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## PETROLEUM AND NATURAL GAS LEASE

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THIS LEASE made effective as of the **XX** day of **XX**

**BETWEEN:**

**CANLIN ENERGY CORPORATION**, a body corporate, having an office in the City of Calgary, in the Province of Alberta (the "**Lessor**")

**AND:**

**XXXXXXXXXXXX**, a body corporate, having an office in the City of **XXXXXX**, in the Province of **XXXXXX** (the "**Lessee**")

**THE LESSOR**, being recorded or registered as owner of the Leased Substances within, upon or under the following described lands in the Province of **XXXXXX** (the "**Lands**"):

<u>Legal Description</u>	<u>Mineral Rights</u>	<u>Interest</u>
Twp. <b>XXX</b> Rge. <b>XX</b> WXM: <b>XX</b> Section <b>XX</b> containing <b>#####</b> hectares more or less As set forth in Title No. (s): <b>#####</b>	<b>ALL PNG</b>	<b>%</b> undivided interest

**IN CONSIDERATION OF** the payment of **\$\$\$\$\$ DOLLARS (\$0.00)** paid to the Lessor by the Lessee (the receipt of which is hereby acknowledged), the royalty hereinafter reserved, and the Lessee's covenants hereinafter contained, the Lessor **HEREBY LEASES AND GRANTS** exclusively unto the Lessee the right to take and recover the Leased Substances from the Lands, subject to payment of the royalty excepted and reserved unto the Lessor, and insofar as the Lessor has the right so to grant from any roadways, lanes or rights of way adjoining the Lands; together with the exclusive right and privilege to explore for the Leased Substances, conduct Operations, treat, dispose of and sell the Leased Substances, and inject into, and recover injected substances, solely for purposes of obtaining, maintaining or increasing production of Leased Substances from the Lands.

**TO HAVE AND ENJOY** during the Primary Term and so long thereafter as Operations are conducted with no cessation of more than ninety (90) consecutive days. If Operations are not being conducted at the end of the Primary Term, then this Lease and all the Lessee's rights hereunder shall terminate, and the Lands and Leased Substances shall revert to the Lessor.

**PROVIDED THAT** if this Lease is continued by Operations at the end of the Primary Term, the Lessee's rights hereunder shall be restricted to only such zone(s) and formation(s) and Spacing Unit(s) within the Leased Lands as Operations are then being conducted upon, until such zone(s) and formation(s) and Spacing Unit(s) are surrendered, terminate or expire in accordance with the terms of this Lease and revert to the Lessor.

**1. INTERPRETATION**

In this Lease the terms below shall have the following meanings:

- a. **"AECO/NIT Monthly Index"** means the price in dollars per GJ for the month in which the natural gas was delivered as published in the first of the month AECO Index reported monthly by Canadian Enerdata Ltd. in the publication entitled "Canadian Gas Price Reporter" under the category "AECO "C" & NIT One Month spot" **PROVIDED THAT** if this index is replaced, the replacement index will apply or if this index is no longer published, the Lessor shall designate a replacement methodology or publication.
- b. **"Affiliate"** means any person which (i) Controls another party either directly or indirectly, or (ii) is Controlled by such party either directly or indirectly, or (iii) is Controlled either directly or indirectly by a person which Controls either directly or indirectly such party. As used in the preceding sentence, **"Control"** means the right to exercise 50% or more of the voting rights in the appointment of the directors of a company.
- c. **"Authority"** means any local, provincial or federal government, regulator, agency or other authority having jurisdiction over the matter in question.
- d. **"Claims"** means all claims, demands, actions, lawsuits or proceedings of any kind, whatsoever and howsoever incurred, whether asserted, threatened, pending or existing, and whether brought during the term of or following the surrender, termination or expiry of this Lease, against Lessor, Lessor's Affiliates and any of their respective officers, directors, employees or agents for any losses, costs, injury, damages and expenses whatsoever, including without limitation, any Environmental Liability, together with all legal costs, solicitor and own client costs, accounting and other professional fees and disbursements, and any interest thereon, arising from or in any way related to Lessee's Operations on the Lands or the breach of any terms or conditions of this Lease by the Lessee or by Lessee's employees, agents, contractors, licensees or invitees.

- e. **“Crude Oil”** means a mixture mainly of pentanes and heavier hydrocarbons (whether or not contaminated with sulphur compounds) recovered at a well from an underground reservoir that is liquid at the conditions under which its volume is measured or estimated and includes crude naphtha or condensate so recovered.
- f. **“Current Market Value”** means the highest price which the Lessee could expect to receive or actually receives for the Leased Substances in an arm’s length transaction while acting as a reasonably prudent operator having regard to current market prices, availability of markets and economic conditions of the petroleum industry generally.
- g. **“Default”** means any breach, non-observance or non-performance by the Lessee of any covenant, term, condition, provision, restriction or stipulation contained in this Lease.
- h. **“Effective Date”** means the date of this Lease first written above.
- i. **“Environmental Law”** means any law, bylaw, rule, regulation, policy, order, information letter, interim directive, general bulletin, guideline, notice requirement or other legislation of any kind, and any judicial or administrative interpretation, order, written request, consent decree or judgment or any provision or condition of any permit, licence, approval or other operating authorization relating to the protection of the environment, health, safety or natural resources, including without limitation, those relating to the manufacture, use, handling, transportation, treatment, storage, disposal, release, emission or discharge of raw chemical materials, pollutants, contaminants or toxic, corrosive, hazardous or non-hazardous substances or wastes, or Hazardous Materials, which impose liability with respect to any of the foregoing, including without limitation, the *Canadian Environmental Protection Act* (Canada) or *Transportation of Dangerous Goods Act* (Canada and Provincial counterparts), or any other federal, provincial or local laws or regulations, as amended from time to time, having similar effect or any principles of common law or equity including, but not limited to, causes of action in nuisance, trespass, negligence and strict liability.
- j. **“Environmental Liability”** means any liability, responsibility or obligation arising out of or related to Operations conducted on the Lands, the Leased Lands or the surface lands overlying the same as a result of:
  - (i) the release of any Hazardous Materials into or through any air, soil, surface water, groundwater, wetlands, lands or subsurface strata;
  - (ii) any non-compliance with or breach of any Environmental Law; and
  - (iii) the removal or failure to remove any foundations, structures, substance or equipment, including without limitation, any costs incurred to clean-up, decommission, abandon, decontaminate, reclaim and remediate the Lands, the Leased Lands or any other lands from the effects resulting from any of the foregoing.
- k. **“Equipment”** means all tools, machinery, equipment and structures used, implemented, placed or erected by Lessee within or upon the Lands.
- l. **“Force Majeure”** means acts and events outside the reasonable control of the Lessor or the Lessee which, by the exercise of due diligence, could not have been prevented or overcome by such party, and expressly exclude a lack of funds, lack of economic market, or other economic hardship.
- m. **“GJ”** means gigajoule or 1,000,000,000 joules.
- n. **“Greenhouse Gas”** means all gases that may be, from time to time, associated with climate change, including without limitation carbon dioxide, methane, oxides or nitrogen or sulphur, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.
- o. **“Hazardous Materials”** means:
  - (i) any petroleum or petroleum products, by-products, breakdown products or waste, natural gas, flammable explosives, radioactive materials, urea formaldehyde foam insulation and material containing asbestos or polychlorinated biphenyls that are prohibited, limited or regulated under any Environmental Laws; and
  - (ii) any other chemicals, materials, substances or wastes prohibited, limited or regulated under any Environmental Laws, or present in concentrations or at locations that present a threat to human health or the environment.
- p. **“Horizontal Well”** means a well that is classified or approved as a horizontal well pursuant to the Regulations.
- q. **“Lands”** means those lands as more particularly described and set forth on page 1 of this Lease.
- r. **“Lease”** means this Petroleum and Natural Gas Lease dated as of the Effective Date between the Lessor and the Lessee.

