

**MINERAL LEASE
General Terms and Conditions**

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CLAUSE 1. DEFINITIONS

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

- I. **“Affiliate”** means:
 - a. a Person that, directly or indirectly, controls, is controlled by, or is under common control with, 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. **“Annual Rental”** has the meaning given to it in the Mineral Lease Specific Terms.
- III. **“Assignment of Freehold Lease”** means the assignment to be used by Lessee in the form provided by Lessor at the relevant time when preparing an assignment of this Lease.
- IV. **“Business Day”** means any day other than a Saturday, Sunday or statutory holiday in any Province of Canada where the Leased Lands are located.
- V. **“Crude Bitumen”** means a naturally occurring viscous mixture, consisting mainly of hydrocarbons heavier than pentane, that may contain Sulphur compounds and that, in its naturally occurring viscous state, will not flow, and is not recoverable at a commercial rate through a well.
- VI. **“Current Market Value”** means the highest price which the Lessee would have received in an arm’s length transaction as a reasonably prudent operator having regard to current market price, availability of markets and economic conditions of the Leased Substance industry, generally.
- VII. **“Drilling Operations”** means the following operations directly related to and with the objective of obtaining production of Leased Substances to and including the commencement of Production Operations or abandonment under the provisions of Clause 9 (Abandonment and Removal of Charge):
 - a. spudding and thereafter diligently and continuously drilling and fully testing all Leased Formations;
 - b. re-entering an abandoned well or Leased Formation; or,
 - c. re-activating a well that was inactive or suspended.
- 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), including any and all environmental damage, contamination or general effects on, under or associated with the Leased Lands or Pooled Lands, or resulting from or relating to the construction, ownership, operation, abandonment, remediation or reclamation on the Leased Lands or Pooled Lands, however and by whomsoever caused, and whether or not caused by any non-compliance with or breach of any Regulations, including without limitation:
 - a. any release of any Hazardous Materials;
 - b. any abandonment and reclamation obligations, including the Required Remediation and Reclamation;
 - c. the restoration, cleanup or reclamation of or failure to restore, cleanup, or reclaim any part of the Leased Lands, Pooled Lands, or the surface or subsurface thereof; and,
 - d. the removal or failure to remove any foundations, structures, substances or Equipment including without limitation, any costs incurred to clean-up, decommission, abandon, decontaminate and reclaim the Leased Lands, Pooled Lands, or any other lands from the effects resulting 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 in a well, on a wellsite or the Leased Lands, or connected to a wellsite for the purpose of producing Leased Substances.
- X. **“Enhanced Oil Recovery Project”** means a project that requires approval under the Regulations and determines a project area that includes the Leased Lands to provide for methods used to increase the recovery from reservoirs under the Leased Lands that had been produced, or are unable to be produced, from primary or secondary recovery systems. Methods include thermal, chemical and miscible drives, and CO2 injection.
- XI. **“Field Condensate”** means a mixture of primarily pentanes and heavier hydrocarbons that are extracted or separated from Natural Gas or Solution Gas before the gas stream is delivered to a Natural Gas Liquids processing, extraction or fractionation facility.
- XII. **“Freehold Mineral Tax”** means the taxing or levying of fees on the Leased Lands in accordance with the applicable freehold mineral taxation Regulations as in effect from time to time, and for greater certainty includes any applicable provincial tax Regulations.
- XIII. **“Fuel Gas”** means a proportionate share of the Leased Substances that are used as fuel for Production Operations, or specifically to produce, treat and deliver Leased Substances produced by a well governed by this Lease.
- XIV. **“GJ”** means gigajoule or 1,000,000,000 joules.

- xv. **“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.
- xvi. **“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 wastes prohibited, limited or regulated under any Regulations, or present in concentrations or at locations that present a threat to human health or the environment.
- xvii. **“Heavy Oil”** means Petroleum that is not Crude Bitumen and has a relative density less than or equal to twenty (20) degrees API, as further defined under that Assets Conveyance dated October 1, 1993, under which Amoco Canada Resources Ltd. sold its interests in Heavy Oil to 579437 Alberta Inc. as predecessor to Lessor, providing for the grant Heavy Oil as Leased Substances specified under the Mineral Lease Specific Terms.
- xviii. **“Helium”** means, in addition to its normal scientific meaning, a mixture mainly of helium that ordinarily may contain some nitrogen, methane and other gases, and as may be defined in any applicable provincial energy Regulations are in effect from time to time and is not incidentally produced in trace amounts with Natural Gas.
- xix. **“Initial Consideration”** means the sum of money or other consideration specified in the Mineral Lease Specific Terms.
- xx. **“Lease” or “Mineral Lease”** means, collectively:
- a. the Mineral Lease Specific Terms; and
 - b. these Mineral Lease General Terms and Conditions, including the attached Appendices.
- 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 or regulatory authorities having jurisdiction where the Leased Lands are located, as may be set out or further defined in the Mineral Lease Specific Terms, 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, and for purposes of interpretation of this Lease, means any applicable Pooled Lands or Unitized Lands.
- 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 these Mineral Lease General Terms and Conditions which sets out general terms and conditions of this Lease in addition to the specific terms and conditions contained in the Mineral Lease Specific Terms.
- xxviii. **“Mineral Lease Specific Terms”** means the form entitled “Mineral Lease Specific Terms” which sets out specific terms and conditions of this Lease in addition to the general terms and conditions contained in the Mineral Lease General Terms and Conditions.
- xxix. **“Natural Gas”** means a mixture of primarily ethane and methane that is not Solution Gas and 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 and which may be contaminated with Sulphur compounds.
- 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 recovered or recoverable through extraction and separation from the gas stream at a Natural Gas Liquids processing, extraction or fractionation facility.
- xxxi. **“Offset Waiver Expiry Date”** means the date at which a waiver by Lessor of Clause 7 (Offset Obligations) of this Lease expires, as specified in the Mineral Lease Specific Terms.

