

COURT FILE NUMBER 1201-07521

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

PLAINTIFF NATIONAL BANK OF CANADA

DEFENDANT TRAFINA ENERGY LTD.

DOCUMENT **FIRST REPORT OF FTI CONSULTING CANADA INC., IN ITS CAPACITY AS COURT-APPOINTED RECEIVER AND MANAGER OF TRAFINA ENERGY LTD.**

**JULY 11, 2012**

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

**RECEIVER**

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## INTRODUCTION

1. FTI Consulting Canada Inc. was appointed Receiver and Manager (“Receiver”) of the property, assets and undertakings (the “Assets”) of Trafina Energy Ltd. (“Trafina” or the “Company”) pursuant to an Order (the “Receivership Order”) of this Honourable Court granted on June 13, 2012.
2. The Receivership Order authorized the Receiver, among other things, to carry on the business of the Company, to market and solicit offers to purchase the Assets of the Company, and to make such arrangements or agreements as deemed necessary by the Receiver.
3. The purpose of this first report (the “First Report”) of the Receiver is to advise this Honourable Court with respect to:
  - (i) the activities of the Receiver for the period of June 13, 2012 to date;
  - (ii) an offer to purchase (“Quattro Offer”) all of Trafina’s south west Saskatchewan oil and natural gas properties (“SW Saskatchewan Properties”) received from Quattro Exploration and Production Ltd. (“Quattro”);
  - (iii) The Receiver’s comments on the marketing efforts to solicit offers to purchase the SW Saskatchewan Properties conducted by Trafina prior to the granting of the Receivership Order;
  - (iv) The Receiver’s analysis and recommendations with respect to the Quattro Offer; and
  - (v) other administrative matters relating to the granting of the Receivership Order.

4. All references to currency in the First Report are in Canadian Dollars.
5. Capitalized terms not otherwise defined herein have the meanings set out in the Receivership Order.

## **BACKGROUND**

6. Trafina is an oil and gas company engaged in the production, exploration, development and acquisition of petroleum and natural gas properties in the Provinces of Alberta and Saskatchewan. Trafina is a public company listed on the TSX Venture Exchange with its head office located in Calgary, Alberta.
7. Trafina's operations include the following three core oil and gas exploration and production areas:
  - (i) operated and non-operated oil and natural gas properties located in central Alberta near Wetaskiwin (the "Wetaskiwin Properties");
  - (ii) a heavy oil play known as McMullen located in northeast Alberta ("McMullen"); and
  - (iii) The SW Saskatchewan Properties which comprise operated oil and natural gas properties in Rangeview, Divide and Katherine located in southwest Saskatchewan.
8. Trafina's unaudited March 31, 2012 financial statements indicated the following:
  - (i) Book value of oil and gas assets totaling approximately \$13.4 million;

- (ii) Secured debt of \$3.0 million primarily owed to the National Bank of Canada (“National Bank”). National Bank provided Trafina with an operating line of credit and is the most significant secured creditor with respect to this Receivership; and
  - (iii) Unsecured creditors totaling \$4.5 million.
9. At the date of the granting of the Receivership Order, all of Trafina’s oil and natural gas wells had been shut-in with the exception of the Wetaskiwin Properties non-operated wells which currently produce approximately 200 barrels of oil equivalent (“BOE”) per day of natural gas.

## **ACTIVITIES OF THE RECEIVER SINCE JUNE 13, 2012**

### ***CUSTODY & CONTROL***

10. On June 14, 2012 the Receiver attended the leased head office of Trafina located at 2210, 530 – 8th Avenue S.W. in Calgary, Alberta to meet with the Company’s employees and consultants in order to discuss the transition of operations from management to the Receiver.
11. On June 13, 2012, in accordance with the Receivership Order the Receiver froze Trafina’s bank accounts.

### ***INSURANCE***

12. Trafina’s insurance policy was set to expire June 30, 2012. Subsequent to its appointment the Receiver reviewed the adequacy of the insurance coverage and has renegotiated and renewed Trafina’s insurance policy.

### ***EMPLOYEES AND CONTRACTORS***

13. On June 13, 2012 Trafina employed two full-time head office employees, five consultants and two contract field operators. The Receiver has retained the two full-time office employees to assist with accounting, administrative functions and assist in preparing materials to sell the Assets. In addition the Receiver has retained four of the consultants and both contract field operators on an hourly rate and on an as-needed basis.

### ***OFFICE LEASE AGREEMENT***

14. At the time of the Receivership, Trafina was subleasing its head office space located in Calgary, Alberta. The Receiver has made arrangements with the current landlord to allow the Receiver to continue to occupy the space until August 31, 2012.

### ***STATUTORY NOTICES***

15. On June 22, 2012 the Receiver mailed the notice and statement of Receiver in accordance with subsections 245(1) and 246(1) of the *Bankruptcy and Insolvency Act*.

### ***OPERATIONAL REVIEW***

16. On June 14, 2012 the Receiver met with certain of Trafina's employees and contractors (collectively "Trafina Management") to discuss any operational, safety or environmental issues. Trafina Management advised that all of Trafina's operated wells had been shut in prior to the Receivership due to economic and/or regulatory considerations. Furthermore, Trafina Management advised that shutting in the various wells was completed on a temporary basis and that the shut-in should reduce the risk of any future operational, safety or environmental issues.

17. However, Trafina Management did advise the Receiver of a concern over the SW Saskatchewan Properties being shut-in due to the age of properties' equipment which increased the risk of potential structural failure from pressure buildup. Trafina Management advised that it believed the SW Saskatchewan Properties should be monitored on a regular basis. Accordingly, the Receiver contacted the contract field operator in charge of the SW Saskatchewan Properties and engaged him to perform a weekly monitoring of the SW Saskatchewan Assets.
18. The Receiver has made arrangements to inventory and periodically visit the McMullen and Wetaskiwin Properties.
19. In addition to retaining field operators to review the Assets, the Receiver engaged a third party oil and gas operations management company, Cord Resource Management Limited ("Cord") to perform an independent site inspection of all of Trafina's operated oil and gas wells and facilities and to report its findings with respect to any operational, safety or environmental concerns. Cord completed the site inspection on June 25, 2012 and the Receiver subsequently met with Cord. No significant and/or urgent issues were noted by Cord; however, the Receiver will continue its monitoring of the Assets, as set out above.

#### ***ENGAGEMENT OF A SELLING AGENT***

20. The Receiver, in consultation with the National Bank, determined that a selling agent should be retained in order to maximize the value of Trafina's Assets. The Receiver discussed with Trafina Management and National Bank potential selling agents who should be contacted to provide proposals with respect to assisting the Receiver in selling the Assets. The Receiver contacted three oil and gas consulting companies which have significant knowledge and experience with marketing assets similar in size to Trafina's and generally in the Western Canadian oil and gas industry. The request for proposals was designed to gather the following information relating to the potential selling agents:

- (i) Overall marketing process contemplated;
  - (ii) Knowledge of the Assets;
  - (iii) General experience and knowledge of the industry; and
  - (iv) Fee structure.
21. All of the above information was considered in the Receiver's selection criteria. After reviewing all three selling agents' proposals and having meetings with each potential selling agent, the Receiver engaged NRG Divestitures Inc. ("NRG").
22. NRG has provided the Receiver with its preliminary marketing materials and the Receiver anticipates commencing a formal marketing process of the Assets next week.

## **QUATTRO OFFER**

23. Prior to the commencement of the Receivership, Trafina had completed a process to solicit potential investors and/or purchasers as part of its various restructuring efforts. As a result of these efforts, Quattro submitted an offer to purchase the SW Saskatchewan Properties on or about May 10, 2012 (the "Pre-Receivership Offer"). The Pre-Receivership Offer had a purchase price of \$1.5 million and was originally set to close May 31, 2012. Trafina was unable to close the Pre-Receivership Offer due to various issues including certain operational and regulatory issues which were identified between the time the deal was negotiated and the closing date. The various operational issues relating to the SW Saskatchewan Properties stemmed from a site inspection by the Saskatchewan Government that determined the requirement for certain inspections of the on-site boilers. As a result of inspection, Trafina Management temporarily shut-in all production relating to SW Saskatchewan.

