

**OIL AND GAS LEASE**

**NO.**



**MICHIGAN DEPARTMENT OF NATURAL RESOURCES**

By authority of Part 5, Section 502, 1994 Public Acts 451 as amended.

This Lease, made and entered into this    of    in the year    ,

By and between the **DIRECTOR OF THE DEPARTMENT OF NATURAL RESOURCES** for the **STATE OF MICHIGAN**, hereafter called "Lessor", whose address is P.O. Box 30452, Lansing, Michigan 48909, and    , whose address is    ,    , hereafter called "Lessee".

Witness, that the State of Michigan is the owner of all rights of any oil and gas lying within or under any of the land described below, and the Lessor has the authority to lease for the exploration, development, and production of any existing oil and gas therein.

The Lessor, for and in consideration of a cash bonus paid to it, and of the covenants and agreements herein contained on the part of the Lessee to be paid, kept and performed, does hereby lease, without warranty, expressed or implied, unto the Lessee for the sole and only purpose of drilling, boring, and operating for oil and gas, and acquiring possession of and selling the same, and for laying pipelines and building tanks, power stations, and structures thereon, necessary to produce, save and take care of such products. No operations shall be conducted by the Lessee on any of the following described land situated in the State of Michigan without obtaining all separate written permissions required by the Lessor or any other State or Federal Government Agencies:

**County**

**Parcels**

Description	Section	Acres	Equity

**Stipulations**

**None**

## A. DEFINITIONS

For the purposes of this Lease, the following definitions apply:

1. "Actual drilling operations" shall mean and be defined as actual drilling and penetration of strata in a continuous manner either by rotary, cable or combination drilling equipment to reach the objective formation at the intended depth as specified by permit and shall include drilling, completing, reworking, recompleting and deepening.
2. "Commercially Producing Well" shall mean a well capable of production in paying quantities.
3. "Commensurate royalties" means that amount of money which would fairly compensate the Lessor for any royalties lost due to drainage of oil and/or gas from the leased premises.
4. "EGLE" shall mean the Department of Environment, Great Lakes, and Energy.
5. "Development Plan" shall mean a plan to minimize negative impacts to the surface and shall include, but not be limited to, a complete copy of the proposed drilling permit application pursuant to 1996 AACRS R 324.201, a copy of the request to install a surface facility or flowline pursuant to 1996 AACRS R 324.504(4), and any supplemental Project Development maps, plans and Environmental Impact Assessments (EIA) filed with the Supervisor of Wells. Additionally, identification of State-owned surface lands within the proposed unit will be required. Documents filed with the Supervisor of Wells may need to be supplemented to identify pipelines, drill sites, facility sites, roads, erosion control, and other measures which may be necessary to mitigate impacts.
6. "Development Unit" shall mean the larger of a) the Drilling Unit or b) the unit voluntarily pooled, for the drilling of a single well.
7. "Drilling Unit" shall mean an area prescribed by applicable spacing regulations for the granting of a permit by the Supervisor of Wells for the drilling of a well.
8. "Extension fee" means a surcharge payment by the Lessee for the privilege of extending the primary term of the Lease for one (1) or two (2) years.
9. "Gas" means a mixture of hydrocarbons and varying quantities of nonhydrocarbons in a gaseous state which may or may not be associated with oil, including those liquids resulting from condensation, including but not limited to natural gas and casinghead gas.
10. "Gross Proceeds" means the total monies and other consideration accruing to an oil and gas Lessee for the disposition of the oil, gas, or plant products produced. Gross proceeds includes, but is not limited to, payments to the Lessee for certain services such as compression, dehydration, measurement, and/or gathering which the Lessee is obligated to perform at no cost to the Lessor to place lease products in marketable condition. Where lease products are sold to an affiliated person or entity, gross proceeds are equivalent to the gross proceeds derived from, or paid under, comparable arm's-length contracts for purchases, sales, or other dispositions of like-quality lease products from the same field or area. In evaluating the comparability of arm's-length contracts for purposes of this Lease, the following factors shall be considered: price, time of execution, duration, market or markets served, terms, quality, volume, posted prices, prices received for arm's-length spot sales, other reliable public sources of price or market information, and such other factors as may be appropriate.
11. "Lease Date" shall mean the date the Lease was made and entered into as shown on Page 1 of this document.
12. "Lease Issue Date" shall mean the date that the Lease is acknowledged by the Lessor as set forth on Page 11 (signature page).
13. "Lease Products" means any leased minerals attributable to, originating from, or allocated to this Lease.
14. "Lessee" shall mean the person or entity who shall remain responsible for any and all covenants, express or implied, contained within the Lease regardless of any partial interest assignments.
15. "Marketable Condition" for gas means sufficiently free from impurities, except CO<sub>2</sub>, H<sub>2</sub>S and N<sub>2</sub>, and otherwise in a condition that it will be accepted by a purchaser under a sales contract typical for the field or area.
16. "Marketable Condition" for oil means sufficiently free from impurities and otherwise in a condition that it will be accepted by a purchaser under a sales contract typical for the field or area.

