ARRANGEMENT AGREEMENT

THIS ARRANGEMENT AGREEMENT is dated as of the 27th day of September, 2010.

AMONG:

SOUTHERN PACIFIC RESOURCE CORP., a corporation amalgamated under the laws of the Province of Alberta ("**Southern Pacific**")

\- and -

NORTH PEACE ENERGY CORP., a corporation amalgamated under the laws of the Province of Alberta ("**North Peace**")

WHEREAS Southern Pacific and North Peace wish to propose an arrangement involving North Peace and its shareholders;

AND WHEREAS Southern Pacific and North Peace intend to carry out the transactions contemplated by this Agreement by way of an arrangement under the provisions of the *Business Corporations Act* (Alberta);

AND WHEREAS Southern Pacific and North Peace have entered into this Agreement to provide for the matters referred to in the foregoing recitals and for other matters relating to such arrangement;

NOW THEREFORE, in consideration of the covenants and agreements herein contained and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), Southern Pacific and North Peace do hereby covenant and agree as follows:

ARTICLE 1 - INTERPRETATION

1.1 Definitions

In this Agreement, unless there is something in the context or subject matter inconsistent therewith, the following defined terms have the meanings hereinafter set forth:

(a) "**ABCA**" means the *Business Corporations Act* (Alberta), including the regulations promulgated thereunder;

(b) "**Acquisition Proposal**" means any inquiry or the making of any proposal or offer to North Peace or its shareholders from any person, whether or not subject to due diligence or other conditions and whether oral or in writing, which constitutes, or may reasonably be expected to lead to (in either case, whether in one transaction or a series of transactions): (i) an acquisition from North Peace or its shareholders of securities of North Peace (other than on exercise of currently outstanding North Peace Options or North Peace Performance Warrants or North Peace Warrants) that, when taken together with the securities of North Peace held by the proposed acquirer, would constitute more than 20% of the voting equity securities of North Peace; (ii) any acquisition of all or a material portion of the assets of North Peace; (iii) an amalgamation, arrangement, merger, or consolidation involving North Peace; or (iv) any take-over bid, issuer bid, exchange offer, recapitalization, liquidation, dissolution or similar transaction involving North Peace or any other transaction, the consummation of which would or could reasonably be expected to impede, interfere with, prevent or delay the transactions contemplated by this Agreement or the Arrangement or which would or could reasonably be expected to materially reduce the benefits to Southern Pacific under this Agreement or the Arrangement;

(c) “**Agreement**”**,** “**herein**”, “**hereof**”**,** “**hereto**”**,** “**hereunder**” and similar expressions mean and refer to this arrangement agreement (including the schedules hereto) as supplemented, modified or amended, and not to any particular article, section, schedule or other portion hereof;

(d) “**Applicable Canadian Securities Laws**” means, collectively, and as the context may require, the securities legislation of each of the provinces and territories of Canada and the rules, regulations and policies published and/or promulgated thereunder, including the applicable rules of the TSXV or the TSX;

(e) “**Applicable Laws**” means all applicable corporate laws, rules of applicable stock exchanges and applicable securities laws, including the rules, regulations, notices, instruments, blanket orders and policies of the securities regulatory authorities in Canada;

(f) “**Arrangement**” means the arrangement pursuant to Section 193 of the ABCA, on the terms and conditions set forth in the Plan of Arrangement;

(g) “**Arrangement Resolution**” means the special resolution in respect of the Arrangement to be considered by the North Peace Shareholders at the North Peace Meeting;

(h) “**Articles of Arrangement**” means the articles of arrangement in respect of the Arrangement required under Subsection 193(10) of the ABCA to be sent to the Registrar after the Final Order has been granted, giving effect to the Arrangement;

(i) “**Business Day**” means with respect to any action to be taken, any day, other than Saturday, Sunday or a statutory holiday in the place where such action is to be taken;

(j) “**Cancellation Agreements**” means agreements to be entered into between Southern Pacific, North Peace, the North Peace Optionholders and the North Peace Performance Warrantholders whereby each such holder agrees to surrender for cancellation any unexercised North Peace Options or North Peace Performance Warrants held by such holder to North Peace for aggregate consideration of $1.00 for all North Peace Options and North Peace Performance Warrants held by such holder;

(k) “**Certificate**” means the certificate or other confirmation of filing to be issued by the Registrar pursuant to Subsection 193(11) of the ABCA giving effect to the Arrangement;

(l) “**Circular**” means the management proxy circular of North Peace to be sent by North Peace to the North Peace Shareholders in connection with the North Peace Meeting;

(m) “**Company Plans**” means all plans, arrangements, agreements, programs, policies, practices or undertakings, whether oral or written, formal or informal, funded or unfunded, insured or uninsured, registered or unregistered which North Peace or any of its subsidiaries is a party to or bound by or which the employees or former employees, directors or officers of North Peace or any of its subsidiaries or consultants (or any spouses, dependants, survivors or beneficiaries of any such persons) participate in or which North Peace or any of its subsidiaries has, or will have, any liability or contingent liability under or, pursuant to which payments are made, or benefits are provided or an entitlement to payments or benefits may arise with respect to any employees or former employees, directors or officers of North Peace or any of its subsidiaries or consultants (or any spouses, dependants, survivors or beneficiaries of any such persons), relating to retirement savings, pensions, bonuses, profit sharing, retention, severance, deferred compensation, incentive compensation, life or accident insurance, hospitalization, health, medical or dental treatment or expenses, disability, employee loans, vacation pay, severance or termination pay or other employee benefits;

(n) "**Confidentiality Agreements**" means, collectively, the North Peace Confidentiality Agreement and the Southern Pacific Confidentiality Agreement;

(o) "**Court**" means the Court of Queen's Bench of Alberta;

(p) "**Effective Date**" means the date the Arrangement becomes effective under the ABCA which is scheduled to occur on November 30, 2010 or such earlier or later dates as may be agreed to by North Peace and Southern Pacific;

(q) "**Effective Time**" means 12:01 a.m. (Calgary time) on the Effective Date;

(r) "**Encumbrance**" includes, without limitation, any mortgage, pledge, assignment, charge, lien, security interest, claim, trust, royalty or carried, participation, net profits or other third party interest and any agreement, option, right of first refusal, right or privilege (whether by law, contract or otherwise) capable of becoming any of the foregoing;

(s) "**Environment**" means the natural environment (including soil, land surface or subsurface strata, surface waters, groundwater, sediment, ambient air (including all layers of the atmosphere), organic and inorganic matter and living organisms, and any other environmental medium or natural resource;

(t) "**Environmental Laws**" means, with respect to any person or its business, activities, property, assets or undertaking, all federal, municipal or local laws of any Governmental Authority or of any court, tribunal or other similar body, relating to environmental or health matters in the jurisdictions applicable to such person or its business, activities, property, assets or undertaking, including legislation governing the use and storage of Hazardous Substances;

(u) "**Fairness Opinion**" means the opinion of CIBC World Markets Inc. to the effect that the consideration to be received under the Arrangement is fair, from a financial point of view, to the North Peace Shareholders;

(v) "**Final Order**" means the order of the Court approving the Arrangement pursuant to Subsection 193(9) of the ABCA in respect of North Peace, as such order may be affirmed, amended or modified by any court of competent jurisdiction;

(w) **"Governmental Authority**" means any Canadian federal, provincial, municipal or other political subdivision, government, department, commission, board, bureau, agency or instrumentality;

(x) "**GLJ**" means GLJ Petroleum Consultants Ltd.;

(y) "**Hazardous Substances**" means any waste or other substance 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 or synthetic substitutes therefor;

(z) "**Interim Order**" means an interim order of the Court concerning the Arrangement under Subsection 193(4) of the ABCA in respect of North Peace, containing declarations and directions with respect to the Arrangement and the holding of the North Peace Meeting, as such order may be affirmed, amended or modified by any court of competent jurisdiction;

(aa) "**Mailing Date**" means the date on which the Circular is mailed to the North Peace Shareholders in connection with the North Peace Meeting;

(bb) "**material adverse change**" or "**material adverse effect**" means, with respect to a Party, any matter or action that has an effect or change that is, or would reasonably be expected to be, material and adverse to the business, operations, assets, capitalization, financial condition or prospects of the Party, other than any matter, action, effect or change relating to or resulting from: (1) general economic, financial, currency exchange, securities or commodity prices in Canada or elsewhere, (ii) conditions affecting the oil and gas exploration, exploitation, development and production industry as a whole, and not specifically relating to the Party, including changes in laws (including tax laws) and royalties, (iii) any decline in bitumen, crude oil, natural gas or related hydrocarbon prices on a current or forward basis, (iv) any matter which has been communicated in writing to the other Party as of the date hereof, (v) any action taken by North Peace, on the one hand, or Southern Pacific, on the other hand, with the approval, consent or authority of the other or authorized by the Operations Committee; (vi) the results of any well commenced or completed by North Peace, on the one hand, or Southern Pacific, on the other hand, after the date hereof (it being the intention of the Parties that a determination that any one or more wells completed or commenced after the date hereof is not capable of commercial production of oil or natural gas (or both) shall not be considered to have a material adverse affect for the purposes of this Agreement or the Arrangement); or (vii) any changes or effects arising from matters permitted or contemplated by this Agreement or consented to or approved in writing by the other Party;

(cc) "**North Peace Budget**" means the budget of North Peace for the period from September 15, 2010 until November 30, 2010 provided by North Peace to Southern Pacific and included as a schedule to North Peace's Disclosure Letter;

(dd) "**North Peace Confidentiality Agreement**" means the confidentiality agreement between North Peace and Southern Pacific dated July 21, 2010;

(ee) "**North Peace's Disclosure Letter**" means the disclosure letter delivered by North Peace to Southern Pacific immediately prior to the execution of this Agreement;

(ff) "**North Peace Employment and Consulting Agreements**" means written agreements, executed and dated prior to the date hereof, among North Peace and its employees or consultants which agreements govern the employment or consultancy arrangement among North Peace and its employees or consultants, respectively;

(gg) "**North Peace Financial Statements**" means, collectively, the audited financial statements of North Peace for the years ended December 31, 2009 and 2008, together with the notes thereto and the report of the auditors thereon, and the interim unaudited financial statements of North Peace for the six month period ended June 30, 2010 together with the notes thereto;

(hh) "**North Peace Information**" means the information included in the Circular describing North Peace and its business, operations and affairs and the matters to be considered at the North Peace Meeting;

(ii) "**North Peace Lock-up Agreements**" means agreements between Southern Pacific and the North Peace Lock-Up Securityholders, pursuant to which the North Peace Lock-Up Securityholders have agreed to vote the North Peace Securities beneficially owned or controlled by the North Peace Lock-Up Securityholders in favour of the Arrangement Resolution and to otherwise support the Arrangement;

(jj) "**North Peace Lock-up Securityholders**" means those North Peace Securityholders that have entered into North Peace Lock-Up Agreements with Southern Pacific;

(kk) "**North Peace Meeting**" means the special meeting of North Peace Shareholders to consider the Arrangement Resolution and related matters, and any adjournments thereof;

(ll) "**North Peace Optionholders**" means the holders from time to time of North Peace Options;

(mm) "**North Peace Options**" means the outstanding stock options of North Peace, whether or not vested, entitling the holders thereof to acquire North Peace Shares;

(nn) "**North Peace Performance Warrantholders**" means the holders from time to time of North Peace Performance Warrants;

(oo) "**North Peace Performance Warrants**" means the outstanding performance warrants of North Peace, whether or not vested, entitling the holders thereof to acquire North Peace Shares;

(pp) "**North Peace Public Record**" means all information filed by or on behalf of North Peace after December 31, 2008 with the securities commissions or similar securities regulatory authorities in the Provinces or Territories of Canada, in compliance, or intended compliance, with any Applicable Laws;

(qq) "**North Peace Reserves Report**" means the independent engineering evaluations of North Peace's bitumen, oil, natural gas liquids and natural gas interests prepared by Sproule effective December 31, 2009 and dated February 3, 2010;

(rr) "**North Peace Securities**" means the North Peace Shares, the North Peace Options, the North Peace Performance Warrants and the North Peace Warrants;

(ss) "**North Peace Securityholders**" means the North Peace Shareholders, the North Peace Optionholders, the North Peace Performance Warrantholders and the North Peace Warrantholders;

(tt) "**North Peace Shareholders**" means the holders from time to time of North Peace Shares;

(uu) "**North Peace Shares**" means common shares of North Peace as constituted on the date hereof;

(vv) "**North Peace Termination Payments**" means all amounts payable by North Peace pursuant to North Peace Employment and Consulting Agreements or otherwise in respect of the Arrangement on the account of change of control payments, severance payments, retention bonus payments, statutory minimum payments or other similar payments to North Peace's officers, directors, employees or consultants, all as more particularly set forth in Schedule "C" of the North Peace Disclosure Letter;

(ww) "**North Peace Transaction Costs**" means all costs and expenses incurred by North Peace in connection with the transactions contemplated by this Agreement, including all North Peace Termination Payments, legal, accounting, financial advisory, printing and other administrative or professional fees, costs and expenses of third parties incurred by North Peace, which costs, in aggregate, shall not exceed **$2,500,000**;

(xx) "**North Peace Warrantholders**" means the holders from time to time of North Peace Warrants;

(yy) "**North Peace Warrants**" means the outstanding warrants of North Peace, whether or not vested, entitling the holders thereof to acquire North Peace Shares;

(zz) "**North Peace Working Capital**" means the amount equal to North Peace's working capital, calculated in accordance with Canadian generally accepted accounting principles, minus North Peace long term debt, if any, minus the North Peace Transaction Costs as at the Effective Date, minus the asset sale consideration that North Peace receives from the sale of any assets of North Peace, if any, which sale occurs after the date hereof and prior to the Effective Date;

(aaa) "**Operations Committee**" has the meaning set forth in Section 3.6;

(bbb) "**Parties**" means Southern Pacific and North Peace; and "**Party**" means either one of them;

(ccc) "**Person**" means any individual, sole proprietorship, partnership, firm, entity, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, Governmental Authority, and where the context requires any of the foregoing when they are acting as trustee, executor, administrator or other legal representative;

(ddd) "**Plan of Arrangement**" means the plan of arrangement substantially in the form set out in Schedule "A" to this Agreement as amended or supplemented from time to time in accordance with Article 6 thereof and Article 7 hereof;

(eee) "**Registrar**" means the Registrar of Corporations for the Province of Alberta appointed under Section 263 of the ABCA;

(fff) "**Release**" means any sudden, intermittent or gradual release, spill, leak, pumping, addition, pouring, emission, emptying, discharge, migration, injection, escape, leaching, disposal, dumping, deposit, spraying, burial abandonment, incineration, seepage, placement or introduction of a Hazardous Substance, whether accidental or intentional, into the Environment;

(ggg) "**Returns**" shall mean all reports, estimates, elections, designations, forms, declarations of estimated tax, information statements and returns and including any amendments, schedules, attachments, supplements, appendices and exhibits thereto relating to, or required to be filed in connection with, any Taxes;

(hhh) "**Southern Pacific Confidentiality Agreement**" means the confidentiality agreement between Southern Pacific and North Peace dated September 8, 2010;

(iii) "**Southern Pacific Financial Statements**" means, collectively, the audited financial statements of Southern Pacific for the years ended June 30, 2010 and 2009, together with the notes thereto and the report of the auditors thereon;

(jjj) "**Southern Pacific Information**" means the information describing Southern Pacific and its business, operations and affairs and its directors and officers specifically provided by Southern Pacific to North Peace for inclusion in the Circular;

(kkk) "**Southern Pacific Reserves Report**" means the independent engineering evaluations of Southern Pacific's bitumen, oil, natural gas liquids and natural gas interests prepared by GLJ effective June 30, 2010 and dated August 13, 2010;

(lll) "**Southern Pacific Shares**" means common shares of Southern Pacific as constituted on the date hereof;

(mmm) "**Sproule**" means Sproule and Associates Limited;

(nnn) "**subsidiary"** means, with respect to a specified entity, any:

(i) body corporate of which more than 50% of the outstanding shares ordinarily entitled to elect a majority of the board of directors thereof (whether or not shares of any other class or classes shall or might be entitled to vote upon the happening of any event or contingency) are at the time owned directly or indirectly by such specified entity or indirectly by or for the benefit of such specified entity; and

(ii) entity which is not a body corporate, of which more than 50% of the voting or equity interests of such entity (including, for a partnership other than a limited partnership, the voting or equity interests in such partnership) are owned, directly or indirectly, by such specified entity or indirectly by or for the benefit of such specified entity and in the case of a partnership (including a limited partnership), of which such specified entity, or a subsidiary of such specified entity, is a general partner; and

(iii) any issuer that would constitute a subsidiary as defined in the *Securities Act* (Alberta);

(ooo) "**Superior Proposal**" has the meaning set forth in Section 3.4(b)(v)(A);

(ppp) "**Tax Act**" means the *Income Tax Act* (Canada) and the regulations thereunder, all as amended from time to time;

(qqq) "**Taxes**" shall mean all taxes, however denominated, including any interest, penalties or other additions that may become payable in respect thereof; imposed by any federal, territorial, state, local or foreign government or any agency or political subdivision of any such government, which taxes shall include, without limiting the generality of the foregoing, all income or profits taxes (including, but not limited to, federal income taxes and provincial income taxes), payroll and employee withholding taxes, unemployment insurance, social insurance taxes, 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, transfer taxes, workers compensation, government pension premiums or contributions and other governmental charges, and other obligations of the same or of a similar nature to any of the foregoing, which a Party is required to pay, withhold, remit or collect;

(rrr) "**Trimor Engagement Letter**" means the engagement letter among North Peace and Trimor Capital Corporation dated June 21, 2010;

(sss) "**TSX**" means the Toronto Stock Exchange; and

(ttt) "**TSXV**" means the TSX Venture Exchange Inc.

1.2 Interpretation Not Affected by Headings, etc.

The division of this Agreement into articles, sections and subsections is for convenience of reference only and does not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof', "herein" and "hereunder" and similar expressions refer to this Agreement (including Schedule "A" and Schedule "B" hereto) and not to any particular article, section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto.

1.3 Number, etc.

Words importing the singular number include the plural and vice versa, words importing the use of any gender include all genders, and words importing persons include firms and corporations and vice versa.

1.4 Date for Any Action

If any date on which any action is required to be taken hereunder by any of the Parties is not a Business Day, such action is required to be taken on the next succeeding day which is a Business Day.

1.5 Entire Agreement

This Agreement (including the exhibits, schedules, and North Peace's Disclosure Letter), the Confidentiality Agreements and the North Peace Lock-Up Agreements, constitute the entire agreement among the Parties pertaining to the subject matter hereof and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, among the Parties with respect to the subject matter hereof. To the extent there is any inconsistency between this Agreement and a Confidentiality Agreement, this Agreement shall supersede such Confidentiality Agreement. To the extent there is any inconsistency between this Agreement and the North Peace Lock-Up Agreements, the North Peace Lock-Up Agreements shall supersede this Agreement.

1.6 Currency

All sums of money which are referred to in this Agreement are expressed in lawful money of Canada.

1.7 Accounting Matters

Unless otherwise stated, all accounting terms used in this Agreement shall have the meanings attributable thereto under Canadian generally accepted accounting principles and all determinations of an accounting nature are required to be made shall be made in a manner consistent with Canadian generally accepted accounting principles.

1.8 Disclosure in Writing

Reference to disclosure in writing herein shall include disclosure by e-mail and, in the case of Southern Pacific, include disclosure to Southern Pacific or its representatives (including disclosures contained in the data room maintained by CIBC World Markets Inc.), or in the case of North Peace, include disclosure to North Peace or its representatives.

