyear Assets” - the POT shallow gas assets, including a large number of gas wells, which had been identified for disposition,
  - 16.2. “KeepCo Interim Assets” - all assets except the Goodyear Assets and four East Edson wells and related interests; and
  - 16.3. “KeepCo Assets” - all assets except the SaleCo Assets. I assume from the context that “SaleCo” means “Goodyear”, so that the “SaleCo Assets” are all the assets that would be sold as part of the Goodyear Restructuring.
17. PEOC owned no interests in its own right, but held the licenses, permits and legal title to assets, as trustee of POT. Because it already owned the licenses and permits, no transfer of assets and therefore no regulatory approval for a transfer of assets was required if POT assets were to be sold to PEOC. PEOC would simply continue to own the assets, but in its own right, rather than as trustee for POT.
18. In what is referred to in the Goodyear Presentation as the “Readiness Restructuring”, POC would be set up to accept the transfer of the licenses and operations associated with the

KeepCo Assets, and the KeepCo Interim Assets would be transferred from PEOC to POC under a trust agreement. That would leave PEOC with the Goodyear Assets which had been identified for sale, as well as the four East Edson wells and related interests (the “**Retained Interests**”), for the time being.

- 18.1. The Goodyear Assets, which had been identified to be disposed of, were described in public disclosure documents and media statements as “mature legacy” and “high liability” assets, which were “a major drain on the company” and “operating on a negative cash flow basis”, and which had “net asset retirement obligations (‘ARO’) of \$131.0 million”.
- 18.2. The Retained Interests, on the other hand, included four strong producing wells. As I will refer to below, the Retained Interests were excluded from the KeepCo Interim Assets and retained in PEOC for the time being, to maintain the PEOC Licensee Liability Rating (“**LLR**”) above 1.0 until the final steps in the restructuring had been completed.
19. Finally, in what is referred to in the Goodyear Presentation as the “Goodyear Restructuring”, the Retained Interests would also be transferred to POC, leaving only the Goodyear Assets with PEOC, and POT would sell its interests in the Goodyear Assets to PEOC.
20. Although this was not specifically referred to in the Goodyear Presentation, it appears from the events that followed that the Perpetual Group contemplated that PEI would then sell all its shares in PEOC, Rose would resign as director of PEOC and PEOC’s name would be changed to Sequoia Resources Corp, to complete the steps necessary for the Perpetual Group to dispose of the Goodyear Assets.
21. In accordance with the Goodyear Presentation, effective October 1, 2016, Rose, in her capacity as sole director of PEOC, which was also the trustee for POT, agreed that POT would sell and PEOC would buy the Goodyear Assets for a nominal purchase price of \$10.00 (the “**Asset Transaction**”). Rose executed a Purchase and Sale Agreement (the “**Asset PSA**”) as President and CEO of PEOC, on behalf of both parties. A copy of the Asset PSA is attached (without the schedules) as **Exhibit D**.
22. In a related agreement (the “**Share PSA**”), which is dated September 26, 2016 but which closed minutes after the Asset Transaction, PEI sold 100% of its shares in PEOC to 1986114 Alberta Ltd. (“**198**”), also for nominal consideration (the “**Share Transaction**”). A copy of the Share PSA (without the schedules) is attached, as **Exhibit E**.
23. The Share PSA expressly contemplated a “Pre-Transaction Reorganization”, defined as the sale and transfer of the “Purchased Assets” from POT to PEOC, as well as the resignation of PEOC as trustee of POT. It specifically allowed the Perpetual Group to continue to

benefit from the Goodyear Assets if the price of gas improved after the transaction, through an option to purchase 90% of the gas production from the Goodyear Assets at a fixed price for a certain period.

24. Included in the Perpetual Disclosure are separate calculations of the “Goodyear LLR” for Northern Wells and Facilities and for Southern Wells and Facilities, as well as an undated schedule with “LLR Northern Southern and Totals”. A copy of this schedule, attached as **Exhibit G**, shows an LLR below 1.0 for the two areas combined.
25. Following the sale of PEI’s PEOC shares to 198, PEOC and POT agreed that PEOC would temporarily retain an undivided 1% legal interest in certain petroleum and natural gas rights and the right to be the licensee of record for certain highly productive wells. A copy of the Retained Interests Agreement entered into between PEOC and POT (the “**Retained Interests Agreement**”) is attached as **Exhibit F**.
26. Although POT would own 100% of the beneficial interests in the Retained Interests, which were held by PEOC as bare trustee for POT, the highly productive wells would contribute positively to PEOC’s LLR as long as PEOC remained licensee of record for those wells.
27. The Retained Interests compensated on an interim basis for the negative LLR associated with the Goodyear Assets, allowing PEOC to maintain a positive LLR while the rest of the restructuring and sale proceeded without intervention from the Alberta Energy Regulator (the “**AER**”).
28. Rose resigned as a director of PEOC on October 1, 2016. I attach a copy of a “Resignation & Mutual Release”, as **Exhibit H**. It confirms, in the preamble, that Rose acted as a director and officer of PEOC “at the request of ” PEI, that the Share PSA required her to resign and that PEI requested her to resign. It also provides that PEI and PEOC agree to release Rose with respect to “having acted, at the request of PEI, as director and officer of PEOC.” Rose was replaced as director of PEOC by Wentao Yang and Hao Wang.
29. On October 3, 2016, PEOC changed its name to Sequoia Resources Corp.
30. The Asset Transaction was a material transaction for PEOC. PEOC had no significant assets, capitalization or sources of funding in October 2016, as evidenced by:
  - 30.1. the “internally prepared statements of financial position and statements of income, excluding notes to the financial statements” of PEOC “as at and for the year ending December 31, 2015 (unaudited) and as at and for the six months ending June 30, 2016 (unaudited)”, a copy of which is attached as **Exhibit I**; and

30.2. the “Internal Operating Statements” of PEOC assets for the year ended December 31, 2015 and the six months ended June 30, 2016, a copy of which is attached as **Exhibit J**.

31. PEOC was unable to pay the abandonment and reclamation costs (“**ARO**”), the municipal property tax liabilities or other liabilities associated with the Goodyear Assets and was insolvent at the time of, or immediately after, the Asset Transaction.

#### **Review by the Trustee**

32. The Trustee has identified all the Sequoia wells, reconciled all those wells with the various agreements by which those were acquired and confirmed the status of all the wells.

33. I attach, as **Exhibit K**, schedules prepared to show the results of this reconciliation.

#### **The Value of the Actual Consideration Given and Received**

34. From the information provided by the Perpetual Group, it is clear that the consideration received by PEOC in the Asset Transaction was conspicuously less than the consideration given by PEOC in the Asset Transaction, including its assumption of the ARO associated with the Goodyear Assets.

35. Four reserve reports were included in the Perpetual Disclosure. Copies of the summary portions of these reports are attached as **Exhibit L**.

36. The first two reports valued the assets on a “PPDP” (Proved + Probable Developed Producing) basis, using “Strip Price” and the “McD Jan” price respectively. At a 10% discount rate to calculate net present value, the total value of the “*North and South Gas (no Panny or Mannville)*” was negative – in the amounts of \$(36,772,800) and \$(7,828,700) respectively.

37. The other two reports both valued the assets on a less conservative “TPP (Total Proved + Probable)” basis.

37.1. The first of these reports (“*North and South Gas (no Panny or Mannville) – TPP – Strip Price*”) shows a negative NPV(10) value of \$(34,709,000) on a Total Proved and Probable (2P) basis.

37.2. The second (“*North and South Gas (no Panny or Mannville) – TPP – McD Jan*” - the “**McDaniel Report**”) is dated April 11, 2016. It only includes 652, or approximately 26%, of the 2,502 wells included in the Goodyear Assets (the “**Goodyear Wells**”) and excludes the balance, or approximately 74%, of the Goodyear Wells. The McDaniel Report determines a value of \$5,670,200, also on a (2P) NPV10 basis, but using a McDaniel pricing forecast.

38. For the purposes of evaluating the Asset Transaction, the Trustee has used the reserve report received as part of the Perpetual Disclosure that attributes the highest value to the Goodyear Assets.
39. By its nature, future ARO costs depend on many variable factors and can only be estimated. XI Technologies Inc. has developed a software model to provide an estimate of future abandonment and reclamation costs for wells and facilities. The Trustee understands that the model was developed based on public information and data, has been tested against actual operations and provides an objective estimate of ARO costs.
40. According to the XI Technologies Inc. ARO Cost Model and based on the records produced as part of the Perpetual Disclosure, the Trustee estimates that the liabilities associated with the Goodyear Assets and assumed by PEOC as part of the Asset Transaction, were:
  - 40.1. ARO of \$192,127,274 for the Goodyear Wells (abandonment costs of \$98,855,218 and reclamation costs of \$93,272,056);
  - 40.2. ARO of \$26,831,000 for the facilities associated with the Goodyear Wells, calculated as the costs attributable to the Goodyear Assets, proportionate to the total ARO for all POT facilities; and
  - 40.3. Property taxes of \$10,047,744.20, taken as the total annual property taxes payable with respect to the Goodyear Assets according to the Perpetual Disclosure and assumed outstanding at the time of the Asset Transaction. I attach, as **Exhibit M**, a schedule provided as part of the Perpetual Disclosure.
41. I attach a schedule with the Trustee's estimated valuation of the Asset Transaction, as **Exhibit N**. This shows a net negative value of \$223,241,000 for PEOC immediately after the Asset Transaction.
  - 41.1. I note that the McDaniel Report value of \$5,670,200 includes an estimate of abandonment costs for those Goodyear Wells included in the report, as well as estimates for salvage value. For this reason, the amount for ARO included in the schedule, Exhibit N, may be overstated as it has to some extent already been included in the value of some of the Goodyear Wells. The Trustee does not consider this to be material to its analysis.
  - 41.2. I also note that there is some indication in the Perpetual Disclosure that payment of municipal property taxes for some of the properties had been deferred. It is not clear to the Trustee how much of the annual total taxes payable were due and immediately payable on October 1, 2016. The Trustee also does not consider this to

be material to its analysis of the consideration given and received by PEOC in the Asset Transaction.

42. The conclusion of the Trustee, that the consideration received by PEOC was conspicuously less than the consideration it provided in return, is supported by public disclosure statements from PEI itself. In a news release issued by PEI on September 27, 2016, at year-end 2015, PEI forecast the undiscounted cost of the ARO for the Goodyear Assets at \$133.6 million. The ARO is reflected as \$131.0 million in PEI's Third Quarter 2016 Interim Financial Statements effective September 30, 2016. Copies of the news release and the Interim Financial Statements are attached, as **Exhibit O** and **Exhibit P** respectively.
43. The conclusion of the Trustee is also consistent with the statements on behalf of PEI that it had strategically disposed of "high liability" assets and net asset retirement obligations and that it would materially improve its LMR as a result of the disposition of the Goodyear Assets.
44. In the opinion of the Trustee:
  - 44.1. the Goodyear Assets, transferred to PEOC pursuant to the Asset Transaction, had no positive fair market value at the time of the Asset Transaction, but represented a significant net liability of at least \$223,241,000;
  - 44.2. the value of the actual consideration given by PEOC in the Asset Transaction was therefore at least \$223,241,000; and
  - 44.3. the value of the actual consideration received by PEOC in the Asset Transaction was at most \$5,670,200.

#### **Insolvency of PEOC**

45. As I have stated, the sole purpose of PEOC prior to the Goodyear Restructuring was to act as trustee for POT. It had no assets or operations and may have been insolvent, if it was personally liable to pay the municipal property tax obligations associated with the assets it held as trustee for POT.
46. Accordingly, by acquiring the Goodyear Assets which, according to PEI:
  - 46.1. had been cash flow negative for many years;
  - 46.2. represented ARO and tax liabilities of more than \$130 million on Perpetual's own records; and



46.3. required capital for ARO and recompletion of \$22.6 million over the next three years,

PEOC was immediately rendered insolvent, if it had not already been insolvent immediately prior to acquiring the Goodyear Assets.

47. As a result of the Asset Transaction, PEOC had no property which, at a fair valuation, was sufficient to enable payment of all its obligations.

#### **Rose as Director of PEOC**

48. As sole director of PEOC, which was the trustee for POT at the time of the Asset Transaction, Rose acted on behalf of both parties to the Asset Transaction.

49. At the time, Rose was the President, CEO and a shareholder of PEI, which controlled POT through its trustee PEOC. Rose personally benefited from the Goodyear Restructuring and allowed POT and PEI to benefit from the Goodyear Restructuring, all to the prejudice of PEOC. The Trustee has seen no disclosure in writing by Rose to PEOC, in the PEOC minute book or elsewhere, of her interest in the Asset Transaction or in any party to the Asset Transaction.

50. Rose executed a written resolution as director of PEOC on October 1, 2016, to approve the Asset Transaction and to execute the Asset PSA. A copy of the Certified Resolution is attached, as **Exhibit Q**. Although the preamble to the resolution states that “the directors” believed it was in the best interests of PEOC to execute the Asset PSA and to accept transfer of the Goodyear Assets, the Trustee has not identified any aspect of the Asset Transaction which benefited or was in the best interests of PEOC.

#### **Oppression and Prejudice to Creditors**

51. In the opinion of the Trustee, the Asset Transaction was clearly not in the best interests of PEOC. The transaction also disregarded and prejudiced the creditors of PEOC. In particular, the inability of PEOC to pay the ARO and municipal property taxes directly affected its creditors.

#### Orphan Wells

52. Where no party is legally responsible or where the legally responsible party is financially unable to comply with the abandonment and reclamation obligations relating to a well, pipeline, facility or associated site, such a well, pipeline, facility or associated site is designated an “orphan” by the AER.

53. The AER annually prescribes an orphan fund levy pursuant to Part 11 of the *Oil and Gas Conservation Act* which is payable proportionally by each licensee and approval holder.

The levy is administered by the Orphan Well Association (the "OWA"), a non-profit organization which operates under the delegated legal authority of the AER. Members of the oil and gas industry in Alberta fund most of the costs incurred by the OWA through the orphan fund levy.


- 54. In its Annual Report for 2016/17, the OWA reported that it had spent just under \$30 million, of which almost \$12.5 million was spent on abandoning 232 wells. In that year, 928 new wells had been added to the orphan well inventory.
- 55. According to the OWA, as of June 28, 2018, there were 1,908 orphan wells for abandonment, 1,102 orphan wells for suspension and 1,129 orphan sites for reclamation. In addition, there were 729 orphan reclaimed sites, 2513 orphan pipeline segments for abandonment and 1333 orphan pipeline segments for suspension.
- 56. From this information it is clear that the potential addition of the 2,502 Goodyear Wells and all the associated pipelines, facilities and sites to the orphan well fund, will have a significant financial impact on the licensees and approval holders under the AER through the orphan well levy.

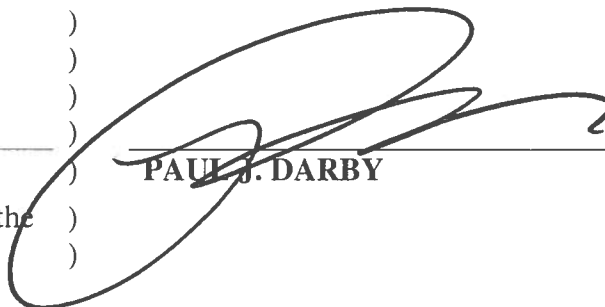
Municipal Property Tax

- 57. As a result of the Asset Transaction, PEOC became liable for the municipal property taxes with respect to the Goodyear Assets, with no right to claim reimbursement from POT or anyone else. As these assets were cash flow negative, PEOC has no ability to pay the taxes.

I swear this affidavit on behalf of the Trustee, to support an application for an order, setting aside the Asset Transaction and granting related and/or alternative relief.

SWORN BEFORE ME at Calgary )  
Alberta, this 2nd day of August, 2018 )

  
\_\_\_\_\_  
Luke Rasmussen )  
A Commissioner for Oaths in and for the )  
Province of Alberta )

  
\_\_\_\_\_  
PAUL J. DARBY

**LUKE RASMUSSEN**  
Barrister & Solicitor

# **EXHIBIT “A”**



This is Exhibit " A " referred to in the

Affidavit of

*Paul J. Darby*

Sworn before me this *2nd* day

of *August* A.D. 20 *18*

A Notary Public and Commissioner for Oaths  
In and for the Province of Alberta

**LUKE RASMUSSEN**  
Barrister & Solicitor

**Strictly Private & Confidential**

May 28, 2018

Perpetual Energy Inc. and its Affiliates  
Suite 3200, 605 5 Avenue SW  
Calgary, Alberta T2P 3H5

**Attention:** Susan L. Riddell Rose

PricewaterhouseCoopers Inc. LIT (the "**Trustee**") is the Trustee in Bankruptcy of Sequoia Resources Corp. ("**SRC**").

Prior to the filing by SRC of a Notice of Intention to Make a Proposal pursuant to s.50.4(1) of the *Bankruptcy and Insolvency Act* (the "**BIA**") on March 2, 2018, various oil and gas assets and associated liabilities were transferred to SRC. The Trustee is currently reviewing these transfers.

Although the Trustee's investigation has not been completed, it appears that some or all of these transfers directly or indirectly involved Perpetual Energy Inc., Perpetual Operating Trust and other related entities (collectively referred to as the "**Perpetual Group**"), that some or all of these transfers may be void as against the Trustee, as transfers at undervalue or on other grounds and that the Perpetual Group may be indebted to SRC for the difference between the value of the consideration received by SRC and the value of the consideration given by SRC, including the value of the liabilities assumed by SRC as part of the transfers.

The Trustee believes that the Perpetual Group has in its possession or power books, documents and papers relating in whole or in part to SRC, its dealings or property, and showing that the Perpetual Group is indebted to SRC (the "**Records**"). Pursuant to s.164 of the *BIA*, the Perpetual Group is required to produce all the Records for the information of the Trustee, including (but not limited to) the following:

- records relating to the transfer of any wells or other assets to SRC, previously known as Perpetual Energy Operating Corp., by or at the direction of the Perpetual Group since March 2, 2013 (the "**Transfers**"), including:
  - all Records relating to the fair market value of any asset or liability transferred to and from SRC;
  - all Records relating to the value of the actual consideration given and received by SRC with respect to the Transfers;
  - all Records relating to any communications between SRC and any member of the Perpetual Group in relation to the Transfers; and

PricewaterhouseCoopers Inc., LIT  
111 5 Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3  
T: +1 403 509 7500, F: +1 403 781 1825, www.pwc.com/ca



- all Records relating to any communications within and between members of the Perpetual Group relating to the Transfers; and
- records relating to any other transactions between SRC and the Perpetual Group since March 2, 2013.

The Trustee has been taking steps and incurring costs to secure the wells and other assets transferred to SRC and will continue to do so. Any delay will prejudice the Trustee and complicate matters practically, so we request your written response to this request by noon on Friday, June 8, 2018. If you require additional time to respond, let us know immediately, please.

In addition to this s.164 request, we propose a without prejudice meeting with you at the earliest mutually convenient opportunity to discuss the Transfers and related matters. Please let us know if and when you will be available to meet with us.

Yours very truly,

**PricewaterhouseCoopers Inc., LIT**  
**As Trustee in Bankruptcy of Sequoia**  
**Resources Corp.**



Paul Darby, LIT  
Senior Vice President

# **EXHIBIT “B”**



This is Exhibit " B " referred to in the Affidavit of

Paul J. Darby  
Sworn before me this 2nd day of August A.D. 2018

A Notary Public Commissioner for Oaths In and for the Province of Alberta

LUKE RASMUSSEN  
Barrister & Solicitor

**Strictly Private & Confidential**

June 26, 2018

Perpetual Energy Inc. and its Affiliates  
Suite 3200, 605 5 Avenue SW  
Calgary, Alberta T2P 3H5

**Attention:** Susan L. Riddell Rose

The Trustee has now completed a preliminary review of the material Perpetual Energy Inc., Perpetual Operating Trust and other related entities (collectively referred to as the "Perpetual Group") have provided in response to our letter of May 28, 2018.

From our review, it appears that, on the values provided by the Perpetual Group, the transaction between Perpetual Operating Trust ("POT") and Sequoia Resources Corp. ("SRC") was a non-arm's length transfer at undervalue and, in any event, that SRC was insolvent at the time or was rendered insolvent by the transaction. It also appears that the transaction strongly favoured the Perpetual Group, to the prejudice of SRC.

If there is anything specific you want the Trustee to consider with respect to these aspects:

- the apparent non-arm's length nature of the transaction between POT and SRC;
- the fact that the consideration received by SRC from the transaction appears to have been conspicuously less than the consideration given by SRC, particularly taking into account the ARO;
- the timing of the transaction;
- the financial position of SRC immediately before and immediately after the transaction; and
- the benefit of the transaction for SRC;

or any other aspect you consider relevant to our review, please let us know so that the Trustee can consider the additional information.

Yours very truly,

**PricewaterhouseCoopers Inc., LIT  
As Trustee in Bankruptcy of Sequoia  
Resources Corp.**

Paul Darby, LIT  
Senior Vice President

PricewaterhouseCoopers Inc., LIT  
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# **EXHIBIT “C”**





This is Exhibit " C " referred to in the Affidavit of

Sworn before me this 2nd day of August A.D. 2016

A Notary Public, A Commissioner for Oaths In and for the Province of Alberta

**LUKE RASMUSSEN**  
Barrister & Solicitor

August 4, 2016

PERPETUAL S...  
GOOD YEAR



# Maximize Value Potential of Eastern Alberta Assets

## 2016 Strategic Goals



PERPETUAL

1. Reduce costs to contribute to \$10 million in corporate operating cost reductions
2. Identify lands for expiry/non-renewal and optimize value through farm-outs, dispositions and surrenders for lease rental reductions of >\$0.5 million
3. Realign assessed property values with true and real values to drive future municipal tax reductions
4. Reduce ARO costs by \$50 MM from year end 2015 and master internally-driven ARO execution to prove up and demonstrate two year to reclamation certificate goal
5. Mitigate non-compliance risks
6. Triple Zero operations - zero spills, zero recordable safety incidents and zero vehicle incidents for both employees and contract services
7. Establish and implement integrated electronic protocols tied to electronic well file project, recompletion/workover inventory management, inactive well and pipeline management, ARO management and compliance

Material progress on all strategic goals to understand, quantify and maximize capture of potential value as they relate to eastern Alberta shallow gas assets



9. Create sustainability plan for each asset at current market with sensitivity to downside
  - Through focused area level review process, define and document technical review and future potential recompletion and workover programs for all wellbores with associated basic economic evaluation and implement 2016 program for projects with < 1 year payout within funded budget
  - Complete full cycle property level asset plan evaluations for all shallow gas properties and pursue disposition of non-accretive properties where appropriate
  - Implement continuous monitoring of netbacks process to ensure only positive netback production is online through volatile extreme low commodity price environment

Sustainability plans for shallow gas properties largely complete  
Upside inventory and asset retirement obligations and costs well understood

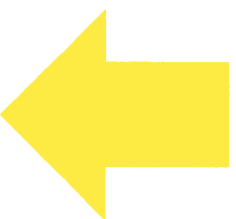
# Reduce Debt and Restore Cash Flow

## 2016 Strategic Goals

PERPETUAL



1. Crystallize >\$50MM in asset sales
    - Identify and create action plans for other disposition activities
  8. Maintain exposure to commodity price recoveries while managing risk
    - Capture value from post 2016 hedging opportunities
  9. Pursue M&A activity to optimize cost structure
    - Identify opportunities to include low/negative netback properties in disposition candidates
- 
- Balance sheet and cash flow goals driving preparedness for future transaction for disposition of material portion of shallow gas assets
  - Regulatory changes and risk dictating corporate restructuring



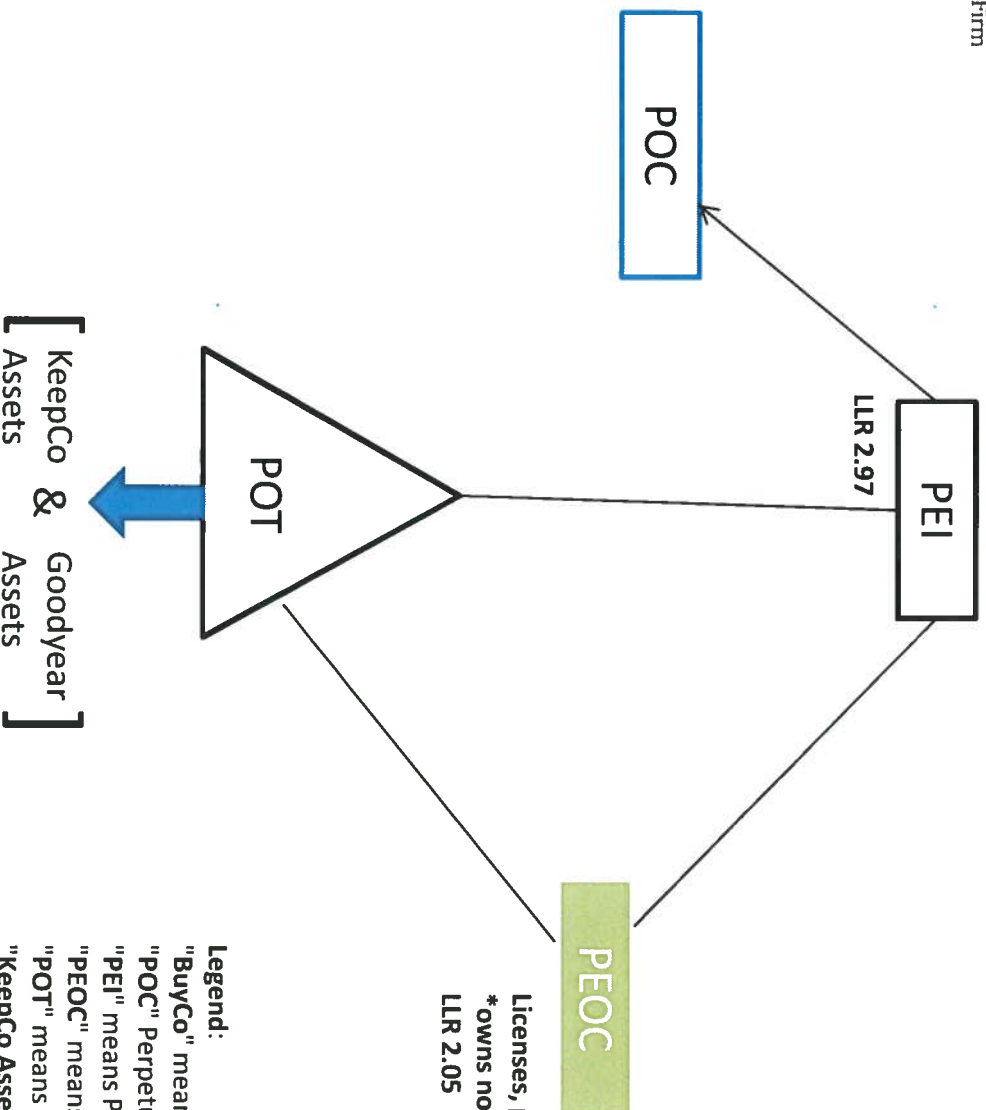
Internal restructuring initiated independent of any pending transaction

# Corporate Restructuring - Current



Burnet,  
Duckworth  
& Palmer LLP  
Law Firm

Current



PEOC  
Licenses, permits, legal title for POT  
\* owns no assets in its own right  
LLR 2.05

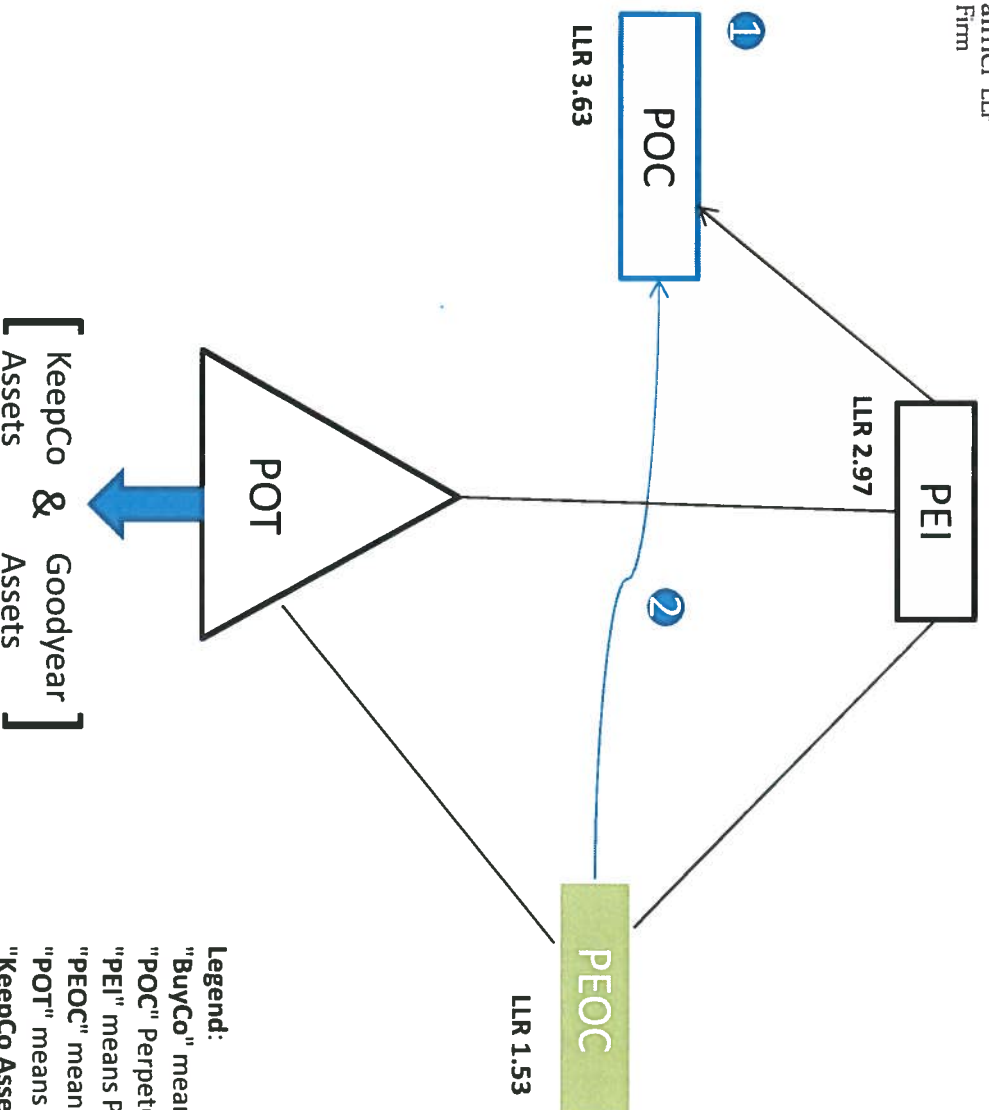
- Legend:**
- "BuyCo" means an arm's length Canadian resident purchaser
  - "POC" Perpetual Operating Corp.
  - "PEI" means Perpetual Energy Inc.
  - "PEOC" means Perpetual Energy Operating Corp.
  - "POT" means Perpetual Operating Trust
  - "KeepCo Assets" means all of POT's assets other than the SaleCo Assets
  - "KeepCo Interim Assets" means all of POT's assets other than the Goodyear Assets and 4 East Edson wells to maintain PEOC LLR > 1.5
  - "Goodyear Assets" means POT's shallow gas assets for disposition

# Corporate Restructuring – Interim Readiness



Burnet,  
Duckworth  
& Palmer LLP  
Law Firm

## Readiness Restructuring



- Steps:**
1. POC is set up as an eligible licensee
  2. KeepCo Interim Assets transferred to POC under a trust agreement

**Legend:**

- "BuyCo" means an arm's length Canadian resident purchaser
- "POC" Perpetual Operating Corp.
- "PEI" means Perpetual Energy Inc.
- "PEOC" means Perpetual Energy Operating Corp.
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- "KeepCo Assets" means all of POT's assets other than the SaleCo Assets
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- "Goodyear Assets" means POT's shallow gas assets for disposition

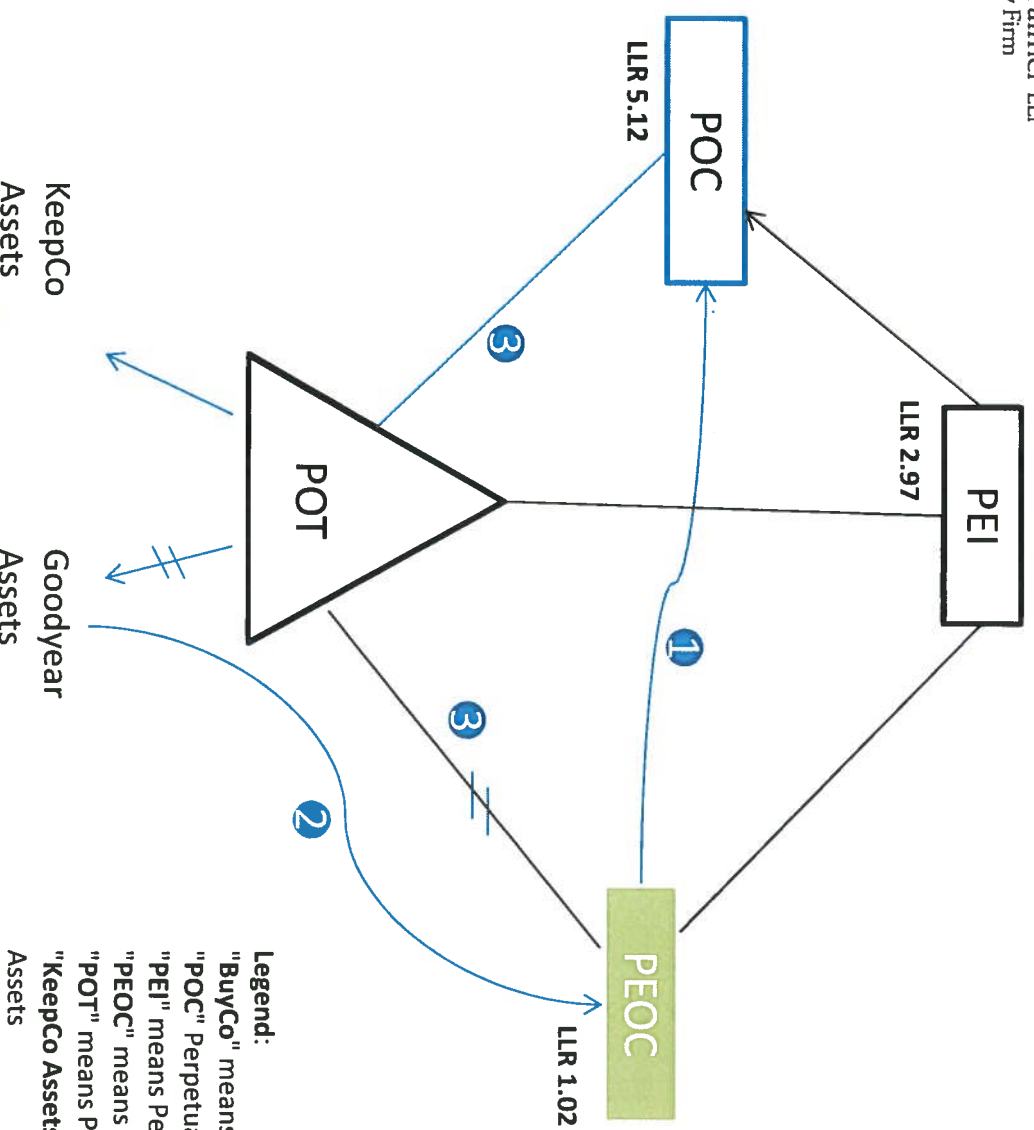
# Corporate Restructuring - Goodyear



PERPETUAL

Burnet,  
Duckworth  
& Palmer LLP  
Law Firm

## Goodyear Restructuring



### Steps:

1. Remaining KeepCo asset licenses transferred to POC under a trust agreement
2. POT sells the SaleCo Assets to PEOC
3. PEOC resigns as trustee of POT and POC is appointed as trustee of PEOC

### Legend:

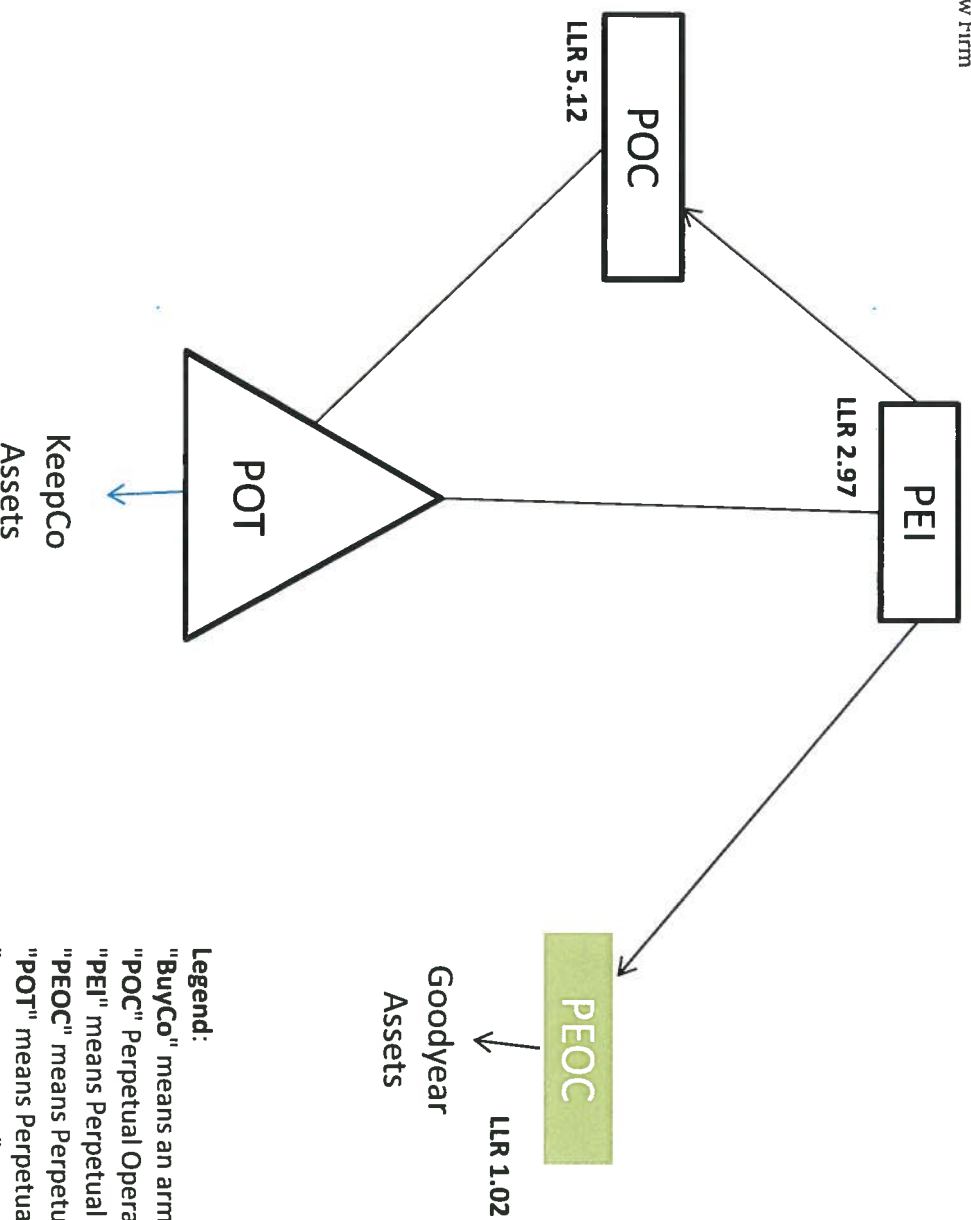
- "BuyCo" means an arm's length Canadian resident purchaser
- "POC" means Perpetual Operating Corp.
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- "POT" means Perpetual Operating Trust
- "KeepCo Assets" means all of POT's assets other than the SaleCo Assets
- "KeepCo Interim Assets" means all of POT's assets other than the SaleCo Assets and 4 East Edson wells to maintain PEOC LLR > 1.5
- "SaleCo Assets" means POT's shallow gas assets

# Corporate Restructuring - Final



Burnet,  
Duckworth  
& Palmer LLP  
Law Firm

## Post-Goodyear Restructuring



### Legend:

- "BuyCo" means an arm's length Canadian resident purchaser
- "POC" Perpetual Operating Corp.
- "PEI" means Perpetual Energy Inc.
- "PEOC" means Perpetual Energy Operating Corp.
- "POT" means Perpetual Operating Trust
- "KeepCo Assets" means all of POT's assets other than the SaleCo Assets
- "KeepCo Interim Assets" means all of POT's assets other than the SaleCo Assets and 4 East Edson wells to maintain PEOC LLR > 1.5
- "SaleCo Assets" means POT's shallow gas assets





## Goodyear Deal Summary



### Sale of Shallow Gas Assets (excluding Mannville and Panny)

Consideration = \$1 with 'Deferred Purchase Price' whereby PMT captures incremental revenue on prices exceeding \$2.81/GJ on 33,600 GJ/d (90% of production) for 2 years with embedded PUT/CALL structure

### Major Metrics Impact

(status quo vs post transaction) on accelerated capital outlook and hybrid pricing

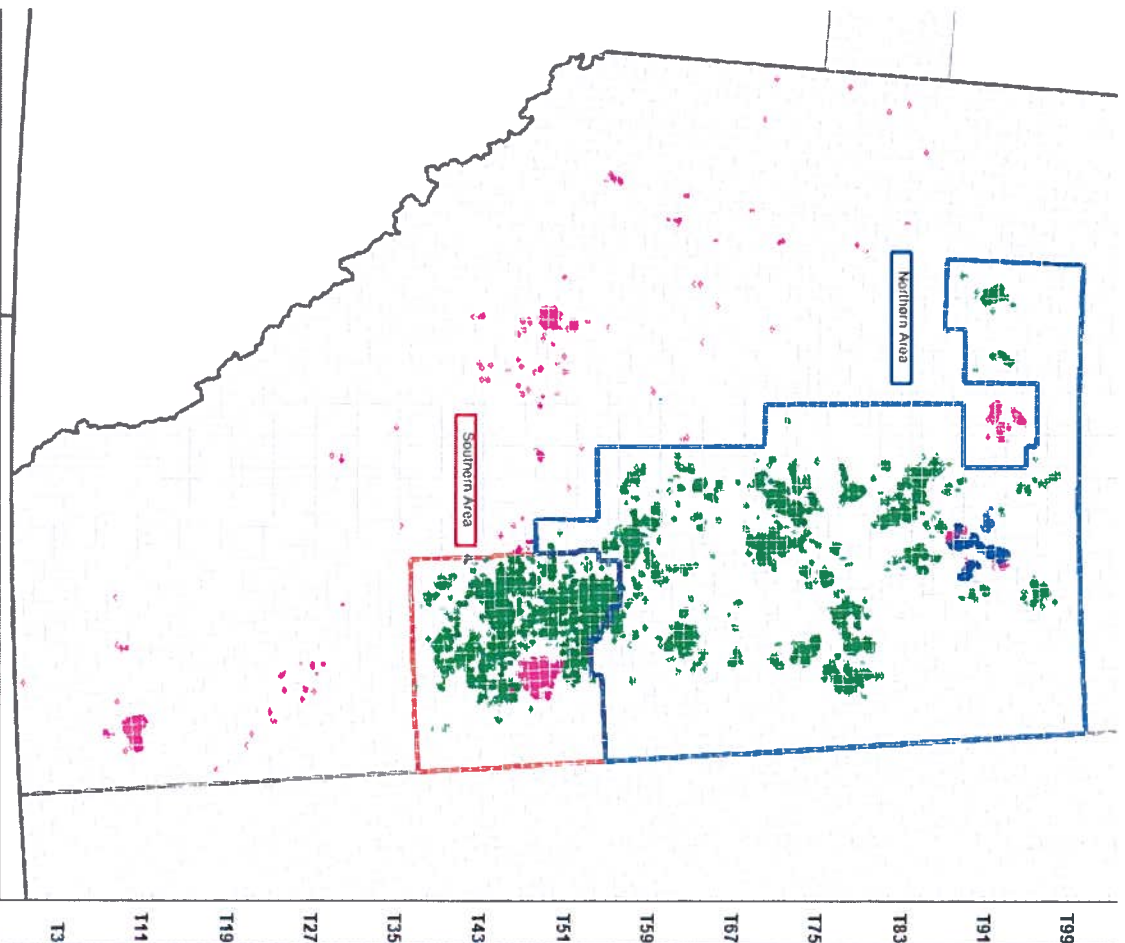
- **Production: 2016:** 16,358 boepd vs 14,371 boepd **2017: 15,845 boepd vs 10,524 boepd**
- **Cashflow: 2016:** \$-7.8 MM vs \$-7.4 MM **2017: \$31.5 MM vs \$37.3 MM**
- **Operating Costs: 2016:** \$48.7 MM vs \$38.5 MM **2017: \$49.5 MM vs \$19.8 MM**  
(note: 2016 total property tax \$9.3 MM is \$2.4 MM POC, \$6.9 MM Goodyear)
- **G&A: 2016:** \$18.8 MM vs \$15.7 MM **2017: \$17.5 MM vs \$8.8 MM**
- **TPP Reserves** (based on 06/31/16 estimate): **73.8 MMboe vs 60.7 MMboe**
- **NPV(10) TPP:** \$226.0MM vs \$232.5MM
- **Future Development Capital:** \$469.7MM vs \$462.9MM
- **Well count:** 2,981 vs 733
- **ARO** (projected year end 2016 excl salvage): **\$123 MM vs \$35 MM**
- **LLR: 2.06 vs 5.00**

Shallow gas cash costs including G&A >\$3/Mcf therefore deferred purchase price captures the majority of positive cashflow potential for next 2 years as PMT operating

# Deal Summary



PERPETUAL



Green wells = Goodyear  
Pink wells = POC  
Blue wells = POC (nominal interest retained on Legend GOB until 2024)

## Retain

- All of West Central
- Panny (oil and gas)
- Mannville (oil and gas)
- Oil sands leases (along with complementary P&NG where applicable)
- GOB (Legend/Liege nominal interests pending transfer to AOC)
- Wells pending rec certificates (230 wells) with forecast ~\$200 k remaining to rec cert after Sept 1

**Goodyear assets include 2,221 net wells (584 net producing status, 910 net shut in or suspended, 727 net abandoned)**



## Eastern Shallow Gas: Operating Cost Reductions

**2015 Total Shallow Gas Opex = \$40 MM** (reduction of \$7.7 MM from 2014)

**2016 Shallow Gas Current Estimate = \$33.5 MM**

**2017 Shallow Gas Outlook = \$33.5 MM**

### **Major contributor to \$18 MM in opex savings since 2014**

- Field labour and G&A optimization accounted for 44%
- Reduction of maintenance costs and utilization of internal manpower for ARO etc rather than 3rd party services accounted for 37%

### **RISKS to Sustainability of Operating Costs**

- Facility overhaul/maintenance deferrals likely to result in more future downtime and capital for repairs
- Currently running low on inventory of parts & chemicals
- Unmanned at select facilities which increases risk in a material pipeline break or spill
- Calibrations have been delayed, 31 day charts are non-compliant
- Crane inspections, PSVs, general maintenance, chemical inhibition programs, water crossing inspections, fugitive emissions are overdue
- Increased focus on recompletions and workovers will limit time spent on ARO activity and reduce future credits.



