

OIL AND GAS LEASE
(Associated Landowners of the Ohio Valley)
Version Including Explanatory Notes

This lease was prepared for the ALOV group with the intention of providing a neutral and fair balance of interests and rights for the Lessor and Lessee, as an alternative to form leases and addenda prepared by lessees largely to favor and protect the interests of lessees.

Notes are provided as to some of the key lease provisions that differ from the usual lessee-prepared leases. All the lease should be read carefully; the notes do not by any means reflect all of the important provisions.

This oil and gas lease (the "Lease") made this ____ day of _____, 20____, between _____, herein called "Lessor" (collectively if there is more than one) whose address is _____, and _____, hereinafter called "Lessee", whose address is _____.

ARTICLE I. GRANT OF LEASE

Lessor, in consideration of the payments described herein and the covenants and agreements hereinafter contained, does hereby lease to the Lessee the land described below exclusively for the purpose of carrying on geophysical and other exploratory work, including core drilling, and the drilling, operating for, and producing of all the oil, gas, casinghead gas, casinghead gasoline and all other gases and their respective constituent vapors, liquid or gaseous hydrocarbons produced in association therewith other than as reserved unto Lessor herein below (herein called "Lease Products").

1. Description of the Land Included in this Lease

The land included in this Lease, herein called the "Leased Premises" is located in the County of _____, State of Ohio, with a permanent parcel number (or numbers) as follows: _____. A legal description, (metes and bounds description) along with a tax map or GPS map depicting the property is attached hereto together as Exhibit A.

2. Limitations on Grant of Lease

(a) Lessor's Reserved Rights. Lessor reserves all rights not specifically granted to Lessee in this Lease. Specifically reserved by Lessor are all oil, gas and other mineral rights from the surface to the top of the Queenston Shales, other than such rights allowed to Lessee to drill through such reserved portions as are necessary for Lessee to have access to the Queenston Shales and below.

Only rights below top of Queenston Shales are leased; top rights are reserved.

(b) Lessor Structures and Improvements. Lessor reserves the right to construct any structure or other improvements at any location selected by Lessor anywhere on the Leased Premises. If prior to Lessee coordinating site location for any operations of Lessee's on the Leased Premises pursuant to Article V(1)(q) of this lease, Lessor commences construction of a structure or other improvement on the Leased Premises, Lessee will not locate any equipment, nor conduct any operations within 300 feet of the proposed structure or improvement (within 500 feet if a habitable structure) without Lessor's prior written permission.

(c) Agricultural Activities. Lessor reserves the right to initiate or continue irrigation and agricultural activities on the Leased Premises. If Lessor decides to conduct agricultural activities on the Leased Premises, Lessee will accommodate Lessor's agricultural use.

(d) Other Minerals Reserved. This Lease does not include and there is hereby excepted and reserved unto Lessor all of the sulfur, coal, lignite, uranium, and other fissionable material, geothermal energy, base and precious metals, rock, stone, gravel, and any other mineral substances (excepting those described above in the Grant of Lease) presently owned by Lessor in, under, or upon the Leased Premises, together with rights of ingress and egress and use of the Leased Premises by Lessor or its lessees or assignees for purposes of exploration for and production and marketing of the materials and minerals reserved hereby.

3. **Unitization – Pooled Units**

Subject to any limitations below, Lessee is granted the right, at its option, to pool or unitize any land covered by this Lease with any other contiguous lands included with other leases as to any or all horizons or gas, oil, or other minerals described above in the Grant of Lease in this Lease so as to establish pooled units. No pooled unit for any vertical well with no horizontal drilling component which includes any portion of the Leased Premises shall exceed sixty (60) acres. No pooled unit for any well that includes lateral or horizontal drilling shall exceed six hundred forty (640) acres. Lessee shall furnish to Lessor prior to any application for formation of a pool or unit a copy of the declaration or proposed declaration of the unit of which any portion of the Leased Premises shall be a part, including a copy of all plats, maps, and exhibits to such application or declaration.

Ohio has no maximum unit size. This lease has a maximum size of 60 acres for a vertical well and 640 acres for a horizontal well. These limits are to protect the Lessor as to issues of "held by production" (so a lessee cannot tie up large tracts with a single well) and to avoid unreasonable dilution of royalty share. Six Hundred Forty acres is the maximum allowed in some other states.

4. **Unit Configuration**

Insofar as possible, taking into consideration the productive limits of the producing interval and the unit configuration for the leased premises, the lands included within the production unit for a well shall be in the form of a square or rectangle. Every effort shall be made in designating production units to avoid releasing small or irregular shaped portions of the leased premises, or portions not contiguous with other released portions. Acreage assigned to wells producing from different zones may overlap, and shall overlap when necessary to comply with the requirements of this section. If a well is producing from more than one formation, its production unit's size and configuration shall conform to the Ohio Department of Natural Resources (or other government entity with jurisdiction) rules applicable to the well which provides the largest production unit (subject to the size limitations stated above). If all or a portion of the leased premises is included in a pooled unit, then for purposes of this paragraph all the lands within the pooled unit shall be considered a part of the leased premises, and the size and configuration of the production unit(s) must conform to the requirements of this paragraph for a production unit.

5. **Top Lease; First Right of Refusal**

In the event Lessor chooses to grant any remaining rights reserved by Lessor under this Lease to any party other than Lessee, then before any such grant Lessor shall provide Lessee with a writing setting forth all terms and conditions of such other grant, or a true copy of any lease or other document reflecting such grant. Lessee shall be afforded a period of at least thirty (30) calendar days following receipt of such written notice, during which time Lessee may elect to exercise this first right of refusal to assume the obligations of lessee under such other proposed grant on the same terms and conditions contained therein. Should Lessee so elect, Lessee shall notify Lessor in writing within such thirty (30) day period, and submit therewith any up-front payments or other considerations described in such proposal, along with a signed lease accordingly.

If the Lessor wants to lease the top rights, the Lessee will have a first right of refusal.

6. **Definitions**

(a) **Operations.** "Operations" shall mean only (a) the production of oil, gas or other liquid hydrocarbons in paying quantities subsequent to drilling or (b) the actual drilling, completing, reworking, recompleting, deepending, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil or gas, conducted in good faith and with due diligence.

(b) **Division Order.** Documents setting forth the proportional ownership in Lease Products.

ARTICLE II. TERM OF LEASE

1. **Primary Term**

This Lease shall become effective on the date of receipt by Lessor of the final signing bonus payment. Except as provided herein, this Lease shall remain in full force and effect for a period of five (5) years from such date (hereinafter referred to as "Primary Term").

2. **Extension of Primary Term**

This Lease may be extended beyond the Primary Term only under the condition that an active deep well (in excess of 5000 feet) has been commenced to the extent that the bit has hit the ground.

The means by which the Lessor can keep the lease in effect by activity being conducted at the end of the Primary Term is much narrower than with standard form leases in order to protect the Lessor. If the lease is to continue beyond the primary term, the Lessee must actually have drilled or be in the process of drilling a well (or pay the equivalent of the original bonus payment for an extension as below).