24. The operational issues and the granting of the Receivership Order ultimately resulted in the Pre-Receivership Offer being terminated. Immediately following the granting of the Receivership Order, Quattro contacted the Receiver and advised that it remained interested in completing an acquisition of the SW Saskatchewan Properties; however, Quattro advised the Receiver that additional due diligence would be required to determine the cost to address the operational and regulatory issues discussed above.
25. On June 25, 2012, Quattro attended the SW Saskatchewan Properties to perform a further site inspection and completed its additional due diligence. On June 28, 2012 the Receiver met with Quattro to discuss its findings. Quattro advised the Receiver of approximately \$550,000 of additional costs (“Remediation Costs”) that would be required to address the operational and/or regulatory issues present with the SW Saskatchewan Properties.
26. As discussed above, the Receiver had retained Cord to perform a site inspection of Trafina’s Assets. In conjunction with this request, the Receiver specifically requested that Cord review and assess the estimated costs to address the operational and regulatory issues present at the SW Saskatchewan Properties. On June 28, 2012, the Receiver met with Cord and Trafina Management to discuss the reasonableness of the Remediation Costs identified by Quattro. Cord and Trafina Management advised that based on their site inspection and knowledge of the SW Saskatchewan Assets, the estimated Remediation Costs were reasonable.
27. On July 4, 2012, Quattro submitted an offer to the Receiver to purchase the SW Saskatchewan Properties. The general terms of the offer are as follows:
- (i) Purchase price of \$1.0 million;
  - (ii) Non-refundable deposit of \$50,000;
  - (iii) Assets to be purchased on an ‘as is where is’ basis;



- (iv) Closing date of July 20, 2012; and
  - (v) Subject to approval of this Honourable Court.
28. The Receiver entered into a letter of intent with Quattro on July 4, 2012 based on the above noted terms. On July 11, 2012, the Receiver executed a formal asset sale agreement with Quattro (the “Quattro ASA”). A copy of the Quattro ASA is attached to this report at Appendix “A”.
29. The main terms and conditions to the Quattro ASA include:
- (i) A purchase price of \$1.0 million;
  - (ii) A non-refundable deposit of \$50,000 which has been received by the Receiver;
  - (iii) The purchase of all of Trafina’s petroleum and natural gas properties located in Saskatchewan (the SW Saskatchewan Properties);
  - (iv) The scheduled closing date is July 20, 2012; and
  - (v) The Quattro ASA is only subject to Court approval.
30. The Receiver has been advised by Quattro’s counsel that it holds funds in trust sufficient to close the Quattro ASA.

## **RECEIVER'S ANALYSIS OF TRAFINA'S PRE-RECEIVERSHIP MARKETING EFFORTS**

31. While the Receiver has not commenced its marketing process with respect to Trafina's Assets, we believe the Quattro Offer to be reasonable in the circumstances, given the following:

- (i) The Quattro Offer relates only to the SW Saskatchewan Properties and this particular property was marketed for sale by Trafina commencing in late 2011 and throughout 2012. Trafina retained a financial advisor to assist in the selling of the SW Saskatchewan Properties and the agent contacted approximately 1,800 parties by e-mail or phone and 20 confidentiality agreements were signed. Additionally the SW Saskatchewan Properties marketing materials were presented on the selling agents' website;
- (ii) The highest offer obtained by Trafina relating to the SW Saskatchewan Properties was from Quattro for \$1.5 million, however, ultimately was not closed due to various operational and regulatory issues noted above;
- (iii) After completing additional due diligence, Quattro revised its offer from \$1.5 million (the Pre-Receivership Offer) to \$1.0 million to reflect the estimated Remediation Costs. The Receiver has discussed the revised offer with Trafina Management, Cord and National Bank and believe the adjustment to the purchase price is reasonable given the various operational and regulatory issues;

- (iv) During the process to retain a selling agent, the Receiver discussed the offer from Quattro with each of the proposed selling agents who all agreed proceeding with a closing of the Quattro transaction would likely maximize value to all stakeholders;
- (v) Trafina Management have advised the Receiver that closing of the Quattro Offer would maximize recoveries and the National Bank also believes that the offer from Quattro is reasonable in the circumstances;
- (vi) The offer would allow for a sale of all Trafina's assets in Saskatchewan which would be beneficial to dealing with any license transfer issues with the Saskatchewan Ministry of Energy and Resources;
- (vii) As discussed above, completion of the sale would address future holding costs and potential issues relating to the various operations issues and the temporary shut-in nature of the SW Saskatchewan Properties which could require significant capital expenditures;
- (viii) Selling the SW Saskatchewan Properties would not be detrimental to the marketing of Trafina's remaining oil and gas assets (Wetaskiwin Properties and McMullen) which are distinct and separate properties located in Alberta; and
- (ix) The Quattro Offer is in excess of the total proved reserve value discounted at 10% of \$321,500 per the December 31, 2011 McDaniel and Associates Consultants Ltd. reserve report.

32. The Receiver recommends that the Quattro ASA be approved by this Honourable Court as this offer is likely the highest and best value that would be received and completing a further marketing of the SW Saskatchewan Properties would not likely achieve a better result. Furthermore, the SW Saskatchewan Properties have been exposed to the market by Trafina prior to the granting of the Receivership Order. In addition, completing the sale to Quattro would eliminate further potential holding and remediation costs relating to the SW Saskatchewan Properties. The Receiver is concerned that if the transaction with Quattro is not completed, then significant capital expenditures may be required in the immediate future.

### **AMENDED AND RESTATED RECEIVERSHIP ORDER**

33. After its appointment, the Receiver became aware that there were certain statutory references in the Receivership Order that require revision, as set out in the blackline attached to the Receiver's application. The Receiver has discussed these issues with counsel to National Bank and understands that counsel to National Bank will make submissions on this matter at the hearing of the Receiver's application.

### **RECEIVER'S RECOMMENDATIONS**

34. The Receiver recommends that the Quattro ASA be approved by this Honourable Court and that the Amended and Restated Receivership Order be granted.
35. The Receiver intends, if the Quattro ASA is approved by this Honourable Court and is subsequently completed, to apply the net proceeds received against the outstanding operating line owed to the National Bank in order to reduce future interest costs. The Receiver will execute a written agreement with the National Bank that the Receiver may revolve the operating line to fund any needed expenditures or priority creditors.

All of which is respectfully submitted this 11<sup>th</sup> day of July, 2012.

FTI Consulting Canada Inc.  
in its capacity as Receiver of  
the assets, property and undertaking of Trafina  
Energy Ltd.



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Name: Deryck Helkaa  
Title: Senior Managing Director,  
FTI Consulting Canada Inc.

# **Appendix A**

## **Quattro ASA**

## ASSET PURCHASE AND SALE AGREEMENT

THIS AGREEMENT made as of the 11th day of July, 2012

BETWEEN:

**FTI CONSULTING CANADA INC.**, in its capacity as receiver and manager of the assets, undertakings and properties of Trafina Energy Ltd. and not in its personal capacity (hereinafter called the "**Vendor**")

OF THE FIRST PART

- and -

**QUATTRO EXPLORATION AND PRODUCTION LTD.**, a body corporate having an office in the City of Calgary, in the Province of Alberta (hereinafter called the "**Purchaser**" or "**Quattro**")

OF THE SECOND PART

**WHEREAS** pursuant to an order of Justice K.M. Eidsvik of the Alberta Court of Queen's Bench granted on June 13, 2012, the Vendor was appointed receiver and manager of Trafina Energy Ltd.;

**AND WHEREAS** the Vendor has agreed to the sale of the Assets to the Purchaser and the Purchaser has agreed to purchase the Assets from the Vendor on the terms and conditions set forth herein;

**NOW THEREFORE** in consideration of the mutual covenants and agreement herein contained, the Parties agree as follows:

### ARTICLE 1 INTERPRETATION

#### 1.1 Definitions

In this Agreement, including the recitals the Schedules and this Article 1, the following terms shall have the respective meanings hereby assigned to them:

- (a) "**AFEs**" means the authorities for expenditure, operations' notices, amounts budgeted pursuant to the Unit Agreements and mail ballots, if any, governing the conduct of, or payment for, any activity or operation on or with respect to any of the Assets;
- (b) "**Affiliate**" has the meaning attributed thereto in the *Business Corporations Act* (Alberta);
- (c) "**Agreement**" means this document, together with the Schedules attached hereto and made a part hereof;