1.9 References to Legislation

References in this Agreement to any statute or sections thereof shall include such statute as amended or substituted and any regulations promulgated thereunder from time to time in effect.

1.10 Enforceability

All representations, warranties, covenants and opinions in or contemplated by this Agreement as to the enforceability of any covenant, agreement or document are subject to enforceability being limited by applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other laws relating to or affecting creditors' rights generally, and the discretionary nature of certain remedies (including specific performance and injunctive relief and general principles of equity).

1.11 Knowledge

Where any representation or warranty contained in this Agreement is expressly qualified by reference to the knowledge of a Party, it refers to the actual knowledge of the senior officers of the Party after reasonable inquiry.

1.12 Schedules

The following schedule attached hereto is incorporated into and forms an integral part of this Agreement:

Schedule A - Plan of Arrangement

Schedule B - Land Schedule

ARTICLE 2 - THE ARRANGEMENT AND RELATED MATTERS

2.1 Plan of Arrangement

Southern Pacific and North Peace agree that the Arrangement shall be implemented in accordance with and subject to the terms and conditions contained in this Agreement and the Plan of Arrangement.

2.2 Approval

(a) North Peace shall, by not later than October 29, 2010 or such later date as may be agreed to by Southern Pacific, apply to the Court, in a manner reasonably acceptable to Southern Pacific, for the Interim Order and thereafter diligently seek the Interim Order and, upon receipt thereof, North Peace shall forthwith carry out the terms of the Interim Order to the extent applicable to it. The Interim Order shall provide, among other things:

(i) for the class of persons to whom notice is to be provided in respect of the Arrangement and the North Peace Meeting and for the manner in which such notice is to be provided;

(ii) that the North Peace Shareholders shall be entitled to vote with respect to the Arrangement Resolution, with each North Peace Shareholder being entitled to one vote for each North Peace Share held;

(iii) that the requisite majority for the approval of the Arrangement Resolution shall be two-thirds of the votes cast by the North Peace Shareholders present in person or by proxy at the North Peace Meeting; and

(iv) for the grant of dissent rights to the North Peace Shareholders in respect of the Arrangement.

(b) provided all necessary approvals for the Arrangement Resolution are obtained from the North Peace Shareholders, North Peace shall, as soon as reasonably practicable following the North Peace Meeting submit the Arrangement to the Court and apply for the Final Order; and

(c) forthwith following the issuance of the Final Order and subject to the conditions precedent in Article 5, North Peace shall proceed to file the Articles of Arrangement, the Final Order and such other documents as may be required to give effect to the Arrangement with the Registrar pursuant to Subsection 193(10) of the ABCA, whereupon the transactions comprising the Arrangement shall occur and shall be deemed to have occurred in the order set out therein without any act or formality.

2.3 Circular and North Peace Meeting

(a) North Peace shall: (i) prepare the Circular, in consultation with Southern Pacific, and cause such circular to be mailed to the North Peace Shareholders by no later than November 3, 2010 and filed with applicable regulatory authorities and other governmental authorities in all jurisdictions where the same are required to be mailed and filed and (ii) convene the North Peace Meeting to be held no later than November 30, 2010;

(b) North Peace shall ensure that the Circular includes the recommendation of the Board of Directors of North Peace that the North Peace Shareholders vote in favour of the Arrangement Resolution, unless such recommendation has been withdrawn, modified or amended in accordance with the terms of this Agreement and shall include a copy of the Fairness Opinion;

(c) Southern Pacific shall, in a timely manner, furnish North Peace with the Southern Pacific Information in order that North Peace can comply with the timeline set forth in this Section 2.3; and

(d) Southern Pacific and North Peace shall cooperate in the preparation, filing and mailing of the Circular. North Peace shall provide Southern Pacific and its representatives with a reasonable opportunity to review and comment on the Circular and any other relevant documentation and shall give reasonable consideration to all such comments made by Southern Pacific and its counsel and the Circular shall be reasonably satisfactory to Southern Pacific before it is filed or distributed to the North Peace Shareholders.

2.4 General

(a) North Peace shall permit Southern Pacific and its counsel to review and comment upon drafts of all material to be filed by North Peace with the Court in connection with the

Arrangement, including, if applicable, the Circular and any supplement or amendment thereto and provide counsel to Southern Pacific on a timely basis with copies of any notice of appearance and evidence served on North Peace or its counsel in respect of the application for the Interim Order and/or the Final Order or any appeal therefrom and of any notice (written or oral) received by North Peace indicating any intention to oppose the granting of the Interim Order or the Final Order or to appeal the Interim Order or the Final Order; and

(b) North Peace shall not file any material with the Court in connection with the Arrangement or serve any such material and shall not agree to modify or amend materials so filed or served except as contemplated hereby or with the prior written consent of Southern Pacific, such consent not to be unreasonably withheld or delayed.

2.5 Effective Date

The Arrangement shall become effective at the Effective Time on the Effective Date.

2.6 Outstanding Stock Options, Performance Warrants and Warrants

The Parties acknowledge that all North Peace Options and North Peace Performance Warrants shall be cancelled or exercisable immediately prior to the Effective Time in accordance with the Cancellation Agreements.

Southern Pacific will make available Southern Pacific Shares issuable upon the exercise of North Peace Warrants in accordance with the terms of the North Peace Warrants.

2.7 Employees

The employment of all officers and employees of North Peace, and any agreements with consultants, shall be terminated at the Effective Time. Such officers, employees and consultants shall be entitled to a North Peace Termination Payment if such North Peace Termination Payment is required pursuant to such officers', employees' or consultants' North Peace Employment and Consulting Agreement or otherwise required by law. The aggregate amount of the North Peace Termination Payments shall not exceed **$1,500,000.** All employees will be considered for future employment with Southern Pacific following the Effective Time. North Peace will not terminate the employment of any employee prior to the Effective Time without the consent of Southern Pacific, not to be unreasonably withheld.

2.8 Indemnities and Directors' and Officers' Insurance

(a) North Peace shall fulfill its obligations pursuant to indemnities provided or available to past and present officers and directors of North Peace pursuant to the provisions of the constating documents of North Peace, the ABCA, and any written indemnity agreements which have been entered into between North Peace and its current officers and directors effective on or prior to the date hereof; and

(b) North Peace shall secure "run off" directors' and officers' liability insurance for its current officers and directors, covering claims made prior to or within six years after the Effective Date which has a scope and coverage no less advantageous in scope and coverage to that provided pursuant to North Peace's current directors' and officers' insurance policy, and Southern Pacific agrees to not take or permit any action to be taken by or on behalf of North Peace to terminate or adversely affect such directors' and officers' insurance.

2.9 North Peace Transaction Costs and Funding

The amount of the North Peace Transaction Costs, which amount shall not exceed **$2,500,000,** including, without limitation, the North Peace Termination Payments, shall be paid, to the extent not previously paid, by North Peace to counsel for North Peace two Business Days prior to the Effective Time, to the extent North Peace has cash available, to be held in trust for the benefit of the persons entitled to such payments. Provided that North Peace has fulfilled the North Peace Working Capital requirements set forth in Section 5.2(h), to the extent that North Peace's cash is insufficient to fully pay the North Peace Transaction Costs, Southern Pacific shall pay to counsel for North Peace at the closing of the Arrangement, the amount of such deficiency, which together, with the amount paid by North Peace, shall not exceed **$2,500,000** (regardless of the amount of the deficiency), such payment to be held in trust for the benefit of the persons entitled to such payments. Upon the filing of the Articles of Arrangement, counsel for North Peace will deliver cheques representing such payments to those persons entitled thereto and deliver to Southern Pacific a cheque for any balance remaining after making such payments.

2.10 No Payment of North Peace Termination Payments Prior to the Effective Date

Notwithstanding any other term or provision of this Agreement or the North Peace Employment and Consulting Agreements, no North Peace Termination Payment shall be paid prior to the Effective Date other than retention bonus payments of an aggregate of $210,000 payable on September 30, 2010 as set forth in Schedule “C” to the North Peace Disclosure Letter.

ARTICLE 3 - COVENANTS

3.1 Covenants of Southern Pacific

From the date hereof until the earlier of the completion of the Arrangement and the termination of this Agreement in accordance with Article 8, except with the prior written consent of North Peace (such consent not to be unreasonably withheld or delayed), and as otherwise expressly permitted or specifically contemplated by this Agreement:

(a) where Southern Pacific is an operator of any property, it shall operate and maintain such property in a proper and prudent manner in accordance with good industry practice and the agreements governing the ownership and operation of such property;

(b) Southern Pacific shall not take any action that would render, or may reasonably be expected to render, any representation or warranty made by it in this Agreement untrue in any material respect at any time prior to completion of the Arrangement or termination of this Agreement, whichever first occurs, other than as consented to in writing by North Peace, such consent not to be unreasonably withheld;

(c) Southern Pacific shall promptly notify North Peace in writing of any material change (actual, anticipated, contemplated or, to the knowledge of Southern Pacific threatened, financial or otherwise) in its business, operations, affairs, assets, capitalization, financial condition, licenses, permits, rights, privileges or liabilities, whether contractual or otherwise, or of any change in any representation or warranty provided by Southern Pacific in this Agreement which change is or may be of such a nature to render any representation or warranty misleading or untrue in any material respect and Southern Pacific shall in good faith discuss with North Peace any change in circumstances (actual, anticipated, contemplated, or to the knowledge of Southern Pacific threatened) which is of such a nature that there may be a reasonable question as to whether notice need to be given to North Peace pursuant to this provision;

(d) Southern Pacific shall assist North Peace in the preparation of the Circular, if required, and provide to North Peace, in a timely and expeditious manner, the Southern Pacific Information for inclusion in the Circular and any amendments or supplements thereto, in each case complying in all material respects with all Applicable Laws on the date of issue thereof;

(e) Southern Pacific shall indemnify and save harmless North Peace and the directors, officers and agents of North Peace from and against any and all liabilities, claims, demands, losses, costs, damages and expenses (excluding any loss of profits or consequential damages) to which North Peace, or any director, officer or agent thereof may be subject or which North Peace, or any director, officer or agent thereof may suffer, whether under the provisions of any statute or otherwise, in any way caused by, or arising, directly or indirectly, from or in consequence of:

(i) any misrepresentation or alleged misrepresentation in the Southern Pacific Information;

(ii) any order made or any inquiry, investigation or proceeding by any securities commission or other competent authority based upon any untrue statement or omission or alleged untrue statement or omission of a material fact or any misrepresentation or any alleged misrepresentation in the Southern Pacific Information; or

(iii) Southern Pacific not complying with any requirement of Applicable Laws in connection with the transactions contemplated in this Agreement.

(f) Southern Pacific shall use its reasonable commercial efforts to cause its current insurance (or re-insurance) policies not to be cancelled or terminated or any of the coverage thereunder to lapse, unless simultaneously with such termination, cancellation or lapse, replacement policies underwritten by insurance or re-insurance companies of nationally recognized standing providing coverage equal to or greater than the coverage under the cancelled, terminated or lapsed policies for substantially similar premiums are in full force and effect and shall pay all premiums in respect of such insurance policies that become due prior to the Effective Date;

(g) prior to the Effective Date, Southern Pacific will: (i) make application to list the Southern Pacific Shares issuable pursuant to the Arrangement on the TSX; and (ii) use its reasonable commercial efforts to obtain approval for the listing of such Southern Pacific Shares on the TSX;

(h) Southern Pacific shall make all commercially reasonable filings and applications under Applicable Laws, including Applicable Canadian Securities Laws, required to be made on the part of Southern Pacific in connection with the transactions contemplated herein;

(i) Southern Pacific shall use its reasonable commercial efforts to obtain the written consent of any third parties as are required for the consummation of the Arrangement or as otherwise contemplated hereby;

(j) Southern Pacific shall ensure that the Southern Pacific Information, if required, has been prepared in compliance with Applicable Laws;

(k) Southern Pacific shall provide to North Peace all such information respecting its operations and affairs as may be reasonably requested from time to time by North Peace;

(l) Southern Pacific shall furnish promptly to North Peace or North Peace's counsel, a copy of each notice, report, schedule or other document delivered, filed or received by Southern Pacific from Southern Pacific Securityholders or regulatory agencies in connection with: (i) the Arrangement; (ii) any filings under Applicable Laws; and (iii) any dealings with regulatory agencies or the Court in connection with the transactions contemplated by this Agreement.

3.2 Covenants of North Peace

From the date hereof until the earlier of the completion of the Arrangement and the termination of this Agreement in accordance with Article 8, except with the prior written consent of Southern Pacific (such consent not to be unreasonably withheld or delayed), and except as otherwise expressly permitted or specifically contemplated by this Agreement:

(a) North Peace's business shall be conducted only in the usual and ordinary course of business consistent with past practice (for greater certainty, where it is an operator of any property, it shall operate and maintain such property in a proper and prudent manner in accordance with good industry practice and the agreements governing the ownership and operation of such property), North Peace shall consult with Southern Pacific in respect of the ongoing business and affairs of North Peace and keep Southern Pacific apprised of all material developments relating thereto;

(b) North Peace shall not directly or indirectly do or permit to occur any of the following: (i) amend its constating documents; (ii) declare, set aside or pay any dividend or other distribution or payment (whether in cash, shares or property) in respect of its outstanding shares; (iii) issue (other than on exercise of currently outstanding North Peace Options, North Peace Warrants or North Peace Performance Warrants in accordance with their terms), grant, sell or pledge or agree to issue, grant, sell or pledge any shares of North Peace, or securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, shares of North Peace; (iv) redeem, purchase or otherwise acquire any of its outstanding shares or other securities, other than the acquisition of outstanding North Peace Options and North Peace Performance Warrants in accordance with the Cancellation Agreements and except as otherwise permitted pursuant to the terms thereof in accordance with the terms hereunder; (v) split, combine or reclassify any of its securities; (vi) adopt a plan of liquidation or resolutions providing for the liquidation, dissolution, merger, consolidation or reorganization of North Peace; (vii) other than as contemplated pursuant to this Agreement, pursue any corporate acquisition or disposition, amalgamation, merger, arrangement or purchase or sale of assets or make any material change to the business, capital or affairs of North Peace; (viii) reduce the stated capital of North Peace or any of its outstanding shares; (ix) except for the expenditures disclosed in the North Peace Budget, pay, discharge or satisfy any material claims, liabilities or obligations, other than in the ordinary course of business consistent with past practice; (x) sell, dispose of, transfer, convey, encumber, surrender, release or abandon the whole or any part of its assets, other than production in the ordinary course (other than the disposition of certain conventional properties as disclosed in North Peace's Disclosure Letter); (xi) terminate any employees; (xii) take any action, refrain from taking any action, permit any action to be taken or not taken, inconsistent with this Agreement, which might directly or indirectly interfere or affect the consummation of the Arrangement; or (xiii) enter into or modify any contract, agreement, commitment or arrangement with respect to any of the foregoing;

(c) written consent of Southern Pacific, such consent not to be unreasonably withheld, North Peace shall not, directly or indirectly: (i) sell, pledge, dispose of or encumber any assets having an individual value in excess of $5,000, other than production in the ordinary course of business; (ii) expend or commit to expend any amount with respect to any capital expenditures having an individual value in excess of $5,000; (iii) expend or commit to expend any amounts with respect to any operating expenses other than in the ordinary course of business; (iv) acquire or agree to acquire (by merger, amalgamation, consolidation or acquisition of shares or assets) any corporation, partnership or other business organization or division thereof which is not a subsidiary or affiliate of North Peace as of the date hereof, or make any investment therein either by purchase of shares or securities, contributions of capital or property transfer; (v) acquire any assets with an acquisition cost in excess of $5,000; (vi) incur any indebtedness for borrowed money in excess of existing credit facilities, or any other material liability or obligation or issue any debt securities or assume, guarantee, endorse or otherwise become responsible for, the obligations of any other individual or entity, or make any loans or advances, other than in respect of fees payable to legal, financial and other advisors in the ordinary course of business or in respect of the Arrangement; (vii) authorize, recommend or propose any release or relinquishment or any material contract right; (viii) waive, release, grant or transfer any material rights of value or modify or change in any material respect any existing material license, lease, contract, production sharing agreement, government land concession or other material document; (ix) except as agreed with Southern Pacific in writing, enter into or terminate any hedges, swaps or other financial instruments or like transactions; or (x) authorize or propose any of the foregoing, or enter into or modify any contract, agreement, commitment or arrangement to do any of the foregoing;

(d) other than the North Peace Termination Payments to officers, employees and consultants in an aggregate amount not to exceed **$1,500,000,** all as set forth in the North Peace Disclosure Letter, North Peace shall not make any payment to any employee, officer or director outside of their ordinary and usual compensation for services provided;

(e) except pursuant to the Cancellation Agreements, North Peace shall not adopt or amend or make any contribution to any bonus, employee benefit plan, profit sharing, deferred compensation, insurance, incentive compensation, other compensation or other similar plan, agreement, stock purchase plan, fund or arrangement for the benefit of employees, except as is necessary to comply with the law or with respect to existing provisions of any such plans, programs, arrangements or agreements;

(f) except pursuant to the Cancellation Agreements, North Peace shall not (i) grant any officer, director or employee an increase in compensation in any form; (ii) grant any general salary increase; (iii) take any action with respect to the amendment of any severance or termination pay policies or arrangements for any directors, officers or employees, except as contemplated herein; (iv) adopt or amend (other than to permit accelerated vesting of currently outstanding rights) any stock option plan or the terms of any outstanding rights thereunder; nor (v) advance any loan to any officer, director or any other party not at arm’s length;

(g) North Peace shall use its reasonable commercial efforts to cause its current insurance (or reinsurance) policies not to be cancelled or terminated or any of the coverage thereunder to lapse, unless simultaneously with such termination, cancellation or lapse, replacement policies underwritten by insurance or re-insurance companies of nationally recognized standing providing coverage equal to or greater than the coverage under the cancelled, terminated or lapsed policies for substantially similar premiums are in full force and effect and shall pay all premiums in respect of such insurance policies that become due prior to the Effective Date;

(h) except pursuant to the Cancellation Agreements, no amendments shall be made to outstanding North Peace Options or North Peace Performance Warrants without the prior written consent of Southern Pacific;

(i) North Peace shall not take any action that would render, or may reasonably be expected to render, any representation or warranty made by North Peace in this Agreement untrue in any material respect at any time prior to completion of the Arrangement or termination of this Agreement, whichever first occurs;

(j) North Peace shall promptly notify Southern Pacific in writing of any material change (actual, anticipated, contemplated or, to the knowledge of North Peace threatened, financial or otherwise) in its business, operations, affairs, assets, capitalization, financial condition, licenses, permits, rights, privileges or liabilities, whether contractual or otherwise, or of any change in any representation or warranty provided by North Peace in this Agreement which change is or may be of such a nature to render any representation or warranty misleading or untrue in any material respect and North Peace shall in good faith discuss with Southern Pacific any change in circumstances (actual, anticipated, contemplated, or to the knowledge of North Peace threatened) which is of such a nature that there may be a reasonable question as to whether notice need to be given to Southern Pacific pursuant to this provision;

(k) North Peace shall ensure that it has available funds within the time periods contemplated herein, for the payment of the amount which may be required by Section 6.1 having regard to its other liabilities and obligations, and shall take all such actions as may be necessary to ensure that it maintains such availability to ensure that it is able to pay such amount when required;

(l) North Peace shall use its reasonable commercial efforts to obtain the written consent of any third parties as are required for the consummation of the Arrangement or as otherwise contemplated hereby;

(m) North Peace shall provide notice to Southern Pacific of the North Peace Meeting, if required, and allow Southern Pacific's representatives to attend such meeting;