- XXXII. **“Other Substances”** means any substances that are incidentally produced in trace amounts with the Leased Substances.
- XXXIII. **“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.
- XXXIV. **“Paying Quantities”** means a sustainable quantity of Leased Substances from a well that is sufficient to provide a reasonable profit for Lessee and generate a reasonable 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.
- XXXV. **“Person”** includes an individual or their heirs, executors, administrators or other legal representatives, a partnership, a corporation, a trust or a joint venture.
- XXXVI. **“Petroleum”** means a mixture of mainly hydrocarbons, not derived from but may be found in association with Natural Gas or Solution 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. Petroleum includes Heavy Oil and Crude Bitumen unless specified under the Mineral Lease Specific Terms.
- XXXVII. **“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 5 (Pooling and Unitization).
- XXXVIII. **“Price Factor”** or **“PF”** has the meaning described for each component in Appendix I (Royalty Calculations and Data Requirements Sheet) of this Lease.
- XXXIX. **“Primary Term”** means the period specified in the Mineral Lease Specific Terms from and including the Lease Date.
- XL. **“Production Operations”** means in accordance with the best practices in the oil and gas industry in Canada, any of the following:
- a. production of Leased Substances in Paying Quantities;
 - b. well completion or re-completion operations, including the testing and 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;
 - e. the injection of water or other substances for the purpose of producing or increasing production through enhanced recovery schemes;
 - f. the production of any water or other substances; or,
 - g. operations directly related to and with the objective of obtaining, maintaining or increasing production of Leased Substances in Paying Quantities.
- XLI. **“Regulations”** means any statute, law, bylaw, rule, regulation, policy, order, information letter, directive, general bulletin, guideline, notice requirements or other legislation of any kind (and all applicable requirements thereunder) in effect at any time and made by governments, governmental or regulatory authorities having jurisdiction over the Leased Lands, Leased Substances, Drilling Operations or the Production Operations, and any 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 and **“Regulated”** means any activity or operations regulated by such Regulations.
- XLII. **“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.
- XLIII. **“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 governmental or regulatory authority.
- XLIV. **“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 and Data Requirements Sheet).
- XLV. **“Royalty Determination Point”** means, unless otherwise defined under the Mineral Lease Specific Terms:
- 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;
 - f. for Helium, the point of sale to an end user; and,
 - g. for Sulphur, the outlet of the Sulphur processing and loading facility.
- XLVI. **“Secondary Recovery”** means a method used to increase the recovery from reservoirs under the Leased Lands that had been produced under primary recovery conditions. Methods may include waterflooding and immiscible gas drive.
- XLVII. **“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 and Natural Gas Liquids in their virgin state and is gaseous at surface conditions and which may be contaminated with Sulphur compounds.
- XLVIII. **“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.
- XLIX. **“Sulphur”** means elemental sulphur recovered from the hydrogen-sulfide contained within Natural Gas or Petroleum by processing the Natural Gas or Petroleum.
- L. **“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.

CLAUSE 2. MINERAL LEASE GRANT

I. Grant and Acknowledgements

For the Initial Consideration, to be acknowledged by or received by the Lessor (unless otherwise waived by the Lessor) within sixty (60) days of the Lease Date, 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 underlying the Leased Lands 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. Lessor reserves the right to dispose of or lease any other substances or mineral rights not leased and granted under this lease.

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

- a. experienced parties in the oil and gas industry in Canada;
- b. freely entering into this Lease;
- c. aware of the contractual and commercial nature of the terms under this Lease; and,
- d. 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 whether taken in cash or in kind. 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, notwithstanding any amount of such investments and expenditures made by Lessee, 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.

II. Surrender

Except as provided in Clause 7 (Offset Obligations), Lessee, when not in breach under Clause 10 (Default), may at any time surrender a portion or its entire interest in this Lease. Where the Leased Lands form only a part of a Spacing Unit, Lessee shall not surrender the Leased Lands unless Lessee, at the same time, surrenders all of 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 9 (Abandonment and Removal of Charge).

III. Title

Lessee hereby accepts Lessor’s ownership as beneficial or registered title owner, any caveat or other instrument registered to the Leased Lands, and 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.