3. **Option To Renew/ First Right of Refusal**

Lessee is hereby given the option to extend by renewal the Primary Term of this Lease for one (1) additional three (3) year period. This option may be exercised by Lessee at any time up to 180 calendar days before the expiration of the original Primary Term by notifying Lessor in writing of Lessee's intent to exercise its option and simultaneously therewith paying to Lessor at least 180 calendar days prior to termination of the Primary Term a lease bonus to Lessor in an amount equal to the original signing bonus per acre paid to Lessor by Lessee. Such payment shall be based upon the net acres then covered by this Lease and not at such time being maintained by other provisions hereof. Should this option be exercised, it shall be considered for all purposes as though this Lease originally provided for a Primary Term of eight (8) years. In the event Lessor receives a bona fide written option for a new lease on the same terms as this Lease, except with increased offers for up-front bonus and royalty payments in comparison with this Lease, Lessor may provide Lessee with a true copy of said written offer at least 180 days prior to the termination of the Primary Term (five years). In such event, the option to renew stated above will be suspended pending Lessee's consideration of a first right of refusal for Lessee to equal the other offer. Lessee must elect to exercise such first right of refusal within thirty (30) calendar days of receipt of the other written offer by Lessee's providing Lessor within such time period written notice of Lessee's election, along with payment of the increased up-front bonus amount. If Lessee does not elect to exercise its first right of refusal, this Lease shall terminate at the end of the five-year Primary Term.

This gives the Lessor an opportunity to take advantage of higher offers if the market improves during the Primary Term.

4. **Shut-In Limitation**

In the event any well drilled upon the Leased Premises is shut-in, the lease will continue in force and effect while production is shut in; provided, however, this Lease may not be maintained in force for any continuous period of time longer than three (3) consecutive years or four (4) cumulative years after the expiration of the Primary Term hereof solely by provision

of the shut-in royalty clause. The shut-in status of any well shall persist only so long as it is necessary to correct, through the exercise of good faith and due diligence, the condition giving rise to the shut-in of the well.

5. **Pugh Clause**

(i) As to any acreage of the Leased Premises which is not included within any production unit at the expiration of the Primary Term, including any extension of the Primary Term in accordance with Article II, Section 2 and/or Section 3 of this lease, this lease shall automatically terminate and be of no further force or effect as to any acreage not within such designated units.

(ii) In addition, at the end of the Primary Term or extension thereof, this Lease shall terminate as to all depths and horizons under each production unit below two hundred (200) feet below the stratigraphic equivalent of the base (bottom) of the deepest formation from which production of oil or gas in paying quantities is being maintained (or, in the case of a shut-in gas well, can be maintained) in the well on such production unit. Lessee shall have the right of first refusal subsequent to such termination in the event any subsequent lease is offered by Lessor for the depths and horizons released in accordance with this paragraph.

This is a "use it or loose it" provision directed to the Lessee. Depths or horizons unused, and acreage unused are to be released from the lease so the Lessor can lease those rights to another Lessee.

6. **Held by Production**

This Lease may be held in force after the termination of the Primary Term, including any extensions in accordance with Article II, Section 2 and/or Section 3 of this Lease, only by production from, or operations conducted on such unit, and production from, or operations conducted on one unit will not maintain this Lease in force as to any other acreage contained or described in the Leased Premises within any other unit, but such production or operations will maintain this Lease only as to the acreage within the unit or units upon which such production or operations are being maintained or conducted.

7. **Partial Releases**

Lessee shall have the right at any time during this Lease to release from the lands covered hereby any lands subject to this Lease and thereby may be relieved of all obligations hereafter accruing as to the acreage so released, provided that (a) Lessee may not release any portion of this Lease included in a pooled unit so long as operations are being conducted on such unit, and (b) any such partial release must release all depths in and under the lands so released.

8. **Termination of Record**

Upon termination of this Lease as to any portion of the Leased Premises, Lessee shall promptly deliver to Lessor a plat showing the designated production units around each well and a partial release containing a description (metes and bounds and map) of the acreage and depths not retained, in form suitable for recording. In addition, Lessee shall peaceably surrender the released premises to Lessor and remove any and all facilities, equipment and machinery from

the site within 90 days at Lessee's expense. Further, the affected land shall be reclaimed in accordance with Article V, Section 1(m) of this Lease.

Upon termination of this Lease or any portion thereof, or upon expiration of this Lease, Lessee shall provide Lessor documentation in recordable form of such termination or expiration within thirty (30) calendar days after the date of termination or expiration. Should Lessee fail to provide such documentation, Lessee hereby grants to Lessor the right and authority, after thirty (30) days prior written notice delivered to Lessee by certified mail at the address shown on this lease, or such other address as has been subsequently provided by Lessee to Lessor, to file an affidavit on record reflecting such expiration or termination, which filing shall be binding upon Lessee.

9. **Default**

(a) Examples of Default. In addition to any incidents of default described throughout this Lease, the occurrence of any of the following shall be deemed a default:

(i) If any creditor of Lessee, its agents, and/or assigns, shall take any action to execute on, garnish or attach the assets of Lessee located upon the Leased Premises, or

(ii) If a request or petition for liquidation, reorganization, adjustment of debts, arrangement, or similar relief under the bankruptcy, insolvency or similar laws of the United States or any state or territory thereof, or any foreign jurisdiction shall be filed by or against Lessee, or any formal or informal proceeding for the reorganization, dissolution or liquidation of settlement of claims against, or winding up of affairs of Lessee; or the garnishment, attachment, or taking by governmental authority of any collateral or other property of Lessee.

(b) Notice of Default or Breach of Lease. In the event Lessor considers that Lessee is in default under this Lease or that Lessee has not complied with its obligations hereunder, both express and implied, including the non-payment of royalty or rent, Lessor shall notify Lessee in writing, setting out specifically in what respects Lessee is in default or Lessee has breached this Lease. Lessee shall then have forty-five (45) days after date of receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by Lessor, or to correct any default. The service of said notice shall be precedent to the bringing of any claim or action by Lessor on this Lease for any cause, and no such action shall be brought until the lapse of forty-five (45) days after service of such notice on Lessee. Neither the service of said notice nor the doing of any acts by Lessee aimed to meet all or any of the alleged breaches or the default shall be deemed an admission or presumption that Lessee has failed to perform all of its obligations hereunder.

(c) Termination for Default. Upon the occurrence of the event of default, and after notice thereof and opportunity to cure as set forth above, the Lease shall be terminated and the Lessee shall become a tenant at will for the conduct of operations on the Leased Premises. If evicted, Lessee agrees to surrender possession of the Leased

Premises, or of the portion of the Leased Premises included in such termination. If Lessee should fail to deliver documents reflecting termination or expiration of this Lease or if Lessee fails to surrender possession of the Leased Premises as required under this Lease, Lessor may institute proceedings necessary to clear title or to take possession, and in that event, in addition to all other relief that may be granted to Lessor, Lessor shall be entitled to recover against Lessee all attorney fees, investigation charges, court costs and expert fees thus expended by Lessor.

(d) Other Remedies. Upon default by Lessee, Lessor shall be entitled to exercise any and all remedies available at law, in equity or otherwise, each such remedy being considered cumulative. No single exercise of any remedy set forth herein shall be deemed an election to forego any other remedy.

Most form leases have no language at all protecting the Lessor in the event the Lessee breaches the lease or defaults on the lease. This language is meant to give the Lessor reasonable and fair procedures and rights in such event, while also giving the Lessee reasonable rights of notice and opportunity to cure shortcomings.