# Goodyear Employee Impact



PERPETUAL

## Goodyear dedicated employees

- 45 Calgary office staff – Estimated \$4.5 million annual
- 36 field operators, foreman, safety, maintenance and ARO team
- 9 contract field operators

## Purchaser Commitments

- Minimum 30 permanent employment offers at market competitive salaries
  - Expect field ARO crews, reduced number of operators and ~8 – 10 office staff to be retained
  - Goodyear retains all future employment obligations for retained staff
- No commitment for retaining contract field operators
  - 30 day notice period only contemplated
- 20 transition staff for at least 1 month
  - Transition staff will complete closing work
  - Opportunity to showcase their talent
  - Perpetual retains severance obligations at end of transition period
- Up to 31 additional Goodyear dedicated employees remaining
  - Perpetual decision to downsize remaining staff with immediate severance obligation

**Severance obligation of \$5 to \$6 million related to field and office staff reductions**

# GOODYEAR -- Breakeven economics



PERPETUAL

## PMT Breakeven under current operating profile

Year	Current		McDaniel Capital		Office G&A	Pt to Pt Benefit	GCA Recovery	Breakeven	
	Estimate PDDP (Mmcf/d)	Current Opcost Est	(Non ARO)	Capital				Total Cost Estimate with Adjustments	Corporate Level Price With Adjustments
2016	37,221	\$ 31,184	\$ 260	\$ 11,521	(\$1,362)	\$ 40,668	\$ 2.99		
2017	31,654	\$ 30,434	\$ 1,817	\$ 11,521	(\$1,159)	\$ 40,122	\$ 3.47		
Average	34,438	\$ 30,809	\$ 1,039	\$ 11,521	(\$1,260)	\$ 40,395	\$ 3.21		

## Kailas Breakeven under base operating profile with transition

Adjustments

Year	Current Total		McDaniel Capital (Non ARO)	Savings on Field Staff	Office G&A	Component	Breakeven	
	Current Est PDDP	Cost Est					Property Level GCA Capital	Total Current Cost Est with Adjustments
2016	37,221	\$ 31,184	\$ 260	(\$1,962)	2,426	(\$675)	\$ 30,973	\$ 2.27
2017	31,654	\$ 30,434	\$ 1,817	(\$1,962)	2,426	(\$675)	\$ 30,223	\$ 2.62
Average	34,438	\$ 30,809	\$ 1,039	(\$1,962)	2,426	(\$675)	\$ 30,598	\$ 2.43

## Goodyear Employee Assumptions:

**30 of 47 current field staff**  
**20 of 49 current office staff**

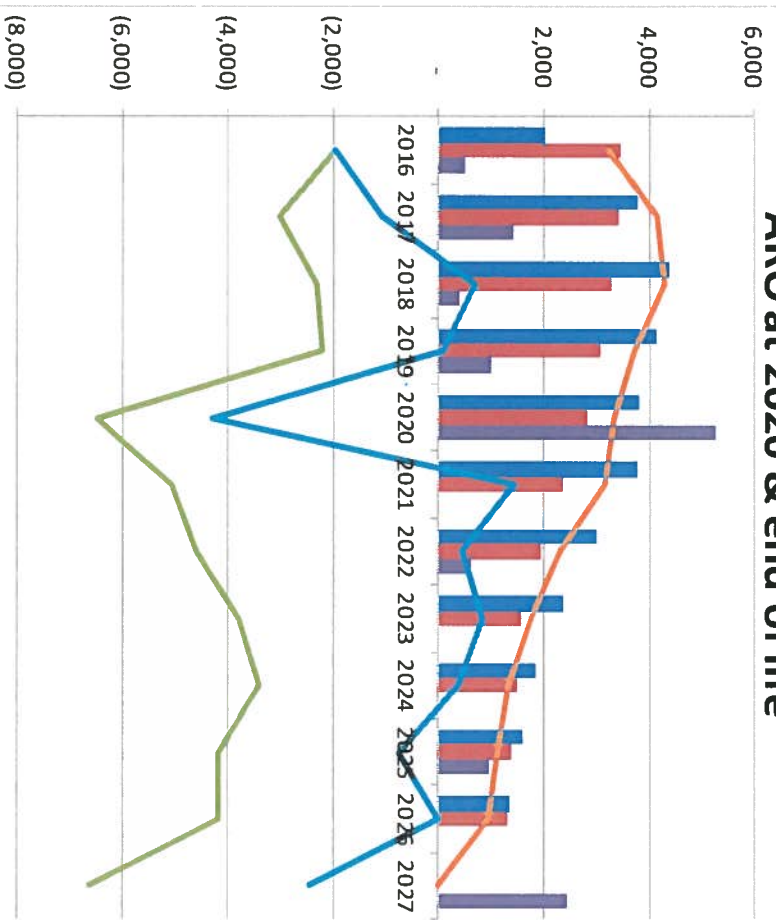
AECO Pricing Notes (\$C/MMBtu)	McDaniel April	McDaniel July	McDaniel July 18 Strip
Q4 2016	2.10	2.50	2.72
Q1 2017	3.00	3.00	3.14
Q2 2017	3.00	3.00	2.80
Q3 2017	3.00	3.00	2.82
Q4 2017	3.00	3.00	3.12
cal 2018	3.35	3.15	2.94

**PMT does not believe that we can match the numbers that Kailas believes they can accomplish for G&A and Opex, while maintaining production, ARO and compliance**

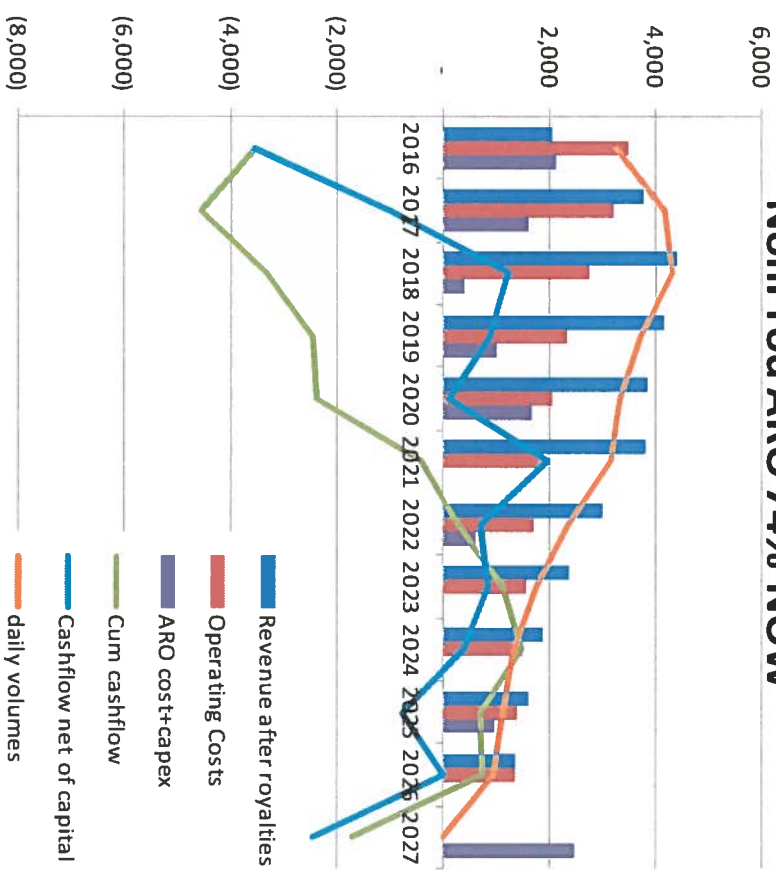
# Eastern Shallow Gas Sustainability



**Bruce with ReCompletes  
ARO at 2020 & end of life**



**Bruce with ReCompletes  
NonProd ARO 74% NOW**



## Bruce Sustainability

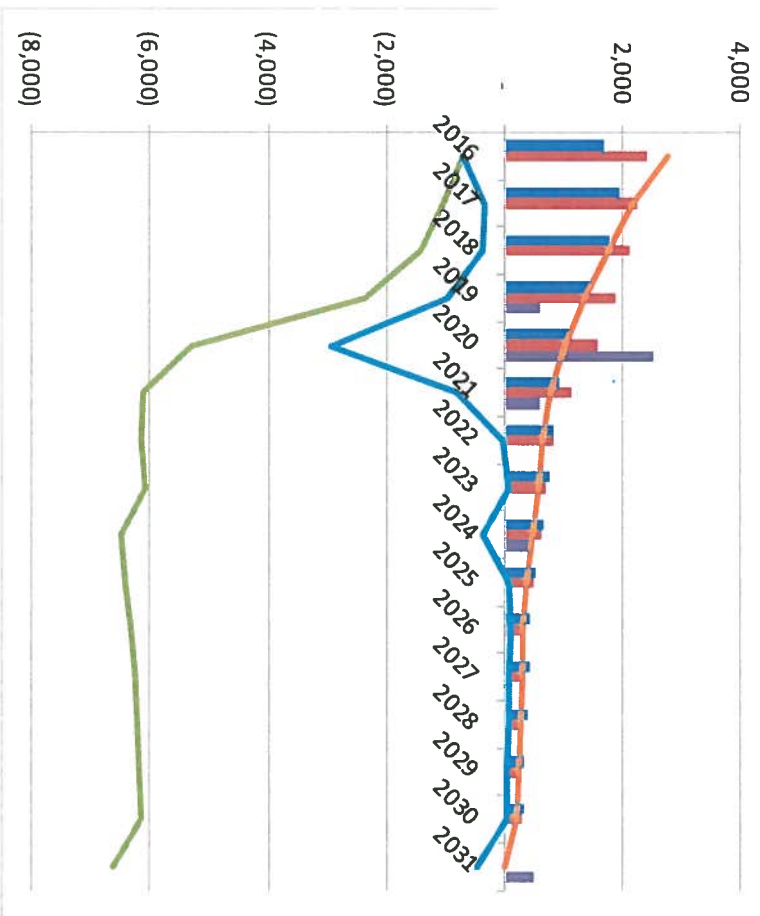
- Accelerating ARO spending improves annual cashflows
- NPV (10) improves from -\$ 4.4 to -1.6 MM through acceleration of \$ 5 MM of ARO from 2020 to 2016 due to lower service cost estimates, use of internal labour, and future opex savings
- NOTE: Total Net ARO + Capital requirements to end of life \$10 to 12 MM

Detail economic evaluations in progress on all main operating areas, all showing similar results

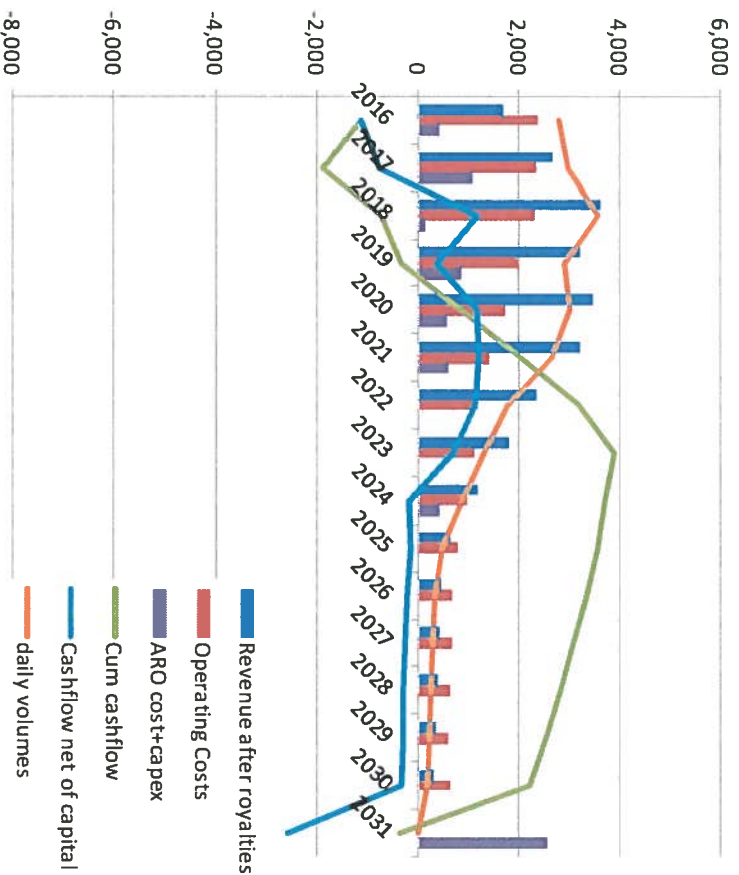
# Eastern Shallow Gas Sustainability



## Hairy Hill NonProd ARO 2020



## Hairy Hill with ReCompletes NonProd ARO NOW



### Hairy Hill Sustainability

- ReCompletes and ARO together dramatically improve cashflows
- NPV (10) improves from -\$3.0 to +3.5 MM
- Total Net ARO + Capital requirements to end of life \$6.7 MM

Detail economic evaluations in progress on all main operating areas, all showing similar results

# Goodyear Reserves



PERPETUAL

## Projected Year end 2016 Reserves

December 31, 2015 Total Proved and Probable – 15.5 MMboe

McDaniel 2016 forecast production – 2.1 MMboe

Current pricing levels show 3 additional properties will become cash flow negative (with McDaniel assumptions) and no longer qualify as reserves

### Projected write offs

Bruce	3.7 Bcf
Westlock Non-op	1.6 Bcf
Ells	1.0 Bcf

Forecast Year End 2016 TPP Reserves – 12.3 MMboe (73.7 Bcfe)



# Shallow Gas 'Conventional Inventory'



PERPETUAL

	GOODYEAR		
	Sum of Risked Capital	Sum of Risked Total Reserves (Mboe)	Sum of NPV (10%)
<b>NORTH</b>	<b>\$ 11,588</b>	<b>\$ 1,977</b>	<b>\$ 6,306</b>
Equip & Tie-In Facility	\$ 2,773	\$ 727	\$ 2,284
New Drill	\$ 114	\$ 29	\$ 152
Recompletion	\$ 2,527	\$ 234	\$ 130
Workover	\$ 4,699	\$ 702	\$ 2,281
	\$ 1,475	\$ 285	\$ 1,460
<b>SOUTH</b>	<b>\$ 9,846</b>	<b>\$ 1,650</b>	<b>\$ 7,855</b>
Equip & Tie-In Facility	\$ 162	\$ 17	\$ 13
New Drill	\$ (59)	\$ -	\$ 931
Recompletion	\$ 2,099	\$ 202	\$ 183
temp	\$ 6,596	\$ 1,117	\$ 4,985
Workover	\$ 20	\$ 9	\$ 77
	\$ 1,028	\$ 305	\$ 1,667
<b>Grand Total</b>	<b>\$ 21,434</b>	<b>\$ 3,627</b>	<b>\$ 14,161</b>

- Run at July 18<sup>th</sup> strip pricing
- NOTE that much of the North value is captured in McDaniel PPNP
- Capital only partially adjusted with current service cost savings
- Additional potential in Viking/Colorado in Bruce area - unproven

**Economics on recompletions are compelling, however, are not material enough to create sustainable overall incremental cash flows**



# Goodyear Asset Value -- Strip Pricing

PERPETUAL

## Discounted Cash Flows – Effective Sept 1, 2016

- July 29 strip pricing
- Undiscounted ARO is \$67mm – adjusted salvage to 50% of current
- Capital requirements of \$22.6MM over next 3 years (ARO + Recompletion)

**NPV (10) = Negative \$ 42.5 MM**

NPV 0	\$	11,459	\$	243,505	\$	66,652	\$	(27,023)	\$	14,007	\$	(34,204)	\$	66,887	\$	(83,999)
NPV 10	\$	8,830	\$	159,173	\$	31,075	\$	(5,950)	\$	10,863	\$	(9,987)	\$	45,343	\$	(42,547)
NPV 20	\$	7,105	\$	118,175	\$	20,046	\$	(2,815)	\$	8,743	\$	(4,732)	\$	34,066	\$	(20,270)
July 29 Strip																20%

Period	MCFE Rate (MCFE/d)	Gas Price (\$/mcf)	Royalty %	CCA Credit and Pt to Pt Gas Revenue (\$M)	Adjusted Op Cost (M\$)	Total Abandon Cost (M\$)	Net Operating Income (M\$)	Total Investment (M\$)	Net Cashflow (M\$)	G&A (M\$)	G&A Reduction (M\$)	Corporate Cashflow (M\$)
2016-01-01	34,936	1.91	5.7%	1,946	31,201	4,000	(9,405)	830	(10,235)	8,700	1,740	(17,195)
2017-01-01	37,822	2.67	5.9%	2,049	30,594	5,000	1,873	3,858	(1,985)	9,419	1,884	(9,520)
2018-01-01	37,945	2.63	6.0%	2,054	29,666	5,265	2,118	3,165	(1,047)	9,449	1,890	(8,606)
2019-01-01	41,782	2.65	6.0%	2,195	29,536	5,856	5,515	5,120	396	10,405	2,081	(7,928)
2020-01-01	30,071	2.72	6.1%	1,771	22,284	5,628	2,513	400	2,112	7,488	1,498	(3,879)
2021-01-01	21,195	2.83	6.7%	1,445	17,353	870	4,162	139	4,023	5,278	1,056	(199)
2022-01-01	16,241	3.15	7.0%	-	17,940	-	(99)	225	(324)	4,045	809	(3,560)
2023-01-01	12,654	3.48	7.1%	-	14,857	-	445	21	424	3,151	630	(2,097)

Remaining life not shown, but included in NPVs

**Undiscounted cash flow value highly negative at current strip pricing (Negative \$84 MM)**

# Goodyear Asset Value -- McDaniel April Pricing



PERPETUAL

## Discounted Cash Flows -- Effective Sept 1, 2016

- McDaniel April pricing
- Undiscounted ARO is \$67 MM – adjusted salvage to 50% of current
- Capital requirements of \$22.6 MM over next 3 years (ARO + Recompletion)

**NPV (10) = Negative \$ 4.7 MM**

NPV 0		\$	11,459	\$	243,505	\$	66,652	\$	38,545	\$	14,007	\$	27,524	\$	66,887		\$	(22,271)
NPV 10		\$	8,830	\$	159,173	\$	31,075	\$	35,702	\$	10,863	\$	27,826	\$	45,343		\$	(4,734)
NPV 20		\$	7,105	\$	118,175	\$	20,046	\$	26,802	\$	8,743	\$	21,046	\$	34,066		\$	(2,492)
: McDaniel Run Price																		
20%																		

Period	MCFE Rate (MCFE/d)	Gas Price (\$/mcf)	Royalty %	CCA Credit and Pt to Pt Gas Contract Revenue (\$M)	Adjusted Op Cost (M\$)	Total Abandon Cost (M\$)	Net Operating Income (M\$)	Total Investment (M\$)	Net Cashflow (M\$)	G&A (M\$)	G&A Reduction (M\$)	Corporate Cashflow (M\$)
2016-01-01	34,936	2.39	5.7%	1,946	31,201	4,000	(3,648)	830	(4,478)	8,700	1,740	(11,438)
2017-01-01	37,822	2.89	5.9%	2,049	30,594	5,000	4,651	3,858	794	9,419	1,884	(6,742)
2018-01-01	37,945	3.23	6.0%	2,054	29,666	5,265	9,810	3,165	6,645	9,449	1,890	(914)
2019-01-01	41,782	3.52	6.0%	2,195	29,536	5,856	17,954	5,120	12,834	10,405	2,081	4,511
2020-01-01	30,071	3.62	6.1%	1,771	22,284	5,628	11,777	400	11,376	7,488	1,498	5,385
2021-01-01	21,195	3.86	6.7%	1,445	17,353	870	11,556	139	11,417	5,278	1,056	7,195
2022-01-01	16,241	4.10	7.0%	-	17,940	-	5,096	225	4,871	4,045	809	1,636
2023-01-01	12,654	4.34	7.1%	-	14,857	-	4,140	21	4,118	3,151	630	1,597

Remaining life not shown, but included in NPVs

**McDaniel value slightly negative with 20% G&A reduction  
Undiscounted negative \$22 MM with G&A reduction of 20% built-in**

# Goodyear Asset Value -- \$4/Mcf Flat Pricing

PERPETUAL

## Discounted Cash Flows -- Effective Sept 1, 2016

- \$4/Mcf at AECCO flat pricing
- Undiscounted ARO is \$67 MM – adjusted salvage to 50% of current
- Capital requirements of \$22.6 MM over next 3 years (ARO + Recompletion)

**NPV (10) = Positive \$ 22.7 MM**

Period	MCFE Rate (MCFE/d)	Gas Price (\$/mcf)	Royalty %	CCA Credit and Pt to Pt Gas Contract Revenue (\$M)	Adjusted Op Cost (M\$)	Total Abandon Cost (M\$)	Net Operating Income (M\$)	Total Investment (M\$)	Net Cashflow (M\$)	G&A (M\$)	G&A Reduction (M\$)	Corporate Cashflow (M\$)
2016-01-01	34,936	3.69	5.7%	1,946	31,201	4,000	11,933	830	11,103	8,700	1,740	4,143
2017-01-01	37,822	3.77	5.9%	2,049	30,594	5,000	16,023	3,858	12,165	9,419	1,884	4,630
2018-01-01	37,945	3.84	6.0%	2,054	29,666	5,265	17,737	3,165	14,572	9,449	1,890	7,012
2019-01-01	41,782	3.92	6.0%	2,195	29,536	5,856	23,594	5,120	18,474	10,405	2,081	10,151
2020-01-01	30,071	4.00	6.1%	1,771	22,284	5,628	15,684	400	15,284	7,488	1,498	9,293
2021-01-01	21,195	4.08	6.7%	1,445	17,353	870	13,110	139	12,972	5,278	1,056	8,749
2022-01-01	16,241	4.16	7.0%	-	17,940	-	5,396	225	5,171	4,045	809	1,935
2023-01-01	12,654	4.24	7.1%	-	14,857	-	3,691	21	3,670	3,151	630	1,148
											20%	
												\$ 11,483
												\$ 22,714
												\$ 20,997
												\$ 4 AECCO

Remaining life not shown, but included in NPVs

Material positive cash flows are achieved at escalating \$3.75/GJ AECCO prices assuming 20% G&A reduction

# Goodyear Break Even Cashflow Modeling



PERPETUAL

## Discounted Cash Flows – Effective Sept 1, 2016

- \$3.60/Mcf AECO prices with 2% annual inflation represents full life cycle 'break-even'
- Undiscounted ARO is \$67mm – adjusted salvage to 50% of current
- Capital requirements of \$22.6MM over next 3 years (ARO + Recompletion)

**NPV (10) = Negative \$ 1 MM**

NPV 0	\$	11,459	\$243,505	\$	66,652	\$	42,207	\$	14,007	\$	23,992	\$	66,887	\$	(25,803)
NPV 10	\$	8,830	\$159,173	\$	31,075	\$	46,450	\$	10,863	\$	31,379	\$	45,343	\$	(1,182)
NPV 20	\$	7,105	\$118,175	\$	20,046	\$	39,436	\$	8,743	\$	26,484	\$	34,066	\$	2,946
															\$3.60 AECO
															20%

Period	MCFE Rate (MCFE/d)	Gas Price (\$/mcf)	Royalty %	CCA Credit and Pt to Pt Gas Contract Revenue (\$M)	Adjusted Op Cost (M\$)	Total Abandon Cost (M\$)	Net Operating Income (M\$)	Total Investment (M\$)	Net Cashflow (M\$)	G&A (M\$)	G&A Reduction (M\$)	Corporate Cashflow (M\$)
2016-01-01	34,936	3.29	5.7%	1,946	\$ 31,201	\$ 4,000	\$ 7,139	\$ 830	\$ 6,309	\$ 8,700	\$ 1,740	\$ (651)
2017-01-01	37,822	3.36	5.9%	2,049	\$ 30,594	\$ 5,000	\$ 10,751	\$ 3,858	\$ 6,893	\$ 9,419	\$ 1,884	\$ (642)
2018-01-01	37,945	3.42	6.0%	2,054	\$ 29,666	\$ 5,265	\$ 12,343	\$ 3,165	\$ 9,178	\$ 9,449	\$ 1,890	\$ 1,619
2019-01-01	41,782	3.49	6.0%	2,195	\$ 29,536	\$ 5,856	\$ 17,530	\$ 5,120	\$ 12,411	\$ 10,405	\$ 2,081	\$ 4,087
2020-01-01	30,071	3.56	6.1%	1,771	\$ 22,284	\$ 5,628	\$ 11,229	\$ 400	\$ 10,828	\$ 7,488	\$ 1,498	\$ 4,837
2021-01-01	21,195	3.63	6.7%	1,445	\$ 17,353	\$ 870	\$ 9,937	\$ 139	\$ 9,799	\$ 5,278	\$ 1,056	\$ 5,576
2022-01-01	16,241	3.71	7.0%	-	\$ 17,940	-	\$ 2,925	\$ 225	\$ 2,700	\$ 4,045	\$ 809	\$ (536)
2023-01-01	12,654	3.78	7.1%	-	\$ 14,857	-	\$ 1,731	\$ 21	\$ 1,710	\$ 3,151	\$ 630	\$ (811)

Remaining life not shown, but included in NPVs

**Breakeven funds flow at \$3.37/GJ AECO price with 20% G&A reduction**

# ARO Impact

PERPETUAL

## ARO Reduction All Assets Summary 2015 - 2016 (\$MM)

ARO for All Assets (wells, pipelines, facilities) \$MM as estimated at the property level. Once Josh finalizes the well list we can finalize this summary	Dec 31 2015	Dec 31 2015	30-Jun-16	30-Jun-16	Dec 31, 2016 Est	Dec 31, 2016 Est
	without Salvage	with Salvage	without Salvage	with Salvage	without Salvage	with Salvage
	179.2	89.0	139.2	49.4	123.2	33.4

## ARO Reduction Goodyear Summary 2015 - 2016 (\$MM)

ARO for Goodyear Assets (wells, pipelines, facilities) \$MM as estimated at the property level. Once Josh finalizes the well list we can finalize this summary	Dec 31 2015	Dec 31 2015	30-Jun-16	30-Jun-16	Dec 31, 2016 Est	Dec 31, 2016 Est
	without Salvage	with Salvage	without Salvage	with Salvage	without Salvage	with Salvage
	131.0	90.2	101.7	60.9	87.8	47.0

## ARO Reduction POC Summary 2015 - 2016 (\$MM)

ARO for KeepCo Assets (wells, pipelines, facilities) \$MM as estimated at the property level. Once Josh finalizes the well list we can finalize this summary	Dec 31 2015	Dec 31 2015	30-Jun-16	30-Jun-16	Dec 31, 2016 Est	Dec 31, 2016 Est
	without Salvage	with Salvage	without Salvage	with Salvage	without Salvage	with Salvage
	46.2	-2.8	37.2	-11.7	35.0	-13.9

All numbers above are separated into Goodyear and POC by property. This summary will be updated upon a final well, pipeline, facility lists

**Goodyear represents approximately 71% of forecast year end 2016 corporate liabilities**

# Goodyear Directive 13 Obligations



## Goodyear Directive 13 Abandonment

Year	20% per year over 5 Years Dir 13 List	Future Wells Requiring Abandonment in that year for the 10 year Dir 13list		Cumulative Total Future Abandonments
		Abandonments	Total Future Abandonments	
2016	0	58	58	58
2017	125	51	176	234
2018	125	59	184	418
2019	125	82	207	625
2020		181	181	806
<b>Total</b>	<b>375</b>	<b>431</b>		

Updated

## Goodyear Directive 13 ARO Capital

Year	Well Abandonment \$	Total Abn/Rec \$	Cummulative Total Abn/Rec \$	Op Cost Savings over 5 years \$	PEI Manpower and Equipment Credit \$	Cummulative Op Cost Savings \$
2016	\$ 638,000	\$ 1,114,021	\$ 1,114,021	\$ 297,830	\$ 460,814	\$ 460,814
2017	\$ 1,936,000	\$ 4,505,373	\$ 5,619,393	\$ 1,201,590	\$ 2,185,761	\$ 2,944,405
2018	\$ 2,024,000	\$ 5,264,744	\$ 10,884,137	\$ 2,146,430	\$ 2,673,321	\$ 6,819,316
2019	\$ 2,277,000	\$ 5,855,536	\$ 16,739,673	\$ 3,209,375	\$ 2,960,375	\$ 11,926,121
2020	\$ 2,277,000	\$ 5,627,725	\$ 22,367,398	\$ 4,138,810	\$ 2,800,908	\$ 17,936,403
2021		\$ 870,112	\$ 23,237,510		\$ 609,079	\$ 22,684,292

Assuming continued use of internal manpower

Additional \$2.5MM of carryin ARO from 2016 in 2017 in addition to the numbers above

**Minimum \$9.15 MM capital required over next 5 years for >10 year shut-in well abandonments to comply with Directive 13 plus additional \$13.2 MM for related ARO**

# Corporate Cash Flow Scenarios



## PMT 2016 & 2017 Funds Flow Model - Scenario Summaries

Line #	Page #	Scenario Summaries												
		Base			Scenario #1			Scenario #2			Strip Pricing (1)			
		Status Quo	Status Quo with Shallow Gas Disposition	Accelerated 2016 & 2017 Capex	Accelerated 2016 & 2017 Capex with Shallow Gas Disposition	Accelerated 2016 & 2017 Capex	Accelerated 2016 Capex, 2017 High Capex	Accelerated 2016 Capex, 2017 High Capex with Shallow Gas Disposition	2016	2017	2016	2017	2016	2017
1	2	3	4	5	6	7	8	9	10	11	12	13		
Production (boe/d) / Capex & Funds Flow														
Average	15,866	13,282	13,879	7,961	16,358	15,845	14,371	10,524	16,358	16,084	14,371	10,733		
Exit	13,988	12,090	8,201	6,942	16,567	15,545	10,780	10,396	16,567	17,418	10,780	12,228		
Capex / ARO (\$ 000's)	14,310	19,028	13,097	15,876	31,522	39,120	30,310	35,968	31,522	55,713	30,310	52,233		
Funds Flow (\$ 000's)	(10,278)	1,517	(9,877)	8,506	(7,825)	19,899	(7,424)	26,888	(7,825)	20,967	(7,424)	27,858		
Average AECO Price (CAD/GJ)	1.98	2.82	1.98	2.82	1.98	2.82	1.98	2.82	1.98	2.82	1.98	2.82		
Average WTI Price (USD/Bbl)	42.28	50.27	42.28	50.27	42.28	50.27	42.28	50.27	42.28	50.27	42.28	50.27		
Net Debt														
Maximum Interyear Financing Shortfall (\$ 000's) (ii)	22,220	40,325	20,607	34,608	36,980	58,899	35,366	49,164	36,980	74,282	35,366	63,130		
Estimated Year End Financing Shortfall (\$ 000's) (ii)	22,220	39,731	20,607	27,803	36,980	56,200	35,366	44,272	36,980	71,725	35,366	59,567		
Year End Margin Loan (\$ 000's)	23,769	23,769	23,769	23,769	23,769	23,769	23,769	23,769	23,769	23,769	23,769	23,769		
Year End Put Loan (\$ 000's)	-	-	-	-	-	-	-	-	-	-	-	-		
Year End Facility Loan (\$ 000's)	-	-	-	-	-	-	-	-	-	-	-	-		
Year End Senior Notes (\$ 000's)	60,582	60,582	60,582	60,582	60,582	60,582	60,582	60,582	60,582	60,582	60,582	60,582		
Year End Total Net Debt (\$ 000's)	106,572	124,082	104,958	112,154	121,331	140,551	119,717	128,623	121,331	156,076	119,717	143,918		
TOU Shares														
Year End Shares Remaining (000's)	1,848	1,848	1,848	1,848	1,848	1,848	1,848	1,848	1,848	1,848	1,848	1,848		
Share Price (i)	32.82	38.10	32.82	38.10	32.82	38.10	32.82	38.10	32.82	38.10	32.82	38.10		
Year End Market Value (\$ 000's)	60,644	70,393	60,644	70,393	60,644	70,393	60,644	70,393	60,644	70,393	60,644	70,393		
Year End Debt Net of TOU (\$ 000's)	45,928	53,690	44,314	41,762	60,687	70,159	59,074	58,231	60,687	85,684	59,074	73,526		
Year End Debt / CF (X)	N/A	35.4 X	N/A	4.9 X	N/A	3.5 X	N/A	2.2 X	N/A	4.1 X	N/A	2.6 X		

**Notes:**

- (1) - Strip Pricing from July 18, 2016
- (2) - Hybrid Pricing: 2017 Strip Gas + \$0.25/GJ, 2017 Strip WTI + \$5.00/Bbl (US\$)
- (3) - Assumes 13% Financing Cost on Financing Shortfall
- (4) - TOU Share Price at Close on July 28, 2016





## **RETAINED EASTERN UPSIDE - MANNVILLE**

- **RECOMPLETIONS**
- **COLORADO**
- **VIKING**
- **LITHIC CHANNELS**

# Shallow Gas 'Conventional Inventory' - Mannville



PERPETUAL

	GOODYEAR			POC - Mannville and Panny		
	Sum of Risked Capital	Sum of Risked Reserves (Mboe)	Sum of NPV (10%)	Sum of Risked Capital	Sum of Risked Reserves (Mboe)	Sum of NPV (10%)
<b>NORTH</b>	<b>\$ 11,588</b>	<b>\$ 1,977</b>	<b>\$ 6,306</b>			
Equip & Tie-In Facility	\$ 2,773	\$ 727	\$ 2,284			
New Drill	\$ 114	\$ 29	\$ 152			
Recompletion	\$ 2,527	\$ 234	\$ 130			
Workover	\$ 4,699	\$ 702	\$ 2,281			
<b>SOUTH</b>	<b>\$ 9,846</b>	<b>\$ 1,650</b>	<b>\$ 7,855</b>	<b>\$ 2,660</b>	<b>\$ 394</b>	<b>\$ 1,346</b>
Equip & Tie-In Facility	\$ 162	\$ 17	\$ 13			
New Drill	\$ (59)	\$ -	\$ 931			
Recompletion	\$ 2,099	\$ 202	\$ 183			
temp	\$ 6,596	\$ 1,117	\$ 4,985	\$ 2,425	\$ 354	\$ 1,212
Workover	\$ 20	\$ 9	\$ 77			
<b>Grand Total</b>	<b>\$ 21,434</b>	<b>\$ 3,627</b>	<b>\$ 14,161</b>	<b>\$ 2,660</b>	<b>\$ 394</b>	<b>\$ 1,346</b>

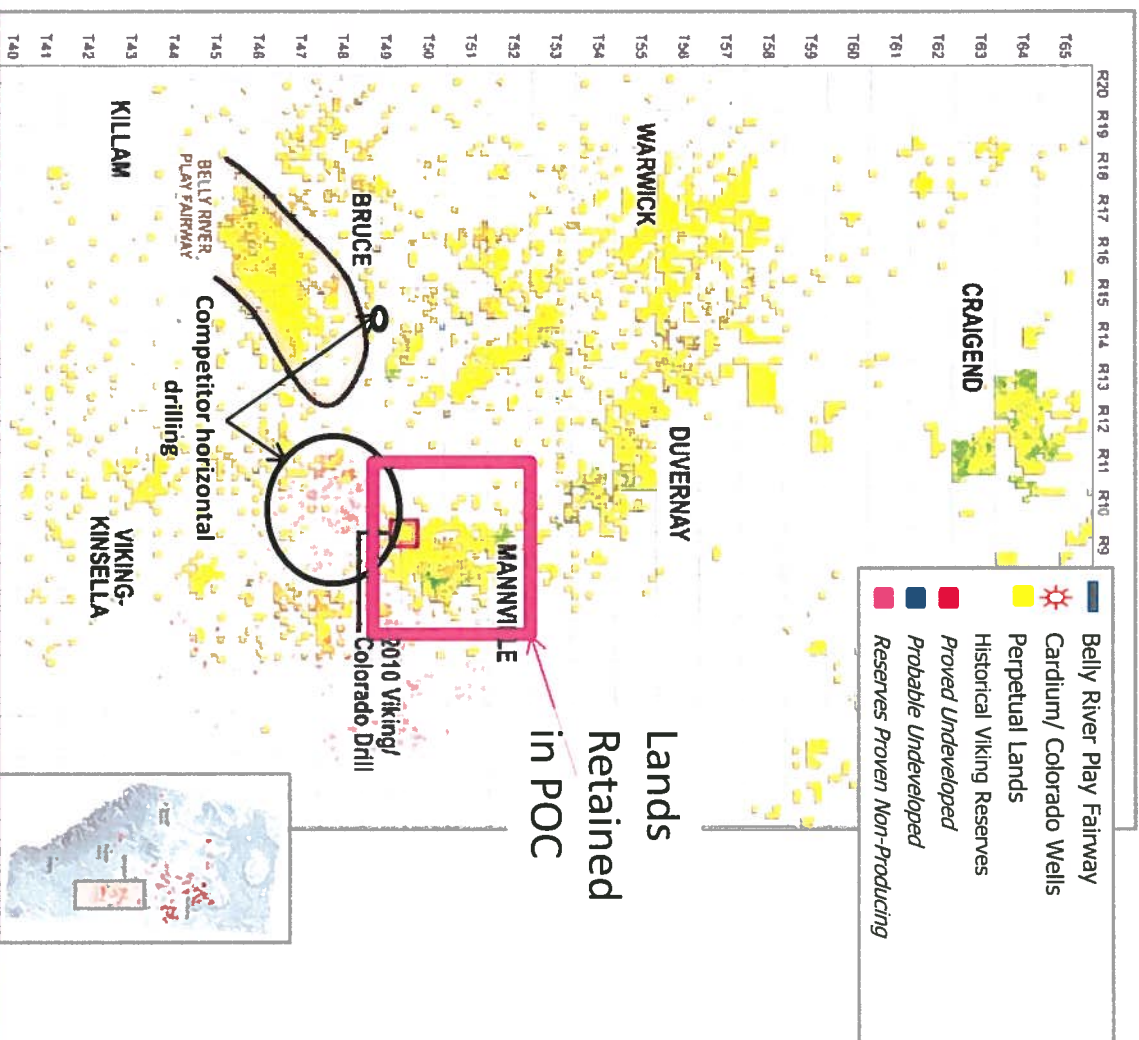
- Run at July 18<sup>th</sup> strip pricing
- NOTE that much of the North value is captured in McDaniel PPNP
- Capital only partially adjusted with current service cost savings
- POC retains 25% of recompletion value in the south (Mannville area)

Economics on Mannville recompletions are compelling, however, are not material enough to create sustainable overall cash flows

# Viking / Colorado shallow shale gas



PERPETUAL



## Status Quo

> **130 TCF Resource In Place**

- OGIP estimated average 16 Bcf/section
- Includes 6 prospective zones

## POC

### Viking

- 1.3 of 12.0 Bcf PPNP booked in recompletions retained in Mannville area
- OGIP ~ 230 Bcf on Mannville lands, requiring drilling to unlock

### Colorado Group – Carille member

- OGIP ~ 300 Bcf on Mannville retained lands (lowest risk zone only)

## 2016-2017 Recommendation

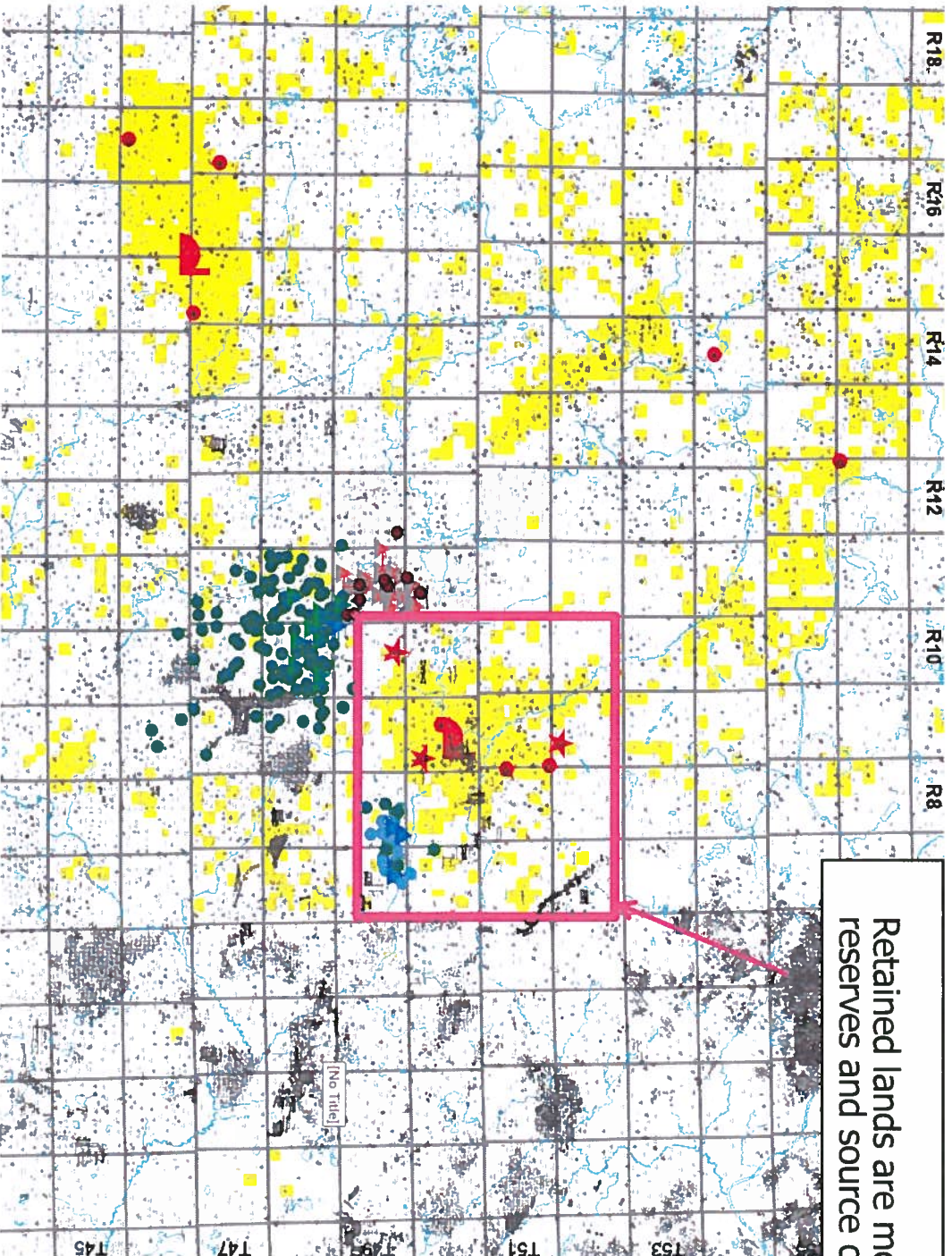
- Drill a horizontal Colorado and a horizontal Viking well from a recommended Mannville Heavy Oil drilling pad to provide cost effective derisking

Viking full scope development 135 locations \* 0.9 bcf/location = 122 bcf  
 Colorado full scope development 280 locations \* 0.5 bcf/location = 140 bcf

# Colorado Tight Shallow Shale Gas



PERPETUAL



Retained lands are most proximal to proven reserves and source data for type curve work

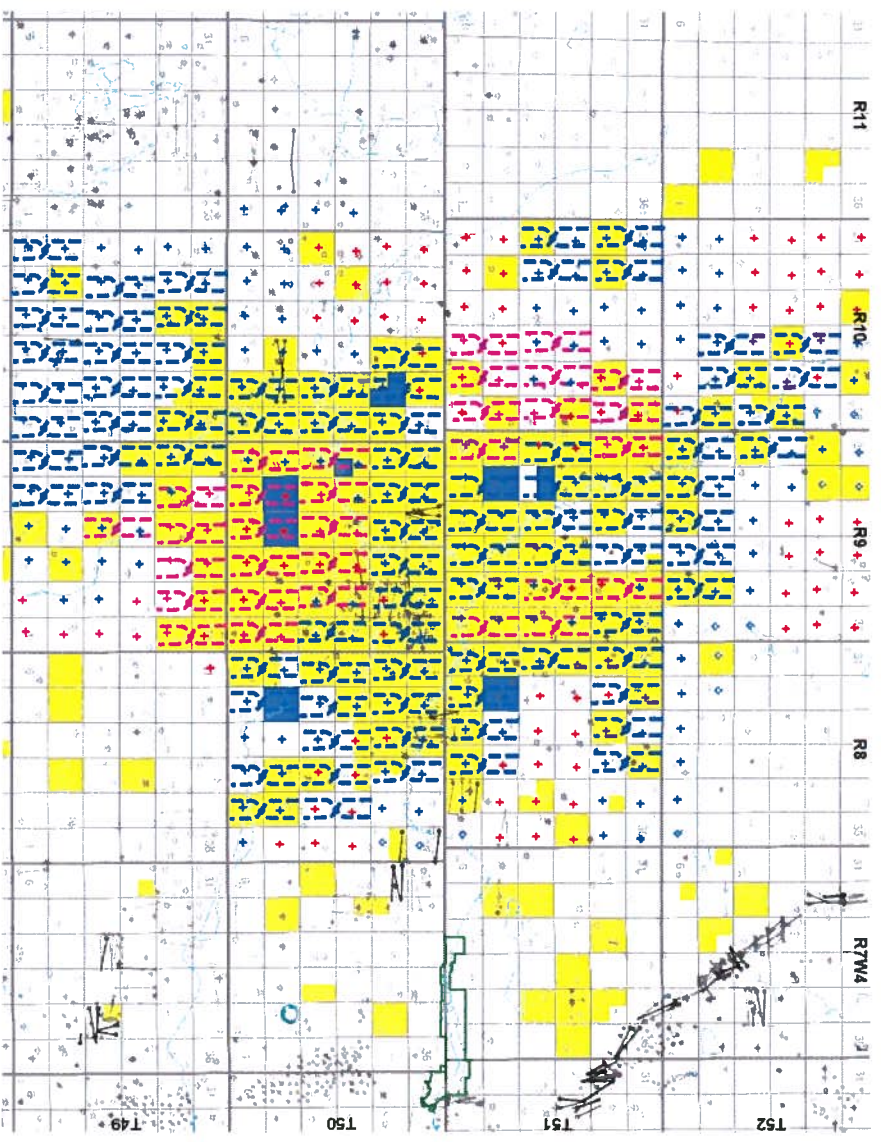
- Wells - Colorado 36 Wells  ★
- Wells - Colorado Technical Trial Wells  ●
- Wells - Comoco HZ Well List (Final Aug. 26 2015)  ●
- Wells - Comoco Vertical Well List (Final Aug. 26 ...  ●
- Wells - Endurance HZ Well List (Final Aug. 26 2...  ●
- Wells - Spur HZ Well List (Final Aug. 26 2015)  ●
- Wells - Spur Vertical Well List (Final Aug. 26 20...  ●

Extensive land base with pipeline and plant capacity and competitor activity derisking play

# Colorado Shale Gas – Mannville Area



PERPETUAL



Mannville Area	Tier 1	Tier 2	Total
	Wells	Wells	
PEOC Crown & FH	200	80	280
Open Crown	44	0	44
Third Party	82	24	106
<b>Total</b>	<b>326</b>	<b>104</b>	<b>430</b>

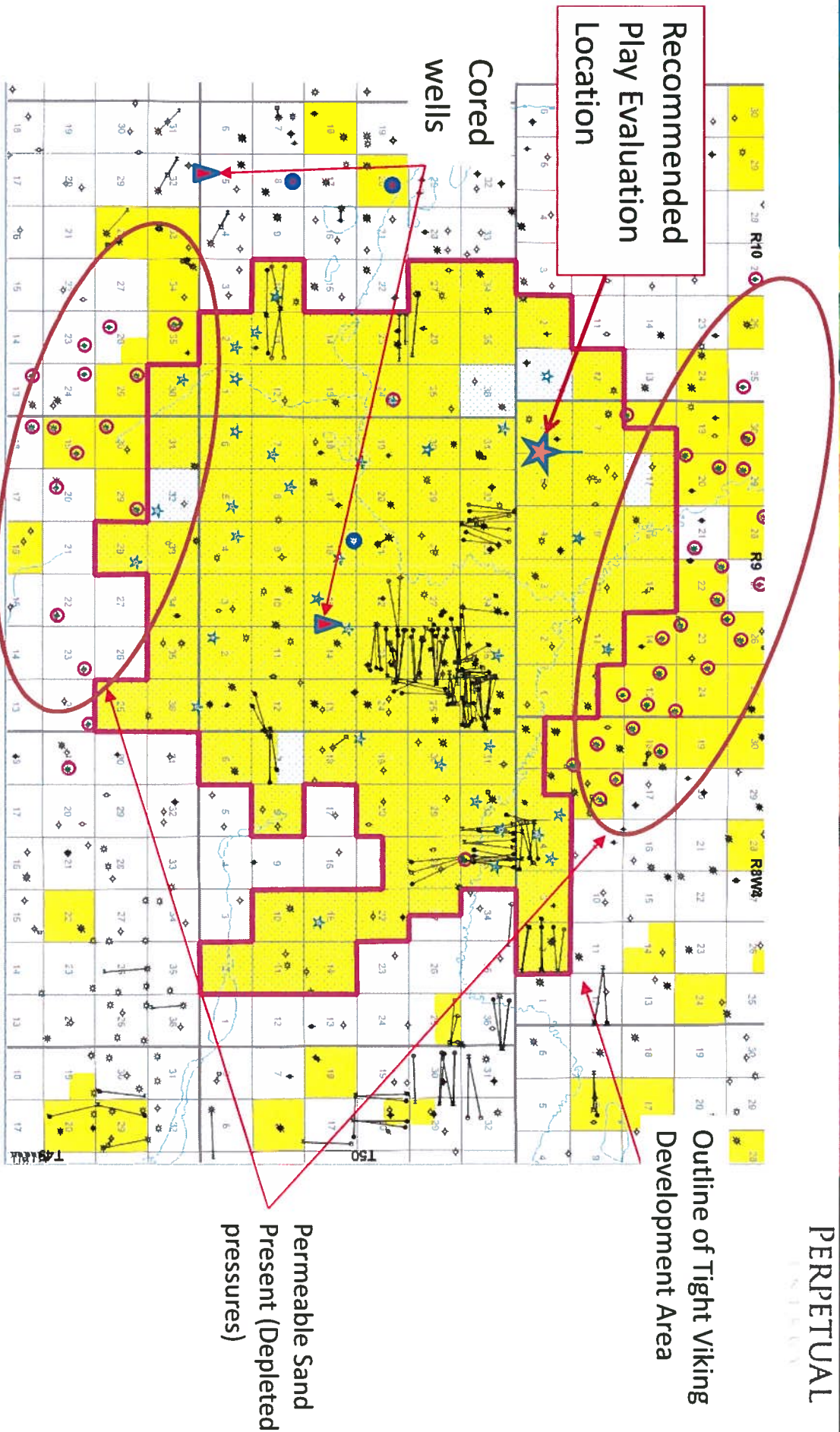
- ~160 on Crown (preferable royalty treatment)
- ~120 Freehold land (variable royalties may be negotiable)

Full development scope has ~280 locations at 0.5 bcf = 140 bcf recoverable

# Tight Viking Gas Development – Mannville Area



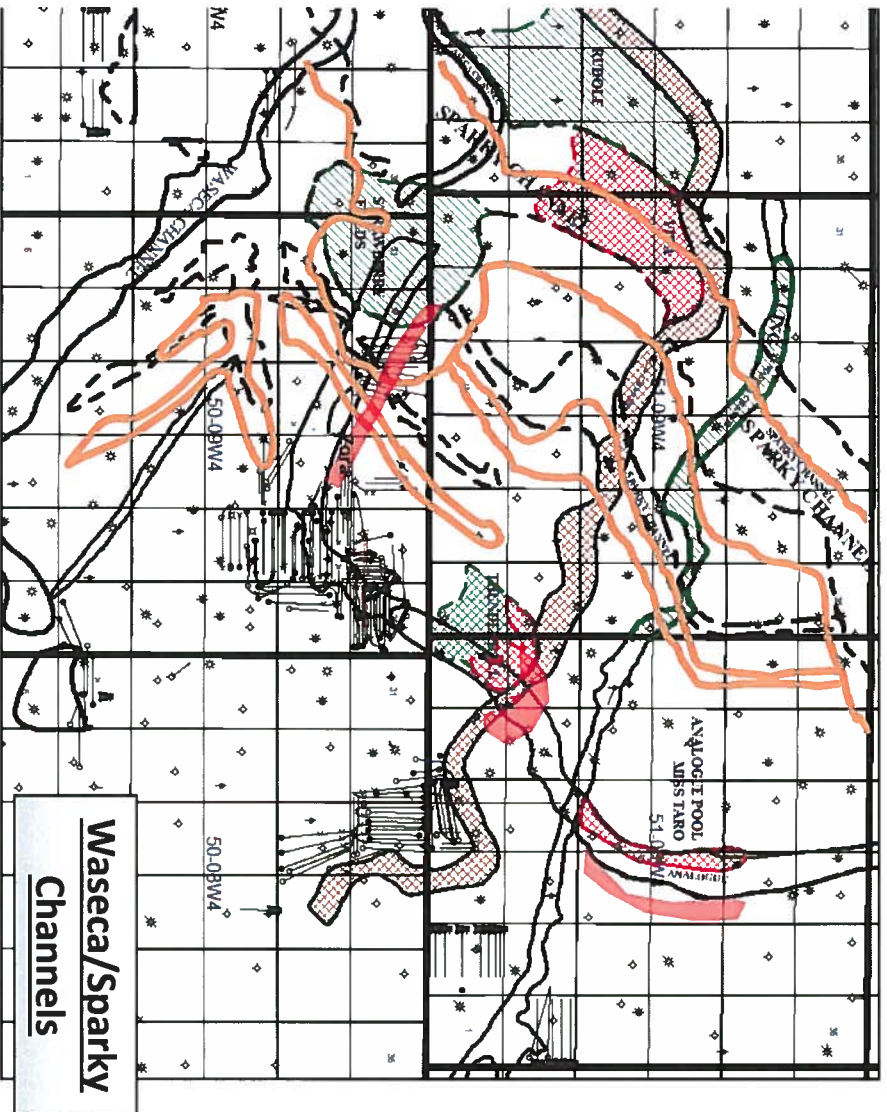
PERPETUAL  
ENERGY



104 Sections: Crown 54; Heritage 16.75; Freehold 12.75; other F/H 13.25  
Approximately 135 wells @ 2 wells/sec & "risked" for depletion

# Mannville Tight Channel Play

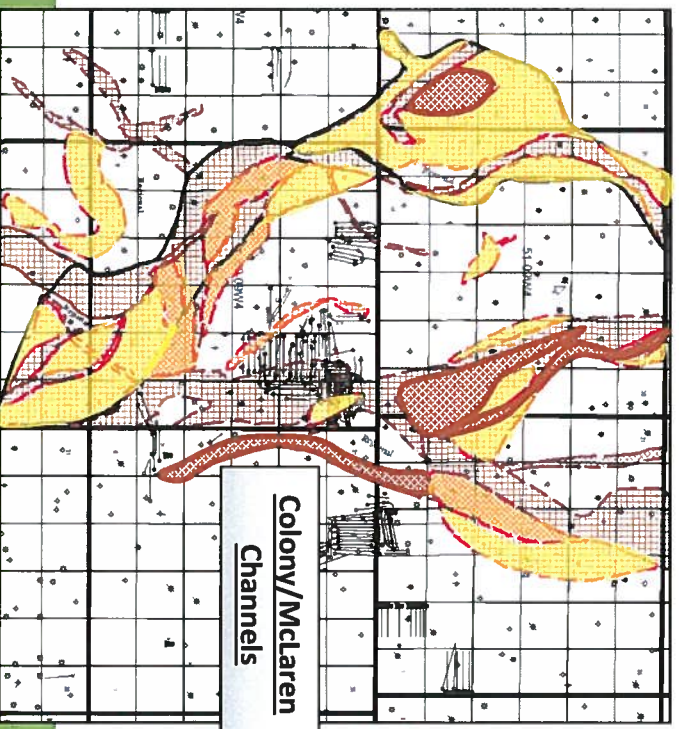
PERPETUAL



- Waseca/Sparky Channels** 20 – 40 m thick
- Waseca
  - Waseca Shale
  - Sparky
  - Proven Gas Production
  - Oil Exploratory Pools



- Colony/McLaren Channels** - 10 – 20 m thick
- Colony Quartose
  - Colony Lithic
  - McLaren Quartose
  - McLaren Lithic



Complex channel environment provides **ADDITIONAL** prospectivity retained in POC

# **EXHIBIT “D”**



PERPETUAL OPERATING TRUST

(Vendor)

- and -

PERPETUAL ENERGY OPERATING CORP.