17. "Oil" means natural crude oil or petroleum and other hydrocarbons, regardless of gravity, which are produced at the well in liquid form by ordinary production methods and which are not the result of condensation of gas after it leaves the underground reservoir, including but not limited to oil, casinghead gasoline, drip gasoline and natural gasoline extracted from natural gas.
18. "Paying quantities" shall mean a dollar amount sufficient to pay the day to day well operating costs and for which a reasonably prudent operator would, for the purpose of making a profit and not merely for speculation, continue to operate a well.
19. "Production Unit" is a Drilling Unit, or Development Unit, or Uniform Spacing Plan and, if agreed to by the Lessor, a Unitized Area, and consisting of one or more wells.
20. "Reasonably prudent operator" shall mean an operator that operates to maximize economic return to both Lessor and Lessee, taking into account market conditions, comparable production activities in the same field or area and all applicable regulatory conditions.
21. "Reclassification" shall mean the change of the classification in all, or a portion of, the lands contained within the Lease from nondevelopment or development (including a subsection of development which may contain restrictions) as deemed appropriate by the Lessor when the existing classification is substantially in error or there is a change in circumstances subsequent to the Lease Date.
22. "Reclassification fee" means a surcharge payment by the Lessee for the privilege of modifying all, or a portion of, the existing classification of lands contained within the Lease.
23. "Supervisor of Wells" shall mean the Director of the Department of Environment, Great Lakes, and Energy or his/her designated representative.
24. "Uniform Spacing Plan" (USP) shall mean a unit, as authorized by a Supervisor of Wells Order, such as (A) 14-9-94 for the Antrim formation, which will provide flexibility in the placement of wells as intended in Part 615 of 1994 PA 451, as amended.
25. "Unitization Agreement" is an agreement to consolidate acreage into a Unitized Area for the allocation of production on a basis as defined within the Agreement or Ratification as approved by the Lessor.
26. "Unitized Area" is the leased lands within the boundaries defined in the Unitization Agreement, or Ratification thereto, approved by the Lessor.
27. "Working Interest in the Lease" shall mean one or more individuals or entities who have obtained, with prior approval from the Lessor, an interest in the Lease to explore, develop, and produce the oil and/or gas under the leased premises.
28. "1994 PA 451, as amended" shall mean Act 451 of the Public Acts of 1994, as amended, and known as the Natural Resources and Environmental Protection Act.

#### B. TERM OF LEASE

1. Lease rights shall terminate and the Lessee shall be required to file a release with the Lessor as hereinafter provided whenever any rentals coming due under the Lease shall be and remain unpaid for a period of fifteen (15) calendar days after the rental becomes due.
2. Unless terminated pursuant to B(1), it is agreed that this Lease shall remain in force for a primary term of five (5) years from the Lease Date and as long thereafter as oil and/or gas are produced by the Lessee in paying quantities from any Development Unit, Drilling Unit or, at the option of the Lessor a Production Unit, but only as to the lands included in said unit.
3. The Lessor agrees that it may grant to the Lessee an extension of the primary term of this Lease for not more than two one-year extensions. Such extension to the sixth and seventh anniversaries of the Lease Date--as to any or all of the lands leased hereby--will be considered upon written application by the Lessee and payment of an extension fee, regardless of whether the Lessee is engaged in actual drilling operations on any Development Unit or Drilling Unit containing lands leased hereby. The application must be submitted not sooner than the fourth anniversary of the Lease Date. The amount of the extension fee shall be established by the Lessor and the extension fee must be paid prior to the fifth anniversary of the Lease Date for the first one-year extension and prior to the sixth anniversary of the Lease Date for the second one-year extension. The extension fee established for the sixth year shall remain the same for the seventh year, if executed. If, during the extended term, oil and/or gas is found in paying quantities, this Lease, insofar as it affects lands for which an extension was granted, shall continue with like effect as if oil and gas had been found within the primary term first set forth in paragraph B(2).

4. If the Lessee at the end of the fifth year of this Lease, or the first or second one-year extension granted under B(3), is engaged in actual drilling operations with respect to any well or wells on any Development Unit or Drilling Unit authorized which includes lands leased hereby, this Lease shall remain in force only on the lands included in such Development Unit or Drilling Unit so long as the actual drilling operations on said well(s) is diligently prosecuted to completion within one year from the start of drilling of said well. If oil and/or gas is found in paying quantities upon completion of such well(s), this Lease, only insofar as it affects land included within the said Development Unit or Drilling Unit, shall continue and be in force with like effect as if such well or wells had been completed within the primary term first set forth in paragraph B(2).
5. Notwithstanding anything to the contrary herein contained, actual drilling operations on or production from a Development Unit or units established under the provisions of J(7) shall maintain this Lease in force beyond the primary or extended term only as to land included in such unit or units. As to all other lands, this Lease shall expire under its own terms.
6. All applicable laws and rules are made a part and condition of this Lease. Violations of any of the applicable laws shall be considered a violation of the terms of this Lease and the Lessor, at its sole discretion, may invoke E(7), E(8), or E(9), or any combination thereof. No rules made after the approval of this Lease shall operate to affect the term of the Lease, rate of royalty, rental, or acreage, unless agreed to by both parties.