ARTICLE III. PAYMENT TO LESSOR

1. Bonus Payment

Lessee agrees to pay Lessor a signing bonus of _____ Dollars (\$ _____) for each acre contained within the Leased Premises. Of the bonus, _____ Dollars (\$ _____) per acre is paid to Lessor at the time of signing of this Lease by Lessee. (*ALTERNATIVE*; At the time of signing of this Lease, _____ Dollars (\$ _____) shall be paid into escrow as approved by Lessor in writing). The remainder of the bonus payment shall be paid to Lessor within sixty (60) days following the date Lessee signs this Lease. By Lessor's signing this Lease, Lessor promises to proceed with this Lease and be bound thereby upon Lessee's paying the full amount of the bonus payment. Neither this Lease, nor any Memorandum of Lease shall be recorded by Lessee until the bonus payment has been received in full by Lessor, which receipt shall be acknowledged by Lessor in writing. All bonus payments, rentals and royalty payments made to Lessor under this Lease are non-refundable. Failure by Lessee to pay the bonus payment within the time described herein shall render this Lease null and void.

The Lessor is required to put at least some amount "down" when entering the lease – either actual cash paid directly to the Lessor, or funds paid into escrow, pending payment of the full bonus amount. This lease will not take effect or even be recordable until the full bonus has been paid.

2. Additional Bonus

In the event all or any portion of Lessee's rights or interests under this Lease are conveyed, sold, transferred or assigned by Lessee to any other party (other than Lessor) and Lessee receives as consideration for such assignment payment or value in any form other than a

share of the production from operations on the Leased Premises (such as an up-front cash payment) which payment or value exceeds the amount of the bonus payment to Lessor set forth above, then Lessee shall pay over to Lessor ten percent (10%) of the amount of such payment or value received that exceeds the bonus payment paid to Lessor as an additional bonus to Lessor. Such additional bonus shall be paid within thirty (30) days following receipt by Lessee of such payment or value from its grantee or assignee. Lessee shall give written notice to Lessor of any such assignment prior to the effective date or time of the assignment, and Lessee's failure to provide such notice shall render any such assignment by Lessee as void and of no effect. Lessee shall, upon written request from Lessor, provide Lessor with a true copy of documents reflecting such assignment or sale of Lessee's interest in the Leased Premises, including documents evidencing payment or value received by Lessee therefore.

This is an innovative clause that would allow the Lessor to benefit from subsequent transfers of this lease from the original Lessee to assignees of the Lessee. Lessor would be entitled to receive 10% of any payment received by the Lessee in excess of the bonus amount originally paid to Lessor. Thus, if Lessee paid Lessor \$2,000 per acre bonus, and Lessee assigned the lease to another party for \$4,000 an acre, Lessor should be paid an additional \$200 bonus per acre (10% of the \$2,000 difference between the original bonus payment and the amount received by Lessee for the assignment).

3. **Royalty Payment**

(a) **Percentage.** The royalties payable to the Lessor under this Lease shall be on a well by well basis. As to each and every well completed as a producer of oil and/or gas on the Leased Premises or on lands pooled therewith, the royalties paid to Lessor shall be _____ percent (___%) of all the oil, gas and casinghead gas removed or recovered from the Leased Premises or, at Lessor's option (which shall be presumed to be exercised unless Lessor advises Lessee to the contrary prior to any applicable production month) the Gross Proceeds (as hereinafter defined in paragraph (d) of the total gross production attributable to the applicable well.

(b) **Determination of Royalty Amount**

Lessee covenants and agrees:

(i) To sell and execute division orders for the sale of all oil, condensate and liquid hydrocarbons produced and saved by Lessee from the Leased Premises, including Lessor's share with Lessee's share and shall pay Lessor royalty (in accordance with paragraph (a) above), where applicable, based on the Gross Proceeds paid to Lessee or any Affiliate (as hereafter defined in paragraph (c)) of Lessee from the sale. From time to time, at the option of Lessor, to deliver or cause to be delivered to the credit of Lessor, in the pipeline or tanks to which Lessee may connect its wells, percentages (in accordance with paragraph (a) above) of all oil, condensate and liquid hydrocarbons produced and saved from the Leased Premises;

(ii) To pay Lessor on gas and casinghead gas produced from the Leased Premises, percentages of proceeds (in accordance with paragraph (a) above) based on:

- (1) the Gross Proceeds paid to Lessee from the sale of such gas and casinghead gas when sold by Lessee in an arms-length sale to an unaffiliated third party, or
- (2) the Gross Proceeds, paid to an Affiliate of Lessee, computed at the point of sale, for gas sold by Lessee to an Affiliate of Lessee, and
- (3) the market value at the point of use, when used by Lessee.

(iii) To pay Lessor on all other byproducts and/or constituents marketed or utilized by Lessee from the Leased Premises, in accordance with paragraph (a), the percentages of the Gross Proceeds paid at the point of sale.

(c) Affiliates. For purposes of this Lease, an "Affiliate of Lessee" is any corporation, firm or other entity in which Lessee, or any parent company, subsidiary or affiliate of Lessee, owns an interest of more than ten percent (10%) whether by stock ownership or otherwise, or over which Lessee or any parent company or Affiliate of Lessee exercises any degree of control, directly or indirectly, by ownership, interlocking directorate, or in any other manner; and any corporation, firm or other entity which owns any interest in Lessee, whether by stock ownership or otherwise, or which exercises any degree of control, directly or indirectly, over Lessee, by stock ownership, interlocking directorate, or in any other manner.

(d) Gross Proceeds. For purposes of this Lease, "Gross Proceeds" means the total consideration paid for oil, gas, associated hydrocarbons, and marketable by-products, produced from the Leased Premises or consideration for relinquishing any rights relating to this Lease whether in the form of payments, bonuses, premiums, pre-payments for future production or delivery of production at a future time, or sums paid to compromise claims relating to payment obligations with the following exceptions:

(i) If gas produced from the Leased Premises is processed for the recovery of liquefiable hydrocarbon products prior to sale, and if such processing plant is not owned by Lessee or any Affiliate of Lessee, Lessor's royalty shall be calculated based upon the consideration paid to Lessee (or any Affiliate of Lessee) from Lessee's (or Lessee's Affiliate's) sale of such liquefiable hydrocarbons and residue gas.

(ii) If gas produced from the Leased Premises is processed for the recovery of liquefiable hydrocarbon products prior to sale, and if such processing plant is owned by Lessee or any Affiliate of Lessee, Lessor's royalty shall be calculated based on (a) the gross proceeds (without deduction for costs of processing) paid to Lessee (or any

Affiliate of Lessee) from the sale of all products extracted from such gas, plus (b) the total consideration paid to Lessee (or any Affiliate of Lessee) from the sale of all residue gas.

(iii) If oil or gas production from the Leased Premises is produced in a plant for the extraction of gasoline, hydrocarbons or other products, the value of the Gross Production shall, for purposes of determining royalty due, never be less than if such gas had not been processed.

(iv) Lessee shall pay to the Lessor royalty at the applicable royalty rate (paragraph (a)) on any monetary settlement received by Lessee from any breach of contract by Lessee's purchaser relating to the marketing, pricing, or taking of oil or gas production from the Leased Premises.

(e) Costs of Production. Lessee shall place oil and gas produced from the Leased Premises in marketable condition and shall market same as agent for Lessor, at no cost to Lessor. Except as expressly provided in (d) above, Lessor's royalty shall not be charged directly or indirectly with any expense required to make gas marketable, including but not limited to the following: expenses of production, gathering, dehydration, compression, manufacturing, processing, treating, transporting or marketing of gas, oil, or any liquefiable hydrocarbons extracted therefrom.

(f) When Royalties Must Be Paid. All royalties that may become due hereunder shall commence to be paid on the first well completed on the Leased Premises within one hundred-twenty (120) days after the first day of the month following the month during which any well is completed and commences production into a pipeline for sale of such production. On each subsequent well, royalty payments must commence within ninety (90) days after the first day of the month following the month during which any well is completed and commences production into a pipeline for sale of such production. Thereafter, all royalties on oil shall be paid to Lessor on or before the last day of the second month following the month of production, and all royalties on gas shall be paid to Lessor on or before the last day of the third month following the month of production. Royalties not paid when due shall bear interest at the prime rate, plus five percent (5%) per annum.