- s. **“Leased Lands”** means such portion(s) of the Lands, including all zones and formations therein, leased to Lessee hereunder that have not been surrendered, terminated or expired pursuant to the terms of this Lease, and where the case or context so requires, includes all or any portion of the Lands as may be pooled or unitized with other lands in accordance with clause 9 of this Lease or pursuant to any agreement or the Regulations.
- t. **“Leased Substances”** means all petroleum, natural gas, and related hydrocarbons (except coal and valuable stone) and all other substances whether solid, liquid or gaseous and whether hydrocarbon or not, produced in association therewith, from the top of the **surface** to the base of the **basement**, but only to the extent that these substances are included in the Lessor’s certificate of title to the Lands.
- u. **“Offset Obligation Date”** shall have the meaning ascribed to such term in subclause 8 b. herein.
- v. **“Offset Well”** means a well drilled before or subsequent to the Effective Date, and contained in any Spacing Unit laterally or diagonally adjoining the Leased Lands, completed for production of the Leased Substances in Paying Quantities from the same zone(s) or formation(s) as the Leased Substances on the Leased Lands, which Spacing Unit is not owned by the Lessor or, if owned by the Lessor, not under lease to the Lessee.
- w. **“Operations”** means any of the following activities provided such activities are performed by Lessee in a substantial and *bona fide* manner:
  - (i) drilling, logging, testing, completing, equipping, tying-in, reworking, recompleting, deepening, plugging back, fracturing, acidizing and stimulating, or repairing equipment on, any well spud on the Lands or the Leased Lands;
  - (ii) the production of Leased Substances in Paying Quantities from any well spud on the Lands or the Leased Lands; and
  - (iii) any and all acts incidental to the foregoing in an endeavour to obtain, maintain or increase production of the Leased Substances.
- x. **“Paying Quantities”** means:
  - (i) in the case of a well not yet completed and equipped for production, the anticipated output from the well of that quantity of Leased Substances which, considering the completion, equipping and operating costs, kind and quality of production, availability of markets, price to be received for production, and the royalties, taxes and other burdens payable with respect thereto, would warrant incurring completion and equipping costs for the well; and
  - (ii) in the case of a well completed and equipped for production, the output from the well of that quantity of Leased Substances which, considering the same factors as in (i) above except completion and equipping costs, would warrant the continued taking of production from the well.
- y. **“Point of Measurement”** with respect to:
  - (i) Crude Oil means the outlet valve on Lessee’s production tank to which any well on the Leased Lands is connected; and
  - (ii) all Leased Substances, other than Crude Oil, means the first point of connection between the well and the gathering system for the well.
- z. **“Point of Sale”** means with respect to:
  - (i) Crude Oil, the outlet valve on the Lessee’s production tank to which any well on the Leased Lands is connected;
  - (ii) natural gas, the point down stream from a Processing Plant where the sales line connects to the pipeline system; and
  - (iii) all Leased Substances, other than Crude Oil or natural gas, the point where such products are sold.
- aa. **“Primary Term”** means a term of **ONE (1)** year from and including the Effective Date of this Lease.
- bb. **“Processing Plant”** means a plant for the extraction of hydrogen sulphide, ethane, natural gas liquids or other substances from natural gas but does not include any wellhead separator or dehydrator.
- cc. **“Regulations”** means any law, statute, regulation, order or directive in effect from time to time, including but not limited to Environmental Laws, made by any person in Authority.
- dd. **“Required Remediation”** means any action necessary to:
  - (i) comply with the Regulations;

- (ii) eliminate a potential Environmental Liability;
  - (iii) obtain a reclamation certificate from any person in Authority confirming reclamation of all or any portion of the Leased Lands has been approved;
  - (iv) obtain a closure letter from any person in Authority confirming that no further action will be taken related to any liability associated with any underground storage tanks within, upon or under the Leased Lands.
- ee. **"Royalty Data Requirement Sheet"** means information provided in accordance with the provisions of Schedule "B" attached hereto and forming part of this Lease.
- ff. **"Spacing Unit"** means the area allocated from time to time to a well on, or in the vicinity of, the Leased Lands, for the purpose of drilling for or producing the Leased Substances, as defined or prescribed by or under the Regulations; and
- (i) in the case of a Horizontal Well for which no area has been allocated then, until such an area is allocated, the area or areas that would be allocated to one or more Vertical Wells drilled on the Leased Lands containing the productive horizontal section of such Horizontal Well or, if the Horizontal Well is not yet drilled, shall mean the area or areas that would be allocated to one or more Vertical Wells drilled on the Leased Lands proposed to contain the productive horizontal section of such Horizontal Well; and
  - (ii) for purposes of clause 8 (Offset Wells) herein, in the case of that portion of the Leased Lands laterally or diagonally adjoining the Spacing Unit of an Offset Well (which is a Horizontal Well), shall mean the area or areas that would be allocated to one or more Vertical Wells drilled on the Leased Lands which laterally or diagonally adjoin the Spacing Unit of such Offset Well from which production in Paying Quantities is being obtained.
- gg. **"Unit Agreement"** means any agreement for the development or operation of all or any portion of the Leased Lands with other lands as a single unit without regard to separate ownership and for the allocation of costs and benefits on a basis as defined in such agreement.
- hh. **"Vertical Well"** means a well that is not a Horizontal Well.
- ii. **"Well Data Requirement Sheet"** means information provided in accordance with the provisions of Schedule "A" attached hereto and forming part of this Lease.

When used in this Lease words such as "hereto", "thereto", "hereof" and "herein" shall be construed to refer to the provisions of this Lease. All headings herein are inserted for reference only and shall not be used to construe, qualify or modify the covenants, terms, conditions or provisions of this Lease. Words importing the singular include the plural and vice versa; words importing the masculine gender include the feminine and neuter genders and vice versa. Unless otherwise stated, any references herein to a clause or subclause refer to a clause or subclause in this Lease.

## 2. EXPIRY OF PRIMARY TERM

- a. Within thirty (30) days after the expiry of the Primary Term, Lessee shall send written notice to the Lessor either indicating that the Lease has expired on its terms or requesting confirmation from Lessor that the Lease has continued past the Primary Term on the basis of continuing Operations. If the latter, Lessee's notice shall include a brief explanation of the Operations being conducted, a description of that portion of the Lands for which Lease continuation is claimed, and such other supporting data as may be available and required under the Well Data Requirement Sheet.
- b. Within a reasonable time after receipt of Lessee's notice above, Lessor shall provide written notice to Lessee confirming that the Lease has either expired or been continued past the Primary Term. If the latter, Lessor's notice shall include a description of all or any portion of the Lands, including the zone(s) or formation(s), and Leased Substances for which Lease continuation has occurred.
- c. At any time after the expiry of the Primary Term, should the Lessee cease to conduct Operations on all or any portion of the Leased Lands for more than ninety (90) consecutive days, other than by reason of Force Majeure, the Lessor may give notice of Default to the Lessee pursuant to subclause 15 a. The Lessee shall be required to remedy such Default by either commencing and thereafter diligently and continuously conducting Operations upon, or surrendering to the Lessor, that portion or portions of the Leased Lands which are the subject of such Default notice. Failure by the Lessee to comply with the Default notice in the manner prescribed above shall result in the Lease terminating as to all that portion of the Leased Lands and Leased Substances to which the act of Default applies in accordance with the provisions of subclause 15 b.