## C. ECONOMIC TERMS

### 1. Rentals

The Lessee shall pay to the Lessor rental as follows:

- a. The Lessee shall be required to make annual rental payments during each year of this Lease, it being understood that the primary lease term commences on the Lease Date.
- b. Rental for each year of the primary term shall be paid at the rate of \$2.00 per acre per year. Should the primary term of this Lease extend beyond the fifth year under provisions of Section B of this Lease, the rental shall be paid at the rate of \$3.00 per acre for the sixth year, and \$4.00 per acre for the seventh year.
- c. A minimum rental of \$5.00 per year per Lease shall be paid by the Lessee on any Lease where rental payment heretofore specified shall be less than that amount.
- d. All rental, except for the first year of the Lease, shall be paid annually in advance of each anniversary of the Lease Date. Rental for the first year of the Lease shall be paid in conjunction with and at the same time as when Bonus payments are due.
- e. The Lessor's receipt and deposit of a late rental payment shall not constitute a waiver of, or otherwise affect, the Lease termination that shall automatically occur whenever any rental payment is unpaid for a period of fifteen (15) calendar days or more after the anniversary of the Lease Date.
- f. Each and every oil and/or gas well, producing in paying quantities, and paying royalties to the Lessor, shall abate the rental only on the leased premises situated within the established oil or gas Development Unit or Drilling Unit. At the Lessor's option, rent may be abated in accordance with specific terms contained within a Unitization Agreement which has been approved in writing by the Lessor. The abatement shall be effective on the rental due date following the rental period in which the abatement is granted.

### 2. Royalties

The Lessee shall pay to the Lessor royalties as follows:

- a. The Lessee shall pay the Lessor a royalty equal to one-sixth (1/6) of the gross proceeds of sale of all oil and/or gas produced and saved in any combination from the leased premises as further set forth below.
- b. It is agreed that the Lessee is required to place lease products in marketable condition at no cost to the Lessor. The value of gross proceeds shall be increased to the extent that the gross proceeds have been reduced because the purchaser, or any other person, is providing certain services the cost of which is the responsibility of the Lessee to place lease products in marketable condition.
- c. At the sole option of the Lessor, and in lieu of royalty payments upon oil and/or gas produced and saved, the Lessee shall deliver to the credit of the Lessor free of cost the equal one-sixth (1/6) part of all oil and/or gas produced and saved under the terms of the Lease to facilities to which the wells may be connected.
- d. If payments specified are not made on or before the twenty-fifth (25) day of the first month following oil production sale or the second month following gas and/or plant products sale, the Lessor may claim default under the provisions of Section E(1) herein. In addition to any remedies available to the Lessor

under the Lease, payments made after the due date shall include interest at the rate of one and a half percent (1.5%) per month, or at the maximum legal rate, whichever is less, on the amount of royalty unpaid. A full month's interest will be charged for late payments received during any portion of the month in which late payment is received.

- e. Should oil be produced from any well, the gross proceeds of sale of lease products of such oil shall be free to the Lessor of any cost to whichever point is first encountered: 1) the point of sale to an independent nonaffiliated third party purchaser; or 2) to an affiliated purchaser, provided the sale is at prevailing market rates; or 3) the point of entry into an independent nonaffiliated third party owned pipeline system; or 4) the point of entry into an affiliate owned pipeline system, provided transportation rates are at prevailing market rates. Upon request by the Lessor, written justification of charges made by the Lessee must be submitted and agreed to in writing by the Lessor.
- f. Should gas, including casinghead gas, be produced and saved from any well, the gross proceeds of sale of lease products of said gas shall be free to the Lessor of any cost to whichever point is first encountered: 1) the point of entry into a facility to remove CO<sub>2</sub>, H<sub>2</sub>S, N<sub>2</sub> or obtain plant products, or 2) the point of entry into an independent nonaffiliated third party owned pipeline system; or 3) the point of entry into a pipeline system owned by a gas distribution company, or any subsidiary of such gas distribution company which is regulated by the Michigan Public Service Commission; or 4) the point of entry into an affiliated pipeline system, if the rates charged by such pipeline system have been approved by the Michigan Public Service Commission, or if the rates charged are reasonable, as compared to independent pipeline systems, based on such pipeline system's location, distance, cost of service and other pertinent factors. Upon request by the Lessor, written justification of charges made by the Lessee must be submitted and agreed to in writing by the Lessor.
- g. The Lessee agrees that all royalties accruing to the Lessor herein shall be without deduction of any costs incurred by the Lessee except as agreed herein. The Lessor is not liable for any taxes incurred by the Lessee and no deduction may be taken for any tax in computing the royalty. Lessor's royalty is to be free and clear of all costs, claims, charges and expenses of any nature, including third party post production costs on or off the premises except as herein provided, and except for the reasonable costs of CO<sub>2</sub>, H<sub>2</sub>S and N<sub>2</sub> removal, there shall be no deduction for the cost of gathering, separating, dehydrating, compressing or treating the gas to make it marketable. Unless otherwise specifically agreed in writing, there shall be no deduction for transportation costs prior to entry of gas into a pipeline system as set forth in C.2f (2) through (4).

