

PETROLEUM AND NATURAL GAS LEASE

THIS INDENTURE made effective the 1st day of ****, ****.

BETWEEN:

DAKERAS INTERNATIONAL INC.
(in this Lease called "the Lessor")

-and-

(in this Lease called "the Lessee")

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

1. DEFINITIONS

In this Lease, including this clause 1:

- (a) "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;
- (b) "deferred drilling payment" means the sum of **** dollars (\$****);
- (c) "delivery point" means, with respect to a leased substance, the place where such leased substance is delivered to the purchaser thereof or, if there is no such purchaser, the place designated by the Lessor;
- (d) "demised estate" means the following geological formation or formations underlying the said lands:

- (e) "initial consideration" means the sum of **** dollars (\$****);
- (f) "lease year" means a period during the currency of this Lease of one (1) year commencing on the date of this Lease, or on any anniversary date of this Lease;
- (g) "leased substances" means all petroleum, natural gas and related hydrocarbons, and all materials and substances, whether liquid, solid or gaseous and whether hydrocarbons or not, produced in association with petroleum, natural gas or related hydrocarbons, but only to the extent that the foregoing are included in the Certificate of Title;
- (h) "Lessor's royalty share" means the leased substances reserved by the Lessor as royalty, as established pursuant to subclause 5(a);
- (i) "person" includes an individual, a partnership, a corporation, a trust, an unincorporated organization, a union, a government or any department or agency thereof, and the heirs, executors, administrators or other legal representatives of an individual;
- (j) "primary term" means the period of **** (****) years from and including the date of this Lease;
- (k) "production in paying quantities" means the output from a well of that quantity of leased substances which, considering the operating costs, 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 from the well;

- (l) "royalty price" means:
- (i) in the case of any leased substances used for purposes other than operations to produce leased substances from the demised estate, the current market value at the time and place of use;
 - (ii) in the case of any leased substances sold by the Lessee on behalf of the Lessor pursuant to subclause 5(d), the applicable contract price (including payments received from any source whatsoever in respect thereto);
 - (iii) in the case of any leased substances marketed by the Lessee pursuant to a contract that requires delivery of leased substances from the demised estate, the applicable contract price (including payments received from any source whatsoever in respect thereto), or the current market value at the delivery point at the time of sale, whichever is greater; and
 - (iv) in the case of all other leased substances, the weighted average price to be received by the Lessee for all similar leased substances produced by the Lessee in the Province in which the said lands are located, and marketed during the month in question pursuant to contracts that do not require delivery of leased substances from any particular lands, or the current market value at the delivery point at the time of sale, whichever is greater;

in each case without any deductions whatsoever;

- (m) "said lands" means the following described land in the Province of *****:

as more particularly described and set forth in Certificate(s) of Title No. ***** (the "Certificate of Title");

- (n) "shut-in well payment" means the sum of ***** dollars (\$*****); and
- (o) "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 from which any of the leased substances is being produced or is capable of being produced in paying quantities, 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. For a horizontal well, spacing unit shall mean the area forming the drainage unit specified pursuant to any agreement, or any statute, regulation, order or directive of any government or any governmental agency, and in the case of a horizontal well for which no area has been allocated then, until such an area is so allocated, shall mean the legal subdivisions traversed by the productive horizontal sections of that well.

2. TERM

The Lessor, for the initial consideration paid to the Lessor by the Lessee (the receipt whereof is hereby acknowledged), and in consideration of the covenants of the Lessee contained in this Lease, DOES HEREBY GRANT AND LEASE unto 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 AFTER EXPIRATION OF THE PRIMARY TERM the Lessor DOES HEREBY GRANT AND LEASE ONLY the leased substances in that part of the demised estate contained within the spacing unit of each well, if any, drilled by the Lessee on the said lands from which any of the leased substances is then being produced or is capable of being produced in paying quantities from the demised estate and, with respect to each such spacing unit, in those formations only that are capable of production in paying quantities, for so long thereafter, with respect to each such spacing unit, as any of such leased substances is being produced or capable of production in paying quantities therefrom, subject always to sooner termination as provided in this Lease; PROVIDED however, that if at the expiration of the primary term the Lessee is then drilling one or more wells on the said lands for the leased substances, this Lease shall remain in force so long as such drilling is diligently and continuously prosecuted and thereafter whether or not and to what extent this Lease remains in force shall be determined in accordance with the foregoing provisions of this clause 2.