## 3. ROYALTY

- a. Subject to adjustment pursuant to clause 8 (Offset Wells) and clause 9 (Pooling and Unitization), the Lessor reserves unto itself the following royalty:

- (i) if the Lessor elects to take in kind pursuant to subclause 3 d., the Lessee shall deliver or cause to be delivered to the Lessor, at the Point of Sale, a share of production equal to twenty (20%) percent of the Leased Substances produced and marketed from the Leased Lands, without any charges or deductions of any kind whatsoever; or
- (ii) if the Lessor does not elect to take in kind pursuant to subclause 3 d., the Lessee shall pay or cause to be paid to the Lessor a royalty that is the greater of:
  - A. Twenty (20%) percent of the actual price received by Lessee (including payments or the cash value of any consideration received by Lessee from any sources whatsoever in respect thereof) at the Point of Sale, without any deductions of any kind whatsoever; or
  - B. Twenty (20%) percent of the Current Market Value of the Leased Substances at the Point of Sale, without any deductions of any kind whatsoever.
- b. In the case of natural gas, the price per GJ will be determined with reference to the AECO/NIT Monthly Index (after taking into consideration any applicable transportation adjustment between AECO and the Point of Sale).
- c. The Lessor's royalty share of the Leased Substances as set forth in subclause 3 a. above shall be recovered, produced and delivered to the Lessor or marketed by Lessee at the Point of Sale, free and clear of any charges to the Lessor.
- d. The Lessee shall dispose of the Lessor's royalty share rateably with its own share of all Leased Substances produced and marketed from the Leased Lands, but the Lessor may from time to time, upon thirty (30) days' notice to the Lessee, elect to take the Lessor's royalty share of the Leased Substances produced and saved from the Leased Lands in kind in accordance with the customary pipeline or shipping practices prevailing in the field from which the production is being taken and may on like notice cancel its election to do so; **PROVIDED THAT** if the Lessor cancels an election to take the Leased Substances in kind it shall not be permitted again to elect to take the Leased Substances in kind until after the lapse of twelve (12) months from the date of cancellation of its election.
- e. The Lessee will provide, free of cost to the Lessor, production tanks sufficient to store not more than ten (10) days' accumulation of the Lessor's royalty share of the Leased Substances taken in kind pursuant to subclause 3 d. Notwithstanding any other provision herein, in the event that sulphur is produced from the Leased Substances and then stored at or near a Processing Plant, the Lessee shall provide, free of cost to the Lessor, any necessary sulphur storage.
- f. Notwithstanding anything herein contained, the Lessee shall be entitled to use, free from the payment of the royalty payable under subclause 3 a., such part of the Leased Substances from the Leased Lands as may be necessary or required by the Lessee to conduct its Operations. However, if the Lessee is paying or is required to pay a compensatory royalty pursuant to clause 8, there will be no entitlement to production volumes free of royalty payments.
- g. The royalty hereunder shall be payable on or before the twenty-fifth (25th) day of the second month following any month in which the Leased Substances are produced and marketed from the Leased Lands. Each such royalty payment shall be accompanied by a statement prepared by the Lessee which shall include all the data set forth in the Royalty Data Requirement Sheet. At the request of the Lessor, the Lessee shall provide Lessor with any governmental reports, including without limitation, the assessed value for mineral tax purposes and such other supporting documentation as the Lessor may reasonably require.

#### **4. LESSER INTEREST**

If the Lessor's undivided interest in the Leased Substances is less than the entire and undivided fee simple estate, the royalty and compensatory royalty payments herein provided shall be paid to the Lessor only in the proportion which such interest bears to the entire and undivided fee simple estate.

#### **5. CONDUCT OF OPERATIONS**

- a. The Lessee shall conduct its Operations in a diligent, careful and workmanlike manner in accordance with good oilfield practice having regard to the mutual interests of the Lessor and the Lessee in achieving the maximum recovery of Leased Substances from the Leased Lands and in compliance with the Regulations, and without limiting the generality of the foregoing the Lessee shall:
  - (i) at its own expense, obtain the right to enter upon the surface of the Leased Lands for purposes of this Lease;
  - (ii) having spud a well, thereafter diligently and continuously conduct Operations with respect to drilling such well through to completion or abandonment;
  - (iii) if Lessee discovers any mines and minerals other than the Leased Substances within the Leased Lands, forthwith give notice to the Lessor of such discovery together with all particulars or information relevant thereto;

- (iv) permit any other person entitled to do so, to at any time explore and drill for, produce, win, take, remove, store, treat or dispose of any mines and minerals, other than the Leased Substances, from the Lands;
  - (v) continuously and diligently conduct Operations on the Leased Lands with adequate and sufficient machinery, appliances and equipment and in accordance with good engineering practices;
  - (vi) properly plug or cement each well drilled or being drilled upon the Leased Lands, so as to prevent the flow of any substance from one stratum to another;
  - (vii) upon the surrender, termination or expiry of this Lease, leave the Leased Lands in good condition;
  - (viii) use reasonable commercial efforts to produce and market the Leased Substances;
  - (ix) pay or cause to be paid, as and when the same become due and payable, all claims for wages or salaries for services rendered or performed and for materials supplied in connection with Operations conducted on the Leased Lands;
  - (x) pay or cause to be paid any claims or dues owing to the Workers' Compensation Board and, if requested by the Lessor, furnish satisfactory evidence of such payment to Lessor; and
  - (xi) keep the Leased Lands free of all mechanic's or other liens, excepting only those liens incurred or created as security in respect of services rendered or goods supplied for Lessee's Operations, which are not due or delinquent, or liens which are being diligently contested in good faith by Lessee.
- b. The Lessee shall permit the Lessor at its own risk and expense to run a velocity survey in any well on the Leased Lands if, in the opinion of the Lessee, the hole is in a satisfactory condition for such purpose, or to participate in any velocity survey which may be run in any well by paying its proportionate share of the cost of the same based on the number of persons or companies or both participating in such survey.

**6. SPACING UNIT REDUCTION**

If at any time or times the Lessee desires a reduction in the size of the Spacing Unit, the Lessee shall, at its cost, make application for such reduction in the size of the Spacing Unit on the Leased Lands. Upon the granting of such reduced Spacing Unit, Operations shall be deemed to be conducted with respect to the Leased Lands contained within the original Spacing Unit for a ninety (90) day period after the granting of such reduction and for so long thereafter, with respect to any undrilled Spacing Units, as Operations are being conducted on any part of the Leased Lands contained within the original Spacing Unit, without cessation of more than ninety (90) consecutive days.

