

**OIL AND GAS LEASE
(PAID UP)**

THIS AGREEMENT is made as of the _____ day of _____, 20_____, by and between The City of Rochester Hills, 1000 Rochester Hills Drive, Rochester Hills, Michigan 48309-3034 hereinafter called Lessor (whether one or more), and Energy Quest, Inc., 3016 Cass Road, Traverse City, Michigan 49684, hereinafter called Lessee.

1. Lessor, for and in consideration of \$10.00, 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, 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 . Said land is in the County of _____, State of _____, and is described as follows:

Township 3 North-Range 11 East

Section 25: N 62 acres of W/2 of NW/4 except beginning at NW section corner, th S 89°39'58" E 120', th S 00°06'36" E 60', th N 89°39'58" W 60' th S 00°06'36" E 140' th N 89°39'58" W 60', th N 00°06'36" W 200' to beginning, also W/2 of E/2 of NW/4, also part of NW/4 beginning at point dist S 00°31'00" E 450.65' from N/4 corner, th S 00°31'00" E 2246.64', th S 88°35'00" W 674.41', th N 00°17'00" W 2713.90', th E 280', th S 00°17'00" E 450.65', th E 385.13' to beginning.

Parcel # 70-15-25-100-012

containing 141.777 acres, more or less. 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. For the purposes of this Lease, the following definitions apply:

- (a) "Commensurate royalties" means that amount of money which would fairly compensate the Lessor for any royalties lost due to drainage of oil and/or gas from the leased premises.
- (b) "DEQ" shall mean the Department of Environmental Quality.
- (c) "Gas" means a mixture of hydrocarbons and varying _____ carbons in a gaseous state which may or may not be associated with oil, including those _____ from condensation, including but not limited to natural gas and casinghead gas.
- (d) "Gross Proceeds" means the total revenues and consideration accruing to an oil and gas Lessee for the disposition of the oil and gas products produced. Gross proceeds includes, but is not limited to, payments to the Lessee for certain services which the Lessee is obligated to perform at no cost to the Lessor to place lease products in marketable condition. Where lease products are sold to an affiliated entity, gross proceeds are equivalent to the gross proceeds derived from, or paid under, comparable arms-length contracts for purchases, sales, or other dispositions of like-quality lease products from the same field or area. In evaluating the comparability of arm's-length contracts for purposes of this Lease, the following factors shall be considered: price, time of execution, duration, market or markets served, terms, quality, volume, posted prices, prices received for arm's length spot sales, other reliable public sources of price or market information, and such other factors as may be appropriate.

- (e) "Lease Date" shall mean the date the Lease was made and entered into as shown on Page 1 of this document.
 - (f) Lease Products" means any leased minerals attributable to, originating from, or allocated to this Lease. "Lessee" shall mean the person or entity who shall remain responsible for any and all covenants, express or implied, contained within the Lease regardless of any partial interest assignments.
 - (g) "Marketable Condition" for gas means sufficiently free from impurities, except CO₂, H₂S and N₂, and otherwise in a condition that it will be accepted by a purchaser under a sales contract typical for the field or area.
 - (h) "Marketable Condition" for oil means sufficiently free from impurities and otherwise in a condition that it will be accepted by a purchaser under a sales contract typical for the field or area.
 - (i) "Oil" means natural crude oil or petroleum and other hydrocarbons, regardless of gravity, which are produced at the well in liquid form by ordinary production methods and which are not the result of condensation of gas after it leaves the underground reservoir, including but not limited to oil, casinghead gasoline, drip gasoline and natural gasoline extracted from natural gas. Prior to payment of royalty, Lessor shall execute a Division Order certifying Lessor's interest in production.
 - (j) "Reasonably prudent operator" shall mean an operator that operates to maximize economic return to both Lessor and Lessee, taking into account market conditions, comparable production activities in the same field or area and all applicable regulatory conditions.
 - (k) "Unitized Area" is the leased lands within the boundaries defined in the unitization Agreement, or Ratification thereto, approved by the Lessor.
3. Notwithstanding anything herein to the contrary, it is expressly agreed that Lessee shall not locate any wells, facilities, or structures of any kind on the leased property, including but not limited to the prohibition of laying pipelines, building roads, establishing and utilizing wells and facilities for disposition of water, brine or other fluids, and for enhanced production and recovery operations, and the construction of tanks, power and communication lines, pump and power stations, and other structures and facilities.
4. It is agreed that this lease shall remain in force for a primary term of 10 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.
5. The Lessee shall pay to the Lessor royalties as follows:
- a. The Lessee shall pay the Lessor a royalty equal to **one-sixth (1/6)** of the gross proceeds of sale of all oil and/or gas produced and saved in any combination from the leased premises as further set forth below.
 - b. It is agreed that the Lessee is required to place lease products in marketable condition at no cost to Lessor. The value of gross proceeds shall be increased to the extent that the gross proceeds have been

reduced because the purchaser, or any other person, is providing certain services the cost of which is the responsibility of the Lessee to place lease products in marketable condition.

