

OIL AND GAS LEASE  
(Paid Up)

THIS AGREEMENT, is made as of the \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_, by and between  
\_\_\_\_\_ of  
\_\_\_\_\_ hereinafter called Lessor (whether one or more), and  
\_\_\_\_\_ of \_\_\_\_\_  
hereinafter called Lessee:

1. Lessor, for and in consideration of \$10.00 and more, the receipt of which is hereby acknowledged, and the covenants and agreements of the Lessee hereinafter contained, does hereby grant, lease and let unto Lessee the land described below, including all interests therein Lessor may acquire by operation of law, reversion or otherwise, (herein called "said land"), exclusively, for the purposes of exploring by geophysical and other methods, drilling, mining, operating for and producing oil and/or gas, together with all rights, privileges and easements useful or convenient in connection with the foregoing and in connection with treating, storing, caring for, transporting and removing oil and/or gas produced from said land or any other land adjacent thereto, including but not limited to rights to lay pipelines, build roads, drill, establish and utilize wells and facilities for disposition of water, brine or other fluids, and for enhanced production and recovery operations, and construct tanks, power and communication lines, pump and power stations, and other structures and facilities. Said land is in the County of \_\_\_\_\_, State of Michigan, and is described as follows:

Containing \_\_\_\_\_ acres, more or less, and all lands and interests therein contiguous or appurtenant to the land specifically described above that are owned or claimed by Lessor, or to which Lessor has a preference right of acquisition, including but not limited to all lands underlying all alleys, streets, roads or highways and all riparian or submerged lands along and/or underlying any rivers, lakes or other bodies of water. The term "oil" when used in this lease shall mean crude oil and other hydrocarbons, regardless of gravity, produced at the well in liquid form by ordinary production methods, including condensate separated from gas at the well. The term "gas" when used in this lease shall mean hydrocarbons produced in a gaseous state at the well (not including condensate separated from gas at the well), helium, nitrogen, carbon dioxide and other gases.

2. It is agreed that this lease shall remain in force for a primary term of 3 years from the date of this lease, and as long thereafter as operations are conducted upon said land or on lands pooled or unitized therewith with no cessation for more than 90 consecutive days; provided, however, that in no event shall this lease terminate unless production of oil and/or gas from all wells located on said land, or on lands pooled or unitized therewith, has permanently ceased. If operations commenced during the primary term are discontinued less than 90 days before the end of the term, this lease shall not terminate at the end of the primary term if operations are again conducted within 90 days after the discontinuance. Whenever used in this lease the word "operations" shall refer to any of the following and any activities related thereto: preparing location for drilling, drilling, testing, completing, equipping, reworking, recompleting, deepening, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil and/or gas, and production of oil and/or gas whether or not in paying quantities.

3. Lessee covenants and agrees to pay the following royalties: (a) To deliver to the credit of Lessor into tank reservoirs or into the pipeline to which Lessee may connect its wells, one-eighth of the oil produced and saved from said land, Lessor's interest to bear one-eighth of the cost of treating oil to render it marketable pipeline oil, or from time to time, at the option of Lessee, Lessee may sell the oil produced and saved from said land and pay Lessor one-eighth of the net amount realized by Lessee, computed at the wellhead; (b) To pay Lessor on gas produced from said land (1) when sold by Lessee, one-eighth of the net amount realized by Lessee, computed at the wellhead, or (2) when used by Lessee for purposes other than those specified in Paragraph numbered 7 of this lease, one-eighth of the net market value at the wellhead of the gas so used. As used in this lease, the term "net amount realized by Lessee, computed at the wellhead" shall mean the gross proceeds received by Lessee from the sale of oil and gas minus post-production costs incurred by Lessee between the wellhead and the point of sale, and the term "net market value at the wellhead" shall mean the current market value (at the time of production) of the gas at a market point where gas produced in the general area is commonly purchased and sold, minus the post-production costs that would be incurred by Lessee between the wellhead and such market point in order to realize that market value. As used in this lease, the term "post-production costs" shall mean all cost and expense of (a) treating and processing oil and/or gas to separate and remove non-hydrocarbons including but not limited to water, carbon dioxide, hydrogen sulfide and nitrogen, and (b) separating liquid hydrocarbons from gas, other than condensate separated at the well, and (c) transporting oil and/or gas, including but not limited to transportation between the wellhead and any production or treating facilities, and transportation to the point of sale, and (d) compressing gas for transportation and delivery purposes, and (e) metering oil and/or gas to determine the amount sold and/or the amount used by Lessee for purposes other than those specified in Paragraph numbered 7 of this lease, and (f) sales charges, commissions and fees paid to third parties (whether or not affiliated) in connection with the sale of the gas, and (g) any and all other costs and expenses of any kind or nature incurred in regard to the gas, or the handling thereof, between the wellhead and the point of sale. Lessee may use its own pipelines and equipment to provide such treating, processing, separating, transportation, compression and metering services, or it may engage others to provide