**7. RATEABLE PRODUCTION**

If Lessee, acting *bona fide*, in the course of conducting its Operations hereunder and due to marketing conditions, shall at any time curtail the production of the Leased Substances from any well(s) on the Leased Lands, then such well(s) shall be produced rateably with all other wells operated or under the control of the Lessee in the same pool, zone or formation (such rateable production to be based on the hydrocarbon pore volume of the zone included in the production Spacing Unit of the well(s) on the Leased Lands as compared to the hydrocarbon pore volume of the zone included in the production Spacing Unit of all wells producing from such zone) and there shall be no discontinuance of production of the Leased Substances from any well(s) on the Leased Lands due to marketing conditions unless production is likewise discontinued from the other wells in the same pool, zone or formation operated or controlled by the Lessee, as aforesaid.

**PROVIDED THAT** if at any time any Authority has instituted an order for proration in the province or in any field in which the Leased Lands are situated, then compliance by the Lessee with such order shall be deemed compliance with the provisions of this clause.

**8. OFFSET WELLS**

- a. The Lessee has the duty and obligation to protect the Lessor against the drainage of Leased Substances from the Leased Lands as a result of an Offset Well.
- b. If Leased Substances are being produced in Paying Quantities from an Offset Well, then, unless Operations are being conducted, on the Spacing Unit of the Leased Lands laterally or diagonally adjoining the Spacing Unit of the Offset Well, to drill a well into the horizon of the zone(s) or formation(s) from which production in Paying Quantities is being obtained from the Offset Well, the Lessee shall, within the later of ninety (90) days from the Effective Date or the date the Offset Well is placed on production or, if information with respect to the Offset Well does not exist in the public domain, within thirty (30) days after such information is made public (the "**Offset Obligation Date**"), either:

- (i) commence or cause to be commenced Operations to drill a well on or into the Spacing Unit of that portion of the Leased Lands laterally or diagonally adjoining the Spacing Unit of the Offset Well and thereafter drill the same to the horizon in the formation from which production is being obtained from the Offset Well; or
- (ii) pool or unitize that portion of the Leased Lands comprising the Spacing Unit laterally or diagonally adjoining the Spacing Unit of the Offset Well with the same zone(s) or formation(s) from which production is being obtained from the Offset Well, in accordance with the provisions of clause 9; or
- (iii) surrender to the Lessor all or any portion of the Leased Lands within the Spacing Unit laterally or diagonally adjoining the Spacing Unit of the Offset Well containing the zone(s) or formation(s) from which production is being obtained from the Offset Well; or
- (iv) elect, by notice in writing to the Lessor, to pay the Lessor a compensatory royalty equal to the royalty that would be payable to the Lessor under clause 3 if the Leased Substances produced from the Offset Well were being produced from a well on the Leased Lands, with production deemed to have commenced as of the Offset Obligation Date; **PROVIDED THAT**, should any Spacing Unit on the Leased Lands laterally or diagonally adjoin more than one Spacing Unit containing an Offset Well producing Leased Substances in Paying Quantities from the same zone(s) or formation(s) contained in the Leased Lands, the compensatory royalty shall be calculated and paid from the later of ninety (90) days from the Effective Date or the date the Offset Well is placed on production, on the basis of production from the adjoining Offset Well having the highest production in each month. If one or more Offset Well(s) in the Spacing Unit adjoining the Spacing Unit of the Leased Lands is or are producing Leased Substances in Paying Quantities from more than one zone or formation which are also within the Leased Lands, the compensatory royalty shall be calculated and paid on the basis of the aggregate production in each month from such zones and formations. If the Lessee elects to pay the Lessor the compensatory royalty hereunder, it shall subsequently be entitled to undertake any of the actions in subclauses 8 b. (i),(ii) or (iii) and, when such actions have been completed, the Lessee's obligations under this subclause shall terminate.

Failure by Lessee to make any of the elections provided for in subclause 8 b. (i),(ii) or (iii) within the time provided, shall be deemed to be an election to pay the Lessor a compensatory royalty under subclause 8 b. (iv).

- c. If any portion of the Leased Lands laterally or diagonally adjoins lands that are unitized under a plan of unitization (including, without limitation, a Unit Agreement, a production allocation unit agreement or any other unit or pooling agreement whereby it is agreed to share production from an area greater than a single Spacing Unit), such unitized lands (or the lands which are subject to such other agreement) shall be deemed for all purposes under this Lease to be Spacing Units laterally or diagonally adjoining the Leased Lands from which production in Paying Quantities is being obtained and the provisions of subclause 8 b. will apply. The compensatory royalty payable under subclause 8 b. (iv) shall be calculated and paid on the basis of production from the unit well (or well subject to such other agreement) having the highest production in each month.

## 9. POOLING AND UNITIZATION

- a. The Lessee is hereby given the right, power and authority at any time and from time to time to pool all or any portion of the Leased Lands, including any zone(s) or formation(s) thereof, and the Leased Substances with any other lands, zone(s), formation(s) or substances underlying such other lands, provided the pooled area shall not exceed the Spacing Unit applicable to a well to be drilled on the Leased Lands. The Lessee shall give written notice to the Lessor describing the extent to which the Leased Lands and Leased Substances are being pooled and describing the Spacing Unit with respect to which they are so pooled.
- b. In the event of pooling, there shall be allocated to that portion of the Leased Lands included in the Spacing Unit that proportion of the total production of the Leased Substances from the Spacing Unit, after deducting a proportionate share of any Leased Substances used in Operations on the pooled Lands, which the surface area of the Leased Lands included in the Spacing Unit bears to the total surface area of the lands in the Spacing Unit. The production so allocated shall be considered for all purposes, including the payment of the royalty hereunder, to be the entire production of the Leased Substances from the portion of the Leased Lands included in the pooling in the same manner as though produced from the Leased Lands under the terms of this Lease.
- c. The Lessee may terminate any pooling entered into pursuant to subclause 9 a., by giving written notice to the Lessor.
- d. If the Spacing Unit pooled under this clause is varied or terminated by the Regulations, or if the pooling is terminated or invalidated by reason of the termination or expiration of a lease



covering any lands, other than the Leased Lands, within the Spacing Unit, or due to Force Majeure, and this Lease would otherwise terminate as a result of such variation or termination of the Spacing Unit or such termination or invalidation of the pooling, this Lease shall nonetheless continue in force for a period of ninety (90) days after the Spacing Unit has been varied or terminated or the pooling has been terminated or invalidated, and the term of this Lease may be extended further pursuant to the provisions of this Lease, including without limitation, the commencement of Operations within the ninety (90) day period.

- e. Subject to obtaining Lessor's prior written agreement, the Lessee is hereby given the right, power and authority at any time and from time to time to unitize all or any portion of the Leased Lands, including any zone(s) or formation(s) thereof, and the Leased Substances with any other lands, zone(s), formation(s) or substances underlying such other lands, in a Unit Agreement for the unitized development or operation thereof, if such becomes necessary or desirable in the opinion of the Lessee.
- f. In the event of unitization, production of Leased Substances which are unitized shall be allocated to that portion of the Leased Lands included in the unit in accordance with the terms of the Unit Agreement. The production so allocated shall be considered for all purposes, including the payment of the royalty, to be the entire production of the Leased Substances from the portion of the Leased Lands included in the unit in the same manner as though produced from the Leased Lands under the terms of this Lease. Upon the Lessor's request, the Lessee shall provide the Lessor with a copy of the Unit Agreement within a reasonable time after unitization has occurred.
- g. Any Operations conducted on the pooled or unitized Lands, whether conducted before, after or during the exercise of the rights and powers granted under this clause, shall have the same effect in continuing this Lease in full force and effect during the term hereby granted or any continuation or extension thereof as if such Operations were upon the Leased Lands.