3. Royalties for: Shut-in Wells and Wells Suspended from Operation

Within fifteen (15) calendar days after the anniversary of the Lease Date when a producing well is shut-in or suspended from operation for a period greater than 180 continuous calendar days, the Lessee shall pay to the Lessor, for each acre of the leased premises located within the established oil and/or gas Production Unit, a sum equal to the rental rate applicable under the terms of C(1b). For each year thereafter, any shut-in rate shall increase an additional \$1.00 per acre per year. Such payment shall be deemed a royalty under all provisions of this Lease.

D. TERMS FOR: SHUT-IN WELLS AND WELLS SUSPENDED FROM OPERATION

1. If a commercially producible oil and/or gas well completed on the leased premises, or on acreage pooled or consolidated with all or a portion of the leased premises into a Development Unit for the drilling or operation of such well, but only to the extent that the leased premises are included in said Development Unit, is at any time shut-in, or operations are suspended due to action taken by the Supervisor of Wells, and no oil and/or gas therefrom is sold (or gas is used for the manufacture of gasoline or other products), subject to the conditions of this Lease, such shut-in well or well suspended from operation shall be deemed to be a well on the leased premises producing oil and/or gas in paying quantities, and this Lease shall continue in force provided that within thirty (30) calendar days from the date the Lessor's written request is mailed, the Lessee submits to the Lessor satisfactory documentation in support of the shut-in or suspended status.
2. If an oil and/or gas well has been shut-in, or operations have been suspended by the Supervisor of Wells, and shall remain shut-in or suspended for a period of thirty (30) calendar days due to conditions or circumstances beyond control of the Lessee, the Lessee shall notify the Lessor in writing within fifteen (15) calendar days thereof, and annually thereafter, stating the conditions or circumstances for the shut-in or suspended status and expected date of resumption of production. The Lessee must be able to demonstrate why the well is shut-in or suspended. In the event the Lessor shall determine, in its opinion, that such oil and/or gas can be marketed, the Lessor shall give notice to the Lessee in writing and the Lessee shall have thirty (30) calendar days from the date such notice is mailed in which to satisfy the Lessor. If the Lessee

fails to satisfy the Lessor and reach agreement with the Lessor, the Lessor may, at its sole discretion, invoke Section E(9) of this Lease as herein provided.

3. The Lessee shall at all times use reasonable diligence to produce and market oil and/or gas capable of being produced from such shut-in well.

