

# PETROLEUM LEASE

THIS INDENTURE made effective the \_\_\_ day of \_\_\_\_\_, 2008.

**BETWEEN:**

**Paramount Energy Operating Corp.,  
as trustee of Paramount  
Energy Trust**

(In this Lease called the "Lessor")

- AND -

\_\_\_\_\_  
(In this Lease called the "Lessee")

WITNESSETH THAT the Lessor and the Lessee covenant and agree as follows:

**1. Definitions:**

In this Lease including this clause and the Appendices attached hereto:

- a. **"Affiliate"** means, in respect of a Person, any other Person or group of Persons acting in concert, directly or indirectly, that controls, is controlled by or under common control with the first mentioned Person, and for the purposes of this definition, "control" means the possession, directly or indirectly, by such Person or group of Persons acting in concert, of the power to direct or cause the direction of the management and policies of the first mentioned Person, whether through the ownership of voting securities or otherwise.
- b. **"CGPR AECO Monthly Index"** means the Alberta Gas Price at AECO C in \$/GJ as published monthly by Canadian Enerdata Ltd. in the "Canadian Gas Price Reporter" in the table entitled "Canadian Natural Gas Supply Prices" and described in the first column, under "Alberta" as "AECO C & N.I.T. One-Month Spot\*\*" under the heading "\$/GJ" under the column "Avg" for the delivery month, 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.
- c. **"Coal"** means the heterogeneous mixture of organic constituents (primarily decomposed plants), inorganic mineral matter and inherent moisture resulting from the coalification process.
- d. **"Coalbed Methane"** or **"CBM"** means a constituent of Coal comprised of hydrocarbons (in solid, liquid or gaseous form) and includes methane, carbon dioxide, inert constituents and dissolved hydrocarbons from water produced or derived from the coal seams, coal beds or carbonaceous shales, which are produced at the surface in the form of a gas or liquid.
- e. **"Condensate"** means liquid hydrocarbons comprised primarily of pentanes plus which are separated from natural gas prior to the inlet of a facility designed to extract Natural Gas Liquids.

- f. **“Crude Oil”** means liquid hydrocarbons, including petroleum and Condensate, but excluding Natural Gas Liquids.
- g. **“Current Market Value”** means the highest price which the Lessee would have received in an arm's length transaction if acting as a reasonably prudent operator having regard to current market prices, availability of markets and economic conditions of the petroleum industry generally.
- h. **“Demised Estate”** means the geological formation or formations set out in Appendix I hereto underlying the Said Lands, as amended from time to time by the Lessor in accordance with the terms of this Lease, or so much thereof as remains subject to this Lease from time to time.
- i. **“Drilling Operations”** means spudding and thereafter diligently and continuously drilling and fully testing all penetrated or re-entered zones of a well for production of Leased Substances, to and including the commencement of Production Operations or abandonment of such well, and all acts incidental thereto.
- j. **“Effective Date”** means the date first referred to above.
- k. **“Environmental Law”** means any law, bylaw, rule, regulation, policy, order, information letter, interim directive, general bulletin, guideline, notice requirements or other legislation of any kind, and any judicial or administrative interpretation thereof, including any judicial or administrative order, written request, consent decree or judgement or any provision or condition of any permit, licence, approval or other operating authorisation 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 chemical raw materials, pollutants, contaminants or toxic, corrosive, hazardous or non-hazardous substances or waste or Hazardous Materials, or 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 similar federal, provincial or local law of similar effect, or any regulations thereof, each as amended from time to time, or any principle of common and civil law and equity including but not limited to causes of action in nuisance, trespass, negligence and strict liability.
- l. **“Environmental Liability”** means any liability, responsibility or obligation arising out of or relating to the construction, ownership, operation, abandonment or reclamation on the Said Lands or Pooled Lands respecting the Leased Substances as a result of:
  - (i) any release of any Hazardous Materials into or through any air, soil, surface water, groundwater, wetlands, land or subsurface strata;
  - (ii) any non-compliance with or breach of any Environmental Laws; 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 and reclaim the Said Lands or Pooled Lands, or any other lands from the effects resulting from any of the foregoing.
- m. **“Gas”** means natural gas produced in association with petroleum, but excluding Crude Oil, Natural Gas Liquids and CBM.
- n. **“GJ”** means gigajoule or 1,000,000,000 joules.
- o. **“Greenhouse Gas”** means all gases that may be, from time to time, associated with climate change, including without limitation carbon dioxide, methane, oxides of nitrogen or sulphur, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

- p. **“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 prohibited, limited or regulated under any Environmental Laws; and
  - (ii) any other chemicals, materials, substances or wastes prohibited, limited or regulated under any applicable Environmental Law, or present in concentrations or at locations that present a threat to human health or the environment.
- q. **“Initial Consideration”** means \_\_\_\_\_ Dollars (\$\_\_\_\_\_.00).
- r. **“Leased Substances”** means petroleum only and all materials and substances, whether liquid, solid or gaseous, and whether hydrocarbons or not, produced in association therewith, including natural gas produced in association with petroleum which gas was in a liquid state in virgin reservoir conditions (“solution gas”), or found in any water contained in any reservoir, but excludes Coal, CBM and valuable stone.
- s. **“Natural Gas Liquids”** means ethane, propane, butane and pentanes plus, or mixtures thereof, which have been extracted from natural gas and which are available for delivery at a Natural Gas Liquids extraction and/or fractionation facility.
- t. **“Other Substances”** means Leased Substances other than Crude Oil, Gas and Natural Gas Liquids.
- u. **“Parties”** means the Lessor and the Lessee collectively, and “Party” means either one of them.
- v. **“Person”** includes an individual, a partnership, a corporation, a trust or a joint venture and the heirs, executors, administrators or other legal representatives of an individual.
- w. **“Pooled Lands”** means the Said Lands and any other lands pooled therewith to form a spacing unit in accordance with the clause hereto entitled “Pooling”.
- x. **“Primary Term”** means the period of three years ( 3 ) from and including the Effective Date.
- y. **“Production in Paying Quantities”** or **“Paying Quantities”** means the output of that quantity of Leased Substances which, considering the operating costs, the kind and quality of production, the availability of markets, the price to be received therefor, and the royalties and other burdens payable with respect thereto, would warrant the taking of production of Leased Substances.
- z. **“Production Operations”** means:
- (i) production of Leased Substances;
  - (ii) completion, which includes the installation in, on or with respect to a well of the production casing, tubing and wellhead equipment and all such other equipment and material necessary for the permanent preparation of the well for the production of Leased Substances therefrom;
  - (iii) the equipping and tie-in of a well, diligently and continuously prosecuted, for the purpose of obtaining production of Leased Substances from such well; and
  - (iv) the reworking, fracing, acidizing or stimulating of a well, diligently and continuously prosecuted for the purpose of obtaining of Leased Substances from such well.
- aa. **“Royalty Data Requirements Sheet”** means the document attached as Appendix (II) to this Lease.

- bb. **“Royalty Determination Point”** means:
- (i) for Crude Oil, the point where product enters a feeder pipeline or any related lateral owned by the owner of the feeder pipeline;
  - (ii) for Gas, excluding sulphur, the inlet to the meter station of the initial common transporter which includes, but is not limited to, TransCanada Transmission - Alberta System, or in the case where the Gas is sold directly to an end user, the inlet meter at the end use facility;
  - (iii) for Natural Gas Liquids, the Natural Gas Liquids outlet meter of the facility at which the Natural Gas Liquids are extracted from natural gas;
  - (iv) for Other Substances excluding sulphur, the point and time of sale to end user or initial common transporter; and
  - (v) for sulphur, the outlet at the sulphur loading facility.
- cc. **“Said Lands”** means the lands described in Appendix (I) hereto, as amended from time to time by the Lessor in accordance with the terms of this Lease, or so much thereof as remains subject to this Lease from time to time.
- dd. **“Spacing Unit”** means, with respect to a well that is drilling, or is drilled and abandoned, the unit of land representing the area defined or prescribed by or under any applicable law or regulation now or hereafter in effect in respect of the drilling of that well, and with respect to a well that is producing or is capable of production, the area defined or prescribed from time to time under any applicable law or regulation now or hereafter in effect in respect of the production of that well.
- ee. **“Well Data Requirements Sheet”** means the document attached as Appendix (III) to this Lease.