3. DEFERRED DRILLING

If at the end of a lease year during the primary term:

- (a) the Lessee has not commenced the drilling of a well to the demised estate since the date of this Lease, or
- (b) each well drilled by the Lessee to the demised estate since the date of this Lease has been abandoned,

this Lease shall thereupon terminate unless during such lease year the Lessee has paid to the Lessor the deferred drilling payment, provided, however, that payment of the deferred drilling payment shall not continue the term of this Lease beyond the end of the primary term. For greater certainty, failure to make the deferred drilling payment on or before the end of a lease year results in automatic termination of this Lease, such failure is not an act of default under clause 14.

4. SHUT-IN WELLS

If, during any lease year after the expiration of the primary term, there is a well on the said lands from which any of the leased substances is capable of being produced in paying quantities from the demised estate and no well on the said lands has produced leased substances from the demised estate for at least 4,000 hours during such lease year, the Lessee shall pay to the Lessor the shut-in well payment within thirty (30) days after the end of such lease year, unless during such lease year the Lessee surrendered this Lease to the Lessor as to the whole of the demised estate in accordance with clause 15. The making of such payment shall result in deemed production. For greater certainty, if the Lessee is relying on a well capable of being produced in paying quantities for continuation pursuant to clause 2, and no well has produced leased substances from the demised estate for at least 4,000 hours, then the shut-in well payment must be made. The failure to make such payment within thirty (30) days after the end of such lease year is an act of default under clause 14.

5. ROYALTIES

- (a) The Lessor hereby reserves unto itself, in respect of leased substances produced and saved from the demised estate, a royalty of **** percent (****%) of leased substances that are liquid at the delivery point and of **** percent (****%) of leased substances that are not liquid at the delivery point. The Lessee shall market all leased substances produced and saved from the demised estate, other than leased substances used by the Lessee or taken in kind by the Lessor. Except and to the extent that the Lessor takes the Lessor's royalty share in kind, the Lessee shall pay to the Lessor, in satisfaction of the royalty, an amount equal to the value of the Lessor's royalty share, which amount shall be calculated based upon the royalty price.
- (b) Amounts to be paid to the Lessor pursuant to subclause 5(a) shall be paid not later than the 15th day of the second month following the month in which the Lessee markets or uses leased substances. Each such royalty payment shall be accompanied by a copy of the Lessee's governmental production report and such other supporting documentation as the Lessor may reasonably require to enable the Lessor to understand how the royalty was calculated, including details about (i) the kind and quantity of production, (ii) the proceeds received or to be received therefor, (iii) the current market value of the leased substances, if relevant in calculating the royalty, and (iv) any leased substances used for purposes other than operations to produce leased substances from the demised estate.
- (c) 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 some or all of the Lessor's royalty share. The written notice shall provide sufficient details of the Lessor's nomination to enable Lessee to act upon it. On like notice the Lessor may at any time and from time to time revoke its exercise of any or all such previously exercised options, provided however that no such previously exercised option may be revoked until at least one (1) year has elapsed since the relevant written notice to take in kind was given to the Lessee. If and so often as the Lessor exercises such option, the Lessee shall at its sole expense deliver in accordance with usual shipping practices to the Lessor or the Lessor's nominee at the delivery point, the leased substances in question, without any deductions whatsoever, free and clear of all charges, liens and encumbrances. Without

restricting the generality of the foregoing, the Lessee shall at the Lessee's cost remove basic sediment, water and other impurities from the leased substances in question in accordance with usual oil and gas field practice so that they will meet pipeline, refinery or other market specifications.