CLAUSE 3. RENTALS AND TAXES

I. Rentals

Lessee shall pay or cause to be paid to Lessor the Annual Rental, in the amount as specified under the Mineral Lease Specific Terms, 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 prorated as to all or any portion of the Leased Lands. Lessee is not entitled to refunds or adjustments on Annual Rentals paid.

II. Taxes

Lessee shall pay 100% of all Freehold Mineral Tax assessed or levied, directly or indirectly against the Leased Lands. Unless Lessee pays Freehold Mineral Tax directly in accordance with applicable Regulations, Lessor shall promptly pay and invoice Lessee for 100% of the Freehold Mineral Tax. All invoices are payable to Lessor no later than thirty (30) days after Lessee's receipt of the invoice.

CLAUSE 4. OPERATIONS

I. Operations

Lessee shall conduct its operations, including all Drilling Operations and Production 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 and in compliance with all applicable Regulations, with a view to the maximum recovery of the Leased Substances. Without in any way limiting the generality of the foregoing, the Lessee shall:

- 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 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. develop the Leased Lands using applicable primary, secondary or enhanced recovery methods;
- f. 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;
- g. 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 all applicable Regulations;
- h. market the Leased Substances; and,
- i. keep the Leased Lands free of all liens arising from or related to the lessee's interests in, or its operations on, the Leased Lands.

II. Inspection by Lessor of Lessee's Operations

Lessor may, at all reasonable times during the period that this Lease continues, through its authorized Representatives, enter on the surface of any lands, or any buildings or structures erected on those lands, or access any wells where any operations, including all Drilling Operations and Production Operations, are being conducted in accordance with this Lease, in order to survey, examine, inspect and test their state and condition.

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 Representatives in carrying out its entry to survey, examine, inspect and test their state and condition.

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.

III. Environmental Provisions and Greenhouse Gas Emissions

Lessee shall promptly provide written notice to Lessor of:

- a. 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 copies of any notice or response to a notice of violation or non-compliance, control order, stop order or clean up order from a governmental or regulatory authority;
- b. 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,
- c. any litigation or regulatory proceeding pending or, to the knowledge of Lessee, threatened against Lessee or any Person 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.

Lessee shall promptly conduct any Required Remediation and Reclamation or attend to any other matter arising out of subclause 4III.a and promptly notify Lessor of any actions taken.

Lessee is responsible for and assumes liability and ownership of all Greenhouse Gas emissions that may be produced or allocated in respect of operations (including with respect to all Drilling Operations or Production 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.

This subclause 4.III, 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.

This subclause 4.III shall survive the termination, expiry or surrender of this Lease.

CLAUSE 5. POOLING AND UNITIZATION

i. Pooling to form a Vertical Well Spacing Unit

Lessee may at any time, upon written notice to Lessor, pool, on an acreage basis for the drilling of a vertical well, 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. The notice must include 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 calculations.

ii. Pooling to form a Horizontal Well Spacing Unit

If a horizontal well is to produce from 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, or as the Regulations require. 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.

iii. Unitization

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.

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.

CLAUSE 6. ROYALTIES AND TAKING IN KIND

i. Royalties

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

- a. no Royalty is payable on any Leased Substances that are used for the proportionate share of Fuel Gas or flared in accordance with Regulations;
- b. if Leased Substances (other than Sulphur) are stored or used for purposes other than those set out in subclause 6.I.a, the Royalty shall be payable in the month following the month that Leased Substances are produced;
- c. if Leased Substances are produced with any other substances injected into and recovered from the Leased Lands, the method for calculating the proportion of the Royalty shall be determined by the parties in advance of the injection; and,
- d. if Leased Substances are sold at less than Current Market Value in any transaction (including those transactions which are not at arm's length or any transactions involving any arrangement from which the Lessee obtains a collateral advantage in consideration of the reduced price) or are used for purposes other than the Lessee's operations under this lease, the gross proceeds of the sale shall, for purposes of calculating the royalty, not be less than the Current Market Value of those Leased Substances when produced from or allocated to the Leased Lands; and
- e. no deductions whatsoever are permitted from the Royalties payable under this Lease.

The Royalty 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 Appendix I (Royalty Calculations and Data Requirements Sheet). Lessee shall provide its governmental reports, and any other supporting documentation as Lessor may require.

ii. 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.

iii. Taking in Kind

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 the Leased Substances in kind in lieu of the Royalty payment under subclause 6.I, at the Royalty Determination Point free and clear of all charges, liens and encumbrances on the following basis:

- a. Lessee shall, at its cost, treat Lessor's Royalty share in order to meet pipeline, refinery, fractionator, and all other market or downstream specifications;
- b. 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 pipeline and shipping best practices.
- c. If, on exercising this option, Lessee has storage facilities for the applicable Leased Substances, 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,
- d. 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 6.I.