## 2. Term:

The Lessor, for the Initial Consideration and in consideration of the covenants of the Lessee contained in this Lease, **DOES HEREBY GRANT AND LEASE** to the Lessee the Leased Substances in the Demised Estate together with the exclusive right and privilege to explore and drill for, win, take, remove and dispose of the Leased Substances, for the Primary Term; **BUT AT THE EXPIRATION OF THE PRIMARY TERM** the Lessor **DOES HEREBY GRANT AND LEASE ONLY** the Leased Substances in the formation or formations within the Demised Estate in respect of which Production Operations are being diligently and continuously conducted and only to the extent that such formation or formations are contained within the Spacing Unit of any well drilled by, or caused to be drilled by, the Lessee on the Said Lands, which grant and lease shall continue, for each such formation, until such formation is surrendered or deemed to be surrendered in accordance with clause 4 (Non Producing Formations), subject always to sooner termination as provided in this Lease.

**PROVIDED THAT**, if at the expiration of the Primary Term the Lessee is engaged in Drilling Operations on the Said Lands, then, with respect to the Demised Estate contained within the Spacing Unit of that well, this Lease shall remain in force so long as such Drilling Operations are diligently and continuously prosecuted; but thereafter shall remain in force only with respect to the Leased Substances in the formation or formations within that part of the Demised Estate in respect of which Production Operations are being diligently and continuously conducted and only to the extent that such formation or formations are contained within the Spacing Unit of such well and shall continue in force, for each such formation, until such formation is surrendered or deemed to be surrendered in accordance with clause 4 (Non Producing Formations), subject always to sooner termination or surrender as provided in this Lease. For greater certainty, clause 18. (Default) shall not apply to this clause 2.

All portions of the Demised Estate which are not continued beyond the Primary Term shall revert to the Lessor effective as of the expiration of the Primary Term.

For the purpose of this Lease, in the event that the Lessee has diligently and continuously conducted Production Operations on any well previously drilled on the Said Lands, but not drilled by the Lessee, such well shall be considered a well drilled by the Lessee under this Lease.

### 3. Rentals:

The Lessee shall pay or cause to be paid to the Lessor an annual rental of \_\_\_\_\_ dollars (\$\_\_\_\_.00) being payable in advance on the Effective Date for each year of the Primary Term (total of \$\_\_\_\_.00), and thereafter on the anniversary date in each year during any continuation of this Lease beyond the Primary Term. In the event this Lease is terminated for any reason before the end of the Primary Term, Lessor shall not be entitled to any reimbursement of rental payments made in advance as provided herein.

### 4. Non Producing Formations:

In respect of any formation in the Demised Estate with respect to which this Lease is being continued after expiration of the Primary Term in accordance with clause 2 (Term), and with respect to which the Lessee ceases at any time to diligently and continuously conduct Production Operations, other than by reason of force majeure as described in clause 23. (Force Majeure), the Lessor, at any time during the period that this Lease is being so continued, may give notice to the Lessee that it is required to commence Production Operations in respect of such formation. In the event that the Lessor so notifies the Lessee that it is required to commence Production Operations in respect of such formation, the Lessee shall commence, and thereafter diligently and continuously prosecute, Production Operations in respect of such formation within sixty (60) days of the receipt of such notice or shall surrender that formation to the Lessor prior to or at the end of such sixty (60) day period. The failure to commence Production Operations within the sixty (60) day period shall be deemed an election by the Lessee to so surrender the formation. For greater certainty, clause 18. (Default) shall not apply to this clause 4.

Nothing in this clause 4. will relieve the Lessee of any of its obligations under the other clauses of this Lease with respect to any well located on the Said Lands or Pooled Lands.

### 5. Royalties:

a. The Lessee shall pay to the Lessor royalties in cash in respect of:

- (i) Crude Oil and Natural Gas Liquids, a royalty of twenty percent (20%);
- (ii) Gas, a royalty of twenty percent (20%); and
- (iii) Other Substances, a royalty of twenty percent (20%)

of the greater of:

- (i) the actual price received for such Leased Substances (including payments received from any source whatsoever in respect thereof); or
- (ii) the Current Market Value of such Leased Substances or any of them; or
- (iii) in the case of Gas, the price per GJ as determined with reference to the CGPR AECO Monthly Index (after taking into consideration any applicable transportation adjustments between AECO and the Royalty Determination Point),

at the Royalty Determination Point in respect of each of such Leased Substances produced, saved and marketed from the Demised Estate or at the time such Leased Substances are used for purposes other than operations to produce Leased Substances from the Demised Estate, all without any deductions whatsoever.

- b. The royalty as determined under sub-clause 5. a. shall be paid not later than the last day of the month following the month in which the Lessee has marketed or used any of the Leased Substances in respect of which a royalty is payable under sub-clause 5. a. and thereafter not later than the last day of each succeeding month so long as any of the Leased Substances shall be marketed or used. Each such royalty payment shall be accompanied by a statement prepared by the Lessee, which statement shall include all the data set forth in the Royalty Data Requirements Sheet. The Lessee shall provide, at the request of the Lessor, the Lessee's governmental reports, including without limitation, the assessed value for mineral tax purposes, and such other supporting documentation as the Lessor may require.
- c.
- (i) The Lessor shall have the option, exercisable at any time and from time to time on thirty (30) days written notice to the Lessee, to take in kind, in lieu of the royalty payable under sub-clause 5. a. in respect of Crude Oil and Natural Gas Liquids twenty percent (20%) of all Crude Oil and Natural Gas Liquids, or any of them, produced and saved from the Demised Estate, or Pooled Lands, and on like notice may at any time and from time to time revoke its exercise of such option; if the Lessor so exercises such option, the Lessee shall at the Lessee's cost treat the Lessor's said share so that such share will meet pipeline, refinery or other market specifications in that respect and the Lessee shall provide at the Lessee's cost storage facilities for at least ten (10) days accumulation of such share and shall deliver at the Lessee's cost the same to the Lessor or the Lessor's nominee at the respective Royalty Determination Point in accordance with usual pipeline and shipping practices and free and clear of all charges, liens and encumbrances.
- (ii) On or before the last day of the month following the month in which such Crude Oil or Natural Gas Liquids were produced, the Lessee shall provide a statement to the Lessor, which statement shall identify the property (Unique Well Identifier or Unit name) and the amount of production and sales allocated to each well on the Said Lands. The Lessee shall provide, at the request of the Lessor, the Lessee's governmental reports, including without limitation the assessed value for mineral tax purposes, and such other supporting documentation as the Lessor may require.
- d.
- (i) The Lessor shall have the option, exercisable at any time and from time to time on thirty (30) days written notice to the Lessee, to take in kind, in lieu of the royalty payable under sub-clause 5. a., in respect of Gas and Other Substances, twenty percent (20%) of all Gas and Other Substances, or any of them, produced and saved from the Demised Estate, or from the Pooled Lands, and on like notice may at any time and from time to time revoke its exercise of such option.
- (ii) Within one hundred and twenty (120) days, but not less than ninety (90) days, before the Lessee makes any contract that is not terminable on thirty (30) days or less notice, including any renewal, amendment or extension thereof, for the sale or other disposition of any Gas and Other Substances, or any of them, from the Demised Estate or Pooled Lands, the Lessee shall give to the Lessor notice of the Lessee's intention so to do together with full particulars of such contract, amendment, renewal or extension and the Lessor shall have the option, exercisable by notice to the Lessee within thirty (30) days after receipt of such notice from the Lessee, to take in kind, in lieu of the royalty payable under sub-clause 5. a. in respect of Gas and Other Substances twenty percent (20%) of all Gas and Other Substances, or any of them, produced and saved from the Demised Estate or Pooled Lands.
- (iii) If the Lessor exercises its option under sub-clause 5. d.(i) or (ii), the Lessee shall at the Lessee's cost deliver the Lessor's said share to the Royalty Determination Point and shall, with respect to Gas and Other Substances or any of them, or any portion or component thereof, that requires or is subjected to any compression, processing or treatment of any kind to make it transportable or marketable, or to increase its marketability or value, at the Lessee's cost, carry out or cause to be carried out such compression, processing or treatment of the Lessor's said share.

