

**MINERAL LEASE**  
**General Terms and Conditions**  
(HRRC 2017)

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**APPENDICES**

APPENDIX I                      ROYALTY CALCULATIONS

**ARTICLE 1**  
**DEFINITIONS, INTERPRETATION AND DRAFTING**

**1.1 Definitions**

In this Lease, including this clause and Appendix I attached to this Lease:

- (a) **"Affiliate"** has the meaning ascribed thereto in the *Business Corporations Act* (Alberta);
- (b) **"Appendix I"** means the appendix attached to these Mineral Lease General Terms and Conditions entitled Appendix I Royalty Calculations;
- (c) **"Bitumen"** means Petroleum that is a naturally occurring solid or semi-solid hydrocarbon having a relative density less than ten degrees (10°) API and a viscosity greater than ten thousand (10,000) centipoises, measured at the original reservoir temperature and at atmospheric pressure on a gas-free basis, that will not flow to a well in its natural state;
- (d) **"Business Day"** means any day other than a Saturday, Sunday or statutory holiday in the Province of Alberta, Canada;
- (e) **"Coal"** means the heterogeneous mixture of organic constituents (primarily decomposed plants), inorganic mineral matter and inherent moisture resulting from the 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;
- (f) **"Coal Bed Methane"** or **"CBM"** means Natural Gas that is contained in a Coal seam deposit;
- (g) **"Continuation Application Form"** means the online submission form as found on the Lessor's Website named 'Lease Continuation Application' to be used by the Lessee at the relevant time when making application for continuation of this Lease;
- (h) **"Default"** means a breach, non-observance or non-performance on the part of the Lessee of any covenant, proviso, condition, restriction or stipulation contained in this Lease, including without limitation an Operational Default or a Payment Default;
- (i) **"Drilling Operations"** means (i) spudding a well or (ii) re-entering an abandoned well or zone and thereafter diligently and continuously carrying out the drilling or re-entry operations to fully evaluate all penetrated or re-entered Formations to the extent reasonably necessary to determine whether Leased Substances can be produced from such well or zone in Paying Quantities, and including operations conducted thereafter for the commencement of Production Operations or abandonment of that well under the provisions of Article 18, and includes all related incidental acts;
- (j) **"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 other environmental problems on, under or associated with the Leased Lands or resulting from operations conducted thereon or related thereto, however and by whomsoever caused, and whether caused by any non-compliance with or a breach of the applicable Regulations or otherwise, including without limitation:
  - (i) any release of any Hazardous Materials;
  - (ii) any abandonment and reclamation obligations;
  - (iii) the restoration, cleanup or reclamation of or failure to restore, cleanup or reclaim any part of the Leased Lands or the surface or subsurface thereof;
  - (iv) the removal or failure to remove any foundations, substances or Equipment including any costs incurred to clean-up, decommission, abandon, decontaminate and reclaim the Leased Lands or any other lands from the effects resulting from any of the foregoing; and
  - (v) any damages or losses suffered by third parties as a result of any of the occurrences described in this Subclause 1.1(j);

- (k) **"Equipment"** means all machinery, buildings, structures, equipment, appliances and materials that the Lessee may have placed or caused to be placed in a well, on a wellsite or the Leased Lands for the purpose of producing Leased Substances;
- (l) **"Event of Force Majeure"** has the meaning as set out in Article 25;
- (m) **"Excluded Substances"** means those substances specified under the term "Excluded Substances" in the Mineral Lease Specific Terms and includes any other minerals held under the same fee title that are not incidentally produced in trace amounts with the Leased Substances or any substances that are injected into a Leased Formation and subsequently produced in association with the Leased Substances;
- (n) **"Field Condensate"** means a mixture of primarily pentanes and heavier hydrocarbons that are dissolved with Natural Gas or Solution Gas at their virgin reservoir conditions and condenses from a vapor to a liquid upon certain changes to temperature or pressure in the reservoir or at surface and are extracted or separated from the Natural Gas or Solution Gas prior to the gas stream entering a processing, extraction or fractionation facility;
- (o) **"Formation"** means a subsurface interval of rock strata that can be or is correlated and delineated as a lithostratigraphic unit based on its relative lithologic properties and stratigraphic position and, for purposes of this Lease, also means any named subdivision of such a lithostratigraphic unit that can be or is distinguishable apart from other members for purposes of recovering the Leased Substances;
- (p) **"Freehold Mineral Tax"** means the taxing or levying of fees in accordance with:
  - (i) in Alberta, the *Freehold Mineral Rights Tax Act*, Chapter F-26 RSA 2000;
  - (ii) in Saskatchewan, *The Mineral Rights Tax Regulations*, 1998 (Mineral Taxation Act, 1983), and *The Freehold Oil and Gas Production Tax Act*, Chapter F-22.11 of the Statutes of Saskatchewan, 2010 (effective April 1, 2012, subsections 35(3) and (4) effective May 25, 2012); and
  - (iii) in Manitoba, the *Oil and Gas Production Tax Act*, C.C.S.M. c. 037, or any replacement, similar or additional legislation;
- (q) **"Fuel Gas"** means that portion of the Leased Substances used as fuel to operate Equipment and facilities for the production, transportation, treating and processing of Leased Substances upstream of the Royalty Determination Point, provided that the portion of the Leased Substances determined to be used from any given well is based on the percentage that the volume of production from such well bears to the total volume of production from all wells handled together through that Equipment or facility in each month;
- (r) **"Hazardous Materials"** means:
  - (i) any Petroleum or Petroleum products, by-products, breakdown products or waste, Solution Gas, 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 by Regulations; and
  - (ii) any other chemicals, materials, substances or wastes prohibited, limited or regulated by Regulations, or present in concentrations or at locations that present a threat to human health or the environment;
- (s) **"Horizontal Well"** means a single wellbore with one or more horizontal legs drilled with an inclination of at least 80 degrees from vertical into a Formation and thereafter laterally along the same stratigraphic interval, including a well that is classified or approved as a horizontal well pursuant to the Regulations, but specifically excluding a well deviated or drilled directionally from the surface location to reach a bottom hole location at different coordinates to obtain production from the same vertical section of the Formation;

- (t) **"HZ Allocation Procedure"** means the allocation of production from the horizontal leg(s) of a Horizontal Well, expressed as a percentage, that is calculated based on (i) the Productive Section of one or more horizontal legs of such Horizontal Well measured within the boundaries of the Leased Lands *divided by* (ii) the total measured length of the Productive Section of all those horizontal legs of such Horizontal Well;
- (u) **"Initial Consideration"** means the sum of money or other consideration specified under the term "Initial Consideration" in the Mineral Lease Specific Terms;
- (v) **"Lease"** means, collectively:
  - (i) the Mineral Lease Specific Terms; and
  - (ii) these Mineral Lease General Terms and Conditions, including Appendix I;
- (w) **"Lease Assignment"** means the document named 'Assignment of HRRC Fee Lease' to be used by the Lessee in the form as found on the Lessor's Website at the relevant time when preparing an assignment of this Lease;
- (x) **"Lease Date"** means the date specified in the Mineral Lease Specific Terms and is the effective date of this Lease;
- (y) **"Leased Formations"** means the Formation or Formations 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 Formations as remain subject to this Lease at any time and excludes any intervals specifically excluded in the Mineral Lease Specific Terms;
- (z) **"Leased Lands"** means the lands 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, any reference to Leased Lands shall also include the related Pooled Lands or Unitized Lands, as applicable;
- (aa) **"Leased Substances"** means those substances, naturally occurring and contained within the Leased Formations, that are specified in the Mineral Lease Specific Terms excluding any Excluded Substances, or any of them that remain subject to this Lease at the applicable time. When Natural Gas is listed on the Mineral Lease Specific Terms as a Leased Substance and continues to remain subject to this Lease, it shall include its associated Field Condensate, Natural Gas Liquids, Sulphur and Other Substances as are determined under the Regulations to be attributable to the owner of natural gas mineral rights only. When Petroleum is listed on the Mineral Lease Specific Terms as a Leased Substance and continues to remain subject to this Lease, it shall include its associated Solution Gas, Field Condensate, Natural Gas Liquids, Sulphur and Other Substances as are determined under the Regulations to be attributable to the owner of petroleum mineral rights only. For certainty, the Leased Substances for which Drilling Operations or Production Operations are being conducted for the purpose of continuing this Lease beyond expiry of the Primary Term, or for an Offset Satisfying Well, will be Natural Gas if the well is classified under the Regulations as a gas well and will be Petroleum if the well is classified under the Regulations as an oil well;
- (bb) **"Lessee"** means the Party designated as such in the Mineral Lease Specific Terms;
- (cc) **"Lessor"** means the Party designated as such in the Mineral Lease Specific Terms;
- (dd) **"Lessor's Website"** means <http://www.heritageroyalty.ca> or any future websites or other electronic access as directed by the Lessor at any time;
- (ee) **"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 this form;
- (ff) **"Natural Gas"** means a mixture of primarily methane and ethane that is not Solution Gas and that is in a gaseous state at both the virgin reservoir conditions and at surface conditions, and which may be contaminated with Sulphur and mixed in solution with

Natural Gas Liquids within the reservoir, which is inclusive of CBM and helium if not listed as an Excluded Substance;