(g) Delinquency in Payment. If royalty is not paid by the date due, Lessor may give Lessee written notice of nonpayment of royalty, by certified mail, return receipt requested, and if Lessor's royalty is not paid on or before expiration of forty-five (45) days from Lessee's receipt of such notice, interest shall commence accruing on the due date and be payable by Lessee to Lessor on the delinquent balance at the rate of five percent (5%) per annum above prime interest rate. However, Lessee may avoid any interest obligation if prior to the expiration of such forty-five (45) days Lessor is furnished an attorney's written opinion citing a bona fide dispute or a good faith question of royalty entitlement (either as to ownership or as to amount), Lessee pays to Lessor the

undisputed portion and Lessee pays the disputed royalty to an escrow account to be administered by, a trustee agreed to by both parties or by the American Arbitration Association, if such trustee cannot be found. If practical, such escrow funds shall be invested in interest-bearing accounts pending resolution of the entitlement issue, with the interest to follow the distribution of escrow.

(h) Split Royalties. If, by reason of assignments of undivided interests in Lessee's interest in this lease, more than one party becomes entitled to a portion of Lessee's share of gas produced from any well on the Leased Premises, and if any or all of such co-owners elect to take their share of gas in kind, resulting in split-stream deliveries of gas to different purchasers, Lessor shall be entitled, at Lessor's election, to require the operator of the Leased Premises to pay and account to Lessor for all royalties due on gas production from the well or wells from which split-stream deliveries are being made, so that Lessor shall not be required to receive royalties from more than one (1) purchaser or party on the same gas stream. If Lessor exercises such election, the operator of the Leased Premises (or of that portion of the Leased Premises upon which the split-stream production is located) shall pay to Lessor all royalties due on such gas production and shall provide production statements from all purchasers of such gas showing the amounts sold and the price paid therefore, with any applicable adjustments. Such election, if made, shall not relieve any party otherwise liable for payment of royalties from such liability, and all parties owning an undivided interest in all or any portion of the Leased Premises shall be and remain jointly and severally liable for the payment of all royalties due on production therefrom.

It is important to have sufficient detail in the lease as to how royalties are determined and paid, in order to avoid future disputes. Most stock leases do not contain such detail and thus leave much to the discretion of the Lessee, or the changing customs of the industry. This lease requires the royalties to be paid to Lessor based on gross amounts received, without deduction for costs of production and transportation of the gas or oil.

4. **Audit Rights**

Lessee grants to Lessor or Lessor's designee the right at Lessor's expense, to examine, audit, copy or inspect books, records, and accounts of Lessee pertinent to the audit purpose of verifying the accuracy of the reports and statements furnished to Lessor, and for checking the amount of payments lawfully due to Lessor under the terms of this agreement. In exercising this right, Lessor shall give reasonable notice to Lessee of its intended audit and such audit shall be conducted during normal business hours at the office of Lessee at the sole cost and expense of Lessor. However, if the amount of exceptions or deficiencies in royalty payments revealed by the audit equal or exceed 125% of the cost and expense of the audit, then the Lessee shall bear the cost and expense of the audit and all monies due (audit exceptions, costs, and expenses) shall be payable within 30 days of the final determination of the amounts due.

5. **Security Interest**

Lessor hereby retains a security interest in (a) all of the oil and gas produced and saved from the Leased Premises or lands pooled therewith, under and pursuant to this Lease, and (b) all proceeds of sale of such oil and gas and all accounts arising therefrom (the "Collateral"), to secure Lessee's payment of royalties and compliance with the other terms and provisions of this Lease. In the event of default by Lessee, Lessor shall have the right to take possession of the Collateral, and to receive the proceeds attributable thereto and to hold same as security for Lessee's obligations or to apply it on the amounts owing to Lessor hereunder. The collateral includes oil, condensate, distillate, gas and natural gas liquids, including any hydrocarbon or non-hydrocarbon minerals or products that may be associated with oil or gas to be financed at the wellhead of the wells and accounts from the sale thereof. This Lease, or memorandum thereof, (which shall contain the provisions of this paragraph) when filed in the real property records where the Leased Premises are located, shall constitute a financing statement. Additionally, Lessee agrees to cooperate with any UCC-1 filing requested by the Lessor.

This is a unique feature not contained in form leases. It is to provide some security and assurance to the Lessor for payment of amounts due under this lease.

6. **Payment to Lessor in Lieu of Free Gas**

In the event any well is drilled upon the Leased Premises or any portion thereof, Lessee shall pay to Lessor in lieu of any right to free gas a sum equal to the value of the first three hundred fifty thousand (350,000) cubic feet of natural gas produced from each such well. Said amount shall be paid in quarterly installments, with the value based upon the prior twelve (12) months average price received by Lessee for gas sold from the Leased Premises, as of January 1 of each calendar year in which the payments are made.

There is no "free gas" provision in this lease. Rather, instead there is an additional payment to Lessor in lieu of getting free gas, since in most situations such payment would well exceed the value or benefit of the gas itself. To further protect the Lessor, that payment is indexed to future actual prices of gas.

7. **Shut-In and Minimum Royalties.**

(a) **Payment Amount.** If there shall be a well on the leased premises capable of producing gas or gas and condensate in paying quantities, but from which neither gas nor condensate is sold or used off the leased premises for lack of a satisfactory market (which well is herein sometimes called a "shut-in" gas well), Lessee may pay or tender to Lessor, as shut-in gas well royalty, for each such shut-in well, a yearly sum equal to _____ and 00/100 Dollars (\$____.00), indexed to the Consumer Price Index (CPI) as published for _____, 20____, and recalculated every five (5) years thereafter, multiplied by the number of acres subject to this Lease at the time such payment is made. The first such payment of shut-in gas well royalty is to be made on or before sixty (60) days after the day on which such well was shut in. Succeeding payments may be made annually thereafter on or before the anniversary of the due date of such payment.

Notwithstanding the making of such shut-in gas well royalty payments, Lessee shall be and remain under the continuing obligation to (a) use all reasonable efforts to find a market for said gas and to commence or resume marketing same when a market is available, (b) reasonably develop the lands then subject to this Lease, and (c) drill all such wells on the lands then subject to this lease as may be reasonably necessary to protect same from drainage by wells on adjoining or adjacent lands.

(b) Limited Duration. After expiration of the Primary Term, the portion of the Leased Premises being held by the Lessee solely by the payment of shut-in royalty, shall be released after a period of thirty-six (36) consecutive months or a cumulative total of sixty (60) months, unless given written consent by the Lessor to continue to be shut-in.

8. Sitting/Spud Fee

Lessee shall pay to Lessor the sum of Fifteen Thousand Dollars (\$15,000.00) for each well located on the Leased Premises, which payment shall be paid prior to commencement of drilling of each well. Furthermore, upon prior separate written consent and agreement of Lessor, Lessee shall pay Lessor an amount of at least Ten Thousand Dollars (\$10,000.00) for each post-drilling pit, pond or other in-ground containment excavation in which fluids or liquids pertaining to and involved with operations are to be stored (other than drilling pits) located on the Leased Premises.