- (d) "**Approval Order**" means an order to be granted by the Court which authorizes Vendor's execution and performance of this Agreement, substantially in the form contained in Schedule C of this Agreement;
- (e) "**Assets**" means the Petroleum and Natural Gas Rights, the Tangibles, and the Miscellaneous Interests;
- (f) "**Claims**" means all claims against Trafina or its Affiliates or against the Assets of every nature of kind whatsoever and howsoever arising including, without limiting the generality of the foregoing, all encumbrances, liens, charges, pledges, mortgages and security interests, but excluding Permitted Encumbrances and any security for borrowings made by the Receiver;
- (g) "**Closing**" means the exchange of the General Conveyance and Specific Conveyances on the Closing Date, the delivery by Purchaser of the Purchase Price, and the transfer for the Assets to the Purchaser; the Closing shall occur at the offices of Blake, Cassels & Graydon LLP at 3500, 855-2<sup>nd</sup> Street S.W. in the City of Calgary in the Province of Alberta;
- (h) "**Closing Date**" means July 20, 2012 at the hour of 11:00 a.m. (local time) at which Closing is to occur as the same may be extended by agreement of the Parties, acting reasonably;
- (i) "**Court**" means the Court of Queen's Bench of Alberta;
- (j) "**Effective Date**" means July 1, 2012 at the hour of 12:01 A.M. local time;
- (k) "**Facilities**" means Trafina's interest in and to all production facilities (downstream of the wellhead of any Well) including flow lines, and any dehydration or other field processing or storage facilities used in connection with the transportation, processing or storage of Petroleum Substances as set forth in Schedule A.3;
- (l) "**General Conveyance**" means a general conveyance of the Assets from the Vendor to the Purchaser substantially in the form of agreement attached hereto as Schedule D;
- (m) "**Governmental Authority**" means any government or political subdivision thereof, any agency of government appointed pursuant to the Regulations and any other body or agency having, or purporting to have, authority over the Assets or any operation or activity thereon or with respect thereto;
- (n) "**GST**" means the goods and services tax payable pursuant to the Excise Tax Act, 1985 R.S.C., c.E-15, as amended, and the Regulations thereunder;
- (o) "**Lands**" means Trafina's interest in and to the lands set forth and described in Schedule A.1, insofar as rights to the Petroleum Substances underlying those lands are granted by the Leases;



- (p) "**Leases**" means Trafina's interest in and to the leases, licenses, permits and other documents of title set forth and described in Schedule A.1, by virtue of which the holder thereof is entitled to drill for, win, take, own or remove the Petroleum Substances within, upon or under the Lands or by virtue of which the holder thereof is deemed to be entitled to share of Petroleum Substances removed from the Lands or any lands with which the Lands are pooled or unitized and includes, if applicable, all renewals and extensions of such documents and all documents issued in substitution therefore;
  - (q) "**Major Agreements**" means those Title and Operating Agreements respecting the processing, treating, marketing or transmission of Petroleum Substances and the Unit Agreements identified in Schedule A.5;
  - (r) "**Miscellaneous Interests**" means Trafina's interest in and to all property, assets and rights on or with respect to the Lands, other than the Petroleum and Natural Gas Rights and the Tangibles, to the extent such property, assets and rights pertain to the Petroleum and Natural Gas Rights or the Tangibles, or any rights relating thereto, including, without limitation of the generality of the foregoing, the entire interest of Trafina in:
    - (i) all contracts, agreements and documents, to the extent that they relate to the Petroleum and Natural Gas Rights or the Tangibles, including agreements for the sale, processing or transportation of Petroleum Substances;
    - (ii) all rights to enter upon, use and occupy the surface of any lands overlying the Lands or any lands upon which any Tangibles are located or of any lands to be crossed in order to gain access to any of the Lands or the Tangibles;
    - (iii) copies of engineering records, files, reports and data that, in the Vendor's reasonable judgment, relate directly to the Petroleum and Natural Gas Rights, any Well or the Tangibles, but excluding the Vendor's tax and financial records economic evaluations; and
    - (iv) access to the non-proprietary Seismic detailed in Schedule A.6
- Unless otherwise agreed in writing by the Parties, however, the Miscellaneous Interests shall not include agreements, documents or data to the extent that: (i) they pertain to Trafina's proprietary technology or interpretations; or (ii) they are owned or licensed by Third Parties with restrictions on their deliverability or disclosure by Trafina to any assignee which is not an Affiliate of Trafina;
- (s) "**Non-Refundable Deposit**" means the deposit pursuant to Article 2.5;
  - (t) "**Party**" means any Person bound by this Agreement.
  - (u) "**Permitted Encumbrances**" means:

- (i) all encumbrances, overriding royalties, net profits interests and other burdens identified in Schedule A.1;
- (ii) any Right of First Refusal or any similar restriction applicable to any of the Assets;
- (iii) the terms and provisions of the Title and Operating Documents;
- (iv) any deed or agreement under which Trafina holds any interest relating to the Lands or the Leases in trust for any Person;
- (v) all obligations under the AFEs and the Major Agreements outstanding on, as and from the Effective Date;
- (vi) the terms and conditions of the Leases, including, without limitation, the requirement to pay any rentals or royalties to the grantor thereof to maintain the Leases in good standing and any royalty or other burden reserved to the grantor thereof or any gross royalty trusts applicable to the grantee's interest in any of the Leases;
- (vii) the right reserved to or vested in any grantor, government or other public authority by the term of any Lease or by the Regulations to terminate any Lease;
- (viii) easements, rights of way, servitudes or other similar rights in land, including without in any way limiting the generality of the foregoing, rights of way and servitudes for highways, railways, sewers, drains, gas and oil pipelines, gas and water mains, electric light, power, telephone or cable television conduits, poles, wires or cables;
- (ix) taxes on Petroleum Substances or the income or revenue therefrom, unless specifically excluded and governmental restrictions on production rates from the Wells or on operations being conducted on the Lands or otherwise affecting the value of any of the Assets, but excluding all such taxes incurred up to the Effective Date that have not been paid;
- (x) agreements for the sale, processing, transportation or marketing of Petroleum Substances, which are terminable on thirty (30) days notice (without an early termination penalty or other cost);
- (xi) any authority under the Regulations and any rights reserved to or vested in any municipality or Governmental Authority to control or regulate any of the Assets in any manner;
- (xii) undetermined or inchoate liens incurred or created as security in favour of any Person with respect to the development or operation of any of the Assets, as regards Trafina's share of the costs and expenses thereof which are not due or delinquent on the Effective Date or, if then due or

- delinquent, are being contested in good faith by the Vendor on the Effective Date;
- (xiii) the reservations, limitations, provisos and conditions in any grants or transfers from the Crown of any of the Lands or interests therein, and statutory exceptions to title;
  - (xiv) agreements and plans relating to pooling or unitization of any of the Lands;
  - (xv) the Major Agreements or agreements respecting the operation of Wells by contract field operators;
  - (xvi) provisions for penalties and forfeitures under agreements as a consequence of nonparticipation in operations; and
  - (xvii) liens granted in the ordinary course of business to a public utility, municipality or Governmental Authority with respect to operations pertaining to any of the Assets;
- (v) "**Person**" includes individuals, executors, administrators, corporations, limited and unlimited liability companies, general and limited partnerships, associations, trusts, unincorporated organizations, joint ventures and Governmental Authorities;
  - (w) "**Petroleum and Natural Gas Rights**" means the entire interest of Trafina in and to the Lands and, insofar as they pertain to the Lands and Leases, lands with which the Lands are pooled or unitized;
  - (x) "**Petroleum Substances**" means Trafina's interest in and to petroleum, natural gas, and related hydrocarbons and every other mineral or substance whether hydrocarbon or not, produced in association therewith, or any of them, the right to explore for which, or an interest in which, is granted pursuant to the Leases, but only insofar as they pertain to the Lands;
  - (y) "**Pipelines**" means Trafina's interest in the pipelines identified in Schedule A.4;
  - (z) "**Purchase Price**" means the amount payable by the Purchaser to the Vendor for the Assets pursuant to Article 2, as adjusted, as provided for herein;
  - (aa) "**Receiver**" means FTI Consulting Canada Inc. in its capacity as receiver and manager of the assets, undertakings and properties of Trafina appointed by the Court under action number 1201-07521 on June 13, 2012 (the "**Receivership Order**");
  - (bb) "**Regulations**" means all statutes, laws, rules, orders and regulations in effect from time to time and made by any Governmental Authority;

