

MINERAL LEASE

General Terms and Conditions

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1. DEFINITIONS, INTERPRETATIONS AND DRAFTING

(a) Definitions

In this Lease including this clause, and the Appendices' attached to this Lease:

- (i) **"Affiliate"** means a Person that is controlled or under common control;
 - a. by another Person, or
 - b. a group of Persons that act in concert, directly or indirectly, and,

for the purposes of this definition, "control" means the possession, directly or indirectly, by that Person or group of Persons acting in concert, of the power to direct or cause the direction of the management and policies of the Person that is under its control, whether through the ownership of voting securities or otherwise.
- (ii) **"Assignment of Freehold Lease"** attached as Appendix V.
- (iii) **"Business Day"** means any day other than a Saturday, Sunday or statutory holiday in the Province of Alberta, Canada.
- (iv) **"Coal"** means the heterogeneous mixture of organic constituents (primarily decomposed plants), inorganic mineral matter and inherent moisture resulting from coalification process and includes the coal matrix and any substances, including Leased Substances, created through the manufacturing or conversion of coal through any in situ process.
- (v) **"Current Market Value"** means the provincial published price(s) as posted by the Crown in the Province in which the Lands are located, as referenced in attached Appendix I.
- (vi) **"Default"** has the meaning as set out in clause 19 (Default and Waiver of Equitable Remedies).
- (vii) **"Drilling Operations"** means spudding and thereafter diligently and continuously drilling and fully testing all penetrated formations or re-entered intervals of a well for production of Leased Substances to and including the commencement of Production Operations or abandonment of that well under the provisions of clause 21 (Abandonment and Equipment), and includes all related incidental acts.
- (viii) **"Environmental Liability"** means any liability, responsibility or obligation arising out of this Lease in respect of the environment (whether surface, subsurface, soil, air, water, surface water, wet lands or marine environments) resulting from operations under the terms of this Lease including:
 - a. any release of any Hazardous Materials;
 - b. any non-compliance with or breach of any Regulations; and,
 - c. the removal or failure to remove any foundations, structures, substance or equipment including any costs incurred to clean-up, decommission, abandon, decontaminate and reclaim the Leased Lands or any other lands from the effects from any of the foregoing.
- (ix) **"Equipment"** means all machinery, buildings, structures, equipment and materials that the Lessee may have placed or caused to be placed on the wellsite or connected to the wellsite for the purpose of producing Leased Substances.
- (x) **"Event of Force Majeure"** has the meaning as set out in clause 22 (Force Majeure).

- (xi) **“Excluded Substances”** means those substances specified under the term “Excluded Substances” in the Mineral Lease Specific Terms and includes other substances that are not incidentally produced in trace amounts with Leased Substances.
- (xii) **“Field Condensate”** means a mixture of primarily pentanes and heavier hydrocarbons that are obtained from Natural Gas or Solution Gas and sold before the gas stream is delivered to a Natural Gas Liquids processing, extraction or fractionation facility.
- (xiii) **“Freehold Mineral Tax”** means the taxing or levying of fees on the Leased Lands in accordance with the *Freehold Mineral Rights Tax Act* Chapter F-26 RSA 2000, or any replacement, similar, additional legislation or applicable Provincial Tax Regulations.
- (xiv) **“Fuel Gas”** means that portion of Leased Substances that are used as fuel in order to produce a well governed by this Lease.
- (xv) **“GJ”** means gigajoule or 1,000,000,000 joules.
- (xvi) **“Greenhouse Gas”** means all gases that may be or are at any time associated with climate change, including carbon dioxide, methane, oxides of nitrogen or Sulphur, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.
- (xvii) **“Hazardous Materials”** means;
 - a. any petroleum or petroleum products, by-products, breakdown products or waste, natural gas, natural gas liquids, flammable explosives, radioactive materials, urea formaldehyde foam insulation and material containing asbestos or polychlorinated biphenyls all or any of which may be prohibited, limited or regulated under any Regulations; and,
 - b. any other chemicals, materials, substances or waste prohibited, limited or regulated under any applicable Regulations, or present in concentrations or at locations that present a threat to human health or the environment.
- (xviii) **“Initial Consideration”** means the sum of money or other consideration specified under the term “Initial Consideration” in the Mineral Lease Specific Terms.
- (xix) **“Lease” or “Mineral Lease”** means:
 - a. the Mineral Lease Specific Terms; and
 - b. the Mineral Lease General Terms and Conditions and attached Appendices’.
- (xx) **“Lease Continuation Application Form”** attached as Appendix IV.
- (xxi) **“Lease Date”** means the date specified in the Mineral Lease Specific Terms and is the effective date of this Lease.
- (xxii) **“Leased Formations”** means the geological formation, member or zone, as defined by governments or governmental agencies having jurisdiction where the lands are located, as may be set out in the Mineral Lease Specific Terms underlying the Leased Lands, as amended at any time in accordance with the terms of this Lease, or so much of those geological formations, member or zones, as the case may be, that remain subject to this Lease at any time and excludes any intervals specifically excluded in the Mineral Lease Specific Terms.
- (xxiii) **“Leased Lands”** means the land and number of hectares described in the Mineral Lease Specific Terms, as amended at any time in accordance with the terms of this Lease, or so much of those lands and hectares as remains subject to this Lease at any time.

- (xxiv) **“Leased Substances”** means those substances, contained within the Leased Formations, that are specified in the Mineral Lease Specific Terms excluding any Excluded Substances.
- (xxv) **“Lessee”** means the Party designated as such in the Mineral Lease Specific Terms.
- (xxvi) **“Lessor”** means the Party designated as such in the Mineral Lease Specific Terms.
- (xxvii) **“Mineral Lease General Terms and Conditions”** means the forms entitled Mineral Lease General Terms and Conditions attached to the Mineral Lease Specific Terms and forming part of the Lease.
- (xxviii) **“Mineral Lease Specific Terms”** means the terms set out on the form entitled Mineral Lease Specific Terms attached to the Mineral Lease General Terms and Conditions and forming part of the Lease.
- (xxix) **“Natural Gas”** means a mixture of primarily ethane and methane that is recovered or is recoverable at a well from an underground reservoir and that is gaseous in both its virgin reservoir state and surface conditions.
- (xxx) **“Natural Gas Liquids”** means a mixture of primarily ethane and heavier hydrocarbons recovered or recoverable from;
- a. Natural Gas; or
 - b. Solution Gas
- that are in solution at virgin reservoir conditions and are produced at the surface in a liquid state and delivered for extraction at a Natural Gas Liquids processing, extraction or fractionation facility.
- (xxxi) **“Offset Formation”** has the meaning where production of Leased Substance is obtained from a zone or member in a geological formation that is included in the Leased Formations from any well as set out in clause 8 (Offset Obligation).
- (xxxii) **“Offset Spacing Unit”** has the meaning set out in clause 8 (Offset Obligation).
- (xxxiii) **“Offset Well”** has the meaning set out in clause 8 (Offset Obligation).
- (xxxiv) **“Other Substances”** means any substances that are incidentally produced in trace amounts with the Leased Substances but are not an Excluded Substance.
- (xxxv) **“Parties”** means Lessor and Lessee collectively, **“Party”** means either one of them, **“Lessee Parties”** means more than one Lessee Party, and **“Lessor Parties”** means more than one Lessor Party.
- (xxxvi) **“Paying Quantities”** means a sustainable quantity of Leased Substances from a well that is sufficient to provide a reasonable profit for Lessee and generate the Royalty for the Lessor taking into consideration all factors including the operating costs, the kind and quality of production, the availability of markets, the market price to be received, and the Royalty or other royalties and burdens payable.
- (xxxvii) **“Person”** includes an individual, a partnership, a corporation, a trust or a joint venture and the heirs, executors, administrators or other legal representatives of an individual.
- (xxxviii) **“Petroleum”** means a mixture of hydrocarbons, not derived from Natural Gas, that are recovered or are recoverable at a well from an underground reservoir and are liquid in their virgin reservoir state and are liquid at surface conditions.