9. Ad Valorem Taxes

Lessee shall pay all Ad Valorem taxes or assessment of Lease Products or Lease Product reserves made by any local, state or federal entity or governmental unit attributable to, or resulting from the assessment of Lease Products from the Leased Premises regardless of the percentage of royalty paid to Lessor. Lessee shall, in addition, pay any and all severance taxes or other excise taxes arising out of or relating to this Lease and/or the Lease Products.

10. Property Taxes

In the event real property taxes pertaining to or attributable to the Leased Premises are increased in any manner by reason of the operations of Lessee on the Leased Premises, including, but not limited to any structures or improvements constructed on the Leased Premises, Lessee shall be responsible for the amount of any such tax increase attributable to such operations or improvements. Lessee shall reimburse Lessor for the amount of such increase within thirty (30) days after Lessor provides Lessee with written documentation reflecting such increase and the basis thereof.

11. Agricultural Programs

In the event the Leased Premises is subject to any federal, state, local and/or agricultural assistance program (CAUV, CRP or Forest Land Program, including any interest and penalties thereon), and any roll-back or reimbursement or recoupment or retroactive assessment is made against the Leased Premises on account of, arising out of, or relating to the operations of Lessee on the Leased Premises, Lessee shall be responsible for paying any and all of such

amounts, but only insofar as such amounts imposed result from operations on the portion of the Leased Premises actually utilized in Lessee's operations.

12. **Method of Payments**

All rents and royalties (except payment by gas in kind at the election of Lessor as may be provided herein) and any and all sums due hereunder from Lessee to Lessor shall be paid at the option of Lessor by one of the following methods:

(a) By check tendered directly from Lessee to Lessor (any check for bonus payment to be in the form of a certified or cashier check and hand delivered by Lessee to Lessor at Lessee's address as stated in this Lease; other checks by mail to Lessee's address)

(b) By direct deposit by depositing the payment to the credit of the Lessor in the bank and account number as provided in writing by Lessor to Lessee prior to such payment (which bank shall continue as depository for all sums payable hereunder until any subsequent written notice otherwise is provided by Lessor to Lessee).

No payment not timely made or not made in the correct amount shall constitute a waiver by Lessor of any rights or remedies of Lessor under this Lease. A payment submitted electronically shall be considered timely paid if such payment is successfully transmitted to Lessor's account on or before the due date. A payment not submitted electronically shall be considered timely paid if delivered to the Lessor on or before the applicable due date or if deposited in a postpaid, properly addressed wrapper with a post office or official depository marked as so deposited by the United States postal service before the applicable due date.

13. **Due Date**

Any payment hereunder from Lessee to Lessor as required under this Lease (such as royalty payments or shut-in fee) shall unless otherwise specifically provided in this Lease be paid within thirty (30) calendar days following the end of the month or annual period which constitutes the period of time on which the payment is based.

14. **Default**

Failure of Lessee to timely pay Lessor any amounts required under this Lease shall be deemed a default by Lessee.

ARTICLE IV. TITLE ISSUES

1. **Lessor's Representation Regarding Title to Leased Premises**

Lessor makes no representation or warranty as to Lessor's title to the Leased Premises other than that Lessor warrants and represents that Lessor is not aware of any unrecorded encumbrances, or encroachments or conditions affecting title to the Leased Premises other than those that would be observed on a location survey. It shall be Lessee's burden and obligation to assure itself of the quality of title to the Leased Premises. Upon this Lease taking effect (thus upon Lessor's receipt of the bonus payment), Lessee's obligations under this Lease shall not be diminished or affected by any title encumbrance on the Leased Premises, including

but not limited to any mortgage or mineral lease of record that existed as of the date this Lease became effective.

This lease removes the standard Lessor warranties of title contained in form leases. Lessors rarely really know the quality of the title to their properties, and thus blindly make these warranties. The Lessee is in a better position to know the quality of title, and usually has already searched title before even approaching the Lessor, and entering a lease. This language would not require an existing mortgage to be subrogated, and would not require an existing lease to be extinguished. The Lessee assumes knowledge as to existing mortgages and leases. Any mortgages or leases or other encumbrances entered after the lease would have to be subject to the lease, to protect the rights of the Lessee.

2. **Lessor Encumbrances After Lease Effective**

Any mortgage, lease, easement, or other interest granted by Lessor voluntarily after this Lease becomes effective shall be subject to this Lease. In the event Lessor should become in default of any obligation of Lessor that is secured by any lien or encumbrance on the Leased Premises during the term of this Lease, Lessee may, at its option, pay and discharge any such obligation on behalf of Lessor after Lessee gives Lessor at least thirty (30) calendar days prior written notice of such intention to pay, and if, after Lessor's receipt of such notice, Lessor makes no arrangement otherwise to address the amount in default. Should Lessee make such payment on behalf of Lessor, or by any other lawful means, Lessee shall be entitled to recover from Lessor by deduction from any future payments to Lessor, with interest at Ohio's legal rate for judgments and Lessee's actual costs incurred.

3. **Liens Against Lessee**

In the event any lien or encumbrance is filed against the Leased Premises arising out of or pertaining to the operations by Lessee, Lessee shall within forty-five (45) calendar days following the date such lien or encumbrance is recorded cause such lien or encumbrance to be released from record, and Lessee shall provide Lessor written evidence of such release. Lessee's contention that the lien or encumbrance arises from a bona fide dispute shall not be grounds for Lessee's failure or refusal to remove the lien or encumbrance as required herein.

This adds protection to the Lessor in the event a lien is placed on the Lessor's property based on obligations or activities of the Lessee. This issue is rarely addressed in form leases.

ARTICLE V. IMPACTS AND EFFECTS

This lease allows for no gas storage (subsurface) or injection wells. No frac water storage-type pits are allowed without further separate agreement with the Lessor (normal drilling pits to facilitate the actual initial drilling process are allowed, subject to standards). Clear, specific standards are placed on Lessee's activities that affect the property.

1. **Surface Issues**

The following provisions shall apply under this Lease:

(a) **Compliance with Laws.** Lessee shall be responsible for any and all acts or matters arising out of or pertaining to Lessee's operations on the Leased Premises whether reasonably foreseen or unforeseen. All operations conducted by Lessee shall comply with federal, state and local law, statute, regulation and/or order, and the terms of this Lease, whichever is more strict. Lessee's failure to comply with any federal, state or local law or any regulation or order of any enforcement agency having jurisdiction over Lessee's operations shall be a default under this Lease.

(b) **Degree of Care.** Lessee shall at all times use the highest degree of care known in the industry, and all reasonable safeguards to prevent its operations from

(i) causing or contributing to soil erosion;
(ii) polluting or contaminating any environmental medium including the surface or subterranean soils and/or waters and ambient atmosphere in, on, under, or about the Leased Premises and surrounding properties;

(iii) decreasing the fertility of the soil;
(iv) damaging crops, native or cultivated grasses, trees, or pastures;
(v) harming or in any way injuring animals, whether domestic or wild on the Leased Premises;

(vi) damaging buildings, roads, structures, improvements, farm implements or fences.

(vii) Lessee shall dispose of salt water, frac water or liquid waste oil and other waste in accordance with the rules and regulations of the Ohio Department of Natural Resources and all other applicable governmental authorities.

(viii) Lessee shall clean up, remove, remedy and repair any soil or ground water contamination and damage caused by its presence or release of any contaminant in, on, under, or about the Leased Premises, whether or not caused by the negligence of Lessee. Lessee shall pay to any person beneficially interested in the harmed object all damages caused by Lessee's operations.

(c) **Disposal.** Lessee shall not use the Leased Premises for the permanent disposal of any drill cuttings, or the storage or disposal of residual wastes. No disposal wells or any other devices or means of disposal of wastes or drilling liquids are permitted on the Leased Premises.