(n) North Peace shall ensure that the Circular, has been prepared in compliance with Applicable Laws and shall include, without limitation; (i) a copy of the Fairness Opinion; (ii) the unanimous determination of the board of directors of North Peace that the Arrangement is fair to the North Peace Shareholders and is in the best interests of North Peace and the North Peace Shareholders, and (iii) the unanimous recommendation of the board of directors of North Peace that the North Peace Shareholders vote in favour of the Arrangement Resolution;

(o) North Peace shall indemnify and save harmless Southern Pacific and the directors, officers and agents of Southern Pacific from and against any and all liabilities, claims, demands, losses, costs, damages and expenses (excluding any loss of profits or consequential damages) to which Southern Pacific, or any director, officer or agent thereof, may be subject or which Southern Pacific, or any director, officer or agent thereof, may suffer, whether under the provisions of any statute or otherwise, in any way caused by, or arising, directly or indirectly, from or in consequence of:

(i) any misrepresentation or alleged misrepresentation by North Peace in the Circular (except any misrepresentation or alleged misrepresentation relating to the Southern Pacific Information);

(ii) any order made or any inquiry, investigation or proceeding by any securities commission or other competent authority based upon any untrue statement or omission or alleged untrue statement or omission of a material fact or any misrepresentation or any alleged misrepresentation in the Circular, which prevents or restricts the trading in the North Peace Shares; and

(iii) North Peace not complying with any requirement of Applicable Laws in connection with the transactions contemplated in this Agreement,

except that North Peace shall not be liable in any such case to the extent that any such liabilities, claims, demands, losses, costs, damages and expenses arise out of or are based upon any misrepresentation or alleged misrepresentation of a material fact based solely on the Southern Pacific Information included in the Circular;

(p) North Peace shall provide to Southern Pacific all such information respecting its operations and affairs as may be reasonably requested from time to time by Southern Pacific;

(q) except for proxies and other non-substantive communications with North Peace Securityholders, North Peace shall furnish promptly to Southern Pacific or Southern Pacific's counsel, a copy of each notice, report, schedule or other document delivered, filed or received by North Peace from North Peace Securityholders or regulatory agencies in connection with: (i) the Arrangement; (ii) the North Peace Meeting, if required; (iii) any filings under Applicable Laws; and (iv) any dealings with regulatory agencies or the Court in connection with the transactions contemplated by this Agreement;

(r) North Peace shall solicit proxies to be voted at the North Peace Meeting in favour of matters to be considered at the North Peace Meeting, including the Arrangement Resolution;

(s) North Peace shall conduct the North Peace Meeting, if held, in accordance with the by-laws of North Peace and any instrument governing the North Peace Meeting (including, without limitation, the Interim Order), as applicable, and as otherwise required by law;

(t) in the event that dissent rights are given to the North Peace Shareholders under the terms of the Interim Order, North Peace shall, on an as received basis, promptly advise Southern Pacific of the number of North Peace Shares for which North Peace receives notices of dissent or written objections to the Arrangement and provide Southern Pacific with copies of such notices and written objections;

(u) North Peace shall take all such steps as may reasonably be requested by Southern Pacific and its tax advisors to effect the Arrangement in a tax effective manner for Southern Pacific or effect such reorganizations of North Peace's business, operations and assets or such other transactions as Southern Pacific may request, acting reasonably, provided that

North Peace shall not be required to take any such steps that may reduce the value of the consideration to be received by the North Peace Shareholders pursuant to the Arrangement, result in adverse tax consequences for North Peace Securityholders, or result in additional costs to North Peace (unless such costs are paid by Southern Pacific) and, in connection therewith, North Peace agrees to assist Southern Pacific and its tax advisors in making such investigations, inquiries and actions with respect to North Peace as Southern Pacific and its tax advisors shall consider necessary, acting reasonably;

(v) North Peace shall file on SEDAR its interim financial statements for the period ending September 30, 2010 on or prior to the earlier of the Effective Date and November 15, 2010; and

(w) North Peace shall use its commercially reasonable efforts to deliver to Southern Pacific for its execution, concurrent to the execution of this Agreement, Cancellation Agreements executed by North Peace and all of the North Peace Optionholders and North Peace Performance Warrantholders.

3.3 Mutual Covenants Regarding the Arrangement

From the date hereof until the earlier of the completion of the Arrangement and the termination of this Agreement in accordance with Article 8, each of Southern Pacific and North Peace shall:

(a) use its reasonable commercial efforts to complete the Arrangement on or before November 30, 2010;

(b) use its reasonable commercial efforts to satisfy (or cause the satisfaction of) the conditions precedent to its obligations hereunder and to take, or cause to be taken, all other action and to do, or cause to be done, all other things necessary, proper or advisable under Applicable Laws to complete the Arrangement, including using reasonable efforts:

(i) to obtain all necessary waivers, consents and approvals required to be obtained by it from other Parties to loan agreements, leases and other contracts;

(ii) to obtain all necessary consents, assignments, waivers and amendments to or terminations of any instruments and take such measures as may be appropriate to fulfill its obligations hereunder and to carry out the transactions contemplated by this Agreement; and

(iii) to effect all necessary registrations and filings and submission of information requested by Governmental Authorities required to be effected by it in connection with the Arrangement and each of Southern Pacific and North Peace will use its reasonable commercial efforts to cooperate with the other in connection with the performance by the other of their obligations under this subsection 3.3(a)(iii) including, without limitation, continuing to provide reasonable access to information and to maintain ongoing communications as between officers of Southern Pacific and North Peace, subject in all cases to the Confidentiality Agreements; and

(c) use its reasonable commercial efforts to cooperate with the other in connection with the performance by the other of their obligations under this Section 3.3 including, without limitation, continuing to provide reasonable access to information and to maintain ongoing communications as between representatives of Southern Pacific and North Peace, subject in all cases to the Confidentiality Agreements.

3.4 North Peace's Covenants Regarding Non-Solicitation

(a) North Peace shall immediately cease and cause to be terminated all existing discussions or negotiations (including, without limitation, through any of its officers, directors, employees, advisors, representatives and agents ("**Representatives**")), if any, with any parties initiated before the date of this Agreement with respect to any Acquisition Proposal and shall immediately request the return or destruction of all information provided to any third parties who have entered into a confidentiality agreement with North Peace relating to an Acquisition Proposal and shall use all reasonable commercial efforts to ensure that such requests are honoured.

(b) North Peace shall not, directly or indirectly, do or authorize or permit any of its Representatives to do, any of the following:

(i) solicit, facilitate, initiate, encourage or take any action to solicit, facilitate, initiate, entertain or encourage any inquiries or communication regarding or the making of any proposal or offer that constitutes, may constitute, or may reasonably be expected to lead to, an Acquisition Proposal, including, without limitation, by way of furnishing information;

(ii) enter into or participate in any negotiations or initiate any discussion regarding an Acquisition Proposal, or furnish to any other person any information with respect to its securities, business, properties, operations or conditions (financial or otherwise) in connection with, or furtherance of, an Acquisition Proposal or otherwise cooperate in any way with, or assist or participate in, facilitate or encourage, any effort or attempt of any other person to do or seek to do any of the foregoing;

(iii) release, waive, or otherwise forbear in the enforcement of, or enter into or participate in any discussions, negotiations or agreements to release, waive or otherwise forbear in respect of, any rights or other benefits under any confidentiality agreements, including, without limitation, any "standstill provisions" thereunder; or

(iv) accept, recommend, approve or enter into an agreement to implement an Acquisition Proposal (it being understood that publicly taking no position or a neutral position with respect to a publicly announced, or otherwise publicly disclosed, Acquisition Proposal for a period of more than ten (10) business days shall be considered to be a violation of this Section 3.4(b)(iv)),

provided, however, that notwithstanding any other provision hereof, North Peace and its Representatives may:

(v) enter into or participate in any discussions or negotiations with a third party who (without any solicitation, initiation or encouragement, directly or indirectly, after the date of this Agreement, by North Peace or any of its Representatives) seeks to initiate such discussions or negotiations and, subject to execution of a confidentiality and standstill agreement substantially similar to the North Peace Confidentiality Agreement (provided that such confidentiality agreement shall provide for disclosure thereof (along with all information provided thereunder) to Southern Pacific as set out below), may furnish to such third party information concerning North Peace and its business, properties and assets, in each case if, and only to the extent that:

(A) the third party has first made a written bona fide Acquisition Proposal after the date hereof but before the time that the Arrangement Resolution is passed, and the board of directors of North Peace determines in good faith: (1) that funds or other consideration necessary for the Acquisition Proposal are or are reasonably likely to be available; (2) after consultation with its financial advisor, the Acquisition Proposal would, if consummated in accordance with its terms, result in a transaction financially superior for North Peace Shareholders than the transaction contemplated by this Agreement in its current form; and (3) after receiving the advice of outside counsel, that the taking of such action is necessary for the board of directors in discharge of its fiduciary duties under Applicable Laws (a "**Superior Proposal**"); and

(B) prior to furnishing such information to or entering into or participating in any such negotiations or initiating any discussions with such third party, North Peace provides prompt notice to Southern Pacific to the effect that it is furnishing information to or entering into or participating in discussions or negotiations with such person or entity together with a copy of the confidentiality agreement referenced above and if not previously provided to Southern Pacific, copies of all information provided to such third party concurrently with the provision of such information to such third party, and provided further that North Peace shall notify Southern Pacific orally and in writing of any inquiries, offers or proposals with respect to a Superior Proposal (which written notice shall include, without limitation, a summary of the details of such proposal (and any amendments or supplements thereto), the identity of the person making it, if not previously provided to Southern Pacific, copies of all information provided to such party and all other information reasonably requested by Southern Pacific), within 48 hours of the receipt thereof, shall keep Southern Pacific informed of the status and details of any such inquiry, offer or proposal and answer Southern Pacific's questions with respect thereto; or

(vi) comply with Section 160 of the *Securities Act* (Alberta) and Section 2.17 of Multilateral Instrument 62-104 – Take Over Bids and Issuer Bids and similar provisions under Applicable Laws relating to the provision of directors' circulars and make appropriate disclosure with respect thereto to its securityholders; and

(vii) accept, recommend, approve or enter into an agreement to implement a Superior Proposal from a third party, but only if prior to such acceptance, recommendation, approval or implementation, North Peace's board of directors shall have concluded in good faith, after considering all proposals to adjust the terms and conditions of this Agreement pursuant to Section 3.4(c) and after receiving the advice of outside counsel, that the taking of such action is necessary for the board of directors in discharge of its fiduciary duties under Applicable Laws and North Peace complies with its obligations set forth in Section 3.4(c) and terminates this Agreement in accordance with Section 8.1(e) and concurrently therewith pays the amount required by Section 6.1.

(c) In the event that North Peace is in receipt of a Superior Proposal, it shall give Southern Pacific, orally and in writing, at least 72 hours advance notice of any decision by its board of directors to accept, recommend, approve or enter into an agreement to implement a Superior Proposal, which notice shall confirm that the board of directors of North Peace has determined that such Acquisition Proposal constitutes a Superior Proposal, shall identify the third party making the Superior Proposal and shall provide a true and complete copy thereof and any amendments thereto. During such 72 hour period, North Peace agrees not to accept, recommend, approve or enter into any agreement to implement such Superior Proposal and not to release the party making the Superior Proposal from any standstill provisions (which, for greater certainty, shall not prevent the party making the Superior Proposal from making any Acquisition Proposal to North Peace's board of directors that is not solicited, initiated, encouraged or knowingly facilitated by North Peace after the date hereof) and shall not withdraw, redefine, modify or change its recommendation in respect of the Arrangement. In addition, during such 72 hour period, North Peace shall, and shall cause its financial and legal advisors to, negotiate in good faith with Southern Pacific and its financial and legal advisors to make such adjustments in the terms and conditions of this Agreement and the Arrangement as would enable North Peace to proceed with the Arrangement as amended rather than the Superior Proposal. In the event Southern Pacific proposes to amend this Agreement and the Arrangement to provide that the North Peace Shareholders shall receive a value per North Peace Share equal to or having a value greater than the value per North Peace Share provided in the Superior Proposal and so advises the North Peace Board prior to the expiry of such 72 hour period, the board of directors of North Peace shall not accept, recommend, approve or enter into any agreement to implement such Superior Proposal and shall not release the party making the Superior Proposal from any standstill provisions (which, for greater certainty, shall not prevent the party making the Superior Proposal from making any Acquisition Proposal to North Peace's board of directors that is not solicited, initiated, encouraged or knowingly facilitated by North Peace after the date hereof) and shall not withdraw, redefine, modify or change its recommendation in respect of the Arrangement. Notwithstanding the foregoing, and for greater certainty, Southern Pacific shall have no obligation to make or negotiate any changes to this Agreement or the Arrangement in the event that North Peace is in receipt of a Superior Proposal.

(d) Southern Pacific agrees that all information that may be provided to it by North Peace with respect to any Superior Proposal pursuant to this Section 3.4 shall be treated as if it were "Confidential Information" as that term is defined in the North Peace Confidentiality Agreement and shall not be disclosed or used except in accordance with the provisions of the North Peace Confidentiality Agreement or in order to enforce its rights under this Agreement in legal proceedings.

(e) Each Party shall ensure that its officers, directors and employees and any investment bankers or other advisers or representatives retained by it are aware of the provisions of this Section 3.4. Southern Pacific shall be responsible for any breach of this Section 3.4 by its officers, directors, employees, investment bankers, advisers or representatives, and North Peace shall be responsible for any breach of this Section 3.4 by its officers, directors, employees, investment bankers, advisers or representatives.

Nothing contained in this Section 3.4 shall prohibit any member of the North Peace board of directors, from: (i) taking any action with regard to an Acquisition Proposal to the extent ordered or otherwise mandated by any court of competent jurisdiction; or (ii) responding to a bona fide request for information that could reasonably be expected to lead to an Acquisition Proposal solely by advising that no information can be provided unless a bona fide written Acquisition Proposal is made and then only in compliance with this Section 3.4.

3.5 Access to Information

(a) From and after the date hereof, North Peace shall provide Southern Pacific and its representatives access, during normal business hours and at such other time or times as Southern Pacific may reasonably request, to its premises (including field offices and sites), books, contracts, records, computer systems, properties, employees and management personnel and shall furnish promptly to Southern Pacific all information concerning its business, properties and personnel as Southern Pacific may reasonably request in order to permit Southern Pacific to be in a position to expeditiously and efficiently integrate the business and operations of North Peace with those of Southern Pacific immediately upon but not prior to the Effective Date. North Peace agrees to keep Southern Pacific fully appraised in a timely manner of every circumstance, action, occurrence or event occurring or arising after the date hereof that would be relevant and material to a prudent operator of the business and operations of North Peace. Southern Pacific representatives may attend at and participate in all operations meetings held by North Peace.

(b) From and after the date hereof, Southern Pacific shall provide North Peace and its representatives access, during normal business hours and at such other time or times as North Peace may reasonably request, to its premises (including field offices and sites), books, contracts, records, computer systems, properties, employees and management personnel and shall furnish promptly to North Peace all information concerning its business, properties and personnel as North Peace may reasonably request

(c) Without limiting the generality of any of the other provisions of this Agreement, each of the Parties agrees to:

(i) make available to the other Party all land, legal, title documents and related files, geologic maps, well files and well logs, books, papers, financial information and pertinent documents or agreements.

(ii) give the legal and professional representatives and agents of the other Party full access to such Party's books, records and documents, provided that the Parties are satisfied, acting reasonably, that the confidentiality of the subject matter of the disclosure can be maintained in accordance herewith; and

(iii) endeavour to include in the information furnished to the other Party, or obtained by the other Party in the course of the aforesaid investigations, all information which would reasonably be considered to be relevant for the purposes of the other Party's' investigation and not knowingly withhold any information which would make anything contained in the information delivered erroneous or misleading.

(d) The Parties acknowledge and agree that all information provided by one Party to the other pursuant to this Section 3.5 shall remain subject to the provisions of the Confidentiality Agreements.

3.6 Integration of Operations

(a) From and after the date of this Agreement, North Peace will cooperate with Southern Pacific to enable an orderly integration of the business and affairs of North Peace and Southern Pacific after the Effective Date and in connection therewith will, concurrently, with the execution of this Agreement, form an operations committee (the "**Operations Committee**") comprised of two senior personnel selected by Southern Pacific and two senior personnel selected by North Peace which committee will have the responsibility for coordinating integration and dealing with all operational matters prior to the Effective Date and keeping each Party fully informed of North Peace's activities during the period prior to the Effective Date and for this purpose North Peace will allow Southern Pacific and its representatives to have reasonable access to North Peace's premises, field operations, records, computer systems and employees. North Peace agrees to keep the Operations Committee fully apprised in a timely manner of every circumstance, action, occurrence or event occurring or arising after the date hereof that would be relevant and material to a prudent operator of the business and operations of North Peace. Decisions of the Operations Committee must be approved by a majority of committee members. Notwithstanding any other provision of this Agreement, neither the actions of North Peace in the course of carrying out decisions made by the Operations Committee nor the results of such activities shall constitute a breach of any provision of this Agreement, including without limitation, the representations and warranties, covenants and conditions contained in this Agreement or a material adverse change in North Peace giving rise to any right on the part of Southern Pacific to any remedies under this Agreement.

(b) Notwithstanding Section 3.6(a), North Peace shall confer with Southern Pacific prior to taking action (other than in emergency situations) with respect to any operational matters involved in its business.

ARTICLE 4 - REPRESENTATIONS AND WARRANTIES

4.1 Representations and Warranties of Southern Pacific

Southern Pacific hereby makes the representations and warranties set forth in this Section 4.1 to and in favour of North Peace and acknowledges that North Peace is relying upon such representations and warranties in connection with the matters contemplated by this Agreement.

(a) Southern Pacific, and each of its subsidiaries, is a corporation duly amalgamated or incorporated under the ABCA and has the requisite power and authority to carry on its business as it is now being conducted.

(b) Southern Pacific, and each of its subsidiaries, is duly registered to do business and is in good standing in each jurisdiction in which the character of its properties, owned or leased, or the nature of its activities make such registration necessary, except where the failure to be so registered or in good standing would not have a material adverse effect on Southern Pacific and its subsidiaries, taken as a whole.

(c) Southern Pacific has the requisite corporate power and authority to enter into this Agreement and to carry out its obligations hereunder. The execution and delivery of this Agreement and the consummation by Southern Pacific of the transactions contemplated by this Agreement have been duly authorized by Southern Pacific's board of directors and no other corporate proceedings on the part of Southern Pacific are or shall be necessary to consummate the transactions contemplated by this Agreement. This Agreement has been duly executed and delivered by Southern Pacific and constitutes a legal, valid and binding obligation of Southern Pacific enforceable against Southern Pacific in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other laws relating to or affecting creditors' rights generally and to general principles of equity.

(d) Neither the execution and delivery of this Agreement by Southern Pacific, the consummation by Southern Pacific of the transactions contemplated by this Agreement nor compliance by Southern Pacific with any of the provisions hereof will: (i) violate, conflict with, or result in breach of any provision of, require any consent, approval or notice under, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) or result in a right of termination or acceleration under, or result in a creation of any lien, security interest, charge or Encumbrance upon any of the properties or assets of Southern Pacific, or its subsidiaries, under any of the terms, conditions or provisions of (x) the articles, bylaws or other constating documents of Southern Pacific or its subsidiaries, or (y) any note, bond, mortgage, indenture, loan agreement, deed of trust, agreement, lien, contract or other instrument or obligation to which Southern Pacific, or its subsidiaries, is a party or to which it, or its properties or assets, may be subject or by which Southern Pacific is bound subject to, if required, obtaining the consent of Southern Pacific's lenders; or (ii) violate any judgment, ruling, order, writ, injunction, determination, award, decree, statute, ordinance, rule or regulation in Canada applicable to Southern Pacific, or its subsidiaries, (except, in the case of each of clauses (i) and (ii) above, for such violations, conflicts, breaches, defaults, terminations which, or any consents, approvals or notices which if not given or received, would not have any material adverse effect on Southern Pacific, and its subsidiaries, taken as a whole, or materially impede the ability of Southern Pacific to consummate the transactions contemplated by this Agreement); or (iii) cause a suspension or revocation of any authorization for the consent, approval or license currently in effect which would have a material adverse effect on Southern Pacific.