- (xxxix) **“Pooled Lands”** means the Leased Lands or any portion of the Leased Lands and any other lands that are pooled with the Leased Lands or any portion of the Leased Lands to form a Spacing Unit in accordance with clause 12 (Pooling, Unitization and Production Allocation Unit Agreements).
- (xl) **“Price Factor”** or **“PF”** has the meaning described for each component in Appendix I of this Lease.
- (xli) **“Primary Term”** means the period specified in the Mineral Lease Specific Terms from and including the Lease Date.
- (xlii) **“Production Operations”** means any of:
- a. production of Leased Substances in Paying Quantities;
 - b. well completion operations, including the installation of the production casing, tubing and wellhead equipment and all other equipment and material necessary for the permanent preparation of a well for the production of Leased Substances in Paying Quantities;
 - c. the equipping and tie-in of a well for the purpose of obtaining production of Leased Substances in Paying Quantities from that well;
 - d. the repair, reworking, fracture stimulating, acidizing or stimulating of a well for the purpose of obtaining or increasing production of Leased Substances in Paying Quantities from that well; or
 - e. in accordance with the best practices in the oil and gas industry in Canada;
 - i. the injection of water or other substances for the purpose of producing or increasing production through enhanced recovery schemes; or
 - ii. the production of any water or other substances; directly related to and with the objective of obtaining, maintaining or increasing production of Leased Substances in Paying Quantities.
- (xliii) **“Regulations”** means any statute, law, bylaw, rule, regulation, policy, order, information letter, interim directive, general bulletin, guideline, notice requirements or other legislation of any kind in effect at any time and made by governments or governmental agencies having jurisdiction over Drilling Operations, Production Operations, environmental requirements and other operations incidental to the foregoing and includes any judicial or administrative order, written request, consent decree or judgement or any provision or condition of any permit, licence, approval or other operating authorization.
- (xliv) **“Relief Rights”** has the meaning described in clause 19(e) (Default and Waiver of Equitable Remedies).
- (xlv) **“Rental”** is the amount specified in the Mineral Lease Specific Terms.
- (xlvi) **“Representatives”** means in respect of a Party;
 - a. its Affiliates, and
 - b. each of its respective directors, officers, employees, agents, advisors, consultants and representatives retained by that Party.
- (xlvii) **“Required Remediation and Reclamation”** means any action, including any remediation and reclamation actions, necessary to:
 - a. comply with any Regulations and remedy any breaches of the common law;
 - b. eliminate a potential Environmental Liability on the Leased Lands or any other lands associated with operations on the Leased Lands; and,
 - c. obtain a reclamation certificate or any other certificate or release as required by the Regulations from the governing federal or provincial authority.
- (xlviii) **“Royalty”** means the amount to be paid by Lessee to Lessor for each of the Leased Substances that are produced, saved or marketed as calculated by the formulas set out in Appendix I (Royalty Calculations).
- (xlix) **“Royalty Data Requirement Sheet”** as per attached Appendix I.

- (l) **“Royalty Determination Point”** means:
- a. for Petroleum, the point where product enters a feeder pipeline, being the first point of sale after a battery, or any related lateral owned by the owner of the feeder pipeline;
 - b. for Natural Gas and Solution Gas, the inlet to the meter station of the initial common transporter which includes, but is not limited to, TransCanada Transmission – Alberta System, or in the case where the Natural Gas or Solution Gas is sold directly to an end user, the inlet meter at the end use facility;
 - c. for Natural Gas Liquids, the Natural Gas Liquids outlet meter of the facility at which the Natural Gas Liquids are extracted from Natural Gas or Solution Gas;
 - d. for Field Condensate, the point of sale to an end user or the point of entry into the initial common transporter;
 - e. for Other Substances, the point of sale to an end user or the point of entry into the initial common transporter; and
 - f. for Sulphur, the outlet of the Sulphur processing and loading facility.
- (li) **“Royalty Rate”** has the meaning specified in the Mineral Lease Specific Terms.
- (lii) **“Solution Gas”** means a mixture of primarily ethane and methane that is recovered or is recoverable at a well from an underground reservoir that exists in solution within Petroleum in its virgin state and is gaseous at surface conditions.
- (liii) **“Spacing Unit”** means, for any well including a well that is being drilled or re-entered, that area of land representing the area defined or prescribed by or under the Regulations, that is in effect for the drilling or re-entry of that well, and with respect to a well that is producing, the area defined or prescribed under the Regulations in effect in respect of the production of that well.
- (liv) **“Sulphur”** means elemental sulphur recovered from the hydrogen-sulfide contained within Natural Gas or Petroleum by processing the Natural Gas or Petroleum.
- (lv) **“Triggering Well”** has the meaning set out in clause 8 (Offset Obligation).
- (lvi) **“Unitized Lands”** means lands that are unitized under a plan of unitization consented to in writing by Lessor and is reduced to a formal unit agreement that allocates production from an area greater than a single Spacing Unit.
- (lvii) **“Well Data Requirement Sheet”** means the Well Data Requirement Sheet as set out in Appendix II.

(b) **Interpretation**

Unless otherwise stated or the context otherwise requires, in this Lease:

- (i) a reference to any agreement or instrument, including this Lease, is a reference to the agreement or instrument as varied, amended, modified, or supplemented or replaced from time to time;
- (ii) the terms “in writing” or “written” include hand-written, printed or typed;
- (iii) a reference to a statute is a reference to an enactment as amended, re-enacted, restated or replaced at any time and every statute that may be substituted therefore; and to the Regulations, bylaws or other ancillary legislation made pursuant to the statute as amended, re-enacted, restated or replaced at any time;
- (iv) words importing the singular number include the plural and vice versa, and words importing the use of any gender include all genders;

- (v) if a term is defined in this Lease, a derivative of that term shall have a corresponding meaning;
- (vi) the term Leased Lands shall include the related Pooled Lands or Unitized Lands, as applicable;
- (vii) a reference to time refers to Mountain Standard Time or Mountain Daylight Savings Time during the respective periods in which each is in force in Alberta;
- (viii) a reference to “Dollars” means Canadian dollars;
- (ix) “including” and “includes” mean “including without limitation” and “includes without limitation”;
- (x) the headings of clauses and subclauses are for convenience of reference only and shall not affect the construction or interpretation of this Lease; and
- (xi) a reference to an article, clause, subclause, schedule or Appendix is a reference to an article, clause, subclause, schedule or Appendix of or to this Lease.

