

MULLOY 5-28-06
H.N. 4582

Option and Petroleum and Natural Gas Lease

This Indenture made the 2nd day of May, A.D. 1956

BETWEEN Neil A. McLeod

of Clive in the province of Alberta, Farmer
(hereinafter referred to as "the Optionor" or "the Lessor")
OF THE FIRST PART

-AND-

Ted Harris

of Calgary in the province of Alberta, Oil Operator
(hereinafter referred to as "the Optionee" or "the Lessee")
OF THE SECOND PART.

The Optionor, being the beneficial owner of the petroleum, natural gas and all related hydrocarbons within, upon or under ~~an undivided two-thirds (2/3) interest in all mines and minerals except~~ an undivided two-thirds (2/3) interest in ~~the North Half (N $\frac{1}{2}$) of Section thirty-five (35)~~ the North Half (N $\frac{1}{2}$) of Section thirty-five (35)

in Township 39 Range 24 West of the 4th Meridian in the Province of Alberta, as more particularly described and set forth in certificate(s) of title No(s) 52 R 101 of record in the North Alberta Land Registration District, containing as to the mines and minerals 320 acres more or less, in consideration of the sum of One thousand and sixty-six -- (\$1066.00) Dollars paid to the Optionor by the Optionee (the receipt whereof is hereby acknowledged), the Optionor DOTH HEREBY GRANT to the Optionee the sole and exclusive option, irrevocable for a period of three (3) years from the date hereof, to acquire a Petroleum and Natural Gas Lease in the form hereinafter set forth, of all the petroleum, natural gas and related hydrocarbons, except coal (hereinafter referred to as "the leased substances"), within, upon or under the lands hereinbefore described, and insofar as the Optionor owns or controls the same all the right, title, estate and interest of the Optionor in and to the leased substances or any of them within, upon or under any lands excepted from, or roadways, lanes or rights-of-way adjoining, the lands aforesaid, together with the exclusive right and privilege to explore, drill for, win, take, remove, store and dispose of the leased substances and for the said purposes to drill wells, lay pipe lines and build and install such tanks, stations, structures and roadways as may be necessary.

The option hereby granted shall be open for acceptance at any time within a period of three (3) years from the date hereof, or on or before, but not after, a date thirty (30) days from the date of receipt of notice by the Optionee from the Optionor pursuant to the provisions of Paragraph 19 hereof of the termination, cancellation or expiration of the existing Petroleum and Natural Gas Lease affecting the said lands.

The option may be exercised by the Optionee delivering to the Optionor, or mailing postage prepaid and addressed to the Optionor at the address specified in Paragraph 23 hereof, written notice of its intention to exercise this option accompanied by payment of such amount of lawful money of Canada as shall be necessary to increase the amount paid as consideration for this option to the sum of one (\$1.00) Dollars per acre, which amount shall represent the consideration for the granting of this option and the petroleum and natural gas lease hereinafter set out. The term of the said Petroleum and Natural Gas Lease shall be deemed to commence as of the date of the exercising of the said option (which date is hereinafter referred to as "the effective date").

FROM AND AFTER THE EFFECTIVE DATE the Optionee shall have and enjoy the leased substances for the term of Ten (10) years from the effective date hereof (hereinafter referred to as "the primary term") and so long thereafter as the leased substances or any of them are produced from the said lands, subject to the sooner termination of the said term as hereinafter provided.

PROVIDED that if operations for drilling are not commenced on the said lands on or before one year from the effective date hereof, the lease shall then terminate as to both parties, unless on or before such anniversary date the Lessee shall pay or tender to the Lessor or for deposit to Lessor's credit in the Royal Bank of Canada