- (d) Within ninety (90) days, but not less than forty (40) days, before the Lessee makes, renews or extends any contract for the sale or other disposition of any leased substance from the demised estate, which contract would expressly or impliedly restrict the ability of the Lessor to take in kind, the Lessee shall give to the Lessor written notice of the Lessee's intention so to do together with full particulars. If, within thirty (30) days of receiving such a notice, the Lessor does not elect to take in kind the leased substance in question, the Lessor's royalty share shall be sold by the Lessee on behalf of the Lessor pursuant to the contract, and the Lessor shall thereafter not be entitled to take it in kind pursuant to subclause 5(c).
- (e) Notwithstanding anything to the contrary in this Lease, no royalty is reserved on and no amount shall be payable to the Lessor in respect of:
 - (i) leased substances produced from the demised estate and used for operations to produce leased substances from the demised estate; or
 - (ii) leased substances that are not initially produced from the demised estate and that are injected into and subsequently recovered from the demised estate.

All leased substances regardless of origin that are injected into the demised estate shall be deemed to be recovered from the demised estate on a "first in, first out" basis.

- (f) The royalty reserved unto the Lessor is intended by the Lessor and the Lessee to be, and is hereby declared to be, an interest in land.
- (g) If the Lessor's interest in the leased substances is less than the entire and undivided fee simple estate, the royalties herein provided shall be paid to the Lessor only in the proportion which such interest bears to the entire and undivided fee.

6. 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 demised estate, or the Lessor's ownership of mineral rights in the said lands.

7. TAXES PAYABLE BY THE LESSEE

The Lessee shall pay all 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 such receipts, statements or notices as the Lessee may require, reimburse the Lessor for **** percent (****%) 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. Notwithstanding anything to the contrary contained in clauses 6 and 7, in the event the said lands are located in the Province of Manitoba, the Lessor shall not be responsible for any taxes, rates or assessments levied pursuant to the Oil and Gas Production Tax Act and the Lessee shall pay all such taxes, rates and assessments.

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, prior to or after the date hereof, into any spacing unit laterally or diagonally adjoining the said lands and 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

laterally or diagonally adjoining the spacing unit from which production is being so obtained, unless a well has been drilled, tested and completed or is being drilled, tested or completed in the spacing unit and to the horizon in the formation in which production is being so obtained, the Lessee shall, within ninety (90) days from the date of said well being placed on production or the date of this Lease, whichever is later, either:

- (i) Commence or cause to be commenced operations for the drilling of an offset well into the spacing unit and thereafter diligently and continuously drill, test and complete same to the horizon in the formation from which production is being obtained from the adjoining spacing unit; or
 - (ii) Surrender all those portions of the demised estate and leased substances comprising the spacing unit; or
 - (iii) Where production is being obtained from the spacing unit from a formation other than the formation from which production is being obtained from the spacing unit laterally or diagonally adjoining the said lands, surrender all formations which lie within the spacing unit except that formation within the spacing unit from which the Lessee is obtaining production; or
 - (iv) Extend the time for spudding an offset well under subclause (a)(i) or surrendering under subclause (a)(ii) or (a)(iii), 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 were being produced from a well on the said 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 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 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 automatically without the requirement of notice by the Lessor to the Lessee, on the last day of the aforesaid ninety (90) day period and shall terminate upon the first day of the month following spudding pursuant to subclause (a)(i) or surrender under subclause (a)(ii) or (a)(iii), of this clause 8. If the Lessee requires production data from publically available sources for calculation of the compensatory royalty, and such information is not yet available on the last day of the ninety (90) day period, the month the production data becomes available will be deemed to be the month in which Lessee markets the leased substances in subclause 5(b). For greater certainty, although this may result in a delay in commencing payment, the compensatory royalty shall still be calculated and payable on production occurring on and after the last day of the ninety (90) day period.
- (b) If any part of the said 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 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 from which production in paying quantities is being obtained and the provisions of subclause 8(a) will apply, with the ninety (90) day period provided for therein commencing as at the date of receipt by the Lessee of the Lessor's notice.
- (c) In addition to the offset obligation provided for in subclause 8(a), 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 to provide the same density of wells as are producing on the laterally or diagonally adjoining lands.