(c) **Drafting**

The terms of this lease were arrived at by the Parties and any interpretation of the terms of this Lease shall not be construed against the Party who reduced the terms of this Lease to writing.

2. GRANT, CONTINUATION AND REVERSION

(a) **Grant**

For the Initial Consideration and in consideration of the covenants of Lessee contained in this Lease, Lessor does hereby grant and Lease to Lessee for the Primary Term the Leased Substances in the Leased Formations together with the exclusive right and privilege to explore and drill for, win, take, remove and dispose of the Leased Substances from the Leased Formations. This grant and lease does not include the Excluded Substances. Lessor reserves the right to dispose of or lease any Excluded Substances or any other mineral rights not leased and granted under this lease.

(b) **Continuation**

(i) **Continuation by Production Operations at Expiry of Primary Term**

Prior to the expiration of the Primary Term, where Production Operations on the Leased Lands are being diligently and continuously conducted, this Lease shall remain in effect and continue for those Leased Lands that are contained within the Spacing Unit of a well but only as to those Leased Formations within that well where Production Operations are being diligently and continuously conducted. Lessee shall submit to Lessor a completed Continuation Application Form along with payment of Rental for the upcoming year; or

(ii) **Continuation by Drilling Operations Over Expiry of Primary Term**

Prior to the expiration of the Primary Term, if Drilling Operations are being conducted on the Leased Lands, this lease shall remain in effect and continue. Lessee shall also submit to Lessor a completed Lease Continuation Application Form along with payment of Rental for the upcoming year, this lease shall remain in effect and continue:

- (A) for that portion of the Leased Lands and Leased Formations contained within the Spacing Unit of the well on which Drilling Operations are being conducted and shall remain in force so long as the Drilling Operations are diligently and continuously conducted and after completion of those Drilling Operations; or

(B) for that portion of the Leased Lands that are contained within the Spacing Unit of the well but only as to those Leased Formations within that well, where those Drilling Operations are promptly followed by Production Operations and those Production Operations are diligently and continuously conducted. Lessee shall also submit to Lessor a completed Continuation Application Form along with payment of Rental for upcoming year.

(c) **Reversion**

(i) **Production Operations After Expiry of Primary Term**

Subject to subclause 2(b), after the expiration of the Primary Term, this Lease shall remain in effect where Production Operations are diligently and continuously conducted, for that portion of the Leased Lands that are contained within the Spacing Unit of a well but only as to those Leased Formations within that well in respect of which those Production Operations are being diligently and continuously conducted; and until those remaining Leased Formations are surrendered or deemed to be surrendered in accordance with clause 4 (Non-Producing Formations and Non-Producing Wells), subject always to sooner termination or surrender as provided for in this lease.

(ii) **Reversion at End of Primary Term**

Any Leased Formations that are not continued beyond the Primary Term pursuant to subclause 2(b) shall revert to Lessor effective as of the expiration of the Primary Term.

(iii) **Reversion at Cessation of Drilling Operations**

Any Leased Formations that are continued beyond the Primary Term as a result of Drilling Operations as described in subclause 2(b)(ii), and where those Drilling Operations are not promptly followed by Production Operations, those Leased Formations shall revert to Lessor effective as of cessation of those Drilling Operations.

(iv) **No Obligation to Give Notice of Reversion**

Lessor is under no obligation to advise Lessee in writing of a reversion that occurs under subclause 2(b) or (c).

3. RENTALS

Lessee shall pay or cause to be paid to Lessor the Rental in advance of the Lease Date and thereafter in advance of the anniversary date of the Lease Date in each year or partial year for as long as this Lease continues. Lessee is not entitled to refunds or adjustments on Rentals paid.

4. NON-PRODUCING FORMATIONS AND NON-PRODUCING WELLS

(a) **Non-Producing Formations**

If Lessee ceases at any time to diligently and continuously conduct Drilling Operations or Production Operations in respect of that formation included in the Leased Formations that are continued beyond the Primary Term in accordance with clause 2 (Grant, Continuation and Reversion) then Lessor may, at any time during the period that this Lease continues, give notice to Lessee, that requires Lessee, no later than sixty (60) days after receipt of Lessor's notice, to:

- (i) commence, and thereafter diligently and continuously conduct Drilling Operations or Production Operations in respect of that formation; or
- (ii) surrender that formation to Lessor. If other formations are continuing under this Lease, Lessee shall promptly plug or cement that surrendered formation to prevent any release or flow of substances.

(b) Deemed Surrender of Non-Producing Formations

Lessee's failure to commence Drilling Operations or Production Operations within sixty (60) days after it receives Lessor's notice shall be deemed a surrender under subclause 4(a)(ii) of the formation described in Lessor's notice effective on the sixty-first (61st) day after receipt of Lessor's notice by Lessee. No further documentation or agreement between the Parties shall be required to effect the surrender.

A surrender or deemed surrender shall not:

- (i) relieve Lessee of its obligation under subclause 4(a)(ii) to plug or cement the surrendered formation to prevent any release or flow of substances; or
- (ii) entitle Lessee to a refund of any monies paid to Lessor under this Lease; or
- (iii) release Lessee from any obligations and liabilities that may have accrued prior to the date of the surrender or from its obligation and liabilities under clause 21 (Abandonment and Equipment).

(c) Non-Producing Wells

If any well subject to the terms of this Lease is not producing Leased Substances in Paying Quantities after the Primary Term then Lessor may, at any time during the period that this Lease continues, give notice to Lessee, no later than sixty (60) days after receipt of Lessor's notice, to:

- (i) commence and thereafter diligently and continuously conduct Production Operations on that non-producing well; or
- (ii) provide Lessor with written notice pursuant to subclause 21(a)(ii) that Lessee intends to abandon that non-producing well.

If Lessee fails to commence Production Operations or provide Lessor with written notice of its intention to abandon, within sixty (60) days after it receives Lessor's notice, then Lessee shall be deemed to have elected to abandon the non-producing well and Lessor shall be deemed to have received notice of abandonment of that non-producing well pursuant to subclause 21(a)(ii) on the sixty-first (61st) day after the Lessee's receipt of Lessor's notice. Until an election is made by Lessor under clause 21 (Abandonment and Equipment), Lessee shall not, except with the prior written consent of Lessor, remove from the Leased Lands any Equipment on those Leased Lands.

(d) No Default Notice Required

Subclause 19(a) shall not apply to any deemed provisions in this clause 4 and nothing in the clause 4 shall relieve Lessee of any of its obligations under the other clauses of this Lease.

5. ROYALTIES AND TAKING IN KIND**(a) Royalties**

Lessee shall pay to Lessor, Royalties in cash for any of the Leased Substances, that are produced, saved, marketed as calculated by the formulas set out in Appendix I (Royalty Calculations) with each calculation rounded to two (2) decimal places, provided that:

- (i) no Royalty is payable on any Leased Substances that are used for the proportionate share of Fuel Gas or flared in accordance with the Regulations;
- (ii) if Leased Substances (other than Sulphur) are stored or used for purposes other than those set out in subclause 5(a)(i), the Royalty shall be payable in the month following the month that Leased Substances are produced; and

- (iii) no deductions whatsoever are permitted from the Royalties payable under this lease.