- (cc) "**Right of First Refusal**" means any preferential right to purchase any of the Assets, held by a Third Party and by virtue of which, the Third Party has the right to acquire any portion of the Vendor's interest in any of the Assets pursuant to, or as a consequence of, the transactions proposed in this Agreement;
- (dd) "**Specific Conveyances**" means all conveyances, assignments, transfers, registerable transfers, novations, notice of assignments and other documents and instruments that are reasonably required or desirable to convey, assign and transfer the Assets of the Purchaser and to novate the Purchaser in the place and stead of Trafina with respect to the Assets. It shall be the responsibility of the Purchaser to prepare (at its sole cost and expense) and present at Closing for execution by Vendor (in form and substance satisfactory to Vendor, acting reasonably), all of the Specific Conveyances deemed necessary by Purchaser to transfer Trafina's interest in and to the Assets after Closing;
- (ee) "**Tangibles**" means the entire interest of Trafina whether leased or owned, in and to all tangible depreciable property, real property (other than the Leases) and assets that are:
  - (i) located in or on the Lands and used, or intended for use, in connection with production, processing, gathering, storage, treatment or transportation operations respecting the Petroleum Substances, including, without limitation, the Facilities and the Pipelines;
  - (ii) all Wells including the wellbores, casing, production tubing and wellheads located on the Lands which may be used to product Petroleum Substances from the Lands or otherwise serve the Lands; and
  - (iii) any additional items or equipment, whether located on or off the Lands that are related to the Assets including any rental equipment (but, with respect to rental equipment, limited to Trafina's right to convey its lessee's interest therein and, in any event, excluding any proprietary information technology owned by Third Parties and licensed to Trafina.
- (ff) "**Third Party**" means a Person other than the Vendor and Purchaser;
- (gg) "**Title and Operating Documents**" means, in respect of the Assets, all documents of title (including the Leases, any permits, operating agreements, pooling agreements, royalty agreements, overriding royalty agreements, gross overriding royalty agreements, participation agreements, farmin and farmout agreements, purchase and sale agreements, trust agreements and declarations, agreements for the construction, ownership and operation of Tangibles, and gathering, transportation and processing agreements) or other agreements that relate to the Assets, and the ownership or operation thereof;
- (hh) "**Trafina**" means Trafina Energy Ltd.;

- (ii) **"Unit Agreements"** means any and all unit agreements and unit operating agreements, including any and all amendments thereto, pertaining to the unit or units, any, set out in Schedule A.5 under the heading "Units";
- (jj) **"Wells"** means Trafina's interest in and to all producing, suspended, abandoned, shut-in, injection, disposal and other wells located on the Lands or any lands pooled or unitized therewith, including, without limitation, the wells listed under the heading Wells in Schedule A.1.

## 1.2 Schedules

The following Schedules are attached hereto and made part of this Agreement:

- (a) Schedule A comprises:
  - Schedule A.1 - Lands, Leases and Wells
  - Schedule A.2 - AFEs
  - Schedule A.3 - Facilities
  - Schedule A.4 - Pipelines
  - Schedule A.5 - Major Agreements
  - Schedule A.6 - Non-proprietary Seismic
- (b) Schedule B - certificate to be provided by Purchaser pursuant to Clause 4.2(b)(iv)
- (c) Schedule C - Approval Order
- (d) Schedule D - General Conveyance

## 1.3 References

The references "hereunder", "herein" and "hereof" refer to the provisions of this Agreement, and references to Articles, Clauses, Subclauses, Paragraphs or Subparagraphs herein refer to Articles, Clauses, Subclauses, Paragraphs or Subparagraphs of this Agreement. Any reference to time shall refer to Mountain Standard Time or Mountain Daylight Savings Time during the respective intervals in which each is in force.

## 1.4 Headings

The headings of the Articles, Clauses, Subclauses, Schedules and any other headings, captions or indices herein are inserted for convenience of reference only and shall not be used in any way in construing or interpreting any provisions hereof.



### **1.5 Singular/Plural**

Whenever the singular or masculine or neuter is used in this Agreement or in the schedules, it shall be interpreted as meaning the plural or feminine or body politic or corporate, and vice versa, as the context requires.

### **1.6 Use of Canadian Funds**

All references to "dollars" or "\$" herein shall refer to lawful currency of Canada unless the contrary is specified or provided for elsewhere in this Agreement.

### **1.7 Derivatives**

Where a term is defined herein, a capitalized derivative of such terms shall have a corresponding meaning unless the context otherwise requires.

### **1.8 Interpretation If Closing Does Not Occur**

In the event that Closing does not occur, each provision of this Agreement which presumes that the Purchaser has acquired the Assets hereunder shall be construed as having been contingent upon Closing having occurred.

### **1.9 Conflicts**

If there is any conflict or inconsistency between a provision of the body of this Agreement and that of a Schedule or a Specific Conveyance, the provision of the body of this Agreement shall prevail. If any term or condition of this Agreement conflicts with a term or condition of a Lease or the Regulations, the term or condition of such Lease or the Regulations shall prevail, and this Agreement shall be deemed to be amended to the extent required to eliminate any such conflict.

## **ARTICLE 2 PURCHASE AND SALE**

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

Vendor hereby agrees to sell, assign, transfer, convey and set over to Purchaser, and Purchaser hereby agrees to purchase from the Vendor, all of the right, title, estate and interest (whether absolute or contingent, legal or beneficial), if any, of Trafina in and to the Assets, subject to and in accordance with the terms of this Agreement. Effective as and from the Effective Date, the Purchaser shall assume and bear all obligations associated with the Assets, including but not limited to the Permitted Encumbrances.

### **2.2 Purchase Price**

The aggregate consideration to be paid by Purchaser to Vendor for the Assets shall be One Million (\$1,000,000.00) Canadian dollars. At Closing, Purchaser shall pay to Vendor: (i) the Purchase Price; and (ii) the GST payable in respect of the Assets, which

Vendor shall remit according to law. The Parties agree that the value of the interest of Vendor in and to the Tangibles and in and to the Miscellaneous Interests is Two Hundred Thousand (\$200,000.00) Canadian dollars. The GST registration number of Trafina is 13210 1692 RT0001 and the GST registration number of Quattro is 88599 2966 RT0001. At Closing, Purchaser shall be solely responsible for all sales taxes, transfer taxes, fees, charges, levies or similar assessments which may be imposed by any governmental authority and pertaining to its acquisition of the Assets or to the circulation and registration of the Specific Conveyance and shall remit any such amounts to the applicable governmental authority according to law.

### **2.3 Allocation of Purchase Price**

The Parties shall allocate the Purchase Price as follows:

Petroleum and Natural Gas Rights	\$800,000.00
Tangibles	199,999.00
Miscellaneous Interests	1.00
Total	\$1,000,000.00

### **2.4 Joint Election**

The Parties agree to make a joint successor election under section 66.7 of the *Income Tax Act* (Canada) in respect of all of the cumulative resource tax accounts of Trafina as permitted thereunder. Purchaser, acting reasonably, shall prepare, and each Party agrees to execute and file such elections in the form and within the time periods prescribed or specified under such Act so as to transfer such cumulative resource tax pools from Trafina to Purchaser to the maximum extent permitted under such Act.

### **2.5 Non-Refundable Deposit**

Vendor has received from Purchaser the Non-Refundable Deposit, in the amount of Fifty Thousand (\$50,000.00) Canadian dollars which was paid to Vendor on July 6, 2012, as outlined in the Letter of Intent dated July 4, 2012. The Non-Refundable Deposit shall become part of the Purchase price and the Purchase Price shall be adjusted accordingly. Under no circumstances is this deposit refundable to Purchaser, except as set out in the Letter of Intent.