at Lacombe (which bank and its successors are the Lessor's agents and authorized to deduct its service charge, if any, from deposits hereunder and shall continue as such agents and depository for any and all sums payable under the lease regardless of changes in ownership of the said land, of the oil and gas thereunder, or of rentals to accrue hereunder), the sum of one (\$1.00) Dollars per acre which shall be known and operate as delay rental and shall cover the privilege of deferring the commencement of drilling operations for a period of one (1) year. In like manner and upon like payments or tenders annually, the commencement of drilling operations may be further deferred for successive periods of one (1) year each during the primary term. The payment or tender of rentals may be made by the cheque or draft of the Lessee mailed or delivered on or before such date of payment. Notwithstanding the death of the Lessor, all tenders or payments may continue to be made to said depository in the manner above specified and shall operate as a sufficient tender and payment. Should the depository bank named herein close without a successor, the Lessee or its or his assigns may tender or deposit rental in any Chartered Bank located in the same Province with the first named bank, due notice of the tender or deposit of such rental to be mailed to the Lessor at his last known Post Office address. If such bank (or any successor bank) should fail, liquidate or be succeeded by another bank, or for any reason fail or refuse to accept rental, the Lessee shall not be held in default for failure to make such payment or tender or rental until thirty (30) days after the Lessor shall deliver to the Lessee a notice in writing, naming another bank as agent to receive such payments or tenders.

PROVIDED FURTHER that if at any time during the said primary term and prior to the discovery of production on the said lands, the Lessee shall drill a dry well or wells thereon, or if at any time during such term and after the discovery of production on the said lands such production shall cease, then this Lease shall terminate at the next ensuing anniversary of the effective date hereof unless operations for the drilling of a further well on the said lands shall have been commenced or unless the Lessee shall have paid or tendered the delay rental, in which latter event the immediately preceding proviso hereof governing the payment of the delay rental and effect thereof, shall be deemed to have continued in force;

AND FURTHER ALWAYS PROVIDED that if at any time after the expiration of the said primary term the leased substances are not being produced on the said lands and the Lessee is then engaged in drilling or working operations thereon, this lease shall remain in force so long as such operations are prosecuted and, if they result in the production of the leased substances or any of them, so long thereafter as the leased substances or any of them are produced from the said lands; provided that if drilling, working or production operations are interrupted or suspended as the result of any cause whatsoever beyond the Lessee's control, the time of such interruption or suspension shall not be counted against the Lessee, anything hereinbefore contained or implied to the contrary notwithstanding.

THE LESSOR AND THE LESSEE HEREBY COVENANT AND AGREE AS FOLLOWS:

1. INTERPRETATION—

In this Lease, unless there is something in the subject or context inconsistent therewith, the expressions following shall have the following meaning, namely:

(a) "Commercial production" shall mean the output from a well of such quantity of the leased substances or any of them as, considering the cost of drilling and production operations and price and quality of the leased substances, after a production test of Thirty (30) consecutive days, would commercially and economically warrant the drilling of a like well in the vicinity thereof.

(b) "Drilling unit" shall mean a section, legal sub-division or other unit of land representing the minimum area in which any well may be drilled on or in the vicinity of the said lands as defined or prescribed by or under any law of the Province of Alberta now or hereafter in effect governing the spacing of petroleum and/or natural gas wells.

(c) "Point of measurement" with respect to:

- (i) crude oil and crude naphtha means the production tanks of the Lessee to which any well on the said lands is connected;
- (ii) absorption gasoline and/or natural gas means the point of connection with the gas gathering system connected to the well.

(d) "Said lands" shall mean all the lands hereinbefore described or referred to such portion or portions thereof as shall not have been surrendered.

2. ROYALTIES—

Lessee shall pay to the Lessor as royalty the following:

(a) On oil, one-eighth of that produced and saved from the said lands, the same to be delivered at the wells or to the credit of the Lessor into the pipe line to which the wells may be connected; the Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase;

(b) On gas, including casinghead gas or other gaseous substance, produced from the said lands and sold or used off the premises or in the manufacture of gasoline or other product therefrom, the market value at the well of one-eighth of the gas so sold or used, provided that on gas sold at the wells the royalty shall be one-eighth of the amount realized from such sale;

(c) On all other minerals mined and marketed one-tenth either in kind or value at the well or mine, at the Lessee's election.