The Royalty as determined under this subclause 5(a) shall be paid before the last day of the month following the month that Lessee produced, saved, marketed or used any of the Leased Substances. Lessee shall provide a statement accompanying each monthly Royalty payment that includes all the data set forth in the Royalty Data Requirement Sheet. Lessee shall provide its governmental reports, including the assessed value for purposes of calculating Freehold Mineral Tax, and any other supporting documentation as Lessor may require.

(b) Long-Term Contracts

When Lessee enters into a sales contract for any of the Leased Substances with a term that is longer than thirty (30) days including any renewal, amendment or extension of that contract, Lessor shall retain its right to take in kind and Royalties shall be payable based on the Price Factor.

(c) Taking In Kind for Natural Gas and Solution Gas

Lessor, on thirty (30) days written notice to Lessee, shall have the option, exercisable from time to time, to take its Lessor's Royalty share of Natural Gas or Solution Gas in kind, in lieu of the Royalty payment under subclause 5(a), at the Royalty Determination Point free and clear of all charges, liens and encumbrances on the following basis:

- (i) Lessee shall, at its cost, treat Lessor's Royalty share in order to meet pipeline, refinery or other market specifications;
- (ii) Lessee shall, at Lessee's cost, deliver Lessor's Royalty share in kind to Lessor or to Lessor's nominee at the Royalty Determination Point;
- (iii) Lessor may, on thirty (30) days written notice to Lessee, revoke its option to take in kind. If Lessor serves notice to revoke, Lessee shall pay Lessor's Royalty share in cash, as set out in subclause 5(a).

(d) Taking in Kind for Natural Gas Liquids, Field Condensate, Sulphur and Other Substances

Lessor, on thirty (30) days written notice to Lessee, shall have the option, exercisable from time to time, to take its Lessor's Royalty share of Natural Gas Liquids, Field Condensate, Sulphur and Other Substances in kind, in lieu of the Royalty payment under subclause 5(a), at the Royalty Determination Point free and clear of all charges, liens and encumbrances on the following basis:

- (i) Lessee shall, at its cost, treat Lessor's Royalty share in order to meet pipeline, refinery, fractionator, and other marketing or downstream specifications;
- (ii) Lessee shall, at Lessee's cost, deliver Lessor's Royalty share in kind to Lessor or to Lessor's nominee at the Royalty Determination Point. Delivery shall be in accordance with usual pipeline and shipping practices. If on exercising this option, Lessee has storage facilities then Lessee shall provide, at Lessee's cost, storage facilities for at least three (3) days accumulation of Lessor's Royalty share in kind; and
- (iii) Lessor may, on thirty (30) days written notice to Lessee, revoke its option to take in kind. If Lessor serves notice to revoke, Lessee shall pay Lessor's Royalty share in cash, as set out in subclause 5(a).

(e) Taking in Kind for Petroleum

Lessor, on thirty (30) days written notice to Lessee, shall have the option, exercisable from time to time, to take its Lessor's Royalty share in kind of Petroleum, in lieu of the Royalty payment under subclause 5(a), at the Royalty Determination Point free and clear of all charges, liens and encumbrances on the following basis:

- (i) Lessee shall, at its cost, treat Lessor's Royalty share in order to meet pipeline, refinery or other marketing specifications;
- (ii) Lessee shall, at Lessee's cost, deliver Lessor's Royalty share in kind to Lessor or to Lessor's nominee at the Royalty Determination Point;
- (iii) Lessor may, on thirty (30) days written notice to Lessee, revoke its option to take in kind. If Lessor serves notice to revoke, Lessee shall pay Lessor's Royalty share in cash, as set out in subclause 5(a).

6. FREEHOLD MINERAL TAX PAYABLE BY LESSOR

Lessor shall, subject to clause 7 (Freehold Mineral Tax Reimbursable by Lessee), promptly pay the Freehold Mineral Tax that is assessed or levied, directly or indirectly, against Lessor.

7. FREEHOLD MINERAL TAX REIMBURSABLE BY LESSEE

Lessor shall invoice Lessee for 100% of its Lessee share of the Freehold Mineral Tax. All invoices are payable to Lessor no later than thirty (30) days after Lessee's receipt of the invoice.

8. OFFSET OBLIGATION

(a) Offset Well

In addition to clauses 9 (Density and Reduction of Spacing Unit) and 10 (Equivalent Exploitation Development), where production of Leased Substance is obtained from a zone or member in a geological formation ("Offset Formation") that is included in the Leased Formations from any well:

- in any Spacing Unit not owned by the Lessor, or if owned by the Lessor, not under Lease to the Lessee; or
- on any unitized lands,

that laterally or diagonally adjoins a Spacing Unit in the Leased Lands ("Triggering Well"), then, with respect to that Spacing Unit of the Leased Lands ("Offset Spacing Unit"), Lessee shall, no later than ninety (90) days from the date the Triggering Well is first placed on production or, in the event the Triggering Well is on production prior to the Lease Date, then no later than ninety (90) days from the Lease Date:

- (i) commence Drilling Operations for a well ("Offset Well") on each Offset Spacing Unit to a sufficient depth to test and evaluate the Offset Formation for the purpose of producing Leased Substances from the Offset Formation;
- (ii) deliver to Lessor a surrender of all or any portion of the Leased Lands provided that the surrendered Leased Lands shall include that portion of the Leased Lands comprising each Offset Spacing Unit. Where production is being obtained from a Leased Formation other than an Offset Formation, Lessee shall not be required to surrender that producing formation; or
- (iii) pay Lessor a compensatory royalty as calculated in subclause 8(b) to extend the time to commence Drilling Operations for an Offset Well under subclause 8(a)(i) or surrender under subclause 8(a)(ii).

If Lessee fails, within ninety (90) days, as specified under subclause 8(a) to commence Drilling Operations or surrender, then Lessee is deemed to have elected to pay compensatory royalties.

(b) Payment of Compensatory Royalties

- (i) The compensatory royalty shall be calculated and paid as follows:

- A. an amount equal to the Royalty that would be payable pursuant to subclause 5(a) (Royalties and Taking in Kind) if the Leased Substances from the Offset Formation were produced from a well on each applicable Offset Spacing Unit of the Leased Lands;
- B. each Leased Substance produced from each Offset Formation shall be calculated separately;
- C. the quantity of Leased Substances from each Offset Formation in any given month shall be based on the production from the Spacing Unit of the Triggering Well with the highest volume produced from the Offset Formation in that month; and
- D. the compensatory royalty commences on the last day of the ninety (90) day period described in subclause 8(a).

In the case of unitized lands, the compensatory royalty payable under this subclause 8(b) shall be calculated and paid on the basis of production from the unit well with the highest rate of Production, offsetting the Leased Lands.