- (iv) On or before the last day of the month next following the month in which such Gas was produced, the Lessee shall provide a statement to the Lessor which statement shall identify the property (Unique Well Identifier or Unit name) and the amount of production and sales allocated to each well on the Said Lands. The Lessee shall provide, at the request of the Lessor, the Lessee's governmental reports, including without limitation the assessed value for mineral tax purposes, and such other supporting documentation as the Lessor may require.
- e. Notwithstanding that the Lessor declines to take in kind its royalty share of any Leased Substances, it shall continue to be entitled to receive its royalty in cash on the greater of the actual price received, the Current Market Value or, in the case of Gas, the CGPR AECO Monthly Index, as set out in sub-clause 5. a.).
- f. If any of the Leased Substances is initially sold under a non-arm's length sale and the same substance or substances derived therefrom is, or are, subsequently sold in an arm's length sale or sales which would result in a higher royalty (the "higher royalty") being payable hereunder if the royalty paid on the initial sale of the substance or substances had been calculated on the aggregate of the price received in such arm's length sale or sales and the price payable pursuant to sub-clause 5. a. for that part of the Leased Substance or substances that is not the subject of such subsequent arm's length sale or sales, the Lessee shall, in addition to the royalty paid on the initial sale of such Leased Substance or substances pursuant to sub-clause 5. a., pay the Lessor, within thirty (30) days of such arm's length sale or sales, a royalty equal to the difference between the higher royalty and the royalty paid on the initial sale of such Leased Substance or substances.

#### **6. Taxes Payable by the Lessor:**

The Lessor shall promptly satisfy all taxes (excluding income taxes), rates and assessments that may be assessed or levied, directly or indirectly, against the Lessor by reason of the Lessor's interest in production obtained from the Demised Estate or the Lessor's ownership of mineral rights in the Said Lands. For greater clarity, it is acknowledged that for the purposes of clauses 6. (Taxes Payable by the Lessor) and 7. (Taxes payable by the Lessee) hereof, the Lessor has a percentage interest in production obtained from the Demised Estate equal to the percentage royalty payable to it pursuant to sub-clause 5. a. (Royalties).

#### **7. Taxes Payable by the Lessee:**

The Lessee shall promptly satisfy all taxes (excluding income taxes), 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 Said Lands, and shall further pay all taxes, rates and assessments that may be assessed or levied, directly or indirectly, against the Lessee by reason of the Lessee's interest in production from the Demised Estate. The Lessee shall, within twenty (20) days after receipt of the written request of the Lessor, accompanied by the applicable receipts, statements or notices, reimburse the Lessor for:

- a. twenty percent (20%) to the extent based upon Gas and Other Substances; and
- b. twenty percent (20%) to the extent based upon Crude Oil and Natural Gas Liquids

of all taxes, rates and assessments assessed or levied directly or indirectly against the Lessor during the currency of this Lease by reason of the Lessor being the owner of the mineral rights in the Said Lands and notwithstanding that the method of calculation of such taxes, rates and assessments may be based upon production from the Demised Estate.

#### **8. Offset Wells:**

- a. In the event of Production in Paying Quantities being obtained from a geological formation which is also

within the Demised Estate from any well drilled on or into any Spacing Unit which laterally or diagonally adjoins the Said Lands or Pooled Lands and which is not owned by the Lessor or, if owned by the Lessor, not under lease to the Lessee, then, with respect to each Spacing Unit of the Said Lands or Pooled Lands which laterally or diagonally adjoins the Spacing Unit from which production is being so obtained and on or into which a well has not been or is not being drilled to the horizon in the formation from which production is being so obtained, the Lessee shall, within one hundred twenty (120) days from the date of said well being placed on production, either:-

- (i) commence or cause to be commenced within the aforesaid one hundred twenty (120) day period operations for the drilling of an offset well on or into each such Spacing Unit and thereafter drill the same to the horizon in the formation from which production is being obtained from the said adjoining Spacing Unit; or
  - (ii) surrender all or any portion of the Said Lands provided that the lands surrendered shall include that portion of the Said Lands comprising each such Spacing Unit and further provided that, where production is capable of being obtained in Paying Quantities from that portion of the Said Lands comprising any such Spacing Unit from a formation within the Demised Estate other than the formation from which Production in Paying Quantities is being obtained from the Spacing Unit which laterally or diagonally adjoins the Said Lands or Pooled Lands, the Lessee shall only be required to surrender those formations of such Spacing Unit other than the formation from which production is so capable of being obtained in Paying Quantities;
  - (iii) extend the time for commencing operations for the drilling of an offset well under sub-clause a. (i) or surrendering under sub-clause a. (ii), of this clause 8, by paying to the Lessor a compensatory royalty, calculated and paid in accordance with the provisions of this Lease relating to the payment of royalty, equal to the royalty that would be payable to the Lessor hereunder if the Leased Substances produced from the adjoining producing well from a formation or formations which are also within the Demised Estate were being produced from a well on the Said Lands or Pooled Lands; provided that, in the event that there is more than one Spacing Unit containing a producing well adjoining a Spacing Unit of the Said Lands or Pooled Lands which are producing from the same formations, such compensatory royalty shall be paid on the basis of the production from the adjoining producing well having the highest production in each month. In the event there is a well or wells in the Spacing Unit or units adjoining a Spacing Unit of the Said Lands or Pooled Lands which is, or are, producing from more than one formation, the compensatory royalty shall be paid on the basis of the aggregate production in each month from all formations which are also within the Demised Estate. The compensatory royalty shall commence on the last day of the aforesaid one hundred twenty (120) day period and shall terminate upon the first day of the month following commencement of operations pursuant to sub-clause a. (i) or surrender under sub-clause a. (ii), of this clause 8.
- b. If any part of the Said Lands or Pooled Lands is laterally or diagonally adjoined by lands that are unitized under a plan of unitization (including, without limitation, a formal 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) the Lessor may give written notice to the Lessee at any time after sixty (60) days from the date that production commences or is deemed to commence from the lands subject to the unit (or other agreement) that the 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 Said Lands or Pooled Lands from which Production in Paying Quantities is being obtained and the provisions of sub-clause a. of this clause 8 will apply, with the one hundred twenty (120) day period provided for therein commencing as at the date of receipt by the Lessee of the Lessor's notice and with the compensatory royalty payable under sub-clause a. (iii) of this clause 8 being paid on the basis of production from the unit well (or well subject to such other agreement) having the highest production in each month.
- c. Notwithstanding anything to the contrary stated herein, in the event that as at the Effective Date there exists a well or wells which were drilled on or into any Spacing Unit which laterally or diagonally adjoins the Said

Lands or Pooled Lands which is not owned by the Lessor or, if owned by the Lessor, not under lease to the Lessee, which would otherwise cause the Lessee to make an election pursuant to subclause 8.a., the time for which the Lessee must make such election shall be extended to three hundred sixty five (365) days and reference to one hundred twenty (120) days throughout clause 8 shall be amended to read three hundred sixty five (365) days. For any well or wells that are drilled or placed on production after the Effective Date that will cause the Lessee to make an election pursuant to subclause 8.a. the provisions within subclauses 8.a. and 8.b. shall apply without amendment.