#### **10. DENSITY DRILLING**

In addition to the offset obligations provided for in clause 8 (Offset Wells), unless the Leased Lands are part of the unitized Lands, the Lessee agrees to drill sufficient wells of a like quality (Horizontal or Vertical Wells) on the Leased Lands to provide the same density and type of wells as the producing wells on the laterally or diagonally adjoining Spacing Unit.

#### **11. INSPECTIONS BY LESSOR**

The Lessee shall permit Lessor's authorized representatives, at Lessor's sole cost, risk and expense, at all reasonable times during the continuation of this Lease, to enter upon the Leased Lands to survey, examine and inspect the state and condition of any wells; **PROVIDED THAT** in so doing, no unnecessary interference is caused to Lessee's Operations, and the Lessee shall in every reasonable way aid such representative in making such entry, survey, examination and inspection.

#### **12. ENVIRONMENTAL PROVISIONS**

- a. The Lessee shall, where reasonable grounds exist and Lessor has given notice to the Lessee, at the Lessee's sole expense, forthwith cause an environmental audit to be conducted of Lessee's Operations by a competent environmental auditor and thereafter promptly remedy any deficiencies disclosed by such audit in accordance with the terms of this clause. The Lessee shall provide a copy of such audit to the Lessor.
- b. In the event that the environmental audit reveals the need for any remediation work, or other actions which must be completed in order to bring the Leased Lands (which for the purposes of this clause shall include the surface of the lands overlying the Leased Lands), into compliance with Environmental Laws or to eliminate potential Environmental Liability, Lessee shall engage a reliable environmental engineering firm, acceptable to Lessor and authorized by applicable Regulations, to perform any Required Remediation.
- c. Lessee shall use its best efforts to cause any Required Remediation to be completed in a reasonable time, and Lessee shall bear all costs of such Required Remediation, including any costs associated with verifying that the Required Remediation is complete.
- d. Lessor may monitor the performance of the Required Remediation and may, at its sole election and cost, cause an environmental consultant to review the performance of the Required Remediation. If Lessor directs an environmental consultant to undertake such a review, the Required Remediation shall be deemed completed only upon certification of completion of same by Lessor's environmental consultant; and
- e. In respect of the Leased Lands and the surface lands overlying the Leased Lands, the Lessee shall;
  - (i) take all the appropriate response action, including any removal or remedial action, in the event of a spill, release, disposal, discharge or emission of a substance contrary to Environmental Laws, within, upon or under the Leased Lands;
  - (ii) give notice to the Lessor of any spill, release, disposal, discharge or emission from the Leased Lands which may pose a threat, potential threat or nuisance to any person's

health or safety or to the environment and of the receipt of a notice of violation or non-compliance, control order, stop order or clean up order from any Authority in respect of same;

- (iii) submit a written report to the Lessor which may include a report of an environmental consultant and an independent engineer, or either, in scope, form and substance satisfactory to the Lessor demonstrating that the Leased Lands, which were the subject of any notice or order referred to in subclause 12 e. (ii), complies with Environmental Laws;
- (iv) report all spills, releases, disposals, discharges or emissions as required by the Environmental Laws and provide a copy of such report to Lessor within forty-eight (48) hours of such report;
- (v) report all non-routine investigations by any Authority to the Lessor immediately upon the earlier of the Lessee becoming aware of an intended investigation or the investigator arriving at the Leased Lands;
- (vi) notify the Lessor promptly of any litigation or regulatory proceedings pending or, to the knowledge of the Lessee, threatened against the Lessee or others having an interest in the Leased Lands, in respect of environmental matters which may have an adverse effect on the Leased Lands;
- (vii) at the request of the Lessor, provide the Lessor with copies of all permits, licences, certificates, approvals, authorizations, registrations, exemptions or the like, required for the valid performance of the Operations whether related to environmental matters or otherwise;
- (viii) notify the Lessor of any convictions (or prosecutions settled prior to conviction) or outstanding investigations, claims, work orders, notices, directives or other similar remedial actions against the Leased Lands, or against Lessee, in relation to the requirements of the Environmental Laws;
- (ix) at the request of the Lessor, provide an annual certificate of a senior officer of the Lessee to the effect that:
  - A. the Lessee is in material compliance with the Environmental Laws;
  - B. there is no litigation, administrative order or regulatory proceedings pending, or to the best of the Lessee's knowledge threatened, against the Lessee in respect to the environmental matters which would have a material adverse effect on the Operations or the property, business or financial condition of the Lessee;
  - C. to the best of the Lessee's knowledge, there is no investigation being conducted or pending by any governmental authority against the Lessee in respect of any environmental matters; and
  - D. no environmental event has occurred or come to the knowledge of the Lessee since the last annual certificate was given to the Lessor or the Lease was executed that would have a material adverse effect on the Operations or the property, business or financial condition of the Lessee.

**13. RECORDS**

- a. The Lessee shall at all times keep true and correct books, records and accounts showing all Operations carried on, the quantity of the Leased Substances taken out of each well and the disposition thereof, for a period of at least six (6) years following the end of the calendar year to which such records relate, and permit the Lessor to inspect the same and to make extracts or copies thereof and at all times permit the Lessor's agents to enter upon the Leased Lands for the purpose of ascertaining the quantity, kind and nature of the Leased Substances produced or taken from each and every well.
- b. The Lessor shall have the right, at Lessor's sole expense, to have its own personnel or accountants audit Lessee's records insofar as they relate to any matters required to determine the accuracy of any statements or payments made by Lessee with respect to the royalty payable to Lessor under this Lease.
- c. The Lessee shall make available to the Lessor or to Lessor's agent during normal business hours at the Lessee's address set out in clause 31 (Notices), the Lessee's records relative to the quantity of Leased Substances produced, used, saved and marketed from the Leased Lands as ascertained at the Point of Measurement and at the Point of Sale.

**14. REPORTS BY LESSEE**

- a. The Lessee shall supply the Lessor with information with respect to any well(s) drilled on the Leased Lands within the time period specified in accordance with the Well Data Requirement Sheet.
- b. In the event the Leased Lands form part of a Spacing Unit for a well drilled outside the Leased Lands, then provided the Lessee has a participating interest in such well, the Lessee shall supply Lessor with all information as prescribed by the Well Data Requirement Sheet, as if such well were located upon the Leased Lands.
- c. Except for information which is available to the public from any Authority, the Lessor shall treat as confidential all or any part of the information contained in any reports furnished, given or delivered to Lessor by Lessee pursuant to this clause; **PROVIDED THAT** Lessor shall be entitled to divulge information to any of its Affiliates subject to obtaining such Affiliate's prior written agreement to keep such information confidential.