(d) **No Gas Storage.** Lessee shall have no right to use the Leased Premises or any portion thereof, surface or subsurface, for gas, oil, or brine storage purposes.

(e) **Replace Barriers and Drain Tile.** Lessee shall promptly replace any barriers, including but not limited to fences and walls removed by Lessee during its operations on the Leased Premises. Lessee shall construct gates on all access roads upon written request from Lessor, and provide an access key or double lock system allowing

access by both Lessor and Lessee. Gates are to be closed and locked when Lessee personnel are not on the premises. Lessee shall promptly replace any drain tile removed or damaged by Lessee during its operations.

(f) Timber. Lessee shall notify Lessor in writing at least forty-five (45) calendar days prior to any removal of marketable timber (marketability to be within the discretion of Lessor). At Lessor's option, Lessor may choose to harvest timber, or Lessor may require an appraisal of the timber by a qualified independent appraiser, and Lessee shall pay Lessor the appraised value for the timber identified prior to its removal by Lessee.

(g) Use of Surface or Subsurface Water. Lessee is not permitted to use water from Lessor's surface wells, ponds, lakes, springs, creeks or reservoirs on the Leased Premises without prior written consent and agreement with Lessor, separate from this Lease. Lessee shall not drill or operate any water well, take water, or inject any substance into the subsurface, or otherwise use or affect water in subsurface water formations.

(h) Crops. Lessee will plan its surface operations in a manner that will reduce or minimize intrusion into crop fields. In the event such an intrusion cannot be avoided, Lessee shall compensate Lessor for the damage or loss of growing crops at current market value.

(i) Fencing by Lessee.

Lessee shall

(i) fence all wells and well sites, tank batteries, pits, separators, drip stations, pump engines, and other equipment placed on the Leased Premises with a fence capable of turning livestock;

(ii) keep such fences in good repair; and

(iii) keep all gates and fences closed at all times, or in lieu of gates, install cattle guards.

(j) Pipelines.

Excavation. The top of any pipelines shall be a minimum of forty-eight (48) inches from the surface. Lessee shall utilize a double ditch method for construction of pipelines as well as any other excavation on the Leased Premises, in which topsoil is segregated from subsoil, and when the excavation is backfilled, the subsoil is replaced first and the topsoil is placed on the top. Lessor shall have the right to construct and lay drainage and other utility pipes, wires, and lines across or under Lessee pipelines in a manner which does not interfere with the use thereof.

(k) Roads. Roadways or drives constructed by Lessee on the Leased Premises during active drilling or development phases shall not exceed fifty (50) feet in width, or a minimum width required to perform required operations. In the event of a producing well on the Leased Premises, any permanent access road for well servicing purposes shall be a

maximum width of twenty (20) feet, or a minimum width required to perform maintenance and other operations.

Lessee agrees to improve, construct or maintain all roads used by it in good repair utilizing shale, gravel, or crushed stone, culverts, and supports as necessary to provide a smooth, rut-free all weather surface, and when such roads are no longer being used, Lessee agrees upon Lessor's request, to remove toppings and to restore the surface as nearly as possible to its former condition. Lessee shall not use shale, gravel or crushed stone from the leased premises without the prior written consent of Lessor. Lessee shall prevent its employees, agents and contractors from operating vehicles in a negligent manner or at speeds in excess of 25 miles per hour while on the Leased Premises.

(l) Utilities. Lessee's rights hereunder may include burying or otherwise constructing necessary phone, electric, and data collection lines on the Leased Premises in connection with production from the Leased Premises, but such rights may not be assigned to a utility company, pipeline company, or anyone else who owns no interest in the Leased Premises or is otherwise not contracted or affiliated with Lessee for the purpose of carrying out the rights and obligations under this Lease. The right to use said pipelines terminates when production from the Leased Premises ceases and all wells associated therewith are plugged and abandoned.

(m) Restoration of Leased Premises. On completion of any operations on the Leased Premises, Lessee shall restore the Leased Premises to pre-drilling conditions, remove all debris, equipment and personal property which Lessee placed on the Leased Premises (except for equipment needed for the operation of producing wells, which shall be removed within six (6) months after a well permanently ceases to produce). For purposes hereof, "completion of operations" shall mean the completion of drilling operations as to equipment and facilities relating to drilling, including any associated pits, tanks (or other excavations or facilities no longer needed for production), or in the event of a dry hole, all such facilities. Lessee shall keep the premises in a neat and clean condition.

(n) Hazardous Materials. Lessee shall not use, dispose of or release on the Leased Premises or permit to exist or to be used, disposed of or released on the Leased Premises as a result of its operations any substances (other than those Lessee has been licensed or permitted by applicable public authorities to use on the Leased Premises) which are defined as "hazardous materials", "toxic substances" or "solid wastes" in federal, state or local laws, statutes or ordinances. Should any pollutant, hazardous material, toxic substances, contaminated waste or solid waste be accidentally released on the Leased Premises, Lessee shall notify Lessor immediately after notifying the applicable governmental body of such event.

(o) Firewalling and Maintenance of Production Equipment. Dikes, firewalls or other methods of secondary containment must be constructed and maintained at all times

around all tanks, separators and receptacles so as to contain a volume of liquid equal to at least 1.25 times the total volume of such tanks, separators and other receptacles located within the boundaries of the firewall. Lessee shall keep all tanks and other equipment at each well location painted, and shall keep the well site and all roads leading thereto free of noxious weeds and debris.

(p) Pits. Lessee shall have no right to dig any pits other than drilling pits (not storage pits) on the Leased Premises except with Lessor's prior written consent. Any pit so permitted shall: (i) conform to all applicable regulatory requirements (state, local and federal), (ii) be planned to be deep enough to allow at least thirty-six (36) inches of back fill over the liner after grading to surrounding pre-drill contour and (iii) promptly after completion of operations any backfill and the liners shall be removed and the pits shall be drained, prepared for burial, back filled, graded and planted within ninety (90) days (weather permitting). Lessee shall immediately notify Lessor and all applicable regulatory authorities if any pit lining is torn, punctured, or otherwise breached, allowing any fluid contained in a pit or designated to be contained in a pit to seep, leak or overflow through or around the liner.

(q) Mutual Agreement as to Location of Operations. Before commencing surface disturbing operations on the Leased Premises, Lessee and Lessor shall mutually agree in writing on the location of all wells, roads, pipelines, gates, and other equipment so as to minimize disruption of Lessor's use of the Leased Premises. To the degree practicable, operations shall be designed and laid out to be concentrated in a single area so as to avoid unnecessary utilization of surface areas. To the degree practicable, pipelines and roadways are to be within the same corridor. Lessor's consent shall not be unreasonably withheld, assuming the preceding standards are followed. Without a separate written agreement between Lessor and Lessee, no pump stations, tank batteries, dryers or separators shall be located on the Leased Premises unless they are for the sole purpose of treating gas from the Leased Premises or lands pooled or unitized therewith, and those shall not be located nearer than, and no well shall be drilled nearer than five hundred (500) feet from any dwelling or residential structure or three hundred (300) feet from any barn or other non-residential structure then on the Leased Premises without the Lessor's written consent. There shall be no compressors located on the Leased Premises without a prior separate written agreement with Lessor.

This important section allows the Lessor to preserve reasonable use of its property, requires Lessee to plan its layout to conserve Lessor's surface areas, and restricts many Lessee uses without a separate written agreement that would be negotiated between Lessor and Lessee for Lessee uses relating to operations other than those on the leased premises or the unit containing the leased premises which would directly benefit the Lessor. No compressors are allowed without prior written agreement.