## **ARTICLE 3 CONDITIONS OF CLOSING**

### **3.1 Required Consents**

Except as provided in Clause 3.2, it is a condition precedent to Closing for the benefit of both of the Parties that the Court has granted the Approval Order on or prior to the Closing Date. Each of the Parties shall fully cooperate in all reasonable efforts to obtain

the Approval Order. The Parties acknowledge that the consent of Third Parties to the Material Agreements may not be obtainable until after Closing and that the acquisition of such consents shall not be a condition precedent to Closing.

### **3.2 Well License Transfers**

Notwithstanding Clause 3.1 hereof, the Parties acknowledge that the Purchaser will be required to satisfy the requirements of Governmental Authorities to permit transfer of the licenses to the Wells from the Vendor to the Purchaser. It shall be the sole responsibility of the Purchaser to obtain all such approvals, and to provide such deposits or other financial assurances that may be required by such Governmental Authority, within forty-five (45) days from the Closing Date (or such later date as the Parties may agree). Purchaser shall use its best efforts to satisfy any such requirement. If licenses to the Wells are not transferred by the relevant Governmental Authority to Purchaser on or prior to expiry of such period, on written notice from Vendor to Purchaser, Vendor may terminate this Agreement and thereafter neither Party shall have any further right or obligation to the other hereunder.

### **3.3 Purchaser's Conditions**

The obligation of Purchaser to purchase the Assets is subject to the following conditions precedent, which are inserted herein and made part hereof for the exclusive benefit of Purchaser and may be waived by Purchaser:

- (a) the representations and warranties of Vendor herein contained shall be true in all material respects when made and as of the Closing Date;
- (b) all obligations of Vendor contained in this Agreement to be performed prior to or at Closing shall have been duly and timely performed in all material respects; and
- (c) Vendor shall have performed or complied in all material respects with each of the terms, covenants and conditions of this Agreement to be performed or complied with by the Vendor at or prior to the Closing Date;

If any one or more of the foregoing conditions precedent has or have not been satisfied, complied with, or waived by Purchaser, at or before the Closing Date, the Purchaser may rescind this Agreement by written notice to Vendor. If Purchaser rescinds this Agreement in accordance with this Clause 3.3 each of Purchaser and Vendor shall be released and discharged from all obligations hereunder except as provided in Article 10.

### **3.4 Efforts to Fulfil Conditions of Closing**

The Parties shall proceed diligently and in good faith and use diligent commercial efforts to satisfy and comply with, or assist the other Party in, the satisfaction and compliance with the conditions precedent specified in Clause 3.3. If there is a condition precedent that is to be satisfied or complied with prior to the Closing Date, and if, by the time the condition precedent is to be satisfied or complied with by Vendor, the Purchaser has failed to advise Vendor that the condition precedent has not been satisfied or complied



with, the condition precedent shall be conclusively deemed to have been waived by the Purchaser.

### **3.5 Waiver of Conditions**

The conditions in Clause 3.3 are for the sole benefit of the Purchaser. The Purchaser may waive any of them, in whole or in part, by written notice to the Vendor, without prejudice to any of the rights of the Purchaser, including, without limitation, reliance on or enforcement of the representations, warranties or covenants which are preserved and pertain to conditions similar to the condition so waived. However, the Purchaser may not waive the existence and operation of any Right of First Refusal or, without the concurrence of the Vendor, any required consent of a Third Party to the Vendor's disposition of any of the Assets.

### **3.6 Failure to Satisfy Conditions**

In the event any of the conditions in Clause 3.3 has not been satisfied at or before the Closing Date and such condition has not been waived by the Party for the benefit of which such condition has been included, such Party may terminate this Agreement by written notice to the other Party. However a Party may not terminate this Agreement in such manner after Closing and its remedies thereafter, if any, with respect to the failure to satisfy such condition shall be limited to damages.

## **ARTICLE 4 CLOSING**

### **4.1 Closing Date**

Unless otherwise agreed by the Parties, Closing of the transactions contemplated in this Agreement shall occur on the Closing Date.

### **4.2 At Closing**

- (a) Vendor shall execute and deliver to the Purchaser:
  - (i) the General Conveyance.
- (b) Purchaser shall deliver to the Vendor:
  - (i) payment of the Purchaser Price, as adjusted herein;
  - (ii) a certificate of status evidencing the due registration and good standing of the Purchaser in the jurisdiction in which the Lands are located;
  - (iii) the General Conveyance duly executed by the Purchaser; and

- (iv) an executed copy of a Certificate, substantially in the form annexed as Schedule B, with respect to Purchaser's representations and warranties under this Agreement.

#### **4.3 Post Closing**

- (a) Vendor shall execute and deliver to the Purchaser such Specific Conveyances as the Purchaser, acting reasonably, determines are necessary to convey the Assets.
- (b) Purchaser shall have prepared and executed such Specific Conveyances as the Purchaser, acting reasonably, determines are necessary and shall deliver to the Vendor the Specific Conveyances duly executed by the Purchaser.

### **ARTICLE 5 MAINTENANCE OF BUSINESS**

#### **5.1 Assets To Be Maintained In Proper Manner**

The Vendor shall maintain insurance respecting the Assets during the period between the Effective Date and the Closing Date, and provided Closing occurs, the proceeds of any such insurance shall be the property of the Purchaser.

#### **5.2 Material Commitments**

- (a) Until Closing, the Vendor shall not (except as otherwise contemplated in this Agreement), without the prior written consent of the Purchaser:
  - (i) voluntarily assume any obligation or commitment with respect to the Assets, where the Vendor's share of the expenditure associated with such obligation or commitment is estimated to exceed \$25,000.00;
  - (ii) surrender or abandon any of the Assets;
  - (iii) amend any agreement or enter into any new agreement respecting the Assets other than renewals, in the ordinary course of business, of agreements in effect on the Effective Date;
  - (iv) propose or initiate the exercise of any right (including bidding rights at Crown sales, rights under area of mutual interest provisions and rights of first refusal) 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 Vendor as of the earlier of the date of this Agreement or the Effective Date, if such exercise or option would result in either an obligation of the Purchaser hereunder after the Effective Date or a Material Adverse Effect on the value of any of the Assets;

- (v) sell, transfer or otherwise dispose of the Assets, or any of them, unless such sale or transfer results from any term or provision of the Title and Operating Documents; or
- (vi) grant a security interest or any encumbrance with respect to any of the Assets other than as permitted by the Receivership Order to secure Receiver's borrowings.

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

- (b) If an operation or the exercise of any right or option respecting the Assets is proposed in circumstances in which such operation or the exercise of such right or option would result in an obligation of the Purchaser pursuant to Subclause 5.2(a), the following Paragraphs shall apply to such operation or the exercise of such right or option (hereinafter referred to as the "**Proposal**"):
  - (i) the Vendor shall promptly give notice of the Proposal to the Purchaser, including with such notice the particulars of such Proposal in reasonable detail;
  - (ii) the Purchaser shall, not later than forty-eight (48) hours prior to the time the Vendor is required to make its election with respect to the Proposal, advise the Vendor, by notice, whether it wishes the Vendor to exercise its rights with respect to the Proposal on behalf of and at the sole cost of the Purchaser, provided that failure of the Purchaser to make such election within such period shall be deemed to be an election by the Purchaser to participate in the Proposal;
  - (iii) the Vendor shall make the election authorized by the Purchaser with respect to the Proposal within the period during which the Vendor may respond to the Proposal; and;
  - (iv) election by the Purchaser not to participate in any Proposal required to preserve the existence of any of the Assets shall not entitle the Purchaser to any reduction of the Purchase Price in the event that the Vendor's interest therein is terminated as a result of such election, and such termination shall not constitute a failure of the Vendor's representations and warranties pertaining to such Assets, notwithstanding Article 3 and Article 6.