- c. At the sole option of the Lessor, and in lieu of royalty payments upon oil and/or gas produced and saved, the Lessee shall deliver to the credit of the Lessor free of cost the equal one-sixth (1/6) part of all oil and/or gas produced and saved under the terms of the Lease to facilities to which the wells may be connected.
 - d. If payments specified are not made on or before the sixtieth (60) day of the first month following oil production sale or the second month following gas and/or plant products sale, the Lessor may claim default under the provisions. In addition to any remedies available to the Lessor under the Lease, payments made after the due date shall include interest at the rate of one and a half percent (1.5%) per month, or at the maximum legal rate, whichever is less, on the amount of royalty unpaid. A full month's interest will be charged for late payments received during any portion of the month in which late payment is received.
 - e. Should oil be produced from any well, the gross proceeds of sale of lease products of such oil shall be free to the Lessor of any cost to whichever point is first encountered: 1) the point of sale to an independent nonaffiliated third party purchaser; or 2) to an affiliated purchaser, provided the sale is at prevailing market rates; or 3) the point of entry into an independent nonaffiliated third party owned pipeline system; or 4) the point of entry into an affiliate owned pipeline system, provided transportation rates are at prevailing market rates. Upon request by the Lessor, written justification of charges made by the Lessee must be submitted and agreed to in writing by the Lessor.
 - f. Should gas, including casinghead gas, be produced and saved from any well, the gross proceeds of sale of lease products of said gas shall be free to the Lessor of any cost to whichever point is first encountered: 1) the point of entry into a facility to remove CO₂, H₂S, N₂ or obtain plant products, or 2) the point of entry into an independent nonaffiliated third party owned pipeline system; or 3) the point of entry into a pipeline system owned by a gas distribution company, or any subsidiary of such gas distribution company which is regulated by the Michigan Public Service Commission; or 4) the point of entry into an affiliated pipeline system, if the rates charged by such pipeline system have been approved by the Michigan Public Service Commission, or if the rates charged are reasonable, as compared to independent pipeline systems, based on such pipeline system's location, distance, cost of service and other pertinent factors. Upon request by the Lessor, written justification of charges made by the Lessee must be submitted and agreed to in writing by the Lessor.
 - g. The Lessee agrees that all royalties accruing to Lessor herein shall be without deduction of any costs incurred by the Lessee except as agreed herein. The Lessor is not liable for any taxes incurred by the Lessee and no deduction may be taken for any taxes due or paid. Lessor's royalty is to be free and clear of all costs, claims, charges, taxes, excises including third party post production costs on or off the premises except as herein provided. There shall be no deduction for the cost of separating, dehydrating, compressing or treating the gas to make it marketable. Unless otherwise specifically agreed in writing, there shall be no deduction for transportation costs prior to entry of gas into a pipeline system.
6. 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, or to Lessor's credit in the U. S. Mail – direct to Lessor. or its successors, as Lessor's agent, 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.

7. If Lessor considers that Lessee has not complied with all its obligations hereunder, both express and implied, Lessor shall give written notice to Lessee at its last known address specifically describing Lessee's non-compliance. Lessee shall have 60 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 60 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. Receipt and deposit of any royalty or lease fee by Lessor shall not constitute waiver of any Lessee default.
8. 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.
9. The Lessee shall restore the leased property to the same or better condition than when the lease was entered. The Lessee shall pay Lessor for all damages or losses (including any loss of the use of all or part of the surface), caused directly or indirectly by operations hereunder, whether to the surface, growing crops or buildings, to any person or property, or to other operations.
10. Lessee shall employ all necessary and prudent precautions during its operations, including maintaining reasonable and necessary setbacks from facilities and structures, to prevent damage to or interference with the use of the same. Lessee agrees to indemnify and hold Lessor harmless for any injury or harm that results to Lessor or any other person, whether on the leased property or adjacent property, as a result of Lessee's operations.
11. Lessee is hereby granted the rights to pool or unitize said land, as approved by appropriate governmental authority, 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.