#### E. DEFAULT OF LEASE

1. In the event the Lessor shall determine a default in the performance by the Lessee of any express or implied covenant of this Lease, the Lessor shall give notice, in writing, by personal service or certified United States mail, return receipt requested, to the Lessee's last known address, specifying the facts by which default is claimed. Except as to rental and offset well requirements as herein provided, the Lessee shall have thirty (30) calendar days from the date such notice is mailed in which to satisfy the obligation of the Lessee, if any, with respect to the Lessor's notice.
2. No tools, fixtures, machinery or other property of the Lessee shall be removed from said premises, if any royalties, damages, or other payments are due to the Lessor, and all sums due on royalties, damages, or other payments, shall be a lien on all implements, tools, movable machinery, and all other chattels used in operating said property, and also upon all of the unsold oil and/or gas obtained from the land herein leased, as security for the payment of said royalties, damages, or other payments.
3. The Lessee may remove all machinery and fixtures placed on the leased premises, including the right to remove casing from wells not productive of oil or gas in commercial amounts, provided, however, that said Lessee has complied with and fulfilled all other provisions of the Lease as herein provided.
4. Should the Lessee be prevented from complying with any express or implied covenant of this Lease, from conducting drilling operations thereon, or from producing oil and/or gas therefrom, after effort made in good faith, for any cause beyond the reasonable control of the Lessee, such as, but not limited to war, rebellion, riots, strikes, acts of God or an order or rule of governmental authority, then while so prevented, the Lessee's obligation to comply with such covenant shall be suspended upon proper and satisfactory proof presented to the Lessor in support of the Lessee's contention. The Lessee shall not be liable for damages for failure to comply therewith except in the event of lease operations suspended for wrongful acts or omissions of the Lessee. This Lease shall be extended as to such portion of the leased premises as, while, and so long as the Lessee is prevented, by any such cause, from drilling, reworking operations or producing oil and/or gas thereon or therefrom, provided, however, that nothing herein shall be construed to suspend the payment of rentals during the primary or extended term. The Lessee is expected to make application for all separate written permissions required by governmental agencies, including but not limited to easements, drilling permits, and surface use permits, within reasonable time prior to expiration of the Lease. Lessee's obligations under this Lease shall not be excused by failure to make timely applications for permits, annual frost law road restrictions, winter snow conditions or other conditions which are reasonably foreseeable.
5. As required by R299.8106 (3), before a lease will be executed for oil and/or gas exploration, development, and production, the Lessee shall file with the Lessor a lease performance bond, in an amount established by the Lessor, to cover costs incurred by the Lessor due to breach of any clause contained herein by the Lessee, including but not limited to the costs of any enforcement actions necessary on the part of the Lessor, costs of any necessary environmental remediation, clean-up or site restoration and conditioned that the Lessee, its heirs, executors, administrators, successors, and assigns, shall faithfully perform the covenants, conditions, and agreements specified in the Lease, and the laws and rules of the State of Michigan which apply.
6. The Lessee shall keep in full force and effect a sufficient lease performance bond to cover the acreage held under this Lease. If the amount of the lease performance bond in effect becomes depleted or partially depleted because of any claim or claims, the Lessee shall file a new or additional lease performance bond as required by the Lessor.
7. The Lessor may invoke part or all of the lease performance bond when it determines that part or all of the covenants, conditions or agreement specified in the Lease are not being fulfilled. Invoking the lease performance bond is not necessarily related to any action taken by the Lessor under part E(1).
8. In addition to invoking a part of or all of the lease performance bond noted under E(7), the Lessor, at the Lessor's sole option, may determine that the Lessee be placed on a "Hold Action" list until such time as any and/or all infractions by the Lessee have been resolved to the satisfaction of the Lessor. Placement on said list may result in barring the Lessee from any further leases, assignments, easements, extensions or other approvals required by the Lessor. However, placement on said list does not eliminate the Lessor's ability to forfeit any or all parts of said Lease under E(9).

9. If the Lessee fails to voluntarily satisfy the claim of default as herein provided relative to any condition or any express or implied covenants of this Lease, the Lessor may proceed, at its sole discretion, with forfeiture of all or part of said leased premises in accordance with the provisions of Act 81 of Public Acts of 1929, being Sections 554.281 and 554.282 of the Michigan Compiled Laws with invocation of all or part of the lease performance bond or with any combination thereof.

#### F. ASSIGNMENTS AND CONTRACTS

1. It is expressly understood and agreed that no assignments of working interests, of this Lease or any portion thereof, shall be valid except upon written approval of the same by the Lessor, and upon payment of a fee as established by the Lessor. Failure to notify, provide supporting documentation, and obtain Lessor's approval to assign any, or all, parts of said Lease, shall constitute default of this covenant and result in the Lessor's ability to invoke Paragraph E(7), E(8) and/or E(9).
2. Assignments of the entire 100% working interest to all formations in any portion of the premises herein leased shall be construed as a separate lease agreement and not a part of the original Lease. Development on the assigned acreage, after the assignment has been made, shall not affect the rate of rental or term of the Lease on the unassigned acreage; and, conversely, development on the unassigned acreage, after the assignment has been made, shall not effect the rate of rental or term of the Lease on the assigned acreage. Where the Lessee assigns any interest in this Lease which is less than the entire 100% working interest to all formations in any portion of the leased premises, the Lessee shall remain responsible for any and all covenants, express or implied, contained within this Lease.
3. If the estate of either party is assigned, the covenants hereof shall extend to their heirs, executors, administrators, successors, or assigns, but no change in the ownership of the land or the assignment of royalties shall be binding on the Lessee until after the Lessee has been furnished a written transfer or assignment or a copy thereof.
4. Subject to Paragraph F(1), each and every clause and covenant in this Lease shall extend to the heirs, executors, administrators, successors, and assigns of the parties hereto.

#### G. SURFACE DAMAGE PAYMENTS

1. The Lessee shall pay or agree upon payment to the surface owner, or any person holding under the owner, for all damages or losses (including any loss of the use of all or part of the surface), caused directly or indirectly by operations hereunder, whether to growing crops or buildings, to any person or property, or to other operations.
2. Before a drilling permit application is submitted to the Supervisor of Wells relating to land in which the State of Michigan owns mineral rights only, and as described in this Lease, proof shall be submitted to the Lessor, in writing, that notification to enter the land has been provided to the surface owner and that either voluntary agreement or stipulated settlement relative to surface use and damages has been reached between the Lessee, or the Lessee's authorized agent, and the surface owner or G(3) is invoked.
3. When a mutually satisfactory agreement relative to surface use and damages cannot be reached, either party can inform the Lessor, in writing, that a dispute exists and the Lessor will grant a negotiation period of thirty (30) calendar days in which no drilling or development operations may be conducted by the Lessee. This time period is to allow for the resolution of the dispute. If, at the end of this period, proof of the agreement is not submitted in writing to the Lessor, drilling and development operations will not be prohibited by the Lessor and resolution of the dispute rests solely with the Lessee and the surface owner independent of the Lessor. It is the sole responsibility of the Lessee to ensure that said thirty (30) day negotiation period is completed thirty (30) days prior to the expiration of the primary term or any extensions of this Lease.