2. **Water Quality**

Lessee shall maintain the quality and quantity of Lessor's water supply to be measured by testing the supply prior to and at the completion of operations on the Leased Premises or on any land in the unit of which any of the Leased Premises is a part prior to and at the completion of operations and as deemed necessary by Lessor due to changes in flow or quality, including but not limited to color, smell or taste. Should Lessor's water supply be polluted or reduced, Lessee shall take any and all steps to restore water quality and quantity to its pre-existing condition. During the period of remediation, Lessee shall supply Lessor with an adequate supply of potable water consistent with Lessor's use of the damaged water supply prior to Lessee's operation. Any pollution or reduction of any water supply after any operations commence will be presumed to be the result of Lessee's operation unless Lessee can prove otherwise, with Lessee having the burden of proof by a preponderance of the evidence. Until Lessee can prove otherwise as to cause, Lessee shall provide the required replacement supply, beginning immediately upon Lessor's providing evidence to Lessee of the water quality and quantity condition causing concern.

Testing of Lessor's water supply shall be conducted by an independent testing laboratory qualified to test water for the entire array of chemicals and agents utilized by Lessee in its operations. The burden shall be upon Lessee to provide evidence of all such chemicals and agents in order for the testing agent to adequately test the water. Lessee shall pay all costs of testing. Lessor shall be provided complete copies of any and all testing results and data, and shall have full rights to contact the testing lab for inquiry and information.

This lease contains a comprehensive testing requirement, and places the burden of proof on the Lessee to prove that the lease operations did not cause water contamination which first appears after drilling activities. This important provision is included because Lessors are often at a great disadvantage when their water is contaminated, and it is extremely expensive to hire experts to prove that the Lessee activities did cause contamination.

3. **Water Testing Plan**

In the event local governments having jurisdiction over the Leased Premises should develop a plan for testing or other analysis of water quality during the term of this lease, which plan could involve formation of a fund for specific or random tests of water quality in areas subject to oil and gas exploration which include the Leased Premises, Lessee agrees to participate in such a plan to the same extent as if that plan had been in existence at the time of inception of this Lease.

In the event laws change, or other developments occur which would facilitate a better water testing and remediation plan in the event of well or community water source contamination, this language would require the Lessee to participate in that sort of plan even though it did not yet exist at the time of this lease.

4. **Notice to Drill**

Lessee shall provide at least fourteen (14) calendar days prior written notice to Lessor before Lessee commences any actual drilling (bit in the ground) on the Leased Premises.

ARTICLE VI. LIABILITY ISSUES

1. **Indemnity**

Lessee agrees to defend, indemnify and hold harmless Lessor and Lessor's heirs, successors, representatives, agents and assigns ("Indemnitees"), from and against any and all claims, demands and causes of action for injury (including death) or damage to persons or property or fines or penalties, or environmental matters arising out of, incidental to or resulting from the operations of or for Lessee or Lessee's servants, agents, employees, guests, licensees, invitees or independent contractors, and from and against all costs and expenses incurred by Indemnitees by reason of any such claim or claims, including attorneys' fees; and each assignee of this Lease, or an interest therein, agrees to indemnify and hold harmless Indemnitees in the same manner provided above. Such indemnity shall apply to any claim arising out of operations conducted under or pursuant to this Lease, however caused. LESSEE'S OBLIGATION TO DEFEND AND INDEMNIFY INDEMNITEES SHALL APPLY WHETHER OR NOT INDEMNITEES MAY BE GUILTY OF ANY NEGLIGENT ACT OR OMISSION WHICH RESULTED IN OR CONTRIBUTED TO THE COST, EXPENSE OR LIABILITY AGAINST WHICH LESSEE IS OBLIGATED TO INDEMNIFY INDEMNITEES HEREUNDER, AND WHETHER OR NOT INDEMNITEES MAY BE SUBJECT TO SUCH LIABILITY BY STATUTE OR BY APPLICATION OF PRINCIPLES OF STRICT LIABILITY. The provisions of this paragraph shall survive the termination of this Lease.

This indemnity clause goes beyond Lessee negligence to also protect Lessor from any claims made against the Lessor because of the Lessee's activities, including any potential regulatory fines or penalties or any environmental claims that might be made against the Lessor landowner even though the Lessor had nothing to do with the activity giving rise to such claims.

2. **Insurance**

(a) A company licensed by the Ohio Department of Insurance to do business in the state shall underwrite all policies required by this Lease. Provided however, such insurance requirements may be met by a combination of self-insurance, primary and excess insurance policies.

(b) Lessee shall assure that Lessee and any person acting on Lessee's behalf under this Lease carry the following insurance with one or more insurance carriers at any and all times such party or person is on or about the Leased Premises or acting pursuant to this Lease, in such amounts as from time to time reasonably required by Lessor.

(i) Workers Compensation and Employer's Liability Insurance;

- (ii) Commercial General Liability and Umbrella Liability Insurance;
(\$5,000,000.00 Minimum coverage)
- (iii) Business auto and Umbrella Liability Insurance;
(\$5,000,000.00 Minimum coverage)
- (iv) Environmental Liability; (\$5,000,000.00 Minimum coverage)

Within six (6) months of the five (5) year anniversary date of this Lease and each subsequent fifth (5th) anniversary, Lessor may request in writing and Lessee shall agree to institute new insurance amounts based on the original insurance amounts indexed to the Producers Price Index for All Commodities, issued for the anniversary month by the U.S. Department of Labor, Bureau of Labor Statistics. Should such index be discontinued and/or replaced, a conversion to a substitute or replacement index shall be accomplished using normally accepted conversion factors. Such adjusted amounts shall be rounded off to the nearest Thousand Dollar (\$1,000) amount. Failure of Lessor to request an adjustment for any five (5) year period shall not preclude a full adjustment at a subsequent five (5) year anniversary if requested.

The Lessee shall cause Certificates of Insurance evidencing the above coverage to be provided promptly upon request to Lessor, or to such other representative of Lessor as Lessor may from time to time designate. The insurance policies required under this section, shall cover the Lessor as additional insureds with regard to the Leased Premises, and shall reflect that the insurer has waived any right of subrogation against the Lessor. Failure to comply with this Insurance section shall be basis of default and all operations on the Leased Premises shall cease immediately.

Rarely do form leases contain insurance clauses, though the activities conducted by Lessees on Lessor's property can be covered by insurance, giving the Lessor additional protection in the event the Lessee has sufficient wherewithal to address serious claims. Often assignee companies that conduct the operations are smaller subsidiaries or independent companies that do not have large capitalization like the initial Lessee. Insurance provides conventional protection to the Lessor, as would customarily be included in most commercial and industrial leases. This lease includes a requirement for environmental liability. The amount of insurance coverage is indexed to be fair in future years.

ARTICLE VII. OTHER MATTERS

1. Arbitration

Any questions concerning this Lease or performance thereunder shall be ascertained and determined by three disinterested arbitrators, one thereof to be appointed by the Lessor, one by the Lessee and the third by the two so appointed, and the award of such collective group shall be final and conclusive. Arbitration proceedings shall be conducted at the county seat of the county where the leased property is located or such other place as the parties to such

arbitration shall all mutually agree. Each party shall pay its own arbitrator and the costs of the third arbitrator (umpire) shall be borne equally. The determination rendered by the arbitrators may be entered in the court of general jurisdiction in the county where the Leased Premises is located.