**9. Density:**

The Lessee, to the extent it is consistent with good oilfield practice, shall use its best efforts to drill in a timely manner sufficient wells on the Said Lands, or on the Pooled Lands, to provide the same density of wells as are producing on the laterally or diagonally adjoining lands.

**10. Rateable Production:**

The Lessee shall use its reasonable best efforts, subject to any applicable laws or regulatory requirements, to produce any of the Leased Substances capable of being produced from the Demised Estate rateably with any other similar substances produced from any other lands within the same pool or field in which the Lessee, or any of its Affiliates, has an interest. The Lessee shall not discriminate against the Leased Substances produced or capable of being produced from the Demised Estate in the production and marketing of Leased Substances.

**11. Pooling:**

Upon written notice to the Lessor, the Lessee may at any time and from time to time pool such geological formation or formations of the Demised Estate as may be necessary to form a Spacing Unit with other lands adjoining the Said Lands, provided that the area so pooled shall not exceed the Spacing Unit for the well to be drilled on or in such pooled lands. The said notice shall describe the purpose for the pooling, the formations pooled, the area of the Said Lands included in the pooling, and the size of the spacing unit formed by the pooling. In the event of such pooling, the production of the Leased Substances from the portion of the Demised Estate placed in such Spacing Unit shall be deemed to be that proportion of the total production from the Spacing Unit which the area of the Said Lands included in such Spacing Unit bears to the total area of the lands in such Spacing Unit, and the Lessor shall receive royalties on such proportion of total production. The presence in the Spacing Unit of a well in respect of which Production Operations are being diligently and continuously conducted from any formation or formations of the Demised Estate included in such Spacing Unit, or Drilling Operations on the Pooled Lands, shall have the same effect in continuing this Lease in force and effect, to the extent provided in clause 2. (Term), as if such such Production Operations were in respect of the Demised Estate or Drilling Operations were on the Said Lands. A well drilled or operations conducted on lands pooled with the Said Lands pursuant to this clause 11. shall be deemed to be a well drilled or operations conducted on the Said Lands for the purposes of clauses 12. (Reports by the Lessee), 13. (Inspections by the Lessor of the Lessee's Operations) and 14. (Operations) of this Lease.

**12. Reports by the Lessee:**

The Lessee shall, with respect to each well drilled by the Lessee on the Said Lands, or Pooled Lands, furnish to the Lessor the information required within the time period specified pursuant to the Well Data Requirements Sheet.

**13. Inspections by the Lessor of the Lessee's Operations:**

- a. The Lessor shall have the right, but not the obligation, through its authorised representatives, at all reasonable times during the term of this Lease, to enter upon the Said Lands, or on Pooled Lands, and into all buildings erected thereon and to survey, examine, inspect and test the state and condition of the same and of any wells, provided that, in so doing, no unnecessary interference is caused to the operations of the Lessee; and the Lessee shall in every reasonable way aid such representative in making such entry, survey, examination and

inspection.

- b. The Lessor shall have the right, but not the obligation, at any time and from time to time during the term of this Lease, but not more than once every two (2) years, to conduct a technical audit of the Lessee's operations and the Lessee shall provide the Lessor, at the Lessor's cost and risk, access to the Lessee's operation including its lands, facilities and records for the purpose of conducting such audit.

#### **14. Operations:**

The Lessee shall conduct its operations on the Said Lands, or on the Pooled Lands, in a diligent, careful and workmanlike manner with a view to the maximum recovery of the Leased Substances from the Demised Estate and in compliance with the law applicable to such operations, and without limiting the generality of the foregoing the Lessee shall:

- a. at its own expense, obtain the right to enter upon the surface of the Said Lands, or on the Pooled Lands, for the purposes of this Lease;
- b. having commenced the drilling of a well, thereafter diligently and continuously prosecute the operations with respect to such well through to completion or abandonment;
- c. if it discovers any minerals other than the Leased Substances, forthwith give to the Lessor notice in writing of such discovery together with all particulars or information relevant thereto;
- d. not in any way interfere with any other Person which is at any time entitled to explore for, win, take, remove or dispose of any minerals other than the Leased Substances in the Demised Estate and shall permit any such Person to explore for, win, take, remove or dispose of such minerals;
- e. continuously and diligently operate any well on the Said Lands, or on the Pooled Lands, with adequate and sufficient machinery, appliances and equipment and in accordance with the best engineering practices;
- f. properly plug or cement each well drilled or being drilled upon the Said Lands, or on the Pooled Lands, so as to prevent any flow of any substance from one stratum to another;
- g. upon termination or expiration of this Lease, leave the Said Lands, or Pooled Lands, in good condition in accordance with reasonable oilfield practice;
- h. use its best reasonable efforts to market the Leased Substances;
- i. keep the Said Lands, or Pooled Lands, free of all liens.

#### **15. Environmental Provisions:**

- a. The Lessee shall, where the Lessor believes there are reasonable grounds, and upon the Lessor giving written notice to the Lessee, at the Lessee's sole expense, cause an environmental audit to be forthwith conducted of its operations by a competent environmental auditor and at its sole expense 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 the environmental audit reveals the need for any remediation work, or other actions which must be completed in order to bring the Said Lands, or Pooled Lands, into compliance with applicable Environmental Laws or to eliminate any potential Environmental Liability, Lessee shall engage a reliable environmental engineering firm reasonably acceptable to Lessor and authorised by any applicable federal, provincial, or local law, policy or regulation, to perform any Required Remediation. For the purposes of this

clause "Required Remediation" shall mean any action necessary to:

- (i) comply with any governmental order;
  - (ii) comply with any Environmental Law;
  - (iii) eliminate a potential Environmental Liability as applicable to the Said Lands, or Pooled Lands, or applicable to the operation thereof by Lessee during the term of this Lease;
  - (iv) obtain a reclamation certificate from the governing provincial authority confirming that the provincial authority has approved the reclamation;
  - (v) obtain a closure letter from the governing provincial authority confirming with respect to any underground storage tanks within, upon or under the Said Lands, or Pooled Lands, that it will not take any further action related to any liability associated with such underground storage tanks on the Said Lands or Pooled Lands.
- 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 the costs associated with verifying that the Required Remediation is complete.
- d. Lessor may monitor the performance of the Required Remediation and, at its election, may cause an environmental consultant to review the performance of the Required Remediation. If Lessor directs an environmental consultant to undertake such review, the Required Remediation shall be deemed completed only upon certification of its completion by the environmental consultant; and
- e. In respect of the Said Lands, the Lessee shall:
- (i) take all 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, in, on, under or about any of the Said Lands, or Pooled Lands;
  - (ii) give notice to the Lessor of any spill, discharge, release, disposal or emission from the Said Lands, or Pooled Lands, or other environmental condition on the Said Lands, or Pooled 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 a regulatory authority;
  - (iii) submit a written report to the Lessor which may include a report of an environment consultant and or an independent engineer in scope, form and substance satisfactory to the Lessor demonstrating that the Said Lands, or Pooled Lands, which were the subject of any notice or order referred to in sub-clause (ii). above complies with the Environmental Laws;
  - (iv) report all spills, discharges, releases, disposal or emissions as required by all applicable Environmental Laws and provide a copy of such report to Lessor within 48 hours of such report;
  - (v) report all non-routine investigations by governmental or regulatory authorities to the Lessor immediately upon the earlier of the Lessee becoming aware of an intended investigation or the investigator arriving at the Said Lands, or Pooled Lands;
  - (vi) notify the Lessor promptly of any litigation or regulatory proceeding pending or, to the knowledge of the Lessee, threatened against the Lessee or others having an interest in the Said Lands, or Pooled Lands, in respect of environmental matters which have an adverse effect on the Said Lands;