- (d) If the drilling of wells pursuant to subclause 8(c) requires a reduction in the size of spacing unit on the said lands, or, subject to the Lessor's approval, if the Lessee otherwise desires a reduction in the size of the spacing unit, the Lessee shall, at its cost, make application for such reduction in the size of spacing unit on the said lands. Notwithstanding the granting of such reduction in the size of the spacing unit, this Lease will continue in force with respect to the demised estate contained within the original spacing unit, as if the reduction in the size of the spacing unit 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, 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.

9. POOLING AND UNITIZATION

The Lessee may not pool or unitize the demised estate in whole or in part or the leased substances within or produced from the demised estate without the prior written consent of the Lessor.

10. 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 licence 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) furnish the Lessor with immediate advice of any porous zones or showings of the leased substances or any of them;
 - (iv) test, to the extent required by good oilfield practice, any porous zones or showings of the leased substances or any of them encountered or indicated by any survey;
 - (v) take representative mud samples and drill stem test fluid samples in order to obtain accurate resistivity readings of mud filtrate and formation water and furnish the Lessor with all information relative thereto;
 - (vi) furnish the Lessor with a copy of the drill stem test and service report on each drill stem test run, including copies of pressure charts; and
 - (vii) permit authorized and qualified 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 Lessor acknowledges that in some instances it may not be operationally feasible to comply with all logging requirements and in such event, if the Lessor is in agreement with the Lessee's reasons for modifying or not completing the logging requirements, such requirements will be so modified or waived. The Lessee shall furnish the Lessor with a copy of the final prints of each log run, not later than fifteen (15) days from the running thereof. Notwithstanding the foregoing, if the Lessee provides the Lessor with evidence satisfactory to the Lessor that the provincial conservation authority has waived open hole logging requirements, the logging requirements set forth above shall not apply for any such well.
- (d) Within thirty (30) days of the date of completion of each well drilled on the said lands, the Lessee shall furnish the Lessor with:

- (i) a copy of any directional, temperature, calliper or other well survey (exclusive of a velocity survey) or 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; and
 - (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; and
 - (ii) if production composed predominantly of natural gas is encountered, subject such well to a back pressure test; provided, however, that if a market for natural gas does not exist, such back pressure test may be postponed until a market is available or until such time as the Lessor requests such test. The Lessee shall 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 furnish the Lessor with a copy of all reports required to be filed with any government body, such copies to be furnished to the Lessor at the time such reports are filed with such government body.
- (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 clause 10, provided, however, that this subclause 10(g) shall not prevent the Lessor from divulging any information to an affiliate of the Lessor.

11. INSPECTIONS BY LESSOR OF LESSEE'S OPERATIONS

- (a) The Lessee shall permit authorized and qualified representatives of the Lessor, at all reasonable times during the term of this Lease, quietly to enter upon the said lands and into all buildings erected thereon and to survey, examine and inspect 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) In the event that the Lessee commingles production from a well or wells located on the said lands with production from other lands, the Lessor may from time to time notify the Lessee that the Lessor wishes to witness a production test on the commingled facilities, in which case the Lessee shall advise the Lessor of the next such production test and shall permit authorized and qualified representatives of the Lessor to witness such production test.

12. OPERATIONS OF LESSEE

The Lessee shall conduct its operations on the said 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:

- (a) shall, subject to governmental regulations and insofar as the same are capable thereof, produce all wells on the said lands rateably with all other wells operated by or under the control of the Lessee in the relevant field or pool underlying the

said lands, to the extent that there shall be no curtailment of production of leased substances from any well or wells on the said lands unless production is likewise curtailed from other wells operated by or under the control of the Lessee in such field or pool;

