

**OIL AND GAS LEASE**

THIS LEASE, made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 2010,

by and between \_\_\_\_\_

hereinafter called the Lessor, and **Cedar Valley Energy, Inc., P.O. Box 726, Wooster, OH 44691**, hereinafter called the Lessee, do agree:

**WITNESSETH:**

1. That the Lessor, for and in consideration of One Dollar (\$1.00) and other valuable consideration in hand paid by the Lessee, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, does hereby lease and let exclusively unto the Lessee, for the purpose of drilling, operating for, producing and removing oil and gas and all the constituents thereof, and of injecting air, gas, brine or other substances from any source for the express purpose of secondary or tertiary oil and gas recovery operations as may be required in the opinion of the Lessee, the right to conduct surveys (including seismic surveys) and to transport by pipelines or otherwise across and through said lands oils, gas and their constituents from the subject and other lands, regardless of the source of such gas or the location of the wells and of placing tanks, equipment, roads and structures thereon to procure and operate for the said products. This lease covers all of Lessor's land in and adjoining

Section / Lot: \_\_\_\_\_

Township of: \_\_\_\_\_

County of: \_\_\_\_\_

State of: \_\_\_\_\_

containing \_\_\_\_\_ acres more or less, and bounded substantially, now or formerly, as follows:

On the North by: \_\_\_\_\_

On the East by: \_\_\_\_\_

On the South by: \_\_\_\_\_

On the West by: \_\_\_\_\_

Being the property described in Deed Volume/Page \_\_\_\_\_ / \_\_\_\_\_, and/or instrument

#(s) \_\_\_\_\_, and also being known as parcel ID(s):

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

2. Lessor understands and gives consent that the well and/or related equipment may be placed 100 feet or more from an occupied dwelling.

3. This lease shall continue in force and the rights granted hereunder be quietly enjoyed by the Lessee for a term of five (5) years and so much longer thereafter as oil or gas or their constituents shall be found on the premises in paying quantities in the judgement of the Lessee or as the premises shall be operated by the Lessee in the search of oil or gas.

4. This lease, however, shall become null and void and all rights of either party hereunder shall cease and terminate unless, within thirty six (36) months from the effective date hereof, a well shall be commenced on the premises, or unless the Lessee shall thereafter pay a delay rental of five (5) dollars per acre annually until the commencement of a well.

5. Lessor shall be paid as royalties a proportional share of one eighth (1/8) of "Proceeds Realized" by Lessee on all the oil and gas produced and marketed from each well drilled and unitized, as the amount of the Lessor's acreage in the unit bears to total acreage in the unit, the same to be paid by the end of the next month following Lessee's receipt of payment for same, less any tax imposed by any government body, including but not limited to the severance tax. "Proceeds Realized" shall mean the price received by Lessee for oil and gas marketed and sold at the delivery point less any charges for transportation, dehydration, compression and marketing paid by Lessee to deliver the oil and gas for sale.

6. All money due under this lease shall be paid or tendered to the Lessor by check made payable to the order of and mailed to Lessor at above address and the said named person shall continue as Lessor's agent to receive any and all sums payable under this lease until delivery to the Lessee of notice of change of ownership as hereinafter provided.

7. The Lessor may, at the Lessor's sole risk, expense, and responsibility, lay a pipeline to any one gas source on the premises, to be named by Lessee, and take gas produced from one well for domestic use in one dwelling on the leased premises, at Lessor's own risk, and subject to the use and the right of abandonment of the well by the Lessee. The first 200 thousand cubic feet of gas taken each year shall be free of cost, but all gas in excess of 200 thousand cubic feet of gas taken each year shall be paid for at the average retail price charged by the local natural gas utility during the calendar year. If the Lessor shall take excess gas as aforesaid in any year and fail to pay for the same, the Lessee may deduct payment for such excess gas from any rentals or royalties accruing to the Lessor hereunder. The Lessor will, at their sole cost, risk and responsibility, install and properly maintain a meter to accurately measure gas, together with all necessary equipment, including but not limited to all pipe, valves, safety regulators, and positive shutoff drips needed to effect safe delivery of said gas to point of use. This privilege is upon the condition precedent that the Lessor shall subscribe to and be bound by the reasonable rules and regulations of the Lessee relating to the use of free gas, and Lessor shall maintain the said pipeline, and equipment in good repair and free of all gas leaks and operate the same so as not to cause waste or unnecessary leaks of gas. Any installation, regulation or requirement prescribed by any regulatory body asserting jurisdiction and requiring compliance thereof of any kind over such said use of gas, be it federal, state, county, or local, now or at any time in the future will be the sole responsibility and liability of Lessor. Lessee shall in no way be held liable for insufficient supply of said gas, as Lessor acknowledges the intermittent nature of gas markets, and problems in production of said gas. Lessor acknowledges that he has been advised as to the risks inherent in the taking of gas in this manner, and Lessor agrees to assume all such risks, and resulting liability, whether same be caused by Lessor's lines or equipment, or whether same be caused by Lessee's equipment or well operation. All gas taken or used by Lessor will be at Lessor's sole risk, cost, and responsibility, and Lessor hereby indemnifies and holds Lessee, its successors and assigns, the well operator, and all parties in interest in any well on the leasehold premises free and harmless from any loss, risk, expense, damage or liability incurred or arising out of the taking or use of said gas from any such well by Lessor, his heirs, executors, administrators or assigns, whether for damage to property, or injury, or death. Lessor further agrees that upon the sale or transfer of the leasehold premises wherein someone other than the Lessor is entitled to take the gas under this Paragraph 7, that the gas supply will be terminated by Lessee until the Buyer of the property executes an agreement regarding the usage of the gas in the same form as the within agreement. In the absence of such an agreement, free gas under this provision, shall terminate the within right of free gas not being assignable without the consent of the Lessee.