(e) Other than in connection with or in compliance with the provisions of Applicable Laws or which are required to be filed post-Arrangement:

(i) there is no legal impediment to Southern Pacific's consummation of the transactions contemplated by this Agreement; and

(ii) no filing or registration with, or authorization, consent or approval of, any domestic or foreign public body or authority is necessary by Southern Pacific in connection with the consummation of the Arrangement, except for such filings or registrations which, if not made, or for such authorizations, consents or approvals, which, if not received, would not materially impede the ability of Southern Pacific to consummate the transactions contemplated by this Agreement.

(f) Southern Pacific has authorized an unlimited number of Southern Pacific Shares and an unlimited number of preferred shares issuable in series. As at the date hereof, 322,842,261 Southern Pacific Shares, no preferred shares, 19,884,001 options entitling the holders thereof to acquire Southern Pacific Shares and, 1,755,625 warrants entitling the holders thereof to acquire Southern Pacific Shares are issued and outstanding. Except as aforesaid, there are no other outstanding securities of Southern Pacific or options, warrants, rights of conversion or exchange privileges or other securities entitling anyone to acquire any securities of Southern Pacific or any other rights, agreements or commitments of any character whatsoever requiring the issuance, sale or transfer by Southern Pacific of any securities. All outstanding Southern Pacific Shares have been duly authorized and validly issued, and are fully paid and non-assessable and are not subject to, nor have they been issued in violation of, any pre-emptive rights.

(g) Southern Pacific has no subsidiaries, other than Southern Pacific Energy Ltd., 1539148 Alberta Ltd., Senlac Oil Ltd., Southern Pacific Resource Partnership, Southern Pacific Dover Partnership, and the Southern Pacific McKay River Partnership and Southern Pacific owns, directly or indirectly, all of the outstanding voting and equity securities of such subsidiaries.

(h) Southern Pacific is a "reporting issuer" in each of the provinces of Canada, other than Québec, within the meaning of the Applicable Canadian Securities Laws in such provinces and is not in default of any requirement of Applicable Canadian Securities Laws in any material respect.

(i) The Southern Pacific Shares are listed on the TSX and Southern Pacific is in compliance in all material respects with the policies and requirements of the TSX.

(j) All publicly available documents and information filed by Southern Pacific with the applicable securities regulators subsequent to January 1, 2009 complied in all material respects with all applicable requirements of Applicable Canadian Securities Laws and did not contain, at the respective date of such document or information, any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, unless such document or information was subsequently corrected or superseded prior to the date hereof.

(k) Since June 30, 2010:

(i) there has not been any material adverse change respecting Southern Pacific from the position set forth in the Southern Pacific Financial Statements,

(ii) there have been no material facts, transactions, events or occurrences which, to the knowledge of Southern Pacific, could reasonably be expected to result in a material adverse change respecting Southern Pacific;

(iii) Southern Pacific has conducted its business only in the ordinary and normal course, consistent with past practice; and

(iv) no liability or obligation of any nature (whether absolute, accrued, contingent or otherwise) material to Southern Pacific has been incurred other than in the ordinary and normal course of business, consistent with past practice.

(l) Southern Pacific has no reason to believe that the Southern Pacific Reserves Report was not accurate in all material respects as at the effective date of such report, and, except for any impact of changes in commodity prices, which may or may not be material, Southern Pacific has no knowledge of a material adverse change in the production, costs, price, reserves, estimates of future net production revenues or other relevant information from that disclosed in the Southern Pacific Reserves Report. Southern Pacific has provided to GLJ all material information concerning land descriptions, well data, facilities and infrastructure, ownership and operations, future development plans and historical technical and operating data respecting the principal oil and gas assets of Southern Pacific, in each case as at the effective date of such report, and, in particular, all material information respecting the interests of Southern Pacific in its principal oil and gas assets and royalty burdens and net profits interest burdens thereon and such information was accurate and correct in all material respects as at the respective dates thereof and did not omit any information necessary to make any such information provided not misleading as at the respective dates thereof and there has been no material adverse change in any of the material information so provided since the date thereof.

(m) Southern Pacific believes that the Southern Pacific Reserves Report complies with the requirements of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* and believes that the Southern Pacific Reserves Report reasonably presented the quantity and pre-tax present worth values of estimated oil and gas reserves attributable to the properties evaluated therein as at the date stated therein based upon information available at the time the Southern Pacific Reserves Report was prepared and the assumptions as to commodity prices and costs contained therein.

(n) There is no court, administrative, regulatory or similar proceeding (whether civil, quasi-criminal or criminal), arbitration or other dispute settlement procedure, investigation or inquiry by any Governmental Authority, or any claim, action, suit, demand, arbitration, charge, indictment, hearing or other similar civil, quasi-criminal or criminal, administrative or investigative material matter or proceeding (collectively, "**proceedings**") against or involving it, or in respect of the businesses, properties or assets of it (whether in progress or, to the knowledge of Southern Pacific, threatened), that if adversely determined, would reasonably be expected to have a material adverse effect on Southern Pacific, and its subsidiaries, taken as a whole, or significantly impede the completion of the transactions contemplated by this Agreement and, to the knowledge of Southern Pacific, no event has occurred which might reasonably be expected to give rise to any proceeding. There is no judgment, writ, decree, injunction, rule, award or order of any Governmental Authority outstanding against Southern Pacific, or its subsidiaries, in respect of its business, properties or assets that has had or would reasonably be expected to have a material adverse effect on Southern Pacific, and its subsidiaries, taken as a whole, or significantly impede the completion of the transactions contemplated by this Agreement.

(o) The Southern Pacific Financial Statements fairly present, in accordance with generally accepted accounting principles in Canada, consistently applied, the financial position and condition of Southern Pacific at the dates thereof and the results of the operations of Southern Pacific for the periods then ended and reflect in accordance with generally accepted accounting principles in Canada, consistently applied, all material assets, liabilities or obligations (absolute, accrued, contingent or otherwise) of Southern Pacific as at the dates thereof.

(p) Neither Southern Pacific, nor any of its subsidiaries, have received notice of any material violation of or investigation relating to any federal, provincial or local law, regulation or ordinance with respect to its assets, business or operations and Southern Pacific, or a subsidiary, holds all permits, licenses and other authorizations which are required under federal, provincial or local laws relating to Southern Pacific' s and its subsidiaries' assets, business or operations, except where the failure to comply with the foregoing would not have a material adverse effect on Southern Pacific, and its subsidiaries, taken as a whole. The assets of Southern Pacific, and its subsidiaries, are operated and maintained by it in compliance with all terms and conditions of applicable laws, permits, licenses and authorizations in all material respects.

(q) No securities commission or similar regulatory authority, or stock exchange in Canada has issued any order which is currently outstanding preventing or suspending trading in any securities of Southern Pacific, no such proceeding is, to the knowledge of Southern Pacific, pending, contemplated or threatened and Southern Pacific is not, to its knowledge, in default of any requirement of any Applicable Laws.

(r) Southern Pacific has not retained any financial advisor, broker, agent or finder, or paid or agreed to pay or have Southern Pacific pay any financial advisor, broker, agent or finder on account of this Agreement or the Arrangement, except that Southern Pacific may retain such other strategic advisors as it determines, acting reasonably.

(s) Southern Pacific does not have any outstanding obligations to incur and/or renounce any Canadian exploration expenditures or Canadian development expenditures to any purchaser of the shares of Southern Pacific that have not yet been fully expended and renounced, except as reflected in the Southern Pacific Financial Statements.

(t) except to the extent that any violation or other matter referred to in this subparagraph does not have a material adverse effect on Southern Pacific, and its subsidiaries, taken as a whole:

(i) neither Southern Pacific nor any of its subsidiaries is in violation of any Environmental Laws;

(ii) each of Southern Pacific and its subsidiaries has operated its business at all times and has received, handled, used, stored, treated, shipped and disposed of all contaminants without violation of Environmental Laws;

(iii) there have been no spills, releases, deposits or discharges of hazardous or toxic substances, contaminants or wastes into the earth, air or into any body of water or any municipal or other sewer or drain water systems by Southern Pacific or any of its subsidiaries that have not been remedied;

(iv) no orders, directions or notices have been issued and remain outstanding pursuant to any Environmental Laws relating to the business or assets of Southern Pacific or any of its subsidiaries;

(v) neither Southern Pacific nor any of its subsidiaries has failed to report to the proper federal, provincial, municipal or other political subdivision, government, department, commission, board, bureau, agency or instrumentality, domestic or foreign the occurrence of any event which is required to be so reported by any Environmental Law; and

(vi) each of Southern Pacific and its subsidiaries holds all licenses, permits and approvals required under any Environmental Laws in connection with the operation of its business and the ownership and use of its assets, all such licenses, permits and approvals are in full force and effect, and except for notifications and conditions of general application to assets of reclamation obligations under legislation in Alberta and any other jurisdiction in which it conducts its business, neither Southern Pacific nor any of its subsidiaries has received any notification pursuant to any Environmental Laws that any work, repairs, constructions or capital expenditures are required to be made by it as a condition of continued compliance with any Environmental Laws, or any license, permit or approval issued pursuant thereto, or that any license, permit or approval referred to above is about to be reviewed, made subject to limitation or conditions, revoked, withdrawn or terminated.

(u) All Returns required to be filed by Southern Pacific, and it subsidiaries, have been duly filed, in all material respects, on a timely basis and, in any event, prior to the Effective Date, and all Taxes shown to be payable on such Returns or on subsequent assessments with respect thereto have been paid in full on a timely basis and, in any event, prior to the Effective Date. The filed Returns are true, complete and correct in all material respects, and no other Taxes are payable by Southern Pacific, and its subsidiaries, with respect to items or periods covered by such Returns.

(v) Each of Southern Pacific and its subsidiaries has paid or provided adequate accruals in the Southern Pacific Financial Statements for the year ended June 30, 2010 for Taxes, including income taxes and related future taxes, in conformity with generally accepted accounting principles applicable in Canada.

(w) No material deficiencies exist or have been asserted with respect to Taxes. Neither Southern Pacific, nor any of its subsidiaries, is a party to any action or proceeding for assessment or collection of Taxes, nor has such event been asserted or threatened against Southern Pacific, or its subsidiaries or any of its respective assets. No waiver or extension of any statute of limitations is in effect with respect to Taxes or Returns. Except as disclosed to North Peace prior to the date hereof, the Returns have never been audited by a government or taxing authority, nor is any such audit, assessment, reassessment, claim, action, suit, investigation or proceeding in process or, to the knowledge of Southern Pacific, pending or threatened, which resulted in or could result in a claim for Taxes owing by Southern Pacific, or any of its subsidiaries, except where such audit, assessment, reassessment, claim, action, suit, investigation or proceeding would not individually or in the aggregate have a material adverse effect on Southern Pacific, and its subsidiaries, taken as a whole. Southern Pacific, and each of its subsidiaries, has withheld any Taxes required to be withheld by the applicable laws and the Tax Act and has paid or remitted on a timely basis, the full amount of any Taxes which have been withheld to the applicable Governmental Authority.

(x) No director, officer, insider or other non-arm's length party to Southern Pacific (or any associate or affiliate thereof) has any right, title or interest in (or the right to acquire any right, title or interest in) any royalty interest, carried interest, participation interest or any other interest whatsoever which are based on production from or in respect of any properties of Southern Pacific.

(y) No director, officer, insider or other non-arm's length party of Southern Pacific is indebted to Southern Pacific, or any of its subsidiaries.

(z) Except for indemnity agreements with its directors and officers as contemplated by the by-laws of Southern Pacific and Applicable Laws, and other than standard indemnity agreements in underwriting and agency agreements, in the Southern Pacific's credit facilities and in the ordinary course provided to service providers, Southern Pacific, and each of its subsidiaries, is not a party to or bound by any agreement, guarantee, indemnification, or endorsement or like commitment of the obligations, liabilities (contingent or otherwise) or indebtedness of any person, firm or corporation.

(aa) Any and all operations of Southern Pacific, and its subsidiaries, and to the knowledge of Southern Pacific, any and all operations by third parties, on or in respect of the assets and properties of Southern Pacific, and its subsidiaries, have been conducted in compliance with good oilfield practices and in material compliance with applicable laws, rules, regulations, orders and directions of government and other competent authorities except where the failure to conduct operations would not have a material adverse effect on Southern Pacific, and its subsidiaries, taken as a whole.

(bb) Although it does not warrant title, Southern Pacific does not have reason to believe that Southern Pacific, and each of its subsidiaries, does not have title to or the irrevocable right to produce and sell its petroleum, natural gas and related hydrocarbons (for the purposes of this clause, the foregoing are referred to as the "**Southern Pacific Interests**") and does represent and warrant that, to the knowledge of Southern Pacific, the Southern Pacific Interests are free and clear of adverse claims created by, through or under Southern Pacific, or a subsidiary, except related to bank financing or those arising in the ordinary course of business, and, to the knowledge of Southern Pacific, Southern Pacific and its subsidiaries holds its Southern Pacific Interests under valid and subsisting leases, licenses, permits, concessions, concession agreements, contracts, subleases, reservations or other agreements, except where the failure to so hold the Interest would not have a material adverse effect upon Southern Pacific, and its subsidiaries, taken as a whole.

(cc) Southern Pacific is not aware of any defects, failures or impairments in the title of Southern Pacific, or its subsidiaries, to their oil and gas properties, whether or not an action, suit, proceeding or inquiry is pending or threatened and whether or not discovered by any third party, which in aggregate could have a material adverse effect on: (i) the quantity and pre-tax present worth values of the oil and gas reserves of Southern Pacific shown in the Southern Pacific Reserves Report; (ii) the current production of Southern Pacific; or (iii) the current cash flow of Southern Pacific.

(dd) Southern Pacific has not received notice of any default under any of the leases and other title and operating documents or any other agreement or instrument pertaining to the oil and gas assets of Southern Pacific and its subsidiaries, or to which any of them is a party or bound, except to the extent that such defaults would not in the aggregate have a material adverse effect on Southern Pacific.

(ee) To the knowledge of Southern Pacific:

(A) Southern Pacific, and each of its subsidiaries, is in good standing under all, and is not in default under any; and

(B) there is no existing condition, circumstance or matter which constitutes or which, with the passage of time or the giving of notice, would constitute a default under any,

leases and other title and operating documents or any other agreements and instruments pertaining to its oil and gas assets to which it is a party or by or to which it or such assets are bound or subject and, to the knowledge of Southern Pacific, all such leases, title and operating documents and other agreements and instruments are in good standing and in full force and effect and to the knowledge of Southern Pacific none of the counterparties to such leases, title and operating documents and other agreements and instruments is in default thereunder except to the extent that such defaults would not in the aggregate have a material adverse effect on Southern Pacific and its subsidiaries, taken as a whole.

(ff) None of the oil and gas assets of Southern Pacific, and its subsidiaries, are subject to reduction by reference to payout of or production penalty on any well or otherwise or to change to an interest of any other size or nature by virtue of or through any right or interest granted by, through or under Southern Pacific or a subsidiary, except to the extent that all such reductions or changes to an interest would not in the aggregate have a material adverse effect on Southern Pacific, and its subsidiaries, taken as a whole.

(gg) None of the wells in which Southern Pacific holds an interest has been produced in excess of applicable production allowables imposed by any applicable law or any governmental authority and, other than as disclosed in writing to North Peace, Southern Pacific does not have any knowledge of any impending change in production allowables imposed by any Applicable Law 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 except to the extent that such non-compliance or changes would not in the aggregate have a material adverse effect on Southern Pacific.

(hh) Other than as disclosed in writing to North Peace, neither Southern Pacific nor any of its subsidiaries 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 Alberta Energy Resources and Conservation Board, and, to their knowledge, none of the wells in which any of them holds an interest is subject to any such penalty or restriction except to the extent that any such penalty or restriction would not have a material adverse effect on Southern Pacific.

(ii) To the knowledge of Southern Pacific, all wells located on any lands in which Southern Pacific or any of its subsidiaries has an interest, or lands with which such lands have been pooled or unitized, which have been abandoned have been abandoned in accordance with all applicable statutes and regulations regarding the abandonment of wells.

(jj) The tangible depreciable property used or intended for use in connection with the oil and gas assets of Southern Pacific and its subsidiaries:

(i) for which Southern Pacific or any of its subsidiaries was or is operator, was or has been constructed, operated and maintained in accordance with good and prudent oil and gas industry practices in Canada and all applicable law during all periods in which Southern Pacific or any of its subsidiaries was operator thereof and is in good condition and repair, ordinary wear and tear excepted, and is useable in the ordinary course of business; and

(ii) for which Southern Pacific or any of its subsidiaries was not or is not operator, to the knowledge of Southern Pacific, was or has been constructed, operated and maintained in accordance with good and prudent oil and gas industry practices in Canada and all applicable law during all periods in which none of Southern Pacific or any of its subsidiaries was operator thereof and is in good condition and repair, ordinary wear and tear excepted, and is useable in the ordinary course of business;

except to the extent that such non-compliance with prudent oil and gas industry practices or applicable law would not in the aggregate have a material adverse effect on Southern Pacific.

(kk) To the knowledge of Southern Pacific, all ad valorem, property, production, severance and similar taxes and assessments based on or measured by the ownership of property or the production of its hydrocarbon substances, or the receipt of proceeds therefrom, payable in respect of the oil and gas assets of Southern Pacific and its subsidiaries prior to the date hereof have been properly and fully paid and discharged, and there are no unpaid Taxes or assessments which could result in a lien or charge on any of their oil and gas assets, except where the failure to do so would not individually or in the aggregate have a material adverse effect on Southern Pacific.

(ll) Neither Southern Pacific nor any of its subsidiaries is a party to or bound or affected by any commitment, agreement or document containing any covenant expressly limiting its freedom to compete in any line of business, compete in any geographic region, transfer or move any of its assets or operations, where such covenant would have a material adverse affect on the business of Southern Pacific.

(mm) There are policies of insurance in force at the date hereof naming Southern Pacific as an insured and, to the knowledge of Southern Pacific, such policies remain in force and effect and shall not be cancelled or otherwise terminated as a result of the transactions contemplated by this Agreement.

(nn) There are no agreements material to the conduct of the affairs or business, of Southern Pacific and its subsidiaries except for those agreements entered into in the ordinary course of business, and all such material agreements are valid and subsisting and neither Southern Pacific nor any of its subsidiaries is in material default under any such agreements.

(oo) Southern Pacific is not a party to any shareholder rights plan or any other form of plan, agreement, contract or instrument that shall trigger any rights to acquire Southern Pacific Shares or other securities of Southern Pacific or rights, entitlements or privileges in favour of any person upon the entering into of this Agreement or the Arrangement.

(pp) The board of directors of Southern Pacific has reserved and allotted a sufficient number of Southern Pacific Shares as are issuable pursuant to the Arrangement, and, subject to the terms and conditions of the Arrangement, such Southern Pacific Shares will be validly issued as fully paid and non-assessable to previous holders of North Peace Shares pursuant to the Arrangement.