- (b) shall, at its own expense, obtain the right to enter upon the surface of the said lands for the purposes of this Lease;
- (c) shall, having commenced the drilling of a well, thereafter diligently and continuously prosecute the operations with respect to such well to completion or abandonment;
- (d) if the Lessee discovers any minerals other than the leased substances, the Lessee shall forthwith give to the Lessor notice in writing of such discovery together with all particulars or information relevant thereto;
- (e) shall not in any way interfere with any other person, firm or corporation 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, firm or corporation to explore for, win, take, remove or dispose of such minerals;
- (f) shall, so long as any well drilled by the Lessee on the said lands is capable of production in paying quantities, continuously and diligently operate such well for the production of the leased substances therefrom with adequate and sufficient machinery, appliances and equipment and in accordance with the best engineering practices. If such production from any well ceases, the Lessee shall, within thirty (30) days from the date upon which such production ceased, make every reasonable effort to bring the well back to production in paying quantities; provided that the Lessee shall not be in default for failure to produce the leased substances so long as a market therefor is not available;
- (g) shall properly plug or cement each well drilled or being drilled upon the said lands so as to prevent any flow of any substance from one stratum to another;
- (h) shall, upon termination of this Lease, leave the said lands in good plight and condition and shall deliver peaceable possession of all wells and works and of the said lands to the Lessor subject always to the provisions of clause 17;
- (i) shall use all due diligence to market the leased substances; and
- (j) shall keep the said lands free of all liens.

13. RECORDS

- (a) The Lessee shall keep true records in respect of the demised estate, as follows:
 - (i) the quantity of the leased substances produced;
 - (ii) the quantity of natural gas processed;
 - (iii) the nature and quantity of the products produced from the natural gas;
 - (iv) the quantity of residue gas resulting from the processing of natural gas;
 - (v) the quantity of each of the leased substances:
 - A. sold;
 - B. stored;
 - C. used; and
 - D. otherwise disposed of;
 - (vi) the actual price (including payments received from any source whatsoever in respect thereto) received in respect of the quantity of each of the leased substances sold; and
 - (vii) 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, for a period of six (6) years following the end of the calendar year to which such records relate, to audit such records.

14. DEFAULT

- (a) 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 Lessor may give to the Lessee written notice requiring the Lessee to remedy such default. 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 breach of clause 8, which breach the Lessee desires or intends to remedy by the drilling of a well, if the Lessee fails to commence or cause to be commenced operations for the drilling of an offset well into the applicable spacing unit within a period of thirty (30) days from the receipt of such notice or thereafter fails to diligently and continuously drill the same to the applicable horizon), this Lease shall thereupon terminate and it shall be lawful for the Lessor to re-enter into and upon the demised estate (or any part thereof in the name of the whole) and to have again, repossess and enjoy the demised estate, notwithstanding anything to the contrary in this Lease, and all wells which the Lessee may have drilled on the said lands, including all tools, machinery, buildings and erections which the Lessee may have placed on the said lands, shall become the property of the Lessor free and clear of any claim or interest of the Lessee.
- (b) The Lessee shall compensate and be liable to the Lessor for all costs and expenses (including legal fees and disbursements on a solicitor and his own client basis) incurred by the Lessor as a consequence of action taken by the Lessor in response to any 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.
- (c) Notwithstanding the foregoing, failure to make a deferred drilling payment pursuant to clause 3 on or before the end of a lease year results in automatic termination of this Lease, such failure is not an act of default under clause 14. This is the only breach or non-observance or non-performance on the part of the Lessee that results in automatic termination of this Lease.

15. SURRENDER

The Lessee, when not in default, may at any time surrender this Lease as to the whole or any part of the demised estate, and in such event the Lessee shall not be entitled to any refund of monies paid; provided, however, that where the said lands form only a part of a spacing unit in which the Lessee holds from the Lessor a lease or leases of other lands in such spacing unit, the Lessee may not surrender this Lease in whole or in part unless the Lessee at the same time surrenders all the Lessee's interest in all leases the Lessee holds from the Lessor in respect of said spacing unit insofar as such leases pertain to said spacing unit.