Lessor's initials: \_\_\_\_\_

such services; and if Lessee uses its own pipelines and/or equipment, post-production costs shall include reasonable depreciation and amortization expenses relating to such facilities, together with Lessee's cost of capital and a reasonable return on its investment in such facilities. Prior to payment of royalty, Lessor shall execute a Division Order certifying Lessor's interest in production. Lessee may pay all taxes and fees levied upon the oil and gas produced, including, without limitation, severance taxes and privilege and surveillance fees, and deduct a proportionate share of the amount so paid from any monies payable to Lessor hereunder.

4. If any well, capable of producing oil and/or gas, whether or not in paying quantities, located on said land or on lands pooled or unitized with all or part of said land, is at any time shut in and production therefrom is not sold or used off the premises, nevertheless such shut-in well shall be considered a well producing oil and/or gas and this lease will continue in force while such well is shut in, notwithstanding expiration of the primary term. In lieu of any implied covenant to market, Lessee expressly agrees to market oil and/or gas produced from Lessee's wells located on said land or on land pooled or unitized therewith, but Lessee does not covenant or agree to reinject or recycle gas, to market such oil and/or gas under terms, conditions or circumstances which in Lessee's judgment are uneconomic or otherwise unsatisfactory or to bear more than Lessee's revenue interest share of the cost and expense incurred to make the production marketable. If all wells on said land, or on lands pooled or unitized with all or part of said land, are shut in, then within 60 days after expiration of each period of one year in length (annual period) during which all such wells are shut in, Lessee shall be obligated to pay or tender, as royalty, to Lessor, payable directly to Lessor at Lessor's above address, which shall continue as the depository regardless of changes in ownership of royalties, shut-in royalties or other money, the sum of \$1.00 multiplied by the number of acres subject to this lease, provided, however, that if production from a well or wells located on said land or on lands pooled or unitized therewith is sold or used off the premises before the end of any such period, or if at the end of any such annual period this lease is being maintained in force and effect other than solely by reason of the shut-in well(s), Lessee shall not be obligated to pay or tender said sum of money for that annual period. This shut-in royalty payment may be made in currency, draft or check, at the option of Lessee, and the depositing of such payment in any post office, with sufficient postage and properly addressed to Lessor, or said bank, within 60 days of the expiration of the annual period shall be deemed sufficient payment as herein provided.

5. If Lessor considers that Lessee has not complied with all its obligations hereunder, both express and implied, Lessor shall give written notice to Lessee specifically describing Lessee non-compliance. Lessee shall have 90 days from receipt of such notice to commence, and shall thereafter pursue with reasonable diligence, such action as may be necessary or proper to satisfy such obligation of Lessee, if any, with respect to Lessor's notice. Neither the service of said notice nor the doing of any acts by Lessee in response thereto shall be deemed an admission or create a presumption that Lessee has failed to perform all its obligations hereunder. No judicial action may be commenced by Lessor for forfeiture of this lease or for damages until after said 90-day period. Lessee shall be given a reasonable opportunity after a final court determination to prevent forfeiture by discharging its express or implied obligation as established by the court. If this lease is canceled for any cause, it shall, nevertheless remain in force and effect as to (a) sufficient acreage around each well as to which there are operations, so as to constitute a drilling or maximum allowable unit under applicable governmental regulations, such acreage to be designated by Lessee in such shape as then existing spacing rules permit and (b) any part of said land included in a pooled or unitized unit on which there are operations. Lessee shall also have such easements on said land as are necessary or convenient for operations on the acreage so retained.

6. If this lease covers less than the entire undivided interest in the oil and gas in said land (whether Lessor's interest is herein specified or not), then the royalties, shut-in royalties and any extension payment pursuant to Paragraph numbered 17 below shall be paid to Lessor only in the proportion which the interest in oil and gas covered by this lease bears to the entire undivided interest therein.

7. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for Lessee's operations hereunder, except water from the wells of Lessor. When requested by Lessor, Lessee shall bury Lessee's pipelines below plow depth. No well shall be drilled nearer than 200 feet from the house or barn now on said land without the written consent of the Lessor. Lessee shall pay for damages caused by Lessee's operations to growing crops on said land. Lessee shall have the right at any time to remove all machinery and fixtures placed on said land, including the right to draw and remove casing and any other downhole equipment and fixtures.

8. Lessee is hereby granted the rights to pool or unitize said land, or any part of said land, with other lands, as to any or all minerals or horizons, to establish units containing not more than approximately 160 acres; provided, however, such units may be established so as to contain not more than approximately 640 acres as to any or all of the following: (a) gas, (b) oil produced from formations below the top of the Glenwood Member of the Black River Group and (c) oil produced from wells classified as gas wells by the regulatory agency having jurisdiction. If units larger than those permitted above, either at the time established or thereafter, are required or permitted under any governmental rule or order to drill or operate a well at a regular location, to obtain the maximum allowable from any well or for any other reason, then the maximum unit size authorized hereby shall conform to the size required or permitted by such governmental rule or order. Lessee may enlarge the unit to the maximum area permitted herein and may reform said unit to include after-acquired leases within the unit area. Lessee may create, enlarge or reform the unit or units as above provided at any time, and from time to time during the continuance of this lease, either before or after production is obtained. A unit established hereunder shall be effective for all purposes of this lease, whether or not all interests in the lands in the unit are effectively pooled or unitized. Lessee may, but shall not be required to, drill more than one well in each unit. Lessee may reduce or terminate such unit or units at any time prior to the discovery of oil or gas on the pooled or unitized lands, or at any time after discovery subsequent to the cessation of production. Lessee may create, enlarge, reform, reduce or terminate each unit by recording a written declaration to that effect in the office of the Register of Deeds in the county or counties in which such unit is located. Any operations conducted on any part of the lands pooled or unitized shall be deemed to be on the lands leased herein within the meaning of all provisions of this lease. Production of oil and/or gas from the unit shall be allocated to the lands described herein which are included in the unit in the same proportion as the number of surface acres in the lands described herein which are included in the unit bears to the total number of surface acres in the unit.

9. In addition to the rights to pool or unitized granted to the Lessee in Paragraph numbered 8 above, for the purpose of promoting the development of hydrocarbon production from shallow formations, as hereinafter defined, Lessee is granted the right to pool or unitize the shallow formations in said land, or any part of said land with other lands, to establish unit or units of any size and shape for the drilling and operation of multiple wells. The unit shall consist of any number of contiguous tracts or parcels of land. The exercise of this right shall be effective only if the required well density (at least one well drilled into the pooled or unitized shallow formation for each 240 acres of the unit) is attained no later

Lessor's initials: \_\_\_\_\_

than two (2) years after recording of the written declaration of the unit. As used herein, the term "shallow formations" shall mean formations between the surface of the earth and the top of the Traverse Limestone Formation. All provisions of Paragraph numbered 8, including those regarding Lessee's identification of a unit, the effect of operations conducted thereon and the allocation of production from wells thereon, shall apply in the same manner to a unit formed pursuant to this paragraph for production from shallow formations, except to the extent inconsistent with this paragraph. Lessee may expand the unit to include additional lands, provided that the required well density (one well drilled for every 240 acres) is maintained, or is attained by the drilling of additional well or wells within one (1) year after each such expansion.

10. This lease is subject to laws and to rules, regulations and orders of any governmental agency having jurisdiction, from time to time in effect, pertaining to well spacing, pooling, unitization, drilling or production units, or use of material and equipment.

11. If, after the date hereof, the leased premises shall be conveyed in severalty or in separate tracts, the premises shall, nevertheless, be developed and operated as one lease, except that royalties as to any producing well shall be payable to the owner or owners of only those tracts located within the drilling unit designated by the state regulatory agency for such well and apportioned among said tracts on a surface acreage basis; provided, however, if a portion of the leased premises is pooled or unitized with other lands for the purpose of operating the pooled unit as one lease, this paragraph shall be inoperative as to the portion so pooled or unitized.