- (gg) **"Natural Gas Liquids"** means those heavier hydrocarbon components found in solution with Natural Gas or Solution Gas in the reservoir and recovered or recoverable through extraction and separation from the gas stream at a processing, extraction or fractionation facility, including, but not limited to, ethane, propane, butanes and pentanes plus;
- (hh) **"Offset Formation"** means that same Formation from which production is being obtained from an Offset Triggering Well as is also comprised within the Leased Formations;
- (ii) **"Offset Election Period"** means a period of six (6) months from either (i) the date of this Lease with respect to any Offset Triggering Well obtaining production at the date of this Lease or (ii) from the date of any Offset Triggering Well being placed on production after the date of this Lease;
- (jj) **"Offset Satisfying Well"** means, in respect of any Offset Triggering Well, a well on or within a Spacing Unit comprised of the Leased Lands that laterally or diagonally adjoins the Offset Spacing Unit which:
  - (i) is obtaining production of the Leased Substances from the Offset Formation from a well classified under the Regulations as the same well product type as the Offset Triggering Well; or
  - (ii) commences production of the Leased Substances from the Offset Formation of the same kind as is being obtained from the Offset Triggering Well after commencement of production from the Offset Triggering Well; or
  - (iii) was drilled or reentered and evaluated after commencement of production from the Offset Triggering Well to determine that the Leased Substances of the same kind as is being obtained from Offset Triggering Well are not capable of being produced in Paying Quantities from the Offset Formation within that Spacing Unit,provided that a Horizontal Well shall only be considered an Offset Satisfying Well drilled within any such Spacing Unit of the Leased Lands if the Productive Section of the horizontal leg, or any one of the horizontal legs, calculated in accordance with the HZ Allocation Procedure, covers not less than twenty-five percent (25%) of the distance between the boundaries of such Spacing Unit and, further provided, any continuation of that Spacing Unit of the Leased Lands containing such portion of the horizontal leg(s) remains subject to the provisions of Clause 12.1 if such minimum length is not within the on-target drilling area of such Spacing Unit as prescribed under the Regulations for production from a vertical well;
- (kk) **"Offset Spacing Unit"** means any Spacing Unit laterally or diagonally adjoining a Spacing Unit wholly or partially comprised of the Leased Lands, as is applicable to the well product type classification of the Offset Triggering Well;
- (ll) **"Offset Triggering Well"** means any well drilled before or after the Lease Date on or within any Offset Spacing Unit, where the lands in that Offset Spacing Unit are not owned by Lessor or, if owned by Lessor, are not under lease to Lessee and such well is obtaining production of the same kind of substance as is the Leased Substances from a Formation that is comprised within the Leased Formations;
- (mm) **"Operational Default"** has the meaning set forth in Clause 24.2(a);
- (nn) **"Other Substances"** means any substances that are found naturally in the reservoir with the Leased Substances and are incidentally produced in trace amounts with the Leased Substances but are not an Excluded Substance;
- (oo) **"Party"** means either the Lessor or the Lessee and **"Parties"** means both the Lessor and the Lessee collectively;
- (pp) **"Paying Quantities"** means a sustainable quantity of Leased Substances from a well that is sufficient to provide a reasonable profit for the 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;

- (qq) **"Payment Default"** has the meaning set forth in Clause 24.2(a);
- (rr) **"Person"** means an individual, or their heirs, executors, administrators or other legal representatives, a partnership, a corporation, a trust or a joint venture;
- (ss) **"Petroleum"**, also otherwise known as crude oil (inclusive of Heavy Oil and Bitumen if not listed as an Excluded Substance), means a mixture mainly of hydrocarbons heavier than pentanes that are in a liquid, solid or semi-solid state at both the prevailing reservoir conditions and at surface conditions, which are not derived from but may be found in association with Natural Gas or Solution Gas in the reservoir and which may contain Sulphur;
- (tt) **"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 Article 11;
- (uu) **"Primary Term"** means the period specified in the Mineral Lease Specific Terms from and including the Lease Date;
- (vv) **"Production Operations"** means any of the following:
  - (i) production of Leased Substances in Paying Quantities;
  - (ii) 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;
  - (iii) equipping and tie-in of a well for the purpose of obtaining production of Leased Substances in Paying Quantities from that well;
  - (iv) reworking, fracture stimulating, acidizing or stimulating a well for the purpose of obtaining or increasing production of Leased Substances in Paying Quantities from that well; or
  - (v) maintaining, repairing or replacing Equipment, facilities or pipelines used for the production, gathering, treating or processing of Leased Substances,provided any cessation of production operations described in Subclauses (ii), (iii), (iv) and (v) above for a period of greater than sixty (60) days is subject to Article 4;
- (ww) **"Productive Section"** means the measurement from the first point of entry of the section of the horizontal leg of a Horizontal Well into the interval of the Formation from which the production is obtained to the termination point of that horizontal leg as drilled or permanently plugged back to at the time of drilling or initial completion, or to such other termination point of that horizontal leg of a Horizontal Well from which production is reasonably expected to be obtained at the time of initial completion;
- (xx) **"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 the Leased Lands, the Drilling Operations or the Production Operations and any environmental requirements or other operations incidental thereto, including any judicial or administrative order, written request, consent decree or judgment or any provision or condition of any permit, licence, approval or other operating authorization;
- (yy) **"Rental"** is the amount specified in the Mineral Lease Specific Terms;
- (zz) **"Representatives"** means in respect of a Party:
  - (i) its Affiliates; and



- (ii) each of its respective directors, officers, employees, agents, advisors, consultants and representatives retained by that Party;
- (aaa) **"Royalty"** means that royalty interest reserved out of the Leased Substances obtained from the Leased Lands as provided for in Article 5;
- (bbb) **"Royalty Data Requirement Sheet"** means the document named 'Royalty Data Requirement Sheet' to be used by the Lessee in the form as found on the Lessor's Website at the relevant time when submitting royalty data to the Lessor;
- (ccc) **"Royalty Determination Point"** has the meaning as set forth in Appendix I attached hereto;
- (ddd) **"Solution Gas"** means a mixture of primarily ethane and methane that are dissolved in solution with Petroleum and Natural Gas Liquids at their virgin reservoir conditions and is gaseous at surface conditions, and which may be contaminated with Sulphur;
- (eee) **"Spacing Unit"** means, as applicable to the classification of a well under the Regulations:
  - (i) for any well that is not a Horizontal Well, that area of land required to be held in common by the working interest owners in that well, as defined or prescribed by or under the Regulations, for the drilling, re-entry or production of that well; and
  - (ii) for purposes of this Lease relating to a Horizontal Well and subject to Clause 12.1, means any such same area of land that would apply to a vertical well located where any portion of the Productive Section of the horizontal leg(s) of a Horizontal Well is located;
- (fff) **"Sulphur"** means elemental sulphur recovered from the hydrogen-sulfide contained within the Natural Gas, Solution Gas or Petroleum by processing the Natural Gas, Solution Gas or Petroleum;
- (ggg) **"Technical Review Request Form"** means the online submission form as found on Lessor's Website named 'Technical Review Request Form' to be used by the Lessee at the relevant time when submitting a request to the Lessor pursuant to Clause 2.5;
- (hhh) **"Unitized Lands"** means lands that are unitized under a plan of unitization consented to in writing by the Lessor and is reduced to a formal unit agreement that allocates production from an area greater than a single Spacing Unit; and
- (iii) **"Well Data Requirement Sheet"** means the document named 'Well Data Requirement Sheet' to be used by the Lessee in the form as found on the Lessor's Website at the relevant time when submitting well data to the Lessor.

## 1.2 Interpretation

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

- (a) the terms "in writing" or "written" include hand or type written, electronically printed or transmitted by facsimile, email or fax;
- (b) when the context reasonably permits, words importing the singular shall be construed to suggest the plural and vice versa, and words importing gender or gender neutrality shall be construed to suggest the masculine, feminine and neutral genders;
- (c) if a term is defined in this Lease, a derivative of that term used in this Lease shall have a corresponding meaning;
- (d) the terms "herein", "hereby", "hereof", "hereunder", "hereto" and similar expressions mean or refer to this Lease and not to any particular provision of this Lease;
- (e) "including" and "includes" or similar words when followed by any general statement, term or matter, shall mean "including without limitation" and "includes without limitation" and such particular listed words that follow shall not be interpreted so as to be an exhaustive list but rather such references shall be construed to refer to all items

- that could reasonably fall within the broadest possible scope of such general statement, term or matter;
- (f) the division of this Lease into articles, sections, subsections, clauses, subclauses, paragraphs or other sub-divisions and the insertion of headings for any of the foregoing or the use of a table of contents, as applicable, are solely for convenience of reference and are not intended to be full or accurate descriptions of the contents hereof and shall not affect the construction or interpretation of this Lease;
  - (g) reference to an article, section, subsection, clause, subclause, paragraph, schedule or appendix, whether or not capitalized or followed by a number or letter or combination thereof, refers to the applicable article, section, subsection, clause, subclause, paragraph, schedule or appendix of or to this Lease, unless otherwise specifically stated;
  - (h) reference to any Party includes such Party's permitted successors and assigns;
  - (i) reference to any Person in a particular capacity is and is deemed to be a reference to that Person in that capacity and not in any other capacity;
  - (j) reference to any other contract, agreement, document or instrument is a reference to such contract, agreement, document or instrument in effect at the applicable time as amended, supplemented, replaced or otherwise varied or modified, in whole or in part, from time to time;
  - (k) reference to any law, statute or any other requirement of law, including Regulations, rules, enactments, by-laws or other ancillary legislation promulgated thereunder, or any reference to a section or provision thereof or to any government consent, approval, permit or other authorization, means such as is in effect at the applicable time as amended, supplemented, codified, replaced, restated, re-enacted or otherwise varied or modified, in whole or in part, from time to time;
  - (l) terms and expressions that are not specifically defined in this Lease, but which have generally accepted meanings in the custom and usage of the petroleum and natural gas industry in Western Canada as of the date of this Lease, shall have such generally accepted meanings when used in this Lease unless the contrary is specified or provided for elsewhere in this Lease;
  - (m) unless otherwise indicated, reference to a particular time refers to Mountain Standard Time or Mountain Daylight Savings Time during the respective periods in which each is in force in Alberta and reference to a date means that day occurring during such same time zone as is in force in Alberta;
  - (n) 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;
  - (o) where any payment is to be calculated or made, or an action is to be taken or notice is to be given 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 or the notice is to be given, as applicable, on or as of the next following Business Day;
  - (p) reference to "dollars", or the use of the symbol "\$", means the lawful currency of Canada unless the contrary is specified or provided for elsewhere in this Lease; and
  - (q) the rule of contractual interpretation known as "contra proferentem" shall not apply to the interpretation or construction of this Lease, such that it shall be irrelevant which Party drafted any particular provision hereof and any interpretation of the terms of this Lease shall not be construed against the Party who reduced to writing the terms of this Lease arrived at jointly by the Parties.