- (vii) at the request of the Lessor, provide the Lessor with copies of all permits, licences, certificates, approvals, authorisations, registrations, or exemptions or the like required for the valid performance of the operations of the Lessee, 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 Said Lands, or Pooled Lands, or Lessee in relation to the requirements of 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 all applicable Environmental Laws;
  - b. there is no litigation, administrative order or regulatory proceedings, or to the best of the Lessee's knowledge threatened, against the Lessee in respect to environmental matters which would have a material adverse effect on the property, business or operations or financial condition of the Lessee;
  - c. to the best of the knowledge of the Lessee, there is no investigation being conducted or pending by any governmental authority of the Lessee in respect to environmental matters; and
  - d. no environmental event has occurred or has 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 property, business, operations or financial condition of the Lessee.

## 16. Insurance Provisions:

The Lessee shall, prior to the commencement of and throughout the continuance of operations under this Lease, and without limiting its obligations or liabilities in this Lease, comply with the requirements of Unemployment Insurance, Occupational Health and Safety legislation, Environmental Laws and all similar legislation and hold or cause to be held with a reputable insurance company or companies, and thereafter maintain or cause to be maintained, the following insurance at the Lessee's expense:

- a. Workers Compensation, covering all the Lessee's personnel engaged in performing operations hereunder, in accordance with the legislation of the province or territory having the jurisdiction over such personnel. The Lessee shall at all times pay or cause to be paid any assessment or compensation required to be paid pursuant to the Workers' Compensation legislation for the relevant jurisdiction. In the event of the Lessee's failure to do so, the Lessor may pay any assessment or compensation to the Workers' Compensation Board, which amount shall be a debt due and owing to the Lessor by the Lessee, and the Lessor may deduct the amount from monies due or to become due to the Lessee under this Lease or otherwise. The Lessee at the time of commencing the performance of any operations declares that all assessments or compensation payable to the Workers' Compensation Board have been paid and the Lessor may at any time during the performance and upon the completion of the operations require further the declaration of the Lessee that such assessment or compensation has been paid in full. The Lessee unconditionally guarantees full compliance with this provision by any subcontractor or other personnel employed by the Lessee or with whom the Lessee may make any contract for the performance of any part of any operations hereunder;
- b. Employer's Liability Insurance covering each employee, not covered by Workers' Compensation, engaged in operations hereunder with limits of not less than one million dollars (\$1,000,000) per occurrence;
- c. If any person who is not an employee of the Lessee (including directors, partners, proprietors, and owner-operators) is, or may be from time to time, involved in the actual operations on behalf of the Lessee, the Lessee shall ensure that such person is covered by either the optional coverage available through Workers' Compensation, or under Employer's Liability Insurance as described in this clause 16.;

- d. Automobile Liability Insurance, where not otherwise covered by the Comprehensive General Liability policy, covering all motor vehicles, owned or non-owned, operated, used or hired in connection with operations hereunder with an inclusive bodily injury, death and property damage limit per occurrence of not less than two million dollars (\$2,000,000.00);
- e. Comprehensive General Liability Insurance containing the following:
  - (i) provision for a combined single limit of five million dollars (\$5,000,000.00) for each occurrence or incident;
  - (ii) provision in respect of coverage for bodily injury (including death at any time resulting therefrom) and personal injury sustained by any person or persons and for injury to or destruction of property (including loss of use or occupancy) arising out of any operations hereunder;
  - (iii) provision in respect of coverage for contractual liability, tortious liability, personal injury, contractor's protective liability, products liability, completed operations liability and occurrence basis property damage and pollution liability;
  - (iv) where not otherwise covered by the Lessee's comprehensive general liability policy, Aircraft Liability Insurance covering all aircraft, owned or non-owned, which are operated by or on behalf of the Lessee in connection with operations hereunder with an inclusive bodily injury, death and property damage limit per occurrence of not less than ten million dollars (\$10,000,000.00). In addition, where such aircraft are owned or operated by the Lessee, such coverage shall also insure against damage to the aircraft for not less than its full replacement value; and
  - (v) Operator's Extra Expense (Cost of Well Control) including coverage for underground blowout, seepage and pollution with a limit of not less than ten million dollars (\$10,000,000.00) per occurrence.

In addition to obtaining the insurance referred to above, the Lessee agrees that:

- A. all policies of insurance shall include the Lessor, its directors, officers, agents and employees as additional named insured to the extent of the Lessee's liability under this Lease, or all policies of insurance shall waive rights of subrogation against the Lessor;
- B. all policies of insurance shall provide that there will be no material change or cancellation without thirty (30) days notice to the Lessor;
- C. prior to commencement of operations the Lessee shall provide to the Lessor certificates of insurance confirming the existence of the above insurance and shall provide from time to time, as requested by the Lessor, proof of continuation of these policies; and
- D. the insurance maintained by the Lessee pursuant to this Lease shall be primary to any other insurance.

The Lessee shall cause its contractors, sub-contractors and others working on operations to comply with the laws applicable to such operations including, without limitation, Unemployment Insurance, Workers' Compensation, Environmental Protection and Occupational Health and Safety legislation and to carry insurance in such amounts as are reasonably necessary, having regard to sub-clause 16a); and

Subject to the Lessee complying with sub-clauses 16a) and 16b) above, and provided that the Lessee complies with the requirements of Unemployment Insurance, Environmental Laws and Occupational Health and Safety legislation and all similar legislation, the Lessee may, with the prior written consent of the Lessor, which consent can be withheld, self-insure for the insurance coverage required under sub-clauses 16e) set out above. Without limitation, the Lessor, prior to granting consent or at any time after granting consent, may require the Lessee to provide evidence satisfactory to the Lessor, in its sole opinion, as to the ability of the Lessee to self-insure, and may, at any

time on thirty (30) days notice to the Lessee revoke such consent. Notwithstanding the provisions of clause 30. (Assignment) herein, such consent will be automatically revoked on any assignment by the Lessee of its interest in this Lease.

**17. Records:**

- a. The Lessee shall keep true records, for a period of at least six (6) years following the end of the calendar year to which such records relate, in respect of the Demised Estate as follows:
  - (i) governmental production reports showing the quantity of the Leased Substances produced or deemed to be produced;
  - (ii) records as to the nature and quantity of each of the Leased Substances:
    - a. processed
    - b. produced
    - c. sold, including the name of the purchaser,
    - d. stored,
    - e. used, and
    - f. otherwise disposed of;
  - (iii) records as to the actual price received (including payments received from any source whatsoever in respect thereof) in respect of the quantity 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 thereof) in any subsequent arm's length sale; and
  - (iv) records as to the terms upon which the quantity of each of the Leased Substances otherwise disposed of is so disposed of.
- b. The Lessor shall have the right, at any time either during or after the term of this Lease, to audit such records.

