

OIL AND GAS LEASE

THIS AGREEMENT, made this day _____ of _____ 2008, between CITY OF NORTH ROYALTON, 13834 Ridge Road, North Royalton, Ohio 44133 Lessor, and CUTTER OIL COMPANY, 9270 Cedar Valley Road, West Salem, OH 44287, Lessee, does witness:

1. Lessor, in consideration of the sum of One Dollar (\$1.00), the receipt of which is hereby acknowledged and of the covenants and agreements herein contained, does hereby grant unto Lessee all of the oil and gas and the constituents of either, in and under the lands hereinafter described together with the exclusive right to explore, drill and operate for, produce, and market oil and gas and their constituents, the right to lay pipeline to transport oil and gas and their constituents from the lands leased hereunder and other lands leased ancillary thereto to carry on operations for oil and gas together with the right to enter thereon, with advance notice and consent, to occupy, possess and use so much of said premises as is necessary and convenient for all purposes described herein, limited however to the area more fully described in Exhibit 1.
2. This lease covers the premises located at 5100 Wallings Road, North Royalton, Ohio PPN 489-19-010 containing 10 acres, more or less, more fully described in Exhibit 2.
3. This lease shall remain in force for a primary term of 18 months and as long thereafter as operations described above are being conducted on the premises; or oil or gas is produced, or is capable of being produced. In the event that a well drilled on the property does not produce oil or gas for twelve (12) consecutive months then the lease shall become null and void with respect to the well or wells that have not produced. Lessee shall pay to Lessor a spud fee of \$10,250.00 with Five Thousand Dollars (\$5,000) being paid upon the execution of this Agreement and Five Thousand Two Hundred Fifty Dollars (\$5,250) being paid ten days before commencement of drilling.
4. The royalties to be paid by Lessee are:
 - (a) On oil, fifteen percent (15%) of that produced and saved from said land, same to be delivered at the wells or to the credit of the Lessor;
 - (b) On gas of whatsoever nature or kind produced and sold, fifteen percent (15%) of the net proceeds realized by Lessee from the sale thereof after deduction of reasonable gathering, treatment and compression costs;
 - (c) on gas of whatsoever nature or kind produced and used by Lessee (off the premises) and not sold, fifteen percent (15%) of the highest price paid at the time of use for natural gas by a public utility purchasing gas in the same county.
 - (d) Lessee shall provide to Lessor a record of the amount of oil, gas and hydrocarbons removed from the Leased Premises and shall provide a full accounting of all proceeds from the sale of oil, gas and hydrocarbons. Lessor shall have the right through a duly authorized representative to inspect the records of the Lessee pertaining to the Leased Premises and the well location thereon.
 - (e) The royalties shall be paid to Lessor by Lessee within 30 days after Lessee receives payment therefore.
 - (f) In the event all wells on the leased property are shut In for any reason for a continuous period of six months, than on or before the end of each calendar year during which such wells are shut in, Lessee shall pay Lessor a non-refundable shut-in payment of Fifty Dollars (\$50.00) per month, and this lease shall continue in full force and effect as provided in paragraph 3 so long as such payments are made.
5. If operations for a well are not commenced on the premises within two (2) months from the date of this lease, this lease shall terminate as to both parties unless the Lessee shall thereafter pay an annual delay rental of thirty dollars (\$30.00) per acre, payments to be made quarterly, in advance, and until the commencement of a well. A well has been commenced when the well is spud. In no event may the operation of a well, including but not limited to drilling, exploring, transporting, equipping, producing, servicing, monitoring, removal and plugging of the well, or any activity by Lessee interfere with or impede with Lessor, its employees or residents use of the property as recreational fields. Lessee specifically agrees that no drilling or other operations as defined above on the leased premises shall occur so as to disrupt or interfere with the recreational activities. In no event shall drilling or otherwise occur on the premises after March 1, 2009, unless Lessee receives written permission from Lessor. Failure to adhere to any and/or all of the above referenced conditions and/or restrictions shall result in the any and all of the following, as determined in Lessor's sole discretion: 1) the lease agreement shall be terminated and null and void for all purposes except that Lessor shall be entitled to retain any and all spud fees and funds received; and/or 2) Lessee agrees to provide at its sole cost and expense comparable soccer fields for Lessor's use; and/or 3) Lessee shall pay the sum of \$5,000.00 per day for each and every day the fields are determined unusable for their intended purposes in Lessors discretion; and/or 4) Lessee shall solely pay for, reimburse, or otherwise incur the cost of repair, reformation and/or reclamation.
6. If Lessor owns a lesser interest in the above described land than the entire and undivided fee simple estate therein, then the royalties and rentals provided for herein shall be paid to the Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee. In the event a well drilled hereunder is a dry hole and is plugged according to law, this lease shall not terminate if within twelve (12) months from the date of the completion of the plugging of such well Lessee shall commence another well or if Lessee pays delay rental as hereinabove provided above, where time remains in the primary term.