### **1.3 Schedules and Appendices**

Appendix I to this Lease is incorporated into and made part of this Lease as fully and effectively as if it was set forth in the body of this Lease.

**ARTICLE 2**  
**GRANT, CONTINUATION AND REVERSION**

**2.1 Grant**

For the Initial Consideration, receipt of which is hereby acknowledged by Lessor, and in consideration of the covenants of the Lessee contained in this Lease, the Lessor does hereby grant and lease to the 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. The Lessor reserves the right to dispose of or lease any Excluded Substances or any other mineral rights not leased and granted under this Lease.

**2.2 Permitted Injection Operations**

The injection and subsequent production and recovery of injected water or any other substances is permitted on the Leased Lands, subject to Clause 5.1(b), Clause 5.1(c) and Article 13, to the extent such operations are for the purpose of, and are favorable to, obtaining, maintaining or increasing production of Leased Substances in Paying Quantities from the Leased Lands, including, without limitation, any such operations related to enhanced recovery schemes. The Lessee, however, must first obtain the Lessor's written consent prior to commencement of any such injection operations on the Leased Lands, with the Lessee giving the Lessor sufficient details describing the intended pattern of injection and recovery of Leased Substances. Thereafter, in every case, the Lessee must provide the Lessor with written notice prior to drilling or converting any well on the Leased Lands for injection purposes. The Lessor may, at any time, object to the continuation of any such injection operations if they deviate materially from the initial plan described by the Lessee and consented to by the Lessor or to the detriment of the recovery of Leased Substances from the Leased Lands. For clarity, this Lease does not grant any rights for the Lessee to inject substances into any of the Leased Formations for disposal purposes.

**2.3 Continuation by Production Operations At Expiry of Primary Term**

If, prior to expiration of the Primary Term, the Lessor has received from the Lessee payment of the Rental for the next ensuing lease year and a completed Continuation Application Form, in accordance with and subject to Clause 2.5 and subject to any objection to or appeal thereof, this Lease shall remain in effect and continue beyond such expiration for that portion of the Leased Lands contained within the Spacing Unit of a well as with respect only to those Leased Formations within that well and the applicable Leased Substances in such Leased Formations for which Production Operations are then being diligently and continuously conducted at such expiration date. Continuation of this Lease thereafter shall be subject to Article 4 until those Leased Formations are surrendered pursuant to Article 19 or surrendered or deemed surrendered in accordance with Article 4, and subject always to sooner termination as otherwise provided for in this Lease.

**2.4 Continuation by Drilling Operations Over Expiry of Primary Term**

If Drilling Operations are being conducted on the Leased Lands at expiration of the Primary Term, and if prior to expiration of the Primary Term the Lessor receives from the Lessee payment of the Rental for the next ensuing lease year and a Continuation Application Form completed with the relevant details to advise the Lessor that Drilling Operations are then being conducted on the Leased Lands, this Lease shall remain in effect and continue beyond expiration of the Primary Term:

- (a) for that portion of the Leased Lands within the Spacing Unit on which Drilling Operations are being conducted, as to only all those Formations to the base of the geological strata set out in the drilling licence as the target depth, and shall remain in force so long as the Drilling Operations are diligently and continuously conducted; and
- (b) after completion of those Drilling Operations, provided that the Lessor has then received from the Lessee the fully completed Continuation Application Form, in accordance with and subject to Clause 2.5, within thirty (30) days from the cessation of such Drilling Operations and subject to any objection to or appeal thereof, for that portion of the Leased Lands contained within the Spacing Unit of the well as with respect only to those Leased Formations within that well and the applicable Leased Substances in such Leased Formations for which Production Operations are then being diligently and continuously

conducted, subject thereafter to Article 4 until those Leased Formations are surrendered pursuant to Article 19 or surrendered or deemed surrendered in accordance with Article 4 and subject always to sooner termination as otherwise provided for in this Lease.

## **2.5 Continuation Application**

The Lessee shall submit a Continuation Application Form to the Lessor in accordance with Clause 2.3 or Clause 2.4, as applicable, advising which Leased Lands, Leased Formations and Leased Substances are qualified for continuation beyond expiration of the Primary Term by Production Operations pursuant to Clause 2.3, or for the duration of any Drilling Operations pursuant to Subclause 2.4(a) and after completion of such Drilling Operations as provided for in Subclause 2.4(b). If the Lessor objects to the qualification of any such Leased Lands, Leased Formations and Leased Substances, the Lessee shall have a period of fifteen (15) days from its receipt of the Lessor's written notice of objection to appeal by submitting a Technical Review Request Form to the Lessor.

## **2.6 Reversion**

Any Leased Formations and Leased Substances that are not continued beyond the Primary Term pursuant to Clause 2.3, or after completion of Drilling Operations as provided for in Subclause 2.4(b), shall revert to the Lessor effective as of the expiration of the Primary Term or cessation of such Drilling Operations, as applicable.

## **ARTICLE 3 RENTALS**

**3.1** The Lessee shall pay or cause to be paid to the Lessor the annual Rental for the first year of the Primary Term in advance of the Lease Date, prorated for any incremental period of time less than a full year. For each year or partial year during the Primary Term, the Lessee shall pay or cause to be paid to the Lessor the annual Rental in advance of the anniversary date of the Lease Date. For each year or partial year this Lease is continued beyond expiry of the Primary Term, the Lessee shall pay or cause to be paid to the Lessor the Rental in advance of the date next following the expiry of the Primary Term and each annual anniversary date thereafter. The Lessee is not entitled to refunds or adjustments on Rentals owing and paid for any portion of the Lands continued beyond expiry of the Primary Term or any annual anniversary date thereafter if subsequently surrendered or terminated other than in accordance with Article 2.

## **ARTICLE 4 NON-PRODUCING FORMATIONS**

### **4.1 Non-Producing Formations**

If, beyond expiration of the Primary Term, the Lessee ceases at any time to diligently and continuously conduct Production Operations in a Leased Formation within the Spacing Unit applicable to that Production Operation, or if the Lease has been continued in accordance with Subclause 7.3(d) for a period of greater than twelve (12) consecutive months beyond expiry of the Primary Term related to a Leased Formation or production has ceased from the related Offset Triggering Well in accordance with Subclause 7.3(d), then the Lessor may any time thereafter give notice to the Lessee that requires the Lessee, no later than ninety (90) days after receipt of the Lessor's notice, to:

- (a) commence, and thereafter diligently and continuously conduct Drilling Operations or Production Operations in respect of that Leased Formation within such Spacing Unit; or
- (b) surrender that Leased Formation within such Spacing Unit to the Lessor and, if other Formations within that Spacing Unit are continuing under this Lease, the Lessee shall, at its sole cost and expense, promptly plug or cement that surrendered Formation to prevent any release or flow of substances.

### **4.2 Deemed Surrender of Non-Producing Formations**

The Lessee's failure to commence Drilling Operations or Production Operations within ninety (90) days after it receives the Lessor's notice shall be deemed a surrender under Subclause 4.1(b) of that Leased Formation within such Spacing Unit as described in the Lessor's notice effective on

the ninety- first (91<sup>st</sup>) day after receipt of the Lessor's notice by the Lessee. No further documentation or agreement between the Parties shall be required to effect the surrender.

**4.3 Provisions of Surrender or Deemed Surrender A surrender or deemed surrender shall not:**

- (a) relieve the Lessee of its obligation under Subclause 4.1(b) to plug or cement a surrendered Formation to prevent any release or flow of substances;
- (b) entitle the Lessee to a refund of any monies paid to the Lessor under this Lease; or
- (c) release the Lessee from any obligations and liabilities that may have accrued prior to the date of the surrender or deemed surrender or from its obligation and liabilities under Article 18 and Article 20.

**4.4 No Default Remedy for Deemed Surrender**

The default remedies provided for in Article 23 shall not apply to a deemed surrender in this Article 4 and nothing in this Article 4 shall relieve the Lessee of any of its obligations in accordance with any other provisions of this Lease.

**ARTICLE 5**  
**ROYALTY AND TAKING IN KIND**

**5.1 Reservation of the Royalty**

The Lessee shall pay a Royalty to the Lessor, in cash, for any of the Leased Substances that are produced, calculated in accordance with Appendix I and subject to Clause 12.3 and Clause 12.4, with each calculation rounded to two (2) decimal places, provided that:

- (a) no Royalty is payable on any Leased Substances that are used for Fuel Gas or flared in accordance with Regulations;
- (b) if, pursuant to Clause 2.2 or as otherwise consented to by the Lessor, any Leased Substances obtained from the Leased Lands are reinjected into the Leased Lands and are not commingled in the Formation with any other injected substance having the same properties, the Royalty shall be payable on only that portion of the total Leased Substances produced from that Formation as is sold or used for purposes other than permitted pursuant to Subclause 5.1(a);
- (c) the method for determining the Royalty payable on such proportion that the Leased Substances are produced with any other injected substance having the same properties and permitted to be injected into and recovered from the same Formation of the Leased Lands, pursuant to Clause 2.2 or as otherwise consented to by Lessor, shall be agreed to by the Parties in advance of the commencement of such injection operations;
- (d) if Leased Substances (other than Sulphur) are stored or used for purposes other than those set out in Subclause 5.1(a), the Royalty shall be payable in the month following the month that Leased Substances are produced; and
- (e) except as set forth in Appendix I, no deductions whatsoever for any costs or expenses incurred are permitted from the Royalty payable under this Lease.