**18. Default:**

Without in any way restricting any other rights and remedies which the Lessor may have in the case of the breach or non-observance or non-performance on the part of the Lessee of any covenant, proviso, condition, restriction or stipulation in this Lease contained, (the "Default") the Lessor may give to the Lessee written notice requiring the Lessee to remedy such Default and if the Lessee fails to remedy such Default within a period of thirty (30) days from the receipt of such notice, or, in the case of a Default which requires more than thirty (30) days to remedy, if the Lessee fails to commence to remedy such Default within a period of thirty (30) days from the receipt of such notice and thereafter diligently continue in its best efforts until such Default has been completely remedied, this Lease shall thereupon terminate and it shall be lawful for the Lessor, to enter into and upon the Demised Estate (or any part thereof in the name of the whole), to re-enter and the same to have again, repossess and enjoy, anything in this Lease contained to the contrary notwithstanding, and, should the Lessor so elect by notice to the Lessee within thirty (30) days of exercising this right, any or all wells which the Lessee may have drilled on the Said Lands, including all tools, machinery, buildings, erections, equipment and materials (the "Equipment") which the Lessee may have placed on the Said Lands for the express purpose of producing Leased Substances shall become the property of the Lessor free and clear of any claim or interest of the Lessee and the Lessee shall assign to the Lessor, without consideration, the wellbore(s), the Equipment, the surface rights of the Said Lands and any regulatory permits or

licences which the Lessor may request; provided that, nothing in this clause 18. contained shall relieve the Lessee from its obligations under clause 20. (Removal of the Lessee's Equipment) unless and to the extent that the Lessor elects to take over the wells and Equipment or any portion thereof. Without derogating from the foregoing provisions of this clause 18, if the Demised Estate or a part thereof is included in any plan of unitization to which the Lessor has consented and a Default occurs which does not relate wholly or partly to the portion of the Said Lands included in the plan of unitization, then the Lessor shall have the right to terminate this Lease in the manner provided in this clause for the portion of the Said Lands not included in the plan of unitization.

## **19. Surrender:**

The Lessee, when not in Default, may at any time surrender all its interest in and to this Lease and the term thereby granted, provided however that where the Said Lands form only a part of a Spacing Unit and the Lessee holds from the Lessor a lease or leases of other lands in such Spacing Unit, the Lessee may not surrender this Lease unless the Lessee at the same time surrenders all the Lessee's interests in all leases the Lessee holds from the Lessor in respect of said Spacing Unit. Such surrender shall not entitle the Lessee to a refund of any monies paid hereunder nor shall it release the Lessee from any obligations and liabilities which may have accrued prior to the date of such surrender or from its obligation and liabilities under clause 20. (Removal of the Lessee's Equipment).

## **20. Removal of the Lessee's Equipment:**

- a. If the Lessee is in Default under this Lease, the Lessee shall not remove from the Said Lands any equipment which it may have placed thereon except with the written consent of the Lessor.
- b. If this Lease is surrendered by the Lessee, is otherwise terminated, or expires, the Lessor may, within sixty (60) days from the date of such surrender, termination or expiration, by notice to the Lessee, take over any well or wells which the Lessee may have drilled on the Said Lands, including the Equipment which the Lessee may have placed on the Said Lands, upon paying to the Lessee the value, less salvage costs, of the Equipment; otherwise the Lessee, if not in Default under this Lease, shall remove from the Said Lands the Equipment and may pull all casing, subject to compliance with Government regulations in that respect, provided such removal is completed within one hundred and eighty (180) days from the date of such termination or expiration. If the Lessee does not so remove the Equipment and casing, the equipment at the election of the Lessor by notice to the Lessee within thirty (30) days of the expiration of one hundred and eighty (180) days from the date of such termination or expiration, shall thereupon become the property of the Lessor free and clear of any claim or interest of the Lessee. If the Lessor exercises its rights under this clause, the Lessee shall assign, without consideration, the surface rights of the Said Lands to the Lessor.
- c. Notwithstanding the provisions of sub-clauses 20. a. and 20. b., upon the surrender, termination or expiration of this Lease, unless the Lessor elects to take the Equipment over pursuant to clause 18. (Default) or sub-clause 20. b., the Lessee shall properly abandon all wells on the Said Lands and remove the Equipment which it has placed on the Said Lands and shall restore the surface of the Said Lands in accordance with the applicable laws and regulations, any applicable Environmental Laws and to the satisfaction of the surface owner and provide proof of such abandonment and restoration to the Lessor.

## **21. Abandonment:**

- a. Subject to the provisions of sub-clauses 21. b. and 21. c. below, if Production in Paying Quantities is not obtained from a well drilled on the Said Lands, or on Pooled Lands, the Lessee shall be responsible to plug and abandon each well at its own cost and risk in a manner satisfactory to the regulatory authorities having jurisdiction in that regard. The Lessee shall also clean up the well site including all access roads and shall supply the Lessor with a copy of documentation evidencing to the reasonable satisfaction of the Lessor that the well site and access roads have been reclaimed in accordance with the applicable laws and regulations, any applicable Environmental Laws and to the satisfaction of the applicable land owners.
- b. Notwithstanding clause 18. (Default) and where this Lease has not been surrendered, or terminated, in the

event that the Lessee intends to abandon a well drilled on the Said Lands, or on Pooled Lands, in addition to the notice requirements set out in clause 12. (Reports by the Lessee), it shall so advise the Lessor not less than forty-eight (48) hours prior to such abandonment when a drilling rig is on location, and not less than thirty (30) days prior to such abandonment in all other cases, and the Lessor shall have the right, within such forty-eight (48) hour or thirty (30) day period, whichever is applicable, to take over such well. The Lessor shall also have the right to use the drilling equipment on such well either by taking over the drilling contract, subject to consent of the contractor, or in the event that the drilling equipment belongs to the Lessee, by paying the Lessee the prevailing competitive drilling rates in the area for the use of such equipment.

- c. In the event that the Lessor elects to take over a well drilled on the Said Lands, or on Pooled Lands:
- (i) all the interest of the Lessee in the well shall pass to the Lessor except that the Lessor shall reimburse the Lessee for the salvage value of all material and equipment therein and connected therewith which the Lessor wishes to retain, less the estimated cost of salvaging the same;
  - (ii) the Lessee shall be relieved of any further liability with respect to the completion of the well but shall not be relieved of liability which may have accrued up to that time at which the Lessor elects to take over the well; and
  - (iii) in the event the Lessor completes the well for the taking of production or caps same, the Lessee shall be deemed to have assigned to the Lessor the entire interest which it holds or may be entitled to acquire in the formation or formations completed or capped for the taking of production in the Said Lands and in any Pooled Lands included within the Spacing Unit upon which the well is located. In the event the Lessor does not complete or cap the well but abandons same, the Lessee shall not be deemed to have assigned to the Lessor any interest in the Said Lands, and shall be responsible for abandonment costs except any additional abandonment costs attributable to the Lessor's take-over of the well pursuant to this clause.

## **22. Reduction in Spacing:**

If the drilling of wells requires a reduction in the size of a Spacing Unit or units on the Said Lands, or on Pooled Lands, or subject to the Lessor's approval, if the Lessee otherwise desires a reduction in the size of the Spacing Unit or units, the Lessee shall, at its cost, make application for such reduction in the size of Spacing Unit or units on the Said Lands, or on Pooled Lands. Notwithstanding the granting of such reduction in the size of the Spacing Unit or units, this Lease will continue in force with respect to the Demised Estate contained within the original Spacing Unit or units, as if the reduction in the size of the Spacing Unit or units had not been granted, for a period of one (1) year following the date of the granting of the reduction in the size of the Spacing Unit or units or for a further period of time as consented to by the Lessor, after which time this Lease will continue in force, in accordance with its terms, having regard to the reduction in the size of the Spacing Unit or units.