(qq) The corporate records and minute books, books of account and other records of Southern Pacific and its subsidiaries (whether of a financial or accounting nature or otherwise) have been maintained in accordance with, in all material respects, all applicable statutory requirements and prudent business practice and are complete and accurate in all material respects.

(rr) Neither Southern Pacific nor any of its subsidiaries has, at the date of this Agreement, (i) received any advance payments for petroleum or services not already delivered or provided prior to receipt of payment, or (ii) any accrued “take-or-pay” or “send-or-pay” liabilities under any agreement.

(ss) All fees in respect of seismic and well data (including those payable on a change of control or transfer) in respect of which Southern Pacific or any of its subsidiaries (or the relevant operator) has a license, have been duly paid except where the failure to pay such fees would not have a material adverse effect on Southern Pacific.

(tt) Neither Southern Pacific nor any of its subsidiaries has entered into any material joint venture with a third party, except for road construction agreements with arm's length parties.

(uu) Except where the failure to do so would not individually or in the aggregate have a material adverse effect on Southern Pacific, Southern Pacific and each of its subsidiaries has (i) withheld from each payment made to any of its present or former employees, officers and directors, for the purposes of the Tax Act all amounts required by law and shall continue to do so until the Effective Date and has remitted such withheld amounts within the prescribed periods to the appropriate Governmental Authority, (ii) remitted all Canada Pension Plan contributions, unemployment insurance premiums, employer health taxes and other taxes payable by it in respect of its employees and has or shall have remitted such amounts to the proper Governmental Authority within the time required by applicable law, and (iii) charged, collected and remitted on a timely basis all taxes as required by applicable law on any sale, supply or delivery whatsoever, made by Southern Pacific or any of its subsidiaries.

(vv) Other than as disclosed in writing to North Peace, neither Southern Pacific nor any of its subsidiaries is a party to or subject to any hedges, swaps or other financial instruments or like transactions.

(ww) To the knowledge of Southern Pacific, Southern Pacific has not withheld from North Peace any material information or documents concerning Southern Pacific or any of its subsidiaries or their respective assets or liabilities during the course of North Peace's review of Southern Pacific and its assets.

(xx) The Southern Pacific Information shall, as of the Mailing Date and as of the Effective Date, be true and complete in all material respects and shall not contain any misrepresentations.

4.2 Representations and Warranties of North Peace

North Peace hereby makes the representations and warranties set forth in this Section 4.2 to and in favour of Southern Pacific and acknowledges that Southern Pacific is relying upon such representations and warranties in connection with the matters contemplated by this Agreement.

(a) North Peace is a corporation duly amalgamated under the ABCA, is validly subsisting under the ABCA and has the requisite power and authority to carry on its business as it is now being conducted.

(b) North Peace is duly registered to do business and is in good standing in each jurisdiction in which the character of its properties, owned or leased, or the nature of its activities make such registration necessary, except where the failure to be so registered or in good standing would not have a material adverse effect on North Peace.

(c) North Peace has the requisite corporate power and authority to enter into this Agreement and to carry out its obligations hereunder. The execution and delivery of this Agreement and the consummation by North Peace of the transactions contemplated by this Agreement have been duly authorized by North Peace's board of directors and, subject to obtaining shareholder approval, no other corporate proceedings on the part of North Peace are or shall be necessary to consummate the transactions contemplated by this Agreement. This Agreement has been duly executed and delivered by North Peace and constitutes a legal, valid and binding obligation of North Peace enforceable against North Peace in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other laws relating to or affecting creditors' rights generally and to general principles of equity.

(d) Neither the execution and delivery of this Agreement by North Peace, the consummation by North Peace of the transactions contemplated by this Agreement nor compliance by North Peace with any of the provisions hereof will: (i) violate, conflict with, or result in breach of any provision of, require any consent, approval or notice under, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) or result in a right of termination or acceleration under, or result in a creation of any lien, security interest, charge or Encumbrance upon any of the properties or assets of North Peace under, any of the terms, conditions or provisions of (x) the articles, bylaws or other constating documents of North Peace, or (y) any note, bond, mortgage, indenture, loan agreement, deed of trust, agreement, lien, contract or other instrument or obligation to which North Peace is a party or to which it, or its properties or assets, may be subject or by which North Peace is bound (subject to obtaining the consent of North Peace's lenders); or (ii) violate any judgment, ruling, order, writ, injunction, determination, award, decree, statute, ordinance, rule or regulation in Canada applicable to North Peace (except, in the case of each of clauses (i) and (ii) above, for such violations, conflicts, breaches, defaults, terminations which, or any consents, approvals or notices which if not given or received, would not have any material adverse effect on North Peace or materially impede the ability of North Peace to consummate the transactions contemplated by this Agreement); or (iii) cause a suspension or revocation of any authorization for the consent, approval or license currently in effect which would have a material adverse effect on North Peace.

(e) Other than in connection with or in compliance with the provisions of Applicable Laws or which are required to be filed post-Arrangement, and except for the requisite approvals of North Peace Shareholders and the TSXV and the obtaining of the Final Order:

(i) there is no legal impediment to North Peace's consummation of the transactions contemplated by this Agreement; and

(ii) no filing or registration with, or authorization, consent or approval of, any domestic or foreign public body or authority is necessary by North Peace in connection with the consummation of the Arrangement, except for such filings or registrations which, if not made, or for such authorizations, consents or approvals, which, if not received, would not materially impede the ability of North Peace to consummate the transactions contemplated by this Agreement.

(f) North Peace has authorized an unlimited number of North Peace Shares and an unlimited number of preferred shares, issuable in series. As at the date hereof, 76,179,800 North Peace Shares, nil preferred shares, North Peace Options entitling the holders to acquire no more than 6,065,000 North Peace Shares (all of which have exercise prices exceeding \$0.21 per share), 6,300,000 North Peace Performance Warrants, (all of which have exercise prices exceeding \$0.21 per share) and 10,554,500 North Peace Warrants, (all of which have exercise prices exceeding \$0.21 per share) are issued and outstanding. Except as aforesaid, and pursuant to North Peace's shareholders rights plan dated April 27, 2007 (the "**North Peace Shareholders Rights Plan**") there are no other outstanding securities of North Peace or options, warrants, rights of conversion or exchange privileges or other securities entitling anyone to acquire any securities of North Peace or any other rights, agreements or commitments of any character whatsoever requiring the issuance, sale or transfer by North Peace of any securities. All outstanding North Peace Shares have been duly authorized and validly issued, and are fully paid and non-assessable and are not subject to, nor have they been issued in violation of, any pre-emptive rights.

(g) North Peace has no subsidiaries nor does it own or have any interest in any shares or have voting or equity interests in any other Person.

(h) Other than as disclosed in the North Peace Public Record or in North Peace's Disclosure Letter, since December 31, 2009:

(i) there has not been any material adverse change in respect of North Peace and there have been no material facts, transactions, events or occurrences which, to the knowledge of North Peace, could have a material adverse effect on North Peace;

(ii) North Peace has not discharged or satisfied any liens or paid any obligation or liability other than liabilities shown on the North Peace Financial Statements, other than in the ordinary course of business;

(iii) North Peace has not declared or made any payment, distribution or dividend based on its shares or purchased, redeemed or otherwise acquired any of the shares in its capital or other securities or obligated itself to do so;

(iv) North Peace has not mortgaged, pledged or subjected to lien or other security interest any of its assets, tangible or intangible other than the usual security granted to secure a bank line of credit or other than in the ordinary course of business;

(v) North Peace has not sold, assigned, leased, transferred or otherwise disposed of any of its assets having either a book value or fair market value in excess of $50,000, whether or not in the ordinary course of business;

(vi) North Peace has not increased materially the compensation payable or to become payable to any of its officers, directors or employees, or in any bonus payment to or arrangement made with any officer, director or employee, or made any material changes in its personnel policies or employee benefits;

(vii) North Peace has not significantly altered or revised any of its accounting principles, procedures, methods or practices except as required under Canadian generally accepted accounting principles or other regulatory guidelines;

(viii) North Peace has not entered into any transaction, contract or commitment other than in the ordinary course of business except for the transactions set forth in this Agreement;

(ix) North Peace has conducted its business only in the ordinary and normal course; and

(x) no liability or obligation of any nature (whether absolute, accrued, contingent or otherwise) material to North Peace has been incurred other than in the ordinary and normal course of business, consistent with past practice or pursuant to the North Peace Budget as attached to North Peace's Disclosure Letter.

(i) North Peace has no reason to believe that the North Peace Reserves Report was not accurate in all material respects as at the effective date of such report, and, except for any impact of changes in commodity prices, which may or may not be material, North Peace has no knowledge of a material adverse change in the production, costs, price, reserves, estimates of future net production revenues or other relevant information from that disclosed in the Reserves Report. North Peace has provided to Sproule all material information concerning land descriptions, well data, facilities and infrastructure, ownership and operations, future development plans and historical technical and operating data respecting the principal oil and gas assets of North Peace, in each case as at the effective date of such report, and, in particular, all material information respecting the interests of North Peace in its principal oil and gas assets and royalty burdens and net profits interest burdens thereon and such information was accurate and correct in all material respects as at the respective dates thereof and did not omit any information necessary to make any such information provided not misleading as at the respective dates thereof and there has been no material adverse change in any of the material information so provided since the date thereof.

(j) North Peace believes that the North Peace Reserves Report complies with the requirements of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*, believes that the North Peace Reserves Report reasonably presented the quantity and pre-tax present worth values of estimated oil and gas reserves attributable to the properties evaluated therein as at the date stated therein based upon information available at the time the North Peace Reserves Report was prepared and the assumptions as to commodity prices and costs contained therein.

(k) There is no court, administrative, regulatory or similar proceeding (whether civil, quasi-criminal or criminal), arbitration or other dispute settlement procedure, investigation or inquiry by any Governmental Authority, or any claim, action, suit, demand, arbitration, charge, indictment, hearing or other similar civil, quasi-criminal or criminal, administrative or investigative material matter or proceeding (collectively, "**proceedings**") against or involving it or in respect of the businesses, properties or assets of it (whether in progress or, to the knowledge of North Peace, threatened), that if adversely determined, would reasonably be expected to have a material adverse effect on North Peace or significantly impede the completion of the transactions contemplated by this Agreement and, to the knowledge of North Peace, no event has occurred which might reasonably be expected to give rise to any proceeding. There is no judgment, writ, decree, injunction, rule, award or order of any Governmental Authority outstanding against North Peace in respect of its business, properties or assets that has had or would reasonably be expected to have a material adverse effect on North Peace or significantly impede the completion of the transactions contemplated by this Agreement.

(l) The North Peace Financial Statements fairly present, in accordance with generally accepted accounting principles in Canada, consistently applied, the financial position and condition of North Peace at the dates thereof and the results of the operations of North Peace for the periods then ended and reflect in accordance with generally accepted accounting principles in Canada, consistently applied, all material assets, liabilities or obligations (absolute, accrued, contingent or otherwise) of North Peace as at the dates thereof.

(m) North Peace has not received notice of any material violation of or investigation relating to any federal, provincial or local law, regulation or ordinance with respect to its assets, business or operations and North Peace holds all permits, licenses and other authorizations which are required under federal, provincial or local laws relating to North Peace's assets, business or operations, except where the failure to comply with the foregoing would not have a material adverse effect on North Peace. The assets of North Peace are operated and maintained by it are in compliance with all terms and conditions of applicable laws, permits, licenses and authorizations in all material respects.

(n) No securities commission or similar regulatory authority, or stock exchange in Canada has issued any order which is currently outstanding preventing or suspending trading in any securities of North Peace, no such proceeding is, to the knowledge of North Peace, pending, contemplated or threatened and North Peace is not, to its knowledge, in default of any requirement of any Applicable Laws.

(o) Other than as nominal consideration for the termination of outstanding North Peace Options and North Peace Performance Warrants pursuant the Cancellation Agreements and the North Peace Termination Payments to officers, employees and consultants in an aggregate amount not to exceed $**1,500,000** payable upon completion of the Arrangement, all as set forth in North Peace's Disclosure Letter, there are no payments owing or that will become owing in connection with the Arrangement to directors, officers and employees of North Peace under any contract settlements, bonus plans, retention arrangements, change of control agreements or severance obligations (whether resulting from termination or alteration of duties);

(p) North Peace has provided Southern Pacific with a correct and complete list (the "**Employment Information**") of each employee, director, independent contractor, consultant and agent of North Peace who currently provides services to the administration, operation, maintenance and management of North Peace pursuant to an agreement which may not be terminated with less than three months notice (or pay in lieu thereof), whether actively at work or not, their salaries, wage rates, commissions and consulting fees, bonus arrangements, benefits, positions, status as full-time or part-time employees, location of employment and length of service. Except as set out in the Employment Information, no such person has any agreement as to length of notice or severance payment required to terminate his or her employment, other than such as results by applicable law from the employment of an employee without an agreement as to notice or severance.

(q) North Peace has provided Southern Pacific with all North Peace Employment and Consulting Agreements.

(r) North Peace's business has been and is being operated in full compliance with all applicable laws relating to employment, including employment standards, occupational health and safety, human rights, labour relations, workers compensation, pay equity and employment equity and North Peace has not received notice of any outstanding assessments, penalties, fines liens, charges, surcharges, or other amounts due or owing pursuant to any workers' compensation legislation and North Peace has not been reassessed in any material respect under such legislation.

(s) All amounts due or accrued for all salary, wages, bonuses, commissions, vacation with pay, and other employee benefits in respect of any employee, director, independent contractor, consultant and agent of North Peace which are attributable to the period before the Effective Date will be paid at or prior to the Effective Time in amounts as previously disclosed to Southern Pacific and are or shall be accurately reflected in the books and records of North Peace.

(t) No employee of North Peace is on long term disability leave, extended absence or receiving benefits pursuant to the *Workers' Compensation Act* (Alberta) or similar legislation in the other jurisdictions in which North Peace carry on business.

(u) North Peace has no Company Plans providing benefits to its employees, officers, directors or consultants other than those disclosed to Southern Pacific.

(v) North Peace has not retained any financial advisor, broker, agent or finder, or paid or agreed to pay or have Southern Pacific pay any financial advisor, broker, agent or finder on account of this Agreement or the Arrangement, any transaction contemplated hereby or any transaction presently ongoing or contemplated, except that CIBC World Markets Inc. has been retained as North Peace's financial advisor in connection with certain matters, including the transactions contemplated by this Agreement. North Peace has delivered to Southern Pacific true and current copies of all agreements between North Peace and CIBC World Markets Inc. and any payments made with respect to such agreements are in compliance with the terms of such agreements and will not exceed the amounts set forth in North Peace's Disclosure Letter.

(w) The termination of the Trimor Engagement Letter at or prior to the Effective Date will not result in any fees, costs or expenses payable by North Peace as a result of the termination of such letter, and after such termination, North Peace will have no further obligations pursuant to the Trimor Engagement Letter.

(x) The board of directors of North Peace has unanimously endorsed the Arrangement and approved this Agreement, has unanimously determined that the Arrangement and this Agreement are in the best interests of North Peace and the North Peace Shareholders, has unanimously determined that the Arrangement is fair to the North Peace Shareholders and has resolved to unanimously recommend approval of the Arrangement by the North Peace Shareholders.

(y) The board of directors of North Peace received a verbal opinion from CIBC World Markets Inc. that the consideration to be received under the Arrangement is fair, from a financial point of view, to the North Peace Shareholders.

(z) Other than agreements with respect to the North Peace Options and North Peace Performance Warrants and the North Peace Shareholder's Rights Plan, North Peace is not a party to any shareholder rights plan or any other form of plan, agreement, contract or instrument that shall trigger any rights to acquire North Peace Shares or other securities of North Peace or rights, entitlements or privileges in favour of any person upon the entering into of this Agreement or the Arrangement.

(aa) The consummation of the transactions contemplated herein, including the entering into of this Agreement or the completion of the Arrangement, shall not trigger any rights to acquire North Peace Shares or other securities of North Peace or rights, entitlements or privileges in favour of any person, under, pursuant to or as a result of the North Peace Shareholder Rights Plan.

(bb) None of the North Peace Shares are the subject of any escrow, voting trust or other similar agreement.

(cc) North Peace does not have any outstanding obligations to incur and/or renounce any Canadian exploration expenditures or Canadian development expenditures to any purchaser of the shares of North Peace that have not yet been fully expended and renounced.

(dd) Except to the extent that any violation or other matter referred to in this subparagraph does not have a material adverse effect on North Peace:

(i) it is not in violation of any Environmental Laws;

(ii) it has operated its business at all times and has received, handled, used, stored, treated, shipped and disposed of all contaminants without violation of Environmental Laws;

(iii) there have been no spills, releases, deposits or discharges of hazardous or toxic substances, contaminants or wastes into the earth, air or into any body of water or any municipal or other sewer or drain water systems by North Peace that have not been remedied;

(iv) no orders, directions or notices have been issued and remain outstanding pursuant to any Environmental Laws relating to the business or assets of North Peace;

(v) it has not failed to report to the proper federal, provincial, municipal or other political subdivision, government, department, commission, board, bureau, agency or instrumentality, domestic or foreign the occurrence of any event which is required to be so reported by any Environmental Law; and

(vi) except as disclosed in North Peace's Disclosure Letter, it holds all licenses, permits and approvals required under any Environmental Laws in connection with the operation of its business and the ownership and use of its assets, all such licenses, permits and approvals are in full force and effect, and except for notifications and conditions of general application to assets of reclamation obligations under legislation in Alberta and any other jurisdiction in which it conducts its business, North Peace has not received any notification pursuant to any Environmental Laws that any work, repairs, constructions or capital expenditures are required to be made by it as a condition of continued compliance with any Environmental Laws, or any license, permit or approval issued pursuant thereto, or that any license, permit or approval referred to above is about to be reviewed, made subject to limitation or conditions, revoked, withdrawn or terminated.

(ee) The corporate records and minute books, books of account and other records of North Peace (whether of a financial or accounting nature or otherwise) have been maintained in accordance with, in all material respects, all applicable statutory requirements and prudent business practice and are complete and accurate in all material respects.

(ff) All Returns required to be filed by North Peace have been duly filed, in all material respects, on a timely basis and all Taxes shown to be payable on such Returns or on subsequent assessments with respect thereto have been paid in full on a timely basis. The filed Returns are true, complete and correct in all material respects, and no other Taxes are payable by North Peace with respect to items or periods covered by such Returns.

(gg) North Peace has paid or provided adequate accruals in the North Peace Financial Statements for the year ended December 31, 2009 for Taxes, including income taxes and related future taxes, in conformity with generally accepted accounting principles applicable in Canada.

(hh) No material deficiencies exist or have been asserted with respect to Taxes. North Peace is not a party to any action or proceeding for assessment or collection of Taxes, nor has such event been asserted or threatened against North Peace or any of its assets. No waiver or extension of any statute of limitations is in effect with respect to Taxes or Returns. Except as disclosed to Southern Pacific prior to the date hereof, the Returns have never been audited by a government or taxing authority, nor is any such audit, assessment, reassessment, claim, action, suit, investigation or proceeding in process or, to the knowledge of North Peace, pending or threatened, which resulted in or could result in a claim for Taxes owing by North Peace except where such audit, assessment, reassessment, claim, action, suit, investigation or proceeding would not individually or in the aggregate have a material adverse effect on North Peace. North Peace has withheld any Taxes required to be withheld by the applicable laws and the Tax Act and has paid or remitted on a timely basis, the full amount of any Taxes which have been withheld to the applicable Governmental Authority.