16. ABANDONMENT

If there is a well which has been completed for the production of leased substances, the Lessee must give notice to the Lessor if the Lessee intends to abandon that well as to the formation from which production is being obtained or is capable of being obtained (hereinafter referred to in this paragraph as the "producing formation"). If, within thirty (30) days following the Lessor's receipt of that notice:

- (a) the Lessor fails to reply to the Lessee or gives notice to the Lessee that it consents to the abandonment of the producing formation, the Lessee shall promptly abandon the wellbore as to the producing formation and conduct any required reclamation work in a timely manner; or
- (b) the Lessor gives notice to the Lessee that it wishes to take over the well, the Lessee shall, effective as of the date of the Lessor's election, assign the well (including the wellbore, the wellhead and all downhole equipment and surface access rights relating thereto) to the Lessor, without warranty, together with all the Lessee's interest in the spacing unit of the well and in this Lease insofar as it pertains to the producing formation in said spacing unit. The Lessee shall be

released from all obligations and liabilities for the property assigned to the Lessor pursuant to this paragraph, except for any that accrued prior to the assignment.

17. REMOVAL OF LESSEE'S EQUIPMENT

- (a) If the Lessee is in default under this Lease or if this Lease has been terminated by the Lessor, the Lessee shall not remove from the said lands any tools, machinery, buildings and erections which it may have placed thereon except with the written consent of the Lessor.
- (b) If this Lease is terminated other than by the Lessor, the Lessor may within sixty (60) days from the date of such termination take any well or wells which the Lessee may have drilled on the said lands, including all tools, machinery, buildings and erections which the Lessee may have placed on the said lands, upon paying to the Lessee the value, less salvage costs, of such tools, machinery, buildings and erections; otherwise the Lessee, if not in default under this Lease, may remove from the said lands tools, machinery, buildings and erections and may pull all casing, subject to compliance with Government regulations in that respect, provided such removal is completed within six (6) months from the date of such termination. If the Lessee does not so remove such tools, machinery, buildings and erections and casing the same 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 subclause 17(b), the Lessee shall assign, without consideration, the surface rights of the said lands to the Lessor.
- (c) Notwithstanding the provisions of subclauses 17(a) and (b), the Lessee shall upon the termination of this Lease, if requested by the Lessor, properly abandon all wells on the said lands not previously taken over by the Lessor.

18. 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 shall cause such caveat or other instrument to be withdrawn or discharged within a reasonable time after the termination of this Lease.

19. 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.

20. QUIET ENJOYMENT

Subject to the provisions of clause 19 and subclause 12(e), the Lessor covenants that 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.

21. 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.

22. WAIVER

No waiver by the Lessor of any breach of any of the covenants, provisions, 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.

23. 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 damage or the breach of any environmental legislation, 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 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; and
- (ii) indemnify and save harmless the Lessor, its directors, officers, employees and agents against all actions, proceedings, claims, demands, losses, costs, damages and expenses whatsoever including, without limitation, any relating to environmental damage or the breach of any environmental legislation, 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 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.

(b) Subclause 23(a) shall survive the termination of this Lease.

24. 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.

25. MANNER OF PAYMENTS

All payments to the Lessor shall be in Canadian currency and shall be mailed to or delivered at the Lessor's address provided for in clause 27, which payments may be made by cheque or bank draft.

26. INTEREST

The Lessee shall pay to the Lessor interest at the Lessor's Bank's Prime Rate plus three percent (3%) per annum on all moneys overdue under the terms of this Lease.

27. NOTICES

Any notice to be given pursuant to this Lease may be delivered or sent by registered letter to the Lessor and the Lessee as follows:

LESSOR: Dakeras International Inc.
 Suite 1378
 5328 Calgary Trail N.W.
 Edmonton, Alberta
 T6H 4J8

LESSEE: *****

or to such other address in Canada as the Lessor and the Lessee may respectively from time to time appoint in writing, and any such notice if mailed shall be conclusively deemed to be given to and received by the addressee three (3) days after the date of the mailing thereof postage prepaid.

28. TIME

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

29. JOINT AND SEVERAL LIABILITY

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

30. LESSOR AS LESSEE

Where the Lessor is also one of the persons or entities 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 conflict shall be construed against the Lessee.

31. SUCCESSORS AND ASSIGNS

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

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

DAKERAS INTERNATIONAL INC.

Per: _____
Edward M. Baher, President

Per: _____

Per: _____

Per: _____