Either party may apply to the arbitrators seeking injunctive relief until the arbitration award is rendered or the controversy is otherwise resolved. Either party also may, without waiving any remedy under this agreement, seek from the court of general jurisdiction in the county where the Leased Premises is located any interim or provisional relief that is necessary to protect the rights of property of that party, pending the establishment of the arbitration tribunal and its decision.

The arbitrators shall consider dispute issues in accordance with and subject to the terms of this Lease.

2. **Force Majeure**

Should Lessee be prevented from complying with any express or implied covenant of this Lease (except payment of money), from conducting drilling or reworking operations thereon or from producing oil and gas therefrom by reason of inability to obtain or to use equipment or material, or by operation of force majeure, any federal or state law or any order, rule or regulation of governmental authority ("force majeure event"), then while so prevented Lessee's obligation to comply with such covenant shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith; and this Lease shall be extended while and so long as Lessee is prevented by any such force majeure event from conducting drilling or reworking operations on or from producing oil or gas from the leased premises. The period of extension by reason of force majeure shall be limited to a cumulative total of thirty-six (36) months.

3. **Governing Law**

This Lease shall be governed in accordance with the laws of the State of Ohio.

4. **Due Diligence**

If oil or gas is discovered on the Leased Premises, Lessee shall develop the Leased Premises as a reasonable and prudent operator and exercise due diligence in drilling such additional well or wells as may be necessary to fully develop the Leased Premises. Lessee shall protect the oil and gas in and under the Leased Premises from drainage by wells on adjoining or adjacent tracts or leases, including those held by Lessee or any affiliate of Lessee.

This clause applies the general duty on oil and gas lessees imposed by state law. Most form leases remove this protection for Lessors.

5. **Notices**

Notices, consents, or other documents required or permitted by this Lease must be given personal delivery, facsimile, reputable overnight courier (Federal Express or other), or sent

by registered or certified mail, return receipt requested, and postage paid. For purposes of notice, Lessor's information is as follows:

Name _____
Address _____

Fax No. _____

Lessee information is as follows:

Name _____
Address _____

Fax No. _____

Either party's notice information may be changed upon prior written notice delivered to the other party.

Lessee shall designate a person who will be a point of contact for Lessor. Lessee shall provide Lessor such person's name, address, telephone number, email address, and facsimile number. Such person shall be knowledgeable as to operations on the Lease, and have sufficient authority from Lessee to reasonably respond and address Lessor concerns.

6. **Reports and Documents**

Upon Lessor's written request, Lessee shall furnish Lessor copies of all title opinions covering the Leased Premises and promptly upon receipt by Lessee, notify Lessor of any judicial proceedings brought to the attention of Lessee affecting its possession under the Lease or the interest of Lessor in the Leased Premises as well as copies of all filings, statements, and reports made by Lessee with the Ohio Department of Natural Resources or other government agency pertinent to drilling, completing and equipping wells. Upon Lessor's written request, Lessee shall provide to the Lessor in the routine course of Lessee's daily business, full information as to the production, use, transfer, disposal and sale from wells on the Leased Premises or lands pooled or unitized therewith. Such production information shall be strictly confidential and Lessor agrees to not provide any such information to any party without written consent of Lessee. Lessor shall have the right to inspect, audit (under Article III, Section 4) and copy all records of Lessee pertaining to the production and sale of oil and gas from the Leased Premises and the calculation and payment of Lessor's royalty hereunder. A single written request for the information referred to in this paragraph will cause the information to be supplied on continuing basis until such time as Lessee receives a written request from the Lessor to stop providing such information.

7. **Assignments**

The rights and estate of any party hereto may be assigned from time to time in whole or in part and as to any horizon subject to the written consent of the Lessor. Lessor's consent shall not be unreasonably withheld. Provided, however, that consent from the Lessor

shall not be required in the event of an assignment by Lessee: to an affiliate, subsidiary, or internal partner, joint venture partners or in consequence of a merger or amalgamation. All of the covenants, obligations, and considerations of this Lease shall extend to and be binding upon the parties hereto, their heirs, successors, assigns, and successive assigns. No assignment by Lessee (or any assignee of Lessee) of all or any part of or interest in this Lease shall relieve Lessee (or any assignee of Lessee) of any liability for breach of any covenant, warranty or other obligation of Lessee hereunder, whether theretofore or thereafter accrued. Each assignee of all or any portion of the rights of Lessee hereunder agrees to be bound by the provisions of this lease to the same extent as if such assignee were an original party to this Lease. Notwithstanding any assignment by Lessee of a segregated portion of this Lease, default by Lessee or any assignee or subassignee of Lessee in any covenant or condition in this Lease shall constitute default as to the entire Lease. Lessee shall prior to the assignment of this Lease or any part thereof notify Lessor of such assignment and furnish Lessor a true copy of any assignment. All notices to Lessee hereunder may be given to the Lessee named herein, despite the assignment of part or all of the Lease. No change or division in the ownership of the Leased Premises, royalties, or other moneys, or any part thereof, howsoever affected, shall increase the obligations or diminish the rights of Lessee, including, but not limited to, the location and drilling of wells and the measurement of production. Notwithstanding any other actual or constructive knowledge or notice thereof to Lessee, its successors or assigns, no change or division in the ownership of the Leased Premises or of the royalties or other moneys, or the right to receive the same, howsoever effected, shall be binding upon the then record owner of this Lease until thirty (30) days after there has been furnished to such record owner at his or its principal place of business by Lessor or Lessor's heirs, successor, or assigns, notice of such change or division, supported by either originals or copies of the instruments which have been properly filed for record and which evidence such change or division, and of such court records and proceedings, transcripts, or other documents as shall be necessary in the opinion of such record owner to establish the validity of such change or division. If any such change in ownership occurs by reason of the death of the Lessor, Lessee may nevertheless pay or tender such royalties or other moneys, or part thereof, to Lessor.

This lease is fully assignable by Lessor or Lessee, though assignment by Lessee is subject to Lessor's consent which is not to be unreasonably withheld (Thus, Lessor could not withhold consent to assignment unless the assignment in some way would not allow Lessor to have the benefit of its rights under this lease, or because Lessor otherwise would somehow be damaged or disadvantaged by the assignment). This assignment clause differs from most form leases in that it requires the Lessee, and any assignee of Lessee, to remain fully responsible for meeting the terms of this lease, even though the lease has been assigned to others. There are specific requirements of notice of assignment by Lessee to avoid situations where the Lessor might not really know who is holding the lease.

8. **Authorship**

For the purpose of construction, interpretation, arbitration or adjudication, it shall be deemed that Lessee and Lessor contributed equally to the drafting of this instrument.

9. **Abandoned Well**

In the event Lessee desires to abandon or plug a well on the Leased Premises, Lessee agrees to provide Lessor with written notice and reasonable opportunity to assume ownership of said well pursuant to rules and regulations of the State of Ohio, and the Lessee shall cooperate with any reasonable due diligence conducted by Lessor. In the event Lessor elects to take over such well, then and only then shall Lessor assume liability and responsibility for the operation and/or plugging of such well, which assumption must be in writing signed by Lessor and Lessee.

10. **Condemnation**

Any and all payments made by a Condemnor on account of a taking by eminent domain shall be the property of Lessor.

11. **Severability**

If any portion of this Lease is held invalid or unenforceable by arbitration or any court of competent jurisdiction, the other provisions of this agreement will remain in full force and effect. Any provision of this agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

IN WITNESS WHEREOF, the parties have signed this Lease.

LESSOR:

WITNESS:

LESSEE:

WITNESS:

_____ By _____
Title _____