(Purchaser)

This is Exhibit "D" referred to in the  
 Affidavit of  
*Paul J. Darcy*  
 Sworn before me this *2nd* day  
 of *August* A.D. 20 *16*  
 A Notary Public Commissioner for Oaths  
 In and for the Province of Alberta

**LUKE RASMUSSEN**  
 Barrister & Solicitor

**PURCHASE AND SALE AGREEMENT**

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**Eastern Shallow Gas Alberta**

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**DATE: October 1, 2016**

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## PURCHASE AND SALE AGREEMENT

Area: Eastern Shallow Gas Alberta

THIS AGREEMENT made the 1<sup>st</sup> day of October, 2016

BETWEEN:

**PERPETUAL OPERATING TRUST**, a trust registered to carry on business in the Province of Alberta and having an office in the City of Calgary, in the Province of Alberta ("Vendor")

- and -

**PERPETUAL ENERGY OPERATING CORP.**, a body corporate registered to carry on business in the Province of Alberta and having an office in the City of Calgary, in the Province of Alberta (hereinafter referred to as "Purchaser")

WHEREAS Vendor has agreed to sell the Assets to Purchaser and Purchaser has agreed to purchase the Assets from Vendor on the terms and conditions set forth herein;

AND WHEREAS the Purchaser has agreed to provide a licensed copy of the Purchaser Proprietary Seismic Data (as defined herein) to the Vendor and the Vendor has agreed to provide or cause to be provided a licensed copy of the Third Party Proprietary Seismic Data (as defined herein) to the Purchaser, each upon the terms set forth in this Agreement;

NOW THEREFORE in consideration of the premises and the mutual covenants and warranties herein contained, the parties agree as follows:

### ARTICLE I – INTERPRETATION

1.01 **Definitions.** In this Agreement, including the recitals and the Schedules, the following terms have the following meanings:

- (a) "Abandonment and Reclamation Obligations" means all past, present and future obligations to:
  - (i) abandon wells and close, decommission, dismantle and remove structures, foundations, buildings, pipelines, equipment and other facilities located on the Lands or lands pooled or unitized therewith or used or previously used in respect of Hydrocarbon Substances produced or previously produced from the Lands or lands pooled or unitized therewith; and/or
  - (ii) restore, remediate and reclaim the surface and subsurface locations thereof and lands used to gain access thereto, including such obligations relating to wells, pipelines and facilities which were abandoned or decommissioned prior to the Closing Date that were located on the Lands or lands pooled or unitized therewith or that were located on other lands

and used in respect of Hydrocarbon Substances produced or previously produced from the Lands or lands pooled or unitized therewith;

all in accordance with generally accepted oil and gas industry practices in the province where the Assets are located and in compliance with Applicable Law;

- (b) "AER Administration Fee" means the fees payable to the AER on account of the 2016 administration fees to support the AER's operations;
- (c) "AER" means The Alberta Energy Regulator and any predecessor or successor thereof;
- (d) "AFEs" means authorities for expenditure, mail ballots, cash calls or other similar approvals issued pursuant to the Title and Operating Documents as identified on Schedule "G";
- (e) "Affiliate" of a Party means a corporation, trust or partnership that controls the Party, is controlled by the Party or is controlled by the same person, corporation, trust or partnership that controls the Party and for which purpose a corporation shall be deemed to be controlled by those persons, corporations, trusts or partnerships who own or effectively control, other than by way of security only, sufficient voting shares of the corporation (whether directly through the ownership of shares of the corporation or indirectly through the ownership of shares of another corporation which directly or indirectly owns shares of the corporation) to elect the majority of its board of directors and a partnership or trust shall be deemed to be controlled by those persons, corporations, trusts or partnerships that are able to determine policies or material decisions of that partnership or trust, provided that a partnership which is composed solely of corporations which are Affiliates, as described above, shall be deemed to be an Affiliate of each such corporation and its other Affiliates;
- (f) "Applicable Law" means, in relation to any Person, property or circumstance:
  - (i) statutes (including regulations enacted thereunder);
  - (ii) judgments and orders of courts of competent jurisdiction;
  - (iii) regulations, orders and directives issued by Government Authorities; and
  - (iv) the terms and conditions of all permits, licences, approvals and authorizations;

which are applicable to such Person, property or circumstance;
- (g) "Assets" means the Vendor's interest in the Hydrocarbon Interests, Tangibles and Miscellaneous Interests
- (h) "Business Day" means a day other than Saturday or Sunday or a statutory holiday in Calgary, Alberta;

- (i) "Certificate" means a written certification of a matter or matters of fact which, if required from a corporation, shall be made by an officer of the corporation, on behalf of the corporation and not in any personal capacity;
- (j) "Closing" means the conveyance of the Assets, the payment by Purchaser of the Purchase Price and the delivery of all documents required hereby;
- (k) "Closing Time" means 12:01am (Calgary time) October 1, 2016; or such other time and date as may be agreed upon in writing by Vendor and Purchaser;
- (l) "Closing Statement" has the meaning ascribed to that term in Subclause 11.01(h);
- (m) "Consequential Losses" means any consequential, incidental, punitive, special, exemplary or indirect damages, cost or deferred profits or revenues, loss of business opportunity, losses based on loss of use or other business interruption losses and damages;
- (n) "Crown" means the Crown in right of the Province of Alberta, and any ministry of the Crown, including Alberta Energy;
- (o) "Environmental Liability" means any Losses and Liabilities pertaining to the Assets in respect of the environment, whether or not caused by a breach of the Regulations and whether or not resulting from operations conducted with respect to the Assets, including Losses and Liabilities in respect of the Assets related to:
  - (i) the transportation, storage, use or disposal of toxic or hazardous substances or hazardous, dangerous or non-dangerous oilfield substances or waste;
  - (ii) the release, spill, escape or emission of toxic or hazardous substances;
  - (iii) any other pollution or contamination of the surface, substrata, soil, air, ground water, surface water or marine environments;
  - (iv) Losses and Liabilities suffered by Third Parties as a result of the occurrences in Paragraphs (i), (ii) and (iii) of this Subclause; and
  - (v) any obligations imposed by the Regulations to protect the environment or to rectify environmental problems;
- (p) "Facilities" means the facility or facilities, if any, identified to Purchaser by Vendor and set out in Schedule "B";
- (q) "Field Contracts" means all contracts in the field for items such as copiers, cell phones, phones, internet services and truck leases;
- (r) "Final Statement of Adjustments" has the meaning ascribed to that term in Subclause 11.01(i);

- (s) "GAAP" or "Generally Accepted Accounting Principles" means generally accepted accounting principles set forth in the CICA Handbook published by the Canadian Institute of Chartered Accountants or any successor institute;
- (t) "Governmental Authority" means any domestic government, whether federal, provincial, state, territorial, local, regional, municipal, or other political jurisdiction, and any agency, authority, instrumentality, court, tribunal, board, commission, bureau, arbitrator, arbitration tribunal or other tribunal, or any quasi-governmental or other entity, insofar as it exercises a legislative, judicial, regulatory, administrative, expropriation or taxing power or function of or pertaining to government having jurisdiction over the Assets, the Parties or the Transaction;
- (u) "GST" means the goods and services tax provided for under the *Excise Tax Act* (Canada), as amended, and the regulations thereunder, or any successor or parallel federal or provincial legislation that imposes a tax on the recipient of goods and services;
- (v) "Hydrocarbon Interests" means the interests of Vendor set out in Schedule "A" in the Leases to the extent that they apply to the Lands and includes any of the following rights and interests to the extent derived from such Leases or the ownership of the Hydrocarbon Substances:
  - (i) the interest and right of Vendor in any lands or leases with which the Hydrocarbon Substances granted by the Leases have been pooled or unitized;
  - (ii) any existing contractual right to earn an interest under a farmin or similar arrangement; and
  - (iii) any overriding royalty, net profits interest or other encumbrance accruing to Vendor however specifically excluding receipt of royalties associated with any gross royalty trust certificates;
- (w) "Hydrocarbon Substances" means petroleum, natural gas and related hydrocarbons and all other substances (whether hydrocarbon or not), including sulphur, capable of being produced in association with any of them and produced and/or sourced water or disposal water wells;
- (x) "Lands" means the existing lands and Leases, formations and associated Leased Substances set out in Schedule "A" ;
- (y) "Leased Substances" means all Hydrocarbon Substances, rights to or in respect of which are granted, reserved or otherwise conferred by or under the Leases;
- (z) "Leases" means, collectively, the various leases, licences, permits, reservations, certificates of title and other documents of title and agreements by virtue of which Vendor is entitled to explore for, recover, remove or dispose of Hydrocarbon Substances within, upon or under the Lands or lands with which the Lands are pooled set out in Schedule "A" and includes, if applicable, all renewals and

extensions of those documents and all documents issued in substitution therefore;

- (aa) "Losses and Liabilities" means all claims, liabilities, actions, proceedings, demands, losses, costs, penalties, fines, damages and expenses which may be sustained or incurred by any of a Party, its directors, officers, agents and employees, including reasonable legal fees and disbursements on a solicitor and its own client basis;
- (bb) "Material Contracts" means those agreements which are set forth in Schedule "D" hereto and, to the extent directly related to the Assets, any of following agreements which are not terminable on thirty-one (31) days' notice or less without early termination penalty or cost:
  - (i) agreements for the sale of Hydrocarbon Substances;
  - (ii) gas balancing or similar agreements;
  - (iii) agreements for the transportation, processing, or disposal of the Hydrocarbon Substances;
  - (iv) agreements for the injection or subsurface disposal of substances;
  - (v) construction, ownership and operation agreements relating to any of the Tangibles; and
  - (vi) agreements for the use of wellbores or for the operation of any Wells or Tangibles by a Third Party;
- (cc) "Miscellaneous Interests" means the interest of Vendor in all property, including real property, assets and rights (other than the Hydrocarbon Interests and the Tangibles) to the extent they pertain directly to the Hydrocarbon Interests or the Tangibles, including:
  - (i) the Title and Operating Documents;
  - (ii) Field Contracts;
  - (iii) the Surface Rights;
  - (iv) the Wells, including the well bores and casing for the Wells; and
  - (v) the Vendor Proprietary Seismic Data; and
  - (vi) all non-interpretative production and engineering information, Facility and other records, files, reports, data, correspondence and documents that, in Vendor's reasonable judgement, relate directly to the Assets;

Unless otherwise agreed in writing by the parties, however, the Miscellaneous Interests shall not include agreements, documents or data to the extent that:



- (A) they pertain to Vendor's proprietary technology, interpretations or economic evaluations;
  - (B) they are owned or licensed by third parties with restrictions on their deliverability or disclosure by Vendor to any assignee which is not an affiliate of Vendor; or
  - (C) they are referred to specifically as exclusions in Schedule "A";
- (dd) "Orphan Well Levy" means the annual levy paid to the AER which represents a licensee's proportionate share of sector liability as determined by the Licensee Liability Rating (LLR) program and the Oilfield Waste Liability (OWL) programs of the AER;
- (ee) "Party" means a party to this Agreement;
- (ff) "Permitted Encumbrances" means:
- (i) liens for taxes, assessments and governmental charges which are not due or delinquent at the Closing Time;
  - (ii) mechanics', builders', materialmen's or similar liens for services rendered or goods supplied for which payment is not then due;
  - (iii) easements, rights of way, servitudes and other similar rights in lands which in total do not materially impair the use of the Assets as being used at the Closing Time;
  - (iv) the royalties, other encumbrances and reductions in interest described in Schedule "A";
  - (v) the terms and conditions of the Title and Operating documents provided that all royalties, net profit interests, reductions in interest and other burdens and encumbrances must be disclosed in Schedule "A" to qualify as a Permitted Encumbrance pursuant to this Subclause 1.01(ff)(v);
  - (vi) the express or implied reservations or exceptions in any grants or transfers of mineral rights from the Crown;
  - (vii) legally binding requirements imposed by statutes or governmental boards, tribunals or authorities concerning rates of production from operations on any of the Lands or otherwise affecting recoverability of Hydrocarbon Substances from the Lands and which are generally applicable to the oil and gas industry in Alberta;
  - (viii) provisions for penalties and forfeitures under operating procedures or similar agreements which will arise if Vendor elects, after the relevant time, and in accordance with Clause 6.02, not to participate in operations on the Lands to which the penalty or forfeiture will apply; and

- (ix) any defects or deficiencies in title to the Assets disclosed in this Agreement;
- (gg) "Person" means any individual (or group of individuals), corporation, limited or unlimited liability company, joint venture, partnership (limited or general), trust, trustee, executor or similar official, Governmental Authority or other legal entity;
- (hh) "Pipelines" means the pipelines identified in Schedule "C";
- (ii) "Place of Closing" means the office of Vendor's lawyers located at 2400, 525 8<sup>th</sup> Avenue SW, Calgary, Alberta or such other place as Vendor and Purchaser may agree;
- (jj) "Prime Rate" means the per annum rate designated as the prime rate for Canadian dollar commercial loans by the main Calgary branch of the Bank of Montreal, with any change to that rate being effective under this Agreement on the same day as it is made effective by that bank;
- (kk) "Purchase Price" means Ten Dollars (\$10.00), as adjusted in accordance with Subclause 11.01(i);
- (ll) "Purchaser Proprietary Seismic Data" means the proprietary geophysical information of Purchaser identified by the lines set forth in the Schedule "H" hereto, including:
  - i. existing related support documentation, raw field data, observer's notes, surveyor's field notes and any subsequent calculations or displays which have been calculated from the field measurement;
  - ii. geophysical survey maps, chainers' notes, drillers' notes, survey audit notes, SEGP1 location data, shot point location maps;
  - iii. CDP stack section digital data, CDP stack section prints, 3D bin maps, digital data in workstation loadable format, section prints, or any other forms or geophysical maps, including scanned or digitized data;
- (mm) "Purchaser Seismic License Agreement" means the agreement to be issued to Vendor by Purchaser in respect of the Purchaser Proprietary Seismic Data, substantially in the form attached as Schedule "F";
- (nn) "Regulations" means all statutes, laws, rules, orders, directives and regulations in effect from time to time and made by Governmental Authority;
- (oo) "Representatives" means in respect of a Party:
  - (i) its Affiliates; and
  - (ii) the respective directors, officers, agents, advisors, consultants and employees of such Party and its Affiliates;

- (pp) "Right of First Refusal" means a right of first refusal, pre-emptive right of purchase or similar right whereby a Third Party has the right to acquire or purchase a portion of the Assets as a consequence of Vendor having agreed to sell the Assets to Purchaser in accordance with the terms of this Agreement;
- (qq) "Security Interests" means any assignment, security, mortgage, charge, pledge, negative pledge, lien or other security interest whatsoever or howsoever created or arising whether absolute or contingent, fixed or floating, perfected or not, which encumbers the title of Vendor or its Affiliates or any predecessor in title in and to the Assets or any part or portion thereof or the proceeds to be received hereunder;
- (rr) "Specific Conveyances" means all conveyances, assignments, transfers, novations and other documents or instruments that are reasonably required or desirable, in accordance with normal oil and gas industry practices, to convey, assign and transfer the Assets to Purchaser and to novate Purchaser into the Title and Operating Documents in the place and stead of Vendor with respect to the Assets, effective as of the Closing Time;
- (ss) "Surface Rights" means all rights to use the surface of land in connection with the Assets, including the right to enter upon and occupy the surface of land on which the Tangibles and the Wells are located and rights to cross or otherwise use the surface of land for access to the Assets, excluding any such rights that pertain only to a well or wells other than the Wells;
- (tt) "Tangibles" means Vendor's interests in the Facilities and all tangible depreciable property and assets used or intended to be used solely in connection with production, gathering, treatment, storage, compression, processing, transportation, injection, removal or other operations relating to the Hydrocarbon Interests and situated within or upon the Lands or lands with which they have been pooled, including the Pipelines, tangible equipment, if any, relating to the Wells and downhole equipment;
- (uu) "Third Party" means any individual or entity other than Vendor and Purchaser, or an Affiliate thereof, including any partnership, corporation, trust, unincorporated organization, union, government and any department or agency thereof and any heir, executor, administrator or other legal representative of an individual;
- (vv) "Third Party Proprietary Seismic Data" means the proprietary geophysical information of Third Parties identified by the lines set forth in the Schedule "H" hereto, including:
- iv. existing related support documentation, raw field data, observer's notes, surveyor's field notes and any subsequent calculations or displays which have been calculated from the field measurement;
  - v. geophysical survey maps, chainers' notes, drillers' notes, survey audit notes, SEGP1 location data, shot point location maps;

- vi. CDP stack section digital data, CDP stack section prints, 3D bin maps, digital data in workstation loadable format, section prints, or any other forms or geophysical maps, including scanned or digitized data;
- (ww) "Third Party Seismic License Agreement" means the agreement to be issued to Purchaser by PrairieSky Royalty Ltd. in respect of the Third Party Proprietary Seismic Data, substantially in the form attached as Schedule "F";
- (xx) "Thirteenth Month Adjustment" means the accounting procedure performed annually by an operator of particular Tangibles for the purpose of redistributing certain revenues and expenses, including operating expenses, processing fee revenues, excess capacity utilization fees and recoveries, royalties and gas cost allowances (or similar cost allowances);
- (yy) "Title and Operating Documents" means, to the extent directly related to the Hydrocarbon Interests and the Tangibles, or either of them, all agreements and documents that relate to the ownership, operation or exploitation of the Hydrocarbon Interests or the Tangibles, including:
  - (i) the Leases;
  - (ii) the Material Contracts;
  - (iii) operating agreements, royalty agreements, farmout or farmin agreements, option agreements, participation agreements, pooling agreements, sale and purchase agreements and asset exchange agreements;
  - (iv) agreements pertaining to the Surface Rights;
  - (v) agreements for the construction, ownership and operation of gas plants, gas gathering systems and other Tangibles;
  - (vi) agreements for the sale of Hydrocarbon Substances, transportation agreements, treating agreements, processing agreements, injection or subsurface disposal of substance agreements, use of wellbore agreements and agreements for the operation of any Wells of Tangibles by a Third Party that are terminable on thirty-one (31) days' notice or less without an early termination penalty or other cost; and
  - (vii) any approvals, authorizations or licences required under the Regulations for the conduct of operations with respect to the Assets, including Well and pipeline licences;
- (zz) "Transaction" means the entering into of this Agreement and the sale of the Assets by Vendor to Purchaser pursuant to this Agreement;

- (aaa) "Vendor Proprietary Seismic Data" means the 100% proprietary geophysical information of Vendor as it pertains to the Lands, including as set forth in Schedule "I" hereto, and including:
- (i) existing related support documentation, raw field data, observer's notes, surveyor's field notes and any subsequent calculations or displays which have been calculated from the field measurement;
  - (ii) geophysical survey maps, chainers' notes, drillers' notes, survey audit notes, SEGP1 location data, shot point location maps;
  - (iii) CDP stack section digital data, CDP stack section prints, 3D bin maps, digital data in workstation loadable format, section prints, or any other forms or geophysical maps, including scanned or digitized data; and
- (bbb) "Wells" means all producing, suspended, shut-in, abandoned, water source, disposal or injection wells located in, upon or bottoming under the Lands or any lands pooled or unitized therewith, including but not limited to those wells listed in Schedule "B".

1.02 **Schedules** The following are the Schedules attached to and forming part of this Agreement:

- "A" Lands, Leases and Hydrocarbon Interests
- "B 1" Well list
- "B 2" PEOC licence but not Beneficial list
- "B 3" Facility List
- "B 4" Major Facility List
- "C" Pipelines
- "D" Material Contracts
- "E 1" Equipment List
- "E 2" Heavy Equipment
- "F" Seismic License Agreements
- "G" AFEs
- "H" Purchaser and Third Party Proprietary Seismic Data
- "I" Vendor Proprietary Seismic Data

1.03 **References and Interpretation** Unless otherwise stated or the context otherwise requires:

- (a) words importing the singular number include the plural and vice versa and words importing the masculine gender include the feminine and neuter genders;

- (b) the division of this Agreement into sections and clauses and the insertion of headings are for convenience of reference only and do not affect the construction or interpretation of this Agreement;
- (c) the references "hereunder", "herein, and "hereof" refer to the provisions of this Agreement, and references to "Article", "Clause", "Subclause", "Paragraph" or "Subparagraph" herein refer to the specified Article, Clause, Subclause, Paragraph or Subparagraph of this Agreement;
- (d) a capitalized derivative of a defined term will have a corresponding meaning;
- (e) whenever there occurs a word of general application or of a general class which is stated to "include" a word or an enumerated list of words with a particular or specific meaning, such particular or specific word or enumerated list of words of particular or specific meaning shall not be interpreted so as to be an exhaustive list of those matters or things falling within the word or general application or of a general class;
- (f) all references herein to currency are references to currency of Canada; and
- (g) any reference to days refers to calendar days unless the reference is to Business Days. If the time for doing any act expires on a day that is not a Business Day, the time for doing that act will be extended to the next Business Day.

1.04 **Interpretation If Closing Does Not Occur** In the event that Closing does not occur, each provision of this Agreement which presumes that Purchaser has acquired the Assets shall be construed as having been contingent upon Closing having occurred.

1.05 **Conflicts** If there is any conflict or inconsistency between a provision of the body of this Agreement and that of a Schedule or a conveyance document, the provision of the body of this Agreement shall prevail.

1.06 **Vendor's Knowledge** The knowledge or awareness of Vendor herein consists of the actual knowledge or awareness of its current officers who are primarily responsible for the matter in question in the course of their normal duties, after reasonable inquiry of Vendor's applicable files and records. For these purposes, knowledge and awareness do not include the knowledge of any Third Party or constructive knowledge. Vendor does not have any obligation to make inquiry of Third Parties or the files and records of any Third Party or public authority in connection with representations and warranties that are made to its knowledge or awareness.

## **ARTICLE II – SALE OF ASSETS AND RELATED MATTERS**

2.01 **Sale of Assets** Upon the terms and subject to the conditions of this Agreement, Vendor hereby sells, assigns, transfers, conveys and sets over to Purchaser, and Purchaser purchases from Vendor, at the Closing Time, all of the right, title and interest of Vendor in the Assets.

2.02 **Payment of Purchase Price** Purchaser hereby pays to Vendor the Purchase Price, as adjusted for adjustments.

2.03 **Allocation** The Purchase Price will be allocated as follows:

(a)	to the Hydrocarbon Interests:	\$8.00
(b)	to the Tangibles:	\$1.90
(c)	to the Miscellaneous Interests:	\$ .10
		<hr/>
	TOTAL	\$10.00
		<hr/>

2.04 **GST and Taxes** The Purchase Price does not include GST. Purchaser hereby pays to Vendor an amount equal to five (5%) percent of the portion of the Purchase Price allocated to Tangibles and Miscellaneous Interests pursuant to Clause 2.03. Vendor shall remit such amount to the appropriate taxation authorities in accordance with the *Excise Tax Act* (Canada). Each Party represents that it holds a valid GST registration account number at the date of Closing and that its registration number for GST purposes is:

Vendor: 86196 5861 RT0001

Purchaser: 86581 0881 RT0001

Purchaser shall also be solely liable for any and all sales and similar taxes imposed by provincial or federal legislation in respect of the purchase of the Assets pursuant hereto. If Vendor, as agent for the Crown, is required to collect such taxes, Purchaser shall pay the aggregate amount of such taxes to Vendor at Closing. Vendor shall remit such amount to the appropriate authorities in accordance with applicable legislation.

2.05 **After Closing** Purchaser shall be responsible for, and shall indemnify and save Vendor harmless in respect of any amounts of GST and sales and similar taxes (including interest and penalties) in respect of the purchase and sale of the Assets pursuant hereto which are in excess of the amounts collected by Vendor from Purchaser at Closing

2.06 **Purchase Price Certainty** For the avoidance of doubt, the Parties acknowledge that:

- (a) the amount and the scope of the Abandonment and Reclamation Obligations and the Environmental Liabilities associated with the Assets are not capable of being quantified at the time of Closing and depend upon numerous unknowable factors that are not within the control of the Parties;
- (b) under Applicable Law, the Abandonment and Reclamation Obligations and the Environmental Liabilities associated with the Assets are inextricably linked with such Assets so that Purchaser will be liable for Abandonment and Reclamation Obligations and Environmental Liabilities associated with the Assets in the absence of the specific assumption of such obligations by Purchaser in this Agreement or otherwise;
- (c) the Parties have taken the fact that the Assets and any associated Abandonment and Reclamation Obligations and Environmental Liabilities are inextricably linked into account in reaching this Agreement and in establishing the Purchase Price for the Assets;

- (d) neither the existence nor the amount of any accounting reserves for site reclamation costs or similar matters associated with the Assets in the financial statements or accounting records of either Party has been of any relevance to either Party in determining any matter under this Agreement, including the Purchase Price for the Assets; and
- (e) as a result of the foregoing, the Parties agree to attribute no value to the assumption of the Abandonment and Reclamation Obligations and the Environmental Liabilities, nor the indemnities provided for in ARTICLE X, associated with the Assets.

### ARTICLE III – CLOSING

3.01 **Deliveries at Closing.** Vendor hereby tables the following:

- (i) all available Specific Conveyances duly executed by Vendor;
  - (ii) registerable discharges of, or no interest letters in respect of, any Security Interests affecting Vendor's interests in the Assets that are requested by Purchaser a reasonable period of time prior to Closing;
  - (iii) the Seismic Licence Agreement issued by Purchaser to Vendor in respect of the Purchaser Proprietary Seismic Data, duly executed by Vendor;
  - (iv) the Seismic License Agreement issued by PrairieSky to Purchaser in respect of the Third Party Proprietary Seismic Data, duly executed by PrairieSky Royalty Ltd.; and
  - (v) such other items as may be specifically required hereunder.
- (b) At the Closing Time, Purchaser shall table the following:
- (i) the amounts payable at Closing on account of the Purchase Price, as adjusted, and GST in accordance with this Agreement;
  - (ii) the Seismic License Agreement issued by PrairieSky Royalty Ltd. to Purchaser in respect of the Third Party Proprietary Seismic Data, duly executed by Purchaser;
  - (iii) the Seismic License Agreement issued by Purchaser to Vendor in respect of the Purchaser Proprietary Seismic Data, duly executed by Purchaser;
  - (iv) such other items as may be specifically required hereunder.

In addition, Purchaser will duly execute the Specific Conveyances tabled by Vendor.

3.02 **Delivery of Documents** To the extent that Vendor is not reasonably able to deliver the Title and Operating Documents to Purchaser at Closing, Vendor shall within fifteen (15) days of Closing, deliver to Purchaser the copies of the Title and Operating Documents which it has in its possession, provided that if Vendor retains any interest in any property to



which any of the Title and Operating Documents relate, Vendor may retain the original copy of such Title and Operating Document and provide a photocopy of it to Purchaser.

3.03 **Access to Records** Vendor may, at its sole expense, after Closing gain access to, during regular business hours, and obtain from Purchaser copies or photocopies of any Title and Operating Documents which were delivered to Purchaser at Closing and which Vendor requires for audits or claims by Third Parties.

3.04 **Specific Conveyances** It shall not be necessary for assignment and novation agreements to have been executed prior to or at Closing by parties thereto other than Vendor and Purchaser. After Closing, Vendor shall co-operate with Purchaser in its procurement of the execution of such documents and any substitutions, amendments or replacements thereof by the parties thereto other than Vendor and Purchaser. After Closing, Purchaser shall use all reasonable efforts to become, as soon as reasonably practicable, the recognized and beneficial holder of the Assets in the place and stead of Vendor and shall promptly register all Specific Conveyances; provided however, in furtherance thereof, Vendor may elect to register on behalf of Purchaser all transfers of well licences, pipeline permits and similar documents. Vendor, where Purchaser is the registering Party, and Purchaser, where Vendor is the registering Party, shall promptly take whatever steps are necessary to verify such registrations. Purchaser shall be solely responsible for all notifications resulting from surface assignments to the surface landowners and affected third parties. The Vendor shall be copied on all notifications. Vendor shall prepare all Specific Conveyances. None of the Specific Conveyances shall confer or impose upon a Party any greater right or obligation than contemplated in this Agreement. The Parties shall use reasonable commercial efforts to provide such Specific Conveyances for execution and delivery by the Parties at Closing.

- (b) Forthwith after execution and delivery of the Specific Conveyances, with the cooperation of Vendor, Purchaser shall circulate and register, as the case may be, all Specific Conveyances that by their nature may be circulated or registered. All costs of registration of the Specific Conveyances, including without limiting the generality of the foregoing, all transfers of caveats, all Well, Facility and Pipeline licence transfers, and assignments of dispositions any associated security deposits shall be for Purchaser shall bear all costs, fees and deposits of every nature and kind Purchaser's account.
- (c) Purchaser shall bear all costs, fees and deposits of every nature and kind incurred (whether by Vendor or Purchaser) in registering any Specific Conveyances and registering any further assurances required to convey the Assets to Purchaser; and Vendor, acting reasonably, may include an amount in respect thereof in the Closing Statement contemplated by ARTICLE XI.

#### ARTICLE IV – REPRESENTATIONS AND WARRANTIES

4.01 **Representations and Warranties of Vendor** Vendor makes the following representations and warranties to Purchaser with respect to itself and the Assets as of the Closing:

- (a) **Standing.** Vendor is duly organized, valid and subsisting, registered to carry on business in the Province of Alberta and registered to carry on business in the jurisdiction(s) where the Assets are located;
- (b) **Requisite Authority.** Vendor has the requisite capacity, power and authority to execute this Agreement and to perform the obligations to which it thereby becomes subject;
- (c) **No Conflict.** The execution and delivery of this Agreement and the completion of the sale of the Assets in accordance with the terms of this Agreement are not and will not be in violation or breach of, or be in conflict with:
  - (i) any term or provision of the articles, bylaws or other governing documents of Vendor,
  - (ii) any agreement, instrument, permit or authority to which Vendor is a party or by which Vendor is bound, or
  - (iii) any law, statute, rule or regulation or any judicial order, award, judgment or decree applicable to Vendor or the Assets;
- (d) **Execution And Enforceability.** Vendor has taken all actions necessary to authorize the execution and delivery of this Agreement, and, as of the Closing Time, Vendor shall have taken all actions necessary to authorize and complete the sale of the Assets in accordance with the provisions of this Agreement. This Agreement has been validly executed and delivered by Vendor, and this Agreement does and all other documents executed and delivered on behalf of Vendor hereunder shall constitute valid and binding obligations of Vendor enforceable in accordance with their respective terms and conditions;
- (e) **Title to Assets.** Vendor does not warrant title to the Assets, but does warrant that its interest in the Assets is free and clear of any and all liens, mortgages, pledges, claims, options, encumbrances, overriding royalties, net profits interests or other burdens for which Purchaser will be responsible that were created by, through or under Vendor or of which Vendor has knowledge, except for the Permitted Encumbrances and the Rights of First Refusal;
- (f) **Quiet Enjoyment.** Subject to Vendor's other representations and warranties made pursuant to this Clause, the Permitted Encumbrances, the rents, covenants, conditions and stipulations in the Leases on the lessee's or holder's part thereunder to be paid, performed and observed, Purchaser, from and after the Closing Time, may, for the remainder of the term of the Leases, take possession of and use the Assets for its own use and benefit without any interruption by Vendor or any person claiming by, through or under Vendor;

- (g) **No Default Notices.** Vendor has not received any notice of default under the Regulations or the Title and Operating Documents or any notice alleging its default thereunder, which default remains outstanding or unsatisfied at the Closing Time;
- (h) **Compliance with Leases and Agreements.** To the Vendor's knowledge, there has been no act or omission whereby it is in default under the Regulations or any of the Title and Operating Documents, which default would reasonably be expected to have a material adverse effect on the aggregate value of the Assets;
- (i) **Taxes and Royalties Paid.** To Vendor's knowledge, other than the municipal property taxes disclosed in the Closing Statement, all royalties and all ad valorem, property, production, severance and similar taxes and assessments based on or measured by the ownership of property or the production of Hydrocarbon Substances, or the receipt of proceeds therefrom, payable in respect of the Assets prior to the Closing Time have been fully paid and discharged, or will be paid by Vendor upon coming due;
- (j) **Residency.** Vendor is not a non-resident of Canada within the meaning of the *Income Tax Act* (Canada);
- (k) **Finders' Fees.** Vendor has not incurred any obligation or liability, contingent or otherwise, for brokers' or finders' fees in respect of the sale of the Assets for which Purchaser will have any obligation or liability;
- (l) **Claims.** As it pertains to the Assets only, no suit, action or other proceeding before any court or governmental agency has been commenced against Vendor, or to the knowledge of Vendor, has been threatened against Vendor or any Third Party, which might result in impairment or loss of the interest of Vendor in and to any of the Assets or which might otherwise adversely affect the Assets other than has been previously disclosed;
- (m) **Prepaid Obligations.** Other than as set forth in Schedule "F", Vendor is not obligated by virtue of a prepayment, gas balancing, or other arrangement under any contract to make any production payment or to deliver Hydrocarbon Substances produced from the Assets to any Third Party at some future time without receiving in due course (and being entitled to retain) full payment therefor at current market prices or contract prices other than has been previously disclosed;
- (n) **Reduction of Interests.** Except as otherwise disclosed on Schedule "A", Vendor's interest in the Hydrocarbon Interests is not subject to reduction by reference to payout of or production penalty on any Well or otherwise through any right or interest granted by, through or under it or of which Vendor has knowledge;
- (o) **Rights of First Refusal.** To Vendor's knowledge, there are no Rights of First Refusal applicable to the sale contemplated by this Agreement.

- (p) **Receipt of Revenues.** To Vendor's knowledge, it has been receiving the share of the net proceeds of production from the Assets attributable to its interests as shown in the schedules hereto, and no person is currently claiming that it is not entitled to such amounts, with the possible exception of claims of accounting errors which do not challenge the percentage share of revenues to which it is entitled and which are not material;
- (q) **Financial Commitments.** In respect of the Assets, except in connection with the AFEs set forth in Schedule "G", and in connection with municipal property taxes as detailed on the Closing Statement, there are no financial commitments of Vendor which are in excess of \$50,000 and which are due as of the date hereof or which may become due by virtue of matters occurring or arising prior to the date hereof, other than usual operating expenses incurred in the normal conduct of operations;
- (r) **Environmental Notices.** Vendor is not aware of:
- (i) and has not received any orders or directives under any statute, law, rule, order or Regulation which relates to environmental matters and which require any work, repairs, construction or capital expenditures with respect to the Assets, where such orders or directives have not been complied with in all material respects;
  - (ii) and has not received any demand or notice issued under any statute, law, rule, order or Regulation with respect to the breach of any environmental, health or safety law applicable to the Assets, including any statute, law, rule, order or regulation respecting the use, storage, treatment, transportation or disposition of environmental contaminants, which demand or notice remains outstanding at the date hereof;
- except as have been specifically disclosed by Vendor by written notice to Purchaser prior to the date hereof;
- (s) **Licenses and Permits.** In respect of the Assets that are operated by Vendor, if any, Vendor holds all valid licences, permits and similar rights and privileges that are required and necessary under applicable law to operate the Assets as presently operated;
- (t) **Operations.** Any and all operations of Vendor on or in respect of the Assets, have been conducted in accordance with normal oil and gas industry practices;
- (u) **No Outstanding Obligations.** No obligations have accrued pursuant to the Leases or other agreements pertaining to the Lands that may be satisfied by the drilling of a well, the payment of compensatory royalty or the surrender of some or all of the interests granted, reserved or otherwise conferred pursuant to such documents, other than obligations that have been satisfied (by means other than by the payment of compensatory royalties) or have been permanently waived;
- (v) **Production Penalties.** Excepting production limits of general application in the oil and gas Industry, none of the Wells is subject to production or other penalties

imposed by the Leases or other agreements pertaining to the Lands or the Assets, or by any other agreements and documents to which the Assets are subject, or by any regulations or statutes governing the Assets; and

- (w) **Material Contracts.** Other as set forth on Schedule "D", there are no i) gas balancing or similar agreements pertaining to the Hydrocarbon Substances or any of them; ii) agreements for the sale, dedication, transportation, processing or disposal of the Hydrocarbon Substances or any of them or substances produced in connection with the Hydrocarbon Substances or any of them; or iii) agreements for the contract operation by a third party of the Assets or any of them.

4.02 **Representations and Warranties of Purchaser** Purchaser makes the following representations and warranties to Vendor:

- (a) **Standing.** Purchaser is, and at the Closing Time shall continue to be, duly organized, valid and subsisting, registered to carry on business in the Province of Alberta and registered to carry on business in the jurisdiction(s) where the Assets are located;
- (b) **Requisite Authority.** Purchaser has the requisite capacity, power and authority to execute this Agreement and to perform the obligations to which it thereby becomes subject;
- (c) **No Conflict.** The execution and delivery of this Agreement and the completion of the sale of the Assets in accordance with the terms of this Agreement are not and will not be in violation or breach of, or be in conflict with:
- (i) any term or provision of the articles, bylaws or other governing documents of Purchaser,
  - (ii) any agreement, instrument, permit or authority to which Purchaser is a party or by which Purchaser is bound, or
  - (iii) any law, statute, rule or regulation or any judicial order, award, judgment or decree applicable to Purchaser or the Assets;
- (d) **Execution And Enforceability.** Purchaser has taken all actions necessary to authorize the execution and delivery of this Agreement, and, as of the Closing Time, Purchaser shall have taken all actions necessary to authorize and complete the purchase of the Assets in accordance with the provisions of this Agreement. This Agreement has been validly executed and delivered by Purchaser, and this Agreement does and all other documents executed and delivered on behalf of Purchaser hereunder shall constitute valid and binding obligations of Purchaser enforceable in accordance with their respective terms and conditions;
- (e) **Investigation of Title.** Purchaser is relying upon its own investigation concerning the title to and fitness of the Assets and is not relying upon any

representation, warranty or statement of Vendor except as contained in this Agreement;

- (f) **Finders' Fee**. Purchaser has not incurred any obligation or liability, contingent or otherwise, for broker's or finder's fees in respect of its purchase hereunder for which Vendor will have any obligation or liability;
- (g) **Investment Canada Act**. Purchaser is not a "non-Canadian" person within the meaning of the *Investment Canada Act*; and
- (h) **Qualification**. Purchaser meets all qualification requirements of Third Parties to purchase and take a transfer of the Assets and shall accede to, comply with and perform the requirements of such Third Parties.

#### ARTICLE V – SURVIVAL OF REPRESENTATIONS AND WARRANTIES

5.01 **Survival of Representations and Warranties** The representations and warranties set forth in Article IV shall continue in full force and effect and shall survive the Closing Time for the benefit of the Party for which such representations and warranties were made. In the absence of fraud, however, no claim or action shall be commenced with respect to a breach of any such representation or warranty or indemnification under Article XIV in respect thereof, unless, within twelve (12) months of the Closing Time, written notice specifying such breach in reasonable detail has been provided to the Party which made such representation or warranty and each Party waives any rights it may have at law or otherwise to commence a claim or action for breach of representation or warranty or indemnification under Article XIV in respect thereof after that period. Nothing in this Agreement will preclude a Party that made such a representation or warranty from offering as a possible defence that the other Party did not, in fact, rely to its detriment on the representation or warranty alleged by it to have been breached.

5.02 **No Merger** The representations and warranties in ARTICLE IV shall be deemed to apply to all assignments, conveyances, transfers and other documents conveying any of the Assets from Vendor to Purchaser. There shall not be any merger of any such representations or warranties in such assignments, conveyances, transfers or other documents, notwithstanding any rule of law, equity or statute to the contrary, and all such rules are hereby waived.

5.03 **No Additional Representations or Warranties by Vendor** Vendor makes no representations or warranties to Purchaser in addition to those expressly enumerated in ARTICLE IV. Except and to the extent provided in ARTICLE IV, Vendor does not warrant title to the Assets or make representations or warranties with respect to: (a) the quantity, quality or recoverability of Hydrocarbon Substances; (b) any estimates of the value of the Assets or the revenues applicable to future production therefrom; (c) any engineering, geological or other interpretations or economic evaluations respecting the Assets; (d) the rates of production of Hydrocarbon Substances from the Assets; or (e) the quality, condition or serviceability of the Assets or the suitability of their use for any purpose.

#### ARTICLE VI – MAINTENANCE OF BUSINESS

6.01 **Post-Closing Maintenance of Assets** For a period of ninety (90) days following the Closing Time, and to the extent that Purchaser must be recognized by Third Parties under the Title and Operating Documents or otherwise recognized as the owner of the Assets, Vendor

shall forward to Purchaser all AFEs, notices, mail ballots, specific information and other documents Vendor receives respecting the Assets. To the extent that a Title and Operating Document contemplates or requires a response from Vendor, Vendor will provide such response pursuant to the written instruction of Purchaser, provided that such instruction is provided by Purchaser to Vendor in a timely manner.

6.02 **Vendor Deemed Agent** Insofar as Vendor maintains the Assets and takes actions on behalf of Purchaser in compliance with the obligations under this Article:

- (a) Vendor shall be deemed to be an agent of Purchaser hereunder and Purchaser ratifies and confirms all actions taken, or refrained from being taken, by Vendor under this ARTICLE VI, with the intention that all of those actions will be deemed to be those of Purchaser, except to the extent that Vendor's actions constitute gross negligence or wilful misconduct; and
- (b) Purchaser shall be liable for and shall in addition indemnify Vendor its directors, officers, servants, agents and employees from and against all Losses and Liabilities as a result of maintaining the Assets or exercising any other rights as Purchaser's agent hereunder, insofar as those Losses and Liabilities are not a direct result of the gross negligence or wilful misconduct of Vendor or any of its directors, officers, servants, agents and employees. An act or omission will not be regarded as gross negligence or wilful misconduct under this Article to the extent that it was done or omitted to be done in accordance with Purchaser's written instructions or written concurrence.

## ARTICLE VII – DUE DILIGENCE

### 7.01 **Title and Environmental Due Diligence.**

Purchaser acknowledges that it has, prior to the execution hereof, been given an opportunity to:

- (a) review Vendor's title to the Assets; and
- (b) conduct an environmental review of the Assets;

and that it has satisfied itself in regard to both Vendor's title to the Assets and all environmental matters relating to the Assets, including any past, present or future Environmental Liabilities. Purchaser expressly waives all defects relating either to Vendor's title to the Assets or to environmental matters relating to the Assets, whether disclosed by Purchaser's review or otherwise. However, nothing in this Clause shall be a waiver by Purchaser of any matters in respect of which it is entitled to indemnification pursuant to Clause 10.01.

## ARTICLE VIII – DISPUTE RESOLUTION

8.01 **Arbitration Proceedings.** The Parties will attempt to resolve any dispute arising hereunder through consultation and negotiation in good faith. If those attempts fail, a Party may, by notice to the other Party at any time during those negotiations, refer the dispute to binding arbitration for final resolution if the dispute pertains to adjustments under ARTICLE XI.

Any such arbitration, and any other arbitration the parties may agree to conduct hereunder, will be conducted under the Arbitration Rules of the ADR Institute of Canada, Inc.

#### ARTICLE IX – PROJECTIONS

9.01 **Projections** If any information and materials pertaining to the Assets delivered or made available by Vendor to Purchaser pursuant to this Agreement includes any evaluations, projections, reports or interpretive or non-factual materials prepared by or for or received by Vendor, Purchaser hereby releases and discharges Vendor from any claim and all liability to Purchaser and Purchaser's assigns and successors as a result of use or reliance upon them. Purchaser agrees that it will rely solely on its own appraisal and estimates as to the quantum or value of the Assets and will rely solely on its own geological and engineering interpretation analysis related thereto.

#### ARTICLE X – INDEMNITY

##### 10.01 **Indemnity by Vendor**

Subject to Clauses 5.01 and 10.07, and provided that Closing has occurred, Vendor shall:

- (a) be liable to Purchaser for all Losses and Liabilities; and
- (b) indemnify and save Purchaser and its Representatives harmless from and against all Losses and Liabilities,

as a direct result of any matter or thing arising out of, resulting from, attributable to or connected with :

- (c) a breach of the representations and warranties of Vendor in ARTICLE IV; and
- (d) a breach by Vendor of its covenants contained herein,

except any Losses and Liabilities to the extent that the same either are reimbursed (or reimbursable) by insurance maintained by Purchaser or are caused by the gross negligence or wilful misconduct of Purchaser or its Representatives. In the absence of fraud, no claim or action may be commenced by the Purchaser under this Clause, unless within twelve (12) months following the Closing Time, written notice describing the claim in reasonable detail has been provided to the Vendor, and the Purchaser hereby waives any right it may have at law or otherwise to commence such a claim of action after that period.

##### 10.02 **Indemnity by Purchaser** Provided that Closing has occurred, Purchaser shall:

- (a) be liable to Vendor for all Losses and Liabilities; and
- (b) indemnify and save Vendor and its Representatives harmless from and against all Losses and Liabilities,

as a result of any matter or thing arising out of, resulting from, attributable to or in any way connected with the Assets (occurring or arising from and after the Closing Time) including, but not limited to post-Closing transfer registrations and occurring subsequent to the Closing Time,



except to the extent that any Losses and Liabilities are reimbursed (or reimbursable) by insurance maintained by Vendor, are caused by the gross negligence or wilful misconduct of Vendor or its Representatives or are matters or things for which Purchaser is entitled to indemnification under Clause 10.01.

10.03 **Limitations on Indemnities** Nothing in Clause 10.01 shall be construed so as to require Vendor to be liable for or to indemnify Purchaser or any of the Purchaser's Representatives in connection with any Consequential Losses or any Losses and Liabilities or any claims to the extent arising as a consequence of the gross negligence or wilful misconduct of Purchaser or any of the Purchaser's Representatives.

- (a) Nothing in Clause 10.02 shall be construed so as to require Purchaser to be liable for or to indemnify Vendor or any of Vendor's Representatives in connection with any Consequential Losses or any Losses and Liabilities or any claims to the extent arising as a consequence of the gross negligence or wilful misconduct of Vendor or any of the Vendor's Representatives.

10.04 **Assets Acquired On "As Is" Basis** By Closing, and notwithstanding the foregoing provisions of this Article, Purchaser acknowledges that it is acquiring the Assets on an "as is" basis. Purchaser acknowledges that it is familiar with the condition of the Assets, including the past and present use of the Lands and the Tangibles, that Vendor has provided Purchaser with a reasonable opportunity to inspect the Assets and the Title and Operating Documents at the sole cost, risk and expense of Purchaser (insofar as Vendor could reasonably provide such access) and that Purchaser is not entitled to rely upon any representation or warranty of Vendor as to the condition, environmental or otherwise, of the Assets, except as is specifically made pursuant to ARTICLE IV. Subject to the foregoing, Purchaser further agrees that it shall:

- (a) be solely liable to Vendor for any and all Losses and Liabilities; and
- (b) indemnify and save Vendor and its Representatives harmless from any and all Losses and Liabilities,

as a result of any matter or thing arising out of, resulting from, attributable to or connected with any Environmental Liabilities and Abandonment and Reclamation Obligations, whether occurring or accruing before or after the Closing Time, except to the extent that any such Losses and Liabilities are matters or things for which Purchaser is entitled to indemnification under Clause 10.01. Subject to the foregoing, once Closing has occurred, Purchaser shall be solely responsible for all Environmental Liabilities and all Abandonment and Reclamation Obligations as between Vendor and Purchaser. In addition, Purchaser hereby releases Vendor from any claims Purchaser may have against Vendor with respect to all Environmental Liabilities and Abandonment and Reclamation Obligations under the Regulations, at common law or otherwise, including the right to name Vendor as a third party under any action commenced or enforcement proceeding against Purchaser. In addition Vendor will also retain those other rights and remedies available to it under the Regulations, under the common law or otherwise with respect to any claim it may have against Purchaser under this ARTICLE X.

10.05 **No Merger** The indemnities set forth in Clauses 10.01, 10.02 and 10.04 will be deemed to apply to, and will not merge in, any assignment, transfer, conveyance, novation or other document conveying the Assets to Purchaser. Each Party will have full right of

substitution and subrogation as to all covenants and warranties by others previously given or made in respect of the Assets or any part thereof.

10.06 **Carriage of Litigation** If a claim is made under this ARTICLE X involving a claim by a Third Party, the Party with greater exposure under this Agreement in respect of the claim will have carriage of the Third Party litigation. It will consult with the other Party, which will be entitled to retain its own counsel and participate in the litigation at its own expense.

10.07 **Limit on Party's Responsibility** Notwithstanding any other provision of this Agreement no claim shall be made against a Party by the other Party for a breach of a representation or warranty contained herein, or an indemnification in respect thereof unless each claim of a breach exceeds One Hundred Thousand (\$100,000 ) and the aggregate of all such claims exceeds Five Hundred Thousand Dollars (\$500,000). In no event shall the total of the Losses and Liabilities of Vendor or Purchaser under this Agreement, including any claims relating to its covenants, representations and warranties, or indemnification in respect thereof, exceed Seven Million Five Hundred Thousand dollars (\$7,500,000.00), except in the event of fraud. This Clause shall not apply to the extent that any matter or thing is the proper subject of an operating adjustment under ARTICLE XI.

10.08 **Assumption** Purchaser hereby assumes all obligations and liabilities of Vendor in respect of the Assets, including Vendor's obligations under the Title and Operating Documents.

#### ARTICLE XI – ADJUSTMENTS

11.01 **Adjustments** Except as otherwise provided in this ARTICLE XI and subject to all other provisions of this Agreement, the Parties will adjust and apportion expenditures and revenues of every kind and nature incurred, payable or paid in respect of the operation of the Assets including operating, maintenance, development and capital costs, proceeds from the sale of Hydrocarbon Substances, royalties, property taxes, prepayments and deposits, duties, taxes and assessments, as at the Closing Time on an accrual basis including, but not limited to the Vendor's share of the Orphan Well Levy and the AER Administration Fee attributable to the Assets, and the following:

- (a) Where natural gas is not dedicated to specific sales contracts or other arrangements, any adjustment in favour of Purchaser in respect of the proceeds from the sale of such gas shall be based on the weighted average price received by Vendor for gas sold in the province in which such gas is sold.
- (b) Vendor is entitled to the revenues and benefits from the ownership and operation of the Assets incurred or accrued prior to the Closing Time and is responsible for and will pay for the expenditures pertaining to the ownership, operation and development of the Assets incurred or accrued prior to the Closing Time.
- (c) Purchaser is entitled to the revenues and benefits from the ownership and operation of the Assets accrued from and after the Closing Time and is responsible for and will pay for the expenditures pertaining to the ownership, operation and development of the Assets incurred or accrued from and after the Closing Time.

- (d) Vendor's share of all Hydrocarbon Substances beyond the wellhead at the Closing Time do not comprise part of the Assets and Vendor shall remove same immediately after the Closing Time or the parties shall agree upon an adjustment in respect of same.
- (e) There will be no adjustments for royalty tax credits or similar incentives that accrue to a Party because of financial or organizational attributes specific to it, other than gas cost allowances (or similar cost allowances).
- (f) Vendor shall be responsible for and pay for all physical work conducted on the AFEs on or prior to the Closing Date, regardless of when invoices are received by Vendor and all physical work conducted after the Closing Date shall be for the account of the Purchaser.
- (g) All statements prepared under this Clause 11.01 will be prepared as contemplated herein and in accordance with generally accepted accounting principles applying the accrual method according to the GAAP Rules.
- (h) Vendor shall have delivered to Purchaser, by not less than two (2) Business Days prior to the Closing Time, a written closing statement of adjustments (the "Closing Statement") under this Agreement and Vendor will have made available to representatives of Purchaser all information necessary for Purchaser to confirm the calculations in the statement. The Parties will co-operate in settling the adjustments and payment to be made on an interim basis and the amount so agreed will be employed for the purposes of the Closing as an adjustment to the Purchase Price and completion of the transactions contemplated by this Agreement. For the purposes of the Closing Statement of Adjustments only, there shall be an accrual of net operating revenue.
- (i) Purchaser and Vendor, in accordance with this Agreement, will make monthly payments for the adjustments and will do a final statement of all adjustments (the "Final Statement of Adjustments") within 180 days of Closing, except for Crown royalty adjustments or audits which adjustments shall continue for 2 years following Closing. Upon agreement as to all adjustments and payments to be made, the net amount will be remitted by the Party who in the net result is obliged to make payment.
- (j) Notwithstanding the preceding Subclause, each Party will have the right, within the later of six (6) months following the distribution of the Final Statement of Adjustments by Vendor under Subclause 11.01(i) or twenty four (24) months following the Closing Time, to examine, copy and audit the records of the other relative to the Assets for the purpose of effecting or verifying adjustments required under this Article. The auditing Party will, upon reasonable notice, conduct that audit at its sole expense during normal business hours at the offices of the audited Party or at such other premises where those records are maintained. Any claims of discrepancies disclosed by that audit will be made in writing to the audited Party within two (2) months following the completion of that audit. That Party will respond in writing to any such claims within six (6) months of the receipt of notice of those claims. The Parties will resolve any outstanding

claims of discrepancies under the arbitration provisions as set forth in ARTICLE VIII if they are unresolved within two (2) months of that response.