**5.2 Payment of Royalty**

The Royalty as determined under Clause 5.1 shall be paid before the last day of the month following the month in which the quantity of the Leased Substances is determined in accordance with Appendix I. The Lessee shall provide a statement accompanying each monthly Royalty payment that includes all the data set forth in the Royalty Data Requirement Sheet and any supporting documentation as the Lessor may request from time to time.

**5.3 Taking In Kind**

The Lessor, on thirty (30) days written notice to Lessee, shall have the option, exercisable from time to time, to take its Royalty share of production in kind of any or all of the separate sales products comprising the Leased Substances at the Royalty Determination Point, in lieu of the

Royalty payment under Clause 5.1, free and clear of all deductions, charges, liens and encumbrances on the following basis:

- (a) the Lessee shall, at its cost, treat the Lessor's Royalty share of production in order to meet pipeline, refinery, fractionator, and other market or downstream specifications, as is applicable;
- (b) the Lessee shall, at its cost, deliver the Lessor's Royalty share of production in kind to the Lessor or to the Lessor's nominee at the Royalty Determination Point in accordance with usual pipeline and shipping practices;
- (c) if, on exercising this option, the Lessee has storage facilities for the applicable Leased Substances, then the Lessee shall provide at the Lessee's cost, storage facilities for at least three (3) days' accumulation of the Lessor's Royalty share of production in kind; and
- (d) the Lessor may, on thirty (30) days written notice to the Lessee, revoke its option to take in kind. If the Lessor serves notice to revoke, the Lessee shall pay the Lessor's Royalty share of production in cash, as set out in Clause 5.1.

## **ARTICLE 6**

### **LESSEE RESPONSIBLE FOR ALL TAXES**

- 6.1** The Lessee shall pay and be responsible for all taxes, levies, charges, rates, and assessments that may be assessed or levied in respect of the works, undertakings and operations of the Lessee on, in, over, or under the Leased Lands, and shall be responsible for all taxes, levies, charges, rates, and assessments that may be assessed or levied, directly or indirectly, against the Lessor's title interest in the Leased Lands (whether based on production or mineral interest and including Freehold Mineral Taxes), notwithstanding that the Lessor has a percentage interest in the production equal to the Royalty, excluding income tax.
- 6.2** The Lessor shall promptly pay any Freehold Mineral Tax that is assessed or levied, directly or indirectly, against the Lessor by reason of the Lessor's title interest in, or ownership of production obtained from, the Leased Lands and shall be reimbursed by the Lessee for all such costs in accordance with Clause 6.1. The Lessor shall invoice the Lessee for any Freehold Mineral Tax paid by the Lessor accompanied by a copy of the applicable receipts, statements, and notices. All invoices are payable to the Lessor no later than twenty (20) days after the Lessee's receipt of the invoice.
- 6.3** Notwithstanding Clause 6.1, the Lessor shall have the right, at its sole discretion, to invoice the Lessee on a quarterly basis during each calendar year for any Freehold Mineral Tax reasonably estimated to have accrued for the prior quarter and the Lessee shall reimburse the Lessor in the same manner as provided for in Clause 6.1. A final statement of reconciliation and a copy of the applicable receipts, statements, and notices will be provided by the Lessor to the Lessee within sixty (60) days of its receipt of the actual Freehold Mineral Tax billing, including payment of any amount owing by the Lessor to reimburse the Lessee for the estimated amounts paid by the Lessee to the Lessor in excess of the actual Freehold Mineral Tax billed to and paid by the Lessor. The Lessor shall invoice the Lessee and the Lessee shall reimburse the Lessor for any amount of the Freehold Mineral Tax billed to and paid by the Lessor that is in excess of the estimated amounts paid by the Lessee in accordance with Clause 6.1.

## **ARTICLE 7**

### **OFFSET OBLIGATION**

#### **7.1 Offset Triggering Well**

In the event of production being obtained at any time on or after the date of this Lease from an Offset Triggering Well, then, with respect to each Spacing Unit comprised in whole or in part of the Leased Lands which laterally or diagonally adjoins the Offset Spacing Unit containing the Offset Triggering Well, and on or into which an Offset Satisfying Well does not exist, the Lessee shall, prior to expiry of the Offset Election Period, and provided that the Offset Triggering Well is not abandoned within such time period:

- (a) commence, or cause to be commenced, or continue carrying out previously commenced Drilling Operations or Production Operations that will result in an Offset Satisfying Well being completed or re-completed in the Offset Formation and thereafter, promptly and

diligently, conclude such operations, evaluate the Offset Satisfying Well(s) to the extent reasonably required to determine whether Leased Substances are present in Paying Quantities in that Offset Formation and place the Offset Satisfying Well(s) on production from that Offset Formation or abandon such Offset Satisfying Well(s) in accordance with Article 18; provided however, if the Lessee does not abandon or bring such Offset Satisfying Well(s) on production within sixty (60) days after the commencement of any such Drilling Operations or Production Operations then, notwithstanding the Offset Election Period, the Lessee will be deemed to have elected to pay or, if the Lessee was otherwise obligated to pay during a prior period, continue to pay compensatory royalties pursuant to Subclause 7.1(c) on and after the expiry date of the Offset Election Period until that obligation terminates pursuant to Subclause 7.3(c); or

- (b) surrender all the Leased Formations within such Spacing Unit to the base of the Offset Formation, provided that where production of a Leased Substance is being obtained in Paying Quantities from any Formation within any such Spacing Unit other than the Offset Formation, Lessee shall not be required to surrender that Leased Substance being produced in that producing Formation; or
- (c) pay the Lessor a compensatory royalty as calculated in Clause 7.3 to extend the time to commence Drilling Operations under Subclause 7.1(a) or surrender under Subclause 7.1(b).

## **7.2 Deemed Election**

If the Lessee fails to commence Drilling Operations under Subclause 7.1(a) or surrender the applicable portion of the Leased Lands under Subclause 7.1(b) within the Offset Election Period, then the Lessee is deemed to have elected to pay a compensatory royalty under Subclause 7.1(c).

## **7.3 Payment of Compensatory Royalty**

If the Lessee elects, or is deemed to have elected, to pay the compensatory royalty pursuant to Subclause 7.1(c):

- (a) The compensatory royalty payable shall be equal to the Royalty that would be payable to the Lessor pursuant to Clause 5.1 if the production being obtained from the Offset Triggering Well was being produced from an Offset Satisfying Well on the Leased Lands, provided that:
  - (i) if there is more than one Offset Triggering Well in any Offset Spacing Unit, such compensatory royalty shall be based on the aggregate of production from the same Offset Formation obtained from all the wells in each month;
  - (ii) if there is more than one Offset Spacing Unit adjoining the same Spacing Unit of the Leased Lands, such compensatory royalty shall be based on that Offset Spacing Unit having the highest aggregate of production from the same Offset Formation obtained from all the wells in each month;
  - (iii) in the event any Offset Triggering Well is producing from more than one Offset Formation, the compensatory royalty shall be determined on the basis of the production in each month from each such Offset Formation; and
  - (iv) if any Offset Triggering Well is a Horizontal Well contained partially within the Offset Spacing Unit, the production attributable to that portion of the Horizontal Well contained within the Offset Spacing Unit shall be determined in accordance with Clause 12.3;
- (b) The Lessee's obligation to pay a compensatory royalty as set out in this Article 7 shall commence on the first (1<sup>st</sup>) day of the month following three (3) months from the date the Offset Triggering Well commenced production, or three (3) months from the Lease Date if the Offset Triggering Well was on production on or before the Lease Date, notwithstanding that the Offset Election Period may expire at a date later than such payment commencement date;
- (c) Compensatory royalties will continue to be payable until the first (1<sup>st</sup>) day of the month following receipt by the Lessor of a written notice from the Lessee that:

- (i) the Offset Triggering Well has been abandoned; or
  - (ii) the obligations related to placing an Offset Satisfying Well on production or abandonment thereof have been satisfied in accordance with Subclause 7.1(a); or
  - (iii) all or any portion of the Leased Lands are surrendered in accordance with Subclause 7.1(b); and
- (d) Payment of compensatory royalties pursuant to this Article 7 shall be deemed a Production Operation for purposes of continuing this Lease beyond expiry of the Primary Term in accordance with Clause 2.3 and subject to Clause 4.1 as with respect to that portion of the Leased Lands comprising the Spacing Unit to which the compensatory royalties apply and as to only that Leased Substance attributable to the well product type classification of the Offset Triggering Well under the Regulations and the Leased Formation that is the same as the Offset Formation, in the same manner as if the production being obtained from the Offset Triggering Well is being produced from an Offset Satisfying Well on the Leased Lands. Furthermore, if at any time production has ceased for a consecutive period of greater than ninety (90) days from the Offset Triggering Well, the Lessor may serve the Lessee notice pursuant to Clause 4.1 and Article 4 shall apply *mutatis mutandis* to those Leased Lands and that Leased Formation.