## **23. Force Majeure:**

Compliance with any of the obligations of the Lessee hereunder shall be suspended while and so long as the Lessee is prevented from complying with such obligations in part or in whole, by strikes, lockouts, acts of God, acts of war or terrorism, severe weather conditions or action of the elements, laws, rules and regulations of any governmental bodies or agencies, zoning or land use ordinances of any governmental agency, acts or requests of any governmental officer or agent purporting to act under authority, delays in transportation, inability to obtain necessary materials in the open market, or other matters beyond reasonable control of the Lessee, whether similar to the matters herein specifically enumerated or not; provided that in no event shall lack of finances on the part of the Lessee, or lack of economic markets, be deemed to be a matter beyond its reasonable control and that the Lessee shall make all reasonable efforts to remedy any such event of force majeure. The time periods specified in this Lease shall be extended by the period of time during which any of the aforesaid events of force majeure exist and continue.

**24. Removal of Charge:**

If any caveat or other instrument is registered against the Demised Estate directly or indirectly as a result of the granting of this Lease, the Lessee at its sole cost shall cause such caveat or other instrument to be withdrawn or discharged within a reasonable time after the surrender, termination or expiration of this Lease.

**25. Title:**

The Lessee hereby accepts the Lessor's title to the Demised Estate, 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.

**26. Quiet Enjoyment:**

The Lessee, upon observing and performing the covenants and conditions on the Lessee's part in this Lease contained, shall and may peaceably possess and enjoy the Leased Substances and the Demised Estate without any interruption or disturbance from or by the Lessor.

**27. Covenant for Further Assurances:**

The Lessor and the Lessee shall each do and perform all such acts and things, and execute all such deeds, documents, and writings and give all such assurances as may be necessary to give effect to this Lease.

**28. Waiver:**

No waiver by the Lessor of any breach of any of the covenants, provisos, restrictions and stipulations in this Lease contained, whether negative or positive in form, shall be effective unless such waiver is expressed in writing and signed by the Lessor, and any waiver so expressed shall extend only to the particular breach so waived and shall not limit or affect the Lessor's rights with respect to any other or future breach.

**29. Indemnity:**

a. The Lessee shall:

- (i) be liable to the Lessor and its directors, officers, employees and agents for all losses, costs, damages, and expenses whatsoever including, without limitation, any relating to Environmental Liability or the breach of any Environmental Laws, which the Lessor or its directors, officers, employees or agents may suffer, sustain, pay or incur, whether during the term of or following the termination or expiration of this Lease, by reason of any matter or thing arising out of or in any way attributable to the works or operations of the Lessee, or its servants, agents, workmen, independent contractors, licensees, or invitees, in, upon or under the Said Lands or Pooled Lands; and
- (ii) indemnify and save harmless the Lessor, its directors, officers, employees and agents against all actions, inquiry, legal or administrative proceedings, investigation or appeal therefrom, proceedings, claims, demands, losses, costs, damages, and expenses whatsoever including, without limitation, any relating to Environmental Liability, environmental damage or the breach of any Environmental Laws, which may be brought against or suffered by the Lessor, its directors, officers, employees or agents or which they may sustain, pay or incur, whether during the term of or following the termination or expiration of this Lease, by reason of any matter or thing arising out of or in any way attributable to the works or operations carried out by the Lessee, or its servants, agents, workmen, independent contractors, licensees, or invitees in upon or under the Said Lands or Pooled Lands, and including further, without limiting the generality of the foregoing, damage from or removal of hazardous or toxic substances, spills of any nature whatsoever, clean-up and well abandonment and reclamation.

Such indemnification shall specifically cover costs incurred in connection with any investigation of site conditions, or any clean-up, remedial, removal or restoration work required by any federal, provincial or local governmental agency.

b. Sub-clause 29a. above will survive the termination or expiration of this Lease.

**30. Assignment:**

The Lessee shall not in any way alienate its interest under this Lease without the written consent of the Lessor first had and obtained.

**31. Manner of Payments:**

All payments to the Lessor shall be in Canadian currency, shall be made by cheque or draft, and shall be mailed or delivered as follows:

Paramount Energy Operating Corp.  
#3200, 605-5<sup>th</sup> Ave SW  
Calgary, Alberta T2P 3H5

**32. Interest:**

The Lessee shall pay to the Lessor interest at the prime commercial lending rate of interest charged by The Royal Bank of Canada to its most credit worthy customers plus two percent (2%) per annum on all monies overdue under the terms of this Lease.

**33. Notices:**

a. Subject to sub-clause c. of this clause all communications and notices required or permitted to be given hereunder, unless otherwise specifically provided for, must be given in writing and mailed (postage prepaid) or delivered by hand at its address as follows:

**LESSOR:** Paramount Energy Operating Corp.  
#3200, 605-5<sup>th</sup> Ave SW  
Calgary, Alberta T2P 3H5

Attention: Manager, Minerals & Contracts

**LESSEE:** \_\_\_\_\_

b. Any notice or other communication given by delivery will be deemed to have been given at the commencement of the next following business day. Any notice or communication given by prepaid mail will be deemed to have been given on the fourth (4<sup>th</sup>) business day following the date of posting. Any Party may change its address for service by notice served as set out above.

c. If there are at any time multiple Persons comprising the Lessee, the person designated in sub-clause (a.) of this clause as the "Lease Operator" shall receive notices on behalf of all of the Persons comprising the Lessee, and delivery of any notice or communication to the Lease Operator as contemplated in this clause shall be deemed delivery of such notice or communication to all of the Persons comprising Lessee. The persons

comprising the Lessee shall be entitled to change the designated Lease Operator by joint notice to the Lessor.

**34. Confidentiality:**

Except for information which is available to the public from any governmental authority, the Lessor, if requested by the Lessee, shall treat as confidential all or any part of the information furnished, given or delivered to, or received by the Lessor pursuant to clauses 11. (Pooling), 12. (Reports by the Lessee), and 14. (Operations of the Lessee), but this clause 34. shall not prevent the Lessor from divulging any information to an Affiliate of the Lessor provided that the Lessor shall require that the Affiliate maintain the confidential status of the information and the Affiliate shall be deemed to have accepted this obligation.

**35. Time:**

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

**36. Joint and Several Liability:**

If the Lessee consists of two or more Persons, such Persons shall be jointly and severally liable for the due performance of the obligations of the Lessee.

**37. The Lessor as Lessee:**

Where the Lessor is also one of the Persons comprising the Lessee, the Lessor's execution of this Lease shall be deemed to have been in both capacities. If there are any conflicts as a result of the dual capacity of the Lessor, such conflicts shall be construed against the Lessee.

**38. Greenhouse Gas Emissions:**

- a. From the Effective Date of this Lease the Lessee shall be responsible for and shall assume liability and ownership of any and all Greenhouse Gas emissions which may be produced or allocated as a result of:
  - (i) the drilling of any wells on the Said Lands or Pooled Lands;
  - (ii) the production, transportation, processing or sale of Leased Substances;
  - (iii) the construction, operation, ownership or utilisation of any production facilities which may be utilised to produce, transport, process or sell the Leased Substances; or
  - (iv) any other activities conducted on or with respect to the Said Lands or Pooled Lands that give rise to the production or allocation of Greenhouse Gas emissions.
- b. The responsibility for and ownership of Greenhouse Gas emissions set out in sub-clause 38. a. will apply notwithstanding any reservations to the Lessor under the terms of this Lease or otherwise, including without limitation the reservation of:
  - (i) a royalty;
  - (ii) a right to re-acquire any interest granted under this Lease or the Said Lands.
- c. Notwithstanding anything in this Lease to the contrary, the Parties agree from time to time to enter into any agreements and to file any reports, elections or documents of any nature whatsoever in order to give effect to

the terms of this clause 38.