- (k) Notwithstanding Subclause 11.01(j), further adjustments on the basis consistent with this Article will be made as and when those items arise if notice requesting that adjustment, including reasonable particulars thereof, has been given by a Party to the other Party within thirty (30) days following receipt of a Thirteenth Month Adjustment or a completed and agreed to audit or other report and the need for that adjustment arises from:
  - (i) a Thirteenth Month Adjustment, operator error adjustments or errors established by joint venture audits within thirty-six (36) months after the Closing Time; or
  - (ii) errors established by an audit or other review of lessor royalty payments that is conducted under the Regulations or Leases within sixty (60) months after the Closing Time or such later time as may be prescribed by the Regulations.
- (l) Subject to Subclause 11.01(n) below, all payments made after the Closing Time are to be paid within thirty (30) days after the amount is determined and, if not paid within the thirty (30) days, will thereafter bear interest until paid at a rate of interest equal to the Prime Rate plus one (1%) percent compounded annually.
- (m) All freehold mineral taxes, surface and mineral lease rentals and any similar payments made by Vendor to preserve any of the Lease or any Surface Rights shall be apportioned between Vendor and Purchaser on a per diem basis at the Closing Time.
- (n) Notwithstanding the foregoing, as an adjustment in favour of Purchaser, Vendor will pre-pay its share of any amounts relating to 2016 municipal property taxes for the period prior to the Closing Time. Following the Closing Time, Purchaser will be responsible for the payment of all amounts owing for municipal property taxes for 2016 regardless of when the invoice is or was issued.

## ARTICLE XII MISCELLANEOUS

12.01 **Partial Invalidity** If any provision of this Agreement is held to be invalid, illegal or unenforceable, the invalidity, illegality or unenforceability will not affect any other provision of this Agreement and this Agreement will be construed as if the invalid, illegal or unenforceable provision had never been contained herein unless the deletion of the provision would result in such material change to cause the completion of the transactions contemplated herein to be unreasonable.

12.02 **Counterparts** This Agreement may be executed in one or more counterparts, each of which will be deemed an original instrument, and all counterparts together will constitute one agreement.

12.03 **Notice** All notices, consents and other instruments which are required or may be given pursuant to this Agreement must be given in writing and delivered personally or by facsimile as follows:

If to Vendor: To: **PERPETUAL OPERATING TRUST**  
3200, 605 5<sup>th</sup> Avenue S.W.  
Calgary, Alberta  
T2P 3H5

Attention: Land Manager

If to Purchaser: To: **PERPETUAL ENERGY OPERATING CORP.**  
3200, 605 5<sup>th</sup> Avenue S.W.  
Calgary, Alberta  
T2P 3H5

Attention: Land Manager

or in accordance with the latest unrevoked instructions delivered by one Party to the other. All notices will be deemed to have been duly given at the time of delivery or, in the case of facsimile, on the first business day after faxing.

12.04 **Further Assurances** After the Closing Time, at Purchaser's request, without further consideration, Vendor will execute and deliver or cause to be executed and delivered such other instruments of conveyance and transfer as Purchaser reasonably may request to more effectively vest the Assets in Purchaser.

12.05 **Amendments and Waivers** No supplement, modification, waiver or termination of this Agreement will be binding unless executed in writing by the Party to be bound thereby. No waiver of any provision of this Agreement will be deemed or will constitute a waiver of any other provision hereof (whether or not similar) nor will a waiver constitute a continuing waiver unless otherwise expressly provided.

12.06 **Expenses** All expenses incurred by Vendor in connection with or related to the authorization, preparation and execution of this Agreement and all other matters related to the Closing of the transaction contemplated hereby, including all fees and expenses of counsel, accountants and financial advisors employed by Vendor, will be borne solely and entirely by Vendor; and all such expenses incurred by Purchaser will be borne solely and entirely by Purchaser.

12.07 **Transfer Taxes** Purchaser will bear all sales, use, property, land transfer, business transfer, commodity and other taxes (other than income taxes imposed on Vendor) and duties, levies and other governmental charges incurred with respect to the transfer of the Assets and the transactions undertaken pursuant to ARTICLE II.

12.08 **Assignment** Neither Party may assign this Agreement or any part thereof prior to Closing. Except as otherwise provided herein, this Agreement will be binding upon and enure to the benefit of the parties and their successors and assigns.

12.09 **Publicity** Except as may be required by law, neither Party will make any press release or other public disclosure of this Agreement or the transactions contemplated herein without the prior consent of the other, not to be unreasonably withheld. The parties will consult with each other on public disclosure with a view to joint disclosure where practicable.

12.10 **Entire Agreement** The provisions contained in any and all documents and agreements collateral hereto shall at all times be read subject to the provisions of this Agreement and, in the event of conflict, the provisions of this Agreement shall prevail. No amendments shall be made to this Agreement unless in writing, executed by the Parties. This Agreement supersedes all other agreements, documents, writings and verbal understandings except the Confidentiality Agreement among the Parties relating to the subject matter hereof and expresses the entire agreement of the Parties with respect to the subject matter hereof.

12.11 **Subrogation** The assignment and conveyance to be effected by this Agreement is made with full right of substitution and subrogation of Purchaser in and to all covenants, representations, warranties and indemnities previously given or made by others in respect of the Assets or any part or portion thereof.

12.12 **Governing Law** This Agreement shall, in all respects, be subject to, interpreted, construed and enforced in accordance with and under the laws of the Province of Alberta and applicable laws of Canada and shall, in all respects, be treated as a contract made in the Province of Alberta. The Parties irrevocably attorn and submit to the exclusive jurisdiction of the courts of the Province of Alberta and courts of appeal therefrom in respect of all matters arising out of or in connection with this Agreement.

12.13 **Time is of Essence** Time shall be of the essence in this Agreement.

12.14 **Remedies Cumulative** No reference to or exercise of any specific right or remedy by a Party hereunder shall prejudice or preclude such Party from exercising or invoking any other remedy in respect thereof, whether allowed at law or in equity or expressly provided for herein. No such remedy shall be exclusive or dependent upon any other such remedy but each Party may exercise any one or more of such remedies independently or in combination.

12.15 **Signs and Notifications** After Closing, Purchaser shall remove any signs which indicate Vendor's ownership or operation of the Assets. It shall be the responsibility of Purchaser, where necessary, to erect or install any signs that may be required by governmental agencies indicating Purchaser to be the operator of the Assets and to notify other working interest owners, gas purchasers, suppliers, contractors, governmental agencies and any other person of Purchaser's interest in the Assets.

12.16 **Limitations Act.**

Subject to any limitation period specifically prescribed in this Agreement, the Parties expressly agree, a is permitted by the *Limitations Act*, RSA 2000, Ch. L-12, to extend the two year time period provided for under subclause 3(i)(a) thereof, to a period of four years.

IN WITNESS WHEREOF this Agreement has been duly executed by each Party as of the date first above written.


**PERPETUAL OPERATING TRUST**  
**By its trustee,**  
**PERPETUAL ENERGY OPERATING CORP.**

**PERPETUAL ENERGY OPERATING CORP.**

Per:   
\_\_\_\_\_  
Gary Jackson  
Vice President, Land, Acquisitions &  
Divestitures

Per:   
\_\_\_\_\_  
Susan Riddell Rose,  
President and CEO

Per:   
\_\_\_\_\_  
Gary Jackson  
Vice President, Land, Acquisitions &  
Divestitures

Per:   
\_\_\_\_\_  
Susan Riddell Rose,  
President and CEO

# **EXHIBIT “E”**



**SHARE PURCHASE AND SALE AGREEMENT**

**BETWEEN**

**PERPETUAL ENERGY INC.  
AS THE VENDOR**

**AND**

**1986114 ALBERTA INC.  
AS THE PURCHASER**

This is Exhibit " E " referred to in the  
Affidavit of  
*Paul J. Darcy*  
Sworn before me this *29* day  
of *August* A.D. 20*18*  
A Notary Public and Commissioner for Oaths  
In and for the Province of Alberta

**LUKE RASMUSSEN**  
Barrister & Solicitor

**REGARDING THE SHARES OF  
PERPETUAL ENERGY OPERATING CORP.**

**SEPTEMBER 26 2016**

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## SHARE PURCHASE AND SALE AGREEMENT

THIS AGREEMENT dated the 26<sup>th</sup> day of September, 2016.

BETWEEN:

**PERPETUAL ENERGY INC.**, a corporation incorporated pursuant to the laws of the Province of Alberta (hereinafter called the "**Vendor**")

OF THE FIRST PART

- and -

**1986114 ALBERTA INC.**, a corporation incorporated pursuant to the laws of the Province of Alberta (hereinafter called the "**Purchaser**")

OF THE SECOND PART

WHEREAS the Vendor is the beneficial owner of the Shares;

AND WHEREAS the Purchaser and the Vendor have agreed that the Vendor will sell all of the shares of Perpetual Energy Operating Corp. ("**PEOC**") to the Purchaser and the Purchaser will purchase the shares of PEOC from the Vendor on the terms and subject to the conditions set forth herein;

NOW THEREFORE this Agreement witnesses that, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the Purchaser and the Vendor, the Parties covenant and agree with each other as follows:

### ARTICLE 1 INTERPRETATION

#### 1.1 Definitions

In this Agreement (including the recitals hereto, this Clause and each schedule), the words and phrases set forth below shall have the meanings specified below, namely:

- (a) "**Abandonment and Reclamation Liabilities**" means all past, present and future obligations to:
- (i) abandon wells and close, decommission, dismantle and remove structures, foundations, buildings, pipelines, equipment and other facilities located on the Lands or lands pooled or unitized therewith or used or previously used in respect of Petroleum Substances produced or previously produced from the Lands or lands pooled or unitized therewith; and/or
  - (ii) restore, remediate and reclaim the surface and subsurface locations thereof and lands used to gain access thereto, including such obligations relating to wells, pipelines and facilities which were abandoned or decommissioned prior to the Closing Date that were located on the Lands or lands pooled or unitized therewith or that were located on other lands and used in respect of Petroleum Substances produced or previously produced from the Lands or lands pooled or unitized therewith;

all in accordance with generally accepted oil and gas industry practices in the province where the Assets are located and in compliance with Applicable Law;

- (b) **"Accepting Employee"** has the meaning specified in Subclause 12.1(h);
- (c) **"Accepting Employee Effective Date"** means the effective date of an Accepting Employee's employment with Purchaser;
- (d) **"Affiliate"** of a Party means a corporation or partnership that controls the Party, is controlled by the Party or is controlled by the same person, corporation or partnership that controls the Party and for which purpose a corporation shall be deemed to be controlled by those persons, corporations or partnerships who own or effectively control, other than by way of security only, sufficient voting shares of the corporation (whether directly through the ownership of shares of the corporation or indirectly through the ownership of shares of another corporation which directly or indirectly owns shares of the corporation) to elect the majority of its board of directors and a partnership shall be deemed to be controlled by those persons, corporations or partnerships that are able to determine policies or material decisions of that partnership, provided that a partnership which is composed solely of corporations which are Affiliates, as described above, shall be deemed to be an Affiliate of each such corporation and its other Affiliates;
- (e) **"Agreement"** means this agreement including the recitals hereto, this Clause and each schedule, as amended after the date hereof by written agreement between the Vendor and the Purchaser;
- (f) **"Applicable Laws"** means, in relation to any Person, property or circumstance:
  - (i) statutes (including regulations enacted thereunder);
  - (ii) judgments and orders of courts of competent jurisdiction;
  - (iii) regulations, orders and directives issued by Government Authorities; and
  - (iv) the terms and conditions of all permits, licences, approvals and authorizations;
 which are applicable to such Person, property or circumstance;
- (g) **"Assets"** means, collectively, the Petroleum and Natural Gas Rights, the Tangibles and the Miscellaneous Interests;
- (h) **"Assets/Liabilities Tables"** means the tables dated December 2015 and June 2016 setting out the numbers derived from the Vendor's financial statements in respect of the net book value and undiscounted assets retirement obligations of the Assets, with a discount rate applied to the values in accordance with Purchaser's direction and accounting policies, prepared with no representations whatsoever by the Vendor or any of its directors, officers, employees or agents, past present or future, and disclaiming any veracity, accuracy, completeness or compliance with Vendor's past, present or future accounting practices or policies;
- (i) **"Asset Report"** means the excerpted portions of the Reserves Report relating to the Assets as provided by the Vendor to the Purchaser. These portions of the Reserves Report were evaluated internally by the Company and reviewed by McDaniel effective December 31, 2015. The reserves estimates and future net revenue forecasts have been prepared and presented in accordance with

the Canadian standards set out in the Canadian Oil and Gas Evaluation Handbook (COGEH) and National Instrument 51-101 (NI 51-101);

- (j) "**Base Price**" means one dollar (\$1.00);
- (k) "**Benefit Plans**" means all pension and benefit plans applicable to or for the benefit of the Offered Employees, including any registered pension (defined benefit or defined contribution), supplemental pension, investment and/or savings (including registered and non-registered), medical, dental, vision care, drug, life insurance, accidental death and dismemberment insurance, supplemental unemployment benefit, salary continuation, sick leave, short-term or long-term disability benefits and/or insurance or other similar plans or arrangements or practices, including any public or government sponsored plan;
- (l) "**Business Day**" means any day other than a Saturday, Sunday or statutory holiday in Calgary, Alberta;
- (m) "**Claim**" means any claim, demand, lawsuit, proceeding, arbitration or governmental investigation, in each case, whether asserted, threatened, pending or existing;
- (n) "**Closing**" means the closing of the sale of the Shares by the Vendor to the Purchaser and the delivery by the Purchaser to the Vendor of the Base Price;
- (o) "**Closing Date**" means October 1, 2016 or such other date as agreed by the Parties hereto;
- (p) "**Closing Time**" means 12:03 a.m. local Calgary time on the Closing Date;
- (q) "**Commissioner**" means the Commissioner of Competition, or his duly appointed delegate.
- (r) "**Competition Act**" means the Competition Act, R.S.C. 1985, c. C-34.
- (s) "**Competition Act Approval**" means one of the following has occurred:
  - (i) the Commissioner has issued an advance ruling certificate pursuant to section 102 of the Competition Act in respect of the Transaction contemplated herein; or
  - (ii) the waiting period under section 123 of the Competition Act shall have expired, been terminated or, pursuant to section 113(c) of the Competition Act, waived and the Commissioner has advised Purchaser and Vendor that the Commissioner does not intend at the current time to apply to the Competition Tribunal (as defined in the Competition Act) for an order under section 92 of the Competition Act in respect of the transactions contemplated herein.
- (t) "**Confidentiality Agreement**" means the confidentiality agreement dated May 12, 2016 between the Vendor and a related party of the Purchaser;
- (u) "**Corporation**" means PEOC or Perpetual Energy Operating Corp.;
- (v) "**Credit Value**" has the meaning specified in Clause 3.4(a);
- (w) "**Crown Royalty Credit**" has the meaning specified in Clause 3.4(a);
- (x) "**Crown Royalty Deposit**" has the meaning specified in Clause 3.3(a);

- (y) **"Customary Post-Closing Consents"** means consents and approvals from any Government Authority or third party that are customarily obtained after closing in connection with transactions similar in nature to the Transaction;
- (z) **"Data Room"** means whether physical or electronic, (i) the data and contents contained in the virtual data room on the file transfer protocol site (FTP Site) made available to Purchaser between May 17, 2016 up to and including the date hereof, representing certain files made available to Purchaser and its Representatives with respect to the transaction contemplated herein, and (ii) the data and information made available to Purchaser at Vendor's head office or at various field locations pertaining to the Assets and the Corporation for Vendor's review, including but not limited to, files data and information relating to Title and Operating Documents, paper and electronic well files, joint venture agreements, marketing agreements, handling agreements, gathering agreements, transportation agreements, storage agreements, consulting contracts, environmental information, corporate information, lease operating statements and such other files, data and information made available to Purchaser by Vendor prior to the date hereof.
- (aa) **"Defaulting Party"** has the meaning specified in Clause 13.1(b);
- (bb) **"Dollar"** or **"\$"** means a Canadian dollar;
- (cc) **"Employment Details"** has the meaning specified in Subclause 12.1(a);
- (dd) **"Encumbrance"** means a Security Interest and any other adverse claim or encumbrance that is not a Permitted Encumbrance;
- (ee) **"Entry Price"** means the amount paid or committed to be paid by Vendor or Corporation in order to enter into the "put" arrangement as per the Gas Marketing Contract;
- (ff) **"Environment"** means the components of the earth and includes ambient air, land, surface and sub-surface strata, groundwater, surface water, all layers of the atmosphere, all organic and inorganic matter and living organisms, including plants, animals and humans, and the interacting natural systems that include such components;
- (gg) **"Environmental Laws"** means Applicable Laws which relate to Environmental, health or safety matters including, without limitation, Applicable Laws governing the use and storage of Hazardous Substances;
- (hh) **"Environmental Liabilities"** means all past, present or future Losses or Liabilities or other obligations in respect of pollution or contamination of, or damage or injury to, the Environment including:
  - (i) Losses or Liabilities resulting from the use, storage, holding, handling, transportation, release, spill, emission, escape or migration of any substance or waste including any substance or waste regulated under Environmental Laws;
  - (ii) obligations to test, monitor, remediate, protect and clean-up the Environment;
  - (iii) obligations to compensate Third Parties for losses, damages and injury;
  - (iv) Claims, Losses or Liabilities under Environmental Laws; and



(v) **Abandonment and Reclamation Liabilities;**

that have arisen or hereafter arise from or in respect of any past, present or future Operations including activities or omissions related to the Assets, and all costs associated with any such Operations, activities or omissions;

- (ii) **"Existing Work Orders"** has the meaning specified in Subclause 5.3(n);
- (jj) **"Field Employees"** has the meaning specified in Clause 12.1;
- (kk) **"Financial Information"** has the meaning specified in Clause 6.3;
- (ll) **"Financial Statements"** means, the unaudited, internally prepared statements of financial position of the Corporation as at December 31, 2015 and June 30, 2016, as well as the statements of income for the year ended December 31, 2015 and for the six months ended June 30, 2016 of the Corporation, all prepared in accordance with GAAP but excluding notes to the financial statements;
- (mm) **"GAAP" or "Generally Accepted Accounting Principles"** means generally accepted accounting principles and practices in Canada, including the principles set forth in the CICA Handbook published by the Canadian Institute of Chartered Accountants or any successor institute;
- (nn) **"Gas Marketing Contract"** means the gas marketing contract attached hereto as Schedule "O";
- (oo) **"General Conveyance"** means the agreement in the form set forth in Schedule "M";
- (pp) **"Government Authority"** means a federal, provincial, territorial, municipal or other government or government department, agency or authority (including a court of law) having jurisdiction over a Party, the Assets or the Transaction;
- (qq) **"Hazardous Substances"** means any element, waste or other substance, whether natural or artificial and whether consisting of gas, liquid, solid or vapour that is prohibited, listed, defined, designated or classified as dangerous, hazardous, radioactive, explosive or toxic or a pollutant or a contaminant under or pursuant to any applicable Environmental Laws, and specifically including petroleum and all derivatives thereof and synthetic substitutes therefor and asbestos or asbestos-containing materials or any substance which is deemed under Environmental Laws to be deleterious to the Environment or worker or public health and safety;
- (rr) **"Hedged Monthly Production Volume"** means Petroleum Substances produced from the Assets equivalent to 33,611 GJ/d;
- (ss) **"Indemnified Party"** has the meaning specified in Clause 11.3;
- (tt) **"Indemnifying Party"** has the meaning specified in Clause 11.3;
- (uu) **"Land Schedule"** means Schedule "A";
- (vv) **"Lands"** means, all lands owned, legally or beneficially by the Corporation, as set forth and described in the Land Schedule;

- (ww) "**Lease Operating Statements**" means the lease operating statements of the Assets, provided in production month form as provided in writing by the Vendor to Purchaser for each of: (i) the six months period ended June 30, 2016; and (ii) the year ended December 31, 2015;
- (xx) "**Leases**" means, collectively, the leases, licenses, permits and other documents of title which grant rights to Petroleum Substances within, upon or under the Lands and which are set forth and described in the Land Schedule and includes, if applicable all renewals and extensions of such documents and all documents issued in substitution therefor but only to the extent such documents of title relate to the Lands;
- (yy) "**Litigation Claims**" means those actions described in Schedule "J";
- (zz) "**Losses or 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 reasonable 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; or
  - (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 Person incurs as a result of such matter or in connection therewith;

excluding consequential or indirect losses or loss of profits suffered by such Party, but, including consequential or indirect losses or loss of profits that are paid or payable by such Party as a result of a Third Party Claim;

- (aaa) "**Major Facilities**" means the facilities relating to the Lands, including those described in Schedule "B";
- (bbb) "**Material Contracts**" means the contracts and agreements which are not terminable on less than 30 days' notice and which are material to the business of the Corporation, including the Transportation, Processing and Sales Agreements, as set out in Schedule "L".
- (ccc) "**McDaniel**" means McDaniel & Associates Consultants, independent oil and natural gas reserve engineers of Calgary, Alberta;
- (ddd) "**Miscellaneous Interests**" means all right, title, interest and estate of the Corporation in and to all property, rights and assets, whether contingent or absolute, legal or beneficial, present or future, vested or not (other than the Petroleum and Natural Gas Rights and the Tangibles), to the extent pertaining to the Petroleum and Natural Gas Rights, the Lands or lands pooled or unitized therewith or the Tangibles and to which the Corporation is entitled at the date hereof including the following property, rights and assets:
- (i) contracts, agreements, books, records and documents to the extent that they relate to the Petroleum and Natural Gas Rights, the Tangibles or items listed in items (iii) or (iv) of

this definition or any rights in relation thereto including the Title and Operating Documents and any rights of the Corporation in relation thereto;

- (ii) Surface Interests;
  - (iii) the Seismic Data and Seismic Data Licences;
  - (iv) all production, engineering and other information relating directly to the Petroleum and Natural Gas Rights, the Lands and the Tangibles which the Corporation either has in its custody or to which the Corporation has access, excluding any such information that is subject to confidentiality restrictions or restrictions on transferability;
  - (v) permits, licences, approvals and other authorizations, crossing privileges or other rights pursuant to which the Wells or the Tangibles are accessed, maintained or operated relating to any Petroleum and Natural Gas Rights or Tangibles, or the use thereof;
  - (vi) the Wells;
  - (vii) certain records, books, files, reports, data, computers, cell phones, copiers, other office machines and furniture associated with the Accepting Employees, as selected by the Vendor, and all documents and information, well files, lease files, agreement files, previous AFE invoices and production records relating to the Lands and the Petroleum and Natural Gas Rights; and
  - (viii) certain vehicles, phone lines, satellite services, cellular modems, cell phones, computer hardware, printers, routers, copiers and other office machines together with associated lease agreements, but only to the extent as may be located at or physically attached to the field facilities associated with Land and the Petroleum and Natural Gas Rights, including the Major Facilities.
- (eee) "**Municipal Government Property Tax Adjustment**" has the meaning specified in Clause 3.1;
- (fff) "**Municipal Tax Benchmark**" shall mean the gross amount of 2015 municipal government property taxes in respect of the operated Assets, which, for greater certainty, shall be calculated to exclude taxes payable with respect to such portion of assets which have been sold or disposed of on or prior to the date hereof (other than pursuant to the Purchase and Sale Agreement) an estimate of which is attached hereto as Schedule "R";
- (ggg) "**Offer Period**" has the meaning specified in Subclause 12.1(e);
- (hhh) "**Offered Employees**" has the meaning specified in Subclause 12.1(e);
- (iii) "**Office Employees**" has the meaning specified in Subclause 12.1(a);
- (jjj) "**Office Sublease**" means the office sublease in the form attached hereto as Schedule "F";
- (kkk) "**Operations**" means any and all operations on or in respect of the Lands or lands pooled or unitized therewith or relating to Petroleum Substances produced therefrom or the Tangibles, including: (i) drilling, completion, testing, recompleting, deepening, plugging back, side tracking, whipstocking, fracing, stimulating, injecting, equipping, operating and abandoning wells; (ii) construction, repair, expansion, decommissioning, maintenance and operation of oilfield facilities

and equipment; (iii) producing, gathering, compressing, dehydrating, scrubbing, processing, treating, separating, extracting, collecting, refrigerating, measuring, storing, transporting or shipping Petroleum Substances (including processing, treatment and storage of sulphur and transmission, transportation, treatment and disposition of water); (iv) miscible flood and other enhanced recovery schemes; (v) geological, geophysical and seismic activities; and (vi) abandonment, reclamation, remediation and restoration operations;

(lll) **"Other Party"** has the meaning specified in Clause 13.1(b);

(mmm) **"Party"** means a Person who is bound by this Agreement;

(nnn) **"Permitted Encumbrances"** means any of the following:

- (i) liens for taxes, assessments and governmental charges which are not due or delinquent;
- (ii) easements, rights of way, servitudes or other similar rights in land including rights of way and servitudes for highways or other roads, railways, sewers, drains, gas and oil pipelines, gas or water mains or electric light, power, telephone, telegraph or cable television conduits, poles, wires or cables which do not materially impair the use or enjoyment of the Assets affected thereby;
- (iii) the right reserved to or vested in any Government Authority by the terms of any lease, license, franchise, grant or permit or by any Applicable Law, to terminate such lease, license, franchise, grant or permit or to require annual or other periodic payments as a condition of the continuance thereof;
- (iv) the right reserved to or vested in any Government Authority to levy taxes on Petroleum Substances or the income or revenue attributable thereto;
- (v) rights reserved to or vested in any Government Authority to control or regulate any of the Assets in any manner including any requirements relating to production rates in respect of any Operations;
- (vi) undetermined or inchoate liens incurred or created in the ordinary course of business or a lien created as security in favour of the Person conducting Operations on or in respect of the Assets to which such liens relate for the Corporation's or its predecessor's proportionate share of the costs and expenses of such Operations which are not due or delinquent;
- (vii) mechanics', builders' or materialman's liens in respect of services rendered or goods supplied, but only insofar as such liens relate to goods or services for which payment is not due or delinquent;
- (viii) trust obligations incurred in the ordinary course of business;
- (ix) the terms and conditions of the Title and Operating Documents, (including Transportation, Processing and Sale Agreements and contracts for the operation of Wells by contract field operators);
- (x) penalties which are disclosed in the Land Schedule and which have arisen under operating procedures or similar agreements as a consequence of elections by the

Corporation or its predecessors not to participate in Operations on the Lands to which the penalty applies;

- (xi) the reservations, limitations, provisos and conditions in any original grants from the Crown of any of the Lands or interest therein and statutory exceptions to title;
- (xii) liens granted in the ordinary course of business to a public utility or Government Authority in connection with Operations;
- (xiii) the burdens, encumbrances, royalties, adverse claims, (including reductions and conversions) and penalties set forth in the Land Schedule;
- (xiv) any rights of first refusal, pre-emptive purchase rights and similar rights as are set forth in the Title and Operating Documents (provided such rights do not have application to the change of control contemplated by this Agreement); and
- (xv) any other circumstance, matter or thing disclosed in any Schedule hereto.

provided that the following items must be identified in a Schedule to qualify as Permitted Encumbrances: (1) royalty burdens, net profits interests and similar encumbrances; (2) alterations of the Corporation's interest because of the right of a Person to convert a royalty, under a right of a Person to earn or acquire an interest, farmout or similar agreement; (3) any penalty or forfeiture that applies to the Assets as at the date hereof because of the Corporation's election prior to the date hereof not to participate in a particular operation; and (4) any other filed lien or adverse claim affecting the Assets;

- (ooo) "**Person**" means any individual, body corporate, partnership (limited or general), trust, trustee, executor or similar official, Government Authority or other entity;
- (ppp) "**Petroleum and Natural Gas Rights**" means all of the right, title, estate and interest, whether absolute or contingent, legal or beneficial, present or future, vested or not, and whether or not an "interest in land", held by the Corporation pursuant to the Title and Operating Documents in or to any of the following, by whatever name the same are known:
  - (i) rights to explore for, drill for, extract, win, produce, take, save or market Petroleum Substances from the Lands or lands pooled or unitized therewith;
  - (ii) rights to a share of the production of Petroleum Substances from the Lands or lands pooled or unitized therewith;
  - (iii) rights to a share of the proceeds of, or to receive payment calculated by reference to, the quantity or value of the production of Petroleum Substances from the Lands or lands pooled or unitized therewith; and
  - (iv) the interests set forth in the Land Schedule in and to and in respect of the Leases and the Lands;
  - (v) any other circumstance, matter or thing disclosed in any Schedule,

including all interests and rights in or in respect of the Lands known as working interests, leasehold interests, royalty interests, overriding royalty interests, gross overriding royalty

interests, production payments, profits interests, net profits interests, revenue interests, net revenue interests or economic interests and including fractional or undivided interests in any of the foregoing;

- (qqq) "**Petroleum Substances**" means petroleum, natural gas and all related hydrocarbons, including all liquid hydrocarbons and all other mineral substances, whether liquid, solid or gaseous and whether hydrocarbons or not (except coal, but including sulphur and hydrogen sulphide), produced in association with such petroleum, natural gas or related hydrocarbons or found in any water, or any produced and/or sourced water or disposal wells;
- (rrr) "**POT**" means Perpetual Operating Trust;
- (sss) "**POT Crown Royalty Amount**" has the meaning specified in Clause 3.3(a);
- (ttt) "**Pre-Transaction Reorganization**" means the sale and transfer of the Assets from POT to the Corporation and the resignation of the Corporation as trustee of POT;
- (uuu) "**Prior Period Taxes**" has the meaning specified in Subclause 10.1(a);
- (vvv) "**Proposal**" has the meaning specified in Subclause 4.4(a);
- (www) "**Proprietary Seismic**" means the seismic data related to or in respect of Corporation's 100% proprietary seismic data lines and areas set forth and described in the Purchase and Sale Agreement as defined as "Purchaser Proprietary Seismic Data" and "Vendor Proprietary Seismic Data" therein;
- (xxx) "**Purchase and Sale Agreement**" means the purchase and sale agreement between POT and the Corporation to be entered into immediately prior to the Closing Time pursuant to which the Assets are to be sold and conveyed to the Corporation, and in the form attached hereto as Schedule "Q", subject to updates to Schedule "G" of the Purchase and Sale Agreement prior to the Closing Date made in accordance therewith;
- (yyy) "**Purchase Price**" means the sum of the Base Price plus any Municipal Government Tax Adjustments plus or minus any adjustments otherwise expressly provided for in this Agreement;
- (zzz) "**Purchase Price Adjustment Amounts**" means the amounts set out in Schedule "I" attached hereto;
- (aaaa) "**Purchaser's Compensation**" has the meaning specified in Subclause 12.1(e)(ii);
- (bbbb) "**Purchaser's Losses**" means Losses or Liabilities of the Purchaser and its Related Parties;
- (cccc) "**Rejecting Employee**" has the meaning specified in Subclause 12.1(h);
- (dddd) "**Related Parties**" means, in reference to a Party, its Affiliates, successors and assigns and its or its Affiliates' respective directors, officers, employees and advisors;
- (eeee) "**Required Approvals**" means consents, waivers, approvals, orders and authorizations required by any Government Authority in respect of the Transaction but excluding Customary Post-Closing Consents and any other approvals, consents, waivers, orders and authorizations which, if

not obtained, would not reasonably be expected to have a material adverse effect on the completion of the Transaction;

- (ffff) "**Reserves Report**" means the independent engineering evaluation of the Vendor's oil and natural gas reserves prepared by McDaniel effective December 31, 2015;
- (gggg) "**Retained Interests**" has the meaning specified in the Retained Interests Agreement;
- (hhhh) "**Retained Interests Agreement**" means the agreement in the form set forth in Schedule "N";
- (iiii) "**Right of First Refusal**" means a right of first refusal, pre-emptive right of purchase or similar right whereby any party, other than the Purchaser has the right to acquire or purchase any Asset as a consequence of the Vendor having agreed to sell the Shares to the Purchaser;
- (jjjj) "**Security Interest**" means any pledge, lien, charge, mortgage, assignment by way of security, conditional sale, title retention arrangement or other security interest;
- (kkkk) "**Seismic Data**" means (i) the Proprietary Seismic and (ii) the Seismic Data Licences;
- (llll) "**Seismic Data Licences**" means the non-exclusive licences for the geophysical information available to the Corporation relating to the Assets, including licences relating to the "Third Party Proprietary Seismic Data" as defined in the Purchase and Sale Agreement;
- (mmmm) "**Service Years**" has the meaning specified in Subclause 12.1(e)(v)(A);
- (nnnn) "**Severance Obligations**" means all termination notice, pay in lieu of notice of termination of employment or any combination of the two; any damages for wrongful dismissal, constructive dismissal or unjust dismissal, including but not limited to damages related to loss of Benefit Plans entitlements and/or Purchaser's Compensation; and all related costs and Losses and Liabilities, whether arising in contract, equity or pursuant to Applicable Laws, that arise as a result of the termination (including constructive dismissal) of the employment of any Offered Employee, Rejecting Employee or Accepting Employee, as the context requires, pursuant to the terms of this Agreement, including indemnity for legal fees and for any amounts ordered to be paid by a court or adjudicator of competent jurisdiction.
- (oooo) "**Shares**" means all of the issued shares in the share capital of the Corporation;
- (pppp) "**Surface Interests**" means all right, title, interest and estate of the Vendor to enter upon, use, occupy and enjoy the surface of the Lands, any lands with which the same have been pooled or unitized and any lands upon which the Tangibles are located, in each case, for purposes related to the use or ownership of the Petroleum and Natural Gas Rights or the Tangibles or Operations, whether the same are held by right of way, or otherwise;
- (qqqq) "**Tangibles**" means, collectively, all right, title interest and estate of the Corporation, whether absolute or contingent, legal or beneficial, present or future, vested or not, in and to:
  - (i) the Major Facilities described in Schedule "B";
  - (ii) all other equipment, systems, plants and facilities used or useful in producing Petroleum Substances from the Lands or lands pooled or unitized therewith or gathering, compressing, dehydrating, scrubbing, processing, treating, separating, extracting,

collecting, refrigerating, measuring, storing, transporting or shipping such Petroleum Substances; and

- (iii) all other tangible property and assets used or intended for use in producing, storing or injecting Petroleum Substances;
- (rrrr) "**Tax Act**" means the *Income Tax Act* (Canada), R.S.C. 1985, c.1 (5th Supplement);
- (ssss) "**Tax Indemnity**" has the meaning specified in Subclause 10.1(b);
- (tttt) "**Tax Returns**" includes all returns, reports, declarations, elections, notices, filings, forms, statements and other documents (whether in tangible, electronic or other form) and including any amendments, schedules, attachments, supplements, appendices and exhibits thereto, made, prepared, filed or required to be made, prepared or filed by Applicable Law in respect of Taxes;
- (uuuu) "**Taxation Authority**" means the Canada Revenue Agency or any other Government Authority which is entitled to impose Taxes or to administer any Tax legislation;
- (vvvv) "**Taxes**" means all taxes, however denominated (including any interest, penalties, or other additions thereto) that are imposed by a Taxation Authority, and shall for greater certainty include but not be limited to, federal and provincial income and capital taxes, payroll and employee withholding taxes, employment insurance premiums, Canada pension plan contributions, goods and services tax, sales and use taxes, ad valorem taxes, excise taxes, franchise taxes, gross receipts taxes, business license taxes, occupation taxes, real and personal property taxes, stamp taxes, environmental taxes, workers' compensation premiums, and all other amounts of the same or a similar nature to any of the foregoing, whether or not such amounts are described as taxes, but does not include any royalty payable pursuant to or in respect of a Lease;
- (wwww) "**Third Party**" means any Person other than the Parties and their Related Parties;
- (xxxx) "**Third Party Marketing Company**" means Mercuria Commodities Canada Corporation;
- (yyyy) "**Third Party Claim**" has the meaning specified in Clause 11.3;
- (zzzz) "**Title and Operating Documents**" means all agreements, contracts, instruments and other documents that govern the ownership or use of the Assets or relate to Permitted Encumbrances or Operations, including: (A) the Leases and other agreements and instruments pursuant to which the Petroleum and Natural Gas Rights were issued, granted or created; (B) permits, licenses, approvals and authorizations; (C) operating agreements, unit agreements, pooling agreements, trust declarations, participation agreements, farmin agreements, farmout agreements and royalty agreements; (D) agreements that create or relate to Surface Interests; (E) Transportation, Processing and Sale Agreements; (F) common stream agreements; (G) agreements for the construction, ownership and/or operation of Tangibles; (H) trust declarations and other documents and instruments that evidence the Corporation's interests in the Assets; and (I) trust declarations pursuant to which the Corporation holds interests in the Lands in trust for other Persons;
- (aaaa) "**Transaction**" means the entering into of this Agreement and the sale and purchase of the Shares in accordance with this Agreement;
- (bbbb) "**Transition Period**" has the meaning specified in Subclause 12.2(a);



- (ccccc) "**Transition Staff**" has the meaning specified in Subclause 12.2(a);
- (dddd) "**Transportation, Processing and Sale Agreements**" means the contracts for the processing, compression, treatment, gathering, storage, transportation or sale of Petroleum Substances produced from the Lands or lands pooled or unitized therewith;
- (eeee) "**Two Week Working Notice**" has the meaning specified in Subclause 12.2(d);
- (ffff) "**Unwind Price**" means, at such time the Other Party determines to rescind this Agreement in accordance with Clause 13.1(b), the amount payable to Vendor or Corporation in order to sell the "put" arrangement as per the Gas Marketing Contract as quoted by the Third Party Marketing Company, provided that if the Other Party disputes the amount, it may, within one Business Day of receipt of such quote, solicit two additional quotes from reputable gas marketers and the highest of such price, taking into consideration any credit collateral arrangements, received from the Third Party Marketing Company and the additional gas marketers shall be the "**Unwind Price**";
- (gggg) "**Vendor's Knowledge**" means the actual knowledge of any of Vice President Land Acquisition and Divestitures or Vice President Production Operations, after reasonable inquiry, but does not include the knowledge of any other Person or constructive knowledge;
- (hhhh) "**Vendor's Losses**" means Losses or Liabilities of the Vendor and its Related Parties;
- (iiii) "**Wells**" means all producing, suspended, shut in, abandoned (including those abandoned wells which are reclamation certified or reclamation exempt), water source, disposal, injection or similar wells as listed in Schedule "H"; and
- (jjjj) "**Work Fee**" means the sum of one million dollars (\$1,000,000).

## 1.2 Interpretation

Unless otherwise stated or the context otherwise necessarily requires, in this Agreement:

- (a) the headings of Articles, clauses and subclauses in this Agreement are for convenience of reference only and shall not affect the construction or interpretation of this Agreement;
- (b) whenever the singular or masculine or neuter is used in this Agreement or in the schedules, each shall be interpreted as meaning the plural or feminine or body politic or corporate, and vice versa, as the context requires;
- (c) if there is any conflict or inconsistency between the provisions of this Agreement and those of a schedule attached hereto, the provisions of this Agreement shall prevail to the extent of the conflict;
- (d) all documents executed and delivered pursuant to the provisions of this Agreement are subordinate to the provisions hereof and the provisions hereof shall govern and prevail in the event of a conflict;
- (e) "this Agreement", "herein", "hereby", "hereunder", "hereof" and similar expressions refer to this Agreement as a whole (including Schedules) and not to any particular Article, Clause or Subclause on or other provision hereof and references herein to any agreement or instrument,

including this Agreement, shall be a reference to the agreement or instrument as varied, amended, modified, or supplemented or replaced from time to time;

- (f) all references to Articles, Clauses and Subclauses and to Schedules are, unless otherwise stated, references to Articles, Clauses, Subclauses and Schedules to this Agreement and unless otherwise stated or the context so requires, a reference in a Clause to a Subclause shall refer to a Subclause of that Clause;
- (g) "including" means "including without limitation" and "includes" means "includes without limitation";
- (h) any reference to a statute shall include and shall be deemed to be a reference to such statute and to the regulations made pursuant thereto, and all amendments made thereto and in force at the date hereof;
- (i) if Closing does not occur, each provision of this Agreement which presumes that Closing has occurred shall be construed as having been contingent upon Closing having occurred; and
- (j) the following schedules (the "**Schedules**") are attached to, form part of and are incorporated in this Agreement:
  - (i) Schedule "A" — Land Schedule;
  - (ii) Schedule "B" — Major Facilities;
  - (iii) Schedule "C" — Bank Accounts;
  - (iv) Schedule "D" — Form of Vendor's Officer's Certificate;
  - (v) Schedule "E" — Form of Purchaser's Officer's Certificate;
  - (vi) Schedule "F" — Office Sublease;
  - (vii) Schedule "G" — Existing Work Orders;
  - (viii) Schedule "H1" — Wells
  - (ix) Schedule "H2" — Retained Licence Wells;
  - (x) Schedule "I" — Purchase Price Adjustments Amount;
  - (xi) Schedule "J" — Litigation Claims;
  - (xii) Schedule "K" — Litigation Release and Indemnity Agreement;
  - (xiii) Schedule "L" — Material Contracts;
  - (xiv) Schedule "M" — General Conveyance;
  - (xv) Schedule "N" — Retained Interests Agreement;
  - (xvi) Schedule "O" — Gas Marketing Contract;

- (xvii) Schedule "P" – Existing Work Order Release and Indemnity Agreement;
- (xviii) Schedule "Q" – Purchase and Sale Agreement; and
- (xix) Schedule "R" – Estimated Municipal Tax Benchmark.

## **ARTICLE 2 PURCHASE AND SALE**

### **2.1 Agreement of Purchase and Sale**

- (a) The Purchaser hereby agrees to purchase the Shares from the Vendor and the Vendor hereby agrees to sell the Shares to the Purchaser at and for the Purchase Price.
- (b) In determining the Purchase Price, the Parties have taken into account:
  - (i) the Purchaser's assumption of responsibility for Environmental Liabilities and the release of the Vendor and its Related Parties of all responsibility therefor, other than as it relates to the Existing Work Orders;
  - (ii) the Vendor's assumption of responsibility for and the release and indemnity provided in favour of the Purchaser over the Existing Work Orders pursuant to the Existing Work Order Release and Indemnity Agreement attached as Schedule "P" hereto; and
  - (iii) the Vendor's assumption of obligations, liabilities, costs, as well as rights, claims, causes of action and credits relating to the Litigation Claims, the Vendor's release and indemnity in favour of the Purchaser and the covenants of the Purchaser in favour of the Vendor with respect to the Litigation Claims pursuant to the Litigation Release and Indemnity Agreement attached as Schedule "K" hereto.

### **2.2 Payment of Purchase Price**

The Purchaser shall pay to the Vendor the Base Price at Closing, as adjusted for the Purchase Price Adjustment Amounts, by certified cheque or wire transfer.

### **2.3 Place of Closing**

Unless otherwise agreed in writing by the Parties, Closing shall take place at the Closing Time at the offices of Burnet, Duckworth & Palmer LLP at 2400, 525 – 8<sup>th</sup> Avenue S.W., Calgary, Alberta.

### **2.4 Gas Marketing Arrangements**

Concurrently with the execution of this Agreement, the Corporation and Third Party Marketing Company have entered into contractual arrangements as set out in Schedule "O" (the ("**Gas Marketing Contract**") providing for the delivery and sale of the Hedged Monthly Production Volume.

### **2.5 Gas Marketing Contract Covenants**

Subject to the terms of this Agreement, the Purchaser shall have sole discretion with regard to all matters relating to the operation of the Assets; provided, that the Purchaser shall

- (a) act in good faith with respect to the operation of the Assets, including, but not limited to, using commercially reasonable efforts to maintain the production of Petroleum Substances derived from the Assets; and
- (b) deliver at least the Hedged Monthly Production Volume production to the Third Party Marketing Company for the period from Closing to October 31, 2018 in accordance with Schedule "O".

## 2.6 Office Sublease

- (a) On the Closing Date, the Vendor and the Corporation shall have entered into a sublease agreement (the "**Office Sublease**") in the form attached hereto as Schedule "F" for the lease of approximately 15,300 square feet of the office space currently used by the Corporation, for a term of from the date hereof until March 31, 2018 without basic rent or any additional rent, including but not limited to any operating costs.
- (b) If the head lease pursuant to which the Office Sublease is granted expires or is terminated, the Office Sublease shall terminate on the day prior to the expiry or termination of the head lease.
- (c) If the Office Sublease is terminated prior to March 31, 2018 as a result of the termination of the head lease, which termination is due to the action or inaction of Vendor or its Affiliates, the Vendor shall pay to Purchaser a one-time payment of \$25,000 plus \$30,000 for each month or partial month between the date of such termination and March 31, 2018, and such amounts shall be for the Purchaser's own account absolutely as liquidated damages and not as a penalty for the termination of the Office Sublease.

## ARTICLE 3 POST-CLOSING ADJUSTMENTS

### 3.1 Municipal Government Property Tax Adjustment

- (a) If the 2016 municipal government property taxes in respect of the Assets (on a gross basis) is less than 90% of the Municipal Tax Benchmark, the Purchaser agrees to pay the Vendor an additional cash payment that is equal to 3/12 times the difference between the amount that is 90% of the Municipal Tax Benchmark and the amount to be paid for municipal government property taxes in 2016 (on a gross basis).
- (b) If the 2017 municipal government property taxes in respect of the Assets (on a gross basis) is less than 90% of the Municipal Tax Benchmark, the Purchaser agrees to pay the Vendor an additional cash payment that is equal to the difference between the amount that is 90% of the Municipal Tax Benchmark and the amount to be paid for municipal government property taxes in 2017 (on a gross basis).
- (c) Collectively, the payments set forth in (a) and (b) above are the "**Municipal Government Property Tax Adjustment**".
- (d) The Municipal Government Property Tax Adjustment is to be paid by the Purchaser to the Vendor on an annual basis within 10 days of the Parties becoming aware of the applicable municipal government property taxes. The Purchaser shall provide the Vendor and its consultants with access to, and the right to make copies of, the books and records of the Corporation and its respective successors and assigns as reasonably required by the Vendor for purposes of confirming the Municipal Government Property Tax Adjustment.

### 3.2 Costs

All costs and expenses associated with

- (a) the Miscellaneous Interests, including but not limited to moving, copying, registration and storage costs,
- (b) the incidental costs and expenses and reasonable wages related to any assistance requested by the Purchaser of the personnel of the Vendor who are not Transition Staff, the Field Employees or the Office Employees, which assistance for certainty will be made available for three (3) months following Closing, during normal business hours, with at least three Business Days' notice and shall be subject to availability of such personnel taking into consideration their regular duties and obligations to the Vendor;

shall be for the account of the Purchaser, and if Vendor is required to pay or incur any such amounts, Purchaser shall pay over to Vendor such amount prior to the commencement of such work by Vendor, provided that the Vendor first provides the Purchaser with an itemized cost of such work and the Purchaser agrees in writing to such work.

### 3.3 Crown Royalty Deposit

- (a) The Parties acknowledge that the Corporation holds a Crown royalty deposit in an amount equal to \$613,335.48 (the "**Crown Royalty Deposit**") as of the September 14, 2016 statement of account from Alberta Energy, of which the Parties agree that \$200,000 has been estimated to relate to the Assets, and \$413,225.48 has been estimated to relate to the assets of POT (the "**POT Crown Royalty Amount**").
- (b) Following Closing, and within one month of Closing, Purchaser shall, or shall cause the Corporation to, work cooperatively with the Vendor to request a transfer ("**Deposit Transfer**") of the Crown Royalty Deposit, other than as it relates to the Assets, directly from the Corporation's Crown royalty deposit account to Perpetual Operating Corp.'s Crown royalty deposit account with Alberta Energy.
- (c) If the Deposit Transfer is approved and the amount transferred exceeds the POT Crown Royalty Amount, the Vendor will, within three (3) Business Days of such transfer, pay to the Purchaser the difference between the transferred amount and the POT Crown Royalty Amount.
- (d) In the event that the Deposit Transfer is not approved following two full months of reported production from the Assets following Closing:
  - (i) the Parties shall retract the application for the Deposit Transfer;
  - (ii) the Purchaser shall cause the Corporation to request a recalculation of the Crown Royalty Deposit in respect of the Assets as soon as commercially possible;
  - (iii) the Purchaser shall, or shall cause the Corporation to, pay over to the Vendor or to such Person as the Vendor may direct, the recalculated amount, up to the POT Crown Royalty Amount, within 1 Business Day of receipt by the Corporation of such recalculated amount from the Crown, and if the recalculated amount paid to the Vendor is less than the POT Crown Royalty Amount, the Purchaser shall, or shall cause the Corporation to, pay over to the Vendor or to such Person as the Vendor may direct, the sum equal to the

POT Crown Royalty Amount less the recalculated amount paid to the Vendor within 60 days of the request for recalculation.

### 3.4 Crown Royalty Credit

- (a) The Parties acknowledge that the Corporation holds a credit (“**Crown Royalty Credit**”) with the Crown approximately in the amount of \$1,627,522.54 (“**Credit Value**”) as of the September 14, 2016 statement of account from Alberta Energy, which amount is attributable to the assets of POT. For greater certainty, the Credit Value is a dollar amount counter and shall be reduced only in accordance with the provisions of this Agreement and is not otherwise connected to the Crown Royalty Credit.
- (b) The Credit Value shall be reduced by the following and in such order or reduction:
- (i) Closing Date Adjustment: all amounts of unpaid royalty balances attributable to the assets of POT prior to the Closing Date, which amounts result in a reduction of the Crown royalties otherwise payable by the Corporation after the Closing Date which are offset by the Crown Royalty Credit;
  - (ii) Retained Interest Amount: all royalty amounts that would otherwise be payable by the Corporation and which are offset by the Crown Royalty Credit and which are attributable to the Retained Interests; and
  - (iii) Asset Amount: all royalty amounts owing in respect of periods after the Closing Date, that would otherwise be payable by the Corporation and which are offset by the Crown Royalty Credit and which are attributable to the Assets other than the Retained Interests and which the Vendor shall pay over or cause to be paid over pursuant to Clause 3.4(d).
- (c) The Corporation covenants and agrees to continue reporting the royalties owing to the Crown until such time as the Credit Value is depleted to \$0 pursuant to Clause 3.4(b).
- (d) Until the Credit Value is depleted pursuant to Clause 3.4(b), each month, within five (5) Business Days of receipt of the monthly Alberta Energy statement of account, Purchaser shall, or shall cause the Corporation to:
- (i) deliver a copy of the Alberta Energy statement of account; and
  - (ii) pay over to Vendor or to such Person as Vendor may direct, by cheque or wire transfer, an amount equal to the reduction of the Crown royalties payable by the Corporation which were offset in such month by the Crown Royalty Credit and which are not attributable to the Retained Interests in respect of periods after the Closing Date, up to the balance of the Credit Value.