- (ii) Lessee's obligation to pay a compensatory royalty as set out in this clause 8 continues until the day on which Lessor receives from Lessee:
 - A. a written notice from Lessee that the Triggering Well has been abandoned or in the case of unitized lands, all wells on the unitized lands have been abandoned;
 - B. a written notice from Lessee demonstrating that the Offset Formation is producing from an Offset Well drilled on the applicable Offset Spacing Unit for the Leased Lands;
 - C. a written notice from Lessee demonstrating that an Offset Well was drilled, tested and evaluated in the Offset Formation and subsequently abandoned in accordance with clause 21 (Abandonment and Equipment) if applicable; or
 - D. Lessee's surrender of all or any portion of the Leased Lands in accordance with subclause 8(a)(ii).
- (iii) Lessee is not entitled to refunds or adjustments on compensatory royalties paid pursuant to this Lease.

9. DENSITY AND REDUCTION OF SPACING UNIT

Lessee shall drill in a timely manner sufficient wells on the Leased Lands to provide the same density of wells as are producing on the laterally or diagonally adjoining lands.

If Lessee applies under the Regulations for a reduction in the size of a Spacing Unit on the Leased Lands in relation to all or a portion of the Leased Formations and if the applicable regulatory body grants the reduction in the size of the Spacing Unit, then this Lease shall continue in force with respect to the Leased Formations contained within the original Spacing Unit as if the spacing reduction had not been granted for a period of three hundred and sixty-five (365) days following the date of the granting of that reduction. After the end of that period, the provisions of clause 2 (Grant, Continuation and Reversion) shall apply to the continuation of the Leased Lands and the Leased Formations having regard to the reduced Spacing Unit.

10. EQUIVALENT EXPLOITATION DEVELOPMENT

Lessee shall use the most prudent exploitation technology to ensure that the Leased Lands are developed and optimized in a similar manner as laterally or diagonally adjoining sections of land (including the section containing the Leased Lands).

11. RATEABLE PRODUCTION

Lessee shall, subject to any Regulations, produce any of the Leased Substances rateably with any other similar substances produced from other lands in the same vicinity that Lessee, or any of its Affiliates, has an interest in so as not to discriminate against the Leased Substances in the production, transportation, processing and marketing of Leased Substances.

12. POOLING, UNITIZATION AND PRODUCTION ALLOCATION AGREEMENTS

- (a) Lessee may at any time, upon written notice to Lessor, pool, on an acreage basis, any geological formation of the Leased Formations as may be necessary to form a Spacing Unit with other lands adjoining the Leased Lands. The area pooled shall not exceed the Spacing Unit for the well to be drilled on or in those Pooled Lands.
- (b) The following information is required in the notice:
 - (i) description and purpose for the pooling;
 - (ii) the formation pooled;
 - (iii) the area of the Leased Lands included in the pooling;
 - (iv) the size of the Spacing Unit formed by the pooling; and
 - (v) the ratio, expressed as a percentage, of the Leased Lands to the total area comprising the Pooled Lands that Lessee Proposes to use for the basis of Royalty payments.
- (c) Lessee may, subject to Lessor's prior written consent, unitize any zone, member or geological formation of the Leased Formations with the same formation in surrounding lands to form a plan of unitization.
- (d) Any Drilling Operations or Production Operations on or from the Pooled Lands or the Unitized Lands shall have the same effect as if the Drilling Operations or Production Operations, that are diligently and continuously pursued, were conducted on or from the Leased Lands.
- (e) If a horizontal well straddles more than one Spacing Unit without common mineral ownership at both the Lessor and Lessee levels, then Lessee shall promptly enter into a production allocation agreement with Lessor and any required third parties prior to putting the well on production. The Royalty shall be calculated by using the allocation of production of Leased Substances to the Leased Lands as specified in the production allocation agreement or as deemed by the regulatory body.

13. INSPECTION BY LESSOR OF LESSEE'S OPERATIONS

- (a) Lessor may, at all reasonable time during the period that this Lease continues, through its authorized Representatives enter on the surface of lands, or any buildings or structures erected on those lands, where any operations are being conducted in accordance with this Lease, in order to survey, examine, inspect and test their state and condition.
- (b) Lessor's entrance on those lands shall not cause any unnecessary interference to the operations of Lessee. Lessee shall in every reasonable way aid Lessor's representative in carrying out its entry to survey, examine, inspect and test their state and condition.
- (c) Lessor may at any time during the period that this Lease continues, but not more than once every two (2) years, conduct a technical audit of Lessee's operations and Lessee shall provide Lessor, at Lessor's cost and risk, access to Lessee's operations including its lands, facilities and records for the purpose of conducting this audit.

14. OPERATIONS

Lessee shall, subject to subclause 14(b), conduct its operations under the terms of this Lease in respect of the Leased Lands in a diligent, careful and workmanlike manner using the best practices in the oil and gas industry in Canada, with a view to the maximum recovery of the Leased Substances and in compliance with the Regulations applicable to those operations, including:

- (a) at its own expense, obtain the right to enter upon the surface of any lands where operations are being conducted;
- (b) perform diligent and continuous operations on every well for the purpose of producing Leased Substances in Paying Quantities using adequate and sufficient machinery, appliances and equipment;
- (c) if requested by Lessor prior to spudding, capture additional data during the drilling of a well, at the Lessor's expense;
- (d) if it discovers any minerals other than the Leased Substances, promptly give Lessor notice of that discovery together with all relevant information;
- (e) not in any way interfere with any other Person that is at that time entitled to explore for, win, take remove or dispose of any minerals other than the Leased Substances in the Leased Formations and permit that Person to explore for, win, take, remove or dispose of those minerals;
- (f) upon the termination, expiry or surrender of this Lease, leave the Leased Lands, including any of the surface of the Leased Lands, in good condition and in accordance with the Regulations;
- (g) market the Leased Substances; and
- (h) keep the Leased Lands free of all liens.

15. ENVIRONMENTAL PROVISIONS AND GREENHOUSE GAS EMISSIONS

- (a) Lessee shall promptly provide written notice to Lessor of:
 - (i) any spill, release, disposal, discharge or emission of a substance or uncontrolled release of any Leased Substances or any Hazardous Materials that is contrary to the Regulations or may pose a threat, potential threat or nuisance to any Person's health or safety or to the environment and any notice or response to a notice of violation or non-compliance, control order, stop order or clean up order from a regulatory authority;
 - (ii) all non-routine investigations by governmental or regulatory authorities related to spill, release, disposal, discharge or emission of a substance or uncontrolled release of any Leased Substances or any Hazardous Materials that is contrary to the Regulations; and
 - (iii) any litigation or regulatory proceeding pending or, to the knowledge of Lessee, threatened against Lessee or others having an interest in the Leased Lands and any convictions (or prosecutions settled prior to conviction) that arise from any of the civil, regulatory, criminal proceedings or outstanding investigations, claims, work orders, notices, directives or other similar actions including any Required Remediation and Reclamation.
- (b) Lessee shall promptly conduct any Required Remediation and Reclamation or attend to any other matter arising out of subclause 15(a) and promptly notify Lessor of any actions taken.
- (c) Lessee is responsible for and assumes liability and ownership of all Greenhouse Gas emissions that may be produced or allocated in respect of operations, or any other activities conducted on or with respect to the Leased Substances that give rise to the production or allocation of Greenhouse Gas emissions. This includes any Greenhouse

Gas emissions that are related to a reservation of the Royalty, whether taken in kind or paid, under this Lease.