- d. If the Lessor acquires an interest in a well or wells pursuant to clause 18. (Default), clause 20. (Removal of Lessee's Equipment) or clause 21. (Abandonment), then 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 of such acquisition.
- e. The Parties agree that this clause 38., 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.

**39. Limitations:**

The parties expressly agree to extend the limitations period for all claims brought pursuant to, or arising out of, this Lease, to ten (10) years from the date that the claim arose, irrespective of whether the claimant was aware of the material facts which gave rise to the claim or not.

**40. Conflicts:**

If any term or condition of this lease conflicts with a term or condition of the attached Appendices then such term or condition of this lease shall prevail and such Appendix shall be deemed to be amended accordingly.

**41. Successors and Assigns:**

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

**42. Amendment of Appendix (I):**

From time to time when there are changes to the Said Lands or Demised Estate pursuant to the terms of this Lease, the Lessor may revise Appendix (I) appropriately and send a copy of such revised Appendix (I) to the Lessee in the manner provided herein for notices, and thereupon, such revised Appendix I shall become Appendix (I) hereto.

#### **43. Counterpart Execution and Facsimile Delivery**

This Lease may be executed in one or more counterparts each of which shall be deemed to be an original and all of which together shall constitute one lease. Delivery of a facsimile of an executed counterpart of this Lease shall be as legally effective as delivery of an original executed counterpart and if each Party delivers either an original or a facsimile copy of a counterpart of this Lease executed by it, this Lease shall be valid and binding as between the Parties.

**IN WITNESS WHEREOF** the Lessor and the Lessee have executed this Lease effective as of the day and year first above written.

**LESSOR: Paramount Energy Operating Corp.,  
as trustee of Paramount Energy Trust**

Per: \_\_\_\_\_  
Print Name:

Print Title:

|  |  |
|--|--|
|  |  |
|  |  |
|  |  |
|  |  |

**LESSEE:**

Per: \_\_\_\_\_  
Print Name:

Print Title:

|  |  |
|--|--|
|  |  |
|  |  |
|  |  |
|  |  |

**APPENDIX ( I ): Attached to and forming part of a Petroleum Lease dated the \_\_\_\_ day of \_\_\_\_\_, 2008 between Paramount Energy Operating Corp., as trustee of Paramount Energy Trust and \_\_\_\_\_**

---

**“SAID LANDS”:**

| <b><u>Paramount Lease#:</u></b> | <b><u>Land Description:</u></b> | <b><u>Rights:</u></b>                     |
|---------------------------------|---------------------------------|---|
|                                 |                                 | Petroleum Rights from Surface to Basement |

**APPENDIX ( II ): Attached to and forming part of a Petroleum Lease dated the \_\_\_\_ day of \_\_\_\_\_, 2008 between Paramount Energy Operating Corp., as trustee of Paramount Energy Trust and \_\_\_\_\_**

**“ROYALTY DATA REQUIREMENTS 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 therefor (or deemed to have been received therefor in the case such production is used or if the Current Market Value is greater than the proceeds actually received), and how the royalty was calculated.

**APPENDIX ( III ): Attached to and forming part of a Petroleum Lease dated the \_\_\_\_ day of \_\_\_\_\_, 2008 between Paramount Energy Operating Corp., as trustee of Paramount Energy Trust and \_\_\_\_\_**

**“WELL DATA REQUIREMENT SHEET”:**

**Reports by Lessee:**

- a. Prior to commencing the drilling of each well on the Said Lands, the Lessee shall furnish to the Lessor a copy of the application for well license (including all information furnished in support of such application) and of the plan of survey of the proposed wellsite and access roadway.
- b. During the drilling of each well on the Said Lands, the Lessee shall:
  - (i) furnish the Lessor with written advice of the date of spudding thereof;
  - (ii) furnish the Lessor with daily drilling reports;
  - (iii) take formation samples at such intervals and at such depths as the Lessor may prescribe and immediately furnish the Lessor with a complete set of samples, washed and in suitable containers;
  - (iv) immediately furnish the Lessor with chip samples at 2 foot intervals and at lithologic changes throughout the length of all cores taken;
  - (v) furnish the Lessor with immediate advice of any porous zones or showings of the Leased Substances;
  - (vi) test, to the extent required by good oilfield practice, any porous zones or showings of the Leased Substances encountered or indicated by any survey and immediately advise Lessor as to the results of any such test;
  - (vii) take representative mud samples and drill stem test fluid samples in order to obtain accurate resistivity readings of mud filtrate and formation water and immediately furnish the Lessor with all information relative thereto;
  - (viii) immediately furnish the Lessor with two copies of the drill stem test and service report on each drill stem test run, including copies of pressure charts;
  - (ix) permit representatives of the Lessor to have access to the wellsite including the derrick floor at all reasonable times to inspect and observe and make records relating to the operations of the Lessee.
- c. During the drilling of each well on the Said Lands and upon each such well reaching total depth, the Lessee shall run mechanical log surveys necessary to provide the optimum evaluation possible of all horizons penetrated. Such surveys shall include, but shall not be restricted to, a satisfactory resistivity log over the full length of the hole and a satisfactory porosity log over the full length of the hole. The Lessee shall immediately furnish the Lessor with two copies of the final prints of each log run.
- d. Immediately following the date of completion of each well drilled on the Said Lands, the Lessee shall furnish the Lessor with:
  - (i) two copies of any directional, temperature caliper or other well survey (exclusive of a velocity survey) and oil, gas, water or other analyses made;
  - (ii) a complete summary of the drilling and completion of such well;
  - (iii) written notice of the commencement of production of any of the Leased Substances;
  - (iv) all production information and such other data as the Lessor may reasonably require.

- e. Within thirty (30) days from the date of running production casing in each well drilled on the Said Lands, the Lessee shall:
- (i) if production composed predominantly of Leased Substances other than natural gas is encountered, subject such well to a production test of a duration not exceeding any maximum period for such test which may be laid down by any conservation authority. The Lessee shall furnish the Lessor with daily written advice of the oil, gas and water content of such substances produced during such production test.
  - (ii) if production composed predominantly of natural gas is encountered, subject such well to a back pressure test. The Lessee shall immediately furnish the Lessor with written advice of the data derived from such back pressure test and the calculations and conclusions based thereon.
- f. With respect to each well drilled on the Said Lands, the Lessee shall immediately furnish the Lessor with a copy of all reports required to be filed with any government body, at the time such reports are filed with such government body. Such reports shall include, without limitation, notice of commencement of production, notice of change in status, notice of abandonment and the reclamation certificate.
- g. Except for information which is available to the public from any governmental authority, the Lessor, if requested by the Lessee, shall treat as confidential during the term of this Lease all or any part of the information contained in any reports of the Lessee furnished, given or delivered to the Lessor pursuant to this Appendix; provided however, that this sub-clause g. shall not prevent the Lessor from divulging any information to an affiliate of the Lessor.

A copy of any written report required herein should be sent to the address indicated in the Lease. On weekdays, daily reports should be **faxed/emailed by 8:00 a.m.** to

**DAWNA CARLETON  
COMPLETIONS  
Fax: 269-6328  
Ph: 269-4419**

**SHELLY MUELLER  
DRILLING  
Fax: 269-6328  
Ph: 269-4461**

[Partner.Operations@paramountenergy.com](mailto:Partner.Operations@paramountenergy.com)