#### H. RECORDS AND LOGS

1. The Lessee shall submit, upon request by the Lessor, an accurate log or record of each well in the format acceptable to the Supervisor of Wells and as provided for in the EGLE's Rules and Regulations under Part 615, 1994 PA 451, as amended.
2. The Lessee shall keep an accurate account of all operations under this Lease, including production, sales, prices, and dates of same; and shall report to the Lessor on the twenty-fifth (25th) day of each month, the quantity produced by each producing unit in the preceding calendar month, the quantities delivered to pipeline companies, and the quantities otherwise disposed of from the premises herein leased. The Lessee shall install and properly maintain, at its expense, adequate and correct meters for the measurement of gas

production and flows, and shall provide for verification of gas production and flows by an independent third party at the sole discretion and request of the Lessor.

3. The Lessor shall have the right to examine the books of the Lessee insofar as they relate to the production, sale, and valuation of any oil, gas or other products derived from the premises herein leased. The Lessee shall provide monthly information such as production volumes, sale prices, remittance amounts, deductions and other information pertinent to the calculation and payment of royalties due the Lessor in a format approved by the Lessor. The Lessee shall submit, upon request by the Lessor, copies of source documents, reports, contracts, schedules, and computations to support volumes, prices, costs, and other factors used to determine value and remittance.
4. The Lessor, or the Lessor's designated agent, shall have free access to the leased premises for the purpose of inspection and examination.
5. The Lessee shall, at the sole discretion of the Lessor, submit to an audit of all transactions, contractual relationships, volume, production, flows, sales, valuation, or such other records as Lessor may determine appropriate which are related to establishment of gross proceeds, deductions, the State of Michigan's decimal interest and corresponding correctness of the royalty payments or any other types of payments due to the Lessor. The audit may be performed by the Lessor, or contracted for by the Lessor, at the Lessor's discretion. The Lessee shall be responsible for the cost of the audit if, based upon the final audit report, any underpayment calculated before interest is in excess of five percent (5%) of the payment made for the audit period.

#### I. ENVIRONMENTAL TERMS

1. Any operations under this Lease shall be subject to all applicable Federal and State laws and rules now or hereafter in force. This Lease is not in itself an authorization to drill, and issuance of drilling permits for specific locations is subject to separate application and approval by the Supervisor of Wells pursuant to Part 615, 1994 PA 451, as amended. No operations shall take place on State-owned surface without separate written permission(s) required by the Lessor and/or any other State or Federal governmental agency.

For lands under this Lease, the Lessee shall submit to the Lessor a complete copy of any application for permits to drill simultaneously with the submission of the application to the Supervisor of Wells. Each application shall identify the location of any State-owned surface lands contained within the proposed unit.

2. No operations shall take place in: a) a wetland (as defined in Part 303 of 1994 PA 451, as amended); b) habitat identified as critical to the survival of an endangered species and designated under provisions of Part 365 of 1994 PA 451, as amended; c) a site designated by the Secretary of State to be of historical or archaeological significance; unless a plan can be mutually agreed upon by the Lessor and the Lessee to substantially eliminate negative impacts.
3. Notwithstanding areas identified in Section I(2), in areas identified by the Lessor as having special wildlife, environmental, recreational significance, and/or State surface, the Lessee agrees to submit and negotiate a Development Plan with the Lessor which will minimize negative impacts and will minimize surface waste while remaining consistent with the spacing requirements established by the Supervisor of Wells.

The Development Plan shall be submitted to the Lessor simultaneously with the Lessee's submission of the drilling permit application to the Supervisor of Wells. Upon completion of a producible exploratory well, the Development Plan, if not already provided to the Lessor, shall be submitted thirty (30) calendar days prior to any further drilling permit applications or formation of the Production Unit.

The Lessor reserves the right to exclude certain sites from drilling and/or production activities in areas having special wildlife, environmental, or recreational significance, on State surface lands.