## ARTICLE 4 INTERIM PROVISIONS

### 4.1 Assets to be Maintained in Proper Manner

From the date hereof until the Closing Date:

- (a) the Vendor shall cause the business of the Corporation to be conducted in accordance with past practice;
- (b) the Vendor shall or shall cause the Corporation to pay and shall be liable for all costs and expenses incurred or accruing prior to the Closing Date and relating to the Assets; and
- (c) the Vendor shall or shall cause the Corporation to perform and comply in all material respects with all material covenants and conditions of the Corporation contained in the Title and Operating Documents to be performed and complied with by the Corporation prior to Closing.

#### **4.2 Actions Taken During Interim Period**

- (a) Effective upon Closing, the Purchaser shall have no Claim against the Vendor or its Related Parties for any action taken or refrained from being taken (or caused to be taken or refrained from being taken) pursuant to the terms of this Article 4, with the intention that if Closing occurs, and subject to Clause 4.1(b), all such actions or omissions shall be at the risk and expense of the Purchaser.
- (b) If Closing occurs, other than amounts as they may relate to the Purchase Price Adjustment Amounts or pursuant to the Existing Work Orders and Litigation Claims, the Purchaser shall indemnify the Vendor and its Related Parties against all of the Vendor's direct losses, costs, damages, expenses and charges, including all penalties, assessments and fines, but excluding overhead as a result of maintaining the Assets pursuant to this Article 4, insofar as such losses are not as a direct result of the gross negligence or wilful misconduct of the Vendor or its Related Parties. An action or omission of the Vendor or its Related Parties shall not be regarded as gross negligence or wilful misconduct to the extent it was done or omitted to be done in accordance with the written instructions or concurrent of the Purchaser or its Related Parties.
- (c) Vendor will promptly notify Purchaser in writing of:
  - (i) any material Governmental Authority or third party complaints, investigations or hearings (or communications indicating that the same may be contemplated) in respect of the Corporation or the Assets;
  - (ii) all material matters relating to claims, actions, enquiries, applications, suits, demands, arbitrations, charges, indictments, hearings or other civil, criminal, administrative or investigative proceedings, or other investigations or examinations pending or, to the knowledge of Vendor, threatened, against the Corporation or the Assets or related to this Transaction;
  - (iii) any circumstance or development that, to the knowledge of Vendor, without inquiry, would have a material adverse effect or which might reasonably be expected to impede, interfere with or delay or prevent the consummation of the Transaction; and
  - (iv) any change affecting any representation or warranty provided by Vendor in this Agreement where such change is or may be of such a nature to render any representation or warranty misleading or untrue in any material respect.
- (d) Except as required by Applicable Laws, from the date hereof until the Closing Date, the Vendor shall cause the Corporation to:

- (i) duly and on a timely basis file all Tax Returns required to be filed by the Corporation and all such Tax Returns will be true, complete and correct in all material respects;
  - (ii) timely pay all Taxes shown on such Tax Returns and make all required withholdings and remittances in respect of Taxes;
  - (iii) not make or rescind any material express or deemed election relating to Taxes, or file any amended Tax Returns where the result of such action is inconsistent with past practice;
  - (iv) not make a request for a Tax ruling or enter into an agreement with any Governmental Authority;
  - (v) not settle any claim, action, suit litigation, proceeding, arbitration, investigation, audit or controversy relating to a material amount of Taxes;
  - (vi) not make any changes in financial or Tax accounting methods, principles, policies or practices, except as required by GAAP or under Applicable Laws; and
  - (vii) properly reserve (and reflect such reserves in its books and records and financial statements) in accordance with GAAP, for all Taxes accruing in respect of the Corporation which are not due or payable.
- (e) Except as required by Applicable Laws, from the date hereof until the Closing Date, the Vendor shall ensure the Corporation does not make any Tax filings outside the ordinary course of business, including making, amending or rescinding any Tax Return, election or designation.

#### **4.3 Restrictions on Conduct of Business**

Between the date hereof and the Closing, except pursuant to the Pre-Transaction Reorganization and the Purchase and Sale Agreement, the Vendor shall cause the Corporation to not permit or otherwise agree, without the prior written consent of the Purchaser to:

- (a) declare, set aside or pay any dividends, or make any distributions in respect of the Shares, or repurchase, redeem or otherwise acquire any of the Shares;
- (b) amend its constating documents;
- (c) issue, grant, sell or pledge or agree to issue, grant, sell or pledge any securities of the Corporation or securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, Shares;
- (d) make any payments to, incur, assume or otherwise become liable for any debts or charges to, the Vendor, or any Affiliate of the Vendor, other than for bona fide advances or payments made in the ordinary course of business and consistent with past practice;
- (e) sell, transfer, assign, farmout, surrender, abandon, forfeit, grant an encumbrance (other than a Permitted Encumbrance) or otherwise dispose of or alienate any of the Assets, save and except the sale of production of Petroleum Substances produced from the Lands in the ordinary course of business and the sale of materials and supplies no longer required to exploit the Petroleum and Natural Gas Rights;



- (f) other than in the ordinary course of business or as otherwise contemplated herein, amend in any material respect or terminate any material agreement or instrument relating to the Assets or enter into any new material agreement or commitment relating to the Assets;
- (g) except for the Gas Marketing Contract, subject to the provisions of Clause 4.1, and Clause 4.4, enter into any obligations or commitments out of the ordinary course of business with respect to the Assets of which the Corporation's share is in excess of Fifty Thousand Dollars (\$50,000) for any single item or related series of items except as may be reasonably necessary to protect or ensure life and safety or to preserve the Assets or title to the Assets;
- (h) subject to the provisions of Clause 4.1, and Clause 4.4, propose or initiate the exercise of any right (including bidding rights at Crown sales) or option relative to or arising as a result of the ownership of the Assets, or propose or initiate any Operations on the Lands which have not been commenced or committed to by the Corporation on the date hereof which is in excess of Fifty Thousand Dollars (\$50,000) for any single item or related series of items, except that the Corporation may propose or initiate any Operations on the Lands for, and propose or initiate the exercise of any right or option relative to, the preservation of any of the Leases or the Assets;
- (i) make or change any employment contracts or alter any compensation arrangements (including bonus amounts) for any Office Employee or Field Employee; and
- (j) make or change any election, change an annual accounting period or taxation year, adopt or change any accounting method or practice, file any amended Tax Return, enter into any closing agreement, settle any Claim or assessment in respect of Taxes relating to the Corporation, surrender any right to Claim a refund of Taxes, consent to any extension or waiver of the limitation period applicable to any Claim or assessment in respect of Taxes relating to the Corporation, or take any other similar action relating to the filing of any Tax Returns or the payment of any Tax.

Notwithstanding the foregoing, however, the Corporation may assume such obligations or commitments and propose or initiate such Operations or exercise any such right or option without the prior written consent of the Purchaser if the Vendor reasonably determines that such expenditures or actions are necessary for the protection of life, property or the Environment, in which case the Vendor shall promptly notify the Purchaser of such intention or actions and the Corporation's estimate of the costs and expenses associated therewith.

#### **4.4 Operations Proposals During Interim Period**

- (a) If, after the date hereof, the Vendor or the Corporation receives any notice of Operations (including casing point and abandonment elections and notices relating to the exercise of options to drill wells or conduct exploration or development operations under farmout and similar agreements) on the Lands or the exercise of any right (including rights of first refusal and rights under area of mutual interest provisions) or any option relating to the Assets which is in excess of Fifty Thousand Dollars (\$50,000) for any single item or related series of items (each such Operation or exercise of a right or option being referred to as a "**Proposal**") from a third party then, in a timely manner, the Vendor shall give notice, including full particulars of the Proposal, to the Purchaser and, as soon as is practicable, the Vendor shall give the Purchaser notice of whether or not the Vendor elects to participate in such Proposal. The notice to the Purchaser shall contain the length of any period during which the Vendor is required to respond to any notice received by it in accordance with the applicable Title and Operating Document.

- (b) If the Purchaser and the Vendor disagree on the response to the Proposal, a meeting shall be convened immediately to discuss the differences. If consensus is not reached at that meeting, the Vendor will have the unilateral right to decide the response.

**ARTICLE 5**  
**VENDOR'S REPRESENTATIONS AND WARRANTIES**

**5.1 Regarding the Vendor**

The Vendor represents and warrants to the Purchaser that, unless otherwise specified, as at the date hereof and as at the Closing Date:

- (a) **Organization and Standing:** the Vendor is a corporation duly organized and validly existing under the laws of Alberta and duly qualified under the laws of those jurisdictions in which the Vendor is required to be qualified in order to own the Shares and to carry on its business as presently conducted;
- (b) **Requisite Authority:** it has all requisite power and authority to enter into this Agreement and all other documents to be executed and delivered hereunder and to perform its obligations under this Agreement;
- (c) **No Conflicts or Approvals:** the execution and delivery of this Agreement and all other documents to be executed and delivered hereunder do not and the consummation of the Transaction and the fulfillment of and compliance with the terms and provisions hereof, do not and will not:
- (i) conflict with, result in a breach of, constitute a default under, or prohibit the performance required by, any agreement, instrument, license, permit or authority to which it is a party or by which it is bound or to which any property of it is subject or result in the creation of any lien, charge or encumbrance upon the Shares under any such agreement, instrument, license, permit or authority;
  - (ii) violate any Applicable Law applicable to the Vendor, the Shares or the Transaction; or
  - (iii) except for the Required Approvals and any Customary Post-Closing Consents, require the consent of any Government Authority;
- (d) **Execution and Enforceability:** this Agreement has been duly executed and delivered and all other documents to be executed or delivered pursuant hereto shall be duly executed and delivered and this Agreement does, and such documents will, constitute legal and valid binding obligations enforceable against it in accordance with their respective terms;
- (e) **Title to Shares:**
- (i) it is the sole registered and beneficial owner of the Shares;
  - (ii) it has the exclusive power and authority to sell, transfer and convey the Shares to the Purchaser in accordance herewith; and
  - (iii) the Shares are free and clear of all Encumbrances and except for this Agreement, there will not be any contract, option or any other right which may in the future become

binding upon him to sell, transfer, assign, pledge, charge, mortgage or in any other way dispose of or encumber any of the Shares;

- (f) **Residency:** it is not a non-resident of Canada within the meaning of the Tax Act;
- (g) **Judgments and Claims:** as of the date hereof:
  - (i) there are no judgments unsatisfied against it or any consent decrees or injunctions to which it is subject; and
  - (ii) to the Vendor's Knowledge, there are no Claims in existence or threatened against it which could reasonably be expected to be material;
- (h) **Finder's Fee:** it has not incurred any obligation or liability, contingent or otherwise, for brokerage fees, finder's fees, agent's commission or other similar forms of compensation with respect to the Transaction for which the Purchaser shall have any obligation or liability whatsoever;
- (i) **No Pre-emptive Rights:** neither the execution and delivery of this Agreement nor the sale of the Shares pursuant hereto does or shall trigger any right of first refusal or pre-emptive purchase right held by any Person to purchase or otherwise acquire any of the Shares or any of the Assets; and
- (j) **Bankruptcy and Insolvency Matters:** no action or proceeding has been commenced or filed by or against the Vendor or which seeks or may lead to receivership, bankruptcy, a consumer proposal or any other similar proceeding in respect of the Vendor, the adjustment, compromise or composition of claims against the Vendor or the appointment of a trustee, receiver, liquidator, custodian or other similar officer for any portion of its assets. No such action or proceeding is being considered by the Vendor and no creditor or equity security holder, if applicable, of the Vendor has threatened to commence or advise that it may commence, any such action or proceeding.

## 5.2 Regarding the Corporation

Except that and subject in all instances to the Permitted Encumbrances and any matter disclosed in any of the Schedules the Vendor represents and warrants to the Purchaser that in respect of the Corporation in its personal capacity and not as trustee of POT, unless otherwise specified, as at the date hereof and as at the Closing Date:

- (a) **Organization and Standing:** the Corporation is a corporation duly organized and validly existing under the laws of Alberta and duly qualified under the laws of those jurisdictions in which the Corporation is required to be qualified in order to own the Assets and to carry on its business as presently conducted;
- (b) **Requisite Authority:** the Corporation has all requisite power and authority to enter into all agreements documents to be executed and delivered hereunder, including relating to the Pre-Transaction Reorganization, and to perform the Corporation's obligations under all such agreements and documents to be executed and delivered and has authorized and taken all corporate action necessary to authorize the execution, delivery and performance of all such agreements and documents to be executed and delivered and the consummation of the Pre-Transaction Reorganization and the Transaction in accordance with this Agreement;

- (c) **No Conflicts or Approvals:** the execution and delivery of all agreements and documents to be executed and delivered, including pursuant to the Pre-Transaction Reorganization, do not and the consummation of the Pre-Transaction Reorganization and the Transaction and the fulfillment of and compliance with the terms and provisions hereof, do not and will not:
- (i) result in the breach of or violate any term or provision of its articles of incorporation or by-laws;
  - (ii) conflict with, result in a breach of, constitute a default under, or prohibit the performance required by, any agreement, instrument, license, permit or authority to which the Corporation is a party or by which the Corporation is bound or to which any property of the Corporation is subject or results in the creation of any lien, charge or Encumbrance upon the Assets under any such agreement, instrument, license, permit or authority;
  - (iii) violate any Applicable Law applicable to the Corporation, the Assets or the Transaction; or
  - (iv) except for the Required Approvals and any Customary Post-Closing Consents, require the consent of any Government Authority;
- (d) **Execution and Enforceability:** the agreements and documents to be duly executed and delivered by it pursuant to the Pre-Transaction Reorganization and the Transaction and all other documents to be executed or delivered by the Corporation hereunder and thereunder shall be duly executed and delivered by the Corporation and such agreements and documents do and will constitute legal and valid binding obligations of the Corporation enforceable against the Corporation in accordance with their respective terms;
- (e) **Share Capital:** (i) the authorized capital of the Corporation will consist of an unlimited number of common shares (ii) the issued and outstanding capital of the Corporation will consist solely of the Shares all of which will be fully paid and non-assessable and issued to the Vendor and recorded in the Corporation's books and records in the name of the Vendor; and (iii) no Person will have any rights, contingent or vested, to acquire any shares, options, securities convertible into shares of the Corporation or any other rights to acquire any securities of the Corporation;
- (f) **No Issuance of Shares:** other than this Agreement, there are no contracts, options, or other rights binding on, or which at any time thereafter may become binding on, the Corporation to: (i) transfer the Shares; (ii) allot or issue any of the unissued shares or other securities of the Corporation; or (iii) create any additional class of shares or other securities of the Corporation;
- (g) **Minute Book:** the minute and record books of the Corporation have been maintained in accordance with generally accepted business practices and contain complete and true copies of the Corporation's by-laws and other constating documents (including all amendments thereto), which will remain in full force and effect, and all resolutions of their shareholders and directors and the registers of shareholders, share transfers and directors therein are complete and accurate;
- (h) **Private Issuer:** the Corporation is not a "reporting issuer" under relevant securities legislation or a "distributing corporation" under relevant corporate legislation;
- (i) **Business:** the Corporation has never conducted any business except in relation to oil and gas business in Western Canada and between the date hereof and the Closing Time, the Corporation

will not conduct any business except in relation to oil and gas exploration and development in Western Canada;

- (j) **Accounts Receivable:** subject to the list of defaulting companies provided in the Data Room, the trade accounts receivable of the Corporation are assessed for collectability on a regular basis and are discounted or written off on a regular basis, and otherwise are materially good and collectible at the aggregate recorded amounts, except to the extent of any reserves and allowances for doubtful accounts provided for such accounts receivable in the books and records, and are not subject to any defence, counterclaim or set off;
- (k) **Conduct of Business:** (i) the Corporation has the power and authority to conduct its business and to own the Assets; (ii) has conducted its business in compliance, in all material respects, with all Applicable Laws of each jurisdiction in which its business is carried on; and (iii) holds and maintains in good standing all licences, permits, approvals and authorizations necessary to permit it to conduct its business or to own, lease or operate its properties and Assets except where the failure to obtain any licence, permit, approval or authorization would not be material;
- (l) **Restrictive Covenants:** the Corporation is not a party to or bound or affected by any contract which would limit the freedom of the Corporation to compete in any line of business or any geographic area, acquire goods or services from any supplier, establish the prices at which it may sell any goods or services, sell goods or services to any customer or potential customer, or transfer or move any of its Assets or operations;
- (m) **Absence of Certain Changes:**
  - (i) since December 31, 2015, there has not been any material adverse change in the financial condition of the Corporation, taken as a whole, which change arose from developments specific to the Corporation not generally affecting other companies similarly situated in the petroleum and natural gas industry in Canada;
  - (ii) since December 31, 2015, there has not been any physical damage, destruction or loss to any of the Assets, not covered by insurance paid to the Corporation, which has had, or might reasonably be expected to have, a material adverse effect on the financial condition, value of the Assets or operations of the Corporation; and
  - (iii) since December 31, 2015, there has not been any material change by the Corporation in accounting methods or principles which would be required to be disclosed under GAAP;
- (n) **Pre-Transaction Reorganization:** to Vendor's Knowledge, the Pre-Transaction Reorganization has not resulted in any adverse tax consequences for the Corporation;
- (o) **Purchase and Sale Agreement Representations:** at the Closing Time, the representations and warranties of the Corporation to POT in the Purchase and Sale Agreement shall be true and correct in all material respects, except that representations and warranties qualified as to materiality shall be true and correct in all respects, as at the time they were given;
- (p) **Undisclosed Liabilities:** to Vendor's Knowledge, other than as disclosed in the Purchase and Sale Agreement and in Schedule I, the Corporation does not have any Liabilities (whether accrued, absolute, contingent or otherwise) which would be required to be disclosed on a balance sheet of the Corporation prepared in accordance with GAAP except current liabilities, deferred taxes and asset retirement obligations in the aggregate in excess of \$50,000;

- (q) **Financial Statements:** the Financial Statements fairly present the financial position and operations of the Corporation on its own account and do not include the assets, liabilities or results of operations of POT, which PEOC directed as trustee of POT, as of the dates thereof and for the periods indicated therein;
- (r) **Lease Operating Statements:** the Lease Operating Statements disclosed in the Data Room have been generated from Vendor's internal accounting system by extracting sales volumes, revenues, royalties, operating and transportation expenses, land and lease costs and overhead recoveries directly associated with the Assets on a production month basis for the year ended December 31, 2015 as well as for the six months ended June 30, 2016. The Lease Operating Statements do not include any expenses related to general and administrative costs, interest, income and capital taxes or any provisions related to depletion, depreciation, impairment or future site restoration and abandonment costs as these amounts are based on the consolidated operations of the Vendor of which the Assets forms only a part. To Vendor's Knowledge, the Lease Operating Statements are free from material misstatement, whether due to fraud or error.
- (s) **Indemnities and Guarantees:** the Corporation has not given or agreed to give, nor is a party to or bound by, any guarantee, surety or indemnity, contingently or otherwise, the obligations or indebtedness of any Person or any other commitment by which the Corporation is, or is contingently, responsible for such indebtedness or other obligations, other than in the ordinary course of the oil and gas business pursuant to the Title and Operating Documents;
- (t) **Judgments and Claims:** other than the Litigation Claims as set out in Schedule "J", as of the date hereof:
- (i) there are no judgments unsatisfied against the Corporation or any consent decrees or injunctions to which the Corporation is subject;
  - (ii) to the Vendor's Knowledge, there are no Claims in existence or threatened against the Corporation or with respect to the Assets which could reasonably be expected to be material; and
  - (iii) to the Vendor's Knowledge, there is no basis upon which a material Claim could reasonably be expected to be made against the Corporation;
- (u) **Subsidiaries:** the Corporation does not have any subsidiaries;
- (v) **Investments:** the Corporation is not a party to any agreements of any nature to acquire any shares of any corporation or to acquire, capitalize or invest in any business or entity other than any business or investment that is reasonably incidental to the ownership or operation of the Assets in the ordinary course of business;
- (w) **Non-Arm's Length Debt:** no Affiliate, director, former director, officer or employee of the Corporation or any Person not dealing at "arm's length" (within the meaning of the Tax Act) with any such Person is indebted to the Corporation at the Closing Time;
- (x) **Bank Accounts:** the Corporation does not have any bank accounts, term deposits or safety deposit boxes except those listed in Schedule "C";
- (y) **No Shareholder Agreement:** there does not exist any shareholder or other agreement which affects the transferability of the Shares and neither the Corporation nor the Vendor is a party to

any voting trust agreement, unanimous shareholder agreement, "share pooling agreement", or other contract, agreement, commitment plan, or understanding restricting or otherwise relating to voting or dividend rights with respect to the Shares;

- (z) **Dividends:** there are be no declared but unpaid dividends in respect of the Shares;
- (aa) **Taxes:** except as set forth in Schedule "I" - Purchase Price Adjustments Amount, the Corporation has duly and timely (i) made, prepared or filed all Tax Returns required to be made, prepared or filed by it and such Tax Returns are true, complete and accurate in all material respects (ii) paid all Taxes (including instalments) due and payable by it, whether or not assessed by the appropriate Government Authority, and (iii) collected or withheld and remitted to the appropriate Government Authorities all Taxes required to be collected, withheld or remitted by it (including Taxes required to be withheld in respect of any amount paid or credited or deemed to be paid or credited by it to or for the account or benefit of any Person and non-resident Persons) and, to the Vendor's Knowledge, there are no Claims threatened or pending against the Corporation in respect of Taxes nor any basis therefor;
- (bb) **GST Registrant:** the Corporation is a registrant for the purposes of the *Excise Tax Act* (Canada). The goods and services tax registration number of the Corporation is 86581 0881 RT0001. All input tax credits claimed by the Corporation for GST purposes were calculated in accordance with Applicable Laws;
- (cc) **Debt:** except as set out in Schedule I, the current and long-term debt of the Corporation is \$0;
- (dd) **Working Capital:** as at the Closing Date the working capital of the Corporation is the amount set out in Schedule I;
- (ee) **Agreements with Tax Authorities:**
  - (i) Except as otherwise disclosed to the Purchaser prior to the date hereof, the Corporation has not requested, offered to enter into or entered into any agreement or other arrangement, or executed any waiver, providing for any extension of time within which (A) to file any Tax Return covering any Taxes for which the Corporation is or may be liable; (B) to file any elections, designations or similar filings relating to Taxes for which the Corporation is or may be liable; (C) the Corporation is required to pay or remit any Taxes or amounts on account of Taxes; or (D) any Government Authority may assess or collect Taxes for which the Corporation is or may be liable; and
  - (ii) Other than those agreements and arrangements described in (i), the Corporation has not made, prepared and/or filed any elections, designations or similar filings relating to Taxes or entered into any agreement or other arrangement in respect of Taxes or Tax Returns that has effect for any period ending after the Closing Date;
- (ff) **Discussions with Tax Authorities:** Except as otherwise disclosed to the Purchaser prior to the date hereof, the Corporation is not engaged in any discussions or negotiations with any taxation authorities in respect of its Taxes nor is any Person acting on any of their behalves engaged in any such discussions or negotiations;
- (gg) **Tax and Fiscal Years:** the Corporation's fiscal and taxation year end is December 31;

(hh) **Tax Assessments:**

- (i) to Vendor's Knowledge, all income, sales (including goods and services, harmonized sales and provincial or territorial sales) and capital tax liabilities of the Corporation have been filed with the relevant Government Authorities for all taxation years or periods ending prior to and including the taxation year or period ended December 31, 2015;
- (ii) except pursuant to this Agreement or as specifically disclosed in writing to the Purchaser, for purposes of the Tax Act or any other applicable Tax statute, except for Vendor, no Person or group of Persons has ever acquired or had the right to acquire control of the Corporation;
- (iii) None of sections 67, 78, 79, 80, 80.01, 80.02, 80.03 or 80.04 of the Tax Act, or any equivalent provision of the Tax legislation of any province or any other jurisdiction, have applied or will apply to the Corporation at any time up to and including the Closing Date;
- (iv) the Corporation has not acquired property from a non-arm's length Person, within the meaning of the Tax Act, for consideration, the value of which is less than the fair market value of the property acquired in circumstances which could subject it to a liability under section 160 of the Tax Act;
- (v) for all transactions between the Corporation and any non-resident Person with whom the Corporation was not dealing at arm's length during a taxation year commencing after 1998 and ending on or before the Closing Date, the Corporation has made or obtained records or documents that meet the requirements of paragraphs 247(4)(a) to (c) of the Tax Act; and
- (vi) the Purchaser has been provided with copies of all Tax Returns and all communications to or from any Government Authority relating to the Taxes of the Corporation, to the extent relating to periods or events in respect of which any Government Authority may by Law assess or otherwise impose any such Tax on the Corporation;
- (vii) the Corporation has never been required to file any Tax Return with and has never been liable to pay any Taxes to, any Governmental Authority outside of Canada. No Claim has ever been made by a Governmental Authority in a jurisdiction where the Corporation does not file a Tax Return that is or may be subject to the imposition of any Tax by that jurisdiction; and
- (viii) the Corporation has not claimed any reserves for purposes of the Tax Act (or analogous provincial or similar provisions) for the most recent taxation year ending prior to the date hereof.

(ii) **No Withholding:**

To Vendor's knowledge,

- (i) the data and information in respect of the Corporation and the Assets provided by Vendor to Purchaser is not inaccurate or incorrect in any material respect as at the respective dates of such information; and



- (ii) Vendor has not knowingly withheld from Purchaser any document in its possession (or a summary of any document that could not be provided due to confidentiality restrictions) requested by Purchaser for the purpose of conducting its due diligence investigations in respect of the Corporation and its assets, liabilities, business and operations, including the Assets, and the Vendor did not omit to provide any information that would reasonably be expected to cause any information so provided by the Vendor to be misleading in any material respect.

### 5.3 Regarding the Assets

Except that and subject in all instances to the Permitted Encumbrances and any matter disclosed in any of the Schedules the Vendor represents and warrants to the Purchaser that, unless otherwise specified, as at the date hereof and as at the Closing Date:

- (a) **Title to the Assets:** it does not warrant title to the Assets except that it warrants that, other than Permitted Encumbrances:
  - (i) the Assets are free and clear of all liens, adverse claims, charges and encumbrances created by, through or under the Vendor or the Corporation, or of which it has Knowledge; and
  - (ii) subject to the rents, covenants, conditions and stipulations in the Title and Operating Documents, after Closing, the Corporation shall be entitled to hold and enjoy the Assets without any lawful interruption by any Person claiming, by, through or under the Vendor or its Affiliates;
- (b) **Reserves Report.** Vendor has made available to McDaniel, prior to the issuance of the Reserves Report which contains the Asset Report for the purpose of preparing the Reserves Report, all information requested by McDaniel, which information did not contain any misrepresentation at the time such information was provided. Except with respect to changes in commodity prices, Vendor has no knowledge of a material adverse change in any production, cost, reserves or other relevant information provided to McDaniel as it relates to the Asset Report since the date that such information was provided. Vendor believes that the Asset Report reasonably presents the quantity and pre-tax present worth values of the crude oil, natural gas liquids and natural gas reserves attributable to the properties evaluated in such report as of the effective date of the report based upon information available at the time such reserve information was prepared, and Vendor believes that, at the date of such report, such report did not (and as of the date hereof, except with respect to changes to commodity prices and as may be attributable to production of the reserves since the date of such report, such report does not) overstate the aggregate quantity or pre-tax present worth values of such reserves or the estimated reserves producible therefrom;
- (c) **Reduction in Interest:** except for the Permitted Encumbrances or as disclosed in the Land Schedule, the Petroleum and Natural Gas Rights are not subject to reduction by virtue of the conversion or other alteration of the interest of, any third party claiming by, through or under the Vendor or the Corporation;
- (d) **No Default Notices:** the Corporation has not received nor delivered any:
  - (i) written notices of violation or alleged violation of any material provisions of any Applicable Law in respect of the Assets; or

- (ii) notices of any material default under any of the Title or Operating Documents or any other agreement in respect of the Assets;

which have not been cured within the applicable cure period applicable thereto;

- (e) **Compliance with Title and Operating Documents:** to the Vendor's Knowledge, and subject to Schedule "G" – Existing Work Orders, the Corporation has performed, observed and satisfied in accordance with standard oil and gas practices, all of its material duties, liabilities, obligations and covenants required as at the date hereof to be satisfied, performed and observed by the Corporation, and has not been provided with notice of default under, or in breach of, any material provision of any Title and Operating Document;
- (f) **No Claims:** other than the Litigation Claims, as at the date hereof there are no Claims which have been served upon the Corporation in respect of, or relating to, the Assets, and, to Vendor's Knowledge, no claim has been threatened against the Corporation or any third party, which might result in a material impairment or material loss of the interest of the Corporation in and to the Assets;
- (g) **No Take or Pay Obligations:** the Assets are not affected by any take or pay or similar obligations;
- (h) **Material Contracts:** except as set out in Schedule "L" – Material Contracts, and contracts which may be cancelled without penalty on notice of not more than 30 days and, there are no Material Contracts or Transportation, Processing and Sale Agreements to or by which the Corporation or any Person acting on its behalf is a party or is bound that is applicable to the production of Petroleum Substances from the Lands or lands pooled or unitized therewith, or to which the Lands or lands pooled or unitized therewith have been dedicated by the Corporation, and each Material Contract is in full force and effect in accordance with the terms thereof and the Corporation is not in default under any material contract related to the Corporation, there is no outstanding notice of default, cancellation or termination in connection therewith;
- (i) **Contracts Disclosure:** the Vendor has disclosed in writing to Purchaser a list of all of the following contracts, leases, instruments, notes, bonds, debentures, mortgages, agreements, arrangements or understandings, written or oral, to which such the Corporation is a party or under which the Corporation is bound, has unfulfilled obligations or contingent liabilities or is owed unfulfilled obligations or to which any of the Assets is subject ("**Contracts**"), in effect as of the date hereof and correct, current and complete copies of which have been made available to Purchaser: (i) all Contracts containing any rights on the part of any Person, including joint venture partners or entities, to acquire oil and gas or other property rights from the Corporation having a value in excess of \$500,000, other than any such rights under or pursuant to the title or operating documents of the Corporation as it relates to the Assets and given in the customary and ordinary course in the oil and gas business for which no current right of acquisition exists; (ii) all Contracts containing any rights on the part of Corporation to acquire oil and gas or other property rights from any Person having a value in excess of \$500,000; (iii) any Contract in respect of which the applicable transaction has not yet been consummated for the acquisition or disposition of assets or securities or other equity interests of another Person having a value of in excess of \$500,000; (iv) any standstill or similar Contract currently restricting the ability of Corporation to offer to purchase or purchase the assets or equity securities of another Person; (v) all Contracts which entitle a party to rights of termination, the terms or conditions of which may or will be altered, or which entitle a party to any fee, payment, penalty or increased consideration, in each case as a result of the execution of this Agreement, the consummation of the transactions

contemplated hereby or a "change in control" of the Corporation, excluding without limitation any seismic license or similar agreements previously identified and disclosed to the Purchaser; (vi) except for the Gas Marketing Contract, all Contracts pursuant to which the Corporation will, or may reasonably be expected to result in a requirement of the Corporation to, expend more than an aggregate of \$500,000 or receive or be entitled to receive revenue of more than an aggregate of \$500,000 million in either case in the next 12 months, including any and all take or pay agreements; (vii) any Contracts relating directly or indirectly to the guarantee of any liabilities or obligations or to indebtedness (currently outstanding or which may become outstanding) for borrowed money; and (viii) any Contract that is otherwise material to the Corporation or that if terminated or modified or if it ceased to be in effect, would reasonably be expected to have a material adverse effect on the Corporation;

- (j) **Operating Practices:** all Operations prior to the date hereof and the Closing Date in respect of which it or its Affiliate was the operator were conducted in all material respects in accordance with generally accepted oil and gas industry practices in the province where the Assets are located;
- (k) **Payment of Royalties:** to Vendor's knowledge, the Corporation has paid or caused to be paid all relevant Crown royalties, freehold deposits and rentals and freehold and overriding royalties in respect to the Assets which have become due and payable prior to the date hereof and the Closing Date which the Corporation is obligated to pay;
- (l) **Payment of Taxes and Third Party Payables:** to Vendor's Knowledge, excepting out certain municipal property taxes as adjusted for in Schedule "I", all amounts due and payable to third parties prior to the date hereof and the Closing Date and pertaining to the Assets have been fully paid, including without limitation (i) any and all ad valorem and property taxes, (ii) any and all production, severance and similar taxes, charges and assessments based upon or measured by the ownership or production of the Leased Substances or any of them or the receipt of proceeds therefor, and (iii) all amounts due and payable in connection with Permitted Encumbrances;
- (m) **Outstanding AFEs:** except as set forth in the Data Room or the Purchase and Sale Agreement, there is no authorization for expenditure or similar approval approved by the Corporation or its Affiliates pursuant to which there may be expenditures with respect to the Assets, the Corporation's share of which is reasonably expected to exceed Fifty Thousand Dollars (\$50,000) and there is no outstanding cash call with respect to the Assets, the Corporation's share of which exceeds Fifty Thousand Dollars (\$50,000);
- (n) **Work Orders, Notices, Directives and Demands:** except as set forth in Schedule "G" there are no, and the Corporation has not received, and to the extent it relates to the Assets, there are no and the Vendor nor has any of its subsidiaries received, as at the date hereof, any written orders of a Government Authority requiring work, repairs, construction or capital expenditures with respect to the Assets, where such orders or directives have not been complied with in all material respects, including the payment of all amounts owing by the Corporation thereunder (collectively, the "**Existing Work Orders**");
- (o) **Environmental Matters.** Except to the extent that any violations or other matters referred to in this subparagraph does not, and would not reasonably be expected to, individually or in the aggregate, have a material adverse effect on the Corporation and the Assets (and in the case of properties for which neither the Vendor nor its subsidiaries is the operator, to the Vendor's knowledge):

- (i) to the knowledge of the Vendor, the Corporation is not in violation of any applicable Environmental Laws;
  - (ii) to the knowledge of the Vendor, the Corporation has operated its business and has received, handled, used, stored, treated, shipped and disposed of all Hazardous Substances in compliance with Environmental Laws;
  - (iii) to the knowledge of the Vendor, there have been no undisclosed reportable spills, releases, deposits or discharges of Hazardous Substances, or wastes into the earth, subsoil, underground waters, air or into any body of water or any municipal or other sewer or drain water systems by the Corporation, or on or underneath any location which is or was currently or formerly owned, leased or otherwise operated by the Corporation;
  - (iv) to the knowledge of the Vendor, the Corporation has not failed to report to the proper Governmental Authority the occurrence of any event which is required to be so reported by any Environmental Law; and
  - (v) there are no pending or, to the knowledge of the Vendor, threatened claims, liens or Encumbrances (other than Permitted Encumbrances) resulting from Environmental Laws with respect to Assets or any of the properties of the Corporation currently or formerly owned, leased, operated or otherwise used.
- (p) **Hedging Agreements:** Except for the Gas Marketing Contract, the Corporation is not a party to, or bound by, any interest rate swaps, foreign exchange swaps, commodity price hedging contracts and similar derivative contracts;
  - (q) **Joint Venture Audits:** as of the Closing Date there are no active joint venture audits by a third party under the Title and Operating Documents or otherwise relating to the Assets;
  - (r) **Condition of Tangibles:** the Tangibles have been constructed, installed, maintained and operated in accordance with generally accepted engineering practices, and good oil and gas industry practices, and are in good and operable condition, reasonable wear and tear excepted;
  - (s) **Facility and Tangible Ownership:** none of the Tangibles is leased or rented except may be cancelled without penalty on notice of not more than 30 days;
  - (t) **Fees and Charges:** except as may be identified in the schedules hereto, the interest of the Corporation in and to all property, assets, interests and rights comprising the Tangibles is sufficient such that the Corporation is not subject to any penalty, fee, levy, charge or other compensation payable to any third party for the use of or access to the Tangibles;
  - (u) **Regulatory Compliance:** the Corporation's Licensee Management Rating, as determined in accordance with Alberta Energy Regulatory *Directive: 006 Licensee Liability Rating (LLR) Program and Licence Transfer Process* is and will be on the Closing Date equal to or greater than 1.2;
  - (v) **Production Allowables and Production Penalties:** (i) to the knowledge of the Vendor, none of the wells in which the Corporation holds an interest in, including the Wells, have been produced in excess of applicable production allowables imposed by any Applicable Laws or any Governmental Authority and the Vendor has no knowledge of any impending change in production allowables imposed by any Applicable Laws or any Governmental Authority that may

be applicable to any of the wells in which it holds an interest, other than changes of general application in the jurisdiction in which such wells are situate; and (ii) neither the Vendor nor the Corporation has received notice of any production penalty or similar production restriction of any nature imposed or to be imposed by any governmental authority, including gas oil ratio, off target and overproduction penalties imposed by any Governmental Authority that may be applicable, and, to its knowledge, none of the wells, including the Wells, in which the Corporation holds an interest is subject to any such penalty or restriction; except, in either case, to the extent that such events would not in the aggregate have a material adverse effect on the Corporation and the Assets;

- (w) **Description of Wells, Facilities and Lands:** subject to minor typographical errors, the Corporation has provided to Purchaser a materially complete and accurate description of all wells, facilities and lands of the Corporation as at the date hereof and the Closing Date;
- (x) **Offset Obligations:** except as identified in Schedule A and Schedule J, and to Vendor's Knowledge, neither Vendor nor the Corporation has received notice of any obligations accrued pursuant to the Title and Operating Documents that may be satisfied by the drilling of a well, the payment of compensatory royalty or the surrender of some or all of the interests granted, reserved or otherwise conferred pursuant to the Title and Operating Documents, other than obligations that have been satisfied (by means other than by the payment of compensatory royalties) or have been permanently waived;
- (y) **Employees:** the Corporation does not have any employees, contractors or Benefit Plans and does not have any Severance Obligations and no Person has an employment agreement or consulting agreement with the Corporation;
- (z) **Office Employees and Field Employees:** to Vendor's Knowledge, unless otherwise disclosed in writing to the Purchaser, each of the Office Employees and Field Employees are Canadian citizens;
- (aa) **Condition of Wells:** in respect of the Wells operated by Vendor or its Affiliate, to Vendor's Knowledge, each Well whether producing, shut-in, injection, disposal or otherwise, has been drilled and, if completed, completed and operated in accordance with generally accepted oil and gas field practices;
- (bb) **Production:** as at the date hereof and the Closing Date, the running three month average production from the Assets, for the three months prior to the date hereof, exceeds 34.0 mmcfe/day;
- (cc) **Insurance:** the Corporation has in place insurance policies that are valid and enforceable and in full force and effect, are underwritten by unaffiliated and reputable insurers, are sufficient for all requirements of Applicable Law and provide insurance in such amounts and against such risks as is customary for corporation engaged in similar businesses to the Corporation and the Corporation is not in default under any such insurance and has not failed to give any notice or present any claim within the appropriate time therefor;
- (dd) **Operatorship:** as at the date hereof, the Corporation is the operator of such of the Assets as set forth in Schedule A – Land Schedule and Schedule H – Wells, and to Vendor's Knowledge, during the time it has been the operator of the Assets or any of them, there have been no challenges to its ability as operator;

**(ee) Bankruptcy and Insolvency Matters:**

- (i) no action or proceeding has been commenced or filed by or against the Corporation or which seeks or may lead to receivership, bankruptcy, a commercial proposal or similar proceeding of the Corporation, the adjustment, compromise or composition of claims against it or the appointment of a trustee, receiver, liquidator, custodian or other similar officer for the Corporation or any portion of its Assets. No such action or proceeding has been authorized or is being considered by or on behalf of the Corporation and no creditor or equity security holder of the Corporation has threatened to commence or advised that it may commence, any such action or proceeding; and
  - (ii) the Corporation has not made, nor is it considering making, an assignment for the benefit of its creditors, and has not requested, nor is it considering requesting, a meeting of its creditors to seek a reduction, compromise, composition or other accommodation with respect to its indebtedness.
- (ff) **ROFR:** no ROFR is triggered by the Transaction contemplated hereby or by the Pre-Transaction Reorganization;
- (gg) **AMIs:** there are no active area of mutual interest or area of exclusion provisions in any of the Title and Operating Documents or other agreements or documents to which the Assets are subject; and
- (hh) **Seismic Ownership:** The Corporation has good, valid and merchantable title to a 100% legal and beneficial interest in and to the Proprietary Seismic, free and clear of all claims, and, to the Vendor's Knowledge, the Proprietary Seismic has not been licensed or otherwise disclosed to any third party in the four year period prior to the date hereof.

**5.4 No Additional Representations or Warranties by the Vendor**

For certainty, each of the foregoing representations and warranties of the Vendor shall be qualified as at the date hereof and as of the Closing Date (unless otherwise qualified as at a specific date), as applicable, by excepting therefrom the Permitted Encumbrances, all matters disclosed in the Schedules and where applicable, the Data Room. Other than as expressly set forth in this Article 5, the Vendor makes no additional representation or warranty, express or implied, in fact or by law, with respect to:

- (a) its title to the Assets;
- (b) the quality, condition, merchantability, serviceability or suitability or fitness for any particular purpose of the Assets;
- (c) the quality, quantity or recoverability of the Petroleum Substances within, upon or under the Lands or any lands pooled or unitized therewith;
- (d) the value of the Assets or the future revenues or cash flows applicable thereto;
- (e) any engineering, geological, production or other information or interpretations thereof, or any economic evaluations respecting the Assets; or
- (f) the Environmental condition of any of the Lands or Assets or any Environmental Liability.

The Purchaser acknowledges that with the exception of the representations and warranties in Article 5 and the performance by the Vendor of its obligations under this Agreement, the Purchaser is relying solely on its own counsel (including all tax and legal counsel) and its own investigations and due diligence of the Corporation and the Assets, and that it has made, or has had others make, such evaluation and inspection of the Corporation and the Assets as it deems appropriate, including all information, data and files in the Data Room, regardless of what it chose to review, and is not relying on any representation or warranty or covenant not contained in this Agreement or on any statement by discussions with the Vendor. The Purchaser shall have no Claim or action against the Vendor in respect of the location, state, condition, suitability or fitness of the Assets, or any of them, for the Purchaser's intended use or purpose or their merchantability, other than in the case of a breach of or untruth of any representation or warranty made by the Vendor in Article 5.

## ARTICLE 6 PURCHASER'S REPRESENTATIONS AND WARRANTIES

### 6.1 Purchaser's Representations and Warranties

The Purchaser represents and warrants to the Vendor that:

- (a) **Organization and Standing:** it is a corporation duly organized and validly existing under the laws of Alberta and duly qualified under the laws of those jurisdictions in which it is required to be qualified in order to own the Shares;
- (b) **Requisite Authority:** it has all requisite power and authority to enter into this Agreement and all other documents to be executed and delivered hereunder and to perform its obligations under this Agreement and all other documents to be executed and delivered hereunder and has authorized and taken all corporate action necessary to authorize the execution, delivery and performance of this Agreement and all other documents to be executed and delivered hereunder and the consummation of the Transaction in accordance with this Agreement;
- (c) **No Conflict or Approvals:** the execution and delivery of this Agreement and all other documents to be executed and delivered hereunder do not and the consummation of the Transaction and the fulfillment of and compliance with the terms and provisions hereof do not and will not:
  - (i) result in the breach of or violate any term or provision of its articles of incorporation or by-laws;
  - (ii) conflict with, result in a breach of, constitute a default under, or prohibit the performance required by, any agreement, instrument, license, permit or authority to which it is a party or by which it is bound or to which any property of it is subject or result in the creation of any lien, charge or encumbrance upon the Assets under any such agreement, instrument, license, permit or authority;
  - (iii) violate any Applicable Law applicable to the Purchaser or the Assets; or
  - (iv) except for the Required Approvals and any Customary Post-Closing Consents, require the consent of any Government Authority;
- (d) **Execution and Enforceability:** this Agreement has been duly executed and delivered by it and all other documents to be executed or delivered by it pursuant hereto on the Closing Date or thereafter shall be duly executed and delivered by it and this Agreement does, and such

documents will, constitute legal and valid binding obligations of it enforceable against it in accordance with their respective terms;

- (e) **Residency:** it is a "Canadian" for the purposes of the *Investment Canada Act*, R.S.C. 1985, c. 28 (1st Suppl.);
- (f) **Finder's Fee:** it has not incurred any obligation or liability, contingent or otherwise, for brokerage fees, finder's fees, agent's commission or other similar forms of compensation with respect to the Transaction for which the Vendor shall have any obligation or liability whatsoever; and
- (g) **Acquiring as Principal:** it is acquiring the Shares as principal and not on behalf of any third party.

## 6.2 Survival of Representations and Warranties

Subject to Subclause 10.1(c), the representations and warranties of the Vendor in Article 5 and of the Purchaser in Clause 6.1 shall survive the Closing and not be merged in any conveyances or other documents provided pursuant to this Agreement, provided that no Claim may be made or enforceable by a Party pursuant to or based in any way upon any of these representations and warranties or any indemnity in respect thereof unless written notice of such Claim with reasonable particulars shall have been provided by such Party, to the Party against whom such Claim is made, within twelve (12) months from the Closing Date.

## 6.3 Purchaser's Covenants

Purchaser covenants, acknowledges and agrees that the Financial Statements, Lease Operating Statements and the Assets/Liabilities Tables (the "**Financial Information**") are being provided by Vendor in accordance with this Agreement and the use and distribution thereof by Purchaser or anyone acting through Purchaser is limited as set forth in the Financial Information.

# ARTICLE 7 CONDITIONS PRECEDENT TO CLOSING AND DELIVERIES

## 7.1 Mutual Conditions Precedent Regarding Required Consents and Approvals

It is a condition precedent to Closing for the mutual benefit of the Vendor and the Purchaser that, other than consents which are customarily obtained post-Closing, any and all Required Approvals to permit the Transaction to be completed shall have been obtained or that such approval or consent requirement shall have been waived in writing by the applicable Government Authority or otherwise lapsed. If the condition precedent in this Clause 7.1 shall not be satisfied at or before the Closing Date, either Party may terminate this Agreement by written notice to the other Party.

## 7.2 Conditions Precedent for Benefit of the Purchaser

The obligation of the Purchaser to purchase the Shares pursuant hereto is subject to the satisfaction, at or before the Closing Time, of the following conditions precedent for the exclusive benefit of the Purchaser and may be waived in whole or in part at the discretion of the Purchaser by written notice to the Vendor at or before Closing:



- (a) in all material respects, the Vendor shall have performed or complied with all of the covenants of this Agreement to be performed or complied with by the Vendor at or prior to the Closing Date;
- (b) the representations and warranties of the Vendor set forth in Article 5 shall be true and correct in all material respects as of the date hereof and at and as of the Closing Date;
- (c) no suit, action or other proceeding shall, at Closing, be pending against the Vendor or the Purchaser before any Court or Government Authority seeking to restrain, prohibit, obtain damages or other relief in connection with the consummation of the Transaction which would materially and adversely affect the value of the Shares, taken as a whole; and
- (d) the Vendor shall have obtained discharges or delivered a no interest letter with respect to all Encumbrances relating to the Corporation, the Shares and the Assets.

### **7.3 Conditions Precedent for Benefit of the Vendor**

The obligation of the Vendor to sell the Shares to the Purchaser pursuant hereto is subject to satisfaction, at or before the Closing Time, of the following conditions precedent for the exclusive benefit of the Vendor and may be waived in whole or in part by the Vendor by written notice to the Purchaser at or before Closing:

- (a) in all material respects, the Purchaser shall have performed or complied with all of the covenants of this Agreement to be performed or complied with by the Purchaser at or prior to the Closing Date;
- (b) the representations and warranties of the Purchaser set forth in Clause 6.1 shall be true and correct in all material respects as of the date hereof and at and as of the Closing Date;
- (c) at the Closing Time, the Purchaser shall have tendered or caused to be tendered to the Vendor the Base Price, as adjusted for the Purchase Price Adjustment Amounts Purchaser Price, in accordance with Clause 2.2; and
- (d) no suit, action or other proceeding shall, at Closing, be pending against the Vendor or the Purchaser before any Court or Government Authority seeking to restrain, prohibit, obtain damages or other relief in connection with the consummation of the Transaction which would materially and adversely affect the value of the Shares.

### **7.4 Efforts to Fulfill Conditions Precedent**

The Vendor and the Purchaser will each use, and cause their respective Related Parties to us, reasonable commercial efforts to cause the conditions precedent set forth in clauses 7.1, 7.2 and 7.3, to be fulfilled and satisfied as soon as practicable. The Parties shall cooperate after Closing in seeking any approvals and consents not required prior to Closing.

**ARTICLE 8  
CLOSING AND DELIVERIES**

**8.1 Deliveries of the Vendor**

- (a) At Closing, if the conditions precedent contained in clauses 7.1 and 7.3 are satisfied or waived by the Vendor, the Vendor shall deliver or cause to be delivered to and in favour of the Purchaser, against those deliveries required to be made by the Purchaser, the following:
- (i) the certificates representing the Shares duly endorsed for transfer;
  - (ii) a certificate of the Vendor in the form of Schedule "D";
  - (iii) a certificate of the Vendor confirming that the conditions precedent set forth in clauses 7.1 and 7.3 have been waived or to the Vendor's Knowledge satisfied;
  - (iv) receipt for payment of the Purchase Price;
  - (v) the Retained Interests Agreement;
  - (vi) the General Conveyance;
  - (vii) the Seismic Data Licences;
  - (viii) the Office Sublease;
  - (ix) the Existing Work Order Release and Indemnity Agreement;
  - (x) the Litigation Release and Indemnity Agreement;
  - (xi) the Gas Marketing Contract;
  - (xii) the Competition Act Approval;
  - (xiii) the fully executed Purchase and Sale Agreement;
  - (xiv) the Assets/Liabilities Tables;
  - (xv) all files, books and records respecting the Assets, or as soon as reasonably possible following Closing;
  - (xvi) a certified copy of a resolution of the board of directors of the Corporation approving the transfer of all the Shares from the Vendor to the Purchaser;
  - (xvii) the minute book, corporate seal (if any) and all other corporate records of the Corporation;
  - (xviii) resignations of all directors and officers of the Corporation and a release from such directors and officers pursuant to which they release all Claims against the Corporation;
  - (xix) copies of all discharges and no interest letters with respect to all Encumbrances relating to the Corporation and the Shares; and

(xx) any and all other documents which are required to be delivered and, if applicable, executed, by the Vendor to the Purchaser pursuant hereto.

(b) All deliveries of the Vendor shall, except as otherwise stated, be in a form acceptable to each of the Vendor and the Purchaser and their respective solicitors, acting reasonably.

## **8.2 Deliveries of the Purchaser**

(a) At Closing, if the conditions precedent set forth in clauses 7.1 and 7.2 are satisfied or waived by the Purchaser, the Purchaser shall deliver or cause to be delivered to and in favour of the Vendor, against those deliveries required to be made by the Vendor, the following:

(i) payment of the Base Price plus or minus, as the case may be, the Purchase Price Adjustment Amounts, as to the Vendor by the Purchaser;

(ii) a certificate of an officer of the Purchaser in the form of Schedule "E";

(iii) the Retained Interests Agreement;

(iv) the General Conveyance;

(v) the Seismic Data Licences;

(vi) the Office Sublease;

(vii) the Existing Work Order Release and Indemnity Agreement;

(viii) a certificate of an officer of the Purchaser confirming that the conditions precedent set forth in clauses 7.1 and 7.2 have been waived or to the Purchaser's knowledge satisfied;

(ix) the Litigation Release and Indemnity Agreement;

(x) the Gas Marketing Contract;

(xi) the Competition Act Approval;

(xii) articles of amendment, in a form for filing with the Alberta Corporate Registry, of the Corporation changing the name in accordance with Clause 14.4;

(xiii) releases signed by the new signing authorities of the Corporation as appointed by the Purchaser releasing the directors and officers of the Corporation from any Claims related to such directors and officers acting as a director or officer of the Corporation; and

(xiv) any and all other documents which are required to be delivered and, if applicable, executed, by the Purchaser to the Vendor pursuant hereto.