7. If a well is drilled on the premises leased hereunder, Lessee shall lay a line to one gas well on the leased premises and connect at the location in the manner designated by Lessee on said land and Lessor may take annually up to 500,000 cubic feet of free gas produced from said well for use for heat and light in one building located on said land, at Lessor's risk and Lessee's expense, subject to the use and the right of abandonment and surrender of Lessee. Lessee shall have the right to use free of cost, gas, oil, and water found on said land for its operations thereon, except water from the wells of Lessor. All installation work, materials, machinery and equipment shall meet or exceed accepted industry guidelines and shall comply with all Federal and State laws and regulations. Any gas in excess of 500,000 cubic feet shall be paid for at a price equal to the then current field market rate. The field market rate is the price received by Lessee for gas at the gas company's meter. If the Lessor shall take excess gas in any calendar year and fail to pay for it, the Lessee may deduct payment for such excess gas from any rental or royalties accruing to the Lessor hereunder. Lessee will invoice Lessor not less often than quarterly for excess gas taken in any calendar year. Lessor acknowledges that it is aware of the risks inherent in the taking of gas in this matter, and Lessor agrees to assume all such risks whether same is caused by Lessee's equipment or well operations. Lessor releases Lessee and the well operator and all parties in interest in the well on the leasehold premises from claims of any nature that may arise by the usage of gas from the well by Lessor. Lessor further agrees that upon the sale or transfer of the leasehold premises, the Buyer of the property will be bound by the same terms contained in this paragraph. Notwithstanding any other contrary provision hereof, Lessor and Lessee acknowledge and agree that:

- (a) the value of free gas taken by Lessor shall not reduce the royalties payable to Lessor hereunder, and
- (b) all amounts paid by Lessor for excess gas shall be included in the "Proceeds paid to Lessee" for purposes of calculating the royalties payable to Lessor hereunder.

Should Lessor choose not to use the free gas allotted, Lessee agrees to pay the Lessor for five hundred thousand cubic feet of gas per year at the average wellhead price Lessee receives for gas for that calendar year, as long as the well produces sufficient natural gas to meet those figures.

When requested by Lessor, Lessee shall bury pipelines below normal plow depth in cultivated areas and shall pay for damage caused by its operation to growing crops and to fences on said land. No well shall be drilled nearer than 100 feet to the house or barn now on said premises, without the written consent of Lessor. Lessee shall have the right at any time during or after the expiration of this lease to remove all machinery, fixtures, and any other structures or improvements placed on said land by Lessee, including the right to draw and remove all casing not cemented in place.

8. Except for the assignment of a working interest or overriding royalty interest in this Lease, Lessee must request and receive written approval from Lessor to assign, sublease, or otherwise transfer this lease, in whole or in part, which consent shall not be unreasonably withheld. Lessor agrees that when and if this lease is assigned, subleased, or otherwise transferred by Lessee, liability for breach of any obligation hereunder shall rest exclusively with the owner of this lease or portion or interest thereof who commits such breach. In the event of Lessee's assignment of a segregated portion of the premises leased hereunder, rentals or royalties payable hereunder shall be apportioned to each segregated portion, and default in rental or royalty payment as to one portion shall not affect the Lessee's (or Lessee's assigns') Interest In remaining portions. No change in ownership of the land or the rentals or royalties shall be binding on the Lessee until Lessee has received notice and has been furnished with the written transfer document or certified copy thereof. In the event this lease shall be assigned as to a part or as to parts of the above described lands, and the holder or owner of any such parts shall fail or make default in the payment of its proportionate part of the delay rental, such default shall not operate to defeat or affect this lease insofar as it covers a part or parts of said land upon which Lessee or any assignee hereof shall make due payment of said rentals.

9. Lessee shall provide at its sole cost and expense an oil and gas well training program to the City of North Royalton Fire Department.

10. When drilling, reworking, production, or other operations are delayed or interrupted by force majeure, this is by storm, flood, rain, snow, or other act of God, fire, war, rebellion, insurrection, riot, strikes, difference with workmen, or failure of carriers to transport or furnish facilities for transportation, or as the result of any law, judgment, order, rule, regulation, requisition or necessity of any government, Federal or state, or Local, or as a result of any cause whatsoever beyond the control of lessee, the time of such delay or interruption shall not be counted against lessee, except as stated in paragraph 5, but this lease shall be extended for a period of time equal to that during which Lessee is so prevented from conducting such drilling or other operations on or producing oil, gas, casing head gas, condensate or other minerals from the premises. This lease shall be subject to governmental rules or regulations, and this lease shall not be terminated, in whole or in part, nor shall Lessee be held liable in damages, for failure to comply herewith, if compliance is prevented by, or such failure is the result of, any such law, rule or regulation.