Notwithstanding anything to the contrary herein contained or implied, the Lessee shall be entitled to use, free from the payment of royalty, such part of the production of the leased substances from the said lands required and used by the Lessee in his operations hereunder.

3. GAS WELLS—

Provided no royalties are otherwise paid hereunder, the Lessee shall pay to the Lessor each year as royalty the sum of One Hundred (\$100.00) Dollars or the annual acreage rental (whichever is the greater) for all wells on the said lands where gas only or primarily is found, and the same is not used or sold, and while the said royalty is so paid each such well shall be deemed to be a producing well hereunder and to be producing leased substances from the said lands.

4. LESSOR INTEREST—

If the Lessor's interest in the leased substances be less than the entire and undivided fee simple estate therein, then the royalties and rentals herein provided shall be paid to the Lessor only in the proportion which his interest bears to the whole and undivided fee.

5. TAXES PAYABLE BY THE LESSOR—

The Lessor shall promptly satisfy all 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 said lands, or the Lessor's ownership of mineral rights in the said lands, and shall further pay all taxes, rates and assessments that may be assessed or levied against the surface of the said lands during the continuance of the term hereby granted or any extension thereof if and so long as the said surface of the said lands is or continues to be owned by the Lessor.

6. TAXES PAYABLE BY THE LESSEE—

The Lessee shall pay all taxes, rates and assessments that may be assessed or levied in respect of the undertaking 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 said lands. The Lessee shall on the written request of the Lessor, accompanied by such tax receipts, statements or tax notices as the Lessee may require, reimburse the Lessor for seven-eighths ($\frac{7}{8}$) of any taxes assessed or imposed during the currency of this lease on or after the effective date hereof by reason of the Lessor being the registered owner of the leased substances or being entitled to become such owner.

7. USE OF GAS BY LESSOR—

If as a result of drilling operations of the Lessee on the said lands, surplus dry natural gas is produced which is not needed for the operations hereunder, the Lessee shall supply at the sole risk of the Lessor, free of charge to, and not subject to the payment of royalty by, the Lessee, such surplus dry natural gas to the Lessor for domestic use in his principal dwelling only on the said lands, but all the necessary installations on the well site for the supply of the said gas shall be made by the Lessee at the expense of the Lessor.

8. OFFSET WELLS—

In the event of commercial production being obtained on or after the effective date hereof from any well drilled on any drilling unit laterally adjoining the said lands and not owned by the Lessor, or, if owned by the Lessor, not under lease to the Lessee, the Lessee shall commence or cause to be commenced within six (6) months from the date of such well being placed on production, the drilling of an offset well on the drilling unit of the said lands, laterally adjoining the said drilling unit on which production is being so obtained and thereafter shall drill the same to the horizon in the formation from which production is being obtained from the said adjoining drilling unit; PROVIDED that if such well drilled on lands adjoining the said lands has been proved to be productive primarily or only of natural gas, the Lessee shall not be obligated to drill an offset well unless an adequate and commercially profitable market for natural gas which might be produced from the offset well can be previously arranged and provided.

9. POOLING DUE TO REGULATION—

The Lessee is hereby given the right and power at any time and from time to time to pool or combine the said lands, or any portion thereof, with other lands adjoining the said lands, but so that any one such pool or unit (herein referred to as a "unit") shall not exceed one drilling unit as hereinbefore defined, when such pooling or combining is necessary in order to conform with any regulations or orders of the Government of the Province of Alberta or any other authoritative body, which are now or may hereafter be in force in relation thereto. In the event of such pooling or combining, the Lessor shall, in lieu of the royalties elsewhere herein specified, receive on production of leased substances from the said unit, only such portion of the royalties stipulated herein as the area of the said lands placed in the unit bears to the total area of lands in such unit. Drilling operations on, or production of leased substances from, any land included in such unit shall have the same effect in continuing this Lease in force and effect during the term hereby granted, or any extension thereof, as to all the said lands, as if such operation or production were upon or from the said lands, or some portion thereof.