#### 7.4 Third Party Offset Obligations

Notwithstanding anything to the contrary contained in Clause 7.1, the Lessee acknowledges that if the Mineral Lease Specific Terms indicate that the Leased Lands are burdened by a prior agreement where a third party may serve an offset notice to the Lessor related to an Offset Triggering Well or any other well in an Offset Spacing Unit, then, upon the Lessee's receipt of a copy of such notice from the Lessor, the provisions of Clause 7.1 shall be deemed amended to the extent necessary to satisfy the third party offset obligations as follows:

- (a) Within fifteen (15) days of the Lessee's receipt of a copy of a third party offset notice from the Lessor, the Lessee shall elect in writing to:
  - (i) drill a well within six (6) months of the date of the third party notice at a location and into such geological strata as is required to satisfy the offset obligation under the third party notice; or
  - (ii) surrender all of that portion of the Leased Lands comprising each Spacing Unit as provided for in Subclause 7.1(b) except down to the base of the Formation comprising such geological strata to which the offset obligation under the third party notice pertains; or
  - (iii) pay to the Lessor a compensatory royalty that is the greater of the compensatory royalty owing to the Lessor pursuant the provisions of Clause 7.3 and the compensatory royalty owing pursuant to the third party offset provisions, as and when due on a monthly basis, subject to Subclause 7.4(b);
- (b) If the Lessee fails to respond with its election in accordance with Subclause 7.4(a), the Lessee will be deemed to have elected to surrender the Leased Lands pursuant to Subclause 7.4(a)(ii);
- (c) If the Lessee has elected to pay a compensatory royalty pursuant to Subclause 7.4(a)(iii) and, at the end of the ten (10) month period following expiry of the ninety (90) day election period under the third party notice, the Lessee has not yet drilled a well on the Leased Lands to otherwise satisfy the third party offset obligation if it still applies, then the Lessee may continue to pay the compensatory royalty pursuant to the provisions set forth herein for so long thereafter as the third party continues to accept same, subject always to any other rights of the Lessor under the Lease; provided, however, the Lessee shall be deemed to have surrendered such Leased Lands, pursuant to Subclause 7.1(b), immediately upon the Lessor's receipt of notice from the third party terminating its acceptance of the compensatory royalty at any time after expiry of such ten (10) month period;



- (d) All third party compensatory royalty payments shall be made by the Lessee directly to the Lessor and the Lessor shall be responsible and liable to the third party for remitting all such amounts owing to third party; and
- (e) The indemnity provisions contained in Article 22 shall apply *mutatis mutandis* with respect to any matter or thing the Lessor may suffer, sustain, pay or incur by reason of the Lessee's failure to drill the well if the Lessee so elects under Subclause 7.4(a)(i) or to remit any compensatory royalty as and when due to the third party if the Lessee so elects under Subclause 7.4(a)(iii).

## **ARTICLE 8**

### **INCREASED WELL DENSITY**

#### **8.1 Increased Well Density**

Where, at any time after the one (1) year anniversary date following expiry of the Primary Term, more than one well is producing the same substance as a Leased Substance from the same Formation that is a Leased Formation in an Offset Spacing Unit and the number of wells in any one Offset Spacing Unit is greater than those that have been completed or opened to production by the Lessee in the same Formation in the adjoining Spacing Unit comprised in whole or in part of the Leased Lands, the Lessor may put the Lessee on notice to develop that adjoining Spacing Unit to the same density. In that case, the Lessee shall:

- (a) within six (6) months of receipt of such notice, commence Drilling Operations and thereafter, promptly and diligently, conclude such operations to increase the well density for production from such Formation in that adjoining Spacing Unit comprised in whole or in part of the Leased Lands equal to the greatest number of wells producing from such Formation in any one Offset Spacing Unit; or
- (b) within thirty (30) days of receipt of such notice, submit a written request for a waiver from the Lessor of increased well density in that Spacing Unit by submitting technical evidence demonstrating the lack of similar geological or reservoir characteristics to support the increased well density, which evidence must be acceptable to Lessor, in its sole discretion acting reasonably; or
- (c) pay the deferred drilling payment in accordance with Clause 8.2 if it fails to commence drilling the number of wells as required under Subclause 8.1(a) or to obtain a waiver of increased well density pursuant to Subclause 8.1(b).

For clarity, Clause 12.5 shall apply with respect to Horizontal Wells in determining the number of wells producing in the Offset Spacing Unit.

#### **8.2 Well Density Deferred Drilling Payments**

If the deferred drilling payment is owing pursuant to Subclause 8.1(c):

- (a) It shall be calculated from the first (1<sup>st</sup>) day of the month following the date of the Lessor's notice to the end of the month in which the Lessee has otherwise satisfied the obligation in accordance with Subclause 8.1(a) or 8.1(b) and shall be paid as follows:
  - (i) an amount equal to five hundred dollars (\$500.00) per well per month as determined pursuant to Subclause 8.2(a)(ii); and
  - (ii) the well count for the deferred drilling payment for any Formation shall be based on the greatest number of wells producing in a month from the same Formation in any one Offset Spacing Unit that exceeds the total number of wells that have been completed or opened to production by the Lessee in the same Formation in the adjoining Spacing Unit comprised in whole or in part of the Leased Lands; and
  - (iii) the deferred drilling payment owing for any month during a lease year shall be paid within fifteen (15) Business Days of each annual anniversary date of this Lease, commencing at the first anniversary date next following the date of the Lessor's notice; and

- (b) The Lessee's obligation to pay a deferred drilling payment shall continue until the first (1<sup>st</sup>) day of the month following the date that:
  - (i) a written notice is received by the Lessor from the Lessee advising that a total number of wells in that Spacing Unit comprised in whole or in part of the Leased Lands have been completed or opened to production in such Formation equal to or greater than the largest number of wells producing in the same Formation in any one of the Offset Spacing Units; or
  - (ii) the Lessee has obtained a waiver from the Lessor pursuant to Subclause 8.1(b).

**ARTICLE 9**  
**REDUCTION OF SPACING UNIT**

- 9.1** If the 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 sixty five (365) days following the date of the granting of that reduction. After the end of that period, the provisions of Article 2 shall apply to the continuation of the Leased Lands, the Leased Formations and the Leased Substances having regard to the reduced Spacing Unit.

**ARTICLE 10**  
**RATABLE PRODUCTION**

- 10.1** The Lessee shall, subject to the Regulations, produce any of the Leased Substances ratably with any substances of similar properties that are produced from other lands in the same vicinity that the 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.

**ARTICLE 11**  
**POOLING AND UNITIZATION**

- 11.1** Subject to Article 12, the Lessee may at any time, upon written notice to the Lessor, pool, either on an areal or reserves basis, whichever is more equitable in the circumstances, any Leased Substances within any 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.
- 11.2** The following information is required in the notice to the Lessor related to a pooling:
- (a) description and purpose for the pooling;
  - (b) the Leased Substances within the Leased Formations pooled;
  - (c) the area of the Leased Lands included in the Spacing Unit;
  - (d) the other lands and total acreage combined to form the Spacing Unit; and
  - (e) the ratio, expressed as a percentage, that the Lessee proposes to use for the basis of Royalty payments based on either of:
    - (i) the Leased Lands to the total area comprising the Pooled Lands, in the case of acreage pooling; or
    - (ii) the estimated reserves of Leased Substances underlying the Leased Lands to the estimated total reserves of such substances underlying the Pooled Lands, in the case of reserve pooling.
- 11.3** The Lessee may, subject to the Lessor's prior written consent, unitize any Leased Substances within any of the Leased Formations, or any interval thereof, with the same substances or Formation, or interval thereof, in surrounding lands to form a plan of unitization.

- 11.4** 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.

**ARTICLE 12**  
**HORIZONTAL WELLS**

- 12.1** The Lessee may, without the Lessor's prior written consent, drill a Horizontal Well anywhere wholly or partially on or within the Leased Lands; provided however, the provisions for continuation of a Spacing Unit in Clauses 2.3 and 2.4 will not apply to any Spacing Unit that does not contain a portion of the Productive Section of the horizontal leg(s) of a Horizontal Well within the on-target drilling area of that Spacing Unit as prescribed under the Regulations for production of a vertical well, in which case the Lessor's consent shall be required for continuation of any such Spacing Unit.
- 12.2** Upon drilling a Horizontal Well anywhere on or within the Leased Lands, in every case, the Lessee shall promptly provide the Lessor with a copy of the "as drilled" survey and the Lessee's measured determination of the entry point into the interval of the Formation from which the production is obtained and the termination point.
- 12.3** If the Productive Section of any horizontal leg(s) of a Horizontal Well is drilled across any Spacing Units comprised, in part, of the Leased Lands and that are not all owned by the Lessor or, if owned by the Lessor, not leased to the Lessee or, if leased to the Lessee, require a different calculation of any payments to the Lessee related to each lease, and unless a specific form of production allocation agreement is required pursuant to the Regulations, then the total production from such Horizontal Well attributable to the Leased Lands will be calculated in accordance with the HZ Allocation Procedure. In the event that a production allocation agreement is required for a Horizontal Well to be produced in accordance with the Regulations, the Lessor acknowledges that the allocation and resulting payment of the Royalty will be as determined pursuant to that production allocation agreement.
- 12.4** Notwithstanding the foregoing Clause 12.3, if any portion of the Productive Section of a horizontal leg is drilled parallel to, and within the area of a Spacing Unit of the Leased Lands prescribed by the Regulations as the setback distance from, the boundary of any other adjoining Spacing Unit owned by the Lessor and leased to the Lessee at the time of commencement of production from that Horizontal Well, and the Royalty payable by the Lessee to the Lessor on production from the Spacing Unit in which the horizontal leg is located differs from that royalty payable in any such other adjoining Spacing Unit, where a production allocation agreement is not required in accordance with the Regulations, the Royalty payable on the total production from that horizontal leg, under this Lease or any other lease related to such adjoining Spacing Units, will be determined and permanently adjusted at the time production is commenced. In such case, the Royalty under this Lease and any such other royalty payable by the Lessee to the Lessor for each of those diversely held Spacing Units shall be apportioned based on the percentage of the area of each such diversely held Spacing Unit contained within the circumference around the Productive Section of the horizontal leg based on the inter-well distances as prescribed by the Regulations for that horizontal leg, as if such percentage of the total production was being obtained from a well within each such Spacing Unit (for example, if the inter-well distance between that horizontal leg and another in the same pool is 100m, then such area would be a 50m circumference around the Productive Section). However, for certainty, the apportionment of the Royalty based on the inclusion of any area of an adjoining Spacing Unit that does not contain any portion of the horizontal leg is for purposes of equity only under this clause and does not imply that any production has been allocated or attributed from that horizontal leg to any such other Spacing Unit for lease continuation purposes, provided that the permanently adjusted allocation and calculation of the Royalty that was based on the inclusion of any such adjoining Spacing Unit would continue to apply for the entire life of the well notwithstanding any termination or expiry of the lease related thereto.
- 12.5** For purposes of Clause 8.1, the horizontal leg of a Horizontal Well will not be considered producing from an Offset Spacing Unit if less than twenty-five percent (25%) of the Productive Section is contained within that Offset Spacing Unit.