12. In addition to the rights to pool or unitize granted to the Lessee in Paragraph numbered 11 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 a 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 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 an additional well or wells within one (1) year after each such expansion.
13. This lease is subject to all laws and rules, regulations, orders and permitting requirements 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. All applicable laws and rules are made a part and conditions of this Lease. Violations of any of the applicable laws shall be considered a violation of the terms of this Lease and the Lessor, at its sole discretion, may invoke any remedy provided in this Lease.
14. 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.
15. 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. Should the Lessor be prevented from complying with any express or implied covenant of this Lease because of a force majeure (i.e. for any cause beyond the reasonable control of the Lessor such as, but not limited to, acts of God, legislation or rules of any governmental body, including budgeting constraints, any judgment of injunctive order entered by a court of competent jurisdiction, acts of the public enemy, riots, strikes, labor disputes, labor or material shortages, fire or flood) then such covenant shall be suspended to the extent made necessary by the aforesaid force majeure.
16. 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.

17. The Lessor shall not be liable for any damages resulting from failure of its title, or control of restrictions established by the State department or Federal governmental agency having jurisdiction over the surface of the leased lands, as either relates to rights included herein; provided, however, that if the Lessor's title or control fails as to any or all of the rights covered by this Lease, the Lessor shall refund to the Lessee all bonus, rental or royalty payments made by the Lessee attributable to that part or portion of, or interest in, the title or control which has failed. In the event of title dispute wherein the Lessor's claim to title prevails, the Lessor shall receive interest at the prevailing prime rate on all money withheld by the Lessee pending settlement of the title dispute.
18. 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.
19. All written notices permitted or required by this lease to be given Lessor and Lessee herein shall be 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.
20. 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 two 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 \$100.00 per acre for the land then covered by the extended lease. 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 4 above.
21. The Lessor reserves the right to all minerals on, in and under the leased premises not herein expressly granted.
22. The Lessor reserves the right to use or lease the premises, or any part thereof, at any time, for any purpose but not to the detriment of the rights and privileges herein specifically granted.
23. The Lessee shall keep an accurate account of all operations under this Lease, including production, sales, prices, and dates of same; and, at Lessor's request, shall report the quantity produced by each producing unit in the preceding calendar month, the quantities delivered to pipeline companies, and the quantities otherwise disposed of from the premises herein leased. The Lessee shall install and properly maintain, at its expense, adequate and correct meters for the measurement of gas production and flows, and shall provide for verification of gas production and flows by an independent third party at the sole discretion and request of the Lessor.
24. The Lessor shall have the right to examine the books of the lessee insofar as they relate to the production, sale, and valuation of any oil, gas or other products derived from the premises herein leased. The Lessee shall provide monthly information such as production volumes, sale prices, remittance amounts, deductions and other information pertinent to the calculation and payment of royalties due the Lessor in a format approved by the Lessor. The Lessee shall submit, upon request by the Lessor, copies of source documents, reports, contracts, schedules, and computations to support volumes, prices, costs, and other factors used to determine value and remittance.

- 25. Prior to the commencement of any testing activities taking place on the property, Lessee shall submit to the Rochester Hills Parks Department, for approval, a testing plan setting forth the proposed testing days and hours least likely to interfere with the use of the property, and park operations and the peace of the neighboring properties.
- 26. By this Lease Lessee has the option to lease the Hellen Allen Park and/or an approximate 10 acre parcel adjacent to the Six Star Landfill on the same terms provided in this Lease. Lessee may exercise the option(s) by providing Lessor written notice and tendering the appropriate rental fee.

Executed as of the day and year first above written.

LESSOR:

STATE OF _____)
) ss. (Individual Acknowledgment)
 COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 20____,
 by _____

My Commission Expires: _____

Notary in _____ County, MI Notary Public
 Acting in _____ County, MI

STATE OF _____)
) ss. (Corporate Acknowledgment)
 COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____,
20_____, by _____, the _____ of
_____,
a _____ corporation, on behalf of the corporation.

My Commission Expires: _____

Notary in _____ County, _____ Notary Public

Prepared by _____ of _____

Return to _____ of _____