(b) All deliveries of the Purchaser shall, except as otherwise stated, be in a form acceptable to each of the Vendor and the Purchaser and their respective solicitors, acting reasonably.

**ARTICLE 9  
CONFIDENTIALITY**

**9.1 The Purchaser's Obligation to Maintain Information Confidential**

Prior to the Closing Date and thereafter if Closing does not occur, information respecting the Corporation, the Assets and the Vendor shall be retained in confidence by the Purchaser and its Related Parties pursuant to the terms of the Confidentiality Agreement and used only for the purposes of the Transaction. Upon Closing, the Purchaser's rights to use or disclose information respecting the Assets shall be subject only to the Title and Operating Documents that may apply thereto. Any information respecting the Vendor, its Related Parties or additional information obtained as a result of such access which does not relate to the Corporation or the Assets shall continue to be governed by the Confidentiality Agreement.

**ARTICLE 10  
TAX MATTERS**

**10.1 Tax Indemnities**

- (a) Subject to Subclause 10.1(c), after Closing the Vendor shall be liable to and indemnify the Corporation (which in this Clause 10.1 includes its successors and assigns) in respect of all Taxes payable by the Corporation in respect of taxation periods ending on or before the Closing Date or where a taxation period ends after the Closing Date, then such portion thereof up to the Closing Date ("**Prior Period Taxes**") for a period ending on the day that is 30 days after the expiration of the last of the limitation periods contained in the Tax Act and any other legislation imposing Tax on the Corporation subsequent to the expiration of which an assessment, reassessment or other form of recognized document assessing liability for Tax for the period cannot be issued to the Corporation.
- (b) The Purchaser shall give prompt written notice to the Vendor whenever it becomes aware that a Claim has been or may be made for which the Vendor may be liable pursuant to the indemnity provided for in Clause 11.1 (the "**Tax Indemnity**"). The Vendor shall have the right at its own expense and employing counsel of its own choice to have full carriage and control of the contestation of any such Claim, provided that if the Claim does not relate solely to matters to which the Tax Indemnity may apply, the Purchaser shall, at its own expense and employing counsel of its own choice, have full carriage and control of the contestation of the portion of the Claim relating to matters to which the Tax Indemnity does not relate; and further provided that neither the Purchaser nor the Corporation will agree to any compromise or settlement of any Claim to which the Tax Indemnity may apply without the consent of the Vendor, which will not be unreasonably withheld. If the Purchaser does not consent to a settlement (agreed to by the CRA) of a Claim to which the Tax Indemnity may apply following a request from the Vendor to do so, the obligation of the Vendor to indemnify the Purchaser for the Claim shall be limited to the amount that the Vendor would have been required to pay to the Corporation pursuant hereto in respect of the Claim if the settlement had been accepted and the Vendor shall forthwith transfer carriage of the contestation of the Claim to the Purchaser or its nominee. The Purchaser and the Vendor shall cooperate with each other in any defence of any such Claims and shall keep each other reasonably informed of the conduct thereof.
- (c) Except for matters disclosed to the Purchaser prior to the date hereof, the Tax Indemnity shall apply in respect of Taxes assessed within the period during which Taxes may be assessed under Applicable Law on the assumption that no waiver is filed pursuant to subparagraph 152(4)(a)(ii)

of the Tax Act or similar provisions of provincial income tax legislation unless such waiver is filed with the written consent of the Vendor, which consent may not be unreasonably withheld. No Claim shall be made against the Vendor in respect of the Tax Indemnity unless written notice of the Claim is given to the Vendor by the Purchaser within sixty (60) days following the end of such period.

- (d) The Purchaser agrees to pay to the Vendor any refund of Prior Period Taxes, together with any interest received with respect to such refund, received after the Closing Date by the Purchaser or the Corporation, promptly after receipt of payment of the refund, less any Taxes payable by the Corporation on any interest received with respect to such refund. Such refunds shall not be included in the Working Capital. Notwithstanding the foregoing, the Purchaser is not required to pay to the Vendor any refund of Prior Period Taxes which arises as a result of the carryback of losses of the Corporation which are attributable to any outlay or expenditure incurred by the Corporation subsequent to the Closing Date.
- (e) The Parties covenant that after Closing they will not request, and the Purchaser covenants that after Closing the Corporation will not request, an audit by any taxation authority which may result in an assessment to which the Tax Indemnity may apply.
- (f) The Parties undertake to inform each other of any audit inquiries with respect to issues to which the Tax Indemnity may apply and to cooperate with each other in making any representations prior to any assessment to which those indemnities may apply.

## **10.2 Tax Returns**

The Vendor shall cause the Corporation to prepare and file in a timely manner (at its cost and in consultation with the Vendor) all Tax Returns required to be filed by the Corporation for any period ending on or before the Closing Date. Neither Party will unreasonably withhold its consent to a request made by the other Party with respect to such Tax Returns.

## **ARTICLE 11 LIABILITIES AND INDEMNITIES**

### **11.1 The Vendor's Indemnities**

Subject to clauses 6.2, 11.4, Article 10 and Article 12 and except as the Purchaser otherwise agrees to indemnify the Vendor pursuant to this Agreement or otherwise, after the Closing, the Vendor shall indemnify, defend and save harmless the Purchaser and its Related Parties from and against any and all of Purchaser's Losses resulting from:

- (a) any breach of the representations or warranties made by the Vendor in Article 5 or breaches of covenants or agreements made by the Vendor in this Agreement;
- (b) all Claims, Losses or Liabilities that relate to:
  - (i) the Assets and that arise from or relate to acts, omissions, events or circumstances occurring before the Closing Date, other than Claims of Environmental Liabilities;
  - (ii) to the Litigation Claims as set forth in the Litigation Release and Indemnity Agreement; and

- (iii) to such Claims, Losses or Liabilities that related to the Existing Work Orders as set forth in the Existing Work Order Release and Indemnity Agreement;

including the effects of, and the costs of complying with any order or direction of any Government Authority having jurisdiction, provided that written notice of such Claim with reasonable particulars shall have been provided by the Purchaser to the Vendor within twelve (12) months from the Closing Date. In respect to the matters referenced in Subclause (b) and (c), the Vendor acknowledges that the Vendor and its Related Parties shall not be entitled to any rights or remedies under the common law or in equity or under any Applicable Law against the Purchaser or its Related Parties, including the right to name the Purchaser or any of its Related Parties as a third party to any action commenced by any Person against the Vendor, except insofar as the Vendor remains entitled to make a Claim against the Purchaser pursuant to Clause 9.2.

## **11.2 The Purchaser's Indemnities**

Subject to clauses 6.2, 11.4 and except as the Vendor otherwise agrees to indemnify the Purchaser pursuant to this Agreement, Existing Work Order Release and Indemnity Agreement and the Litigation Release and Indemnity Agreement or otherwise, after the Closing, the Purchaser shall indemnify, defend and save harmless the Vendor and its Related Parties, from and against any and all of the Vendor's Losses resulting from:

- (a) any breach of the representations or warranties made by the Purchaser in Clause 6.1 or breaches of covenants or agreements made by the Purchaser in this Agreement;
- (b) all Claims, Losses or Liabilities that relate to the Assets that arise from or relate to acts, omissions, events or circumstances occurring after the Closing Date;
- (c) all Environmental Liabilities, and excluding Claims as they relate to the Existing Work Orders, whether occurring before, on or after the Closing Date that arise from or relate to, acts, omissions, events or circumstances, occurring before, on or after the Closing Date;
- (d) all Claims, Losses or Liabilities, including as specifically set out in the Assets/Liabilities Tables;

including the effects of, and the costs of complying with any order or direction of any Government Authority having jurisdiction. In respect to the matters referenced in Subclause (b), (c) and (d), the Purchaser acknowledges that the Purchaser and its Related Parties shall not be entitled to any rights or remedies under the common law or in equity or under any Applicable Law against the Vendor or its Related Parties, including the right to name the Vendor or any of its Related Parties as a third party to any action commenced by any Person against the Purchaser, except insofar as the Purchaser remains entitled to make a Claim against the Vendor pursuant to Clause 11.1.

## **11.3 Indemnification Procedure — Third Party Claims**

Subject to Article 10, the following procedures shall be applicable to any Claim (a "**Third Party Claim**") received by a Party (the "**Indemnified Party**") for which it is entitled to indemnification, pursuant to this Agreement, from the other Party (the "**Indemnifying Party**") in respect of a Claim by a Person other than such Indemnified Party, itself, or its Related Parties:

- (a) upon the Third Party Claim being made against or commenced against the Indemnified Party, the Indemnified Party shall promptly provide written notice thereof to the Indemnifying Party. The

notice shall describe the Third Party Claim in reasonable detail and indicate the estimated amount, if practicable, of the indemnifiable Losses or Liabilities that have been or may be sustained by the Indemnified Party in respect thereof. If the Indemnified Party does not give prompt notice to the Indemnifying Party as aforesaid, then such failure shall only lessen or limit the Indemnified Party's rights to indemnity hereunder to the extent that the lack of prompt notice prejudices the defence of the Third Party Claim or increases the amount of liability or cost of defence;

- (b) if the Indemnifying Party acknowledges to the Indemnified Party in writing that the Indemnifying Party is responsible to indemnify the Indemnified Party in respect of the Third Party Claim pursuant hereto, the Indemnifying Party shall have the right to do either or both of the following:
  - (i) assume carriage of the defence of the Third Party Claim using legal counsel of its choice and at its sole cost; and/or
  - (ii) settle the Third Party Claim provided the Indemnifying Party pays the full monetary amount of the settlement and the settlement does not impose any unreasonable restrictions or obligations on the Indemnified Party;
- (c) upon the assumption of control of any Claim by the Indemnifying Party as set out in Clause (b), the Indemnifying Party shall diligently proceed with the defence, compromise or settlement of the Claim at its sole expense, including if necessary, employment of counsel and experts reasonably satisfactory to the Indemnified Party and, in connection therewith, the Indemnified Party shall cooperate fully, but at the expense of the Indemnifying Party with respect to any out-of-pocket expenses incurred, to make available to the Indemnifying Party all pertinent information and witnesses under the Indemnified Party's control, make such assignments and take such other steps as in the opinion of counsel for the Indemnifying Party are reasonably necessary to enable the Indemnifying Party to conduct such defence. The Indemnified Party shall also have the right to participate in the negotiation, settlement or defence of any Claim at its own expense;
- (d) the Indemnified Party shall not enter into any settlement, consent order or other compromise with respect to the Third Party Claim without the prior written consent of the Indemnifying Party (which consent shall not be unreasonably withheld, delayed or conditioned) unless the Indemnified Party waives its rights to indemnification in respect of the Third Party Claim;
- (e) upon payment of the Third Party Claim, the Indemnifying Party shall be subrogated to all claims the Indemnified Party may have relating thereto. The Indemnified Party shall give such further assurances and cooperate with the Indemnifying Party to permit the Indemnifying Party to pursue such subrogated claims as reasonably requested by it; and
- (f) if the Indemnifying Party has paid an amount pursuant to the indemnification obligations herein and the Indemnified Party shall subsequently be reimbursed from any source in respect of the Third Party Claim, the Indemnified Party shall promptly pay the amount of the reimbursement (including interest actually received) to the Indemnifying Party, net of taxes required to be paid by the Indemnified Party as a result of any such receipt and plus any taxes saved or recovered by the Indemnified Party as a result of such payment.

#### 11.4 Limitations on Liability

- (a) Notwithstanding anything herein to the contrary:
- (i) the indemnities provided in clauses 11.1 and 11.2 (excepting 11.2(d)) shall not apply to Losses or Liabilities to the extent
    - (A) reimbursed by insurance to, or caused by the negligence, wilful default or misconduct of, the Party claiming indemnity; or
    - (B) any amounts are paid or any actions are taken or not taken pursuant to or under any liability and indemnity provisions in any other agreement between the Parties or any of their Affiliates with respect to the same or a similar Loss or Liability;
  - (ii) the Vendor shall have no obligation to indemnify the Purchaser in respect of any Environmental Liabilities pursuant to Clause 11.1 except to the extent resulting from a breach of the representation and warranty in Clause 5.3(n) and then subject to the provisions of Clause 6.2 and the other provisions of this Clause 11.4;
  - (iii) subject to Subclause 11.4(c) the sole remedy after Closing for a Party's breach of a warranty or covenant or incorrectness of a representation shall be the indemnities provided in Article 11;
  - (iv) if an indemnified party's Losses or Liabilities at any time subsequent to the making of an indemnity payment are reduced by any net tax benefit or recovery, the amount of such reduction shall promptly be repaid by the indemnified party to the indemnifying party; and
  - (v) the Parties acknowledge and agree that, subject to Subclause 10.1(c), an obligation under this Agreement to provide written notice of a Claim within twelve (12) months from the Closing Date and in a manner specified under this Agreement is intended by the Parties as a limitation of liability that represents a fair and equitable allocation of the risks and liabilities that each Party has agreed to assume in connection with the subject matter hereof and is not an agreement within the provision of subsection 7(2) of the *Limitations Act* (Alberta), provided that the written notice of Claim in respect of those matters set forth in Clause 11.2(d) shall not be limited by this Subclause 11.4(a)(v).
- (b) After Closing, the Vendor's total liability for breaches of any representations, warranties, covenants and indemnities granted hereunder or in any document delivered pursuant hereto, shall not exceed seven million and five hundred thousand dollars (\$7,500,000.00), and each claim of a breach must exceed one hundred thousand dollars (\$100,000), and the aggregate of all such claims must exceed five hundred thousand dollars (\$500,000) before a claim can be made. The limitation of liability under this Subclause 11.4(b) shall not apply to obligations under the Litigation Release and Indemnity Agreement and the Existing Work Order Release and Indemnity Agreement.
- (c) The Parties acknowledge and agree that Vendor shall have available to it all legal and equitable remedies for damages, costs, expenses and other obligations arising, incurred or accrued in respect of the Gas Marketing Contract, which it suffers or may suffer as a result of Purchaser failing to consummate the transaction contemplated hereby, and any action in respect thereof shall not be otherwise limited by the provisions of this Article 11.



**ARTICLE 12  
EMPLOYEES**

**12.1 Employees**

- (a) Within two Business Days of the date hereof, the Vendor shall, in accordance with Applicable Laws, disclose to the Purchaser the existing terms and conditions of employment for not less than 39 office employees (the "**Office Employees**") and not less than 38 field operators and foremen (the "**Field Employees**") who will be made available by Vendor to manage the Assets, including specifics of the compensation and Benefit Plans to which such employees are entitled and the tenure of such employees and their employment record details (collectively, the "**Employment Details**"). The details of the Corporation's existing arrangements with contract field operators will also be disclosed to the Purchaser. Within two Business Days of the date hereof, the Vendor shall also, in accordance with Applicable Laws, disclose to the Purchaser the existing terms and conditions of all field and office contractors whose work relates to the Assets.
- (b) In consideration for the Field Employees and the Office Employees being made available to continue to run the Assets following Closing during the Offer Period, Purchaser has paid, pursuant to Schedule "I", the amount resulting from the following calculation: (the average salary and benefits of the Office Employees and Field Employees multiplied by 50) divided by 12, which the Parties agree is \$437,500.
- (c) At least two (2) Business Days prior to Closing, the Purchaser will provide the Vendor with a list of Office Employees, Field Employees and contract field operators the Purchaser intends to interview and the Purchaser and the Vendor will work collaboratively to schedule interviews by the Purchaser of the Office Employees, Field Employees and contract field operators.
- (d) Except as otherwise provided herein, the Vendor shall not terminate any of the Office Employees or Field Employees, without cause and in the event of any such termination for cause the Vendor shall promptly give notice of such termination to the Purchaser.
- (e) No later than thirty (30) days after Closing (the "**Offer Period**"), the Purchaser will make no less than 40 offers of employment with the Corporation to certain Office Employees and Field Employees (collectively, the "**Offered Employees**") on terms commensurate with competitive current market standard salary and benefits as agreed upon by Purchaser and Vendor and on the following terms and conditions:
- (i) the Purchaser shall employ each Offered Employee at the same or similar work location, and with similar duties and responsibilities and reporting structure as each Offered Employee enjoyed with the Vendor as at the date of the execution of this Agreement by the Parties;
  - (ii) the Purchaser shall compensate each Offered Employee with base salary, wages, compensation (including overtime eligibility, shift pay and/or allowances), incentive compensation (including, short-term and long-term incentive compensation) and its own Benefit Plans' entitlements (collectively referred to as "**Purchaser's Compensation**") that are, in the aggregate, equivalent to competitive current market standards for base salary, wages, compensation (including overtime eligibility, shift pay and/or allowances) and incentive compensation (including short-term and long-term incentive compensation) and Benefit Plans' entitlements, in the aggregate;

- (iii) such written offers of employment shall state that the Purchaser shall recognize the service years (as currently recognized by Vendor) of the Offered Employees with the Vendor for the purpose of any future termination of employment by Purchaser following Closing, other than termination for cause;
- (iv) such written offers of employment shall remain open for acceptance by the Offered Employee for no longer than 2 Business Days after delivery to the Offered Employee;
- (v) in respect of each Benefit Plan made available by the Purchaser to the Offered Employees, for the purposes of determining each Offered Employee's eligibility to participate; vesting status; and, with respect to such Benefit Plan that is a vacation or severance plan, the Offered Employee's benefit entitlement thereunder, the following shall apply:
  - (A) prior service (as currently recognized by Vendor) with the Vendor and/or its Affiliates, as applicable, to the extent the Vendor and/or its Affiliates, as applicable, or their Benefit Plan provide credit for past service ("**Service Years**"), shall be treated as service with the Purchaser to the extent reasonably possible under the Benefit Plan;
  - (B) such Service Years shall also apply for purposes of satisfying and extinguishing any waiting periods, evidence of insurability requirements or the application of any pre-existing condition, to the extent reasonably possible under the Benefit Plan; and
  - (C) to the extent reasonably possible, each Benefit Plan of Purchaser shall waive any pre-existing condition limitations to the same extent waived under the applicable Benefit Plan of the Vendor and/or its Affiliates.
- (f) The Purchaser agrees to provide the Vendor with the proposed form of written offers of employment to be made to the Offered Employees at least two (2) Business Days prior to the Purchaser providing such written offers of employment to the Offered Employees, and the Purchaser agrees to act reasonably in considering any comments relating to evaluating the compensation therein offered by Vendor with regard to competitive current market standards in respect of same.
- (g) The Vendor shall not discourage the Offered Employees from accepting the Purchaser's offers of employment to the Offered Employees.
- (h) Each Offered Employee that accepts the Purchaser's offer of employment is hereinafter referred to as an "**Accepting Employee**" while any Offered Employee that rejects the Purchaser's offer of employment or fails to respond to the same before the expiration of such offer is hereinafter referred to as a "**Rejecting Employee**".
- (i) On or after the date of delivery of the Purchaser's offers of employment to the Offered Employees, the Vendor may give notice to any Offered Employee of the future employment status of each such Offered Employee, including the effective time for such status, and the Vendor shall immediately thereafter notify the Purchaser of such notice(s).

- (j) The Purchaser shall notify the Vendor forthwith when any offers made pursuant to Subclause 12.1(e) are made, accepted or rejected. The Vendor will cooperate with Purchaser to effect an orderly transition of Accepting Employees.
- (k) The Vendor shall bear and discharge, and shall indemnify and hold harmless the Purchaser, and its respective Related Parties from and against, all obligations, Claims, Losses and Liabilities accruing or arising prior to the Accepting Employee Effective Date in respect of the Offered Employees for wages, vacation pay, overtime pay and other employee benefits (including under the Vendor's Benefit Plans), as well as any other employment related obligations in respect of the Offered Employees accruing or arising prior to the Accepting Employee Effective Date.
- (l) Notwithstanding the foregoing, the Vendor and its Affiliates shall have no liability or obligation to indemnify the Purchaser or any of its Related Parties from and against any obligations, Claims or Losses and Liabilities related to or arising from Severance Obligations related to or arising from the termination of any Accepting Employee by the Purchaser from and after the Accepting Employee Effective Date.
- (m) The Purchaser shall bear and discharge, and the Purchaser shall indemnify and save harmless the Vendor and its Related Parties from and against all obligations, Claims, Losses and Liabilities:
  - (i) accruing or arising from and after the Accepting Employee Effective Date in respect of the Accepting Employees for wages, vacation pay, overtime pay and other employee benefits (including under Purchaser's Benefit Plans), as well as any other employment related obligations in respect of the Accepting Employees accruing or arising from and after Closing; and
  - (ii) related to or arising from Severance Obligations that are claimed by or owing to any Accepting Employee as a result of the termination of the employment of any Accepting Employee by the Purchaser upon or after the Accepting Employee Effective Date.
- (n) With respect to the Purchaser's offers of employment that are not accepted by the Rejecting Employees, Purchaser will have the option but not the obligation to put forward additional offers of employment to additional Office Employees and Field Employees and present alternative offers of employment to the Rejecting Employees up until two (2) days prior to the end of the Offer Period. Copies of all of such additional offers of employment shall also be provided to the Vendor.
- (o) For the avoidance of doubt, the Vendor shall be liable for all Severance Obligations relating to the Rejecting Employees.

## 12.2 Transition Staff

- (a) At least 2 Business Days prior to the end of the Offer Period, Purchaser will provide Vendor with a complete list of the Office Employees and Field Employees, including the names and positions of each person on the list, that have not accepted employment offers made by the Purchaser, to be specifically designated and agreed to between the Purchaser and the Vendor (the "**Transition Staff**") that Purchaser is going to require to manage the transition of the Corporation to the Purchaser.
- (b) The Transition Staff will be available to Purchaser for the period between the end of the Offer Period and such date determined by the Purchaser for each individual Transition Staff, the terms

of which will be specified with a start and end date, and which end date shall be no later than six (6) months after Closing, or any extended period for an individual Transition Staff if such Transition Staff goes on short-term disability or other leave during the initial Transition Period (the "**Transition Period**").

- (c) Purchaser will reimburse the Vendor on a semi-monthly and full indemnity basis for all costs and expenses associated with the Vendor's continued employment of those Transition Staff from the end of the Offer Period until the end of the applicable Transition Period, including but not limited to all associated salary, compensation and Benefit Plans costs incurred by the Vendor during the Transition Period and all associated costs and expenses incurred by the Vendor during the Two Week Working Notice period defined below.
- (d) If between the end of the Offer Period and the end of the Transition Period the Purchaser determines that it will require the services of a particular Transition Staff as a permanent employee of the Corporation, an offer of employment will be made to such Transition Staff in accordance with Clause 12.1, *mutatis mutandis*, including the indemnities therein, and upon acceptance, Vendor shall have no further obligations to Purchaser or such individual Transition Staff.
- (e) Upon the Purchaser determining that it no longer requires the services of any particular Transition Staff, in the case of each such individual Transition Staff, Purchaser will provide two weeks advance written notice to the Vendor of such fact (the "**Two Week Working Notice**") and Vendor will accept this Two Week Working Notice as notice of termination of the transition services provided by that individual Transition Staff. Vendor shall have no responsibility to provide any transition services to the Purchaser through any such individual Transition Staff following the expiration of the Two Week Working Notice period in each case.
- (f) Once the two week notice period provided for in the Two Week Working Notice has expired, and except as otherwise stipulated in this Agreement, the Vendor will retain all future continuing responsibility for such Transition Staff including any and all costs associated with the termination of the employment of such Transition Staff.
- (g) Any notice of termination of employment given by the Vendor to any Transition Staff other than for just cause shall include a provision that if, during either the Transition Period or the severance period offered by the Vendor in its notice of termination to such Transition Staff, permanent employment is offered to any such Transition Staff by the Purchaser, which offer must be in compliance with Clause 12.2(d), he or she must immediately notify the Vendor of such offer of employment and its terms and, upon that individual's acceptance of such employment offer there shall be no further or any remaining Severance Obligations owed to such individual by the Vendor, either at common law, under statute, in equity, or otherwise, and all agreements respecting the provision of any further pay, severance, or pay in lieu of notice of termination of employment to such individual by the Vendor shall be automatically voided and nullified. Further, if acceptance of such employment offer is made by such Transition Staff during the Transition Period he or she will be automatically deemed to have resigned from his or her employment with the Vendor effective as of the date of acceptance of such offer.
- (h) Other than during the Transition Period and the Two Week Working Notice period, as described herein, and unless the Purchaser makes an offer of employment to any Transition Staff during the Transition Period and such offer is accepted by such Transition Staff during the Transition Period, the Vendor will retain all future continuing responsibility for all Severance Obligations related to the Transition Staff.

- (i) The Purchaser agrees that if it hires, or it cause the Corporation to hire any employees or former employees of Perpetual within 24 months following Closing Purchaser shall forthwith notify Vendor of the name of such employee or former employee, solely for the purposes of Vendor's management of its severance obligations.

### **ARTICLE 13 TERMINATION**

#### **13.1 Termination**

- (a) Any termination of this agreement shall be subject to the provisions of this Article 13 and each Party will bear all costs incurred by it prior to such termination.
- (b) If this agreement is terminated or breached by a Party prior to or at the Closing Time other than due to a reason beyond the control of both Parties, (the "**Defaulting Party**"), the other Party (the "**Other Party**") shall be entitled to rescind this agreement and the Defaulting Party shall pay to the Other Party as follows:

- (i) If Purchaser is the breaching party, Purchaser shall pay to Vendor the aggregate of:

- (A) the Work Fee; and

- (B) the difference, if positive, of subtracting the Unwind Price from the Entry Price,

and such amounts shall be for the Vendor's own account absolutely as liquidated damages and not as a penalty as a result of Closing not occurring, which payment, when made shall constitute Vendor's sole remedy in such instance, with no right to claim further damages or other remedies from Purchaser and upon payment thereof and receipt by the Vendor, Purchaser shall be released and discharged from all obligations hereunder, except as provided in clauses 7.4 and 19.9.

- (ii) If Vendor is the breaching Party, Vendor shall pay to Purchaser the aggregate of:

- (A) the Work Fee; and

- (B) the difference, if positive, of subtracting the Entry Price from the Unwind Price,

and such amounts shall be for the Purchaser's own account absolutely as liquidated damages and not as a penalty as a result of Closing not occurring, which payment, when made shall constitute Purchaser's sole remedy in such instance, with no right to claim further damages or other remedies from Vendor and upon payment thereof and receipt by the Purchaser, Vendor shall be released and discharged from all obligations hereunder, except as provided in clauses 7.4 and 19.9.

### **ARTICLE 14 INFORMATION, MATERIALS AND CONTINUING REPORTS**

#### **14.1 Delivery of the Vendor's Records**

Within five (5) Business Days of the Closing, the Vendor shall deliver to the Purchaser originals of the Title and Operating Documents and all other files, reports and data pertaining to the

Assets comprised in the Miscellaneous Interests, unless and to the extent that the Purchaser agrees to allow the Vendor to deliver all or any of such records, files, reports and data at a later date.

#### **14.2 Vendor's Access to Information Post-Closing**

After the Closing Date and for period ending the date that is four (4) years from the Closing Date, the Vendor may, upon reasonable notice to the Purchaser and subject to contractual restrictions relative to disclosure, have access during normal business hours to the Title and Operating Documents and the other files, reports and data pertaining to the Assets comprised in the Miscellaneous Interests and to obtain and copy such information in respect of matters arising or relating to any period of time through the Closing if copies of such records or if the information derived from such access would be helpful or beneficial to the Vendor or its Affiliates:

- (a) in connection with audits;
- (b) in connection with the preparation of tax returns;
- (c) in connection with the Vendor's dealings with Government Authorities;
- (d) in connection with any activities of the Vendor prior to the Closing Date;
- (e) to comply with any Applicable Law; or
- (f) in connection with any action, suit or proceeding commenced or threatened by the Vendor, the Purchaser or any third party against the Vendor or its Related Parties or for which the Vendor or any of its Related Parties may have any liability.

#### **14.3 Record Retention Period**

- (a) The Purchaser agrees that all of the information and materials of the Vendor which relate to or were created with respect to the Corporation or the Assets arising or relating to the period through the Closing, shall be retained, maintained in good order and good condition and kept in a reasonably accessible location by the Purchaser and its Affiliates, for a period of time beginning on the Closing Date and ending on the expiration of all applicable limitations periods for all tax periods beginning before the Closing, as such limitations periods are provided for under applicable statutes or pronouncements of all relevant taxing authorities.
- (b) The Purchaser may destroy or give up possession of any such information or materials if it first offers the Vendor the opportunity (by delivery of at least sixty (60) days' prior written notice to the Vendor, which notice shall contain a detailed listing of the information and materials proposed to be destroyed, at the Vendor's expense (which includes compensation to the Purchaser of its reasonable expenses), to obtain delivery of or a copy of so much of such information or materials as the Vendor, in the Vendor's sole discretion, desires.

#### **14.4 Name Change**

- (a) Immediately following Closing, Purchaser shall cause and file articles of amendment of the Corporation to change the name of the Corporation to remove all references to "Perpetual". As soon as the name of the Corporation has been changed in the Alberta Corporate Registry, Purchaser shall, or shall cause the Corporation to prepare and circulate a Notice to Industry of the change of name no later than seven (7) Business Days following the Closing Date.

- (b) Subject to Subclause 14.4(c), as soon as reasonably practicable following Closing (but in any event no later than ten (10) Business Days following the Closing Date), Purchaser shall take all actions necessary to remove all references to "Perpetual" in conducting the conduct of business, including, without limitation, to the use of any company name, website, stationery, invoices, packaging and identifying signs bearing the name "Perpetual" or logos, colours or trademarks of the Vendor or its Affiliates.
- (c) Purchaser will replace all signage relating to the Assets outside of Calgary, Alberta in accordance with the requirements of Government Authorities, including without limitation, the name and contract telephone number, but in any event no later than sixty (60) days after Closing.

#### **14.5 Securities Disclosure**

At any time in the three (3) years following Closing, should Purchaser require an audited operating statement with respect to the Assets pursuant to the Regulations including any securities act disclosure requirements, for a period during which the Assets were owned by Vendor, Vendor shall provide access during normal business hours to the records of Vendor relevant to preparation of such an operating statement during such period. The audit shall be performed by Vendor's auditor, or if such auditor is unable or unwilling to perform such audit, by a firm of independent auditors selected by Vendor, and Purchaser shall be responsible for all costs incurred in connection with the audit and the preparation of any statements or reports. Vendor shall not be required to provide direct access to Vendor's records to Purchaser or any employees, consultants or other representatives of Purchaser. If the auditor requires the assistance of Vendor's personnel to find, collect or interpret the necessary information from Vendor's records, Vendor shall cause such assistance to be provided and Purchaser shall pay reasonable hourly costs to Vendor as compensation for the time devoted by such personnel. The Vendor consents to the use of the information solely for the purpose contemplated herein, provided that Vendor hereby disclaims (and Purchaser agrees that the Vendor shall not have) any liability to Purchaser or any other Third Party for the accuracy and completeness of any information provided pursuant hereto.

### **ARTICLE 15 WAIVER**

#### **15.1 Waiver Must be in Writing**

No waiver by any Party of any breach of any of the terms, conditions, representations or warranties in this Agreement shall take effect or be binding upon that Party unless the waiver is expressed in writing under the authority of that Party and any waiver so given shall extend only to the particular breach so waived and shall not limit or affect any rights with respect to any other or future breach.

### **ARTICLE 16 ASSIGNMENT**

#### **16.1 Assignment**

Neither Party may assign its interest in or under this Agreement without the prior written consent of the other Party.

**ARTICLE 17  
NOTICE**

**17.1 Service of Notice**

All notices required or permitted hereunder or with respect to this Agreement shall be in writing and shall be deemed to have been properly given and delivered when delivered personally or transmitted by confirmed facsimile addressed to the Parties, respectively, as follows:

(a) In the case of the Purchaser:

c/o McCarthy Tétrault LLP  
4000, 421 – 7th Avenue S.W.  
Calgary, Alberta T2P 4K9

Attention: Jim Pasieka  
Fax No.: (403) 260-3501  
Email: [jpasieka@mccarthy.ca](mailto:jpasieka@mccarthy.ca)

(b) In the case of the Vendor:

3200, 605 – 5<sup>th</sup> Avenue S.W.  
Calgary, Alberta T2P 3H5

Attention: Vice President, Land, Acquisitions and Divestitures  
Fax No.: (403) 269-4444  
Email: [gary.jackson@perpetualenergyinc.com](mailto:gary.jackson@perpetualenergyinc.com)

With a copy to:

Burnet, Duckworth & Palmer LLP  
2400, 525 – 8th Avenue S.W.  
Calgary, AB T2P 1G1

Attention: Carolyn A. Wright  
Facsimile: (403) 260-0332  
Email: [caw@bdplaw.com](mailto:caw@bdplaw.com)

Any notice or communication sent by personal service or facsimile shall be deemed received when delivery is made or reception of the transmission is complete except that, if such delivery or transmission is sent on a day which is not a Business Day or after 4:00 p.m. then the same shall be deemed received on the next Business Day.

**17.2 Right to Change Address**

A Party may change its address for service by notice to the other Party, and such changed address for service thereafter shall be effective for all purposes of this Agreement.



**ARTICLE 18  
PUBLIC ANNOUNCEMENTS**

**18.1 Public Announcements**

Purchaser shall not make any public announcement or press release concerning the Transaction. Vendor is required to, and shall make a public announcement or press release concerning the Transaction but shall not identify the name of the Purchaser or any director, officer or shareholder thereof; provided that nothing contained herein shall prevent a Party at any time from furnishing any information to any Government Authority or to the public if required by Applicable Law or the rules of the applicable stock exchange. Vendor shall, to the extent reasonably possible, provide Purchaser with a draft of any public announcement or press release in sufficient time prior to its release to enable Purchaser to review such draft and advise Vendor of any comments it have with respect thereto, it being understood that, upon signing this Agreement, the Purchaser will be permitted to immediately issue a press release announcing the Transaction provided such press release has been reviewed by the Vendor and the contents of such press release are required to be disclosed by Applicable Law or the rules of the applicable stock exchange.

**ARTICLE 19  
MISCELLANEOUS PROVISIONS**

**19.1 Further Assurances**

From time to time, as and when reasonably requested by the other Party, a Party shall execute and deliver or cause to be executed and delivered all such documents and instruments and shall take or cause to be taken all such further or other actions to implement or give effect to the Transaction, provided such documents, instruments or actions are consistent with the provisions of this Agreement. All such further documents, instruments or actions shall be delivered or taken at no additional consideration other than reimbursement of any expenses reasonably incurred by the Party providing such further documents or instruments or performing such further acts, by the Party at whose request such documents or instruments were delivered or acts performed other than overhead and general administrative costs.

**19.2 Applicable Law and Attornment**

This Agreement shall be construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein and shall be treated in all respects as an Alberta contract. The Parties irrevocably submit to the jurisdiction of the courts of the Province of Alberta and the courts of appeal therefrom. The Parties each hereby attorn to and accept the exclusive jurisdiction of such courts.

**19.3 Time**

Time shall be of the essence in this Agreement.

**19.4 Continuing Agreement**

After Closing, the covenants and agreements contained in this Agreement shall continue in effect until performed and discharged except to the extent the continued effectiveness or enforceability of any such agreement or covenant is limited in duration as expressly provided herein.

**19.5 Entire Agreement**

Subject to Clause 19.9, this Agreement, the Office Sublease, the Existing Work Order Release and Indemnity Agreement, the Litigation Release and Indemnity Agreement, the Purchase and Sale Agreement and the Gas Marketing Contract constitute the entire agreement between the Parties with respect to the subject matter hereof and cancels and supersedes any prior understandings and agreements between the Parties hereto with respect to the subject matter hereof. No modification of or amendment to this Agreement shall be valid or binding unless set forth in writing and duly executed by all Parties.

**19.6 Enurement**

This Agreement shall be binding upon and enure to the benefit of the Parties hereto and their respective heirs, attorneys, guardians, estate trustees, executors, trustees, successors and permitted assigns. No Person other than the Parties and their successors and permitted assigns shall be entitled to any rights or benefits hereunder.

**19.7 Severability**

If any provision of this Agreement is held to be invalid, illegal or unenforceable, the invalidity, illegality or unenforceability will not affect any other provision of this Agreement and this Agreement will be construed as if the invalid, illegal or unenforceable provision had never been contained herein unless the deletion of the provision would result in such material change to cause the completion of the Transaction to be unreasonable.

**19.8 Counterparts**

This Agreement may be executed in counterpart and all executed counterparts together shall constitute one agreement. Signature pages from separate counterparts may be faxed and may be combined to form a single counterpart. This Agreement shall not be binding upon any Party unless and until executed by all Parties.

**19.9 Confidentiality**

The Confidentiality Agreement shall not merge with the terms hereof. Notwithstanding any provision herein or any law to the contrary, the Confidentiality Agreement shall survive the execution of this Agreement and the Closing of the Transaction.

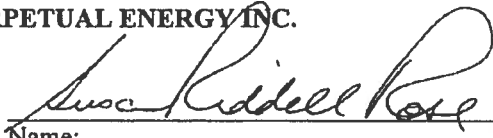
*[Balance of page intentionally left blank.]*

IN WITNESS WHEREOF the Parties have duly executed this Agreement on the date first above written.

PERPETUAL ENERGY INC.

1986114 ALBERTA INC.

Per:



Per:

\_\_\_\_\_  
Name:

Name:

Title: **Susan L. Riddell Rose**  
**President & CEO**

Title:


*This is the execution page to the Share Sale Agreement dated September 20, 2016 between Perpetual Energy Inc. as Vendor and 1986114 Alberta Inc. as Purchaser*

IN WITNESS WHEREOF the Parties have duly executed this Agreement on the date first above written.

**PERPETUAL ENERGY INC.**

**1986114 ALBERTA INC.**

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

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

*This is the execution page to the Share Sale Agreement dated September 26, 2016 between Perpetual Energy Inc. as Vendor and 1986114 Alberta Inc. as Purchaser*

# **EXHIBIT “F”**

**RETAINED INTERESTS AGREEMENT**

**Between**

PERPETUAL OPERATING TRUST

and

PERPETUAL ENERGY OPERATING CORP.

This is Exhibit " F " referred to in the  
Affidavit of

*Pearl J. Daskin*  
Sworn before me this *2nd* day  
of *August* A.D. 20 *18*

.....  
A Notary Public & Commissioner for Oaths  
In and for the Province of Alberta

**October 1, 2016**

**LUKE RASMUSSEN**  
Barrister & Solicitor

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## RETAINED INTERESTS AGREEMENT

THIS AGREEMENT made as of October 1, 2016,

AMONG:

**PERPETUAL OPERATING TRUST**, an unincorporated trust formed under the laws of the Province of Alberta, by its trustee Perpetual Operating Corp. ("**POT**")

- and -

**PERPETUAL ENERGY OPERATING CORP.**, a corporation incorporated pursuant to the laws of the Province of Alberta ("**PEOC**")

**WHEREAS** Perpetual Energy Inc. and 1986114 Alberta Inc. entered into that Share Purchase and Sale Agreement dated September 26, 2016 (the "**Sale Agreement**") for the purchase and sale of all of the issued and outstanding shares of PEOC;

**AND WHEREAS** the Parties have agreed that the Retained Interests shall be held in the name of PEOC while the beneficial ownership is held 100% by POT, a wholly-owned subsidiary of Perpetual Energy Inc.;

**AND WHEREAS** POT's trustee is Perpetual Operating Corp. ("**POC**") and conducts all activities hereunder by and on behalf of POT as trustee and not in its personal capacity;

**AND WHEREAS** POT and PEOC wish to provide for the orderly ownership, operation and specific conveyancing of the Assets, subject to and in accordance with the terms and conditions hereof;

**NOW THEREFORE THIS AGREEMENT WITNESSETH THAT** in consideration of the premises and the mutual covenants and agreements hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties have agreed as follows:

### ARTICLE 1 INTERPRETATION

#### 1.1 Definitions

In this Agreement, defined terms shall have the meaning ascribed to them in the Sale Agreement except:

- (a) "**Adverse Regulatory Change**" means a regulatory change affecting the calculation of LMR or the requirements relating to the transfer of leases, licenses or permits such that a transfer of the Retained Interests from PEOC to POT which would have been permitted pursuant to the regulatory framework as it exists as of the date hereof is no longer permitted, provided however that a change that relates only to the change in the industry netback number shall not be considered an Adverse Regulatory Change.
- (b) "**Closing Date**" means the closing date of the Sale Agreement.



- (c) "**Contract Operations**" means all operations to be conducted and actions to be taken for the purposes of maintaining the Retained Interests and Retained Licenses in accordance with the provisions of this Agreement.
- (d) "**Credit Value**" has the meaning ascribed to that term in the Sale Agreement.
- (e) "**Extension Notice**" has the meaning ascribed to that term in Section 6.1(a).
- (f) "**Losses**" means all actions, causes of action, losses, costs, claims, damages, penalties, fines, assessments, charges, expenses or other liabilities whatsoever, whether contractual or tortious, which are suffered, sustained or incurred by a Party, including without limitation reasonable legal fees on a solicitor and client basis;
- (g) "**LMR**" means the licensee management rating as calculated monthly by the Alberta Energy Regulator with respect to each licensee in the Province of Alberta.
- (h) "**Party**" means a Person who is bound by this Agreement.
- (i) "**PEOC Transfer Event**" has the meaning ascribed to that term in Section 5.1(a).
- (j) "**Person**" means any individual, body corporate, partnership (limited or general), trust, trustee, executor or similar official, government authority or other entity.
- (k) "**Received Notices**" has the meaning ascribed to that term in Section 3.3(a).
- (l) "**Required Regulatory Operations**" means all operations to be conducted hereunder by POC with respect to the Retained Interests or Retained Licenses, for the purpose of complying with any written notice issued by any regulatory authority having jurisdiction requiring that such operations be performed in order to comply with a Regulation, or that otherwise specifies that a specific result is required to be achieved pursuant to applicable Regulations and operations are required to be performed to achieve such result.
- (m) "**Retained Interests**" means:
  - (i) an undivided 1% legal interest in and to the Petroleum and Natural Gas Rights, to the extent relating to the Lands upon which the wells set forth and described in Schedule "H2" of the Sale Agreement are situate; and
  - (ii) the right to be the licensee of record for the Retained Licenses.
- (n) "**Retained Interests Period**" means the period commencing on the date hereof and ending on the date the transfer of the Retained Interests from PEOC to POT, or to such Person as POT directs, is completed.
- (o) "**Retained Interest Period Extension**" means each three (3) calendar month period during which PEOC continues to hold the Retained Interests following a Retained Interest Transfer Requirement in accordance with Section 6.1(a).
- (p) "**Retained Interests Transfer Requirement**" has the meaning ascribed to that term in Section 5.1(c).

- (q) **"Retained Licenses"** means the well licenses relating to the wells set forth and described in Schedule "H2" of the Sale Agreement.
- (r) **"Retention Fee"** has the meaning ascribed to that term in Section 6.1.
- (s) **"Surface Rights"** has the meaning ascribed to that term in Section 2.2.
- (t) **"Third Party"** means any Person other than the Parties and their affiliates.

## 1.2 Interpretation

For the purposes of this Agreement:

- (a) all references herein to currency are to Canadian currency;
- (b) "Article", "Section" and other references to subdivisions are, unless otherwise specified, to the designated articles, sections and other subdivisions of this Agreement;
- (c) headings of the articles and sections hereof are inserted for convenience of reference only and shall not affect the construction or interpretation of this Agreement;
- (d) any reference to a government authority includes any government authority succeeding to its functions;
- (e) any reference to a statute shall be deemed to include a reference to such statute and to the regulations made pursuant thereto, with all amendments made thereto and in force from time to time, and to any statute or regulation that may be passed which has the effect of supplementing or superseding the statute so referred to or the regulations made pursuant thereto;
- (f) any reference to the singular includes the plural and vice versa and any reference to gender includes the masculine, feminine and neuter genders; and upon any substitution in accordance with the foregoing the incidental grammatical and terminological changes shall be construed also to have been made;
- (g) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not, unless otherwise specified, to any particular article, section or other subdivision. "Including" means "including without limitation"; and
- (h) where the character or amount of any asset or liability or item of income or expense is required to be determined, or any consolidation or other accounting computation is required to be made, the same shall be done in accordance with generally accepted accounting principles except where the application of such principles is inconsistent with, or limited by, the terms of this Agreement.

## ARTICLE 2 TRUST

### 2.1 Trust

PEOC hereby agrees to hold the Retained Interests in trust for POT as bare trustee for the benefit of POT during the Retained Interest Period, and PEOC acknowledges that POT owns 100% of the beneficial interest in the Retained Interests.

## 2.2 Surface Access

- (a) POT hereby grants to PEOC a non-exclusive right of access to the surface rights required to access the Retained Interests (the "**Surface Rights**") solely for the purpose of PEOC holding the Retained Interests during the Retained Interest Period, subject to the terms of this Agreement. PEOC shall not, and no person acting by virtue of legal authority granted by, through or under PEOC shall, undertake any activity on or around the Surface Rights without the prior written consent of POT, provided that if there is an emergency and PEOC has made best but unsuccessful efforts to contact POT, PEOC shall be permitted temporary access to the Surface Rights solely for the purpose of performing emergency operations to stabilize the emergency and for no other purpose.
- (b) In the event PEOC is required by applicable laws to enter upon the Surface Rights, such access shall only be following the prior written notification of POT, and, where POT fails to respond within the time frame set out in the notice, in accordance with Section 2.2(a).
- (c) PEOC shall maintain an emergency response plan in accordance with the instructions of POT, including without limitation, appropriate signage and contact information onsite and a protocol for concurrent notification to POT of any and all emergencies or incidents requiring notification in accordance with applicable laws.

## 2.3 Covenants of PEOC

During the Retained Interest Period, PEOC hereby agrees that:

- (a) it shall not mortgage, sell, transfer, assign or otherwise encumber the Retained Interests, or do any act in relation to the Retained Interests without the prior written directions of POT and shall keep such interests free and clear of any liens, encumbrances, adverse claims or demands created by, through or under PEOC;
- (b) it shall hold as bare trustee for the benefit of POT, all income, revenues and other benefits from the Retained Interests accruing after the date hereof which are received by it and shall remit the same to POT as soon as reasonably possible after receipt thereof, or otherwise as directed by POT;
- (c) it shall forward to POT or to such person as POT may direct from time to time, all notices, invoices, statements, data and information relating to the Retained Interests received by PEOC as soon as reasonably possible after receipt thereof by PEOC; and
- (d) it shall do any act requested by POT, from time to time, which is incidental to the legal ownership of the Retained Interests, which PEOC is reasonably able to do, including, without limitation, the following:
  - (i) holding the Retained Interests on POT's behalf and representing POT in relation to the Retained Interests vis-à-vis Third Parties;
  - (ii) subject to the provisions of Article 5, transferring title to the Retained Interests to POT or to such Person as POT directs;
  - (iii) making elections, exercising rights and giving notices pursuant to contracts in relation to the Retained Interests; and

- (iv) mortgaging or otherwise encumbering the Retained Interests, provided that PEOC will not be required to do anything contrary to law.

### ARTICLE 3 CONTRACT OPERATIONS

#### 3.1 Appointment of POT as Contract Operator

- (a) To the extent of its interest in the Retained Interests, PEOC hereby appoints POT, by its trustee POC, as the on-site contract operator of the wells associated with the Retained Interests for the period commencing as of the Effective Date and ending upon the expiry of the Retained Interests Period for the purpose of conducting the Contract Operations, including any Required Regulatory Operations, and POT hereby accepts such appointment. Notwithstanding such appointment, PEOC shall remain the licensee of record for the wells associated with the Retained Interests during the Retained Interests Period.
- (b) PEOC will cause its Company Master System Administrator for the Alberta Energy Regulator's Digital Data Submission (DDS) system to assign POT a delegate role, and such delegate shall be the sole administrator of the Retained Interests within the DDS system and PEOC agrees that it shall not, and shall cause its employees and contractors to not conduct any administrative activities with respect to the Retained Assets on the DDS system without POT's prior written consent, which may be withheld in POT's sole discretion.
- (c) PEOC acknowledges and agrees that POT will act through its trustee POC, where required and convenient, in fulfilling its obligations and receiving the benefits under this Agreement.

#### 3.2 Responsibilities of POT

In conducting the Contract Operations POT shall:

- (a) conduct all operations in a safe and competent manner, in accordance with standard oilfield practices and in material compliance with the Regulations and accepted industry practices;
- (b) supervise and control the work and services of its employees and sub-contractors and ensure that its personnel are trained and competent to perform their duties hereunder; and
- (c) hold or cause to be held and kept in force with a reputable insurance company, until the expiry of the Retained Interests Period, insurance as POT deems necessary, acting reasonably, in order to protect PEOC, to the extent of the indemnities contained herein, and POT from Third Party claims arising out of or connected with the performance by POT of its obligations under this Article 2 and shall name PEOC as an additional insured.

#### 3.3 Obligations of PEOC

- (a) PEOC shall, for the Retained Interest Period, forward to POT copies of all authorities for expenditure, notices, mail ballots, specific information and other correspondence and documents PEOC receives from Third Parties, including Regulatory authorities, respecting the wells associated with the Retained Interests (the "**Received Notices**") within two (2) Business Day of their receipt. POT shall respond to PEOC within four (4) Business Days of receiving any Received Notices forwarded to POT from PEOC, and on such earlier timeline as may be

appropriate in the case of an emergency where it is reasonable to assume that such expenditures or actions are necessary for the protection of life, property or the environment.

- (b) If, at any time during the Retained Interest Period, PEOC receives notice of any Required Regulatory Operations applicable to any of the wells associated with the Retained Interests, PEOC shall immediately notify POT in writing of same and POT shall forthwith comply with such notice if required.
- (c) To the extent that a title and operating document related to the wells associated with the Retained Interests contemplates or requires a response from PEOC, PEOC will at POT's cost provide such response pursuant to the written instruction of POT.

### **3.4 Costs of Contract Operations and Required Regulatory Operations**

- (a) All costs pertaining to the conduct of Contract Operations and Required Regulatory Operations shall be for the account of POT.
- (b) In consideration for POT acting as Contract Operator pursuant to this Agreement, PEOC shall not be entitled to any revenues, nor shall PEOC be responsible for any costs or expenses arising, incurred or accrued, in respect of the Retained Interests unless otherwise provided for in this Agreement.

### **3.5 Consequences of a Failure to Perform**

POT agrees and acknowledges that any failure by POC to carry out the Contract Operations or the Required Regulatory Operations in accordance with the terms and conditions of this Agreement may result in harm to PEOC, which harm can be adequately compensated by monetary damages, if any. Accordingly, POT agrees that PEOC shall not be entitled to interim or permanent injunctive relief, specific performance or other equitable remedies in respect of any such failure.

## **ARTICLE 4 RESTRICTIONS ON ACQUISITIONS AND DISPOSITIONS**

### **4.1 Restrictions on Dispositions**

- (a) Without POT's prior written consent, which may be withheld in POT's sole discretion, acting reasonably, for the Retained Interests Period, PEOC shall not be entitled to sell or otherwise dispose of any of the Assets, if the result of such sale would cause PEOC's LMR to fall below 1.0 or such other requirement as the Alberta Energy Regulator may determine as the minimum LMR for the transfer of assets without the requirement to post a security deposit.
- (b) Without POT's prior written consent, which may be withheld in its sole discretion, PEOC shall not be entitled to dispose of the Retained Interests or the Retained Licenses by any means whatsoever. If POT gives its prior written consent, any purchaser or acquiror of such interest must first agree in writing to be bound by the terms and conditions of this Agreement with respect to the Retained Interests and until such agreement in writing is obtained, POT shall be entitled to look to PEOC for all obligations, covenants and indemnitees hereunder. PEOC agrees and acknowledges that any failure by PEOC to comply with the terms of this Section 4.1(b) will result in irreparable harm to POT, which harm could not be adequately compensated by monetary damages. Accordingly, PEOC agrees that POT shall be entitled to interim or permanent

injunctive relief, specific performance or other equitable remedies in addition to any other relief to which POC may be entitled under the Regulations or otherwise at law.