4. No well shall be drilled which is inconsistent with the Development Plan agreed to in I(3) or nearer than 1,320 feet to any lake or stream without the prior written consent of the Lessor. Great Lakes coastal shores shall be classified as nondevelopment within 1,500 feet of the shoreline unless a written exception is granted by the Lessor. To obtain the Lessor's consent, the Lessee will be required to demonstrate to the Lessor that the non-conforming well location will result in less environmental impact.
5. The Lessee shall route all pipelines from the well site to follow existing well roads or utility corridors and shall bury all pipelines below plow depth, unless the Lessor authorizes an exception in writing.
6. Restoration shall be completed within nine (9) months of surface disturbance within the premises for well site(s), pipeline(s), road(s), and other oil and gas development activities unless otherwise specifically approved in writing by the Lessor's authorized representative. Restoration shall be pursuant to requirements

identified within the Surface Use Permit, easement or other similar written permission for the development activity.

7. The Lessee, when surrendering this Lease, or portion thereof, or any well, shall leave the premises as required by applicable law and according to the terms and conditions of this Lease and terms of any prior written permissions from the Lessor, and in a safe and orderly condition. All debris and materials, such as timbers, boards, sheeting, tanks, pipe tubing, and any other equipment used in operating this Lease or a well, shall be removed from the leased lands when operations have ceased. Slush pits and burning pits shall be taken care of as required by applicable law and filled in. Upon failure of the Lessee to conform with these provisions, the Lessor shall have the right to enter on the property to repair damages and restore the property to a lawful, safe and slightly condition at the Lessee's cost or, at the Lessor's option, to invoke Paragraph E(7), E(8), or E(9). The Lessee may not escape any prior obligation of the Lease by surrendering this Lease, or any portion thereof.

#### J. LESSOR RIGHTS

1. The Lessor reserves the right to all minerals on, in and under the leased premises not herein expressly granted.
2. The Lessor reserves the right to use or lease the premises, or any part thereof, at any time, for any purpose but not to the detriment of the rights and privileges herein specifically granted.
3. The Lessor reserves the right to sell or otherwise dispose of the premises, or any part thereof, subject to the terms and conditions of this Lease.
4. The Lessor shall not be liable for any damages resulting from failure of its title, or control of restrictions established by the State department or Federal governmental agency having jurisdiction over the surface of the leased lands, as either relates to rights included herein; provided, however, that if the Lessor's title or control fails as to any or all of the rights covered by this Lease, the Lessor shall refund to the Lessee all bonus, rental or royalty payments made by the Lessee attributable to that part or portion of, or interest in, the title or control which has failed. In the event of title dispute wherein the Lessor's claim to title prevails, the Lessor shall receive interest at the prevailing prime rate on all money withheld by the Lessee pending settlement of the title dispute.
5. Should the Lessor be prevented from complying with any express or implied covenant of this Lease because of a force majeure (i.e., for any cause beyond the reasonable control of the Lessor such as, but not limited to, acts of God, legislation or rules of any governmental body, including budgeting constraints, any judgment of injunctive order entered by a court of competent jurisdiction, acts of the public enemy, riots, strikes, labor disputes, labor or material shortages, fire or flood) then such covenant shall be suspended to the extent made necessary by the aforesaid force majeure.
6. The Lessor reserves the right to require the Lessee to drill and operate wells to offset producible wells on adjoining production units when the Lessor believes drainage is occurring, regardless of whether such adjoining units are owned or leased by the Lessee. If, within one hundred twenty (120) calendar days from the date notification from the Lessor is mailed pursuant to E(1), the Lessee fails to: commence drilling such offset well(s), or agree to payment of and to commence payment of commensurate royalties on a monthly basis, or to submit reasonable proof to the Lessor that drainage is not occurring, the Lessor may require the Lessee to surrender a portion of the leased premises necessary to establish a Drilling Unit(s) for the drilling of offset wells. Offset wells shall be drilled to a depth not less than that of the producing formation of the adjoining well, and the drilling of such offset well or wells shall be prosecuted to completion in good faith. In the event the Lessee elects to make payment of commensurate royalties, the Lessee shall provide the Lessor with information in the Lessee's possession relevant to determination of said royalties.
7. For the purpose of oil and/or gas development and production under this Lease, the Lessor does hereby grant to the Lessee, the right to pool said premises, or any part thereof, with other land to comprise an oil and/or gas Drilling Unit. The Lessee shall record in the Register of Deeds office in the county in which said Drilling Unit is situated, an instrument identifying the unit so authorized, and a copy of the recorded instrument shall be filed with the Lessor within thirty (30) calendar days after recording. If such oil and/or gas well shall not be drilled on the leased premises but within the authorized Drilling Unit, it shall nevertheless be deemed to be upon the leased premises within the meaning of all of the covenants, expressed or implied, in this Lease, but only to the extent that the leased premises are included within the Drilling Unit. The Lessor shall participate in the royalty from such oil and/or gas Drilling Unit, at the rate provided in this Lease, only in the proportion that the number of acres owned by the Lessor within

the limitations of such Drilling Unit bears to the total number of acres included therein unless a substitute method is agreed to between the Lessee and the Lessor or established by the Supervisor of Wells.