**15. DEFAULT**

Without restricting any other rights and remedies of the Lessor, if the Lessee commits an act of Default which is not waived by the Lessor:

- a. the Lessor may give notice to the Lessee describing in reasonable detail the particulars of the Default and requiring the Lessee to remedy such Default, and the Lessee shall have thirty (30) days' after receipt of such notice to either:
  - (i) remedy, or commence to remedy and thereafter diligently continue to remedy, the Default; or
  - (ii) commence and diligently pursue proceedings for a judicial determination as to whether the alleged act or omission constitutes an act of Default;
- b. if Lessee fails to comply with the provisions of subclause 15 a., this Lease shall thereupon terminate with respect to all that portion of the Leased Lands and Leased Substances to which the act of Default applies, and the Lessor may lawfully re-enter, re-possess and enjoy such portion(s) of the Leased Lands and Leased Substances as have terminated under this Lease due to the Default, subject to the provisions of subclause 15 c.;
- c. if any part of the Leased Lands is included in a plan of unitization, then the Lessor shall not have the right to terminate the Leased Lands or the Leased Substances insofar as they relate to the unitized zone, formation or substance, unless the Default relates wholly or in part to such unitized zone, formation or substance;
- d. if Lessee brings proceedings for a judicial determination as provided for in subclause 15 a. (ii), this Lease shall not terminate with respect to any portion of the Leased Lands and Leased Substances to which the act of Default applies until or unless a final non-appealable judicial determination has been issued; and
- e. the Lessee shall not remove any Equipment from that portion of the Leased Lands which are subject to the Default except with the prior written consent of the Lessor.

**16. FORCE MAJEURE**

- a. Compliance with the terms of this Lease shall be suspended only for so long as a party hereto claiming Force Majeure is prevented from complying in part or in whole as a result of an event of Force Majeure.
- b. A party claiming to be relieved from the performance of its obligations under this Lease due to Force Majeure shall promptly give notice and provide full particulars, including the expected duration of the event of Force Majeure, to the other party and shall thereafter make all reasonable efforts to remedy the situation in a timely fashion to allow it to begin performing its obligations again under this Lease.

**17. SURRENDER**

- a. Provided the Lessee is not in Default under this Lease, the Lessee shall have the right at any time and from time to time, by written notice to the Lessor, to surrender all or any part of its interest in and to the Leased Lands, including all or any zone(s) or formation(s) therein, and the Leased Substances and to terminate this Lease as it relates to such surrendered lands and substances, **PROVIDED THAT** Lessee shall be obligated to include in the lands so surrendered all the acreage contained in the relevant Spacing Unit.
- b. In the event all or any portion of the Leased Lands are surrendered hereunder, the Lessee shall comply with all obligations of the Lessee contained in subclauses 18 b. and c. (Abandonment).
- c. Notwithstanding anything contained in this clause, the surrender of all or any portion of the Leased Lands shall not entitle the Lessee to a refund of taxes or of any other payments already

made; or to a release from any obligations or liabilities which may have accrued prior to the date of such surrender.

**18. ABANDONMENT**

- a. If any well on the Leased Lands ceases to be capable of producing Leased Substances in Paying Quantities, before the removal of any Equipment thereon, the Lessee shall give the Lessor notice of its desire to abandon such well and provide such information as the Lessor may reasonably require concerning the well.
- b. Where a rig is on the site of a well to be abandoned on the Leased Lands, the Lessor shall have forty-eight (48) hours after the receipt of Lessee's notice and delivery of the required information, to elect by notice to Lessee to take over the well; otherwise, Lessor shall have thirty (30) days after the receipt of Lessee's notice and delivery of the required information to elect by notice to Lessee to take over the well. If Lessor elects to take over the well, the provisions of subclause 20 b. shall apply. Failure to elect within the time permitted hereunder shall be deemed an election by Lessor not to take over the well.
- c. Unless Lessor elects to take over a well for which an abandonment notice has been received, the Lessee shall promptly plug and abandon such well, remove any Equipment, and reclaim and remediate the well site and any access roads to the reasonable satisfaction of the applicable surface land owner(s) at Lessee's cost and expense, in accordance with the Regulations and provide Lessor with documentary evidence of same when all required reclamation and remediation has been completed.

**19. SEIZURE AND EXECUTION**

If this Lease shall at any time be seized or taken in execution by any of Lessee's creditors, or if the Lessee makes any assignment for the benefit of creditors, becomes bankrupt or insolvent, or takes the benefit of any statute that may be in force for bankrupt or insolvent debtors, this Lease and all rights and privileges hereunder shall, at the option of the Lessor, be forfeited and terminate.

**20. TAKEOVER OF WELL BY LESSOR**

- a. If all or any portion of this Lease is surrendered, terminated for Default, or expires, Lessor may take over any well, including any Equipment thereon, on the surrendered, terminated or expired portion of the Leased Lands, upon providing Lessee with sixty (60) days' notice and paying to Lessee the value, less salvage costs, of such Equipment.
- b. If Lessor elects to take over such well, the Lessee shall turn over possession and assign to Lessor the well, all Equipment which the Lessor wishes to retain, the well license and any surface rights pertaining thereto, and the Lessee shall quit claim and surrender unto the Lessor all of the Lessee's rights under this Lease with respect to that portion of the Leased Lands containing the Spacing Unit for such well. As consideration for the foregoing, the Lessor shall reimburse the Lessee for the salvage value of the Equipment which the Lessor wishes to retain, less the estimated cost of salvaging the same. All further operations thereafter relating to such well shall be at the Lessor's sole expense and risk; **PROVIDED THAT** nothing herein shall relieve the Lessee of any liabilities which may have accrued to and including the date the Lessor elects to take over such well.

**21. LIABILITY AND INDEMNIFICATION**

Without restricting any other rights and remedies of the Lessor, the Lessee shall be liable to and shall indemnify and save harmless the Lessor, Lessor's Affiliates and any of their respective officers, directors, employees or agents from and against all Claims. Whenever the Lessee consists of two or more parties, the liabilities and obligations of such parties shall be joint and several.

**22. GREENHOUSE GAS EMISSIONS**

- a. Subject to subclause 22 d., the Lessee acknowledges that it owns and shall be liable to and indemnify the Lessor for any and all Greenhouse Gas emissions produced or allocated during the term of this Lease as a result of:
  - (i) any wells drilled on the Leased Lands;
  - (ii) the production, transportation, processing or sale of the Leased Substances;
  - (iii) the construction, operation, ownership or utilization of any production facilities which may be utilized to produce, transport, process or sell the Leased Substances; and
  - (iv) any other activities conducted on or with respect to the Leased Lands that give rise to the production or allocation of Greenhouse Gas emissions.
- b. Liability for and ownership of the Greenhouse Gas emissions set out in subclause 22 a. shall apply notwithstanding any reservation to the Lessor under the terms of this Lease or otherwise, including without limitation the reservation of:

- (i) the royalty; or
  - (ii) any reversionary interests by Lessor in any portion of the Leased Lands or Leased Substances.
- c. The Lessee agrees from time to time to enter into any agreements, and to file any reports, elections or documents whatsoever, as may be necessary or required to give effect to the terms of this clause.
- d. If the Lessor acquires an interest in a well or wells pursuant to clause 15 (Default), clause 17 (Surrender), clause 18 (Abandonment) or clause 19 (Seizure and Execution), the Lessor shall assume liability and ownership of any and all Greenhouse Gas emissions associated with such well or wells and the Leased Substances produced therefrom, from and after the date Lessor acquires such interest.
- e. The Parties agree that this clause, and in particular the terms relating to the allocation of ownership of Greenhouse Gas emissions, will be given a broad and liberal interpretation in order to give effect to the intention of the parties as stated in this clause.