### **5.3 Maintenance Of Assets Until Novations Completed**

Following Closing and to the extent that the Purchaser must be, and has not then been, novated into any of the Title and Operating Documents governing any of the Assets, the following provisions shall apply with respect to such Assets from the Closing Date until the novation has been effected:

- (a) the Vendor shall not initiate any operation with respect to the Assets, except upon the written instruction of the Purchaser or if the Vendor reasonably determines that it is required for the protection of life or property, in which case the Vendor may take such actions as it reasonably determines are required without the written instruction of the Purchaser and shall promptly notify the Purchaser of such intention or actions and the Vendor's estimate of the costs and expenses associated therewith;
- (b) the Vendor shall forthwith provide to the Purchaser all authorizations for expenditure, notices, specific information and other documents the Vendor received with respect to the Assets, and shall respond to such authorizations for expenditure, notices, information and other documents pursuant to the written instruction of the Purchaser, if received on a timely basis, provided that the Vendor may (but shall not be obligated to) refuse to follow instructions which it reasonably believes to be unlawful, unethical or in conflict with an applicable contract; and
- (c) the Vendor shall forthwith deliver to the Purchaser all revenues, proceeds and other benefits received by the Vendor with respect to the Assets, less the share of the applicable lessor royalties, operating costs, treating, processing and transportation expenses and those other costs and expenses directly associated with the Assets and the production of Petroleum Substances, provided that the Vendor shall not be permitted to deduct from such revenues, proceeds and other benefits any other costs and expenses it incurs as a result of such delivery to the Purchaser.

### **5.4 Vendor Deemed Agent Of Purchaser**

- (a) Insofar as the Vendor maintains the Assets and takes actions with respect thereto on behalf of the Purchaser pursuant to this Article, the Vendor shall be deemed to have been the duly authorized agent of the Purchaser hereunder. The Purchaser ratifies all actions taken by the Vendor or refrained from being taken by the Vendor pursuant to the terms of this Article 5 in such capacity during such period, with the intention that all such actions shall be deemed to be those of the Purchaser.
- (b) Insofar as the Vendor participates in either operations or the exercise of rights or options as the agent of the Purchaser pursuant to this Article, the Vendor may require the Purchaser to secure the costs to be incurred by the Vendor on behalf of

the Purchaser pursuant to such election in such manner as may be reasonably appropriate in the circumstances.

- (c) The Purchaser shall indemnify the Vendor and its directors, officers, servants, agents or employees against all liabilities, losses, costs (including legal costs on a solicitor client basis), claims or damages which the Vendor or its directors, officers, servants, agents or employees may suffer or incur as a result of maintaining the Assets as the agent of the Purchaser pursuant to this Article, insofar as such liabilities, losses, costs, claims or damages are not a direct result to the gross negligence or wilful misconduct of the Vendor or its directors, officers, servants, agents or employees. An action or omission of the Vendor or its directors, officers, servants, agents or employees shall not be regarded as gross negligence or wilful misconduct if it was done or omitted to be done in accordance with the instructions of or with the concurrence of the Purchaser.

## 5.5 Restriction On Purchaser's Proposal Of Operations

Prior to Closing, the Purchaser shall not, without the written consent of the Vendor, propose to the Vendor, or request the Vendor to propose to Third Parties, the conduct of any operations on the Lands or the exercise of any right or option respecting the Assets.

## ARTICLE 6 REPRESENTATIONS AND WARRANTIES OF PARTIES

### 6.1 Vendor's Representations and Warranties

The Vendor represents and warrants to the Purchaser that:

- (a) **Standing:** The Vendor is the duly appointed Receiver of the assets, undertakings and properties of Trafina.
- (b) **Requisite Authority:** The Vendor has the requisite capacity, power and authority to execute this Agreement and to perform the obligations to which it thereby becomes subject, provided that Vendor shall have no liability for the discharge by it of any obligation hereunder unless and until the Approval Order is granted;
- (c) **Execution and Enforceability:** This Agreement has been validly executed and delivered by the Vendor, and this Agreement and all other documents executed and delivered on behalf of the Vendor hereunder shall, subject to the jurisdiction of the Court in respect of insolvency, bankruptcy, reorganization and other laws of general application limiting the enforcement of creditor's rights generally, and to the fact that specific performance is an equitable remedy available only in the discretion of the court, constitute valid and binding obligations of the Vendor enforceable in accordance with their respective terms and conditions;
- (d) **Residency for Tax Purposes:** Trafina is not a non resident of Canada within the meaning of the *Income Tax Act* (Canada);



- (e) **No Finders' Fees:** The Purchaser shall not have any responsibility for any obligation or liability, contingent or otherwise, for brokers' or finders' fees, if any, incurred by the Vendor with respect to the transactions herein;

## 6.2 Purchaser's Representation and Warranties

The Purchaser represents and warrants to the Vendor that:

- (a) **Standing:** The Purchaser is a corporation, duly organized, valid and substituting under the laws of its jurisdiction of incorporation, and duly registered and authorized to carry on business in each jurisdiction in which the Lands are located;
- (b) **Requisite Authority:** The Purchaser has the requisite capacity, power and authority to execute this Agreement and the Specific Conveyances 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 purchase 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 charter, by-laws or other governing documents of the Purchaser; or
  - (ii) the Regulations or any judicial order, award, judgement or decree applicable to the Purchaser;
- (d) **Execution and Enforceability:** The Purchaser has taken all actions necessary to authorize the execution and delivery of this Agreement and, as of the Closing Date, the 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 the Purchaser, and this Agreement and all other documents executed and delivered on behalf of the Purchaser hereunder shall constitute valid and binding obligations of the Purchaser enforceable in accordance with their respective terms and conditions, subject to the jurisdiction of the court in respect of insolvency, bankruptcy, reorganization and other laws of general application limiting the enforcement of creditor's rights generally, and to the fact that specific performance is an equitable remedy available only in the discretion of the court;
- (e) **Residency for Tax Purposes:** The Purchaser is not a non resident of Canada within the meaning of the *Income Tax Act* (Canada);
- (f) **No Sales Commissions:** The Purchaser has not incurred any obligation or liability, contingent or otherwise, for brokers' or finders' fees with respect to the transactions herein for which the Vendor shall have any responsibility;

- (g) **Purchaser As Principal:** The Purchaser is acquiring the Assets in its capacity as a principal; and
- (h) **Well Licenses:** Subject only to Section 3.2, the Purchaser satisfies all qualification requirements of all Governmental Authorities to purchase, to take a transfer of and to hold the Assets, including without limitation, the requirements of Governmental Authorities to have any Leases, and the licences for the Wells and Facilities to be transferred to Purchaser.

### **6.3 Survival Of Representations and Warranties**

Each Party acknowledges that the other may rely on the representations and warranties made by such Party pursuant to Clause 6.1 or 6.2, as the case may be. Subject to Subclause 5.2(b)(iv), the representations and warranties in Clauses 6.1 and 6.2 shall be true on the Effective Date and on the Closing Date, and such representations and warranties shall continue in full force and effect and shall survive the Closing Date for a period of three (3) months, for the benefit of the Party to 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, unless, within such period, written notice specifying such breach in reasonable detail has been provided to the Party which made such representation or warranty.

### **6.4 No Merger**

The representations and warranties in Clauses 6.1 and 6.2 shall be deemed to apply to all Specific Conveyances conveying any of the Assets from Trafina to the Purchaser. There shall not be any merger of any such representations or warranties in such Specific Conveyances, notwithstanding any rule of law, equity or statute to the contrary, and all such rules are hereby waived.

### **6.5 No Additional Representations or Warranties by Vendor**

- (a) The Vendor expressly negates any representations or warranties, whether written or verbal, made by the Vendor, its agents, servants or employees except as expressly stated in Clause 6.1 and in particular, without limiting the generality of the foregoing, the Vendor disclaims all liability and responsibility for any such representation, warranty, statement or information made or communicated (orally or in writing) to the Purchaser or any of its employees, agents, consultants or representatives. The Assets shall be purchased on a strictly "as is, where is", "without recourse", basis and there are no collateral agreements, conditions, representations or warranties of any nature whatsoever made by the Vendor, express or implied, arising at law, by statute or in equity or otherwise with respect to the Assets and in particular, without limiting the generality of the foregoing, there are no collateral agreements, conditions, representations or warranties made by the Vendor, express or implied, arising at law, by statute or in equity or otherwise with respect to:
  - (i) Trafina's right, title and interest in and to the Assets or any of them;

- (ii) the value of the Assets;
  - (iii) the quality, condition, fitness, merchantability or serviceability of the Assets;
  - (iv) the suitability of the Assets use for any purpose; or
  - (v) compliance with Regulations.
- (b) Without restricting the generality of the foregoing, the Purchaser acknowledges that it has made its own independent investigation, analysis, evaluation and inspection of the Vendor's interests in the Assets and the state and condition thereof and that it has relied solely on such investigation, analysis, evaluation and inspection as to its assessment of the condition, quantum and value of the Assets.
- (c) Except with respect to the representations and warranties in Clause 6.1 or in the event of fraud, the Purchaser forever releases and discharges the Vendor and its directors, officers, servants, agents and employees from any claims and all liability to the Purchaser or the Purchaser's assigns and successors, as a result of the use or reliance upon advice, information or materials pertaining to the Assets which was delivered or made available to the Purchaser by the Vendor or its directors, officers, servants, agents or employees prior to or pursuant to this Agreement, including, without limitation, any evaluations, projections, reports and interpretive or non factual materials prepared by or for the Vendor, or otherwise in the Vendor's possession.