(ii) All agreements entered into by North Peace with persons other than Southern Pacific regarding the confidentiality of information provided to such persons or reviewed by such persons with respect to the sale of North Peace or a substantial portion of its assets or any other business combination or similar transaction with any other party (collectively, "**Prior Confidentiality Agreements**"), other than Prior Confidentiality Agreements as identified only by the date of such agreement in North Peace's Disclosure Letter, are in substantially the form of the North Peace Confidentiality Agreement and North Peace has not, as at the date hereof, waived the standstill or other provisions of any such agreements.

(jj) Neither the execution and delivery of this Agreement by North Peace, the consummation by North Peace of the transactions contemplated by this Agreement nor compliance by North Peace with any of the provisions hereof will trigger any obligations to make any payments pursuant to, violate, conflict with, or result in breach of any provision of, require any consent, approval or notice under, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) or result in a right of termination or acceleration under, or result in a creation of any lien, security interest, charge or Encumbrance upon any of the properties or assets of North Peace under, any of the terms, conditions or provisions of any Prior Confidentiality Agreements.

(kk) Except as disclosed in North Peace's Disclosure Letter, no director, officer, insider or other non-arm's length party to North Peace (or, to the knowledge of North Peace, any associate or affiliate thereof) has any right, title or interest in (or the right to acquire any right, title or interest in) any royalty interest, carried interest, participation interest or any other interest whatsoever which are based on production from or in respect of any properties of North Peace.

(ll) No director, officer, insider or other non-arm's length party of North Peace is indebted to North Peace.

(mm) Except for indemnity agreements with its directors and officers as contemplated by the by-laws of North Peace and Applicable Laws, and other than standard indemnity agreements in underwriting and agency agreements, and in the ordinary course provided to service providers, North Peace is not a party to or bound by any agreement, guarantee, indemnification, or endorsement or like commitment of the obligations, liabilities (contingent or otherwise) or indebtedness of any person, firm or corporation.

(nn) Any and all operations of North Peace, and to the knowledge of North Peace, any and all operations by third parties, on or in respect of the assets and properties of North Peace have been conducted in compliance with good oilfield practices and in material compliance with applicable laws, rules, regulations, orders and directions of government and other competent authorities except where the failure to conduct operations would not have a material adverse effect on North Peace.

(oo) Although it does not warrant title, North Peace does not have reason to believe that it does not have title to or the irrevocable right to produce and sell its petroleum, natural gas and related hydrocarbons as set forth in Schedule "B" hereto, (for the purposes of this clause, the foregoing are referred to as the "**North Peace Interests**") and does represent and warrant that, to the knowledge of North Peace, the North Peace Interests are free and clear of adverse claims created by, through or under North Peace, except related to bank financing or those arising in the ordinary course of business, and, to the knowledge of North Peace, it holds its North Peace Interests under valid and subsisting leases, licenses, permits, concessions, concession agreements, contracts, subleases, reservations or other agreements, except where the failure to so hold the Interest would not have a material adverse effect upon North Peace.

(pp) North Peace is not aware of any defects, failures or impairments in the title of North Peace to its oil and gas properties, whether or not an action, suit, proceeding or inquiry is pending or threatened and whether or not discovered by any third party, which in aggregate could have a material adverse effect on: (i) the quantity and pre-tax present worth values of the oil and gas reserves of North Peace shown in the North Peace Reserves Report; (ii) the current production of North Peace; or (iii) the current cash flow of North Peace.

(qq) North Peace has not received notice of any default under any of the leases and other title and operating documents or any other agreement or instrument pertaining to its oil and gas assets or to which it is a party or is bound, except to the extent that such defaults would not in the aggregate have a material adverse effect on North Peace;

(rr) to the knowledge of North Peace:

(i) North Peace is in good standing under all, and is not in default under any; and

(ii) there is no existing condition, circumstance or matter which constitutes or which, with the passage of time or the giving of notice, would constitute a default under any,

leases and other title and operating documents or any other agreements and instruments pertaining to its oil and gas assets to which it is a party or by or to which it or such assets are bound or subject and, to the knowledge of North Peace, all such leases, title and operating documents and other agreements and instruments are in good standing and in full force and effect and to the knowledge of North Peace none of the counterparties to such leases, title and operating documents and other agreements and instruments is in default thereunder except to the extent that such defaults would not in the aggregate have a material adverse effect on North Peace.

(ss) None of the oil and gas assets of North Peace are subject to reduction by reference to payout of or production penalty on any well or otherwise or to change to an interest of any other size or nature by virtue of or through any right or interest granted by, through or under North Peace, except to the extent that all such reductions or changes to an interest would not in the aggregate have a material adverse effect on North Peace.

(tt) None of the wells in which North Peace holds an interest has been produced in excess of applicable production allowables imposed by any applicable law or any governmental authority and, other than as disclosed in North Peace's Disclosure Letter, North Peace does not have any knowledge of any impending change in production allowables imposed by any Applicable Law 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 except to the extent that such non-compliance or changes would not in the aggregate have a material adverse effect on North Peace.

(uu) Other than as disclosed in North Peace's Disclosure Letter, North Peace has not 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, and, to its knowledge, none of the wells in which North Peace holds an interest is subject to any such penalty or restriction except to the extent that any such penalty or restriction would not have a material adverse effect on North Peace.

(vv) Other than as disclosed in North Peace's Disclosure Letter, to the knowledge of North Peace, all wells located on any lands in which North Peace has an interest, or lands with which such lands have been pooled or unitized, which have been abandoned have been abandoned in accordance with all applicable statutes and regulations regarding the abandonment of wells.

(ww) The tangible depreciable property used or intended for use in connection with the oil and gas assets of North Peace:

(i) for which North Peace was or is operator, was or has been constructed, operated and maintained in accordance with good and prudent oil and gas industry practices in Canada and all applicable law during all periods in which North Peace was operator thereof and is in good condition and repair, ordinary wear and tear excepted, and is useable in the ordinary course of business; and

(ii) for which North Peace was not or is not operator, to the knowledge of North Peace, was or has been constructed, operated and maintained in accordance with good and prudent oil and gas industry practices in Canada and all applicable law during all periods in which North Peace was not operator thereof and is in good condition and repair, ordinary wear and tear excepted, and is useable in the ordinary course of business;

except to the extent that such non-compliance with prudent oil and gas industry practices or applicable law would not in the aggregate have a material adverse effect on North Peace.

(xx) North Peace has not, at the date of this Agreement, (i) received any advance payments for petroleum or services not already delivered or provided prior to receipt of payment, or (ii) any accrued "take-or-pay" or "send-or-pay" liabilities under any agreement.

(yy) All fees in respect of seismic and well data (including those payable on a change of control or transfer) in respect of which North Peace (or, to the knowledge of North Peace, the relevant operator) has a licence, have been duly paid.

(zz) North Peace is not party to a material joint venture with a third party.

(aaa) Other than as disclosed in North Peace's Disclosure Letter in respect of the North Peace Budget, there are no outstanding authorizations for expenditure ("**AFE**") pertaining to any of the oil and gas assets of North Peace or any other commitments, approvals or authorizations pursuant to which an expenditure may be required to be made in respect of such assets after the date of the most recent North Peace Financial Statements in excess of $5,000 for each such commitment, approval or authorization.

(bbb) Except where the failure to do so would not individually or in the aggregate have a material adverse effect on North Peace, North Peace has (i) withheld from each payment made to any of its present or former employees, officers and directors, for the purposes of the Tax Act all amounts required by law and shall continue to do so until the Effective Date and has remitted such withheld amounts within the prescribed periods to the appropriate Governmental Authority, (ii) remitted all Canada Pension Plan contributions, unemployment insurance premiums, employer health taxes and other taxes payable by it in respect of its employees and has or shall have remitted such amounts to the proper Governmental Authority within the time required by applicable law, and (iii) charged, collected and remitted on a timely basis all taxes as required by applicable law on any sale, supply or delivery whatsoever, made by North Peace.

(ccc) To the knowledge of North Peace, all ad valorem, property, production, severance and similar taxes and assessments based on or measured by the ownership of property or the production of its hydrocarbon substances, or the receipt of proceeds therefrom, payable in respect of its oil and gas assets prior to the date hereof have been properly and fully paid and discharged, and there are no unpaid Taxes or assessments which could result in a lien or charge on its oil and gas assets, except where the failure to do so would not individually or in the aggregate have a material adverse effect on North Peace.

(ddd) Other than as disclosed in North Peace's Disclosure Letter, North Peace is not party to or bound or affected by any commitment, agreement or document containing any covenant expressly limiting its freedom to compete in any line of business, compete in any geographic region, transfer or move any of its assets or operations, where such covenant would have a material adverse affect on the business of North Peace.

(eee) There are policies of insurance in force at the date hereof naming North Peace as an insured and, to the knowledge of North Peace, such policies remain in force and effect and shall not be cancelled or otherwise terminated as a result of the transactions contemplated by this Agreement.

(fff) North Peace is not a party to or subject to any hedges, swaps or other financial instruments or like transactions.

(ggg) To the knowledge of North Peace, North Peace has not withheld from Southern Pacific any material information or documents concerning North Peace or its assets or liabilities during the course of Southern Pacific's review of North Peace and its assets.

(hhh) There are no agreements material to the conduct of North Peace's affairs or business, except for those agreements entered into in the ordinary course of business, and all such material agreements are valid and subsisting and North Peace is not in material default under any such agreements.

(iii) All information in the Circular (other than in respect of the Southern Pacific Information, in respect of which North Peace makes no representation or warranty) shall, as of the Mailing Date and as of the Effective Date) be true and complete in all material respects and shall not contain any misrepresentations.

(jjj) North Peace’s estimated aggregate tax pools are not less than $66.8 million. For the purposes of this provision, “aggregate tax pools” means, in respect of North Peace directly, the total of the following balances as at the date of this Agreement: undepreciated capital cost of all classes of depreciable property, cumulative Canadian exploration expense balance, cumulative Canadian development expense balance, cumulative oil and gas property expense balance, and previously undeducted non-capital loss carry-forward balances for each year, as all such terms are defined for the purpose of the Tax Act and the Alberta *Corporate Tax Act,* R.S.A. 2000, c. A-15. The deductibility of the aggregate tax pools are not subject to the limitations set out under section 66.7 or subsection 111(5) of the Tax Act. For greater certainty, except pursuant to this Agreement or as specifically disclosed in writing to Southern Pacific, for purposes of the Tax Act or any other applicable tax statute, no Person or group of Persons has ever acquired or had the right to acquire control of North Peace.

(kkk) None of sections 78, 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 North Peace at any time up to and including the Effective Date.

(lll) North Peace is a “reporting issuer” in the provinces of British Columbia, Alberta, Saskatchewan, Ontario and New Brunswick, within the meaning of the Applicable Canadian Securities Laws in such provinces and is not in default of any requirement of Applicable Canadian Securities Laws in any material respect.

(mmm) The North Peace Shares are listed on the TSXV and North Peace is in compliance in all material respects with the policies and requirements of the TSXV.

(nnn) All publicly available documents and information filed by North Peace with the applicable securities regulators subsequent to January 1, 2009 complied in all material respects with all applicable requirements of Applicable Canadian Securities Laws and did not contain, at the respective date of such document or information, any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, unless such document or information was subsequently corrected or superseded prior to the date hereof.

(ooo) Other than as disclosed in writing to Southern Pacific, the data and information in respect of North Peace and its assets, liabilities, business and operations provided by North Peace or, to its knowledge, by its advisors to Southern Pacific or its advisors was and is accurate and correct in all material respects as at the respective dates thereof and, in respect of any information provided or requested, did not knowingly omit any material data or information necessary to make any data or information provided not misleading as at the respective dates thereof.

(ppp) Other than as disclosed in writing to Southern Pacific, to the knowledge of North Peace, the information and statements set forth in the North Peace Public Record, as relates to North Peace, were true, correct, and complete and did not contain any misrepresentation, as of the respective dates of such information or statements, and no material change has occurred in relation to North Peace which is not disclosed in the North Peace Public Record, and North Peace has not filed any confidential material change reports which continue to be confidential.

(qqq) Other than as disclosed in writing to Southern Pacific, as at the date hereof, there are no material contracts or agreements to which North Peace is a party or by which it is bound. For the purposes of this subsection, any contract or agreement pursuant to which North Peace will, or may reasonably be expected to, result in a requirement of North Peace to expend more than an aggregate of $5,000 or receive or be entitled to receive revenue of more than $5,000 in either case in the next 12 months, or is out of the ordinary course of business of North Peace shall be considered to be material.

(rrr) North Peace does not have in effect any bonus plan, commission plan, profit sharing plan, pension plan, royalty plan or arrangement, defined benefit plan or employee benefit plan for the benefit of any of its employees, officers, directors, consultants or shareholders, other than the stock option plan providing for the North Peace Options, and has made no agreements or promises with respect to any such plans.

(sss) Except as disclosed in writing to Southern Pacific, all accounts receivable in any material amount of North Peace are to North Peace's knowledge collectible.

(ttt) CIBC Mellon Trust Company at its principal office in Calgary, Alberta is the duly appointed registrar and transfer agent of North Peace with respect to the North Peace Shares.

(uuu) The North Peace Transaction Costs shall not exceed **$2,500,000.**

(vvv) The North Peace Working Capital as at the date of this Agreement is not less than **$1,750,000.**

(www) The North Peace Termination Payments shall not exceed $**1,500,000.**

(xxx) North Peace 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 (i) to file any Return covering any Taxes for which North Peace is or may be liable; (ii) to file any elections, designations or similar filings relating to Taxes for which North Peace is or may be liable; (iii) North Peace is required to pay or remit any Taxes or amounts on account of Taxes; or (iv) any Governmental Authority may assess or collect Taxes for which North Peace is or may be liable.

(yyy) Other than those agreements and arrangements described in Section 4.2(xxx), North Peace 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 Returns that has effect for any period ending after the Effective Date.

(zzz) All income, sales (including goods and services, harmonized sales and provincial or territorial sales) and capital tax liabilities of North Peace have been assessed by the relevant Governmental Authorities and notices of assessment have been issued to North

Peace by the relevant Governmental Authorities for all taxation years or periods ending prior to and including the taxation year or period ended December 31, 2009.

(aaaa) North Peace has duly and timely withheld all Taxes and other amounts required by law to be withheld by it (including Taxes and other amounts required to be withheld by it 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, including any employee, officer or director and any non-resident Person), and has duly and timely remitted to the appropriate Governmental Authority such Taxes and other amounts required by law to be remitted by it.

(bbbb) North Peace has duly and timely collected all amounts on account of any sales or transfer taxes, including goods and services, harmonized sales and provincial or territorial sales taxes, required by law to be collected by it and has duly and timely remitted to the appropriate Governmental Authority any such amounts required by law to be remitted by it.

(cccc) North Peace 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.

(dddd) For all transactions between North Peace and any non-resident Person with whom North Peace was not dealing at arm's length during a taxation year commencing after 1998 and ending on or before the Effective Date, North Peace has made or obtained records or documents that meet the requirements of paragraphs 247(4)(a) to (c) of the Tax Act.

(eeee) Southern Pacific has been provided with copies of all Returns and all communications to or from any Governmental Authority relating to the Taxes of North Peace, to the extent relating to periods or events in respect of which any Governmental Authority may by law assess or otherwise impose any such Tax on North Peace.

4.3 Privacy Issues

(a) For the purposes of this Section 4.3, the following definitions shall apply:

(i) "**applicable law**" means, in relation to any person, transaction or event, all applicable provisions of laws, statutes, rules, regulations, official directives and orders of and the terms of all judgments, orders and decrees issued by any authorized authority by which such person is bound or having application to the transaction or event in question, including applicable privacy laws.

(ii) "**applicable privacy laws**" means any and all applicable laws relating to privacy and the collection, use and disclosure of Personal Information in all applicable jurisdictions, including but not limited to the *Personal Information Protection and Electronic Documents Act* (Canada) and/or any comparable provincial law including the *Personal Information Protection Act* (Alberta).

(iii) "**authorized authority**" means, in relation to any person, transaction or event, any (a) federal, provincial, municipal or local governmental body (whether administrative, legislative, executive or otherwise), both domestic and foreign, (b) agency, authority, commission, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government, (c) court, arbitrator, commission or body exercising judicial, quasi-judicial, administrative or similar functions, and (d) other body or entity created under the authority of or otherwise subject to the jurisdiction of any of the foregoing, including any stock or other securities exchange, in each case having jurisdiction over such person, transaction or event.

(iv) "**Personal Information**" means information about an identifiable individual transferred to one Party by another Party in accordance with this Agreement and/or as a condition of the Arrangement.

(b) The Parties hereto acknowledge that they are responsible for compliance at all times with applicable privacy laws which govern the collection, use and disclosure of Personal Information acquired by or disclosed to either Party pursuant to or in connection with this Agreement (the "**Disclosed Personal Information**").

(c) Neither Party shall use the Disclosed Personal Information for any purposes other than those related to the performance of this Agreement and the completion of the Arrangement.

(d) Each Party acknowledges and confirms that the disclosure of Personal Information is necessary for the purposes of determining if the Parties shall proceed with the Arrangement, and that the disclosure of Personal Information relates solely to the carrying on of the business and the completion of the Arrangement.

(e) Each Party acknowledges and confirms that it has and shall continue to employ appropriate technology and procedures in accordance with applicable law to prevent accidental loss or corruption of the Disclosed Personal Information, unauthorized input or access to the Disclosed Personal Information, or unauthorized or unlawful collection, storage, disclosure, recording, copying, alteration, removal, deletion, use or other processing of such Disclosed Personal Information.

(f) Each Party shall at all times keep strictly confidential all Disclosed Personal Information provided to it, and shall instruct those employees or advisors responsible for processing such Disclosed Personal Information to protect the confidentiality of such information in a manner consistent with the Parties' obligations hereunder. Each Party shall ensure that access to the Disclosed Personal Information shall be restricted to those employees or advisors of the respective Party who have a bona fide need to access to such information in order to complete the Arrangement.

(g) Each Party shall promptly notify the other Party to this Agreement of all inquiries, complaints, requests for access, and claims of which the Party is made aware in connection with the Disclosed Personal Information. The Parties shall fully co-operate with one another, with the persons to whom the Personal Information relates, and any authorized authority charged with enforcement of applicable privacy laws, in responding to such inquiries, complaints, requests for access, and claims.

(h) Upon the expiry or termination of this Agreement, or otherwise upon the reasonable request of either Party, the counterparty shall forthwith cease all use of the Personal Information acquired by the counterparty in connection with this Agreement and shall return to the Party or, at the Party's request, destroy in a secure manner, the Disclosed Personal Information (and any copies).

ARTICLE 5 - CONDITIONS PRECEDENT

5.1 Mutual Conditions Precedent

The respective obligations of the Parties to consummate the transactions contemplated by this Agreement, and in particular the Arrangement, are subject to the satisfaction, on or before the Effective Date or such other time specified, of the following conditions, any of which may be waived by the mutual written consent of such Parties without prejudice to their right to rely on any other of such conditions:

(a) the Interim Order shall have been granted on or before October 22, 2010 in form and substance satisfactory to each of Southern Pacific and North Peace, acting reasonably, and such order shall not have been set aside or modified in a manner unacceptable to Southern Pacific or North Peace, acting reasonably, on appeal or otherwise;

(b) the Arrangement Resolution shall have been passed by the North Peace Shareholders in accordance with the Interim Order on or before November 30, 2010 and in form and substance satisfactory to each of Southern Pacific and North Peace, acting reasonably;

(c) the Final Order shall have been granted on or before November 30, 2010 in form and substance satisfactory to Southern Pacific and North Peace, acting reasonably;

(d) the Articles of Arrangement to be filed with the Registrar in accordance with the Arrangement shall be in accordance with the terms of the Plan of Arrangement and in form and substance satisfactory to each of Southern Pacific and North Peace, acting reasonably;

(e) the Effective Date shall have occurred on or before November 30, 2010;

(f) the TSX shall have conditionally approved the issuance of the Southern Pacific Shares pursuant to the Arrangement on terms and conditions satisfactory to Southern Pacific and North Peace, acting reasonably;

(g) all required regulatory, governmental and third party approvals and consents necessary for the completion of the Arrangement shall have been obtained on terms and conditions satisfactory to North Peace and Southern Pacific, each acting reasonably; and

(h) no action shall have been taken under any existing applicable law or regulation, nor any statute, rule, regulation or order which is enacted, enforced, promulgated or issued by any court, department, commission, board, regulatory body, government or Governmental Authority or similar agency, domestic or foreign, that:

    (i) makes illegal or otherwise directly or indirectly restrains, enjoins or prohibits the Arrangement or any other transactions contemplated by this Agreement; or

    (ii) results in a judgment or assessment of material damages directly or indirectly relating to the transactions contemplated by this Agreement.