- (d) If Lessor obtains an interest in a well or wells pursuant to clause 19 (Default and Waiver of Equitable Remedies) or clause 21 (Abandonment and Equipment), then Lessor assumes liability and ownership of any and all Greenhouse Gas emissions associated with such well or wells and the Leased Substances for any of those wells after the date or deemed date of the conveyance.
- (e) This clause 15 and in particular the terms relating to the allocation of ownership of Greenhouse Gas emissions, shall be given a broad and liberal interpretation in order to give effect to the intention of the Parties.
- (f) This clause 15 shall survive the termination, expiry or surrender of this Lease.

16. INSURANCE PROVISIONS

Lessee shall hold, with a reputable insurance company or companies, and thereafter maintain or cause to be maintained a comprehensive portfolio of insurance similar to what an experienced and reputable exploration and production company operating in Canada would maintain, including:

- (a) workers' compensation (statutory amounts);
- (b) comprehensive general liability \$5,000,000 per occurrence including sudden and accidental pollution coverage and employer's legal liability insurance; and
- (c) operators extra expense (control of well) insurance \$10,000,000 for any one occurrence or event.

With the exception of workers' compensation, all insurance coverage shall include Lessor and its Representatives as additional insured, to the extent of Lessee's liability under this Lease, and Lessee shall obtain a waiver of subrogation from its insurer to be provided to Lessor.

Lessor may at any time request of Lessee proof of coverage under subclauses 16(a), (b) and (c).

Lessee will endeavour to provide Lessor with thirty (30) days prior written notice of cancellation or material change of the insurances described in this clause 16.

17. REPORTS BY LESSEE

- (a) Lessee shall, with respect to each well drilled on the Leased Lands, furnish to Lessor electronically, the information required within the time period specified in the Well Data Requirement Sheet.
- (b) Lessee shall promptly provide Lessor with copies of any additional data obtained pursuant to subclause 14(c) (Operations).
- (c) Lessee shall promptly provide Lessor with copies of all permits, licences, certificates, approvals, authorizations, registrations, exemptions or other documents required for the valid performance of the operations of Lessee under this Lease, whether related to environmental matters or otherwise.

18. RECORDS AND AUDIT

- (a) In respect of each of the Leased Formations, Lessee shall keep true records for a period of at least ten (10) years following the end of the calendar year for which those records relate as follows:
 - (i) all production accounting records, governmental production reports showing the quantity of the Leased Substances produced or deemed to be produced;
 - (ii) records as to the nature and quantity of each of the Leased Substances:

- A. processed,
 - B. produced,
 - C. sold, including name of purchaser,
 - D. stored,
 - E. used, and
 - F. otherwise disposed of;
- (iii) records to support that a well on the Leased Lands is producing in Paying Quantities;
 - (iv) records as to the actual price received (including payments received from any source whatsoever in respect to those records) in respect of each of the Leased Substances sold including, if the first sale is a non-arm's length sale, the actual price received (including payments received from any source whatsoever in respect of the amount sold and price received) in any subsequent arm's length sale; and
 - (v) records that relate to the quality and quantity of the Leased Substances that are not marketed but are used or otherwise disposed of.
- (b) Lessor may at any time dispute the Royalty payment submitted by Lessee. In addition, Lessor may at any time either during or after the termination, expiry or surrender of this Lease audit Lessee's records and Royalty payments under the following terms;
- (i) Lessor shall give Lessee thirty (30) days written notice that an audit shall be conducted;
 - (ii) any claims of discrepancies disclosed by the audit shall be made in writing to Lessee within (90) days of the completion of the initial audit;
 - (iii) Lessee shall respond to any discrepancies within ninety (90) days of receiving notice of the discrepancy under subclause 18(b)(ii), by:
 - A. submitting payment for any discrepancy with a detailed calculation of that payment including any interest owing under the Lease; or
 - B. disputing any discrepancy by providing in writing a detailed and relevant explanation with supporting documentation.

Failure to respond within the ninety (90) day period shall be deemed acceptance of the discrepancy by Lessee. Payment of the discrepancy is due within thirty (30) days of the expiry of the ninety (90) day period. Failure to pay within that time frame may result in a Default notice under clause 19 (Default and Waiver of Equitable Remedies);
 - (iv) If under subclause 18(b)(iii)(B) Lessee disputes any discrepancy, then Lessor shall review Lessee's response and within ninety (90) days advise Lessee in writing that:
 - A. Lessor agrees with the response to the disputed discrepancies; or
 - B. Lessor disagrees with the response to the disputed discrepancies, in which case Lessee may, within fifteen (15) days of receiving this advice, request a meeting with Lessor to discuss and resolve the disputed discrepancy. Failure to request a meeting within the fifteen (15) days shall be deemed acceptance of this disputed discrepancy by Lessee. Payment including any interest owing under this Lease shall be due within thirty (30) days of expiry of the fifteen (15) day period and if not paid may result in a Default notice under clause 19 (Default and Waiver of Equitable Remedies).

19. DEFAULT AND WAIVER OF EQUITABLE REMEDIES

(a) Lessor may, subject to subclause 19(c) and without restricting any other rights and remedies that Lessor may have in the case of the breach, non-observance or non-performance on the part of Lessee of any covenant, proviso, condition, restriction or stipulation contained in this Lease (the “Default”), give Lessee written notice requiring Lessee to remedy that Default. If Lessee fails to remedy the Default within thirty (30) days after it receives Lessor’s notice, then this Lease terminates. Subject to clause 21 (Abandonment and Equipment), on termination it is lawful for Lessor to enter or re-enter into and upon the Leased Lands (or any part of the Leased Lands in the name of the whole) to have again, repossess and enjoy.

(b) Nothing contained in this clause 19 relieves Lessee from its obligations under clause 21 (Abandonment and Equipment) unless and to the extent that Lessor elects to take over the wells and Equipment.

(c) If:

(i) this Lease is subject to a plan of unitization during the period that this Lease continues;

(ii) this Lease is terminable as a result of any Default under this clause 19; and

(iii) the Default relates to Leased Substances within the Leased Lands and Leased Formations that are not included in the plan of unitization,

then that part of the Leased Lands or Leased Formations that are not unitized terminates and only the unitized formation in the applicable tract shall continue to be subject to this Lease.

(d) Upon entering into this Lease both Parties acknowledge that they are and their respective Representatives are:

(i) experienced parties in the oil and gas industry in Canada;

(ii) freely entering into this Lease;

(iii) aware of the contractual and commercial nature of the terms under this Lease; and,

(iv) aware that the terms of this Lease shall be strictly construed and acted upon.