**23. INSURANCE**

- a. In respect of Operations conducted by the Lessee on the Leased Lands, the Lessee shall comply with the requirements of all Unemployment Insurance and Workers' Compensation legislation and shall, prior to the commencement of such Operations, hold or cause to be held with a reputable insurance company, and thereafter maintain or cause to be maintained at Lessee's sole cost and expense for the benefit of the Lessor and Lessee, the following insurance:
- (i) Employer's Liability Insurance covering each employee engaged in Operations hereunder with a limit of not less than one million (\$1,000,000.00) dollars where such employee is not covered by Workers' Compensation;
  - (ii) Automobile Insurance covering all motor vehicles, owned or non-owned, and whether operated or licensed, or both, by the Lessee with a bodily injury, death and property damage limit of not less than two million (\$2,000,000.00) dollars inclusive;
  - (iii) Comprehensive General Liability Insurance with a bodily injury, death and property damage limit not less than five million (\$5,000,000.00) dollars inclusive and, without restricting the generality of the foregoing, such coverage shall include Contractual Liability, Tortious Liability, Pollution Liability, Contractor's Protective Liability, Products and Completed Operations Liability;
  - (iv) Aircraft Liability Insurance, if aircraft are to be used in the Operations, covering all aircraft, owned or non-owned, and whether operated or licensed, or both, by the Lessee with a bodily injury, death and damage limit of not less than five million (\$5,000,000.00) dollars inclusive; and
  - (v) Control of Well Insurance in an amount of not less than five million (\$5,000,000.00) dollars including and, without restricting the generality of the foregoing, seepage, pollution, containment and clean-up, and other extensions of coverage usual to the Operations being carried out in connection with the Lease.
- b. The Lessee shall use reasonable commercial efforts to have its contractors and subcontractors comply with applicable Unemployment Insurance and Workers' Compensation legislation and to carry such insurance in such amounts as the Lessee deems necessary.
- c. If so requested by the Lessor, the Lessee shall furnish evidence to the Lessor of compliance with the foregoing insurance provisions.
- d. The liability of the Lessee to the Lessor and the obligation of the Lessee to indemnify the Lessor under clause 21 (Liability and Indemnification) and clause 22 (Greenhouse Gas Emissions) is not limited to the limits of insurance which Lessee is obliged to maintain or cause to be maintained under this clause.
- e. All deductibles and amounts not covered by insurance, whether by specific exclusion or otherwise, shall be for the account of Lessee.

**24. COMPENSATION**

The Lessee shall pay and be responsible to the applicable surface land owner(s) for actual damages caused by its Operations to the surface of, and growing crops and improvements on, the Leased Lands.

**25. TAXES**

- a. The Lessor shall promptly pay all taxes, rates and assessments levied or assessed, directly or indirectly, against the Lessor by reason of its being the recorded or registered fee simple owner of the Leased Substances in the Leased Lands, **PROVIDED THAT** the Lessee shall be obligated to reimburse the Lessor for one hundred percent (100%) of all such taxes, rates and assessments

levied or assessed in respect of any Operations conducted on the Leased Lands within thirty (30) days of receipt of a written request to such effect from the Lessor.

- b. The Lessee shall further pay all taxes, rates and assessments that may be assessed or levied, directly or indirectly, against the Lessee.

**26. TITLE**

The Lessee hereby accepts the Lessor's title to the Lands and the Leased Substances, and acknowledges and agrees that nothing contained in this Lease, whether expressed or implied, shall constitute a warranty, guarantee or covenant of title by Lessor. The Lessee further accepts the Lease and Grant by Lessor of the Lands and Leased Substances to be held by Lessee as tenant subject to all the conditions, restrictions and covenants set forth in this Lease.

**27. QUIET ENJOYMENT**

The Lessor hereby covenants with the Lessee that upon the observance and performance of all Lessee's covenants, together with all the terms, conditions, provisions, restrictions and stipulations herein contained, Lessee shall and may peaceably possess and enjoy the Lands, the Leased Lands and Leased Substances as herein set forth and the rights and privileges hereby granted during the Primary Term and any continuation thereof without any interruption or disturbance from or by the Lessor or any person acting under or through the Lessor.

**28. USE OF NAME**

The Lessee covenants and agrees that it will not use, suffer or permit to be used, directly or indirectly, the Lessor's name for the purpose of, or in connection with, the financing of or obtaining financial assistance for, any Operations hereunder or the promotion of any corporate enterprise, syndicate, partnership or other association designed, intended or purporting to control, direct or finance, either directly or indirectly, the Operations hereunder.

**29. PAYMENTS**

- a. All payments due and owing to the Lessor shall be paid in Canadian currency, by cheque or bank draft, and shall be mailed or delivered to Lessor at Lessor's address for service as set forth in clause 31.
- b. Interest shall be payable by the Lessee to the Lessor on all monies overdue under the terms of this Lease at Lessor's Bank's prime rate plus two percent (2%) per annum.

**30. REMOVAL OF INSTRUMENTS**

- a. If any caveat or other instrument is registered at the **XXXXXXX** Land Titles Office by the Lessee against the Lands, either directly or indirectly as a result of the granting of this Lease, the Lessee shall cause such caveat or other instrument to be withdrawn or discharged at Lessee's sole cost and expense within thirty (30) days after the final surrender, termination or expiry of this Lease.
- b. Within fifteen (15) days after such caveat or other instrument has been withdrawn or discharged, the Lessee shall supply the Lessor with copies of the documents evidencing the withdrawal or discharge of all such instruments.

**31. NOTICES**

- a. All notices and communications required or permitted to be given hereunder, unless otherwise specifically provided for, shall be given in writing and mailed (postage prepaid) or delivered by hand to the parties at their respective addresses for service as follows:

**LESSOR:**

CANLIN ENERGY CORPORATION  
P.O. BOX 4335, STATION C  
CALGARY, ALBERTA T2T 5N2

Attention: LAND MANAGER

**LESSEE:**

**ADDRESS**

**Attention: LAND MANAGER**

- b. Any notice or communication delivered by hand shall be deemed to have been received the next business day. Any notice or communication sent by prepaid mail shall be deemed to have been received four (4) business days following the date of posting. The Lessor and the Lessee may change their address for service by serving notice as set out above.

- c. If the Lessee consists of two (2) or more persons, they shall designate one person under subclause 31 a. to receive notices on behalf of all the persons comprising the Lessee, and delivery of any notice or communication to such person as contemplated in this clause shall be deemed delivery of such notice or communication to all the persons comprising Lessee. The persons comprising the Lessee shall be entitled to change the designated recipient for receipt of notices by serving joint notice to such effect to the Lessor.

**32. ASSIGNMENT**

The Lessee may not assign this Lease or sublet any part or parts thereof without the prior written consent of the Lessor, which consent shall not be unreasonably withheld.

**33. ENUREMENT**

This Lease shall enure to the benefit and be binding upon the parties hereto and their respective successors and permitted assigns.