The foregoing conditions are for the mutual benefit of Southern Pacific and North Peace and may be asserted by Southern Pacific or North Peace regardless of the circumstances and may be waived by Southern Pacific or North Peace (with respect to such Party) in their sole discretion, in whole or in part, at any time and from time to time without prejudice to any other rights which Southern Pacific or North Peace may have.

5.2 Additional Conditions to Obligations of Southern Pacific

The obligations of Southern Pacific to consummate the transactions contemplated by this Agreement, and in particular the Arrangement, is subject to the satisfaction, on or before the Effective Date or such other time specified, of the following conditions:

(a) the representations and warranties made by North Peace in Section 4.2 of this Agreement shall be true and correct in all material respects (except for representations and warranties containing qualifiers as to materiality, which shall be true and correct) as of the Effective Date as if made on and as of such date (except for representations and warranties which refer to another date, which shall be true and correct as of that date) and North Peace shall have provided to Southern Pacific a certificate of two senior officers of North Peace satisfactory to Southern Pacific, acting reasonably, certifying as to such matters on behalf of North Peace on the Effective Date;

(b) North Peace shall have complied in all material respects with its covenants in this Agreement and North Peace shall have provided to Southern Pacific a certificate of two senior officers of North Peace satisfactory to Southern Pacific, acting reasonably, certifying, on behalf of North Peace, as to such compliance and Southern Pacific shall have no actual knowledge to the contrary;

(c) North Peace shall have furnished Southern Pacific with:

(i) certified copies of the resolutions duly passed by the board of directors of North Peace approving this Agreement and the consummation of the transactions contemplated by this Agreement; and

(ii) certified copies of the resolutions of the North Peace Shareholders approving the Arrangement Resolution, as applicable;

(d) no material adverse change respecting North Peace shall have occurred;

(e) no act, action, suit, proceeding, objection or opposition shall have been taken against or affecting North Peace before or by any domestic or foreign court, tribunal or governmental agency or other regulatory or administrative agency or commission by any elected or appointed public official or private person in Canada or elsewhere, whether or not having the force of law and no law, regulation, policy, judgment, decision, order, ruling or directive (whether or not having the force of law) shall have been enacted, promulgated, amended or applied, which in the sole judgment of Southern Pacific, acting reasonably, in either case has had or, if the Arrangement was consummated, would result in a material adverse change respecting North Peace (and for greater certainty the exceptions set forth in Section 1(bb) shall apply in determining whether any of the foregoing would result in a material adverse change) or would materially impede the ability of the Parties to complete the Arrangement;

(f) at the time of the closing of the Arrangement, each of the directors and officers of North Peace shall have provided their resignations and such directors and officers shall have delivered mutual releases in favour of the director or officer, North Peace and Southern Pacific, in form and substance satisfactory to Southern Pacific and such persons, acting reasonably;

(g) Southern Pacific shall be reasonably satisfied that, immediately prior to the Effective Date, all of the outstanding, unexercised North Peace Options and North Peace Performance Warrants shall be cancelled pursuant to the Cancellation Agreements;

(h) at the Effective Date the North Peace Working Capital shall be no less than **($750,000)** and Southern Pacific shall have received an officers' certificate signed by two officers of North Peace in their capacity as officers and without personal liability certifying the North Peace Working Capital as at the Effective Date;

(i) at or prior to the Effective Date, North Peace shall terminate the Trimor Engagement Letter (and provide satisfactory evidence of such termination to Southern Pacific) such that:

   (i) no fees, costs or expenses shall be payable by North Peace as a result of the termination of such letter; and

   (ii) after such termination, North Peace will have no further obligations pursuant to the Trimor Engagement Letter; and

(j) if dissent rights are granted to the North Peace Shareholders by the Court in connection with the Arrangement, holders of not more than 5% of the issued and outstanding North Peace Shares shall have exercised rights of dissent in relation to the Arrangement.

The conditions in this Section 5.2 are for the exclusive benefit of Southern Pacific and may be asserted by Southern Pacific regardless of the circumstances or may be waived by Southern Pacific in its sole discretion, in whole or in part, at any time and from time to time without prejudice to any other rights which Southern Pacific may have.

5.3 Additional Conditions to Obligations of North Peace

The obligations of North Peace to consummate the transactions contemplated by this Agreement, and in particular the Arrangement, are subject to the satisfaction, on or before the Effective Date or such other time specified, of the following conditions:

(a) the representations and warranties made by Southern Pacific in Section 4.1 of this Agreement shall be true and correct in all material respects (except for representations and warranties containing qualifiers as to materiality, which shall be true and correct) as of the Effective Date as if made on and as of such date (except for representations and warranties which refer to another date, which shall be true and correct as of that date) and Southern Pacific shall have provided to North Peace a certificate of two senior officers of Southern Pacific satisfactory to North Peace, acting reasonably, certifying as to such matters on behalf of Southern Pacific on the Effective Date;

(b) Southern Pacific shall have complied in all material respects with its covenants in this Agreement and shall have provided to North Peace a certificate of two senior officers of Southern Pacific satisfactory to North Peace, acting reasonably, certifying, on behalf of Southern Pacific, as to such compliance and North Peace shall have no actual knowledge to the contrary;

(c) Southern Pacific shall have furnished North Peace with certified copies of the resolutions duly passed by the board of directors of Southern Pacific approving this Agreement and the consummation of the transactions contemplated by this Agreement;

(d) no material adverse change respecting Southern Pacific shall have occurred;

(e) Southern Pacific shall have deposited or caused to be deposited in escrow with the depositary under the Arrangement the Southern Pacific Shares to be issued pursuant to the Arrangement;

(f) executed mutual releases shall have been received by each director and officer of North Peace who has tendered his resignation in connection with the transactions contemplated hereby in a form mutually acceptable to the parties thereto, each acting reasonably; and

(g) no act, action, suit, proceeding, objection or opposition shall have been threatened against or affecting Southern Pacific before or by any domestic or foreign court, tribunal or governmental agency or other regulatory or administrative agency or commission by any elected or appointed public official or private person in Canada or elsewhere, whether or not having the force of law and no law, regulation, policy, judgment, decision, order, ruling or directive (whether or not having the force of law) shall have been enacted, promulgated, amended or applied, which in the sole judgment of North Peace, acting reasonably, acting reasonably, in either case has had or, if the Arrangement was consummated, would result in a material adverse change respecting Southern Pacific (and for greater certainty the exceptions set forth in Section 1(bb) shall apply in determining whether any of the foregoing would result in a material adverse change) or would materially impede the ability of the Parties to complete the Arrangement.

The conditions in this Section 5.3 are for the exclusive benefit of North Peace and may be asserted by North Peace regardless of the circumstances or may be waived by North Peace in its sole discretion, in whole or in part, at any time and from time to time without prejudice to any other rights which North Peace may have.

5.4 Notice and Effect of Failure to Comply with Conditions

(a) Each of Southern Pacific and North Peace shall give prompt notice to the other of the occurrence, or failure to occur, at any time from the date hereof to the Effective Date of any event or state of facts which occurrence or failure would, or would be likely to, (i) cause any of the representations or warranties of such Party contained herein to be untrue or inaccurate in any material respect, or (ii) result in the failure to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by any Party hereunder; provided, however, that no such notification shall affect the representations or warranties of the Parties or the conditions to the obligations of the Parties hereunder.

(b) If any of the conditions precedents set forth in Sections 5.1, 5.2 or 5.3 hereof will not be complied with or waived by the Party or Parties for whose benefit such conditions are provided on or before the earlier of the date required for the performance thereof and November 30, 2010, then a Party for whose benefit the condition precedent is provided may, in addition to any other remedies they may have at law or equity, rescind and terminate this Agreement as provided for in Section 8.1 hereof provided that prior to the filing of the Articles of Arrangement for the purpose of giving effect to the Arrangement, the Party intending to rely thereon has delivered a written notice to the other Party, specifying in reasonable detail all breaches of covenants, representations and warranties or other matters which the Party delivering such notice is asserting , if any, as the basis for the non-fulfillment of the applicable conditions precedent and shall provide in such notice that the other Party shall be entitled to cure any breach of a covenant or representation and warranty or other matters within ten Business Days after receipt of such notice (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond November 30, 2010). More than one such notice maybe delivered by a Party.

5.5 Satisfaction of Conditions

The conditions set out in this Article 5 are conclusively deemed to have been satisfied, waived or released when, with the agreement of the Parties, Articles of Arrangement are filed under the ABCA to give effect to the Arrangement.

ARTICLE 6 - AGREEMENT AS TO DAMAGES AND OTHER ARRANGEMENTS

6.1 Southern Pacific Damages

If at any time after the execution of this Agreement and prior to the termination of this Agreement as set forth in Article 8:

(a) the board of directors of North Peace fails to unanimously recommend or changes, withdraws or modifies any of its recommendations or determinations referred to in subsection 3.2(n) in a manner adverse to Southern Pacific (it being understood that publicly taking no position or a neutral position with respect to a publicly announced, or otherwise publicly disclosed, Acquisition Proposal for a period of more than ten (10) business days shall be considered to trigger the right to damages pursuant to this Section 6.1(a)) or shall have resolved to do so prior to the Effective Date or otherwise fails to mail the Circular to the Southern Pacific Shareholders containing the recommendations or determinations referred to in subsection 3.2(n);

(b) a bona fide Acquisition Proposal is publicly announced, proposed, offered or made to North Peace or the North Peace Shareholders and the board of directors of North Peace fails to publicly reaffirm its recommendations or determinations referred to in subsection 3.2(n) within 10 days after such Acquisition Proposal is publicly announced, proposed, offered or made;

(c) a bona fide Acquisition Proposal is publicly announced, proposed, offered or made to North Peace or the North Peace Shareholders prior to the date of the North Peace Meeting and remains outstanding at the time of the North Peace Meeting and the North Peace Shareholders do not approve the Arrangement or the Arrangement is not submitted for their approval and any bona fide Acquisition Proposal is consummated within 12 months of the date thereof;

(d) North Peace accepts, recommends, approves or enters into an agreement to implement a Superior Proposal;

(e) the board of directors of North Peace recommends that the North Peace Shareholders deposit their shares under, vote in favour of, or otherwise accept an Acquisition Proposal;

(f) North Peace breaches any of its covenants made in this Agreement which breach, individually or in the aggregate, causes or would reasonably be expected to cause a material adverse change respecting North Peace or materially impedes the completion of the Arrangement, provided that North Peace shall have been given written notice of and ten Business Days to cure any such breach by Southern Pacific and such breach shall not have been cured (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond November 30, 2010); or

(g) North Peace breaches any of its representations or warranties made in this Agreement which breach, individually or in the aggregate, causes or would reasonably be expected to cause a material adverse change respecting North Peace or materially impedes the completion of the Arrangement, provided that North Peace shall have been given written notice of and ten Business Days to cure any such breach by Southern Pacific and such breach shall not have been cured (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond November 30, 2010);

(each of the above being a "**Southern Pacific Damages Event**"), then in the event of the termination of this Agreement pursuant to subsection 8.1(c) and provided that no event of the nature set out in Section 6.2 has occurred, North Peace shall pay to Southern Pacific: (a) in the case of the occurrence of any of the events set forth in sections 6.1(a) through (f), $400,000 as liquidated damages in immediately available funds; and (b) in the case of the occurrence of the events set forth in section 6.1(g), up to a maximum of $200,000 on account of its reasonably incurred expenses in connection with this Agreement as liquidated damages in immediately available funds; in each case to an account designated by Southern Pacific within one Business Day after the first to occur of the events described above, and after such event, but prior to payment of such amount, North Peace shall be deemed to hold such funds in trust for Southern Pacific.

6.2 North Peace Damages

If, at any time after the execution of this Agreement and prior to the termination of this Agreement as set forth in Article 8:

(a) the board of directors of Southern Pacific withdraws its approval of the Arrangement, resolves not to proceed with the Arrangement or modifies any resolution approving the Arrangement in a manner likely to materially impede the completion of the Arrangement;

(b) Southern Pacific breaches any of its covenants made in this Agreement, which breach, individually or in the aggregate, causes or would reasonably be expected to cause a material adverse change respecting Southern Pacific or materially impedes the completion of the Arrangement, provided that Southern Pacific shall have been given written notice of and ten Business Days to cure any such breach by North Peace and such breach shall not have been cured (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond November 30, 2010); or

(c) Southern Pacific breaches any of its representations or warranties made in this Agreement, which breach, individually or in the aggregate, causes or would reasonably be expected to cause a material adverse change respecting Southern Pacific or materially impedes the completion of the Arrangement, provided that Southern Pacific shall have been given written notice of and ten Business Days to cure any such breach by North Peace and such breach shall not have been cured (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond November 30, 2010);

(each of the above being a "**North Peace Damages Event**"), then in the event of the termination of this Agreement pursuant to subsection 8.1(d) and provided that no event of the nature set out in Section 6.1 has occurred, Southern Pacific shall pay to North Peace (a) in the case of the occurrence of any of the events set forth in sections 6.2(a) or (b), $400,000 as liquidated damages in immediately available funds; and (b) in the case of the occurrence of the events set forth in section 6.2(c), up to a maximum of $200,000 on account of its reasonably incurred expenses in connection with this Agreement as liquidated damages in immediately available funds; to an account designated by North Peace within one Business Day of the occurrence of the North Peace Damages Event and after such event, but prior to payment of such amount, Southern Pacific shall be deemed to hold such funds in trust for North Peace.

Each Party acknowledges that the payment of the amounts set out in Sections 6.1 or 6.2 is a payment of liquidated damages which are a genuine pre-estimate of the damages which Southern Pacific or North Peace, as applicable, shall suffer or incur as a result of the event giving rise to such damages and resultant termination of this Agreement and is not a penalty. North Peace and Southern Pacific each irrevocably waives any right it may have to raise as a defence that any such liquidated damages are excessive or punitive. For greater certainty, the Parties agree that payment of the amount pursuant to Section 6.1 or 6.2, as applicable, is the sole monetary remedy of Southern Pacific or North Peace, as applicable, hereunder provided, however, that this limitation shall not apply in the event of fraud or wilful breach of this Agreement by a Party. Nothing herein shall preclude a Party from seeking injunctive relief to restrain any breach or threatened breach of the covenants or agreements set forth in this Agreement or the Confidentiality Agreements or otherwise to obtain specific performance of any of such act, covenants or agreements, without the necessity of posting bond or security in connection therewith.

ARTICLE 7 - AMENDMENT

7.1 Amendment

This Agreement may, at any time and from time to time before or after the holding of the North Peace Meeting, be amended by written agreement of the Parties hereto without, subject to Applicable Laws, further notice to or authorization on the part of the North Peace Shareholders and any such amendment may, without limitation:

(a) change the time for performance of any of the obligations or acts of the Parties;

(b) waive any inaccuracies or modify any representation or warranty contained herein or in any document delivered pursuant hereto;

(c) waive compliance with or modify any of the covenants herein contained and waive or modify performance of any of the obligations of the Parties; or

(d) waive compliance with or modify any other conditions precedent contained herein;

provided that no such amendment reduces or materially adversely affects the consideration to be received by a North Peace Shareholder without approval by the North Peace Shareholders given in the same manner as required for the approval of the Arrangement or as may be ordered by the Court.

ARTICLE 8 - TERMINATION

8.1 Termination

This Agreement may be terminated at any time prior to the Effective Date:

(a) by mutual written consent of Southern Pacific and North Peace;

(b) as provided in Section 5.4(b) provided that the failure to satisfy the particular condition precedent being relied upon did not occur as a result of a breach by the Party seeking to rely on the condition precedent of any of its covenants or obligations under the Agreement;

(c) by Southern Pacific upon the occurrence of a Southern Pacific Damages Event as provided in Section 6.1;

(d) by North Peace upon the occurrence of a North Peace Damages Event as provided in Section 6.2;

(e) by North Peace upon the occurrence of a Southern Pacific Damages Event and the payment by North Peace to Southern Pacific of the amount required by Section 6.1, provided that North Peace has complied with its obligations set forth in Section 3.4; or

(f) by Southern Pacific upon the occurrence of a North Peace Damages Event and the payment by Southern Pacific to North Peace of the amount required by Section 6.2.

In the event of the termination of this Agreement in the circumstances set out in paragraphs (a) through (f) of this Section 8.1, this Agreement shall forthwith become void and neither Party shall have any liability or further obligation to the other Party hereunder except with respect to the obligations set forth in or as otherwise specified in Article 6 and each Party's obligations under the Confidentiality Agreements, which shall survive such termination.

Unless otherwise provided herein, the exercise by any Party of any right of termination hereunder shall be without prejudice to any other remedy available to such Party.

ARTICLE 9 - NOTICES

9.1 Notices

All notices which may or are required to be given pursuant to any provision of this Agreement are to be given or made in writing and served personally or sent by facsimile or other electronic means and in the case of:

(a) Southern Pacific, addressed to:

Southern Pacific Resource Corp.
Suite 430, 550 - 6 Avenue SW
Calgary, Alberta, T2P 0S2
Attention: Byron C. Lutes
Facsimile: (403) 269-5273

with a copy to:

Davis LLP
1000, 250 – 2nd Street S.W.
Calgary, Alberta T2P 0C1
Attention: Trevor P. Wong-Chor
Facsimile: (403) 213-4473

(b) North Peace, addressed to:

North Peace Energy Corp.
Suite 630, 505 - 3rd St SW
Calgary, AB T2P 3E6
Attention: Louis Dufresne
Facsimile: (403) 262-6072

with a copy to:
Burnet, Duckworth & Palmer LLP
Suite 1400, 350 - 7th Ave SW
Calgary, Alberta, T2P 3N9

Attention: William S. Maslechko
Facsimile: (403) 260-0332

or such other address as the Parties may, from time to time, advise to the other Parties hereto by notice in writing. The date or time of receipt of any such notice shall be deemed to be the date of delivery or the time such telecopy is received.

ARTICLE 10 - GENERAL

10.1 Binding Effect

This Agreement shall be binding upon and enure to the benefit of the Parties hereto.

10.2 Assignment and Enurement

This Agreement shall enure to the benefit of and be binding upon the Parties hereto and their respective successors and assigns. This Agreement may not be assigned by any Party hereto without the prior consent of the other Party hereto except that Southern Pacific may assign all or a portion of its rights under this Agreement to any subsidiary of Southern Pacific, but no assignment shall relieve Southern Pacific of its obligations hereunder.