Lessor acknowledges that Lessee, in accordance with the terms of this Lease, may invest capital and other expenditures in its Drilling Operations, Production Operations and other operations; and, in return, Lessee acknowledges, in accordance with the terms of this Lease that Lessor is entitled to production of Leased Substances that shall generate a reasonable Royalty cash flow whether taken in kind or not. This investment and expenditure by Lessee may differ or be at a higher ratio than the amount of the Royalty. As part of the terms of this Lease, Lessor may rely on the termination provisions to ensure enforcement of the terms of this Lease. Both Parties recognize that this Lease is not intended to continue beyond the Primary Term for speculative purposes without a reasonable expectation of profit and Royalty for Lessee and Lessor, respectively.

(e) If this Lease terminates, including by reason of Lessee not remedying a Default, Lessee may have available relief against all penalties and forfeitures under the Regulations of the Province in which the lands are located (“Relief Rights”). On the execution of this Lease, Lessee has full knowledge of each and every Relief Right and unequivocally and consciously waives and abandons each of these Relief Rights in Lessor’s enforcement of the terms of this Lease including termination of this Lease.

20. SURRENDER

Except as provided in subclause 8(a)(ii) (Offset Obligation), Lessee, when not in Default, may at any time surrender its entire interest in this Lease. Where the Leased Lands form only a part of a Spacing Unit, Lessee shall not surrender this Lease unless Lessee, at the same time, surrenders all its interests in all leases it holds from Lessor contained in that Spacing Unit. A surrender shall not entitle Lessee to a refund of any monies from Lessor paid under this Lease nor shall it release Lessee from any obligations and liabilities under clause 21 (Abandonment and Equipment).

21. ABANDONMENT AND EQUIPMENT

(a) During the period while this Lease continues, where Lessee intends to abandon a well on the Leased Lands, in addition to the notice requirements set out in clause 17 (Reports by Lessee), Lessee shall notify Lessor in writing of its intention to abandon:

- (i) not less than forth-eight (48) hours prior to the abandonment when a drilling rig is on location; and
- (ii) not less than ninety (90) days prior to abandonment in all other cases.

Lessor may elect in writing, within that forty-eight (48) hour or ninety (90) day period, as applicable, to take over the well. Lessor shall also have the right to use the drilling equipment on that well either by taking over the drilling contract, subject to consent of the contractor, or in the event that the drilling equipment belongs to the Lessee, by paying Lessee the prevailing competitive drilling rates in the area for the use of that equipment.

(b) Within ninety (90) days of the termination, expiry or surrender of this Lease, Lessor may elect by written notice to Lessee to take over any well on the Leased Lands.

(c) If Lessor elects to take over the well Pursuant to subclause 21(a) or 21(b), as applicable, Lessor may also elect to take over any or all Equipment associated with or used in connection with the well to be abandoned.

(d) From the commencement of the periods set out in subclauses 21(a)(ii) and 21(b):

- (i) Lessee shall not, except with the written consent of Lessor, remove from the Leased Lands any Equipment that is on the well site; and
- (ii) Lessee shall promptly cooperate with any reasonable request of Lessor to conduct due diligence with respect to title to the wells, the condition of the wells and the environmental condition of the surface rights affected by the operations including the surface and access road leases and other related surface rights. If Lessee does not promptly cooperate with Lessor, the election period under subclauses 21(a)(ii) or 21 (b), as applicable shall be extended to that period required to allow Lessor to conduct its required due diligence and a reasonable amount of time thereafter for Lessor to make its election.

(e) If Lessee receives a written election notice from Lessor in the time frames provided in subclauses 21(a)(i), 21(a)(ii), 21(b) or 21(c), as applicable, to take over a well on the Leased Lands, including any or all related equipment (if elected), effective as of the date Lessee receives Lessor's election, all of the interest of Lessee and any third parties holding a legal or beneficial interest in the well or Equipment (if elected) shall be deemed to have been conveyed to Lessor free and clear of any claim or interest.

Lessee shall promptly after receipt of Lessor's election:

- (i) transfer, or cause to be transferred, the well licence, related surface and access road leases and other related surface rights to Lessor;
- (ii) prepare, execute and deliver to Lessor, or cause to be prepared, executed and delivered to Lessor, all other licences, permits or other documents that are required by the Regulations to give effect to the transfer of the well or any Equipment (if elected);

- (iii) provide to Lessor written confirmation from any third party holding security on the well or the Equipment (if elected) that the third party has no claim to the well or Equipment (a no interest letter);
- (iv) agree with Lessor as to the value, less salvage costs, of any Equipment elected to be taken over and Lessor shall pay that amount to Lessee; and,
- (v) at Lessee's option, request Lessor reimburse Lessee on a per diem basis for any rentals on surface rights conveyed to Lessor that were paid prior to the effective date of the conveyance.

Lessee and any third parties owning or holding a legal or beneficial interest in the well, shall, upon receipt of Lessor's election, be relieved of further liability with respect to the abandonment and reclamation of the well and the surface leases or rights, except to the extent there has been a breach of subclauses 15(a) or 15(b) (Environmental Provisions and Greenhouse Gas Emissions).

- (f) For any well or Equipment for which Lessee does not receive a written election notice from Lessor within the time frames provided in subclauses 21(a)(i), 21(a)(ii) or 21(b), as applicable, then in compliance with the Regulations Lessee, at its own risk and cost, shall:
 - (i) remove that Equipment from the Leased Lands;
 - (ii) plug and abandon those wells and any related pipelines; and
 - (iii) clean up and remediate the well site including all access roads, reclaim the surface of the lands associated with any operations conducted on the Leased Lands and obtain a certificate of reclamation, in relation to those wells and Equipment.
- (g) This clause 21 shall survive the termination, expiry or surrender of this Lease.

22. FORCE MAJEURE

- (a) Failure or delay by Lessee in complying with any term or obligation or from conducting Drilling Operations or Production Operations under this Lease, is not considered to be a Default if and to the extent that any failure or delay results from:
 - (i) strikes and lockouts;
 - (ii) acts of God;
 - (iii) acts of war or terrorism;
 - (iv) unusually severe weather conditions or actions of the elements; and
 - (v) other matters beyond reasonable control of Lessee, whether or not similar to those items listed in subclauses 22(a)(i) to (iv).

The items from this subclause 22(a) are individually or collectively referred to as an "Event of Force Majeure". Lessee is not required to settle any labour dispute or industrial or public disturbance, except in such manner as it shall, in its own judgement, consider acceptable.

- (b) Lack of finances on the part of Lessee, or lack of economic markets for any of the Leased Substances is not an Event of Force Majeure.
- (c) Lessee shall promptly notify Lessor of an Event of Force Majeure and provide particulars of that Event of Force Majeure and a reasonable estimate by Lessee of its anticipated duration. Lessee shall take reasonable steps to mitigate or overcome the effects of the Event of Force Majeure. Lessee shall keep Lessor informed of those steps as well as its current estimate as to when it shall be able to resume performance of its obligations under this Lease.

- (d) Subject to subclause 22(e), the time periods specified in this Lease shall be extended by the period of time that the Event of Force Majeure continues. Lessee shall not be relieved of its obligations to make payments that have become due and payable under this Lease.
- (e) Notwithstanding any other provision in this clause, if an Event of Force Majeure lasts continuously for a period longer than twenty-four (24) months, then Lessor may give Lessee thirty (30) days' notice to terminate this Lease.