CLAUSE 7. OFFSET OBLIGATIONS

Lessee shall conduct its operations with the intent to fully exploit the Leased Substances under the Leased Lands with respect to the highest standard of industry practice for the duration of the Primary Term, and from the Primary Term to termination of the Lease. 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.

i. Offset Production

Where production of any Leased Substance in any Spacing Unit that laterally or diagonally adjoins a Spacing Unit in the Leased Lands and is not owned by the Lessor, or if owned by the Lessor, not under Lease to the Lessee, is obtained from a zone or member in a geological formation that is included in any Leased Formations ("**Offset Formation**") from any well(s) ("**Triggering Well(s)**") then, with respect to that Spacing Unit of the Leased Lands ("**Lease Spacing Unit**"), Lessee shall:

- a. If the Triggering Well(s) are drilled prior to the Lease Date, no later than six (6) months from the Lease Date:
 - i. commence Drilling Operations for a well(s) on each Lease Spacing Unit ("**Offset Well(s)**") to a sufficient depth to test and evaluate the Offset Formation with the purpose to provide for the same rate and quantity of production as the Triggering Well(s). If obtaining the same rate and quantity of production requires a reduction in the size of the Spacing Unit, Lessee shall apply for such reduction as the Regulations require. If the same rate and quantity of production is no longer achievable or is achievable by methods other than those utilized by the Triggering Well(s), then Lessee shall provide evidence to Lessor in support of its chosen recovery scheme;
 - ii. deliver to Lessor a surrender of all or that portion of the Leased Lands comprising each Lease 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 pursuant to subclause 7.II. to extend the time to commence Drilling Operations for an Offset Well(s) or surrender as above-mentioned. If Lessee fails to commence Drilling Operations or surrender within the specified six (6) month period, then Lessee is deemed to have elected to pay compensatory royalties.
- b. If a Triggering Well(s) is drilled after the Lease Date, no later than ninety (90) days from the date the first Triggering Well goes on production, commence Drilling Operations, surrender or pay a compensatory royalty as set out under subclause 7.I.a., mutatis mutandis.
- c. If a waiver by Lessor of this term is granted, and an Offset Waiver Expiry Date specified in the Mineral Lease Specific Terms, then Lessee must satisfy any offset obligation by the Offset Waiver Expiry Date or pay a compensatory royalty effective the first day of the month following the Offset Waiver Expiry Date.
- d. If it is determined by the Parties that an Offset Obligation cannot be satisfied by the Lessee specific to a Lease Spacing Unit continued by Production Operations, the Parties may:
 - i. amend the Royalty Rate under the Mineral Lease Specific Terms to 0% for any Leased Substances that are produced, saved, or marketed from the Lease Spacing Unit excluding those continued by Production Operations under the Mineral Lease; and,
 - ii. grant a sublease to the Lessor from the Lease Spacing Unit excluding those Leased Substances continued by Production Operations. If a sublease is granted and Lessor assigns its sublessee interest to a third party, Lessee shall make every reasonable effort to not restrict access to provide for the third parties development of the Lease Spacing Unit.

II. Payment of Compensatory Royalties

The compensatory royalty shall be calculated and paid as follows:

- a. an amount equal to the Royalty that would be payable pursuant to Clause 6 (Royalties and Taking in Kind) as if the Triggering Well(s), or portion of the Triggering Well(s), were produced from a well(s) on each applicable Lease 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 total production from the Spacing Unit of the Triggering Well(s) with the highest volume produced in that month;
 - i. in the case there exists more than one Triggering Well in an Offset Formation, and Lessee has commenced Drilling Operations for an Offset Well under subclause I.a.i., however the same rate and quantity of production as the Triggering Well(s) has yet to be achieved, Lessee must demonstrate, and have approved by Lessor, a reasonable timeline to achieve the same rate and quantity of production as the Triggering Well(s), or pay compensatory royalties commencing six (6) months from the spud date of the Offset Well(s) based on any additional Triggering Well(s) with the highest volume produced in that month;
- d. in the case of Unitized Lands, the compensatory royalty payable shall be calculated and paid on the basis of production from the unit well with the highest rate of production offsetting the Leased Lands; and,
- e. the compensatory royalty commences on the last day of the applicable six (6) month or ninety (90) day period described in subclause 7.I, and continues until the day on which Lessor receives from Lessee:
 - i. a written notice from Lessee that the Triggering Well(s) has been abandoned or in the case of Unitized Lands, all wells on the Unitized Lands have been abandoned;
 - ii. a written notice from Lessee demonstrating that the Offset Formation is producing from an Offset Well(s) drilled, re-entered, or re-completed on the applicable Lease Spacing Unit for the Leased Lands;
 - iii. a written notice from Lessee providing evidence that an Offset Well(s) was drilled, re-entered or re-completed, tested and evaluated in the Offset Formation to determine that the Leased Substances were not capable of being produced in Paying Quantities from the Offset Formation and subsequently abandoned in accordance with Clause 9 (Abandonment and Removal of Charge), if applicable; or,
 - iv. delivery by Lessee of a surrender of all or any portion of the Leased Lands in accordance with subclause 7.I.a.ii.

Notwithstanding the foregoing, Lessee's obligation to pay a compensatory royalty continues until thirty (30) days after the Lessee receives written notice from the Lessor providing for termination of all or any portion of the Leased Lands in accordance with subclause 7.I.a.ii.

Lessee is not entitled to refunds or adjustments on any compensatory royalties paid pursuant to this Lease.