**ARTICLE 13**  
**OPERATIONS**

- 13.1** The Lessee shall, subject to Clause 13.2, 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 obtaining, maintaining or increasing production of Leased Substances in Paying Quantities using adequate and sufficient Equipment;
  - (c) if it discovers any minerals other than the Leased Substances, promptly give the Lessor notice of that discovery together with all relevant information;
  - (d) 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, including, without limitation, not taking any action, directly or indirectly, to initiate or cause to be initiated any legal or regulatory review or decision that may cause that other Person's production to be shut-in due to a good oil field practice or a gas over oil production restriction or the ratio of substances being produced from the same Formation as comprises the Leased Formations if the substances being produced are designated under the Regulations as belonging to such other Person as a result of the well classification;
  - (e) 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;
  - (f) market the Leased Substances; and
  - (g) 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.
- 13.2** Lessee is prohibited from conducting any of the following operations:
- (a) mining Coal;
  - (b) processes that convert Coal to any other substance, including any of the Leased Substances; and
  - (c) in situ processes, including gasification, liquefaction or biogenic conversion of Coal or any other present or future conversion processes.
- 13.3** Notwithstanding Clause 13.2, the Lessee may conduct Drilling Operations on, or Production Operations within, any Coal strata or intervals within the Leased Formations for purposes of producing any CBM adsorbed onto the Coal, to the extent same is included as a Leased Substance, and that will flow freely into the wellbore.

**ARTICLE 14**  
**INSPECTION BY LESSOR OF OPERATIONS**

- 14.1** Upon receipt of reasonable prior notice from the Lessor, the Lessee shall permit and in every reasonable way aid the Lessor's authorized Representatives, at all reasonable times during the period that this Lease continues, to enter on the surface of any lands, or any buildings or structures erected on those lands, or access any wells where any operations are being conducted in accordance with this Lease, in order to survey, examine, inspect and test their state and condition.
- 14.2** Any such inspection by the Lessor's Representatives shall be at the Lessor's sole risk, cost and expense and shall not cause any unnecessary interference to the operations of the Lessee. The Lessor's Representatives shall, at all times while conducting any such inspection, comply with the

health and safety rules and requirements (including the use of any protective clothing or safety apparatus) prescribed by the Regulations or as may be reasonably imposed by the Lessee. The Lessor shall be liable for and shall indemnify the Lessee from and against any and all damages, injuries or losses caused or suffered by the Lessor's Representatives while conducting any such inspection, except to the extent the same is caused by the Lessee's or the Lessee's Representative's gross negligence.

**ARTICLE 15**  
**INSURANCE PROVISIONS**

- 15.1** The 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 that of an experienced and reputable exploration and production company operating in Canada would maintain, including, as a minimum, those coverages required pursuant to the Regulations. The Lessor may at any time request from the Lessee proof of coverage under this Article 15.

**ARTICLE 16**  
**REPORTS BY LESSEE**

- 16.1** The Lessee shall, with respect to each well drilled on the Leased Lands, furnish to the Lessor electronically, the information required within the time period specified in the Well Data Requirement Sheet.
- 16.2** Upon receiving a written request from the Lessor, the Lessee shall promptly provide the Lessor with copies of all permits, licences, certificates, approvals, authorizations, registrations, exemptions or other documents required for the valid performance of the operations of the Lessee under this Lease, whether related to environmental matters or otherwise.

**ARTICLE 17**  
**RECORDS AND AUDIT**

- 17.1** In respect of each of the Leased Substances and Leased Formations, the Lessee shall keep true records for a period of at least seven (7) years following the end of the calendar year for which those records relate as follows:
- (a) 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 the 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 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
  - (e) records that relate to the quality and quantity of the Leased Substances that are not marketed but are used or otherwise disposed of.
- 17.2** The Lessor may at any time dispute the Royalty payment submitted by the Lessee. In addition, the Lessor may at any time, whether during or after the termination, expiry or surrender of this Lease, audit the Lessee's records and Royalty payments under the following terms:
- (a) The Lessor shall give the 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 the Lessee within ninety (90) days of the completion of the initial audit;
  - (c) The Lessee shall respond to any discrepancies within ninety (90) days of receiving notice of the discrepancy under Subclause 17.2(b), by:

- (i) submitting payment for any discrepancy with a detailed calculation of that payment including any interest owing under this Lease; or
- (ii) 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 the 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 Article 24; and

- (d) If under Subclause 17.2(c)(ii), the Lessee disputes any discrepancy, then the Lessor shall review the Lessee's response and within ninety (90) days advise Lessee in writing that:
  - (i) The Lessor agrees with the response to the disputed discrepancies; or
  - (ii) The Lessor disagrees with the response to the disputed discrepancies, in which case the Lessee may, within fifteen (15) days of receiving this advice, request a meeting with the 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 the Lessee. In the event Lessee requests a meeting with Lessor, senior representatives from Lessee and Lessor shall meet as soon as reasonably practicable to attempt to resolve the dispute. In the event such senior representatives are unable to resolve the dispute within fifteen (15) days of the original meeting request from Lessee, then either Party may exercise such rights as it may have at law or equity in relation to the disputed discrepancy. 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 Article 24.

**ARTICLE 18**  
**ABANDONMENT AND EQUIPMENT**

- 18.1** Following the date of termination, expiry or surrender of this Lease, as required pursuant to the Regulations and in compliance with any issued directives, the Lessee shall, in a timely manner, 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 and reclaim the surface of the lands associated with any operations conducted on the Leased Lands, including all access roads; and
  - (d) obtain a certificate of reclamation in relation to the Leased Lands or the surface of such other lands associated with any operations conducted on the Leased Lands.
- 18.2** This Article 18 shall survive the termination, expiry or surrender of this Lease until the obligations of Clause 18.1 have been fully performed or satisfied.

**ARTICLE 19**  
**SURRENDER**

- 19.1** Except as provided in Article 7 for a partial surrender, the 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, the Lessee shall not surrender this Lease unless the Lessee, at the same time, surrenders all of its interests in all leases it holds from the Lessor contained in that Spacing Unit. A surrender shall not entitle the Lessee to a refund of any monies from the Lessor paid under this Lease nor shall it release the Lessee from any obligations and liabilities that may have accrued

prior to the date of the surrender or from its obligation and liabilities under Article 18 and Article 20.

**ARTICLE 20**  
**REMOVAL OF CHARGE**

**20.1** If any caveat or other instrument is registered directly or indirectly by the Lessee against the Lessor's mineral title for the Leased Lands as a result of the granting of this Lease, the Lessee, at its cost, shall promptly discharge or withdraw the caveat or other instrument from the title documents related to the Leased Lands, Leased Formations or Leases Substances as and when terminated, expired or surrendered under this Lease, and in any such case not later than thirty (30) days from its receipt of a written request from the Lessor to do so. If the Lessee fails to discharge a caveat within such thirty (30) day period, the Lessor reserves the right to recover any costs incurred to remove the Lessee's caveat or other instrument registered against the Leased Lands.

**ARTICLE 21**  
**TITLE AS IS**

**21.1** The Lessee hereby accepts the Lessor's title to the Leased Lands, the Leased Formations 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.

**ARTICLE 22**  
**INDEMNITY**

**22.1** The Lessee shall:

- (a) be liable to the Lessor and its Representatives; and
- (b) as a separate and independent covenant, indemnify the Lessor and its Representatives,

for all losses, costs, damages, actions, claims (including third party claims), demands, expenses, inquiries, legal or administrative proceedings, investigations or appeals therefrom, including, without limitation, any of the foregoing relating to Environmental Liability, environmental damage, non-compliance with or the breach of Regulations, that the Lessor or its Representatives may suffer, sustain, pay or incur or that are brought against the 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 a breach of this Lease by the Lessee or to the Drilling Operations, Production Operations or any other works or operations of the Lessee, or the Lessee's Representatives, in, upon or under the Leased Lands or any other lands associated with operations conducted on the Leased Lands.

**22.2** The liability or indemnification under this Article 22 shall specifically cover costs incurred in connection with any investigation of site conditions or any clean-up, remediation, removal or restoration work required by the Regulations.