23. REMOVAL OF CHARGE

If any caveat or other instrument is registered against the Leased Lands directly or indirectly as a result of the granting of this Lease, Lessee, at its cost, shall promptly discharge or withdraw the caveat or other instrument from the title to the Leased Lands after the termination, expiry or surrender of this Lease. Lessor reserves the right to recover any costs incurred to remove Lessee's caveat or other instrument registered against the Leased Lands.

24. TITLE

Lessee hereby accepts Lessor's title to the Leased Lands, the Leased Substances and the rights hereby leased, and agrees that nothing in this Lease expressed or implied shall operate or have effect as any warranty, guarantee or covenant of title.

25. FURTHER ASSURANCES

Each Party, with notice to the other Party and without further consideration, may request the other Party perform further acts and execute further deeds and documents as is reasonably required in order to perform and carry out the terms of this Lease.

26. AMENDMENTS AND WAIVERS

- (a) Any amendments to this Lease shall be in writing and executed by the Parties.
- (b) A waiver of any term or waiver of a breach of any term of this Lease is effective if expressed in writing, and signed by Lessor. Any waiver extends only to that particular term or breach waived and shall not limit or affect Lessor's rights with respect to any other term or future breach. No waiver of any provision of this Lease shall be deemed or shall constitute a waiver of any other provision of this Lease (whether or not similar) nor shall a waiver constitute a continuing waiver unless otherwise expressly provided.

27. INDEMNITY

- (a) Lessee shall:
 - (i) be liable to Lessor and its Representatives; and
 - (ii) as a separate and independent covenant, indemnify Lessor and its Representatives,

for all losses, costs, damages, actions, claims, demands, expenses, inquiries, legal or administrative proceedings, investigations or appeals therefrom, including any relating to Environmental Liability, environmental damage or breach of any Regulations, that Lessor or its Representatives may suffer, sustain, pay or incur or that are brought against Lessor or its Representatives including the reasonable cost of legal counsel (on a solicitor and client basis) and other professional advisors and consultants and reasonable costs of investigating and defending claims, whether during the period this Lease is continuing or following the termination, expiry or surrender of this Lease, by reason of any matter or thing arising out of or in any way attributable to the Drilling Operations, Production Operations or any other works or operations of Lessee, or Lessee's Representatives, in, upon or under the Leased Lands or any other lands associated with operations conducted on the Leased Lands.

- (b) The Liability or indemnification shall specifically cover costs incurred in connection with any investigation of site conditions, or any clean-up, remedial, removal or restoration work required by any federal, provincial or local governmental agency.
- (c) Subclauses 27(a) and 27(b) shall survive the termination, expiry or surrender of this Lease.

28. ASSIGNMENT OF LEASE

- (a) Lessee shall only be entitled to assign its recognized legal interest in this Lease by Lessee and its assignee executing and delivering to Lessor an Assignment of Freehold Lease in the form attached as Appendix V at the time of assignment, which Assignment of Freehold Lease shall comprise no less than Lessee's entire undivided interest in all of the Leased Lands, Leased Formations and Leased Substances governed by this Lease. The Assignment of Freehold Lease shall not be effective and binding upon Lessor until approval and execution of the Assignment of Freehold Lease by Lessor, which approval and execution shall not be unreasonably withheld.
- (b) Notwithstanding subclause 28(a), Lessor shall not be required to accept an Assignment of Freehold Lease for an assignment;
 - (i) to a trust or partnership; or
 - (ii) of a portion of the Leased Lands, Leased Formations or Leased Substances; or
 - (iii) for any other interest that is not a legal interest.

29. MANNER OF PAYMENTS

Lessee shall make all payments to Lessor in Canadian currency. Those payments may be made by Lessee to Lessor either:

- (a) by cheque or draft, and mailed or delivered to Lessor at:
 - 400, 144 – 4th Avenue SW
 - Calgary, AB
 - T2P 3N4
- (b) Lessor may change the information in this clause by serving notice under clause 31 (Notices).

30. INTEREST

Lessee shall pay Lessor interest at the prime commercial lending rate of interest charged by the Canadian Imperial Bank of Commerce at its main branch in Calgary, Alberta to its most credit worthy customers plus two percent (2%) per annum on all monies overdue under the terms of this Lease.

31. NOTICES

- (a) Subject to subclause 31(b), all communications and notices under the terms of this Lease shall be in writing, on company letterhead, signed by a Representative and delivered to the applicable Party:
 - (i) by hand;
 - (ii) by mail (postage prepaid); or
 - (iii) electronically;
 to the address specified in the Mineral Lease Specific Terms.

(b) Any notice or other communication delivered:

- (i) by hand shall be deemed to have been given and received at the commencement of the next following Business Day;
- (ii) by prepaid mail shall be deemed to have been given and received on the earlier of the next following Business Day after actual receipt or the fourth (4th) Business Day following the date of posting; and
- (iii) electronically shall be deemed to have been given and received at the earlier of actual time of retrieval by the Party from the Party's information system or at the commencement of the next following Business Day after the date sent.

(c) Any Party may change its address for service by serving notice as set out in this clause.

32. CONFIDENTIALITY

Lessor, if requested by Lessee, shall treat as confidential from any third party all or any part of the information furnished, given or delivered to, or received by Lessor pursuant to clauses 12 (Pooling, Unitization and Production Allocation Unit Agreement), 14 (Operations) and 17 (Reports by Lessee) except for information that is available to the public from any governmental authority. This clause 32 may not prevent Lessor from divulging any information to an Affiliate of Lessor provided that Lessor requires that the Affiliate maintain the confidential status of the information and the Affiliate is deemed to accept this obligation.

33. TIME

Time shall in all respects be of the essence in this Lease.

34. JOINT AND SEVERAL LIABILITY

If Lessee consists of two or more Lessee Parties, those Lessee Parties are jointly and severally liable for the performance of the obligations of Lessee.

35. LESSOR AS LESSEE

If Lessor is also one of the Lessee Parties, Lessor's execution of this Lease is deemed to be executed in both capacities. Any conflict as a result of the dual capacity of Lessor, is construed against Lessee.

36. LIMITATIONS

The Parties expressly agree to and acknowledge the extension of the limitations period for all claims brought pursuant to or arising out of this Lease to seven (7) years from the date that the claim arose, irrespective of whether the claimant was aware of the material facts which gave rise to the claim or not.

37. PROPER LAW

This Lease and the relationship of the parties hereto shall be construed and determined in accordance with the laws of the Province of Alberta and the courts of said Province shall have exclusive original jurisdiction with respect to any matter or thing relating directly or indirectly to this Lease.

38. CONFLICTS

If any term in the body of this Lease conflicts with the information requested in the Royalty Data Requirement Sheet (Appendix I), the Well Data Requirement Sheet

(Appendix II) or the Lease Continuation Application Form (Appendix IV) then the term in the body of this Lease prevails.

39. ENURMENT

This Lease shall enure to the benefit of and be binding upon each of the Parties, the successors and assigns of Lessor and permitted assigns of Lessee.

40. COUNTERPART EXECUTION

This Lease may be executed in counterpart and all of those counterparts when delivered and taken together shall have the same effect as if Parties had executed one document.