CLAUSE 8. CONTINUATION AND REVERSION

I. Continuation by Production Operations at Expiry of Primary Term

From and after 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 beyond expiration of the Primary Term for those Leased Lands that are contained within the Spacing Unit of a well but only as to those Leased Substances related to the Regulated well type classification, meaning either Petroleum or Natural Gas or any other substances given a Regulated well type, in the Leased Formations within that well where Production Operations are being diligently and continuously conducted. Prior to the expiration of the Primary Term, Lessee shall submit to Lessor a completed continuation application form (in the form to be provided by the Lessor) along with payment of Annual Rental for the upcoming year.

II. Continuation by Drilling Operations Over Expiry of Primary Term

From and after the expiration of the Primary Term, if Drilling Operations are being conducted on the Leased Lands, or an election has been made to commence Drilling Operations under Clause 7.I(a), this Lease shall remain in effect and continue beyond expiration of the Primary Term. Prior to the expiration of the Primary Term, Lessee shall submit to Lessor a completed continuation application form, along with payment of Annual Rental for the upcoming year. This Lease shall remain in effect and continue beyond expiration of the Primary Term:

- 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 being conducted; or
- b. after completion of those Drilling Operations, for that portion of the Leased Lands that are contained within the Spacing Unit of the well but only as to the Leased Substance and Leased Formations within that well, where those Drilling Operations are promptly followed by Production Operations and those Production Operations are diligently and continuously being conducted.

III. Continuation by Enhanced Oil Recovery Project at Expiry of Primary Term

Prior to the expiration of the Primary Term, if a Minister's Order has been granted with respect to an Enhanced Oil Recovery Project containing the Leased Substances in the Leased Formations under the Leased Lands, this Lease shall

remain in effect and continue for those Leased Formations under the Leased Lands that are included in such Enhanced Oil Recovery Project, so long as the said Enhanced Oil Recovery Project approval is promptly followed by Drilling Operations and Production Operations on the Leased Lands, subject to sooner termination as provided for under this Lease. Lessee shall submit to Lessor a copy of the Minister's Order along with any documentation specific to the Minister's Order as reasonably requested by the Lessor, together with a completed continuation application form along with payment of Annual Rental for the upcoming year.

iv. Continuation by Payment of Compensatory Royalty at Expiry of Primary Term

Prior to the expiration of the Primary Term, if Lessee has elected, or is deemed to have elected, to pay a compensatory royalty under Clause 7.I.a.iii, this Lease shall remain in effect and continue, but only for the Offset Formation included in an Offset Spacing Unit related to the compensatory royalty payment, until Lessor has received a written notice from Lessee under Clause 7.II.e, or until Lessor provides notification to the Lessee that the Offset Spacing Unit is terminated effective as of thirty (30) days from the date of notification.

v. Continuation of Non-Pooled or Non-Unitized Lands

This Lease shall remain in effect and continue beyond expiration of the Primary Term for those Leased Lands that are contained within the Spacing Unit of a well pursuant to subclauses 8.I to IV inclusive, however if the Leased Lands are not included under a pooling or unitization, only the Spacing Unit that is penetrated by a well will continue.

vi. Reversion at End of Primary Term

Any Leased Substances and Leased Formations that are not continued beyond expiration of the Primary Term pursuant to subclause 8.I to V inclusive, shall revert to Lessor effective as of the expiration of the Primary Term.

vii. Non-Producing Wells after Expiry of Primary Term

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

- a. commence, and thereafter diligently and continuously conduct Production Operations on such non-producing well; or,
- b. provide Lessor with written notice pursuant to Clause 9 (Abandonment and Removal of Charge) that Lessee intends to abandon such non-producing well.

If Lessee fails to commence Production Operations or provide Lessor with written notice of its intention to abandon such non-producing well within sixty (60) days after it receives Lessor's notice, then Lessee shall be deemed to have elected to abandon such non-producing well and Lessor shall be deemed to have received notice of abandonment of that non-producing well pursuant to Clause 9 (Abandonment and Removal of Charge) on the sixty-first (61st) day after the Lessee's receipt of Lessor's notice. For greater clarity, any Spacing Unit contained within the Leased Lands on which Drilling Operations or Production Operations are not being diligently and continuously conducted shall revert to the Lessor.

viii. No Default Notice Required

Clause 10 (Default) shall not apply to any deemed provisions in this Clause 8 and nothing in this Clause 8 shall relieve Lessee of any of its obligations under the other clauses of this Lease.

ix. Reduction of Spacing Unit

If Lessee applies under 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 (Mineral Lease Grant) and Clause 8 (Continuation and Reversion) shall apply to the continuation of the Leased Lands and the Leased Formations not included in the reduced Spacing Unit.