#### 4.2 Restrictions on Acquisitions

During any Retained Interests Period Extension, without POT's prior written consent, which may be withheld in its sole discretion, PEOC shall not be entitled to acquire additional assets, directly or indirectly, if such acquisition would cause PEOC's LMR to fall below 1.1.

### ARTICLE 5 RETAINED INTERESTS

#### 5.1 Retained Interests Transfer Requirement

- (a) Subject to Section 5.1(b), PEOC may, in its sole discretion and at any time after the Closing Date, transfer the Retained Interests to POT and POT shall promptly accept the transfer and conveyance of the Retained Interests, subject to any Adverse Regulatory Changes which affect the licence eligibility requirements such that the transfer of the Retained Interests is not permitted without the requirement of POT to post security ("**PEOC Transfer Event**").
- (b) If a PEOC Transfer Event occurs and the Credit Value is greater than \$0, then PEOC shall either:
  - (i) transfer the Retained Interests to POT and pay to POT any and all amounts remaining to be paid pursuant to section 3.4 of the Sale Agreement; or
  - (ii) retain the Retained Interests in PEOC, in which case
    - (A) if the PEOC Transfer Event takes place before a Retention Fee is payable, then if the obligation to pay a Retention Fee arises, such obligation shall be delayed for an amount of time equal to the amount of time that PEOC retains the Retained Interests required to reduce the Credit Value to \$0; or
    - (B) if the PEOC Transfer Event takes place while a Retention Fee is currently payable, the obligation to pay a Retention Fee shall be suspended for the duration of time required to reduce the Credit Value to \$0.
- (c) PEOC shall hold the Retained Interests pursuant to this Agreement and, subject to Section 5.1(d) POT shall be entitled to demand the transfer of the Retained Interests upon the earlier of the following occurrences (the "**Retained Interest Transfer Requirement**"):
  - (i) October 31, 2018;
  - (ii) if PEOC is determined by the Alberta Energy Regulator to be persistently non-compliant in accordance with Directive 019 of the Alberta Energy Regulator;
  - (iii) if PEOC disposes of or acquires assets as described in Article 4 and POT has not provided its written consent;
  - (iv) if PEOC is in material breach of Article 3 of this Agreement or in breach of Article 4 of this Agreement;

- (v) such time that neither Wentao Yang nor Harold Wang is a director or senior executive officer of PEOC or 1986114 Alberta Inc. (a "**Change of Control**");
  - (vi) upon a sale of PEOC to an arm's length Third Party, unless there is no Change of Control; and
  - (vii) if after one (1) year from the Closing Date, the LMR of PEOC, as calculated by the Alberta Energy Regulator, determined as if PEOC did not hold the Retained Interests, would be 1.1 or higher, as at each of the six (6) months prior to such calculation.
- (d) Notwithstanding Section 5.1(c), a Retained Interest Transfer Requirement shall not have occurred in the event of an Adverse Regulatory Change such that a transfer of the Retained Interests is not permitted without the requirement of POT to post security and POT determines, in its sole discretion, to not post such required security.
  - (e) Either at PEOC's election pursuant to Section 5.1(a), but subject to Section 5.1(b), or upon the occurrence of a Retained Interests Transfer Requirement pursuant to Section 5.1(c), PEOC shall forthwith transfer and convey the Retained Interests to POT.

## 5.2 PEOC LMR

During the Retained Interest Period, and within two (2) Business Days of the Alberta Energy Regulator's publication of the monthly LMR run, PEOC shall provide POT with PEOC's LMR, calculated both with the Retained Licenses and as if PEOC no longer holds the Retained Licenses, together with the backup detail for such calculations.

## ARTICLE 6 RETAINED INTEREST PERIOD EXTENSION

### 6.1 Extension to Retained Interests Period

- (a) If PEOC intends to give notice of a Retained Interest Period Extension following the date set forth in Section 5.1(c)(i) and to pay a Retention Fee in respect of same, PEOC shall provide, not less than one (1) Business Day following the Alberta Energy Regulator's publication of the monthly LMR run for the month prior to the required Retained Interest Period Extension, written notice to POT of such intention.
- (b) If PEOC fails to initiate the transfer of the Retained Interests within three (3) Business Days following the occurrence of a Retained Interest Transfer Requirement, PEOC shall pay POT the applicable fee(s) set forth in Section 6.1(c).
- (c) In the event a fee is due to POT pursuant to Section 6.1(b) (each payment, a "**Retention Fee**"), PEOC shall deliver to POT in the following amounts, which fees are payable, by certified cheque, on the first Business Day of each Retained Interest Period Extension or such time the Retention Fee becomes payable:
  - (i) for the first four (4) Retained Interest Period Extensions:
    - (A) if there has been an Adverse Regulatory Change, a Retention Fee in the amount of \$100,000 for each Retained Interest Period Extension; or

- (B) absent an Adverse Regulatory Change, a Retention Fee in the amount of \$250,000 for each Retained Interest Period Extension;
- (ii) for the second four (4) Retained Interest Period Extensions,
  - (A) if there has been an Adverse Regulatory Change, a Retention Fee in the amount of \$200,000 for each Retained Interest Period Extension;
  - (B) absent an Adverse Regulatory Change, a Retention Fee in the amount of \$500,000 for each Retained Interest Period Extension; and
- (iii) for any subsequent Retained Interest Period Extension,
  - (A) if there has been an Adverse Regulatory Change, a Retention Fee in the amount of \$500,000 for each Retained Interest Period Extension;
  - (B) absent an Adverse Regulatory Change, a Retention Fee in the amount of \$1,000,000 for each Retained Interest Period Extension.

## ARTICLE 7 LIABILITY AND INDEMNITY OBLIGATIONS

### 7.1 PEOC Obligations

- (a) PEOC shall be liable to POT for, and shall, in addition, indemnify POT from and against, all Losses which arise out of or are attributable to:
  - (i) a breach of any obligation, covenant or provision of this Agreement by PEOC; or
  - (ii) any and all acts or omissions of PEOC with regards to the Surface Rights, where such acts or omissions pertain to the performance of any work or activities conducted pursuant to Section 2.2(a), excluding emergency operations and any work or activities undertaken by PEOC at the request of POT or POC,

provided however that PEOC shall not be liable to nor be required to indemnify POT in respect of any Losses suffered, sustained, paid or incurred by POT resulting directly from the gross negligence or willful misconduct of POT.

- (b) PEOC agrees and acknowledges that any failure by PEOC to transfer and convey the Retained Interests to POT as and when required hereunder will result in irreparable harm to POT, which harm could not be adequately compensated by monetary damages. Accordingly, PEOC agrees that POT shall be entitled to interim or permanent injunctive relief, specific performance or other equitable remedies in addition to any other relief to which POT may be entitled under Applicable Law.

### 7.2 POT Obligations

POT shall be liable to PEOC for, and shall, in addition, indemnify PEOC from and against, all Losses which arise out of or are attributable to:

- (a) any breach of any obligation, covenant or provision of this Agreement by POT;



- (b) any and all acts or omissions of PEOC with regards to the Surface Rights, where such acts or omissions pertain to the performance of emergency operations pursuant to Section 2.2;
- (c) any and all acts of PEOC undertaken in strict accordance with Section 2.3(d);
- (d) Contract Operations or Required Regulatory Operations undertaken by POT or POC; or
- (e) any other matter arising out of or in connection with PEOC acting in its capacity as bare trustee in accordance with this Agreement,

provided however that POT and POC shall not be liable to nor be required to indemnify PEOC in respect of any Losses suffered, sustained, paid or incurred by PEOC resulting directly from the gross negligence of PEOC.

## **ARTICLE 8 MISCELLANEOUS**

### **8.1 Term and Termination**

This Agreement shall commence as of the date hereof and shall continue in accordance with its terms until the expiry of the Retained Interest Period.

### **8.2 Notices**

Any notice required or permitted to be given hereunder shall be made in writing and addressed to the applicable Party as follows:

- (a) In the case of PEOC:

c/o McCarthy Tétrault LLP  
4000, 421 – 7th Avenue S.W.  
Calgary, Alberta T2P 4K9

Attention: Jim Pasioka  
Fax No.: (403) 260-3501  
Email: [jpasioka@mccarthy.ca](mailto:jpasioka@mccarthy.ca)

- (b) In the case of POT:

3200, 605 – 5<sup>th</sup> Avenue S.W.  
Calgary, Alberta T2P 3H5

Attention: Vice President, Land and Divestitures  
Fax No.: (403) 269-4444  
Email: [Gary.Jackson@perpetualenergyinc.com](mailto:Gary.Jackson@perpetualenergyinc.com)

### **8.3 Waiver**

- (a) No waiver of any of the provisions of this Agreement will be deemed to constitute a waiver of any other provision (whether or not similar), nor will such waiver be binding unless executed in writing by the Party to be bound by the waiver.

- (b) No failure on the part of a Party to exercise, and no delay in exercising any right under this Agreement will operate as a waiver of such right; nor will any single or partial exercise of any such right preclude any other or further exercise of such right or the exercise of any other right.

#### **8.4 Severability**

If any provision of this Agreement is determined by an arbitrator or any court of competent jurisdiction to be illegal, invalid or unenforceable, that provision will be severed from this Agreement and the remaining provisions will continue in full force and effect.

#### **8.5 Further Assurances**

The Parties will perform and cause to be performed any further and other acts and things and execute and deliver or cause to be executed and delivered any further and other documents as counsel to either of them considers necessary or desirable to carry out the terms and intent of this Agreement.

#### **8.6 Date and Time for Action**

Time shall be of the essence of this Agreement. If any action is required or allowed to be taken under this Agreement on or by a date that is not a Business Day that action may be taken on the next Business Day.

#### **8.7 Amendments**

This Agreement shall not be amended or varied otherwise than by an instrument in writing dated subsequent to the date hereof, executed by duly authorized representatives of the Parties.

#### **8.8 Assignment**

- (a) This Agreement shall not be assigned by either Party without the other Party's prior written consent, which shall not be unreasonably withheld. It shall be a condition of any permitted assignment that the proposed assignee covenants directly with the other Party to observe and perform all obligations of the assigning Party under this Agreement.
- (b) In the event POC agrees to sell, assign or transfer any of its interests in and to the Lands pertaining to the Retained Interests to a Third Party, in conjunction with any such sale, assignment or transfer, POC shall be required to assign its interests under this Agreement to such Third Party, and any such assignment shall be subject to the terms and conditions of Section 8.8(a).
- (c) This Agreement shall enure to the benefit of and be binding upon the Parties and their respective successors and permitted assigns.

#### **8.9 Entire Agreement**

This Agreement, together with the Sale Agreement and the documents referred to herein and therein set forth the entire agreement among the Parties pertaining to the subject-matter hereof and supersede and replace all prior agreements, understandings, negotiations and discussions of the Parties, whether oral or written, and there are no warranties, representations, undertakings or other agreements between the Parties, in connection with the subject-matter hereof and thereof except as specifically set forth herein and therein.

**8.10 Governing Law**

This Agreement will be governed by and interpreted and enforced in accordance with the laws of the Province of Alberta and the federal laws of Canada applicable therein.

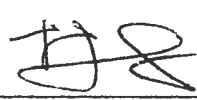
**8.11 Counterpart Execution**

This Agreement may be executed by facsimile or other electronic means and counterpart execution, with each such counterpart taken to be an original and all counterparts taken together constituting due execution by the Parties of this Agreement.

**IN WITNESS WHEREOF** the Parties have executed and delivered this Agreement as of the date first above written.

**PERPETUAL OPERATING TRUST, by its trustee, PERPETUAL OPERATING CORP.**      **PERPETUAL ENERGY OPERATING CORP.**

Per:   
Name: Susan Riddell Rose  
Title: President & Chief Executive Officer

Per:   
Name:  
Title:

This is the execution page to the Retained Interests Agreement between Perpetual Operating Trust and Perpetual Energy Operating Corp. dated October 1, 2016.

# **EXHIBIT “G”**

LLR Northern Southern and Totals			
Area	Deemed Assets	Deemed Liabilities	LLR
North	129,594,208	109,456,424	1.18
South	56,889,882	92,995,830	0.61
Total	186,484,090	202,452,254	0.92

The totals of this LLR have included the wells and the facilities. The difference is the Deemed Liabilities minus the Deemed Assets.

This is Exhibit "6" referred to in the  
 Affidavit of  
*Paul J. Darby*  
 Sworn before me this *22* day  
 of *August* A.D. 20 *18*  
 A Notary Public A Commissioner for Oaths  
 in and for the Province of Alberta

**LUKE RASMUSSEN**  
 Barrister & Solicitor

# **EXHIBIT “H”**

LUKE RASMUSSEN  
Barrister & Solicitor

This is Exhibit "H" referred to in the

Affidavit of

*Paul J. Dasky*

Sworn before me this *2nd* day

of *August* AD. 20*16*

RESIGNATION & MUTUAL RELEASE

A Notary Public & Commissioner for Oaths  
In and for the Province of Alberta

WHEREAS at the request of Perpetual Energy Inc. ("PEI"), Susan Riddell Rose acted as a director and officer of Perpetual Energy Operating Corp. ("PEOC");

WHEREAS pursuant to a Share Purchase and Sale Agreement dated September 26, 2016 between PEI, as vendor, and 1986114 Alberta Inc. ("1986114"), as purchaser (the "Share Purchase Agreement"), PEI agreed to sell all of the shares of PEOC to 1986114;

AND WHEREAS in accordance with the Share Purchase Agreement and at the request of PEI, Susan Riddell Rose will resign as a director and officer of PEOC, effective as of the 1<sup>st</sup> day of October, 2016;

NOW THEREFORE in consideration of the mutual covenants and releases contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged:

**RESIGNATION**

1. I, Susan Riddell Rose, hereby resign as a director from the Board of PEOC, and in my capacity as officer, being the President and Chief Executive Officer of PEOC, effective as of the date hereof.

**INDIVIDUAL RELEASE**

2. I, Susan Riddell Rose, do for myself and my heirs, executors, administrators and assigns (hereinafter collectively referred to as "I"), forever release, remise and discharge PEI and PEOC, and each of their respective officers, directors, employees, agents, insurers and assigns, from any and all Claims (as defined in the Share Purchase Agreement), which I now have, or can hereafter have against PEI or PEOC by reason of, existing out of or in connection with my having acted, at the request of PEI, as a director and officer of PEOC.

Notwithstanding anything contained herein, this Mutual Release shall not extend to or affect, or constitute a release of, my right to sue, claim against or recover from PEI and shall not constitute an agreement to refrain from bringing, taking or maintaining any action against PEI in respect of any corporate indemnity existing by statute, contract, or pursuant to the provisions of the articles, bylaws, or similar constating documents of PEI provided in my favour in respect of my having acted, at the request of PEI, as a director and officer of PEOC.

I acknowledge that I have no claim against PEI and PEOC pursuant to the provisions of the *Alberta Human Rights Act* or pursuant to any other human rights legislation in respect of my having acted, at the request of PEI, as a director and officer of PEOC, and that any and all such claims are released and settled pursuant to this Mutual Release.

**CORPORATE RELEASE**

3. PEI and PEOC do hereby remise, release and forever discharge Susan Riddell Rose from all Claims (as defined in the Purchase and Sale Agreement), which PEI and PEOC now have or can have or can hereafter have against Susan Riddell Rose by reason of, existing out of or in connection with Susan Riddell Rose having acted, at the request of PEI, as a director and officer of PEOC, but which shall exclude any Claim based on the fraud, criminal conduct, or deceitful conduct of Susan Riddell Rose.

**UNDERSTANDING & GENERAL**

4. The parties acknowledge and declare that they have been provided with sufficient time and opportunity to consider all factors related to the execution of this Mutual Release and acknowledge a full awareness of its consequences and its voluntary execution. The parties acknowledge having received independent legal advice regarding the execution of this Mutual Release, or have voluntarily chosen not to receive such advice.




5. The parties agree this Mutual Release shall be governed and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein.


6. This Mutual Release shall be binding upon and enure to the benefit of the parties and their respective heirs, executors, administrators, successors and assigns.

7. The parties agree that this Mutual Release may be executed in as many counterparts as is necessary and, when a counterpart has been executed by each party, all counterparts together constitute one agreement. Delivery of counterparts may be effected by facsimile transmission or electronically transmitted portable document format.

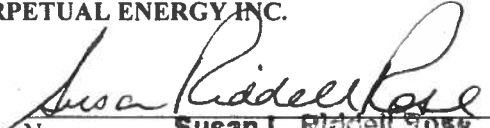
*[Signature page follows]*

DATED this 1<sup>st</sup> day of October, 2016.

  
Witness  
Cathryn A. Wright

  
Susan Riddell Rose

PERPETUAL ENERGY INC.

Per:   
Name: Susan L. Riddell Rose  
Title: President & CEO

PERPETUAL ENERGY OPERATING CORP.

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

DATED this 1<sup>st</sup> day of October, 2016.

Witness

Susan Riddell Rose

**PERPETUAL ENERGY INC.**

Per: \_\_\_\_\_

Name:

Title:

**PERPETUAL ENERGY OPERATING CORP.**

Per: \_\_\_\_\_

Name:

Title:



# **EXHIBIT “I”**

Internally prepared statements of financial position and statements of income,  
excluding notes to the financial statements, of

**PERPETUAL ENERGY OPERATING CORP**

as at and for the year ending December 31, 2015 (unaudited) and as at  
and for the six months ending June 30, 2016 (unaudited)

***Restricted Distribution, Use and Reliance***

*These internal, unaudited financial statements are provided to 1986114 Alberta Inc. for their sole use under the Share Purchase and Sale Agreement dated September 8, 2016 and should not be used or relied upon for any other purpose. Further, these internal, unaudited financial statements may not be distributed or utilized for any other purpose.*

This is Exhibit " I " referred to in the  
Affidavit of

*Paul J. Rasmussen*  
Sworn before me this *2nd* day  
of *August* A.D. 20 *16*

.....  
A Notary Public, Commissioner for Oaths  
In and for the Province of Alberta

**LUKE RASMUSSEN**  
Barrister & Solicitor

# PERPETUAL ENERGY OPERATING CORP

## Statements of Financial Position

(Amounts are in thousands of Canadian dollars, unaudited)

	As at June 30, 2016 (unaudited)	As at December 31, 2015 (unaudited)
<b>ASSETS</b>		
Cash and deposits	\$ 100	\$ 100
<b>TOTAL ASSETS</b>	<b>\$ 100</b>	<b>\$ 100</b>
<b>SHAREHOLDER'S EQUITY</b>		
Common Shares	\$ 100	\$ 100
<b>TOTAL LIABILITIES AND SHAREHOLER'S EQUITY</b>	<b>\$ 100</b>	<b>\$ 100</b>

### Restricted Distribution, Use and Reliance

These internal, unaudited financial statements are provided to 1986114 Alberta Inc. for their sole use under the Share Purchase and Sale Agreement dated September 9, 2016 and should not be used or relied upon for any other purpose. Further, these internal, unaudited financial statements may not be distributed or utilized for any other purpose.

### Basis of Presentation:

These internal, unaudited financial statements reflect the financial position and results of operations of the legal corporate entity Perpetual Energy Operating Corp ("PEOC") on its own account. PEOC is the appointed trustee of Perpetual Operating Trust ("POT"); these internal, unaudited financial statements do not include the financial position or results of operations of POT.

## PERPETUAL ENERGY OPERATING CORP

Statements of Income and Comprehensive Income

For the six months ended June 30, 2016 and the year ended December 31, 2015 (unaudited)

(Amounts are in thousands of Canadian dollars)

	Six months ended June 30, 2016 (unaudited)	Year ended December 31, 2015 (unaudited)
Revenue	\$ -	\$ -
Expenses	-	-
<b>Net Income and Comprehensive Income</b>	<b>\$ -</b>	<b>\$ -</b>

### Restricted Distribution, Use and Reliance

These internal, unaudited financial statements are provided to 1986114 Alberta Inc. for their sole use under the Share Purchase and Sale Agreement dated September 9, 2016 and should not be used or relied upon for any other purpose. Further, these internal, unaudited financial statements may not be distributed or utilized for any other purpose.

### Basis of Presentation:

These internal, unaudited financial statements reflect the financial position and results of operations of the legal corporate entity Perpetual Energy Operating Corp ("PEOC") on its own account. PEOC is the appointed trustee of Perpetual Operating Trust ("POT"); these internal, unaudited financial statements do not include the financial position or results of operations of POT.

# **EXHIBIT “J”**



Internal Operating Statements of the

**PERPETUAL ENERGY OPERATING CORP  
ASSETS**

For the year ended December 31, 2015 (unaudited) and the six months  
ended June 30, 2016 (unaudited)

***Restricted Distribution, Use and Reliance***

*These internal, unaudited operating statements are provided to 1986114 Alberta Inc. for their sole use under the Share Purchase and Sale Agreement dated September 1, 2016 and should not be used or relied upon for any other purpose. Further, these internal, unaudited operating statements may not be distributed or utilized for any other purpose.*

This is Exhibit " J " referred to in the  
Affidavit of

*Paul J. Darling*  
Sworn before me this *2nd* day  
of *August* A.D. 20 *16*

.....  
A Notary Public, Commissioner for Oaths  
In and for the Province of Alberta

**LUKE RASMUSSEN**  
Barrister & Solicitor

## PERPETUAL ENERGY OPERATING CORP ASSETS

Internal Operating Statement

For the year ended December 31, 2015 (unaudited) and the six months ended June 30, 2016

(unaudited)

(Amounts are in thousands of Canadian dollars)

	Six months ended June 30, 2016 (unaudited)	Year ended December 31, 2015 (unaudited)
Revenue		
Petroleum, natural gas and natural gas liquids	\$ 12,412	\$ 44,770
Royalties	(140)	(1,718)
	12,272	43,052
Expenses		
Operating	15,144	37,129
Transportation	2,440	5,047
	17,584	42,176
Operating income (loss)	(5,312)	876
Corporate items		
Land and lease costs	696	1,994
Overhead recoveries	(1,268)	(2,727)
	(572)	(733)
Operating income (loss) including corporate items	\$ (4,740)	\$ 1,609

See accompanying notes to the operating statement.

# PERPETUAL ENERGY OPERATING CORP ASSETS

Notes to the Internal Operating Statements

For the year ended December 31, 2015 and the six months ended June 30, 2016 (unaudited)

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## 1. Basis of presentation:

The internal, unaudited operating statements of the Perpetual Energy Operating Corp Assets (the "PEOC Assets"), relate to certain shallow gas properties in the eastern area of Alberta containing revenue, royalties, operating expenses, transportation expenses and operating income. The PEOC Assets are being acquired by PEOC pursuant to the Purchase and Sale Agreement dated October 1, 2016. Land and lease costs and overhead recoveries which are not included in these internal, unaudited operating statements have been added as corporate costs.

These internal, unaudited operating statements have been derived from lease operating statements which were generated from Perpetual Energy Inc's internal accounting system by extracting sales volumes, revenues, royalties, operating and transportation expenses, land and lease costs and overhead recoveries directly associated with the PEOC Assets on a production month basis for the year ended December 31, 2015 as well as for the six months ended June 30, 2016.

These internal, unaudited operating statements do not include any expenses related to general and administrative costs, interest, income and capital taxes or any provisions related to depletion, depreciation, impairment or future site restoration and abandonment costs as these amounts are based on the consolidated operations of Perpetual Energy Inc., of which the PEOC Assets form only a part. Costs related to thirteen month adjustments have been recognized in the period in which they were received.

To Vendor's knowledge, these internal, unaudited operating statements are free from material misstatement, whether due to fraud or error.

## 2. Significant accounting policies:

### (a) Revenue recognition:

Petroleum, natural gas and natural gas liquids revenue is recognized when the significant risks and rewards of ownership of the product are transferred to the buyer which is usually when legal title passes to the external party. Petroleum, natural gas and natural gas liquids revenue is based on a combination of daily and monthly prices. Revenue does not include any amounts from financial derivative contracts.

### (b) Royalties:

Royalties are recorded at the time the product is produced and sold. Royalties are calculated in accordance with the applicable regulations and/or the terms of the individual royalty agreements.

### (c) Operating expenses:

Operating expenses include all costs related to the producing, gathering and processing of petroleum, natural gas and natural gas liquids.

### (d) Transportation expenses:

Transportation costs include all costs related to transporting saleable petroleum, natural gas and natural gas liquids to market.

(e) Corporate items:

Corporate items include all costs related to mineral lease rentals and associated costs and credits associated with corporate overhead recoveries allowable under joint operating agreements.

(f) Joint operations:

The operating statement reflects only the PEOC Assets proportionate share of the petroleum, natural gas and natural gas liquids revenue, royalties, operating and transportation expenses, land and lease costs and overhead recoveries of those PEOC Assets that are jointly controlled.

# **EXHIBIT “K”**

## Sequoia Resources Corp.- in Bankruptcy

Reconciliation of well licenses from AER approvals listing at March 23, 2018 to purchase and sale agreements

Transaction	Licenses	
Perpetual	2,502	76%
Husky	383	12%
Endurance	231	7%
Waldron	171	5%
Sequoia Operating Corp.	9	0%
<b>Total</b>	<b>3,296</b>	<b>100% a</b>

### Notes

- a** The Trustee has reconciled the total number of unique well licenses that were listed by the AER as being licensed to SRC, plus the total well licenses that were recorded by SRC as being rec certified, to the respective Purchase and Sale Agreements for each

This is Exhibit " K " referred to in the  
Affidavit of  
*Paul J. Dasko*  
Sworn before me this *2nd* day  
of *August* A.D. 20 *16*  
A Notary Public, A Commissioner for Oaths  
In and for the Province of Alberta

**LUKE RASMUSSEN**  
Barrister & Solicitor

## Sequoia Resources Corp.- in Bankruptcy

### PEOC Transaction

Well license status per AER at the date of Bankruptcy- PEOC Transaction

<b>Status</b>	<b>Count: Unique Licenses</b>
Abandoned	899
Flowing	328
Suspended	794
Rec Certified	157
Other	324
<b>Total</b>	<b>2,502 <i>a</i></b>

### Notes

- a* The Trustee has segregated each unique well license from the PEOC Transaction, which was previously reconciled to the PEOC purchase and sale agreement, by the AER's "Status" as of March 23, 2018.

## Sequoia Resources Corp.- in Bankruptcy

### Summary of Asset Retirement Obligations ("ARO") per XI Model for SRC

#### Overall Regional Summary, Working Interest Basis, Undiscounted

	Abandonment Cost (\$)	Reclamation Cost (\$)	Total
<b>Alberta</b>	160,184,148	154,423,781	314,607,929
Wells	146,633,138	132,629,622	279,262,759 <b>a,b</b>
Facilities	13,551,010	21,794,159	35,345,170
<b>Saskatchewan</b>	255,503	169,363	424,865
Wells	255,503	169,363	424,865
Facilities	-	-	-
<b>British Columbia</b>	-	52,300	52,300
Wells	-	52,300	52,300
Facilities	-	-	-
<b>Total</b>	<b>160,439,650</b>	<b>154,645,444</b>	<b>315,085,094</b>

#### Breakdown of Alberta Abandonment and Reclamation Costs for Wells, by License

Well Licenses	Abandonment Cost (\$)	Reclamation Cost (\$)	WI Liability Cost (\$)
Perpetual 76%	2,502	98,855,218	93,272,056
Husky 12%	383	13,517,762	17,206,752
Endurance 7%	231	12,989,721	8,103,821
Waldron 5%	171	10,000,257	5,840,790
SOC 0%	9	754,306	314,675
<b>Total 100%</b>	<b>3,296</b>	<b>136,117,263</b>	<b>124,738,094</b>

Working interest liability where SRC is licensee: 260,855,357

Liability from working interests where SRC is not licensee: 18,407,403

**Total abandonment and reclamation costs, Alberta wells 279,262,759 **a,b****

#### Notes

- a** XI Technologies ("XI") has developed an ARO Cost Model to estimate actual retirement costs of wells and facilities in the WCSB. Its intent is to give an estimated summary of costs associated with the abandonment and reclamation for groups of assets and portfolios. The ARO model was developed through a culmination of government resources, expert opinion and industry data. The baseline values were derived from government agency data and this was augmented by professional experience when warranted.
- b** Where SRC was the licensee, the ARO Cost Model estimates how much of the liability would be required to be paid by SRC's working interests. In turn, where SRC is not the Licensee, the ARO Cost Model estimates how much SRC would have to pay for its working interest share in abandonment and liability costs. This has been estimated for both wells and facilities.



# **EXHIBIT “L”**

**North and South Gas (no Panny or Mannville) - PPDP**  
**March 2016 Strip Price**  
**DETAILED RESERVES AND PRESENT VALUE**  
**JLL Strip 2016 03 02 (CAD)**  
**North and South Gas (no Panny or Mannville) - PPDP - Strip Price**

Effective January 01, 2016

Proved + Probable Developed Producing

Location	Formation	Avg Int Derived %	Oil			Sales Gas			NGL			BOE			Present Value		
			WI Mwh	RI Mwh	Net Mwh	WI Mkcf	RI Mkcf	Net Mkcf	WI Mwh	RI Mwh	Net Mwh	WI Mwh	RI Mwh	Net Mwh	5% M\$	10% M\$	15% M\$
<b>NORTH</b>																	
CALLING LAKE		0.0	0.0	0.0	0.0	2,775.9	0.0	2,599.4	0.0	0.0	0.0	462.7	0.0	433.2	-1,612.0	-1,302.2	-1,101.9
CRANGEND		0.0	0.0	0.0	0.0	965.6	0.0	905.1	0.0	0.0	0.0	160.9	0.0	150.9	-3,608.1	-2,949.7	-2,481.3
DARWIN PANNY		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-655.9	-483.2	-403.2
EAST SIDE		0.0	0.0	0.0	0.0	692.3	0.0	631.2	0.0	0.0	0.0	115.4	29.0	138.5	-476.6	-67.1	174.5
MARTEN HILLS		0.0	0.0	0.0	0.0	2,996.5	0.0	2,713.4	0.0	0.0	0.0	499.4	0.0	452.2	-677.4	-456.8	-333.1
WABASCA		0.0	0.0	0.0	0.0	7,418.5	0.0	6,778.8	0.0	0.0	0.0	1,298.4	0.0	1,129.8	1,976.0	1,466.3	1,085.3
WEST SIDE		0.0	0.0	0.0	0.0	6,394.3	3.3	5,428.3	0.0	0.0	0.0	1,065.7	0.5	994.7	-4,151.8	-3,140.6	-3,140.6
WESTLOCK		0.0	5.0	5.0	42.5	0.0	0.0	41.0	0.0	0.0	0.0	7.1	11.8	11.8	-8,354.6	-6,903.8	-5,981.3
WOODENHOUSE		0.0	0.0	0.0	442.8	0.0	419.3	0.0	0.0	0.0	0.0	73.8	0.0	69.9	-2,581.1	-2,043.8	-1,671.5
<b>NORTH</b>			5.0	5.0	21,720.3	183.3	19,716.4	0.0	0.0	0.0	0.0	3,621.4	35.5	3,291.0	-20,141.6	-16,376.5	-13,823.1
<b>SOUTH</b>																	
BIRCHWAY EAST		12.1	16.4	27.5	5,064.9	95.4	4,628.4	8.2	0.1	8.0	864.4	32.4	806.9	-10,519.1	-8,774.6	-7,565.5	
BRUCE		0.0	2.5	2.5	5,245.5	59.8	5,423.3	3.3	0.1	3.2	90.8	12.6	96.1	-6,658.6	-5,511.2	-4,694.5	
KILLAM		0.0	2.4	2.4	5,450.0	80.4	5,969.9	3.8	0.1	3.9	94.6	15.9	105.8	-1,656.5	-1,314.0	-1,080.5	
SOUTH ALBERTA		0.0	0.0	0.0	0.0	25.1	26.1	0.0	0.0	0.0	0.0	4.2	4.2	-57.3	-51.3	-46.6	
WARWICK		0.0	0.0	0.0	2,426.6	118.6	2,166.9	1.5	0.1	1.6	405.9	19.9	387.6	-5,614.5	-4,745.2	-4,113.4	
<b>SOUTH</b>			21.3	32.5	8,561.1	379.3	7,888.5	16.8	0.5	16.8	1,455.7	85.0	1,380.7	-24,686.2	-20,386.4	-17,500.5	
<b>Total</b>			26.3	37.4	30,289.4	562.6	27,704.9	16.8	0.5	16.8	5,077.1	120.5	4,671.7	-44,641.7	-36,772.8	-31,323.6	

This is Exhibit " L " referred to in the  
 Affidavit of Luca J. Dary  
 Sworn before me this 2nd day  
 of August A.D. 2016  
 A Notary Public and Commissioner for Oaths  
 in and for the Province of Alberta

**LUKE RASMUSSEN**  
 Barrister & Solicitor

Effective January 01, 2016

**North and South Gas (no Panny or Mannville) - PPDP**  
**March 2016 Strip Price**  
**DETAILED RESERVES AND PRESENT VALUE**  
**FORECAST PRICES AS OF DECEMBER 31, 2015 (CAD)**  
**North and South Gas (no Panny or Mannville) - PPDP - MCD Jan**

Proved + Probable Developed Producing

Location	Formation	Avg Int Derived %	Oil			Sales Gas			NGL			BOE			Present Value		
			WI	RI	Net	WI	RI	Net	WI	RI	Net	WI	RI	Net	5%	10%	15%
			Meth	Meth	Meth	Meth	Meth	Meth	Meth	Meth	Meth	Meth	Meth	Meth	MS	MS	MS
NORTH																	
CALLING LAKE		0.0	0.0	0.0	5.0361	0.0	4.688.9	0.0	0.0	0.0	839.4	0.0	781.5	530.3	508.4	447.0	
CRAIGEND		0.0	0.0	0.0	3.429.2	0.4	3.215.4	0.0	0.0	0.0	571.5	0.1	535.9	-2,417.3	-1,909.7	-1,598.9	
DARWIN PANNY		0.0	0.0	0.0	0.0	30.3	30.3	0.0	0.0	0.0	0.0	0.0	5.0	-364.6	-338.3	-308.3	
EAST SIDE		0.0	0.0	0.0	8.191.1	201.1	7,843.2	0.0	0.0	0.0	1,365.2	33.5	1,307.2	1,909.0	2,051.7	1,976.9	
MARTEN HILLS		0.0	0.0	0.0	6.981.8	3.0	6,435.3	0.0	0.0	0.0	1,163.6	0.5	1,072.5	2,603.4	2,487.9	2,283.7	
WABASCA		0.0	0.0	0.0	8.820.5	0.0	8,043.2	0.0	0.0	0.0	1,470.1	0.0	1,340.5	6,582.9	5,283.4	4,358.1	
WEST SIDE		0.0	0.0	0.0	11,926.2	12.4	10,266.0	0.0	0.0	0.0	1,987.7	2.1	1,711.0	304.6	49.0	-156.6	
WESTLOCK		0.0	5.0	5.0	1,946.1	43.1	1,704.5	0.0	0.0	0.0	324.4	12.1	302.4	-4,975.8	-4,092.4	-3,486.1	
WOODENHOUSE		0.0	0.0	0.0	3,461.9	0.0	3,280.4	0.0	0.0	0.0	577.0	0.0	546.7	-1,541.9	-1,095.9	-818.0	
NORTH		5.0	5.0	5.0	49,792.8	280.2	45,587.2	0.0	0.0	0.0	8,298.8	53.3	7,602.8	2,598.9	2,325.7	2,667.9	
SOUTH																	
BIRCHMOUNT EAST		12.1	16.4	27.3	7,924.4	104.5	7,036.1	9.6	0.1	8.0	1,342.4	33.9	1,208.0	-5,652.1	-4,541.8	-3,835.3	
BRUCE		0.0	2.5	2.5	5,312.2	94.2	4,679.9	10.0	0.1	8.8	895.4	18.4	791.3	-4,577.9	-3,686.4	-3,139.3	
KILLAM		0.0	2.4	2.4	1,901.1	112.0	1,875.5	13.2	0.2	10.7	330.1	21.3	325.7	468.9	387.1	309.8	
SOUTH ALBERTA		0.0	0.0	0.0	0.0	27.4	27.4	0.0	0.0	0.0	0.0	4.6	4.6	-33.7	-29.3	-26.0	
WARWICK		0.0	0.0	0.0	3,256.0	119.3	2,950.2	6.7	0.1	5.9	548.4	20.0	497.6	-3,509.7	-2,883.9	-2,448.4	
SOUTH		12.1	21.3	32.3	18,393.8	457.4	16,569.2	39.6	0.6	33.5	3,117.2	98.2	2,827.3	-13,304.5	-10,754.4	-9,139.2	
Total		12.1	28.3	37.3	68,186.6	747.6	62,156.4	39.6	0.6	33.5	11,416.1	151.5	10,430.2	-10,705.6	-7,828.7	-6,471.3	

**North and South Gas (no Panny or Mannville) - TPP**  
**March 2016 Strip Price**  
**DETAILED RESERVES AND PRESENT VALUE**  
**JLL Strip 2016 03 02 (CAD)**  
**North and South Gas (no Panny or Mannville) - TPP - Strip Price**

Effective January 01, 2016

Total Proved + Probable

Location	Formation	Avg Int Derived %	OH			Sales Gas			NGL			BOE			Present Value			
			WI	RI	Net	WI	RI	Net	WI	RI	Net	WI	RI	Net	5%	10%	15%	
			MMb	MMb	MMb	MMcI	MMcI	MMcI	MMb	MMb	MMb	MMb	MMb	MMb	MMb	M\$	M\$	M\$
<b>NORTH</b>																		
CALLING LAKE		0.0	0.0	0.0	3,579.9	0.0	3,313.5	0.0	0.0	0.0	596.7	0.0	552.3	-1,356.4	-1,089.5	-932.6		
CRAIGEND		0.0	0.0	0.0	1,177.7	0.0	1,105.8	0.0	0.0	6.0	196.3	0.0	184.3	-3,855.5	-3,134.2	-2,638.6		
DARWIN PANNY		0.0	0.0	0.0	201.8	0.0	191.7	0.0	0.0	0.0	33.6	0.0	32.0	-1,036.1	-793.5	-636.6		
EAST SIDE		0.0	0.0	0.0	1,465.5	173.8	1,585.7	0.0	0.0	0.0	244.2	29.0	280.9	-407.7	17.9	296.5		
MARTEN HILLS		0.0	0.0	0.0	5,065.9	0.1	4,664.2	0.0	0.0	0.0	844.3	0.0	777.4	-674.0	-325.0	-150.4		
WABASCA		0.0	0.0	0.0	10,848.6	0.0	9,843.4	0.0	0.0	0.0	1,808.1	0.0	1,640.6	3,100.5	2,324.2	1,743.8		
WEST SIDE		0.0	0.0	0.0	7,249.8	3.3	6,240.7	0.0	0.0	0.0	1,208.3	0.5	1,040.1	-4,092.2	-3,499.7	-3,096.2		
WESTLOCK		0.0	5.0	5.0	488.8	6.0	409.2	0.1	0.0	0.0	81.5	6.0	73.2	-8,391.5	-6,920.3	-5,871.4		
WOODENHOUSE		0.0	0.0	0.0	523.4	0.0	495.8	0.0	0.0	0.0	87.2	0.0	82.6	-2,629.2	-2,079.1	-1,699.1		
<b>NORTH</b>		0.0	5.0	5.0	30,601.4	183.3	27,830.0	0.1	0.0	0.0	5,100.3	35.5	4,643.3	-19,342.2	-15,499.1	-13,024.7		
<b>SOUTH</b>																		
BIRCHMAYN EAST		12.1	16.4	27.5	10,709.8	111.2	9,927.7	14.3	0.1	14.1	1,811.4	35.0	1,696.2	-10,216.8	-8,332.6	-7,107.8		
BRUCE		0.0	2.5	2.5	3,892.3	62.7	3,742.6	3.7	0.1	3.6	652.4	13.0	629.9	-6,477.9	-5,067.7	-4,154.2		
KILLAM		0.0	2.4	2.4	735.7	80.4	768.5	4.6	0.1	4.7	127.2	15.9	135.2	-1,681.4	-1,328.9	-1,087.4		
SOUTH ALBERTA		0.0	0.0	0.0	0.0	25.1	25.1	0.0	0.0	0.0	0.0	4.2	4.2	-57.3	-51.3	-46.6		
WARWICK		0.0	0.0	0.0	5,770.9	118.6	5,258.6	1.5	0.1	1.6	963.3	19.9	878.1	-5,441.1	-4,432.3	-3,779.2		
<b>SOUTH</b>		12.1	21.3	32.5	21,108.7	398.0	19,722.5	24.1	0.5	24.0	3,554.3	88.1	3,343.6	-23,874.5	-19,210.8	-16,175.2		
<b>Total</b>		12.1	28.3	37.4	51,710.1	581.2	47,526.6	24.2	0.5	24.1	8,654.6	123.6	7,986.9	-43,216.7	-34,709.9	-29,199.9		

**North and South Gas (no Panny or Mannville) - TPP**  
**March 2016 Strip Price**  
**DETAILED RESERVES AND PRESENT VALUE**  
**FORECAST PRICES AS OF DECEMBER 31, 2015 (CAD)**  
**North and South Gas (no Panny or Mannville) - TPP - Mcd Jan**

Effective January 01, 2016

Total Proved + Probable

Location	Formation	Avg Int Derived %	Oil			Sales Gas			NGL			BOE			Present Value			
			WI	RI	Net	WI	RI	Net	WI	RI	Net	WI	RI	Net	5%	10%	15%	
			MscD	MscD	MscD	MscD	MscD	MscD	MscD	MscD	MscD	MscD	MscD	MscD	MscD	M\$	M\$	M\$
NORTH																		
CALLING LAKE		0.0	0.0	0.0	0.0	5.987.0	0.0	5.521.5	0.0	0.0	0.0	997.8	0.0	920.3	1.205.3	1,037.6	863.5	
CRAGEND		0.0	0.0	0.0	3,681.9	0.4	3,453.3	0.0	0.0	0.0	613.7	0.1	575.5	-2,352.7	-1,545.3	-1,539.5		
DARWIN PANNY		0.0	0.0	0.0	660.1	30.3	657.3	0.0	0.0	0.0	110.0	5.0	109.6	-394.3	-275.6	-218.2		
EAST SIDE		0.0	0.0	0.0	9,359.2	201.1	8,952.9	0.0	0.0	0.0	1,559.9	33.5	1,492.1	2,512.8	2,570.9	2,413.6	2,413.6	
MARTEN HILLS		0.0	0.0	0.0	9,639.6	3.0	8,927.2	0.0	0.0	0.0	1,806.6	0.5	1,487.9	4,032.6	3,531.1	3,495.5		
WABASCA		0.0	0.0	0.0	12,318.5	0.0	11,128.8	0.0	0.0	0.0	2,053.1	0.0	1,854.5	9,455.6	7,538.1	6,146.1	248.6	
WEST SIDE		0.0	0.0	0.0	13,008.8	12.4	11,289.4	0.0	0.0	0.0	2,168.1	2.1	1,881.6	949.4	554.8			
WESTLOCK		0.0	5.0	5.0	2,578.2	43.1	2,324.4	0.1	0.0	0.0	429.8	12.1	382.4	-4,898.1	-3,854.2	-3,293.6		
WOODENHOUSE		0.0	0.0	0.0	3,562.9	0.0	3,376.3	0.0	0.0	0.0	593.8	0.0	562.7	-1,529.9	-1,065.7	-794.6		
NORTH		5.0	5.0	5.0	60,796.1	280.2	55,629.0	0.1	0.0	0.0	10,132.7	53.3	9,276.5	9,189.9	8,491.5	7,325.3		
SOUTH																		
BIRCHMOUNT EAST		12.1	16.4	27.3	13,747.4	120.2	12,444.0	15.8	0.1	12.1	2,319.1	36.5	2,120.1	-1,871.1	-1,108.4	-871.1		
BRUCE		0.0	2.5	2.5	9,202.7	97.6	8,380.7	10.6	0.1	9.3	1,544.3	18.9	1,408.6	-2,140.1	-1,258.4	-843.1		
KILLAM		0.0	2.4	2.4	2,166.5	112.0	2,115.4	14.4	0.2	11.5	375.5	21.3	366.5	622.0	520.9	424.5		
SOUTH ALBERTA		0.0	0.0	0.0	0.0	27.4	27.4	0.0	0.0	0.0	0.0	4.6	4.6	-33.7	-29.3	-26.0		
WARWICK		0.0	0.0	0.0	7,053.9	119.3	6,409.5	6.7	0.1	5.9	1,182.3	20.0	1,074.2	-1,380.8	-948.1	-754.1		
SOUTH		12.1	21.3	32.3	32,170.5	476.5	29,417.0	47.5	0.7	38.9	5,421.3	101.4	4,974.1	-4,603.8	-2,821.3	-2,089.9		
Total		12.1	26.3	37.3	92,966.6	766.7	85,046.0	47.5	0.7	39.0	15,554.0	154.8	14,250.6	4,586.1	5,670.2	5,255.5		

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# **EXHIBIT “M”**

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**ALBERTA - Goodyear**

Municipality	Due Date	2015 Property Taxes
Athabasca County	31-Jul	\$ 45,844.04
Beaver County	31-Oct	583,394.02
Bonnyville, MD of	15-Sep	1,073.43
Brazeau County	31-May	2,104.10
Camrose County	31-Jul	221,891.21
Clearwater County	15-Sep	457.00
Flagstaff County	15-Oct	328,879.07
Lac La Biche Annex	30-Jun	690,865.48
Lamont County	30-Jun	967,245.69
Lamont County (1333002 Alta Ltd.)	30-Jun	5,585.08
Lesser Slave River, MD of	30-Jun	437,350.36
Minburn, County of (PEI)	31-Oct	160,428.77
Minburn, County of (PEOC)	31-Oct	1,811,616.33
Minburn, County of (Warwick Gas)	31-Oct	549,091.61
Northern Sunrise County (PEI)	30-Jun	6,054.80
Northern Sunrise County (PEOC)	30-Jun	129,859.45
Opportunity, MD of	30-Jun	1,864,077.88
Provost, MD of	31-Oct	381.43
Redwater, Town of	30-Jun	177.61
Smoky Lake County	31-Oct	257,612.13
Smoky River, MD of	31-Jul	2,746.20
St. Paul, County of	30-Jun	9,761.30
Sturgeon County	30-Jun	11,857.32
Thorhild County	30-Jun	218,570.47
Two Hills, County of	31-Oct	1,022,680.07
Two Hills, Town of	31-Jul	2,338.58
Vermilion River, County of	30-Sep	7,453.51
Wainwright, MD of	30-Nov	23,801.19
Westlock County	30-Jun	89,961.03
Wood Buffalo, RM of	30-Jun	594,585.04

This is Exhibit " M " referred to in the  
 Affidavit of  
*Luke J. Rasmussen*  
 Sworn before me this *2nd* day  
 of *August* A.D. 20 *18*

.....  
 A Notary Public and Commissioner for Oaths  
 in and for the Province of Alberta

**LUKE RASMUSSEN**  
 Barrister & Solicitor

# **EXHIBIT “N”**



**Sequoia Resources Corp.- in Bankruptcy**

Estimated valuation of PEOC transaction

CAD (000s)

Reserve Report value: Proved + Probable (2P) at 10%:	5,765	<i>a</i>
Working interest ARO liability for PEOC wells	(192,127)	<i>b</i>
Pro rated portion of facilities ARO for PEOC	(26,831)	<i>c</i>
Property taxes outstanding at date of transaction	(10,048)	<i>d</i>
<b>Estimated net value to SRC from PEOC transaction:</b>	<b>(223,241)</b>	

**Notes**

*a* Estimated value of the assets included within the PEOC Transaction per the most favourable McDaniel reserve report obtained from Perpetual, using McDaniel pricing at January, 2016 titled "North and South Gas (no Panny or Mannville) - McDan Jan 2016 Price TPP" (the "Reserve Report"). A second reserve report, using the Strip price at July 18, 2016 for Total Proved + Probable (2P) valued the assets within the PEOC Transaction at negative \$(39,320,000).

The Trustee notes that the Reserve Report value of \$5.8 million includes an estimate of abandonment costs for those wells included in the report (approximately 650 wells) as well as estimates for salvage value. For this reason, the abandonment amount included in note b) may be overstated, however the Trustee does not consider it to be material to this analysis.

*b* Estimated value of abandonment and reclamation costs for the wells included in the PEOC Transaction, undiscounted, generated from the XI ARO Model.

*c* Estimated value of abandonment and reclamation costs for the facilities included in the PEOC Transaction, undiscounted, generated from the XI ARO Model. As facility licenses could not be traced directly from the XI Model to the available listing, the Trustee pro-rated the total amount of estimated facility ARO costs to be consistent with the percentage of total SRC wells that transferred from the PEOC Transaction.

*d* Estimated municipal taxes that were associated with the PEOC Transaction as calculated by Perpetual in its "Project Goodyear" analysis.

This is Exhibit "*N*" referred to in the  
Affidavit of  
*Paul J. Dasko*  
Sworn before me this *2nd* day  
of *August* A.D. 20*17*  
*[Signature]*  
A Notary Public / Commissioner for Oaths  
In and for the Province of Alberta

**LUKE RASMUSSEN**  
Barrister & Solicitor

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# **EXHIBIT “O”**

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News Release Archive

News Release Archive

This is Exhibit " 0 " referred to in the  
Affidavit of  
*Paul J. Doherty*  
Sworn before me this *20<sup>th</sup>* day  
of *August* A.D. 20 *16*  
A Notary Public Commissioner for Oaths  
In and for the Province of Alberta

**LUKE RASMUSSEN**  
Barrister & Solicitor

## **Perpetual Energy Inc. Announces Strategic Disposition Of Eastern Alberta Shallow Gas Properties**

September 27, 2016

CALGARY, Sept. 27, 2016 /CNW/ - (TSX:PMT) - Perpetual Energy Inc. ("Perpetual", the "Corporation" or the "Company") announces that it has entered into a definitive agreement to effect the strategic disposition of a large percentage of its high liability mature shallow gas properties in east central and northeast Alberta (the "Shallow Gas Properties"). The transaction includes the disposition of all of Perpetual's shallow gas assets and liabilities in eastern Alberta, specifically excluding heavy oil and natural gas assets in the Mannville and Panny areas and other bitumen leases in northeast Alberta. Closing is expected to occur on or around October 1, 2016 and is subject to customary closing conditions. Macquarie Capital Markets Canada Ltd. is acting as financial advisor to the Corporation with respect to the transaction.

The transaction also includes an effective deferred purchase price component whereby Perpetual will continue to benefit from the Shallow Gas Properties for close to two years, given a recovery in natural gas pricing, through marketing arrangements which provide a call on 33,611 GJ/d, representing close to 90% of current production, at \$2.81/GJ at AECO from October 1, 2016 through August 31, 2018. Further to this, arrangements have been made to provide for an AECO floor price of \$2.58/GJ for the Purchaser's account for the same volume and term. The marketing arrangements will be settled monthly by a third party marketing company through an adjustment in the price paid to Perpetual for future physical gas sales.

The Shallow Gas Properties include approximately 35.5 MMcfe/d of current production and an estimated 83.8 Bcfe of proved plus probable natural gas reserves (based on the Company's third party reviewed engineering report prepared by McDaniel and Associates Consultants Ltd. ("McDaniel"), as at December 31, 2015, and adjusted for production to the effective date of October 1, 2016). At year-end 2015, Perpetual forecast the undiscounted cost of future asset retirement obligations ("ARO") for the Shallow Gas Properties at \$133.6 million. Also included in the transaction are 353,777 net acres of undeveloped lands not assigned reserves at year-end 2015.

Perpetual's funds flow is expected to be positively impacted by the disposition as the Shallow Gas Properties continue to operate on a negative cash flow basis as a result of depressed natural gas prices combined with high fixed operating costs which include extremely high municipal property taxes. Including adjustments related to the estimated value of its proved and probable reserves, future asset retirement obligations net of salvage value and the fair market value of undeveloped land, the Company estimates that the transaction increases its net asset value discounted at 10 percent on a pro forma basis at McDaniel's April 1, 2016 commodity price forecasts by \$28.5 million.