8. In the event a well drilled hereunder is a dry hole and is plugged according to law, this lease shall become null and void and all rights of either party hereunder shall cease and terminate unless within twelve (12) months from the date of the completion of the plugging of such well the Lessee shall commence another well or unless the Lessee resumes the payment of delay rental as hereinabove provided.

9. In the event a well drilled hereunder is a producing well and the Lessee is unable to market the production therefrom, or should production cease from a producing well drilled on the premises, or should the Lessee desire to shut in producing wells, the Lessee agrees to pay the Lessor, commencing on the date one year from the completion of such producing well or the cessation of production, or the shutting in of producing wells, an advance on royalties in lieu of royalty in the amount of the delay rental per acre per year until production is marketed and sold off the premises or such well is plugged and abandoned according to law.

10. The consideration, land rentals, well rentals or royalties paid and to be paid, as herein provided, are and will be accepted by the Lessor as adequate and full consideration for all the rights herein granted to the Lessee and the further right of drilling or not drilling on the leased premises, whether to offset producing wells on adjacent or adjoining lands or otherwise, as the Lessee may elect.

11. The Lessor hereby grants to the Lessee the right at any time to consolidate the leased premises or any part thereof or strata therein with other lands to form an oil and gas development unit of not more than 160 acres, or the amount of acreage contained in a lot or section of land in the township in which the leased premises are located, whichever is greater, for the purpose of drilling a well thereon, but the Lessee shall in no event be required to drill more than one well on such unit. Any well drilled on said development unit, whether or not located on the leased premises, shall nevertheless be deemed to be located upon the leased premises within the meaning and for the provisions and covenants of this lease to the same effect as if all the lands comprising said unit were described in the subject on this lease; provided, however, that only the owner of the lands on which such well is located may take gas for use in one dwelling house on such owner's lands in accordance with the provisions of this lease, and provided further that the Lessor agrees to accept, in lieu of the one-eighth (1/8) oil and gas royalty hereinbefore provided, that portion of such

one-eighth (1/8) royalty which the acreage consolidated bears to the total number of acres comprising and development unit. The Lessee shall effect such consolidation by executing a declaration of consolidation setting forth the leases and portions thereof consolidated, the royalty distribution and recording the same in the recorder's office at the courthouse in the county in which the leased premises are located. If the well on said development unit shall thereafter be shut in, the well rental for shut in royalty hereinbefore provided for such use shall be payable to the owners of the parcels of land comprising said unit in the proportion that the acreage of each parcel bears to the entire acreage consolidated. Lessee shall have the right to amend, alter or correct any such consolidation at any time in the same manner as herein provided.

12. In case the Lessor owns less interest in the above described premises than the entire and undivided fee simple therein, then the royalties and rentals herein provided for shall be paid to the Lessor only in the proportion which such interest bears to the whole and undivided fee. No change of ownership in the leased premises or in the rentals or royalties hereunder shall be binding on the Lessee until after notice to the Lessee either by delivery of notice in writing duly signed by the parties to the instrument of conveyance or assignment and delivery of such original instrument or a duly certified copy thereof to the Lessee.

13. If said land is owned by two or more parties, or the ownership of any interest therein should hereafter be transferred by sale, devise or operation of law, said land, nevertheless, may be held, developed and operated as an entirety, and the rentals and royalties shall be divided among and paid to such several owners in the proportion that the acreage owned by each such owner bears to the entire leased acreage.