CLAUSE 9. ABANDONMENT AND REMOVAL OF CHARGE

i. Abandonment

If Lessee intends to abandon a well on the Leased Lands, in addition to the notice requirements set out in Clause 11 (Notices and Reports by Lessee), Lessee shall notify Lessor in writing of its intention to abandon and provide a reasonable timeframe for abandonment operations.

ii. Equipment

Following the termination, expiry, or surrender of all or any portion of the Leased Lands, or abandonment of any well, as required pursuant to Regulations and in compliance with any issued directives, and in a manner satisfactory to the regulatory authorities having jurisdiction in that regard, Lessee shall, at its own risk and cost:

- a. remove all Equipment from the Leased Lands;

- b. plug and abandon all wells and any related pipelines;
- c. clean up and remediate the well sites, Equipment sites, reclaim the surface of the lands associated with any operations conducted on the Leased Lands, including all access roads; and,
- d. supply the Lessor with a copy of all documentation evidencing to the reasonable satisfaction of the Lessor that the Required Remediation and Reclamation of the well sites, Equipment sites, surface and access roads (as applicable) have been completed, and for greater certainty, deliver to the Lessor a copy of a reclamation certificate or other required certificate or release in relation to same.

This Clause 9 shall survive the termination, expiry or surrender of this Lease.

iii. Removal of Charge

If any caveat or other instrument is registered directly or indirectly by Lessee against Lessor's title for the Leased Lands 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, and in any case not later than thirty (30) days from its receipt of a written request from Lessor to do so. If Lessee fails to discharge a caveat within such period, Lessor reserves the right to remove Lessee's caveat or other instrument registered against the Leased Lands and recover any costs incurred to do so from the Lessee, at a minimum of \$500.00.

CLAUSE 10. DEFAULT

i. Default Generally

- a. Without in any way restricting any other rights and remedies which the Lessor may have, if, before or after the expiry of the Primary Term, the Lessor considers that the Lessee has not complied with any covenant, provision, condition, restriction or stipulation of this Lease, the Lessor shall notify the Lessee in writing, describing in reasonable detail the alleged breach or breaches. The Lessee shall have thirty (30) days after receipt of such notice to remedy or commence to remedy the breach or breaches alleged by the Lessor, and thereafter diligently continue to remedy the same; or commence and diligently pursue proceedings for a judicial determination as to whether the alleged acts or omissions constitute a breach or breaches on the part of the Lessee.
- b. The performance of any act by the Lessee intended to remedy all or any of the alleged breaches shall not be deemed an admission by the Lessee that it has failed to perform its obligations hereunder. If the Lessee fails to remedy or commence to remedy a breach or breaches within the thirty (30) day period, or if having so commenced to remedy a breach or breaches thereafter fails to continue diligently to remedy the same, and if proceedings have not been commenced for a judicial determination as aforesaid, this Lease, except for the Lessee's obligation to remove any registered document in relation to this Lease, shall thereupon terminate.
- c. If proceedings for a judicial determination are commenced within the aforesaid period of time, this Lease shall not terminate until the existence of such breach has been finally judicially determined; nor shall it terminate if the Lessee within thirty (30) days of such final determination has remedied or commenced to remedy the breach or breaches, and having so commenced to remedy the breach or breaches, thereafter diligently continues to remedy the same.
- d. If, before or after the expiry of the Primary Term, the Lessor considers that the Lessee has not complied with its obligations under Clause 4 (Operations) hereof, the matter shall be referred to arbitration for resolution pursuant to the provisions of the *Arbitration Act* (Alberta).
- e. If this Lease terminates under subclause 10.I.b., Lessee must within thirty (30) days commence satisfaction of its obligations under Clause 9 (Abandonment and Removal of Charge).

ii. Default with Well Capable of Producing or Drilling Operations or Production Operations

If there is located on the said Leased Lands, or on the Pooled Lands or the Unitized Lands, a well capable of producing the Leased Substances or any of them, or on which Drilling Operations or Production Operations are being conducted; and, in that event,

- a. If the Lessee has not remedied the default under this Lease, the Lessor shall have the right to terminate the Lease while preserving its right to seek remedy for any damages and/or equitable relief caused by the default; or
- b. Lessor reserves the right (but not the obligation), in its sole discretion, to elect to take over any well(s) and Equipment, and all the interests of the Lessee and any third party's beneficial interest in the Leased Lands.

In the event that the Lessor elects to take over any well(s):

- i. all the interest of the Lessee in the subject well(s) shall pass to the Lessor except that the Lessor shall reimburse the Lessee for the salvage value of all Equipment therein and connected therewith which the Lessor wishes to retain, less the estimated cost of salvaging the same;
- ii. the Lessee shall be relieved of any further liability with respect to the completion of the well(s) but shall not be relieved of liability which may have accrued up to that time at which the Lessor elects to take over the well(s);
- iii. in the event the Lessor completes the well for the taking of production or caps same, the Lessee shall be deemed to have assigned to the Lessor the entire interest which it holds or may be entitled to acquire in the zone or zones completed or capped for the taking of production in the Leased Lands or the Pooled Lands or Unitized Lands (as applicable), included within the production Spacing Unit upon which the well is located. In the event the Lessor does not complete or cap

the well but abandons same, the Lessee shall not be deemed to have assigned to the Lessor any interest in the Leased Lands, and shall be responsible for abandonment costs except any additional abandonment costs attributable to the Lessor's take-over of the well pursuant to this subclause 10.II; and,

- iv. at the Lessor's request, Lessee shall promptly transfer any well licence, related surface access road leases and other related surface rights to the Lessor, as well as assign any licence or permit or other documents that are required for take over.