10. OPERATIONS—

The Lessee shall conduct all his operations on the said lands in a diligent, careful and workmanlike manner and in compliance with the provisions of law applicable to such operations, and where such provisions of law conflict or are at variance with the provisions of this Lease, such provisions of law shall prevail.

11. RECORDS OF PRODUCTION—

The Lessee shall make available to the Lessor during normal business hours at the Lessee's address hereinafter mentioned the Lessee's records relative to the quantity of leased substances produced from the said lands and as ascertained at the point of measurement.

12. INDEMNIFICATION—

As of the effective date hereof, the Lessee shall indemnify the Lessor against all actions, suits, claims and demands by any person or persons whomsoever in respect of any loss, injury, damage or obligation to compensate arising out of or connected with the work carried on by the Lessee on the said lands or in respect of any breach of any of the terms and conditions of this Lease insofar as the same relates to and affects the said lands.

13. COMPENSATION—

The Lessee shall pay and be responsible for actual damages caused by his operations to the surface of, and growing crops and improvements on, the said lands.

14. DISCHARGE OF ENCUMBRANCES—

The Lessee may at the Lessee's option pay or discharge any tax, charge, mortgage, lien or encumbrance of any kind or nature whatsoever incurred or created by the Lessor and/or the Lessor's predecessors or successors in title or interest which may now or hereafter exist on or against or in any way effect the said lands or the leased substances, in which event the Lessee shall be subrogated to the rights of the holder or holders thereof and may in addition thereto at the Lessee's option, reimburse himself by applying on the amount so paid by the Lessee the rentals, royalties, or other sums accruing to the Lessor under the terms of this Lease.

15. SURRENDER—

Notwithstanding anything herein contained, the Lessee may at any time or from time to time determine or surrender this Lease and the term hereby granted as to the whole or any part or parts of the leased substances and/or the said lands, upon giving the Lessor written notice to that effect, WHEREUPON this Lease and the said term shall terminate as to the whole or any part or parts thereof so surrendered and the rentals, royalty or otherwise, shall be extinguished or correspondingly reduced as the case may be, but the Lessee shall not be entitled to a refund of any such rent theretofore paid.

16. REMOVAL OF CAVEAT—

In the event of the Lessee having registered in the Land Titles Office for the area in which the said lands are situated this Lease or any caveat or other document in respect thereof, the Lessee shall withdraw or discharge the document so registered within a reasonable time after the termination of this Lease for any reason.

17. REMOVAL OF EQUIPMENT—

The Lessee shall at all times during the currency of this Lease and for a period of Six (6) months from the termination thereof, have the right to remove all or any of his machinery, equipment, structures, pipe lines, casing and materials from off the said lands.

18. DEFAULT—

In the case of the breach or non-performance on the part of Lessee of any covenant, proviso, condition, restriction or stipulation hereinafter contained and which ought to be observed and performed by the Lessee and which has not been waived by the Lessor, the Lessor shall give to the Lessee written notice requiring him to remedy such default and in the event of the Lessee failing to remedy such default within a period of Ninety (90) days from receipt of such notice or within such further period as may be required using continuously and diligently good and workmanlike methods to remedy such default, this Lease shall thereupon terminate with respect to that portion of the said lands to which such default exists and it shall be lawful for the Lessor, into and upon said lands (or any part thereof in the name of the whole), to re-enter and the same to have again, repossess and enjoy, anything contained to the contrary notwithstanding. No such termination shall affect this Lease with respect to each producing or drilling well and the relevant drilling unit surrounding it with respect to which there is no default or with respect to any portion of the said lands concerning which there is no default.

19. NOTICE RE TERMINATION, DEFAULT, ETC.—

The Optionor covenants and agrees upon termination, cancellation or expiration of the petroleum and natural gas lease presently in existence affecting the said lands forthwith to notify the Optionee thereof. As well the said Optionor covenants and agrees forthwith to notify the Optionee of any default known to the Optionor that may occur in respect to any covenant, term, proviso or condition contained in the said petroleum and natural gas lease, and the Optionor will at the request and at the expense of the Optionee take such steps as may be requisite for the termination and/or cancellation of the said lease.