## ARTICLE 7 LIABILITY AND INDEMNIFICATION

### 7.1 Responsibility of Purchaser

Provided that Closing has occurred, the Purchaser shall:

- (a) be liable to the Vendor for all losses, costs, damages and expenses whatsoever which the Vendor may suffer, sustain, pay or incur; and
- (b) indemnify and save the Vendor and its directors, officers, servants, agents and employees harmless from and against all claims, liabilities, actions, proceedings, demands, losses, costs, damages and expenses whatsoever which may be brought against or suffered by the Vendor, its directors, officers, servants, agents or employees or which they may sustain, pay or incur;

as a result of any matter or thing arising out of, resulting from, attributable to or connection with the Assets and occurring or accruing subsequent to the Effective Date or arising from the breach of any representation, warranty or covenant of the Purchaser contained in this Agreement, except any losses, costs, damages, expense, claims, liabilities, actions, proceedings and demands to the extent that the same either are reimbursable by insurance maintained by the Vendor or are caused by the gross negligence or wilful misconduct of the Vendor, its directors, officers, servants,



agents, employees or assigns. The responsibility prescribed by this Clause, however, does not provide an additional remedy for the Purchaser's breach of such a representation or warranty.

## **7.2 Assets Acquired On "As Is" Basis**

Notwithstanding the foregoing provisions of this Article, the Purchaser acknowledges that it is acquiring the Assets on an "as is, where is" and "without recourse" basis, as of the Effective Date. The 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 the Vendor has provided the Purchaser with a reasonable opportunity to inspect the Assets at the sole cost, risk and expense of the Purchaser (insofar as the Vendor could reasonably provide such access) and that the Purchaser is not relying upon any representation or warranty of the Vendor as to the condition, environmental or otherwise, of the Assets, except as is specifically made pursuant to Clause 6.1. Provided that Closing has occurred, the Purchaser further agrees that, as of the Effective Date, it shall:

- (a) be solely liable and responsible for any and all losses, costs, damages and expenses which the Vendor may suffer, sustain, pay or incur; and
- (b) indemnify and save the Vendor and its directors, officers, servants, agents and employees harmless from any and all claims, liabilities, actions, proceedings, demands, losses, costs damages and expenses whatsoever which may be brought against or suffered by the Vendor, its directors, officers, servants, agents or employees or which they may sustain pay or incur;

as a direct result of any matter or thing arising out of, resulting from, attributable to or connected with acts or omissions pertaining to environmental damage or contamination or other environmental problems pertaining to the Assets, however or by whomever the same occurred, whether such claims, demands, losses, costs, risks or expenses arose prior or subsequent to the Effective Date including any matters relating to:

- (i) surface, underground, air, groundwater or surface contamination;
- (ii) the abandonment or plugging of any Wells;
- (iii) the Abandonment and Reclamation Costs of any part of the Assets;
- (iv) the breach of any Regulations, as the same relate to the environment, in effect at any time; or
- (v) the removal of or failure to remove any foundations, structure or equipment from the Lands.

Once Closing has occurred, the Purchaser shall be solely responsible for all of the foregoing environmental liabilities respecting the Lands, the Abandonment and Reclamation of the Wells and the reclamation of the Lands as between the Vendor and the Purchaser, and hereby releases the Vendor from any claims the Purchaser may have against the Vendor with respect to all such liabilities and responsibilities. Subsection (i) above shall not apply to environmental

continuation which commenced to accrue from and after the date of grant of the Receivership Order and which has attributable to the wilful neglect of the Receiver, its agents and employees.

### **7.3 No Merger Of Legal Responsibilities**

The liabilities and indemnities created in this Article shall be deemed to apply to, and shall not merge in, all and any Specific Conveyances conveying any of the Assets from Trafina to the Purchaser, notwithstanding the terms of such Specific Conveyances, the Regulations or any rule of law or equity to the contrary, and all such rules are hereby waived.

### **7.4 Substitution and Subrogation**

Insofar as is possible, each Party shall have full rights or substitution and subrogation in and to all covenants, representations and warranties by others previously given or made in respect of the Assets or any of them.

### **7.5 Responsibility Extends to Legal Costs**

Notwithstanding any provision to the contrary contained in this Article, references to costs in the liability and indemnification obligations prescribed by Clauses 7.1 and 7.2 shall be deemed to include reasonable legal costs on a solicitor and his own client, full indemnity basis.

## **ARTICLE 8 PURCHASER'S REVIEW**

### **8.1 Vendor To Provide Access**

The Vendor shall, subject to the Regulations and all contractual and fiduciary obligations and limits:

- (a) provide the Purchaser and its nominees with reasonable access to Trafina's records, files and documents directly relating to the Assets, for the purpose of the Purchaser's review of the Assets and Trafina's title thereto, including, without limitation, the Leases and applicable operating agreements, unit agreements, overriding royalty agreements and production, sale transaction and processing contracts; and
- (b) provide the Purchase and its nominees with a reasonable opportunity to inspect the Assets at the Purchaser's sole cost, risk and expense, insofar as the Vendor can reasonably provide such access to the Assets.

## **ARTICLE 9 CONFIDENTIALITY**

### **9.1 Purchaser's Obligation To Maintain Information as Confidential**

Information respecting the Assets shall be retained in confidence and used only for the purposes of this Agreement and shall not be disclosed, used, dealt with or exploited by Purchaser

for any other purpose, provided that upon Closing, the Purchaser's rights to use or disclose such information shall be subject only to any operating, unit or other agreements that may apply thereto. Any additional information obtained as a result of such access which does not relate to the Assets shall continue to be treated as confidential and shall not be disclosed, used, dealt with or exploited by the Purchaser without the prior written consent of the Vendor. However, the restrictions on disclosure and use of information in this Agreement shall not apply to information to the extent it:

- (a) is or becomes publicly available through no act or omission of the Purchaser or its consultants or advisors;
- (b) is subsequently obtained lawfully from a Third party, which, after reasonably inquiry, the Purchaser does not know to be bound to the Vendor to restrict the use or disclosure of such information; or
- (c) is already in the Purchaser's possession at the time of disclosure, without restriction on disclosure.

However, specific items of information shall not be considered to be in the public domain merely because more general information respecting the Assets is in the public domain.

## **9.2 Consultations and Advisors Bound**

If the Purchaser employs consultants, advisors or agents to assist in its review of the Assets, the Purchaser shall be responsible to the Vendor for ensuring that such consultants, advisors and agents comply with the restrictions on the use and disclosure of information set forth in this Article 10.

## **ARTICLE 10 WAIVER**

### **10.1 Waiver Must be in Writing**

No waiver by any Party of any breach (whether actual or anticipated) or any of the terms, conditions, representations or warranties contained herein shall take effect or be binding upon that Party unless the waiver is expressed in writing under the authority of that Party. 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 future breach.

## **ARTICLE 11 ASSIGNMENT**

### **11.1 Assignments Before Closing**

Prior to Closing, neither Party may assign its interest in or under this Agreement or to the Assets without the prior written consent of the other Party, except as may be required by the Vendor to comply with its obligations respecting any Right of First Refusal.

## **11.2 Assignments By Purchaser After Closing**

No assignment, transfer or other disposition of this Agreement or all or any portion of the Assets by the Purchaser after Closing shall relieve the Purchaser from its obligations to the Vendor herein. The Vendor shall have the option to claim payment or performance of such obligations from the Purchaser or the assignee or transferee, and to bring proceedings in the event of default against either or all of them, provided that nothing herein shall entitle the Vendor to receive duplicate payment or performance of the same obligation.