**34. CHOICE OF LAW**

This Lease shall be governed and construed in accordance with the laws of the Province of Alberta, and each of the parties hereby submits to the original and exclusive jurisdiction of the courts of the Province of Alberta and all courts of appeal therefrom with respect to any matter or thing relating directly or indirectly to this Lease.

**35. CONTRA PROFERENTUM**

Each of the parties hereto has had the opportunity to obtain independent legal advice concerning the terms and conditions of this Lease and the parties agree that the principle of *contra proferentem* shall not apply with respect to any party to this Lease.

**36. LIMITATIONS**

The two year period for seeking a remedial order under section 3(1)(a) of the *Limitations Act*, R.S.A. 2000 c. L-12, as may be amended from time to time, for any claim (as defined in that Act) arising in connection with this Lease is extended to:

- a. for claims disclosed by an audit made pursuant to subclause 13 b., four (4) years after the time this Lease permitted that audit to be performed; or
- b. for all other claims, ten (10) years.

**37. WAIVER**

No waiver by the Lessor of any Default hereunder shall be effective unless the same be expressed in writing and signed by the Lessor; and any waiver so expressed shall extend only to the particular Default so waived and shall not limit or affect the Lessor's rights with respect to any other or future breach or Default.

**38. AMENDMENT**

No amendment or variation of the terms of this Lease shall be binding on any party unless it is evidenced in writing and executed by the duly authorized representatives of the parties.

**39. SEVERABILITY**

If, and to the extent that, any court of competent jurisdiction determines that it is impossible to construe any provision of this Lease and consequently holds that provision to be invalid, such holding shall in no way affect the validity of the other provisions of this Lease, which shall remain in full force and effect.

**40. SURVIVAL**

Notwithstanding anything else contained herein, to the extent that any obligations or liabilities of Lessee, including but not limited the provisions of clause 21 (Liability and Indemnification) and clause 22 (Greenhouse Gas Emissions), may have accrued prior to the surrender, termination or expiry of this Lease, such obligations and liabilities shall survive and remain in full force and effect in accordance with their terms.

**41. TIME OF THE ESSENCE**

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

**42. FURTHER ASSURANCES**

The Lessor and the Lessee hereby agree that they will each do and perform all such acts and things and execute all such further deeds, documents, and writings as may be necessary to give effect to this Lease.

**43. COUNTERPART EXECUTION**

This Lease may be executed in counterparts and if executed in counterparts all executed counterparts together shall constitute one agreement and all parties shall be deemed to have executed the same agreement.

**44. ENTIRE AGREEMENT**

The terms of this Lease express and constitute the entire agreement between the parties insofar as the specific subject matter contained in this Lease.

**IN WITNESS WHEREOF** the proper representatives of the Lessor and the Lessee have executed and delivered this Lease as of the Effective Date.

**CANLIN ENERGY CORPORATION (Lessor)**  
**(Corporate Seal)**

\_\_\_\_\_  
  
\_\_\_\_\_

**XXXXXXX (Lessee) (Corporate Seal)**

\_\_\_\_\_  
  
\_\_\_\_\_



**SCHEDULE "A" TO A PETROLEUM AND NATURAL GAS LEASE  
DATED XXXXXXXXXX BETWEEN  
CANLIN ENERGY CORPORATION AND XXXXXXXXXX**

**WELL DATA REQUIREMENT SHEET**

**TO:** \_\_\_\_\_ **WELL NAME:** \_\_\_\_\_  
**ATTENTION:** \_\_\_\_\_ **LOCATION:** \_\_\_\_\_

**Two (2) hardcopies and one (1) digital copy are required of each of the following (unless otherwise specified).**

<b>INFORMATION REQUIRED PRIOR TO DRILLING</b>	<b>INFORMATION REQUIRED AFTER DRILLING</b>
<ul style="list-style-type: none"> <li>- Drilling Program (1) Geological Prognosis (1)</li> <li>- Geological Prognosis (1)</li> <li>- Application for Well License (1)</li> <li>- Well Licence (1)</li> <li>- Survey Plan (1)</li> </ul>	<ul style="list-style-type: none"> <li>- Final Logs (1) and (1) CD (DLIS, LAS, TIFF Images)</li> <li>- Final Core Analyses, Photographs (include CD)</li> <li>- Final Analyses – Oil, Gas and Water</li> <li>- Final DST Reports and Charts (include CD)</li> <li>- Final Directional Survey &amp; Report (include CD)</li> <li>- Final Geological Report (2) with (1) CD (Include final digital strip log on CD)</li> <li>- Access to operator’s viald chip samples and/or core</li> </ul>
<b>INFORMATION REQUIRED DURING DRILLING</b>	<b>COMPLETION INFORMATION</b>
<ul style="list-style-type: none"> <li>- Daily Drilling Report</li> <li>- Daily Geological Report and STRIP LOG</li> <li>- Daily Directional Report (digits)</li> <li>- MWD /LWD data (image and digits)</li> <li>- Preliminary Reports including Core, Fluid Analysis, Drill stem, and especially DIP Data</li> <li>- Casing Shoe Leak-off or Formation Integrity Test</li> </ul>	<ul style="list-style-type: none"> <li>- Completion, Stimulation, and Testing Programs</li> <li>- Daily Completion and Flow Reports (with details)</li> <li>- Pressure Data (include surface and bottom hole)</li> <li>- Flare Permit and Dispersion Model</li> <li>- Bottom Hole Diagram, Tubing Design modeling, Wellhead Diagram and details</li> <li>- <b>All</b> results including AOF Tests, Gas and Fluid Analyses</li> </ul>
<b>ADDITIONAL REQUIREMENTS:</b>	
<ol style="list-style-type: none"> <li>1. 48 hour advance notice of spud, core, log, test/case or abandon.</li> <li>2. <b>All drilling</b> reports and related electronic communications to be sent to: <a href="mailto:nonop.canada@canlinenergy.com">nonop.canada@canlinenergy.com</a></li> <li>3. <b>All completion</b> reports and related electronic communications to be sent to: <a href="mailto:nonop.canada@canlinenergy.com">nonop.canada@canlinenergy.com</a></li> <li>4. <b>All FINAL</b> Drilling Hard Copy data to be sent to: Fee Title Leasing (address below)</li> <li>5. <b>All FINAL</b> Completion Hard Copy data to be sent to: Fee Title Leasing (address below)</li> </ol>	

All **DRILLING** data to be forwarded as follows:

Daily: \_\_\_\_\_ E-mail: [nonop.canada@canlinenergy.com](mailto:nonop.canada@canlinenergy.com)

**Courier and/or Mail DATA to:**

Canlin Energy Corporation  
P.O. Box 4335, Station C  
Calgary, AB T2T 5N1  
Attention: Non-Operated Well Data

**SCHEDULE "B" TO A PETROLEUM AND NATURAL GAS LEASE  
DATED XXXXXXXXX BETWEEN  
CANLIN ENERGY CORPORATION AND XXXXXXXXX**

**ROYALTY DATA REQUIREMENT SHEET**

Each royalty payment shall be accompanied by a statement prepared by the Lessee, along with a copy of the Lessee's governmental production report, and such other supporting documentation as the Lessor may require, including without limitation, the amount of production, the proceeds received therefore (or deemed to have been received in the case such production is used or if the Current Market Value is greater than the proceeds actually received), and a description of how the royalty was calculated.