Perpetual is also pleased to announce the refinancing of its financial arrangement secured by 1 million of the Company's 1.85 million shares of Tourmaline Oil Corp. ("TOU Shares") and maturing in November 2016. The refinancing results in an extension of the maturity to March 15, 2017 as well as a reduction in the number of shares pledged as collateral to 840,619 TOU Shares, establishing a floor price on these shares of \$27.72/TOU Share on the same underlying obligation plus refinancing costs for repayment at maturity of \$23.3 million. The TOU Share financial arrangement continues to represent a collateralization of TOU Shares, not a sale, and Perpetual retains substantially all rights and privileges associated with the ownership of such shares.

The Company further advises that it has initiated a search for the position of Vice President, Finance and Chief Financial Officer. In the interim, Bill Hahn (CPA-CA), the Corporation's Financial Controller and Manager, Corporate Finance will assume the responsibilities of acting Vice President, Finance and Chief Financial Officer on an interim basis. The Board of Directors and management of Perpetual would like to express our gratitude to Mr. Cameron Sebastian for his past years of service to Perpetual and wish him all the best in his future endeavours.

### **Forward-Looking Information**

*Certain information regarding Perpetual in this news release including management's assessment of future plans and operations may constitute forward-looking statements under applicable securities laws. The forward-looking information includes, without limitation, statements regarding the expected timing for the closing of the disposition of the Shallow Gas Properties and the anticipated value and benefits including the expected impact on the Corporation's financial position and benefits for Perpetual's shareholders; the impact of the transaction on the Corporation's net asset value; forecast and realized commodity prices and future funds flow. Various assumptions were used in drawing the conclusions or making the forecasts and projections contained in the forward-looking information contained in this press release, which assumptions are based on management analysis of historical trends, experience, current conditions, and expected future developments pertaining to Perpetual and the industry in which it operates as well as certain assumptions regarding the matters outlined above. Forward-looking information is based on current expectations, estimates and projections that involve a number of risks, which could cause actual results to vary and in some instances to differ materially from those anticipated by Perpetual and described in the forward looking information contained in this press release. Undue reliance should not be placed on forward-looking information, which is not a guarantee of performance and is subject to a number of risks or uncertainties, including without limitation those described under "Risk Factors" in Perpetual's Annual Information Form and MD&A for the year ended December 31, 2015 and those included in other reports on file with Canadian securities regulatory authorities which may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)) and at Perpetual's website ([www.perpetualenergyinc.com](http://www.perpetualenergyinc.com)). Readers are cautioned that the foregoing list of risk factors is not exhaustive. Forward-looking information is based on the estimates and opinions of Perpetual's management at the time the information is released and Perpetual disclaims any intent or obligation to update publicly any such forward-looking information, whether as a result of new information, future events or otherwise, other than as expressly required by applicable securities laws.*

### **Volume Conversions**

*Barrel of oil equivalent ("boe") may be misleading, particularly if used in isolation. In accordance with National Instrument 51-101, a conversion ratio for natural gas of 6 Mcf:1 bbl has been used, which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, utilizing a conversion on a 6 Mcf:1 bbl basis may be misleading as an indicator of value as the value ratio between natural gas and crude oil, based on the current prices of natural gas and crude oil, differ significantly from the energy equivalency of 6 Mcf:1 bbl.*

### **About Perpetual**

Perpetual Energy Inc. is a Canadian energy company with a spectrum of resource-style opportunities spanning liquids-rich natural gas in the Alberta deep basin, shallow gas, heavy oil and bitumen. Perpetual's shares are listed on the Toronto Stock Exchange under the symbol "PMT". Further information with respect to Perpetual can be found at its website at [www.perpetualenergyinc.com](http://www.perpetualenergyinc.com).

The Toronto Stock Exchange has neither approved nor disapproved the information contained herein.

SOURCE Perpetual Energy Inc.

For further information: Perpetual Energy Inc., Suite 3200, 605 - 5 Avenue SW Calgary, Alberta, Canada T2P 3H5, Telephone: 403 269-4400, Fax: 403 269-4444, Email: [info@perpetualenergyinc.com](mailto:info@perpetualenergyinc.com), Susan L. Riddell Rose, President and Chief Executive Officer; Claire Rosehill, Investor Relations and Business Analyst

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<http://perpetualenergy.mediaroom.com/index.php?s=24466&item=135231>

<http://perpetualenergy.mediaroom.com/index.php?s=24466&item=135231>

# **EXHIBIT “P”**

**PERPETUAL ENERGY INC.**  
**Condensed Interim Consolidated Statements of Financial Position**

As at	September 30, 2016	December 31, 2015
<i>(Cdn\$ thousands, unaudited)</i>		
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,943	\$ 2,116
Restricted cash (note 8)	2,000	-
Accounts receivable	13,683	19,532
Marketable securities (note 4)	65,659	145,275
Prepaid expenses and deposits	1,726	3,141
Derivatives (note 14)	2,427	2,319
Assets held for sale (note 3)	109,232	-
	<b>198,670</b>	<b>172,383</b>
Derivatives (note 14)	5,065	1,411
Property, plant and equipment (note 5)	220,299	347,903
Exploration and evaluation (note 6)	47,151	56,407
Equity-method investment (note 7)	-	25,346
<b>Total assets</b>	<b>\$ 471,185</b>	<b>\$ 603,450</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 23,383	\$ 38,621
Derivatives (note 14)	10,563	9,353
Bank indebtedness (note 8)	10,632	42,000
Financial obligation	2,716	2,604
TOU share financial arrangement (note 9)	22,623	18,059
Provisions (note 12)	4,593	1,981
Liabilities associated with assets held for sale (note 3)	131,024	-
	<b>205,534</b>	<b>112,618</b>
Derivatives (note 14)	5,399	7,395
Senior notes (note 11)	60,064	271,658
Financial obligation	5,275	7,407
Provisions (note 12)	34,797	157,188
<b>Total liabilities</b>	<b>311,069</b>	<b>556,266</b>
<b>Equity</b>		
Share capital (note 13)	1,325,393	1,297,911
Shares held in trust	(1,311)	(1,177)
Rights (note 13)	-	5,290
Contributed surplus	42,404	38,300
Deficit	(1,206,370)	(1,293,140)
<b>Total equity</b>	<b>160,116</b>	<b>47,184</b>
<b>Total liabilities and equity</b>	<b>\$ 471,185</b>	<b>\$ 603,450</b>

Subsequent events (notes 3 and 8).

See accompanying notes. The notes are an integral part of the Corporation's condensed interim consolidated financial statements.

/s/ Robert A. Maitland

**Robert A. Maitland**  
Director

/s/ Geoffrey C. Merritt

**Geoffrey C. Merritt**  
Director

This is Exhibit " P " referred to in the  
Affidavit of

.....  
Sworn before me this..... day  
of ..... A.D. 20 ..

.....  
A Notary Public & Commissioner for Oaths  
In and for the Province of Alberta

**LUKE RASMUSSEN**  
Barrister & Solicitor

**PERPETUAL ENERGY INC.**

**Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)**

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
<i>(Cdn\$ thousands, except per share amounts, unaudited)</i>				
Revenue				
Oil and natural gas	\$ 22,268	\$ 35,460	\$ 63,463	\$ 109,393
Royalties	(2,217)	(4,663)	(6,345)	(13,075)
	<b>20,051</b>	<b>30,797</b>	<b>57,118</b>	<b>96,318</b>
Change in fair value of commodity price derivatives (note 14)	<b>3,547</b>	(4,199)	<b>16,646</b>	(10,174)
Gas over bitumen	<b>548</b>	830	<b>1,288</b>	2,450
	<b>24,146</b>	<b>27,428</b>	<b>75,052</b>	<b>88,594</b>
Expenses				
Production and operating	<b>9,566</b>	15,066	<b>33,415</b>	52,612
Transportation	<b>2,343</b>	2,823	<b>6,956</b>	9,148
Exploration and evaluation (note 6)	<b>1,761</b>	1,180	<b>4,207</b>	9,922
General and administrative	<b>5,901</b>	5,673	<b>17,929</b>	15,639
Loss on onerous contract (note 12)	<b>(918)</b>	-	<b>(918)</b>	-
Gain on dispositions (note 5)	<b>(290)</b>	(6,260)	<b>(8,255)</b>	(146,271)
Depletion and depreciation (note 5)	<b>13,676</b>	23,061	<b>47,369</b>	67,507
<b>Income (loss) from operating activities</b>	<b>(9,729)</b>	(14,115)	<b>(27,487)</b>	80,037
Finance expense (note 15)	<b>(3,830)</b>	(9,584)	<b>(20,137)</b>	(26,747)
Change in fair value of marketable securities (note 4)	<b>2,829</b>	(43,283)	<b>58,213</b>	(48,683)
Gain (loss) on Securities Swap (notes 4 and 11)	<b>(143)</b>	-	<b>81,322</b>	-
Loss on disposition of equity-method investment (note 7)	<b>(46)</b>	-	<b>(6,165)</b>	-
Share of net income (loss) of equity-method investment (note 7)	-	(157)	<b>1,024</b>	(342)
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ (10,919)</b>	<b>\$ (67,139)</b>	<b>\$ 86,770</b>	<b>\$ 4,265</b>
<b>Income (loss) per share (note 13)</b>				
Basic	\$ (0.21)	\$ (8.89)	\$ 1.74	\$ 0.57
Diluted	\$ (0.21)	\$ (8.89)	\$ 1.65	\$ 0.56

See accompanying notes. The notes are an integral part of the Corporation's condensed interim consolidated financial statements.



**PERPETUAL ENERGY INC.**  
**Condensed Interim Consolidated Statements of Changes in Equity**

	Share capital		Shares held in trust	Rights	Contributed surplus	Deficit	Total Equity
	(thousands)	(\$ thousands)					
<i>(Cdn\$ thousands, unaudited)</i>							
Balance at December 31, 2015	19,115	\$ 1,297,911	\$ (1,177)	\$ 5,290	\$ 38,300	\$ (1,293,140)	\$ 47,184
Net income	-	-	-	-	-	86,770	86,770
Common shares issued for Rights (note 13)	33,268	27,183	(162)	(5,290)	-	-	21,731
Common shares issued	203	299	28	-	(327)	-	-
Share based compensation	-	-	-	-	4,431	-	4,431
<b>Balance at September 30, 2016</b>	<b>52,586</b>	<b>\$1,325,393</b>	<b>\$ (1,311)</b>	<b>\$ -</b>	<b>\$ 42,404</b>	<b>\$ (1,206,370)</b>	<b>\$ 160,116</b>

	Share capital		Shares held in trust	Equity component of convertible debentures	Contributed surplus	Deficit	Total Equity
	(thousands)	(\$ thousands)					
<i>(Cdn\$ thousands, unaudited)</i>							
Balance at December 31, 2014	7,504	\$ 1,258,840	\$ (1,387)	\$ 3,174	\$ 36,754	\$ (1,191,098)	\$ 106,283
Net income	-	-	-	-	-	4,265	4,265
Common shares issued	156	1,062	-	-	(720)	-	342
Share based compensation	-	-	-	-	3,664	-	3,664
Change in shares held in trust	-	-	(1,109)	-	-	-	(1,109)
<b>Balance at September 30, 2015</b>	<b>7,660</b>	<b>\$ 1,259,902</b>	<b>\$ (2,496)</b>	<b>\$ 3,174</b>	<b>\$ 39,698</b>	<b>\$ (1,186,833)</b>	<b>\$ 113,445</b>

See accompanying notes. The notes are an integral part of the Corporation's condensed interim consolidated financial statements.

**PERPETUAL ENERGY INC.**  
**Condensed Interim Consolidated Statements of Cash Flows**

Three months ended September 30,      Nine months ended September 30,  
**2016**      2015      **2016**      2015

(Cdn.\$ thousands, unaudited)

**Cash flows from (used in) operating activities**

Net income (loss)	\$ (10,919)	\$ (67,139)	\$ 86,770	\$ 4,265
Adjustments to add (deduct) non-cash items:				
Depletion and depreciation (note 5)	13,676	23,061	47,369	67,507
Loss on onerous contract (note 12)	918	–	918	–
Exploration and evaluation (note 6)	1,377	260	2,717	6,166
Share based compensation expense	2,073	1,359	4,431	3,653
Change in fair value of commodity price derivatives (note 14)	(6,179)	1,944	(7,701)	14,411
Change in fair value of marketable securities (note 4)	(2,829)	43,283	(58,213)	48,683
Finance expenses (note 15)	2,007	1,687	6,900	4,145
Share of net (income) loss of equity-method investment	–	157	(1,024)	342
Gain on dispositions (note 5)	(290)	(6,260)	(8,255)	(146,271)
Gain on Securities Swap (notes 4 and 11)	–	–	(81,572)	–
Loss on disposition of equity-method investment (note 7)	46	–	6,165	–
Dividends from equity-method investment (note 7)	–	–	501	–
Long term Crown receivable adjustments	–	2,095	–	–
Expenditures on decommissioning obligations (note 12)	(1,427)	(1,046)	(3,433)	(5,194)
Change in non-cash working capital	(163)	(2,204)	(7,449)	2,719
Net cash from (used in) operating activities	(1,710)	(2,803)	(11,876)	426

**Cash flows from (used in) financing activities**

Change in bank indebtedness	–	(6,410)	(31,368)	68,590
Change in financial obligation	(482)	(882)	(1,438)	(2,878)
Transactions with trustee	–	–	(162)	(1,109)
Common shares issued	(250)	–	21,893	342
Change in non-cash working capital	–	341	–	–
Net cash from (used in) financing activities	(732)	(6,951)	(11,075)	64,945

**Cash flows from (used in) investing activities**

Acquisitions	(12)	–	(12)	(243)
Capital expenditures	(1,411)	(15,254)	(7,511)	(75,510)
Proceeds on dispositions (notes 5 and 7)	954	2,630	27,472	23,956
Proceeds on sale of marketable securities (note 4)	–	2,896	7,354	2,896
Restricted cash	–	–	(2,000)	–
Change in non-cash working capital	706	(1,344)	(525)	(27,967)
Net cash from (used in) investing activities	237	(11,072)	24,778	(76,868)

Change in cash and cash equivalents	(2,205)	(20,826)	1,827	(11,497)
Cash and cash equivalents, beginning of period	6,148	20,826	2,116	11,497
Cash and cash equivalents, end of period	\$ 3,943	\$ –	\$ 3,943	\$ –

Interest paid	\$ 3,151	\$ 12,963	\$ 21,192	\$ 28,010
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See accompanying notes. The notes are an integral part of the Corporation's condensed interim consolidated financial statements.

## PERPETUAL ENERGY INC.

### Selected notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2016

(All tabular amounts are in Cdn\$ thousands, except where otherwise noted)

#### 1. REPORTING ENTITY

Perpetual Energy Inc. ("Perpetual", the "Company" or the "Corporation") is a Canadian corporation engaged in the exploration, development and marketing of oil and gas based energy in Alberta, Canada. The Corporation operates a diversified asset portfolio that includes shallow gas in eastern Alberta, conventional heavy oil, liquids-rich gas in the Alberta deep basin and several long-term bitumen resource properties.

The address of the Corporation's registered office is 3200, 605 – 5 Avenue SW, Calgary, Alberta, T2P 3H5.

The condensed interim consolidated financial statements of the Corporation as at and for the three and nine months ended September 30, 2016 are comprised of the accounts of Perpetual and its wholly owned subsidiaries, Perpetual Energy Operating Corp., Perpetual Operating Corp. and Perpetual Operating Trust, which are incorporated in Canada.

#### 2. BASIS OF PREPARATION

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. These condensed interim consolidated financial statements should be read in conjunction with the Corporation's consolidated financial statements as at and for the year ended December 31, 2015 which were prepared in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The accounting policies, basis of measurement, critical accounting judgments and significant estimates used to prepare the annual consolidated financial statements as at and for the year ended December 31, 2015 have been applied in the preparation of these condensed interim consolidated financial statements.

The statement of cash flows for the comparative three and nine months ended September 30, 2015 includes a \$5.4 million reclassification of non-cash working capital from financing activities to operating activities to be consistent with the current year presentation.

These condensed interim consolidated financial statements of the Corporation were approved and authorized for issue by the Board of Directors on November 7, 2016.

#### 3. ASSETS HELD FOR SALE

	September 30, 2016
<b>Assets held for sale</b>	
Property, plant and equipment (note 5)	\$ 99,961
Exploration and evaluation (note 6)	6,118
Derivatives (note 14)	3,153
	<b>109,232</b>
<b>Liabilities associated with assets held for sale</b>	
Decommissioning obligations (note 12)	131,024
	<b>\$ 131,024</b>

On September 27, 2016, Perpetual announced the signing of a definitive agreement to dispose of 100 percent of the shares in Perpetual Energy Operating Corp., a wholly owned subsidiary which held a large percentage of Perpetual's shallow gas properties in east central and northeast Alberta (the "Shallow Gas Properties"). The transaction did not include heavy oil and natural gas assets in the Mannville and Panny areas and other bitumen leases in northeast Alberta. The Shallow Gas Properties, which included the Company's Northeast and Birchway West CGUs as well as substantially all of the Company's Birchway East and Athabasca CGUs, have been presented as assets held for sale and are measured at the lower of carrying amount and fair value less costs to sell.

On September 27, 2016, Perpetual entered into commodity price derivative contracts on behalf of Perpetual Energy Operating Corp. with a third party marketing company to be included with the disposition of the Shallow Gas Properties. The contract was recorded at fair value and classified as an asset held for sale at September 30, 2016. Concurrently, Perpetual entered into physical natural gas contracts which have been assigned a fee designed to offset the commodity price derivatives contract held for sale. Further details on these contracts have been disclosed under note 14.

On October 1, 2016, the Corporation closed the disposition of all assets and associated liabilities presented as held for sale at September 30, 2016 for a nominal amount.

#### 4. MARKETABLE SECURITIES

At September 30, 2016, the Corporation held 1.85 million common shares of Tourmaline Oil Corp. ("TOU") with a fair market value of \$65.7 million based on a September 30, 2016 closing price of \$35.54 per share.

Net income for the nine months ended September 30, 2016 includes an unrealized gain of \$58.2 million (2015 – loss of \$48.7 million) representing the change in value between the December 31, 2015 closing price of \$22.35 and the period end closing price of \$35.54 per share. During the nine months ended September 30, 2016, the Corporation sold 250,000 TOU shares for total proceeds of \$7.4 million.

During the nine months ended September 30, 2016, the Company repurchased and cancelled \$114.0 million of outstanding principal amount of senior notes with a maturity date of March 15, 2018 ("2018 Senior Notes") and \$100.4 million of outstanding principal amount of senior notes with a maturity date of July 23, 2019 ("2019 Senior Notes") through the exchange of 4.4 million TOU shares and cash payments of \$3.9 million for accrued interest (the "Securities Swap") (note 11). The fair market value of TOU shares exchanged was \$130.5 million based on an average closing price of \$29.64 per share. Included in the exchange were \$81.6 million 2018 Senior Notes and \$57.0 million 2019 Senior Notes held by directors and officers of the Company or entities controlled by them.

For the nine months ended September 30, 2016, the Corporation recorded a net gain on the Securities Swap of \$81.3 million, representing the difference between the carrying amount of senior notes cancelled of \$212.0 million and the fair market value of TOU shares exchanged of \$130.5 million, net of transaction costs.

## 5. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Corporate assets	Total
<b>Cost</b>			
December 31, 2014	\$ 2,633,900	\$ 7,021	\$ 2,640,921
Additions	69,086	69	69,155
Non-monetary additions	3,700	–	3,700
Change in decommissioning obligations estimates	(58,313)	–	(58,313)
Transferred from exploration and evaluation	692	–	692
Acquisitions	3	–	3
Dispositions	(218,500)	–	(218,500)
December 31, 2015	2,430,568	7,090	2,437,658
Additions	7,172	68	7,240
Change in decommissioning obligations estimates	12,919	–	12,919
Dispositions	(433)	–	(433)
Transferred to assets held for sale (note 3)	(99,961)	–	(99,961)
<b>September 30, 2016</b>	<b>\$ 2,350,265</b>	<b>\$ 7,158</b>	<b>\$ 2,357,423</b>
<b>Accumulated depletion, depreciation and impairment losses</b>			
December 31, 2014	\$ (2,072,642)	\$ (6,323)	\$ (2,078,965)
Depletion and depreciation	(88,067)	(297)	(88,364)
Dispositions	105,096	–	105,096
Impairment	(27,522)	–	(27,522)
December 31, 2015	(2,083,135)	(6,620)	(2,089,755)
Depletion and depreciation	(47,158)	(211)	(47,369)
Transferred to assets held for sale (note 3)	–	–	–
<b>September 30, 2016</b>	<b>\$ (2,130,293)</b>	<b>\$ (6,831)</b>	<b>\$ (2,137,124)</b>
<b>Carrying amount</b>			
December 31, 2015	\$ 347,433	\$ 470	\$ 347,903
<b>September 30, 2016</b>	<b>\$ 219,972</b>	<b>\$ 327</b>	<b>\$ 220,299</b>

At September 30, 2016, property, plant and equipment included \$4.4 million (December 31, 2015 - \$5.0 million) of costs currently not subject to depletion or depreciation.

During the nine months ended September 30, 2016, the Corporation disposed of certain oil sands leases, non-core undeveloped lands and idle production equipment for proceeds of \$6.5 million. In addition, as part of the disposition of Warwick Gas Storage LP ("WGS LP") (note 7), the Corporation disposed of natural gas properties with current net production of 470 Mcf/d for proceeds of \$0.2 million. Included in the disposition were 9,207 net acres of surrounding lands and associated infrastructure.

Net gains on dispositions totaling \$8.3 million (2015 – \$146.3 million) were recorded in net income for the nine months ended September 30, 2016. Included in the gain on disposition was the de-recognition of abandonment and reclamation liabilities which were transferred with properties disposed and \$1.0 million in relation to the sale of seismic data during the third quarter.

## 6. EXPLORATION AND EVALUATION

	September 30, 2016	December 31, 2015
Balance, beginning of period	\$ 56,407	\$ 84,227
Additions	271	7,186
Non-monetary additions	—	5,880
Acquisitions	12	240
Dispositions	(704)	(34,096)
Transfers to property, plant and equipment (note 5)	—	(692)
Non-cash exploration and evaluation expense	(2,717)	(6,338)
Transferred to assets held for sale (note 3)	(6,118)	—
<b>Balance, end of period</b>	<b>\$ 47,151</b>	<b>\$ 56,407</b>

During the nine months ended September 30, 2016, \$1.5 million (2015 - \$3.8 million) in costs were charged directly to exploration and evaluation expense in net income.

## 7. EQUITY-METHOD INVESTMENT

During the nine months ended September 30, 2016, the Corporation disposed of its 30 percent partnership interest in WGS LP for net proceeds of \$19.7 million, resulting in a net loss on disposition of \$6.2 million.

For the nine months ended September 30, 2016, the Corporation recorded income of \$1.0 million (2015 – loss of \$0.3 million) on its equity investment in WGS LP, prior to the disposition. For the nine months ended September 30, 2016, the Corporation received dividends of \$0.5 million (2015 – nil) from WGS LP representing Perpetual's share of total dividends declared.

## 8. BANK INDEBTEDNESS

At September 30, 2016, the Corporation's credit facility and margin loan provided a total borrowing capacity of \$16.6 million consisting of a fully drawn margin loan of \$10.6 million secured by the pledge of 0.8 million TOU shares, and an undrawn reserve based credit facility of \$6 million. At September 30, 2016, the Corporation had outstanding letters of credit in the amount of \$5.6 million (December 31, 2015 – \$5.4 million) under the reserve based credit facility.

In April 2016, Perpetual's lenders completed a discretionary review of Perpetual's borrowing base which resulted in a reduction to the available capacity under Perpetual's reserve based credit facility from \$20 million to \$6 million. To facilitate the Securities Swap announced in April 2016, Perpetual also repaid the \$42 million margin loan and entered into a new margin loan secured by fewer TOU shares. Pursuant to the closing of the Securities Swap and the disposition of Perpetual's 30 percent interest in WGS LP on May 25, 2016, the lenders required Perpetual to pledge a \$2.0 million cash deposit to be held as security in favor of the reserve based credit facility. The \$2.0 million has been reported as restricted cash at September 30, 2016.

### *Reserve Based Credit Facility*

At September 30, 2016, Perpetual had a reserve based credit facility with a syndicate of Canadian banks that includes an undrawn \$6.0 million working capital facility partially secured by a \$2.0 million cash deposit, which collectively are used to secure outstanding letters of credit in the amount of \$5.6 million. The credit facility bears interest at its lenders' prime rate or BA rates, plus applicable margins and standby fees. The applicable margins range between 1.25% and 4.75% depending on the form of borrowing and changes in the Corporation's ratio of consolidated debt to income before interest, taxes, and non-cash items ("Consolidated Debt Ratio") for the most recently completed reporting period. Consolidated debt is defined as the sum of the period end balance of the credit facility, margin loan, TOU share financial arrangement, senior notes and outstanding letters of credit, reduced by the lesser of the mark to market value or the quarterly average value of TOU shares (note 4). On November 7, 2016, Perpetual's lenders completed their review of the reserve based credit facility and extended the maturity date to April 28, 2017 subject to the completion of usual and customary documentation.

Prior to April 14, 2016, the Corporation had a working capital covenant restricting the sum of borrowings under the reserve based credit facility plus net working capital to a total of \$40 million. In addition, the Corporation also had maintenance covenants that require consolidated senior debt to trailing twelve months ("TTM") income before interest, taxes, depletion and depreciation and non-cash items ("EBITDA") to be maintained within certain thresholds. Consolidated senior debt is defined as the sum of the Corporation's period end balance of the margin loan, credit facility and outstanding letters of credit reduced by the lesser of the mark to market value or the quarterly average value of TOU shares pledged to the margin loan. The covenant limiting the ratio of consolidated senior debt to TTM EBITDA was 3.0 to 1.0 except in the quarters ended June 30 and September 30, 2016 where the limit was 3.5 to 1.0.

On April 14, 2016, the amendments to the credit facility included a change to the working capital covenant from \$40 million to \$22 million effective for the periods ending June 30, 2016 and September 30, 2016. Net working capital includes the sum of cash and cash equivalents, restricted cash, accounts receivable, prepaid expenses and deposits and accounts payable and accrued liabilities, plus an adjustment for accrued interest on senior notes payable from the date of the calculation up to and including October 31, 2016. In addition, the covenant limiting the ratio of consolidated senior debt to TTM EBITDA was removed.

The Corporation was in compliance with the lender's covenants at September 30, 2016.

On November 7, 2016, the working capital covenant was adjusted from \$22 million to \$6 million. The Corporation is required to maintain the working capital covenant on a monthly basis effective November 30, 2016 until the maturity date. The adjustment for accrued senior note interest has been amended from the date of the calculation up to and including April 28, 2017.

## Margin Loan

At September 30, 2016, Perpetual had a margin loan arrangement with a Canadian chartered bank fully drawn in the amount of \$10.6 million. Collateral for the margin loan is provided by a securities pledge agreement relating to 0.8 million TOU shares. The margin loan expires on April 30, 2017 and includes a 40 percent loan to value ratio at funding.

The margin loan bears interest at its lenders' three month CDOR rate plus 4.5%. Perpetual is required to maintain a lending ratio of less than 55 percent based on the daily closing market value of the TOU shares pledged under the securities pledge agreement.

On November 7, 2016, Perpetual amended the margin loan arrangement from \$10.6 million to approximately \$15.5 million and reduced the securities pledged to 0.65 million TOU shares. Interest on the margin loan was reduced to its lenders' three month CDOR rate plus 1.0%. The requirement to maintain a lending ratio of less than 55 percent has been removed. The amended margin loan will mature in November 2017 at which time it can be paid in cash or through the transfer of all or a portion of the 0.65 million TOU shares pledged as security.

## 9. TOU SHARE FINANCIAL ARRANGEMENT

On September 19, 2016, the Corporation extended the term of the TOU share financial arrangement to March 15, 2017 and reduced the number of TOU shares pledged as security from 1.0 million to 0.84 million. The reduction in the number of TOU shares pledged as security was facilitated by the TOU share price appreciation during 2016. The repayment amount changes in response to changes in the market price of TOU shares pledged as security, subject to a maximum payment of \$23.3 million at maturity. The TOU share financial arrangement can be repaid in cash or with the transfer of all or a portion of the 0.84 million TOU shares pledged as security.

## 10. CAPITAL MANAGEMENT

Perpetual's goal is to maintain a strong capital base so as to retain investor, creditor and market confidence and to sustain the future development of the business. The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of its underlying oil and natural gas assets. The Company considers its capital structure to include share capital, bank indebtedness, TOU share financial arrangement, senior notes and adjusted working capital, with value and liquidity enhanced through the current ownership of TOU shares. Adjusted working capital includes total current assets and current liabilities excluding short-term derivative assets and liabilities related to the Corporation's risk management activities, current portion of financial obligation, current portion of the TOU share financial arrangement, current portion of provisions, and current bank indebtedness.

With the deterioration of commodity prices continuing in 2016, Perpetual was focused on liquidity management and preservation of its balance sheet through restricted capital spending, reducing costs and maximizing efficiencies in administration and operations. A diligent focus on reductions in all areas of spending, including operating, financing and administrative costs, will continue in order to establish a sustainable cost structure in this low commodity price environment.

The majority of the Company's debt is in the form of senior notes with maturities in 2018 and 2019. Obligations which will require settlement or extension in 2017 include the reserve based credit facility, the amended margin loan and the TOU share financial arrangement. The Company's TOU share financial arrangement matures on March 15, 2017 and can be repaid in cash or with the transfer of the 0.84 million TOU shares pledged as security.

The reserve based credit facility of \$6 million expires on April 28, 2017. Any amounts drawn at that time would be repayable in cash should the maturity not be extended. The maturity of the Company's amended margin loan has been extended from April 30, 2017 to November 2017 and is currently secured by a pledge agreement relating to 0.65 million TOU shares.

The Company regularly assesses alternative repayment options for upcoming obligations including asset dispositions, the sale of TOU shares, refinancing or a combination thereof. Changes to capital structure and repayment alternatives are assessed by management with considerations for both short term liquidity and longer term financial sustainability.

## 11. SENIOR NOTES

	Maturity date	Principal	Interest rate	Carrying amount	
				September 30, 2016	December 31, 2015
2018 Senior Notes <sup>(1)</sup>	March 15, 2018	36,013	8.75%	35,816	148,724
2019 Senior Notes <sup>(2)</sup>	July 23, 2019	24,560	8.75%	24,248	122,934
		60,573		60,064	271,658

<sup>(1)</sup> Issued March 15, 2011, interest payable semi-annually on September 15 and March 15 of each year.

<sup>(2)</sup> Issued July 23, 2014, interest payable semi-annually on January 23 and July 23 of each year.

At September 30, 2016, Perpetual had \$60.6 million principal amount of senior notes outstanding. During the nine months ended September 30, 2016, the Company repurchased and cancelled \$114.0 million of outstanding 2018 Senior Notes and \$100.4 million of outstanding 2019 Senior Notes through the exchange of 4.4 million TOU shares and cash payments of \$3.9 million for accrued interest. The fair market value of TOU shares exchanged was \$130.5 million based on an average closing price of \$29.64 per share. Included in the exchange were \$81.6 million 2018 Senior Notes and \$57.0 million 2019 Senior Notes held by directors and officers of the Company or entities controlled by them.

For the nine months ended September 30, 2016, the Corporation recorded a net gain on the Securities Swap of \$81.3 million, representing the difference between the carrying amount of senior notes cancelled of \$212.0 million and the fair market value of TOU shares exchanged of \$130.5 million, net of transaction costs.

## 12. PROVISIONS

	September 30, 2016	December 31, 2015
Decommissioning obligations, beginning of period	\$ 159,169	\$ 222,976
Obligations incurred	89	1,442
Obligations disposed	(1,624)	(1,939)
Change in risk free rate	12,830	617
Change in estimates	-	(60,372)
Obligations settled	(3,433)	(7,589)
Accretion	2,465	4,034
Transferred to assets held for sale (note 3)	(131,024)	-
Decommissioning obligations, end of period	38,472	159,169
Onerous lease obligation	918	-
Balance, end of period	39,390	159,169
Provisions – current	4,593	1,981
Provisions – non-current	34,797	157,188
	\$ 39,390	\$ 159,169

At September 30, 2016, the Corporation used a weighted average risk free rate of 1.72% (December 31, 2015 – 2.31%) to calculate the present value of the decommissioning obligation.

### Onerous lease obligation

During the third quarter of 2016, the Corporation recognized an onerous lease obligation of \$0.9 million in relation to corporate office space which is no longer being utilized. The unused corporate office space is recorded as an onerous contract as the unavoidable costs associated with the lease contract exceed the economic benefits to be received. The onerous lease obligation is calculated as the present value of the expected net cost of continuing with the lease after adjusting for sublease rentals.

## 13. SHARE CAPITAL

### a) Authorized

Authorized capital consists of an unlimited number of common shares. On March 24, 2016, shareholders of the Corporation approved the consolidation of common shares on the basis of 20 common shares to one common share, which has been retroactively applied throughout these condensed interim consolidated financial statements.

### b) Per share information

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
<i>(thousands, except per share amounts)</i>				
Net income (loss) – basic and diluted	(10,919)	(67,139)	86,770	4,265
Weighted average shares				
Issued common shares	52,512	7,649	50,247	7,575
Effect of shares held in trust	(259)	(100)	(250)	(93)
Weighted average common shares outstanding – basic	52,253	7,549	49,997	7,482
Effect of dilutive securities	-	-	2,532	167
Weighted average common shares outstanding - diluted	52,253	7,549	52,529	7,649
Income (loss) per share – basic	(0.21)	(8.89)	1.74	0.57
Income (loss) per share – diluted	(0.21)	(8.89)	1.65	0.56

In computing per share amounts for the three months ended September 30, 2016, 2.2 million potentially issuable common shares through the share based compensation plans (2015 – 0.1 million) were excluded as the Corporation had a net loss. In computing per share amounts for the nine months ended September 30, 2016, 2.4 million potentially issuable common shares through the share based compensation plans (2015 – 0.1 million) were excluded as they had an anti-dilutive effect on calculated per share amounts.

### c) Rights

On January 18, 2016 Perpetual issued an aggregate of 33.3 million common shares of the Company upon closing of a fully backstopped rights offering to issue common shares of Perpetual for gross proceeds of \$25 million. Included were 21.4 million issued to entities controlled by the Chairman of Perpetual's Board of Directors for proceeds of \$16.1 million.

### d) Share based payments

Concurrent with the share consolidation on March 24, 2016, the Company's Board of Directors approved modifications to existing share based compensation agreements with directors, officers and employees of the Corporation. For the nine months ended September 30, 2016, incremental share based compensation costs associated with the modifications totalled \$1.4 million.

#### 14. FINANCIAL RISK MANAGEMENT

Realized gains on commodity price derivatives recognized in net income for the nine months ended September 30, 2016 were \$8.9 million (2015 – \$4.2 million). The realized gains on commodity price derivatives for the nine months ended September 30, 2016, included gains of \$7.7 million in respect of the settlement of contracts prior to maturity (2015 - \$5.7 million).

##### *Commodity price contracts related to disposition of shallow gas properties*

On September 27, 2016, Perpetual entered into the following commodity price derivative contracts with a third party marketing company through its wholly owned subsidiary Perpetual Energy Operating Corp. This contract was reclassified as an asset held for sale at September 30, 2016 in connection with the Shallow Gas Disposition which closed on October 1, 2016 (note 3).

Term	Volumes at AECO (GJ/d)	Floor price (\$/GJ)	Ceiling price (\$/GJ)	Type of contract
October 2016 – August 2018	33,611	2.58	2.81	Physical

Concurrent with the above marketing contract, Perpetual entered into the following natural gas contracts which are for the physical sale of natural gas as described in the table below with adjustments relating to offsetting positions to the commodity price derivatives contract held for sale.

Term	Perpetual sold/bought	Volumes at AECO (GJ/d)	Average price (\$/GJ)	Type of contract
October 2016 <sup>(1)</sup>	Sold	25,000	2.61	Physical
November 2016 – December 2016 <sup>(2)</sup>	Sold	25,000	Daily Index	Physical
January 2017 – March 2018 <sup>(2)</sup>	Sold	35,000	Daily Index	Physical
April 2018 – August 2018 <sup>(3)</sup>	Sold	35,000	Daily Index	Physical
September 2018 – October 2018 <sup>(4)</sup>	Sold	35,000	Daily Index	Physical

<sup>(1)</sup> Contract price equals the average price plus \$0.01/GJ, plus a monthly fee that is equal to the number of days multiplied by 33,611 GJ/d multiplied by the greater of either \$0/GJ or the difference between AECO monthly index minus \$2.81/GJ, less a monthly fee that is equal to the number of days multiplied by 33,611 GJ/d multiplied by the greater of either \$0/GJ or the difference between \$2.58/GJ minus AECO monthly index.

<sup>(2)</sup> Contract price equals the average price less \$0.24/GJ, plus a monthly fee that is equal to the number of days multiplied by 33,611 GJ/d multiplied by the greater of either \$0/GJ or the difference between AECO monthly index minus \$2.81/GJ.

<sup>(3)</sup> Contract price equals the average price plus \$0.05/GJ, plus a monthly fee that is equal to the number of days multiplied by 33,611 GJ/d multiplied by the greater of either \$0/GJ or the difference between AECO monthly index minus \$2.81/GJ, less a monthly fee that is equal to the number of days multiplied by 33,611 GJ/d multiplied by the greater of either \$0/GJ or the difference between \$2.58/GJ minus AECO monthly index.

<sup>(4)</sup> Contract price equals the average price plus \$0.01/GJ.

The commodity price derivative portion of the natural gas contracts as described in the footnotes above has been summarized as follows:

Term	Nominal Volumes (GJ/d)	Floor price (\$/GJ)	Ceiling price (\$/GJ)	Type of contract
October 2016	33,611	2.58	2.81	Collar
November 2016 – March 2018	33,611	-	2.81	Call
April 2018 – August 2018	33,611	2.58	2.81	Collar

##### *Natural gas contracts*

At September 30, 2016, the Corporation had entered into financial natural gas sales arrangements at AECO as follows:

Term	Perpetual sold/bought	Volumes at AECO (GJ/d)	Average price (\$/GJ)	Type of contract
October 2016 – December 2016	Sold	37,500	1.93	Financial
October 2016 – December 2016	Bought	(35,000)	2.43	Financial

At September 30, 2016, the Corporation had entered into financial natural gas sales arrangements at AECO which settle in \$USD as follows:

Term	Perpetual sold/bought	Volumes at AECO (MMBtu/d)	Average price (\$/MMBtu)	Type of contract
October 2016 – December 2016	Sold	35,000	1.33	Financial



At September 30, 2016, the Corporation had entered into financial natural gas sales arrangements to fix the basis differential between the New York Mercantile Exchange ("NYMEX") and AECO trading hubs. The price at which these contracts settle is equal to the NYMEX index less a fixed basis amount.

Term	Perpetual sold/bought	Volumes at NYMEX-AECO (MMBtu/d)	Average price (\$USD/MMBtu)	Type of contract
January 2017 – December 2017	Sold	57,500	(0.72)	Financial
January 2017 – December 2017	Bought	(27,500)	(0.87)	Financial
January 2018 – December 2018	Sold	40,000	(0.69)	Financial
January 2018 – December 2018	Bought	(15,000)	(0.78)	Financial

At September 30, 2016, the Corporation had entered into fixed price financial natural gas sales arrangements at the NYMEX trading hub as follows:

Term	Perpetual sold/bought	Volumes at NYMEX (MMBtu/d)	Average price (\$USD/MMBtu)	Type of contract
January 2017 – March 2017	Sold	17,500	2.72	Financial
January 2017 – March 2017	Bought	(17,500)	3.31	Financial

#### Oil contracts

At September 30, 2016, the Corporation had entered into the following costless collar oil sales arrangements which settle in \$USD:

Term	Volumes at WTI (bbls/d)	Floor price (\$USD/bbl)	Ceiling price (\$USD/bbl)	Type of contract
October 2016 – December 2016	500	45.00	52.10	Collar
October 2016 – December 2016	500	42.00	50.70	Collar
January 2017 – December 2017	250	44.50	49.55	Collar
January 2017 – December 2017	250	42.00	49.25	Collar

At September 30, 2016, the Corporation had entered into financial oil sales arrangements to fix the basis differential between the West Texas Intermediate ("WTI") and Western Canadian Select ("WCS") trading hubs. The price at which these contracts settle is equal to the WTI index less a fixed basis amount.

Term	Perpetual sold/bought	Volumes at WTI-WCS (bbl/d)	Average differential (\$USD/bbl)	Type of contract
October 2016 – December 2016	Sold	500	(13.68)	Financial

#### Foreign exchange contracts

At September 30, 2016, the Corporation had entered into the following U.S. dollar forward sales arrangement:

Term	Notional \$USD/month	Strike rate (\$CAD/\$USD)	Type of contract
October 2016 – March 2018 <sup>(1)</sup>	3,500,000	1.25	Financial

<sup>(1)</sup> If the average monthly exchange rate is greater than the strike rate, the Corporation pays \$USD 3,500,000 multiplied by the difference between the average monthly exchange rate and the strike rate.

At September 30, 2016, the Corporation had entered into the following U.S. dollar boosted forward sales arrangement:

Term	Notional \$USD/month	Boosted notional <sup>(2)</sup> \$USD/month	Strike rate (\$CAD/\$USD)	Type of contract
October 2016 – February 2018 <sup>(2)</sup>	1,000,000	3,000,000	1.25	Financial

<sup>(1)</sup> If the spot rate at expiry of each contract month is below the strike rate, the Corporation pays \$USD 3,000,000 multiplied by the difference between the spot rate at expiry and the strike rate.

<sup>(2)</sup> If the spot rate at expiry of each contract month is above the strike rate, the Corporation receives \$USD 1,000,000 multiplied by the difference between the spot rate at expiry and the strike rate. Cumulative receipts on this contract are limited to a total of \$0.8 million.

The following table reconciles the Corporation's change in fair value of commodity price derivatives:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Realized gain (loss) on financial oil contracts	(3)	107	1,329	5,854
Realized gain (loss) on financial natural gas contracts	(2,229)	(448)	9,569	3,382
Realized loss on forward foreign exchange contracts	(400)	(1,914)	(1,953)	(4,999)
Unrealized gain (loss) on financial oil contracts	399	1,765	(3,133)	(6,048)
Unrealized gain (loss) on financial natural gas contracts	4,831	(513)	2,694	(2,186)
Unrealized gain (loss) on physical natural gas contracts	106	(100)	131	51
Unrealized gain (loss) on forward foreign exchange contracts	843	(3,096)	8,009	(6,228)
<b>Change in fair value of commodity price derivatives</b>	<b>3,547</b>	<b>(4,199)</b>	<b>16,646</b>	<b>(10,174)</b>

#### ***Natural gas contracts - sensitivity analysis***

As at September 30, 2016, if future natural gas prices changed by \$0.25 per GJ with all other variables held constant, the fair value of commodity price derivatives and after tax net income for the period would change by \$5.5 million. Fair value sensitivity was based on published forward AECO and NYMEX prices.

#### ***Oil contracts - sensitivity analysis***

As at September 30, 2016, if future oil prices increased by \$5.00 per boe with all other variables held constant, the fair value of commodity price derivatives and after tax net income for the period would decrease by \$0.9 million. If future oil prices decreased by \$5.00 per boe with all other variables held constant, the fair value of commodity price derivatives and after tax net income for the period would decrease by \$0.1 million. Fair value sensitivity was based on published forward WTI and WCS prices.

#### ***Foreign exchange contracts - sensitivity analysis***

As at September 30, 2016, if future exchange rates increased by \$0.10 \$CAD/\$USD with all other variables held constant, the fair value of foreign exchange derivatives and after tax net income for the period would decrease by \$7.6 million. If future exchange rates decreased by \$0.10 \$CAD/\$USD with all other variables held constant, the fair value of foreign exchange derivatives and after tax net income for the period would increase by \$1.8 million. Fair value sensitivity was based on published forward \$CAD/\$USD rates.

#### ***Financial obligation sensitivity analysis***

As at September 30, 2016, if future natural gas prices changed by \$0.25 per GJ with all other variables held constant, the fair value of the financial obligation and after tax net income for the period would change by \$1.0 million. Fair value sensitivity is based on published forward AECO prices.

#### ***Fair value of financial assets and liabilities***

The Corporation's fair value measurements are classified as one of the following levels of the fair value hierarchy:

Level 1 – inputs represent unadjusted quoted prices in active markets for identical assets and liabilities. An active market is characterized by a high volume of transactions that provides pricing information on an ongoing basis.

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These valuations are based on inputs that can be observed or corroborated in the marketplace, such as market interest rates or forward prices for commodities.

Level 3 – inputs for the asset or liability are not based on observable market data.

The Corporation aims to maximize the use of observable inputs when preparing calculations of fair value. Classification of each measurement into the fair value hierarchy is based on the lowest level of input that is significant to the fair value calculation.

The fair value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity. Bank debt bears interest at a floating market rate and accordingly the fair value approximates the carrying amount.

The fair value of the TOU share financial arrangement is estimated using significant unobservable inputs including discount rates and measures of future volatility. This fair value is classified as level 3 as significant unobservable inputs, including discount rates and measures of future volatility are used in determination of the carrying amount. During the nine months ended September 30, 2016, the Corporation recognized an unrealized loss of \$4.6 million (2015 – nil) which is included in finance expense.

The fair value of the financial obligation is estimated by discounting future cash payments based on the forecasted Alberta gas reference price multiplied by the contracted deemed volume. This fair value measurement is classified as level 3 as significant unobservable inputs, including the discount rate and forecasted Alberta gas reference prices, are used in determination of the carrying amount. The discount rate of 12.2% (2015 – 12.2%) was determined on inception of the agreement based on the characteristics of the instrument. The forecasted Alberta gas reference prices for the remaining term are based on AECO forward market pricing with adjustments for historical differences between the Alberta reference price and market prices. During the nine months ended September 30, 2016, the Corporation recognized payments on the

financial obligation of \$1.4 million (2015 – \$2.9 million) and an unrealized gain of \$0.6 million (2015 – \$0.8 million) which is included in finance expense.

The fair value of financial assets and liabilities, excluding working capital, is attributable to the following fair value hierarchy levels:

As at September 30, 2016	Gross	Netting <sup>(1)</sup>	Carrying Amount	Level 1	Fair Value Level 2	Level 3
<b>Financial assets</b>						
Fair value through profit and loss						
Marketable securities	65,659	–	65,659	65,659	–	–
Derivatives – current	6,605	(4,178)	2,427	–	2,427	–
Derivatives – non-current	5,502	(437)	5,065	–	5,065	–
<b>Financial Liabilities</b>						
Financial liabilities at amortized cost						
Senior notes	60,064	–	60,064	–	48,610	–
Fair value through profit and loss						
Derivatives – current <sup>(2)</sup>	14,741	(4,178)	10,563	–	10,563	–
Derivatives – non-current <sup>(2)</sup>	5,836	(437)	5,399	–	5,399	–
Financial obligation – current	2,716	–	2,716	–	–	2,716
Financial obligation – non-current	5,275	–	5,275	–	–	5,275
TOU share financial arrangement - current	22,623	–	22,623	–	–	22,623

<sup>(1)</sup> Derivative assets and liabilities presented in the statement of financial position are shown net of offsetting assets or liabilities where the arrangement provides or the legal right and intention for net settlement exists.

<sup>(2)</sup> Includes \$3.3 million of current and \$1.8 million of long term fixed fees associated with physical forward natural gas contracts.

## 15. FINANCE EXPENSE

Finance expense for the three and nine months ended September 30, 2016 is comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Cash interest				
Interest on senior notes	1,325	6,015	10,617	18,046
Interest on convertible debentures	–	610	–	1,831
Interest on bank indebtedness	498	1,272	2,620	2,725
<b>Total cash interest</b>	<b>1,823</b>	<b>7,897</b>	<b>13,237</b>	<b>22,602</b>
Non-cash finance expense				
Amortization of debt issue costs	54	513	453	1,512
Accretion on decommissioning obligations (note 12)	730	1,026	2,465	3,012
Accretion on gas over bitumen obligation	–	126	–	373
Change in fair value of TOU share financial arrangement	1,461	–	4,564	–
Change in fair value of financial obligation (note 14)	(238)	22	(582)	(752)
<b>Finance expenses recognized in net income (loss)</b>	<b>3,830</b>	<b>9,584</b>	<b>20,137</b>	<b>26,747</b>

# **EXHIBIT “Q”**

**CERTIFIED RESOLUTION OF THE DIRECTORS  
OF PERPETUAL ENERGY OPERATING CORP.**

I, Susan Riddell Rose, director of Perpetual Energy Operating Corp. (the "Corporation"), hereby certify on behalf of the Corporation in my capacity as such, and not in my personal capacity and without personal liability, that the resolutions attached hereto as Schedule "A" were passed by directors of the Corporation effective as of October 1, 2016, and that the same are in full force and effect as of the date hereof and have not been unamended, and no proceedings have been taken or are pending to amend, supplement, revoke or repeal such resolutions.

DATED this 1<sup>st</sup> day of October, 2016.

**PERPETUAL ENERGY OPERATING CORP.**

Per:

*Susan Riddell Rose*  
Name: Susan Riddell Rose  
Title: Director

This is Exhibit "Q" referred to in the  
Affidavit of  
*Paul J. Darty*  
Sworn before me this *2nd* day  
of *August* A.D. 20 *16*  
A Notary Public & Commissioner for Oaths  
In and for the Province of Alberta

**LUKE RASMUSSEN**  
Barrister & Solicitor

**SCHEDULE "A"****Written Resolution of the Board of Directors of  
Perpetual Energy Operating Corp. (the "Corporation")  
dated effective October 1, 2016**

**"WHEREAS** the Corporation is the trustee of Perpetual Operating Trust (the **"Trust"**), as governed by the Trust Indenture dated June 28, 2002 between CIBC World Markets Inc. and Paramount Energy Operating Corp., as amended and restated by the First Amended and Restated Trust Indenture made effective August 1, 2002 between CIBC World Markets Inc. and Paramount Energy Operating Corp., as amended from time to time, including the First Supplemental Trust Indenture dated June 30, 2010 between Paramount Energy Operating Corp. and Perpetual Energy Inc. and the Second Supplemental Trust Indenture dated February 28, 2013 and made effective as of June 30, 2010, between Perpetual Energy Operating Corp. and Perpetual Energy Inc. (the **"Trust Indenture"**);

**AND WHEREAS** pursuant to section 5.2 of the Trust Indenture, the trustee of the Trust may at any time sell and convey assets of the Trust to the said trustee in its personal capacity;

**AND WHEREAS** the directors of the Corporation believe it is in the best interests of the Corporation to execute and deliver the purchase and sale agreement dated October 1, 2016 at 12:01 a.m. between the Trust, as vendor, and the Corporation, as purchaser (the **"Purchase and Sale Agreement"**) that sells and conveys certain assets of the Trust to the Corporation in its personal capacity (the **"Transaction"**);

**BE IT RESOLVED THAT:**

1. the Transaction and the execution and delivery of the Purchase and Sale Agreement and the performance of the Corporation's duties and obligations thereunder are hereby authorized and approved;
2. any one director or officer of the Corporation be and is hereby authorized and directed to do and perform all such acts and things and to execute and deliver or cause to be executed and delivered for, in the name of, and on behalf of the Corporation, all such agreements, instruments, deeds, and other documents, and any amendments thereto, as may be necessary or advisable in order to give effect to the foregoing resolutions, and any matters taken prior to the date hereto in this connection are hereby authorized and approved; and
3. these resolutions may be executed and delivered by way of facsimile, electronic transmission or otherwise, and when so executed shall be deemed to be an original and notwithstanding its date of execution shall be deemed to be dated as of the date hereof."