20. COVENANTS FOR FURTHER ASSURANCE—

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

21. ASSIGNMENT—

If the estate of either party is assigned, and the privilege of assigning in whole or in part is expressly allowed, the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns but no change or division in the ownership of the land, rentals, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of the Lessee. No change or division in the ownership of the land, rentals, or royalties shall be binding on the Lessee for any purpose until after the Lessee has been furnished with a certified copy of recorded instruments constituting the chain of title from the original Lessor, which instrument or instruments to be effective must be received by the Lessee at least thirty (30) days prior to any anniversary of the effective date hereof. If not received on or before any such anniversary date, the same shall not effect any payments due hereunder until the next lease anniversary date, unless the Lessee otherwise agrees to be bound thereby. If the leased premises are now or shall hereafter be owned in severalty or in separate tracts, the premises, nevertheless, shall be developed and operated as one lease, and all royalties accruing hereunder shall be treated as an entirety and shall be divided among and paid to such separate owners in the proportion that the acreage owned by each such separate owner bears to the entire lease acreage. If at any time there be as many as four parties in addition to the Lessor herein, entitled to rentals or royalties, the Lessee may withhold payment thereof without liability for interest unless and until all parties designate in a written instrument filed with the Lessee, a common agent to receive all such payments and to execute division and transfer orders on behalf of said parties and their respective successors in title. An assignment of this lease by the Lessee in whole or in part shall, to the extent of such assignment, relieve and discharge the Lessee of all obligations hereunder; and it is hereby agreed in the event this lease shall be assigned as to a part or parts of the above described lands and any assignee of such part or parts shall default in the payment of the proportionate part of the rents due from him or them, such default shall not operate to defeat or affect this lease in so far as it covers a part or parts of the said lands upon which the said Lessee or any assignee thereof shall make due payment of said rental.

22. FORCE MAJEURE

The performance of any of the obligations of the Lessee hereunder shall, notwithstanding anything contained in this lease to the contrary, 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, severe weather conditions and/or action of the elements, accidents, 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, inadequate facilities for the transportation of materials or for the disposition of production, or other matters beyond the reasonable control of the Lessee whether similar to the matters herein specifically enumerated or not, or while legal action contesting the Lessor's title to said lands or the Lessee's right in said lands by virtue hereof shall be pending final adjudication in a court assuming jurisdiction thereof, or while the available market price for oil produced in the field or area in which said lands are located is seventy-five cents (75¢) per barrel or less at the well, or when there is no available market for the same at the well. Time consumed in cleaning, repairing, deepening, or improving any producing well or its necessary appurtenances shall not be deemed or construed as an interruption or discontinuance of the Lessee's operations under this lease. The Lessee need not perform any requirement hereunder, the performance of which would violate any reasonable conservation and/or curtailment program or plan of orderly development to which the Lessee may voluntarily or by order of any governmental agency subscribe or observe.

23. NOTICES—

All notices to be given hereunder may be given by registered letter addressed to the Optionee and Lessee care of Messrs. Lidex, Murray and Ackroyd, 301 Northern Hardware Building, Edmonton, Alberta, and the Optionor and Lessor at Clivs, Alberta, or such other address as the parties may respectively from time to time appoint in writing, and any such notice shall be deemed to be given to and received by the addressee seven (7) days after the mailing thereof, by registered mail with a return receipt, postage prepaid.

THIS OPTION AND LEASE shall enure to the benefit of and be binding upon the parties hereto and each of them, their respective heirs, executors, administrators, successors and assigns.

IN WITNESS WHEREOF the Optionor and Lessor and the Optionee and Lessee have executed and delivered this Option and Lease, the day and year first above written.