10.3 Disclosure

Each Party shall receive the prior consent, not to be unreasonably withheld, of the other Party prior to issuing or permitting any director, officer, employee or agent to issue, any press release or other written statement with respect to this Agreement or the transactions contemplated by this Agreement. Notwithstanding the foregoing, if either Party is required by law or administrative regulation to make any disclosure relating to the transactions contemplated by this Agreement, such disclosure may be made, but that Party shall use all reasonable commercial efforts to consult with the other Party as to the wording of such disclosure prior to it being made.

10.4 Costs

Except as contemplated herein, each Party hereto covenants and agrees to bear its own costs and expenses in connection with the transactions contemplated by this Agreement.

10.5 Severability

If any one or more of the provisions or parts thereof contained in this Agreement should be or become invalid, illegal or unenforceable in any respect in any jurisdiction, the remaining provisions or parts thereof contained herein shall be and shall be conclusively deemed to be, as to such jurisdiction, severable therefrom and:

(a) the validity, legality or enforceability of such remaining provisions or parts thereof will not in any way be affected or impaired by the severance of the provisions or parts thereof severed; and

(b) the invalidity, illegality or unenforceability of any provision or part thereof contained in this Agreement in any jurisdiction shall not affect or impair such provision or part thereof or any other provisions of this Agreement in any other jurisdiction.

10.6 Further Assurances

Each Party hereto shall, from time to time and at all times hereafter, at the request of the other Party hereto, but without further consideration, do all such further acts, and execute and deliver all such further documents and instruments as may be reasonably required in order to fully perform and carry out the terms and intent hereof.

10.7 Time of Essence

Time shall be of the essence of this Agreement.

10.8 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein and the Parties hereto irrevocably atorn to the jurisdiction of the courts of the Province of Alberta.

10.9 Waiver

No waiver by any Party shall be effective unless in writing and any waiver shall affect only the matter, and the occurrence thereof, specifically identified and shall not extend to any other matter or occurrence.

10.10 Third Party Beneficiaries

The provisions of Section 2.8 and Section 3.1(e) are intended for the benefit of all present and former directors and officers of North Peace, as and to the extent applicable in accordance with their terms, and shall be enforceable by each of such persons and his or her heirs, executors administrators and other legal representatives (collectively, the "**Third Party Beneficiaries**") and Southern Pacific shall hold the rights and benefits of Section 2.8 in trust for and on behalf of the Third Party Beneficiaries. Southern Pacific hereby accepts such trust and agrees to hold the benefit of and enforce performance of such covenants on behalf of the Third Party Beneficiaries, and such covenants are in addition to, and not in substitution for, any other rights that the Third Party Beneficiaries may have by contract or otherwise.

10.11 Counterparts

This Agreement may be executed in counterparts and by facsimile or portable document format (PDF), each of which shall be deemed an original, and all of which together constitute one and the same instrument.

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

SOUTHERN PACIFIC RESOURCE CORP.

By: (signed) "*Byron Lutes*"
President and Chief Executive Officer

By: (signed) "*Howard Bolinger*"
Chief Financial Officer

NORTH PEACE ENERGY CORP.

By: (signed) "*Louis Dufresne*"
President and Chief Executive Officer

By: (signed) "*James Glessing*"
Vice-President, Finance and Chief Financial Officer

SCHEDULE "A"

PLAN OF ARRANGEMENT

PLAN OF ARRANGEMENT UNDER SECTION 193

OF THE

BUSINESS CORPORATIONS ACT (ALBERTA)

ARTICLE 1
INTERPRETATION

1.1 In this Plan of Arrangement, the following terms have the following meanings:

(a) "**ABCA**" means the *Business Corporations Act* (Alberta) R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

(b) "**Arrangement**", "**herein**", "**hereof**", "**hereto**", "**hereunder**" and similar expressions mean and refer to the arrangement pursuant to Section 193 of the ABCA set forth in this Plan of Arrangement as supplemented, modified or amended, and not to any particular article, section or other portion hereof;

(c) "**Arrangement Agreement**" means the arrangement agreement dated September 27, 2010 between Southern and North Peace with respect to the Arrangement and all amendments thereto;

(d) "**Articles of Arrangement**" means the articles of arrangement in respect of the Arrangement required under subsection 193(10) of the ABCA to be filed with the Director after the Final Order has been made to give effect to the Arrangement;

(e) "**business day**" means a day, other than a Saturday, Sunday or a statutory holiday, when banks are generally open in the City of Calgary for the transaction of banking business;

(f) "**Certificate of Arrangement**" means the certificate to be issued by the Director pursuant to subsection 193(11) of the ABCA in respect of the Arrangement or, if no such certificate is to be issued, the proof of filing in respect of the Arrangement;

(g) "**Court**" means the Court of Queen's Bench of Alberta;

(h) "**Depositary**" means Valiant Trust Company;

(i) "**Dissent Rights**" has the meaning ascribed thereto in Article 4 hereof;

(j) "**Dissenting Shareholder**" means a registered North Peace Shareholder who validly exercises the rights of dissent provided to it under the Interim Order;

(k) "**Effective Date**" means the date the Arrangement becomes effective under the ABCA which is scheduled to occur on November 30, 2010 or such earlier or later dates as may be agreed to by North Peace and Southern Pacific;

(l) "**Effective Time**" means 12:01 a.m. (Calgary time) on the Effective Date;

(m) "**Exchange Ratio**" means 0.1850;

(n) "**Final Order**" means the final order of the Court approving the Arrangement, as such order may be affirmed, amended or modified by any court of competent jurisdiction;

(o) "**Holder**" means a Person who is the beneficial owner of securities;

(p) "**Information Circular**" means the information circular and proxy statement of North Peace to be mailed to North Peace Shareholders in connection with the holding of the North Peace Meeting;

(q) "**Interim Order**" means an interim order of the Court concerning the Arrangement, containing declarations and directions with respect to the Arrangement and the holding of the North Peace Meeting, as such order may be affirmed, amended or modified by any court of competent jurisdiction;

(r) "**Letter of Transmittal**" means the letter of transmittal accompanying the Information Circular sent to the North Peace Shareholders;

(s) "**North Peace**" means North Peace Energy Corp., a corporation subsisting under the ABCA;

(t) "**North Peace Meeting**" means the special meeting of the North Peace Shareholders to be called to, among other things, consider and, if thought fit, authorize, approve and adopt the Arrangement in accordance with the Interim Order, and any adjournment thereof;

(u) "**North Peace Shareholders Rights Plan**" means North Peace's shareholders rights plan dated April 27, 2007;

(v) "**North Peace Shareholders**" means the holders of North Peace Shares;

(w) "**North Peace Shares**" means the common shares of North Peace as constituted on the date hereof;

(x) "**Parties**" mean North Peace and Southern; and **"Party"** means any one of them;

(y) "**Person**" includes an individual, partnership, firm, trust, body corporate, government, governmental body, agency or instrumentality, unincorporated body of persons or association;

(z) "**Plan of Arrangement**" or "**Plan**" means this plan of arrangement and any amendment or variation made in accordance with **Section 7** hereof;

(aa) "**Registered Holder**" means the Person whose name appears on the registers of the relevant Party as the owner of securities;

(bb) "**Southern**" means Southern Pacific Resource Corp., a corporation amalgamated under the ABCA; and

(cc) "**Southern Shares**" means the common shares in the capital of Southern.

1.2 Interpretation Not Affected by Headings

The division of this Plan into Articles, Sections, subsections and paragraphs and the insertion of headings are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Plan.

1.3 Article References

Unless the contrary intention appears, references in this Plan to an Article, Section, subsection, paragraph or Appendix by number or letter or both refer to the Article, Section, subsection or paragraph or Appendix, respectively, bearing that designation in this Plan.

1.4 Number and Gender

In this Plan, unless the contrary intention appears, words importing the singular include the plural and vice versa and words importing gender shall include all genders.

1.5 Date for Any Action

In the event that the date on which any action is required to be taken hereunder by any of the Parties is not a business day, such action shall be required to be taken on the next succeeding day which is a business day.

1.6 Currency

Unless otherwise stated, all references in this Plan to sums of money are expressed in lawful money of Canada.

1.7 Governing Law

This Plan of Arrangement shall be governed by and construed in accordance with the laws of Alberta and the laws of Canada applicable therein.

ARTICLE 2
ARRANGEMENT AGREEMENT

2.1 Binding Effect and Effective Time

This Plan of Arrangement is made pursuant and subject to the provisions of the Arrangement Agreement.

This Plan of Arrangement will become effective at the Effective Time and each of the events shall occur and shall be deemed to occur in the sequence set out herein and shall be binding at and after the Effective Time on North Peace and all Holders and Registered Holders of North Peace Shares.

The Articles of Arrangement and Certificate of Arrangement shall be filed and issued, respectively, with respect to this Arrangement in its entirety. The Certificate of Arrangement shall be conclusive evidence that the Arrangement has become effective and that the provisions of Article 3 have become effective in the sequence and at the times set out therein. If no Certificate of Arrangement is required to be issued by the Director pursuant to subsection 193(11) of the ABCA, the Arrangement shall become effective on the date the Articles of Arrangement are filed with the Director pursuant to subsection 193(10) of the ABCA.

ARTICLE 3
ARRANGEMENT

3.1 The Arrangement

Commencing at the Effective Time, the following shall occur and shall be deemed to occur in the following order without any further act or formality:

(a) the North Peace Shareholder Rights Plan shall be terminated and no longer be of any force or effect;

(b) the North Peace Shares held by Dissenting Shareholders who have exercised Dissent Rights which remain valid immediately prior to the Effective Time shall, as of the Effective Time, be deemed to have been transferred to Southern Pacific and cancelled and cease to be outstanding, and, as of the Effective Time, such Dissenting Shareholders shall cease to have any rights as North Peace Shareholders, other than the right to be paid the fair value of their North Peace Shares in accordance with the Dissent Rights;

(c) each North Peace Share (other than the North Peace Shares held by Southern or a subsidiary of Southern or Dissenting Shareholders) shall be transferred to Southern (free of any claims) in exchange for Southern

Shares on the basis of 0.1850 Southern Shares (the “Exchange Ratio”), for each North Peace Share so transferred; and

(d) no fractional Southern Shares shall be issued. In lieu of any fractional Southern Shares, each registered holder of North Peace Shares, otherwise entitled to a fractional interest in Southern Shares will receive, after rounding up or down, the nearest whole number of Southern Shares, as the case may be.

ARTICLE 4
RIGHTS OF DISSENT

4.1 Right of Dissent

Registered Holders of North Peace Shares may exercise rights of dissent ("Dissent Rights") in connection with the Plan of Arrangement in the manner set forth in Section 191 of the ABCA as modified by the Interim Order, the Final Order and this **Section 4.1**.

Each registered holder of North Peace Shares shall have the right to dissent with respect to the Arrangement in accordance with the Interim Order. A Dissenting Shareholder shall, at the Effective Time, cease to have any rights as a holder of North Peace Shares and shall only be entitled to be paid the fair value of the holder's North Peace Shares. A Dissenting Shareholder who is paid the fair value of the holder's North Peace Shares shall be deemed to have transferred the holder's North Peace Shares for cancellation at the Effective Time, notwithstanding the provisions of section 191 of the Act. A Dissenting Shareholder who for any reason is not entitled to be paid the fair value of the holder's North Peace Shares shall be deemed to have participated in the Arrangement on the same basis as a non-dissenting holder of North Peace Shares notwithstanding the provisions of section 191 of the Act. The fair value of the North Peace Shares shall be determined as of the close of business on the last business day before the day on which the Arrangement is approved by the holders of North Peace Shares at the North Peace Meeting; but in no event shall North Peace be required to recognize any Dissenting Shareholder as a shareholder of North Peace after the Effective Time and the names of such holders shall be removed from the applicable register of shareholders as at the Effective Time. For greater certainty, in addition to any other restrictions in section 191 of the Act, no person who has voted in favour of the Arrangement shall be entitled to dissent with respect to the Arrangement

4.2 No Recognition as a Holder After the Effective Time

In no circumstances shall any Person be required to recognize a Person exercising the rights set out in **Section 4.1** as a Registered Holder of North Peace Shares after the Effective Time.

ARTICLE 5
CERTIFICATES

5.1 Rights to Certificates

(a) On or before the Effective Time, Southern shall deposit with the Depositary, for the benefit of the Holders of North Peace Shares, certificates representing that number of whole Southern Shares to be delivered pursuant to Article 3 upon the exchange of the North Peace Shares.

(b) As soon as practicable following the later of the Effective Time and the date of deposit with the Depositary of a duly completed Letter of Transmittal, the certificates which immediately prior to the Effective Time represented the North Peace Shares, and such other documents and instruments as the Depositary may reasonably require, Southern shall cause the Depositary:

  (i) to forward or cause to be forwarded by first class mail (postage prepaid) to such shareholder at the address specified in the Letter of Transmittal; or

(ii) if requested by such shareholder in the Letter of Transmittal, to make available at the Depositary for pick up by such shareholder; or

(iii) if the Letter of Transmittal neither specifies an address nor contains a request for pick up, to forward or cause to be forwarded to such shareholder at the address of such shareholder on the share register of North Peace, by first class mail (postage prepaid).

a certificate representing that number of Southern Shares which such shareholder has the right to receive (together with any amounts payable pursuant to **Sections 5.2** and **5.3** hereof, if any) and the certificate representing the North Peace Shares so surrendered shall be cancelled.

(c) Until surrendered as contemplated by this **Section 5.1**, each certificate which immediately prior to the Effective Time represented North Peace Shares that were exchanged pursuant to **Article 3** shall be deemed at all times after the Effective Time to represent only the right to receive upon such surrender, subject to **Section 5.4**, the entitlements described in this **Article 5**.

(d) All payments required pursuant to this **Article 5** shall be made in accordance with the timing requirements described herein and under no circumstances will interest be paid to any Person on any payment to be made hereunder, regardless of any delay in making such payment.

5.2 Distributions with Respect to Unsurrendered Certificates

No dividends or other distributions declared or made effective after the Effective Time with respect to Southern Shares with a record date after the Effective Time shall be paid to the Registered Holder of any unsurrendered certificate (which immediately prior to the Effective Time represented outstanding North Peace Shares which were exchanged pursuant to **Section 3.1**) unless or until the Registered Holder of such certificate shall surrender such certificate in accordance with **Section 5.1**. Subject to applicable law, at the time of such surrender of any such certificate (or, in the case of clause (ii) below, at the appropriate payment date), there shall be paid to the Registered Holder of the certificates, without interest:

(i) the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to the Southern Shares to which such holder is entitled; or

(ii) on the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to surrender and a payment date subsequent to surrender, payable with respect to the Southern Shares to which such Registered Holder is entitled.

5.3 No Fractional Shares

No certificates representing fractional Southern Shares shall be issued upon the surrender for exchange of certificates pursuant to **Section 5.1**. In lieu of any such fractional securities, each Person otherwise entitled to a fractional interest in a Southern Share will receive the nearest whole number of Southern Shares as the case may be.

5.4 Extinguishment of Rights

Notwithstanding any of the other provisions hereof, any certificate which immediately prior to the Effective Time represented outstanding North Peace Shares that were exchanged pursuant to **Section 3.1**, if it has not been surrendered with all other instruments required by this **Article 5** on or prior to the second anniversary of the Effective Date, shall cease to represent a claim or interest of any kind or nature against any Party. In such circumstances, the Person ultimately entitled to any certificate or cash amount hereunder shall be deemed to have surrendered such entitlement to Southern, or its successor entity, as applicable, together with all entitlement to dividends, distributions and cash thereon held for such former Holder for no consideration.

5.5 Lost Certificates

In the event any certificate which immediately prior to the Effective Time represented one or more outstanding North Peace Shares that were to be exchanged pursuant to **Section 3.1** shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such certificate to be lost, stolen or destroyed, the Depositary will issue in exchange for such lost, stolen or destroyed certificate, any certificates pursuant to this **Article 5** deliverable in accordance with such Registered Holder's Letter of Transmittal. When authorizing such payment in exchange for any lost, stolen or destroyed certificate, the Person to whom certificates are to be delivered and issued shall, as a condition precedent to the delivery and issuance thereof, give a bond satisfactory to Southern, or its successor entity, and its transfer agent in such sum as Southern, or its successor entity, may direct, or otherwise indemnify Southern and its successor entity, in a manner satisfactory to Southern and its successor entity, against any claim that may be made against Southern, or its successor entity, with respect to the certificate alleged to have been lost, stolen or destroyed.

5.6 Withholding Rights

Southern, North Peace and the Depositary shall be entitled to deduct and withhold from all dividends or other distributions and amounts and property otherwise payable to any North Peace Shareholder pursuant to the Plan of Arrangement such amounts as Southern, North Peace or the Depositary is required to deduct and withhold with respect to such payment under the Income Tax Act (Canada), the United States Internal Revenue Code of 1986 or any provision of any applicable federal, provincial, state, local or foreign tax law, in each case, as amended. Southern, North Peace and the Depositary shall be entitled to sell any property otherwise receivable by North Peace Shareholders pursuant to the Plan of Arrangement on behalf of North Peace Shareholder to the extent necessary to make remittances to a governmental entity. To the extent the amounts are so withheld or sold on behalf of the North Peace Shareholders, such amounts shall be treated for all purposes hereof as having been paid to the North Peace Shareholder in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority.

ARTICLE 6
FURTHER ASSURANCES

6.1 Further Assurances

Notwithstanding that the transactions and events set out herein shall occur and be deemed to occur in the order set out in this Plan of Arrangement without any further act or formality, each of the parties to the Arrangement Agreement shall make, do and execute, or cause to be made, done and executed, all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may reasonably be required by any of them in order to further document or evidence any of the transactions or events set out herein.

ARTICLE 7
GENERAL

7.1 Effective Time

No portion of this Plan of Arrangement shall take effect with respect to any Party or Person until the Effective Time.

7.2 Paramountcy

From and after the Effective Time: (i) this Plan of Arrangement shall take precedence and priority over any and all North Peace securities issued prior to the Effective Time; (ii) the rights and obligations of the Registered Holders, Holders, any trustee and transfer agent therefor and the Parties in respect of North Peace securities shall be solely as provided for in this Plan of Arrangement; and (iii) all actions, causes of action, claims or proceedings (actual or contingent, and whether or not previously asserted) based on or in any way relating to any

North Peace securities shall be deemed to have been settled, compromised, released and determined without liability except as set forth herein.

7.3 Plan of Arrangement Amendment

The Parties reserve the right to amend, modify and/or supplement this Plan of Arrangement at any time and from time to time prior to the Effective Time provided that any such amendment, modification or supplement must be contained in a written document which is: (i) agreed to by the Parties pursuant to the Arrangement Agreement; (ii) filed with the Court and, if made following the North Peace Meeting, approved by the Court; and (iii) if so required, communicated to North Peace Shareholders in the manner required by the Court.

Any amendment, modification or supplement to this Plan of Arrangement may be proposed by the Parties at any time prior to or at the North Peace Meeting, with or without any prior notice or communication, and if so proposed and accepted by the Persons voting at the North Peace Meeting (other than as may be required under the Interim Order), shall become part of this Plan of Arrangement for all purposes.

Any amendment, modification or supplement to this Plan of Arrangement which is approved by the Court following the North Peace Meeting shall be effective only if it is agreed to by the Parties pursuant to the Arrangement Agreement.

Any amendment, modification or supplement to this Plan of Arrangement may be made unilaterally by the Parties after the Effective Time without the approval of the North Peace Shareholders, provided that: (i) it is agreed to by the Parties pursuant to the Arrangement Agreement; and (ii) it concerns a matter which, in the reasonable opinion of the Parties, is of an administrative nature required to better give effect to the implementation of this Plan of Arrangement.

SCHEDULE “B”

NORTH PEACE LAND SCHEDULE

REDACTED