III. Force Majeure

- a. If operations are interrupted or suspended or cannot be commenced as a result of an Event of Force Majeure, this Lease shall not terminate during any such period of interruption, suspension or inability to commence caused thereby or for thirty (30) days thereafter. For the purposes of this Lease, the items listed below are individually or collectively referred to as an "Event of Force Majeure":
 - i. strikes and lockouts;
 - ii. acts of God;
 - iii. acts of war or terrorism;
 - iv. unusually severe weather conditions or actions of the elements (other than seasonal access and road bans); and,
 - v. other matters beyond reasonable control of Lessee, whether or not similar to those items listed in (i)-(iv) above, provided, however, that 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.
- b. If Lessee is unable, in whole or in part, by an Event of Force Majeure to comply with any term or carry out its obligations with respect to Drilling Operations or Production Operations, other than any obligation to make payment of any monies due hereunder, then the obligations of the Lessee, so far as they are affected by such Event of Force Majeure, shall be suspended during the continuance of any inability so caused; and the cause of the Event of Force Majeure so far as possible shall be remedied with all reasonable dispatch.
- c. 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.
- d. Notwithstanding any other provision in this subclause III, 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.

CLAUSE 11. NOTICES AND REPORTS BY LESSEE

- a. Lessee shall provide a statement to accompany each Royalty payment that includes all information required in Appendix I under the Royalty Data Requirement Sheet;
- b. Lessee shall, with respect to each well drilled on the Leased Lands, furnish to Lessor electronically within the time period specified, the information required in Appendix II (Well Data Requirements Sheet);
- c. Lessee shall promptly provide Lessor with any relevant and requested copies of all permits, licences, certificates, approvals, applications, 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;
- d. Lessee shall request from the Lessor an evaluation of the Royalty Rate should the Lessee believe economic conditions have changed from the Lease Date so much so that operations warrant a reduction of the Royalty Rate, or should a Secondary or Enhanced Oil Recovery Project method require a reduction to the Royalty Rate.
- e. Lessee shall provide notification to Lessor of any secondary recovery development potential or scheme;
- f. Lessee shall provide notification to Lessor of any Enhanced Oil Recovery Project potential or application;
- g. Lessee shall provide notification to Lessor of the conversion of a well to an injector or disposal well;
- h. 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;
- i. Lessee shall provide notification to Lessor if the Gas-Oil Ratio of a well would warrant the well type classification change under the Regulations; and,
- j. If so requested by the Lessor, Lessee shall furnish evidence or supporting documentation in connection with the notifications and requests set out in the above as Lessor may reasonably require from time to time.

CLAUSE 12. GENERAL PARTY COVENANTS

I. Interpretation

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

- a. 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;
- b. the terms "in writing" or "written" include hand-written, electronically printed or typed or transmitted by email or fax;
- c. a reference to any law, statute or other requirement of law, including the Regulations, rules, enactments, by-laws or other ancillary legislation, means such as is in effect at the applicable time as amended, re-

- enacted, supplemented, codified, restated, substituted or replaced or otherwise varied or modified, in whole or in part, at any time;
- d. words importing the singular number include the plural and vice versa, and words importing the use of any gender include all genders;
 - e. if a term is defined in this Lease, a derivative of that term shall have a corresponding meaning;
 - f. 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;
 - g. a reference to “Dollars” or the use of the symbol “\$” means Canadian dollars;
 - h. reference to any Party includes such Party’s permitted successors and assigns;
 - i. “including” and “includes” mean “including without limitation” and “includes without limitation”;
 - j. the headings of clauses and subclauses are for convenience of reference only and shall not affect the construction or interpretation of this Lease;
 - k. 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;
 - l. unless otherwise specified herein, or as the context may require, computation of any period of time referred to in this Lease shall exclude the first day and include the last day of such period; and
 - m. where any payment is to be calculated or made, or an action is to be taken on or as of a day that is not a Business Day, then unless otherwise provided herein, such payment is to be made or calculated, or that action is to be taken, on or as of the next following Business Day.

ii. Drafting

The terms of this Lease were arrived at jointly 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.

iii. 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 per occurrence including sudden and accidental pollution coverage and employer’s legal liability insurance; and,
- c. operators extra expense (control of well) insurance 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.

If requested by Lessor, Lessee shall furnish proof of coverage in compliance with the foregoing.

Lessee will endeavour to provide Lessor with thirty (30) days prior written notice of cancellation or material change of the insurance described in this subclause 12.III.

iv. Records

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 (“Records”):

- a. all production accounting records, governmental production reports showing the quantity of the Leased Substances produced or deemed to be produced;
- b. records as to the nature and quantity of each of the Leased Substances processed, produced, sold (including the name of purchaser), stored, used, and otherwise disposed of;
- c. records to support that a well on the Leased Lands is producing in Paying Quantities;
- d. records as to the actual price received (including payments received from any source whatsoever in respect of 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,
- e. records that relate to the quality and quantity of the Leased Substances that are not marketed but are used or otherwise disposed of.

v. Audit

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:

- a. Lessor shall give Lessee thirty (30) days written notice that an audit shall be conducted;
- b. any claims of discrepancies disclosed by the audit shall be made in writing to Lessee within ninety (90) days of the completion of the audit;
- c. In the event of a dispute related to a Royalty payment for Petroleum, the Parties shall make reference to the Canadian Petroleum Equalization calculation to determine Current Market Value
- d. Lessee shall respond to any claims within thirty (30) days;

- e. if Lessee disputes any discrepancy, then Lessor shall review Lessee's response and within thirty (30) days advise Lessee in writing that:
 - i. the disputed discrepancy is resolved; or
 - ii. Lessee is in an alleged breach or breaches under Clause 10 (Default).
- f. if Lessee does not dispute Lessor claims of discrepancy, then Lessee must submit payment to rectify the claim within ninety (90) days of Lessee's response to the claim. Failure to pay within ninety (90) days will result in the Lease being subject to breach under Clause 10 (Default).

VI. Further Assurances

Each Party, upon request from the other Party and without further consideration, shall execute and deliver such further deeds and documents, and shall do such further acts and things as may be reasonably required and requested in order to fully perform and carry out the terms of this Lease.

VII. Amendments and Waivers

No amendments to this Lease shall be binding unless in writing and executed by the Parties.

A waiver by Lessor of any term or waiver of a breach of any term of this Lease (including any breach) is only 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, nor in any manner release the Lessee from performance of any other provision, condition or requirement herein. 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.

VIII. Waiver of Relief Rights

If this Lease terminates, including by reason of Lessee not remedying a breach or breaches under Clause 10 (Default), Lessee may have available relief against all penalties and forfeitures under Regulations of the Province in which the lands are located or relief against forfeiture under the rules of equity and common law (collectively, the "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 all of these Relief Rights in Lessor's enforcement of the terms of this Lease including termination of this Lease.

IX. Liability and Indemnity

Lessee shall:

- a. be liable to Lessor and its Representatives; and
- b. 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.

The liability and indemnification under this subclause 12.IX shall specifically cover costs incurred by Lessor or any third parties 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 or regulatory authority (including for greater certainty, any Required Remediation and Reclamation), or pursuant to any Regulations.

Notwithstanding any other provision of this Lease, this subclause 12.IX shall survive the termination, expiry or surrender of this Lease for the benefit of Lessor and shall not be limited in any manner.

X. Assignment of Lease

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 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 the Assignment of Freehold Lease is approved and executed by Lessor, which approval and execution shall not be unreasonably withheld, provided that Lessor shall not be required to approve or execute such Assignment of Freehold Lease if Lessee is at the time in default or breach of any terms or conditions of this Lease.

Notwithstanding the foregoing, Lessor shall not be required to accept an Assignment of Freehold Lease for an assignment;

- a. to a trust or partnership; or
- b. of a portion of the Leased Lands, Leased Formations or Leased Substances; or,
- c. for any other interest that is not a legal interest.

XI. 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:
1000, 517 – 10 Avenue SW
Calgary, AB T2R0A8
- b. by way of electronic funds transfer to Lessor at:
Destination Bank:

Lessor may change the information in this clause by serving notice under subclause 12.XIII (Notices).

XII. 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 Royalties not received in compliance with the terms of the Lease.

XIII. Notices

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:

- a. by hand;
- b. by mail (postage prepaid); or
- c. electronically, to the address for such form of deliveries as specified in the Mineral Lease Specific Terms, or as is amended from time to time.

Any notice or other communication delivered:

- d. by hand, shall be deemed to have been given and received at the commencement of the next following Business Day;
- e. 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
- f. 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.

Any Party may change its address for service by serving notice as set out in this subclause.

XIV. 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 4 (Operations), 5 (Pooling and Unitization), and 11 (Notice and Reports by Lessee) except for information that is available to the public from any governmental or regulatory authority. This subclause 12.XIV may not prevent Lessor from divulging any information to a Representative of Lessor provided that Lessor requires that the Representative maintain the confidential status of the information and the Representative is deemed to accept this obligation.

XV. Time

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

XVI. 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, shall be construed against Lessee.

XVII. 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.

XVIII. Governing Law

This Lease and the relationship of the parties hereto, including any disputes, shall be construed and determined in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein. The Parties irrevocably and exclusively submit to the jurisdiction of the courts of the Province of Alberta and courts of appeal therefrom with respect to any matter or thing relating directly or indirectly to this Lease.

XIX. Conflicts

If any term in the body of this Lease conflicts with the information requested in the Appendices then the term in the body of this Lease prevails.

If there is a conflict between any provision of this Lease and the Regulations or the title documents under which Lessor holds its title to the Leased Lands, the Regulations or such title documents, as the case may be, will prevail.

XX. Enurement

This Lease shall enure to the benefit of and be binding upon each of the Parties, their successors by name change, merger or amalgamation, assigns of Lessor, and to the extent permitted hereunder, the permitted assigns of Lessee.

XXI. Severability

If any provision of this Lease is determined to be invalid, illegal or unenforceable, the provision will be deemed to be severed and the remainder of this Lease shall not be affected and shall continue as amended.

XXII. 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 the Parties had executed one document.