## **ARTICLE 12 NOTICE**

### **12.1 Service Of Notice**

Notwithstanding anything to the contrary contained herein, all notices required or permitted hereunder shall be in writing. Any notice to be given hereunder shall be deemed to be served properly if served in any of the following modes:

- (a) personally, by delivering the notice to the Party on which it is to be served at that Party's address for service. Personally served notices shall be deemed to be received by the addressee when actually delivered as aforesaid, provided that such delivery shall be during normal business hours on any day other than a Saturday, Sunday or statutory holiday in Alberta. If a notice is not delivered on such a day or is delivered after the addressee's normal business hours, such notice shall be deemed to have been received by such Party at the commencement of the addressee's first business day next following the time of the delivery;
- (b) by telecopier or facsimile (or by any other like method by which a written message may be sent) directed to the Party on which it is to be served at that Party's address for service. A notice so served shall be deemed to be received by the addressee when actually received by it, if received within normal business hours on any day other than a Saturday, Sunday or statutory holiday in Alberta or at the commencement of the next ensuing business day following transmission if such notice is not received during such normal business hours; or
- (c) by mailing its first class (air mail if to or from a location outside of Canada) registered post, postage prepaid, directed to the Party on which it is to be served at that Party's address for service. Notices so served shall be deemed to be received by the addressee at noon, local time, on the earlier of the actual date of receipt of the fourth (4<sup>th</sup>) day (excluding Saturdays, Sundays and statutory holidays in Alberta) following the mailing thereof. However, if postal service is (or is reasonably anticipated to be) interrupted or operating with unusual delay, notice shall not be served by such means during such interruption or period of delay.

### **12.2 Addresses For Notices**

The address for service of notices hereunder of each of the Parties shall be as follows:

Vendor: FTI Consulting Canada Inc.  
1000, 888 – 3<sup>rd</sup> Street SW  
Calgary, AB T2P 5C5

Attn: Deryck Helkaa  
Tel: (403) 444-5372  
Fax: (403) 444-6699  
Email: [deryck.helkaa@fticonsulting.com](mailto:deryck.helkaa@fticonsulting.com)

with a copy to:

Blake, Cassels & Graydon LLP  
3500, 855 – 2<sup>nd</sup> Street SW  
Calgary, AB T2P 4J8

Attn: Kelly J. Bourassa  
Tel: (403) 260-9697  
Fax: (403) 260-9700  
Email: [Kelly.bourassa@blakes.com](mailto:Kelly.bourassa@blakes.com)

Purchaser: Quattro Exploration and Production Ltd.  
4110, 825 – 8<sup>th</sup> Avenue S.W.  
Calgary, AB T2P 2T3

Attn: Leonard B. Van Betuw  
Tel: (403) 984-3917  
Fax: (403) 984-3972  
Email: [Leonard@qxp-petro.com](mailto:Leonard@qxp-petro.com)

### **12.3 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 13 PUBLIC ANNOUNCEMENTS**

### **13.1 Approval Required for Press Releases**

- (a) The Parties shall cooperate with each other in relaying to Third Parties information concerning this Agreement and shall receive written approval from the other Party of all press releases and other releases of information prior to publication which approval may not be unreasonably withheld. However, nothing in this Clause shall prevent a Party from furnishing any information to any Governmental Authority or to the public, insofar only as is required by the Regulations or securities laws applicable to such Party, provided that a Party which proposes to make such a public disclosure shall, to the extent reasonably possible, provide an officer of the other Party with a draft of such statement a



sufficient time prior to its release to enable such other Party to review such draft and advise that Party of any comments it may have with respect thereto.

- (b) Notwithstanding Subclause 13.1(a), the Vendor shall be permitted to disclose information pertaining to this Agreement and the identity of the Purchaser, to the extent required to enable the Vendor to fulfil its obligations pertaining to Rights of First Refusal and such disclosure as Vendor believes is necessary or advisable to obtain the Approval Order and the Vesting Order.

### **13.2 Signs And Notification To Governmental Authorities**

Following Closing, the Vendor may remove any signs which indicate Trafina's ownership or operation of the Assets. If the Purchaser will be the operator of the Assets, it shall be the responsibility of the Purchaser to erect or install any signs required by Governmental Authorities, contracts, suppliers and other affected Third Parties of the Purchaser's interest in the Assets.

## **ARTICLE 14 MISCELLANEOUS PROVISIONS**

### **14.1 Further Assurances**

At the Closing Date and thereafter as may be necessary, the Parties shall execute, acknowledge and deliver such instruments and take such other actions as may be reasonably necessary to fulfil their respective obligations under this Agreement.

Purchaser shall provide Vendor with reasonably access to, and Vendor may retain or subsequently obtain from Purchaser copies or photocopies of, any of the documents comprised in Miscellaneous Interests that Vendor considers necessary to enable it to comply with any laws or the requirements of any authority or to conduct audits relating to the period prior to the Closing Date. Such right of access shall terminate twenty-four (24) months after the Closing Date.

### **14.2 Governing Law**

This Agreement shall be subject to and be interpreted, construed and enforced in accordance with the laws in effect in the Province of Alberta. Each Party accepts the exclusive jurisdiction of the courts of the Province of Alberta and all courts of appeal therefrom.

### **14.3 Time**

Time shall be of the essence in this Agreement.

### **14.4 No Amendment Except In Writing**

This Agreement may be amended only by written instrument executed by the Vendor and the Purchaser.

**14.5 Consequences Of Termination**

If this Agreement is Terminated in accordance with its terms prior to Closing, then except for the provisions of Article 10 and the covenants, warranties, representations or other obligations breached prior to the time at which such termination occurs, the Parties shall be released from all of their obligations under this Agreement. If this Agreement is so terminated, the Purchaser shall promptly return to the Vendor all materials delivered to the Purchaser by the Vendor hereunder, together with all copies of them that may have been made by or for the Purchaser.

**14.6 Supersedes Earlier Agreements**

This Agreement supersedes all other agreements between the Parties with respect to the Assets and expresses the entire agreement of the Parties with respect to the transactions contained herein.

**14.7 Enurement**

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

**WITNESS WHEREOF** this Agreement has been executed by the parties hereto on the date first above written.

**FTI Consulting Canada Inc.**, in its capacity as receiver and manager of the assets, undertakings and properties of **Trafina Energy Ltd.** and not in its personal capacity

**Quattro Exploration and Production Ltd.**

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

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

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

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

This is SCHEDULE A to an Agreement of Purchase and Sale dated July 11, 2012 between FTI Consulting Canada Inc., in its capacity as receiver and manager of the assets, undertakings and properties of Trafina Energy Ltd., as Vendor, and Quattro Exploration and Production Ltd., as Purchaser

"Lands", "Leases", "Wells",

"AFEs"

"Facilities"

"Pipelines"

"Major Agreements"

"Seismic"



**14.5 Consequences Of Termination**

If this Agreement is Terminated in accordance with its terms prior to Closing, then except for the provisions of Article 10 and the covenants, warranties, representations or other obligations breached prior to the time at which such termination occurs, the Parties shall be released from all of their obligations under this Agreement. If this Agreement is so terminated, the Purchaser shall promptly return to the Vendor all materials delivered to the Purchaser by the Vendor hereunder, together with all copies of them that may have been made by or for the Purchaser.

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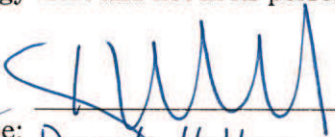
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**FTI Consulting Canada Inc.**, in its capacity as receiver and manager of the assets, undertakings and properties of **Trafina Energy Ltd.** and not in its personal capacity

**Quattro Exploration and Production Ltd.**

Per:   
Name: Deryck Helkaa  
Title: Senior Managing Director

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

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

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

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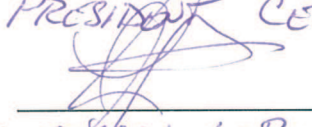
**FTI Consulting Canada Inc.**, in its capacity as receiver and manager of the assets, undertakings and properties of **Trafina Energy Ltd.** and not in its personal capacity

**Quattro Exploration and Production Ltd.**

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

Per:   
Name: LEONARD B VAN BETSU  
Title: PRESIDENT CEO

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

Per:   
Name: STACEY LEPIA-MARTIN  
Title: CTO