12. If Lessee is prevented from, or delayed in commencing, continuing, or resuming operations, or complying with its express or implied obligations hereunder by circumstances not reasonably within Lessee's control, this lease shall not terminate and Lessee shall not be liable in damages so long as said circumstances continue (the "period of suspension"). These circumstances include, but are not limited to the following: conflict with federal, state or local laws, rules, regulations and executive orders; acts of God; strikes; lockouts; riots; wars; improper refusal or undue delay by any governmental agency in issuing a necessary approval, license or permit applied for by Lessee; equipment failures; and inability to obtain materials in the open market or to transport said materials. If the period of suspension commences more than 90 days prior to the end of the primary term of this lease, then that period of suspension shall be added to the primary term. If the period of suspension commences less than 90 days prior to the end of the primary term or at any time after the primary term, then this lease shall not terminate if Lessee shall commence or resume operations within 90 days after the end of the period of suspension.

13. If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants and provisions of this lease shall extend to such party's heirs, devisees, legal representatives, successors or assigns. Notwithstanding any other actual or constructive knowledge of Lessee, no change in the ownership of land or assignment of royalties or other monies, or any part thereof, shall be binding on Lessee until 45 days after Lessee has received, by certified mail, written notice of such change, and the originals or certified copies of those instruments that have been properly filed for record and that shall be necessary in the opinion of Lessee to establish the validity of such change of ownership or division of interest. No change or division in the ownership of said land, royalties or other monies or any part thereof, however accomplished, shall increase the obligations or diminish the rights of Lessee, including, but not limited to, rights and obligations relating to the location and drilling of wells and the measurement of production. Upon assignment by Lessee, its successors or assigns, the assignor shall be released from, and the assignee shall assume, the responsibility to fulfill the conditions and to perform the covenants of this lease, express or implied, with regard to the interest assigned. Breach of any covenant or failure to fulfill any condition by an owner of any part of the leasehold interest created by this lease shall not defeat or affect the rights of the owner(s) of any other part.

14. Lessor hereby warrants and agrees to defend the title to said land, and agrees that Lessee may at an time pay all or part of any land contract, mortgage, taxes, or other liens or charges with respect to said land, either before or after maturity and be subrogated to the rights of the holder thereof, and that Lessee shall be entitled to reimbursement out of any royalty or other monies payable to Lessor hereunder. This lease shall be binding upon each party who executes it without regard to whether it is executed by all those named herein as Lessor.

15. Lessee may at any time surrender this lease as to all or any part of said land, or as to any depths or formations therein, by delivering or mailing a release to Lessor if the lease is not recorded or by placing a release of record in the proper county if the lease is recorded. If this lease is surrendered only as to part of said land, any shut-in royalties, which may thereafter be payable hereunder shall be reduced proportionately.

16. All written notices permitted or required by this lease to be given Lessor and Lessee herein at their respective addresses listed hereinabove, shall be by certified United States mail, and shall identify this lease by date, parties, description and recording data; provided that either party may change such notice address by giving written notice to the other party specifying the new address.

17. This lease may, at Lessee's option, be extended as to all or part of the lands covered hereby for an additional primary term of \_\_\_\_\_ years commencing on the date that the lease would have expired but for the extension. Lessee may exercise its option by paying or tendering to Lessor an extension payment of \$ \_\_\_\_\_ per acre for the land then covered by the extended lease, said bonus to be paid or tendered to Lessor in the same manner as provided in Paragraph numbered 4 hereof with regard to the payment of shut-in royalties. If Lessee exercises this option, the primary term of this lease shall be considered to be continuous, commencing on the date of the lease and continuing from that date to the end of the extended primary term. Lessee's option shall expire on the first to occur of the following: (a) the termination or expiration of this lease or (b) the second anniversary of the expiration of the primary term stated in Paragraph numbered 2 above.

Executed as of the day and year first above written.

WITNESSES:

LESSOR:

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

Lessor's initials: \_\_\_\_\_

STATE OF MICHIGAN )  
 ) ss. (Individual Acknowledgment)  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_ by  
\_\_\_\_\_.

\_\_\_\_\_  
Notary Public  
\_\_\_\_\_  
County, Michigan  
acting in \_\_\_\_\_ County, Michigan  
My Commission expires: \_\_\_\_\_

Prepared by \_\_\_\_\_  
Return to \_\_\_\_\_

Producers "88" Revised 8/2001 (Michigan P-F Form)MER

Lessor's initials:\_\_\_\_\_