**22.3** Notwithstanding any other provision of this Lease, the indemnity set forth in this Article 22 shall survive the termination, expiry or surrender of this Lease for the benefit of the Lessor and shall not be limited in any matter whatsoever.

**ARTICLE 23**  
**ROYALTY HELD IN TRUST**

**23.1** The Lessee hereby acknowledges and declares that it holds and stands possessed, in trust for and on behalf of the Lessor:

- (a) that portion of the Leased Substances located within, upon, under or produced from the Leased Lands which are attributable to the Royalty; and
- (b) all proceeds from the sale by the Lessee of any portion of the Leased Substances produced from the Leased Lands which are attributable to the Royalty shall be held by the Lessee fully for the benefit, use and ownership of the Lessor; and

The Lessee is accordingly not entitled to sell, transfer, assign, mortgage, charge or otherwise dispose of, encumber or deal with that portion of the Leased Substances located within or produced from the Leased Lands which are attributable to the Royalty or the proceeds of sale in respect thereof other than in accordance with this Lease.

**ARTICLE 24**  
**DEFAULT AND WAIVER OF EQUITABLE REMEDIES**

- 24.1** In the case of a Default by the Lessee, the Lessor may, subject to Clause 24.7 and without restricting any other rights and remedies that the Lessor may have, give the Lessee written notice requiring the Lessee to remedy that Default, giving reasonable details of same.
- 24.2** Within thirty (30) days after it receives the Lessor's notice, the Lessee shall:
- (a) in the event of a breach related or in any way attributable to the Lessee's obligation to conduct Drilling Operations, Production Operations or any other works or operations on the Leased Lands (each an "**Operational Default**"), remedy or commence to remedy the Operational Default and thereafter to diligently continue to remedy the same without cessation of greater than thirty (30) days; or
  - (b) in the event of a breach related to a failure to pay any amount due and payable hereunder, including without limitation the payment of a compensatory royalty or deferred drilling payment due pursuant the provisions of Article 7 or Article 8 (each a "**Payment Default**"), remedy such Payment Default.
- 24.3** The performance of any act by the Lessee to remedy the Default shall not be deemed an admission by the Lessee that it has failed to perform its obligations hereunder.
- 24.4** If, as is applicable pursuant to Clause 24.2(a), the Lessee fails to remedy or commence to remedy an Operational Default within such thirty (30) day period or, if having so commenced to remedy the breach or breaches, thereafter fails to remedy the same within a twelve (12) month period from the date on which the Lessee first commenced remedial efforts, or, within the same twelve (12) month period, the Lessee is in Default for the same or similar reasons set out in a prior Default notice, then, subject to Clause 24.7, the Lessor may serve the Lessee written notice of the immediate termination of this Lease and it shall be lawful for the Lessor to re-enter the Leased Lands and to repossess them. If the Lessee fails to remedy a Payment Default in accordance with Clause 24.2(b), the Lessor may serve the Lessee written notice of the immediate termination of this Lease and it shall be lawful for the Lessor to re-enter the Leased Lands and to repossess them.
- 24.5** Notwithstanding Clause 24.4, if proceedings for a judicial determination are commenced within such initial thirty (30) day period related to a breach under Subclause 24.2(a), this Lease shall not terminate until the existence of such breach has been judicially determined and all appeal periods have expired.
- 24.6** Nothing contained in this Article 24 relieves the Lessee from its obligations under Article 18 and Article 20.
- 24.7** If:
- (a) this Lease is subject to a plan of unitization during the period that this Lease continues;
  - (b) this Lease is terminable as a result of any Default under this Article 24; and
  - (c) 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, Leased Formations and Leased Substances that are not unitized terminates and only that portion of Leased Lands, Leased Formations and Leased Substances that comprise the unitized Formation or interval within the unitized tract shall continue to be subject to this Lease.
- 24.8** 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;



- (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.

- 24.9** Further to Clause 24.8, the Lessee acknowledges that it is aware of the nature and risk of making capital investments and incurring other expenditures in carrying out any Drilling Operations, Production Operations or other operations on the Leased Lands and that, in accordance with the terms of this Lease, the Lessor is entitled to the Royalty share of production of Leased Substances that shall generate a cashflow, whether taken in kind or not, which may differ or be at a higher ratio than the amount of cashflow or profit realized by the Lessee from any such capital investments and other expenditures. Both Parties recognize that, notwithstanding any amount of such investments and expenditures made by the Lessee, this Lease is not intended to continue beyond the Primary Term for speculative purposes without a reasonable expectation of profit and Royalty for the Lessee and the Lessor, respectively, and the Lessor may rely on the termination provisions of this Lease to ensure enforcement of the terms of this Lease.
- 24.10** If this Lease terminates, including by reason of the Lessee not remedying a Default, the Lessee may have available relief against all penalties and forfeitures under the Regulations that includes the *Alberta Judicature Act* RSA, 2000 Chapter J-2 sections 10, 15 and 16, or relief against forfeiture under the rules of equity and common law. On the execution of this Lease, the Lessee has full knowledge of each and every such right of relief and unequivocally and consciously waives and abandons all of these rights of relief in the Lessor's enforcement of the terms of this Lease including termination of this Lease.
- 24.11** Notwithstanding anything contained to the contrary in this Article 24, if the Lessee: (i) is or becomes bankrupt or insolvent; (ii) becomes subject to the bankruptcy or insolvency laws of any jurisdiction in which it carries on business; (iii) appoints or has a third party appoint a receiver or custodian to take possession of its assets or announce its intention to do so; (iv) arranges with its creditors or applies to an administrator or court of competent jurisdiction for protection from its creditors; or (v) permits any judgment to be registered against the Leased Lands, or (vi) has in any way demonstrated its inability to meet its financial obligations and, during any such time, fails to observe or perform any covenant, proviso, condition, restriction or stipulation contained in this Lease, then any such event shall be deemed an immediate and material Default under this Lease, without notice of any kind required from the Lessor to the Lessee, thereby enabling the Lessor to terminate this Lease immediately without any liability or obligation whatsoever to the Lessee.

## **ARTICLE 25**

### **FORCE MAJEURE**

- 25.1** Failure or delay by the 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:
- (a) strikes and lockouts;
  - (b) acts of God;
  - (c) acts of war or terrorism; and
  - (d) other matters beyond reasonable control of the Lessee, whether or not similar to those items listed in (a) to (d) above.

The items from this Clause 25.1 are individually or collectively referred to as an "Event of Force Majeure".

- 25.2** The Lessee is not required to settle any labour dispute or industrial or public disturbance, except in such manner as it shall, in its own judgment, consider acceptable.
- 25.3** Lack of finances on the part of the Lessee or lack of profitability or economic markets for any of the Leased Substances is not an Event of Force Majeure.
- 25.4** The Lessee shall promptly notify the Lessor of an Event of Force Majeure and provide particulars of that Event of Force Majeure and a reasonable estimate by the Lessee of its anticipated duration.

The Lessee shall take reasonable steps to mitigate or overcome the effects of the Event of Force Majeure. The Lessee shall keep the 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.

- 25.5** Subject to Clause 25.6, the time periods specified in this Lease shall be extended by the period of time that the Event of Force Majeure continues. The Lessee shall not be relieved of its obligations to make payments that have become due and payable under this Lease.
- 25.6** Notwithstanding any other provision in this Article 25, if an Event of Force Majeure lasts continuously for a period longer than twenty-four (24) months, then the Lessor may give the Lessee thirty (30) days' notice to terminate this Lease.

**ARTICLE 26**  
**MANNER OF PAYMENTS**

- 26.1** The Lessee shall make all payments to the Lessor in Canadian currency. Those payments shall be made by the Lessee to the Lessor:

by electronic transfer at:

Destination Bank:	RBC Canada
	200 Bay Street
	Toronto, ON M5J 2J5
Transit Number:	00002
Institution:	003
For Credit to:	HERITAGE ROYALTY RESOURCE CORP.
Account Number:	1364660 (CAD ACCOUNT)

- 26.2** The Lessor may change the information in Clause 26.1 by serving notice under Article 28.

**ARTICLE 27**  
**INTEREST**

- 27.1** The Lessee shall pay to the Lessor interest at the prime commercial lending rate of interest charged by The Royal Bank of Canada at its main branch in Calgary, Alberta to its most credit worthy customers plus five percent (5%) per annum on all monies overdue under the terms of this Lease.

**ARTICLE 28**  
**NOTICES**

- 28.1** 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 by hand, mail (postage prepaid), or electronically to the address for such form of deliveries as is specified in the Mineral Lease Specific Terms or as is amended from time to time. Any Party may change its address for service by serving notice as set out in this Article 28.
- 28.2** To the extent an address for such following forms of delivery has been provided by a Party pursuant to Clause 28.1, any notice or other communication delivered to that Party:
- (a) by hand, shall be deemed to have been given and received at the commencement of the next following Business Day;
  - (b) 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 (4<sup>th</sup>) Business Day following the date of posting, provided that notices may not be served by mail while postal service is interrupted or operating with unusual or imminent delay; and
  - (c) 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 sent date.

**ARTICLE 29**  
**ASSIGNMENT OF LEASE**

- 29.1** The Lessee shall only be entitled to assign its recognized legal interest in this Lease by the Lessee and its assignee executing and delivering to the Lessor a Lease Assignment in the form as specified on the Lessor's Website. The Lease Assignment shall not be effective and binding upon the Lessor until the approval and execution of the Lease Assignment by the Lessor, which approval and execution shall not be unreasonably withheld, provided the Lessor shall not be required to approve or execute such Lease Assignment if the Lessee is at the time in default or breach of any terms or conditions of this Lease. The approval and execution of the Lease Assignment by the Lessor does not constitute a waiver of any existing Default by the Lessee at the time of the assignment.
- 29.2** Notwithstanding Clause 29.1 Lessor shall not be required to accept a Lease Assignment for an assignment:
- (a) to a trust or partnership;
  - (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.
- 29.3** The Lessee need not act on any assignment of the Lessor's interest until thirty (30) days after the Lessee has been actually furnished with evidence of such assignment. All payments made within the aforesaid period to the party or parties who would have been entitled to the same in the absence of such assignment shall be deemed to have been made in accordance with the terms of this Lease. The foregoing shall not, however, prohibit the Lessee from acting upon the assignment prior to the expiration of the aforesaid thirty (30) day period and all payments or tenders made in accordance with such assignment shall be deemed to have been made in accordance with the terms of this Lease.