14. The Lessee shall have the right to assign and transfer, as hereinabove set forth, the within lease in whole or in part and Lessor waives notice of any assignment or transfer of the within lease. Failure of payment of rental or royalty on any part shall not void this lease as to any other part. Lessor agrees that when and if the within lease is assigned the Lessee herein shall have no further obligations hereunder. The Lessor further grants to the Lessee, for the protection of the Lessee's interest hereunder, the right to pay and satisfy any claim, mortgage(s) or lien against the Lessor's interest in the premises as herein leased and thereupon to become subrogated to the rights of such claimant, mortgage(s) or lien holder, and the right to direct payment of all rentals and royalties to apply towards the payment of any existing liens or mortgage(s) on the premises.

15. The Lessee shall bury, when so requested by the Lessor, all pipe lines used to conduct oil or gas to, on, through and off the premises and pay all damages caused by operations under this lease. Any damages if not mutually agreed upon, to be ascertained and determined by three disinterested persons, 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 three persons shall be final and conclusive. Each party shall pay the cost of their appraiser and shall share the cost of the third appraiser.

16. The Lessee shall have the privilege of using sufficient oil, gas and water for operating on the premises and the right at any time during or after the expiration of this lease to remove all pipe, well casing, machinery, equipment or fixtures placed on the premises. The Lessee shall have the right to surrender this lease or any portion thereof by written notice to the Lessor describing the portion which it elects to surrender, or by returning the lease to the Lessor with the endorsement or surrender thereof, or by recording the surrender or partial surrender of this lease, any of which shall be full and legal surrender of this lease as to all of the premises or such portion thereof as the surrender shall indicate and a cancellation of all liabilities under the same of each and all parties hereto relating in any way to the portion of all the premises indicated on said surrender, and the land rental hereinbefore set forth shall be reduced in proportion to the acreage surrendered.

17. In the event the Lessee is unable to perform any of the acts to be performed by the Lessee by reason of force majeure, including but not limited to acts of God, strikes, riots, floods, and governmental restrictions including but not limited to restrictions on the use of roads, this lease shall nevertheless remain in full force and effect until the Lessee can perform said act or acts and in no event shall the within lease expire for a period of ninety days after the termination of any force majeure.

18. In the event Lessor considers that Lessee has not complied with all its obligations hereunder, both express and implied, Lessor shall notify Lessee in writing setting out specifically in what respects Lessee has breached this contract, Lessee shall then have thirty (30) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by Lessor. The service of said notice shall be precedent to the bringing of any action by Lessor on said lease for any cause, and no such actions shall be brought until the lapse of thirty (30) days after service of such notice on Lessee. Neither the service of said notice nor the doing of any acts of Lessee aimed to meet all or any of the alleged breaches shall be deemed an admission or presumption that Lessee has failed to perform all its obligations hereunder. In the event any provision or restriction contained herein is held to be invalid or unenforceable in any respect, in whole or in part, such findings shall in no way effect the legality, validity or enforceability of all other provisions of this Agreement. The parties hereto further agree that any such unenforceable provision or restriction shall be deemed modified so that it shall be enforced to the greatest extent permissible under law.

19. All covenants and conditions between the parties hereto shall extend to their heirs, personal representative, successors and assigns and the Lessor hereby warrants and agrees to defend the title to the lands herein described. It is mutually agreed that this instrument contains and expresses all of the agreements and understandings of the parties in regard to the subject matter thereof, and no implied covenant, agreement or obligation shall be read into this

agreement or imposed upon the parties or either of them. Lessor further agrees to sign such additional documents as may be reasonably requested by Lessee to perfect Lessee's title to the oil and gas leased herein and such other documents relating to the sale of production as may be required by Lessee or others.

20. In consideration of the acceptance of this lease by the Lessee, the Lessor agrees for himself and his heirs, successors and assigns, that no other lease for the minerals covered by this lease shall be granted by the Lessor during the term of this lease or any extension or renewal granted to the Lessee herein.

IN WITNESS WHEREOF the Lessors have hereunto set their hands.

LESSORS:

\_\_\_\_\_  
Print Name: \_\_\_\_\_

\_\_\_\_\_  
Print Name: \_\_\_\_\_

**ACKNOWLEDGEMENT**

STATE OF: \_\_\_\_\_  
COUNTY OF: \_\_\_\_\_

Before me, a Notary Public in and for said county and state, personally appeared the above named

\_\_\_\_\_  
who acknowledged to me that \_\_\_\_\_ did execute the foregoing instrument and that the same is  
\_\_\_\_\_ free act and deed for the purposes herein set forth.

In Testimony Whereof, I have hereunto set my hand and affixed my official seal at

\_\_\_\_\_ this \_\_\_\_\_ day of  
\_\_\_\_\_ 2010.

\_\_\_\_\_  
Notary

This instrument prepared by: CEDAR VALLEY ENERGY, INC., P.O. BOX 726, WOOSTER, OH 44691