8. Unitization Agreements including acres under this Lease must be approved in writing by the Lessor. Participation in royalties from a unitized area, or rent abatements, shall be in accordance with the Unitization Agreement.
9. The Lessor reserves the right, at its option, to renegotiate certain terms and conditions of the Lease as requested by the Lessor or Lessee.

#### K. LESSEE RIGHTS

1. The Lessee may surrender all or any part of the premises herein leased by giving notice in writing to the Lessor, provided however, that the Lessee may not escape any prior obligation of the Lease by filing a release. Upon surrender, the Lessee shall execute and deliver to the Register of Deeds, in the county wherein the land is situated, for recording, a proper and sufficient instrument of release of all of the Lessee's rights and interest under this Lease, insofar as they apply to the premises surrendered, and shall have said instrument delivered to the Lessor within fifteen (15) calendar days after recording with the Register of Deeds. Failure of the Lessee to conform with the provisions of this Lease may result in the Lessor invoking Paragraph E(7), E(8), and/or E(9).

#### L. RECLASSIFICATION OF LAND UNDER LEASE

1. The Lessee understands and agrees that the Lessor may at any time prior to the start of actual drilling operations, reclassify this Lease as "nondevelopment" as defined in 1981 AACRS, R 299.8101. In the event of such reclassification, the Lessee agrees that its sole remedy, to the exclusion of any other at law or in equity, is to surrender this Lease or a portion thereof to the Lessor in exchange for a refund of all bonus and rental payments made by the Lessee attributable to the Lease or portion thereof surrendered. Where the land subject to this Lease is reclassified as "nondevelopment", the Lessee at its option may be entitled to a refund equal to the difference between the average per-acre bonus paid for State development leases and for State nondevelopment leases at the same sale in the same vicinity if said nondevelopment leases were sold for less than the development lease. Upon surrender, the Lessee shall execute and deliver to the Register of Deeds a proper and sufficient release of the Lessee's rights as set forth in Section K(1).
2. In the absence of alleged drainage and for nondevelopment lease tracts other than those formally dedicated by the Lessor as State parks, State recreation areas, or wilderness and natural areas, the Lessor may grant a change of classification from a nondevelopment lease, or tracts therein, to a development lease classification if the Lessor finds that the existing nondevelopment classification is in error or that there is a change in circumstances. In the event that a lease is reclassified as development, the Lessee shall pay compensation to the Lessor at least equal to the difference between the average per-acre bonus paid for State development leases and for State nondevelopment leases at the same sale in the same vicinity.
3. Notwithstanding the provisions of Section L, the Lessor shall not reclassify a lease as development if there will be impairment of any of the following: wetlands, endangered species habitat, historic, archaeological or cultural sites, areas of special wildlife, ecological or recreational significance.

#### M. NONDEVELOPMENT LEASE RESTRICTIONS

(This section pertains to nondevelopment leases only. A nondevelopment lease is identified by the prefix "N" in front of the Lease Number shown on page 1 of this document.)

1. All other provisions of this Lease notwithstanding, it is understood that no drilling or development work shall be conducted on the surface of the land described in this Lease without reclassification and/or the specific authorization of the Lessor. Reclassification or such authorization for this Lease or any portion of the lands contained herein, will be granted at the sole discretion of the Lessor.
2. Drilling, if authorized, shall be limited to the number of wells necessary to prevent drainage from said State minerals.
3. No operations shall be conducted until written instructions for the proper protection of any and all natural resource interests and/or surface values are issued by the Lessor.

The said Lessor, by its Manager, Minerals Management Section, has signed and affixed the seal of the State of Michigan by virtue of action taken by Lessor on \_\_\_\_\_, and the Lessee has signed the day and year written below.

**ACKNOWLEDGEMENT BY LESSOR**

NATURAL RESOURCES DIRECTOR FOR  
THE STATE OF MICHIGAN

By: \_\_\_\_\_

, Manager

Minerals Management Section  
Finance and Operations Division

Acknowledged before me in Ingham County, Michigan, on \_\_\_\_\_, 20\_\_\_\_, by \_\_\_\_\_, Manager, Minerals Management Section, Finance and Operations Division, of the Department of Natural Resources for the State of Michigan.

Prepared By: \_\_\_\_\_

\_\_\_\_\_, Notary Public

State of Michigan \_\_\_\_\_ County of \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

Acting in County of Ingham

**ACKNOWLEDGEMENT BY LESSEE**

LESSEE:

By: \_\_\_\_\_

Before me, the undersigned, a notary public in and for said county and State, on this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, personally appeared \_\_\_\_\_ to me personally known, who being duly sworn did say that they (or he/she) are authorized to sign on behalf of the Lessee named in the foregoing instrument and acknowledged to me that they (or he/she) executed the same as their (or his/her) free and voluntary act and deed.

\_\_\_\_\_, Notary Public

State of \_\_\_\_\_ County of \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

Acting in County of \_\_\_\_\_

This Lease was approved by the Michigan State Administrative Board on: \_\_\_\_\_