**ARTICLE 30**  
**CONFIDENTIALITY**

- 30.1** The Lessor, if requested by the Lessee, shall treat as confidential from any third party all or any part of the information furnished, given or delivered to, or received by the Lessor pursuant to this Lease, except for information that is available to the public from any governmental authority. This Article 30 may not prevent the Lessor from divulging any information to an Affiliate of the Lessor provided that the Lessor requires that the Affiliate maintain the confidential status of the information and the Affiliate is deemed to accept this obligation.

**ARTICLE 31**  
**AUTHORITY**

- 31.1** Each Party covenants that it has good right, full power and authority to enter into this Lease.

**ARTICLE 32**  
**ENTIRE SUPERSEDING AGREEMENT**

- 32.1** In connection with the matters dealt with herein, this Lease expresses and constitutes the entire agreement of the Parties and supersedes all prior agreements, documents, covenants, arrangements, statements, representations or warranties, negotiations and understandings, whether written or otherwise, by or between the Parties.

**ARTICLE 33**  
**RELATIONSHIP OF PARTIES**

- 33.1** The relationship of the Parties under this Lease is limited to the matters specifically identified herein and, except as otherwise provided herein, the Parties hereby expressly disclaim any intention to create a partnership, trust or other fiduciary relationship or to constitute any Party as the agent, fiduciary or trustee of the other Party.

**ARTICLE 34**  
**JOINT AND SEVERAL LIABILITY**

- 34.1** If the Lessee consists of two or more parties, those parties are jointly and severally liable for the performance of the obligations of the Lessee.

**ARTICLE 35**  
**FURTHER ASSURANCES**

- 35.1** Each Party, upon request from the other Party and without further consideration, will execute and deliver such further instruments and documents, and shall do such further acts and things as is reasonably required and requested to carry out the provisions of this Lease.

**ARTICLE 36**  
**ENUREMENT**

- 36.1** This Lease shall enure to the benefit of and be binding upon the Parties, their successors by name change, merger or amalgamation, the Lessor's assigns and, to the extent permitted hereunder, the Lessee's assigns only and shall not be construed to create beneficiary rights in any other Person.

**ARTICLE 37**  
**SURVIVAL**

- 37.1** The expiry or termination of this Lease will not discharge or release any Party from any of its liabilities or obligations accrued at the time of such expiry or termination (including a breach) or from any of its liabilities or obligations that expressly continue beyond or arise out of such expiry or termination of this Lease.

**ARTICLE 38**  
**GOVERNING LAWS**

- 38.1** This Lease shall, in all respects (including any disputes), be treated as a contract made in the Province of Alberta and shall be subject to, interpreted, construed and enforced in accordance with and under the laws of the Province of Alberta and the laws of Canada applicable therein. The Parties irrevocably attorn and exclusively submit to the jurisdiction of the courts of the Province of Alberta and courts of appeal therefrom in respect of all matters arising out of or in connection with this Lease.

**ARTICLE 39**  
**LIMITATIONS**

- 39.1** Notwithstanding any Regulations or other similar provisions at law or in equity that would otherwise impose a lesser period of time for claims to be brought by the Parties, the limitations period for all claims pursuant to or arising out of this Lease is to be the greater of ten (10) years from the date that the claim arose or such other longer period of time as may be allowed at law or in equity, irrespective of whether the claimant was aware of the material facts which gave rise to the claim or not.

**ARTICLE 40**  
**SEVERABILITY**

- 40.1** If any provision of this Lease is determined to be invalid, illegal or unenforceable in any respect pursuant to the Regulations, the remainder of this Lease, or the application of the provisions of this Lease to Persons or circumstances other than those to which it is held invalid, illegal or unenforceable, will not be affected or impaired thereby.

**ARTICLE 41**  
**CONFLICTS**

- 41.1** If there is a conflict between any provision of this Lease and the Regulations or the title documents under which the Lessor holds its title to the Leased Lands, the Regulations or such title documents, as the case may be, will prevail.
- 41.2** If any term in the body of this Lease conflicts with the information requested in the Continuation Application Form, Royalty Data Requirement Sheet or Well Data Requirement Sheet then the term in the body of this Lease will prevail.

**ARTICLE 42**  
**REMEDIES CUMULATIVE**

- 42.1** No reference to or exercise of any specific right or remedy by a Party under this Lease shall prejudice or preclude that Party from exercising or invoking any other remedy in respect thereof, whether allowed at law or in equity or expressly provided for in this Lease. No remedy shall be exclusive or dependent upon any other remedy and each Party may exercise any one or more remedy independently or in combination.

**ARTICLE 43**  
**WAIVERS**

- 43.1** A waiver by the Lessor of any provision, breach or default of this Lease is only effective if expressed in writing. No waiver of any particular provision, breach or default of this Lease shall be deemed or constitute a continuing waiver of same or a waiver of any other provision, condition or requirement of this Lease (whether or not similar), nor in any manner release the Lessee from performance of any other provision, condition or requirement herein and shall not limit or affect the Lessor's rights with respect to enforcement of any other term or remedy of any other future default or breach unless otherwise expressly provided.
- 43.2** Any delay in exercising or failure to exercise any right, remedy, power or privilege hereunder by the Lessor shall not operate as a waiver thereof nor impair the exercise of any such right, remedy, power or privilege or any other right, remedy, power or privilege accruing to the Lessor thereafter.

**ARTICLE 44**  
**AMENDMENT**

- 44.1** No supplement, modification or waiver of any provision of this Lease shall be binding unless in writing and executed by duly authorized representatives of the Parties.

**ARTICLE 45**  
**TIME**

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

**ARTICLE 46**  
**COUNTERPART EXECUTION**

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

**ARTICLE 47**  
**ELECTRONIC SIGNATURES**

- 47.1** The Parties hereby consent to the use of electronic signatures and agree that this Lease and all agreements and documents required or desirable to give effect to this Lease and the transaction may be executed by electronic means and transmitted to the other Party or Parties and their counsel by facsimile, e-mail or other form of electronic transmission in accordance with Article 28, and any such electronic execution and delivery is equivalent to the delivery of print versions of the documents bearing manual ink signatures.

## APPENDIX I – ROYALTY CALCULATIONS

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(FIXED PERCENTAGE METHOD)

**ROYALTY PAYABLE<sup>(\*)</sup> = Royalty Rate X Current Market Value X Quantity**

(\*)The Royalty payable in every case is to be determined for each individual product recovered from the Leased Substances as is sold or deemed to be sold and in no event is the Royalty payable for any product to be set off against the Royalty payable for any other product.

### **Royalty Definitions**

**"Current Market Value"** means, at the Royalty Determination Point, the greater of the value:

- (a) actually received by the Lessee; and
- (b) the market price which the Lessee would have received for the sale of like substances in the area in which the Leased Lands are located as and when the Leased Substances were produced, provided that such value is reasonable in the circumstances having regard to the current market conditions that would have otherwise been applicable in a bona fide arm's-length sale or transaction;

provided that, under no circumstances whatsoever, shall such value be less than zero for purposes of calculating the Royalty payable and in no event is the Current Market Value of any product to be netted against, averaged or otherwise combined with the Current Market Value of any other product in calculating the Royalty payable.

**"Royalty Determination Point"** means for:

- (a) PETROLEUM and FIELD CONDENSATE,
  - (i) where the Royalty is not taken in kind, the point where product enters a feeder pipeline at the inlet to the Lease Automated Custody Transfer (LACT) meter or, in the case where the product is sold directly at a terminal, the inlet meter of the terminal, or
  - (ii) where the Royalty is taken in kind, the point after which removal of basic water and sediment has occurred and the first point of measurement beyond any production tank, battery, satellite or other handling or enrichment facilities;
- (b) NATURAL GAS and SOLUTION GAS, the inlet to the meter station of the initial transmission pipeline carrying the Natural Gas or Solution Gas to the end user market or, in the case where the Natural Gas or Solution Gas is sold directly to an end user, the inlet meter at the end user's facility;
- (c) 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) OTHER SUBSTANCES, the inlet to the meter station of the initial transmission pipeline carrying the Other Substances to the end user market or, in the case where the Other Substances are sold directly to an end user, the inlet meter at the end user's facility; and
- (e) SULPHUR, the outlet of the Sulphur processing and loading facility.

**"Royalty Rate"** means that percentage share, as set forth in the Mineral Lease Specific Terms, of the Leased Substances obtained from the Leased Lands to be reserved and payable to Lessor pursuant to the Lease.

**"Quantity"** means for:

- (f) PETROLEUM and FIELD CONDENSATE, the amount of Petroleum as and when produced in each applicable month, regardless of whether it may be stored and sold in a subsequent month;
- (g) NATURAL GAS and SOLUTION GAS, the amount of Natural Gas or Solution Gas in each applicable month that is sold, stored or used for purposes other than those set out in Clause 5.01(a); and
- (h) NATURAL GAS LIQUIDS, OTHER SUBSTANCES and SULPHUR, the quantity that is sold in the applicable month.