SIGNED, SEALED AND DELIVERED

in the presence of:
Leon J. Plotkins
(Witness as to signature of Optionor and Lessor)

Leon J. Plotkins
(Witness as to signature of Optionee and Lessee)

Neil A. McLeod
(Optonor and Lessor)

Ted Harris
(Optionee and Lessee)

CANADA
PROVINCE OF ALBERTA
TO WIT:

AFFIDAVIT OF EXECUTION

I, LEON JOSEPH PLOTKINS of the CITY of CALGARY in the Province of Alberta, LANDMAN (occupation) make oath and say:

1. THAT I was personally present and did see TED HARRIS named in the within instrument, who is (are) personally known to me to be the person(s) named therein, duly sign, seal and execute the same for the purposes named therein.

2. THAT the same was executed at the city of RED DEER in the Province of Alberta and that I am the subscribing witness thereto.

3. THAT I know the said TED HARRIS and he (or she) is (or they are) cash, in my belief, of the full age of twenty-one years.

SWORN before me at RED DEER

in the Province of Alberta, this 7th

day of May A.D. 1956

A Commissioner for Oaths in and for the Province of Alberta.

Red Deer MED
AUG - 9 1984
GLENFORD CO. LTD.

CANADA
PROVINCE OF ALBERTA
TO WIT:

AFFIDAVIT OF EXECUTION

I, LEON JOSEPH PLOTKINS of the CITY of CALGARY

in the Province of Alberta, LANDMAN make oath and say:
(occupation)

- Sworn* 1. THAT I was personally present and did see Neil A. McLeod named in the within instrument, who is ~~(is)~~ personally known to me to be the person(s) named therein, duly sign, seal and execute the same for the purposes named therein.
2. THAT the same was executed at the town of Clive in the Province of Alberta and that I am the subscribing witness thereto.
- Sworn* 3. THAT I know the said Neil A. McLeod and he (or she) is (or they are each), in my belief, of the full age of twenty-one years.

SWORN before me at Red Deer
in the Province of Alberta, this 7th
day of May A.D. 19 56

Leon J. Plotkins

Heppswall
A Commissioner for Oaths in and for the Province of Alberta.

DOWER AFFIDAVIT

I, Neil A. McLeod, of Clive in the Province of Alberta, Farmer make oath and say:
(occupation)

1. That I am the Optionor and Lessor named in the within instrument.
2. That I am not married.

OR

~~That neither myself nor my spouse have resided on the within mentioned land at any time since our marriage.~~

OR

~~That a judgment for damages was obtained against me by my spouse and registered in the Land Titles Office as No. _____ dated the _____ day of _____ A.D. 19 _____~~

SWORN before me at the town of Clive
in the Province of Alberta, this 2nd
day of May A.D. 19 56

Neil A. McLeod

Leon J. Plotkins
A Commissioner for Oaths in and for the Province of Alberta.

CONSENT OF SPOUSE

I, _____ being married to the above named _____ do hereby give my consent to the disposition of our homestead, made in this instrument, and I have executed this document for the purpose of giving up my life estate and other dower rights in the said property given to me by THE DOWER ACT, 1948, to the extent necessary to give effect to the said disposition.

Signature of Spouse.

CERTIFICATE OF ACKNOWLEDGMENT BY SPOUSE

1. This document was acknowledged before me by _____, apart from her husband (or his wife).
2. _____ acknowledged to me that she (or he),—
- (a) Is aware of the nature of the disposition;
 - (b) Is aware that THE DOWER ACT, 1948, gives her (or him) a life estate in the homestead and the right to prevent disposition of the homestead by withholding consent;
 - (c) Consents to the disposition for the purpose of giving up the life estate and other dower rights in the homestead given to her (or him) by THE DOWER ACT, 1948, to the extent necessary to give effect to the said disposition;
 - (d) Is executing the document freely and voluntarily without any compulsion on the part of her husband (or his wife).

Dated at _____, in the Province of Alberta, this _____ day of _____, A.D. 19 _____

A Commissioner for Oaths in and for the Province of Alberta.