11. With the exception of the drilling restrictions more fully stated in paragraph 5 and restated herein or stated elsewhere in this Agreement, Lessee is hereby granted the right at any time to utilize the leased premises or any portion thereof, as to any or all strata or stratum, with any other lands for the production of oil and/or gas and/or the constituents of either. No such unit shall embrace more than 30 acres; provided that if any governmental regulations shall prescribe a spacing pattern for the development of the field, then any such unit may embrace as much additional acreage as may be so prescribed. Lessee shall submit to Lessor, prior to drilling, a plat showing the location of the well, pipelines, tank battery, gas measurement equipment, and portion of Lessor's property to be Included in the drilling unit, Lessee shall receive written approval from the Lessor of the location of the well; well surface equipment, pipelines, and fencing material prior to commencing drilling operations. Lessee agrees to maintain the well and all related equipment installed on the Leased premises and to repair or replace the equipment if damaged due to wear and tear or the acts of others. Lessee agrees to notify Lessor and receive written approval prior to the commencement of drilling operations. Should Lessor and Lessee fail to reach agreement upon the site(s) heretofore mentioned for reasons involving normal daily use of the premises or because the site(s) will interfere with the future development of the premises, Lessor shall refund all payments made by Lessee to Lessor, including "Spud Fee" / Signing bonus, and delay rentals and this lease shall be considered null and void and released of record from the County by Lessee.

12. Following completion of any producing well, Lessee shall:

- (a) Fill all pits used during drilling which are not required either for production purposes or by any government regulations;
- (b) Remove all concrete bases, drilling supplies and drilling equipment; and
- (c) Grade, plant and seed the area disturbed by drilling that is not required in production of the well, where necessary to bind the soil and prevent substantial erosion and sedimentation;
- (d) Restore the premises to original condition as nearly as is reasonably possible within 90 days after all work has been completed in relation to the drilling, completion and hook up of the well and all pipelines, weather and seasonal conditions permitting.

13. Lessee may at any time surrender all or any part of this lease by delivering or mailing a release thereof to Lessor, or by placing a release of record in the proper county. After a partial surrender, the rental and shut in payments specified above shall be proportionately reduced on acreage basis.

14. Lessor grants to Lessee, Cutter Oil Company, a right of way and easement for ingress and egress, including for the purpose of drilling, equipping, producing, servicing, and plugging of the Well located at 5100 Wallings Road, North Royalton as more fully described in Exhibit 3, attached hereto for the sum of \$10,000.00, which sum shall be paid ten days before commencement of drilling. Lessee agrees and acknowledges that the right of way and easement for ingress and egress shall not interfere with Lessor's use and enjoyment of its property. Furthermore, Lessee agrees to abide by all conditions, restrictions, remunerations and otherwise as stated in paragraph 5, restated herein, as it relates to Lessee's use of the access roadway easement. Lessee further agrees to promptly maintain and repair the access roadway easement at all times at its sole cost. Lessee further agrees to provide, at its sole cost, a cash bond, performance bond or escrow account in the amount of \$80,000.00 which shall be filed with the Building Commissioner for the access roadway easement repair ten days prior to commencement of drilling. The bond shall be renewed yearly until the lease is terminated. Lessee agrees that the roadway access shall be restored to its prior and useable condition no later than March 1, 2009, failure of which shall result in the property being determined unusable for recreational purposes pursuant to paragraph 5.

15. Lessee covenants and agrees to indemnify, defend and hold harmless the Lessor and the demised premises from and against any loss, cost, judgment or expense including but not limited to attorney's fees, incurred by or brought against Lessor In connection with any claim and liability for loss to person, bodily injury, including loss of life, and property damage sustained by Lessor, or any other person coming on the premise, whether arising out of the condition of the leased premises or Lessee's operation on or of the leased premises or in any other way connected with the leased premises.

16. With the exception of the conditions and/or restrictions more fully stated in paragraphs 5 and/or 14, in the event either party considers that the other has not complied with any of its obligations hereunder, either express or implied, said party shall notify the other In writing setting out specifically in what respects this contract has been breached. The party served with such notice shall then have thirty (30) days after receipt of notice within which to meet or commence to meet all or any part of the breaches alleged. The service of said notice shall be mandatory prior to the bringing of any claim under this lease of any cause, and no such action shall be brought until the lapse of thirty (30) days after the service of such notice.

17. In the event that the Lessee shall choose to plug and abandon the well, the cost of plugging and abandonment, removal of all equipment and site restoration shall be the sole expense of Lessee. Lessee shall conduct all plugging and abandonment operations in compliance with all rules and regulations set forth by the Ohio Division of Oil and Gas, its successor and the laws of the State of Ohio and City of North Royalton. Lessor may purchase any well drilled on its land, and such well equipment necessary to operate the same at fair market salvage value, when any well has ceased to produce in paying quantities in the judgment of the Lessee. The

price for the same shall be the average of three independent bids. Lessor shall have thirty days, after receiving written notice, to exercise its option to purchase. Should the Lessor purchase any well or wells it shall assume the responsibility of operating and eventually plugging the same and shall execute such documents to this end as may be required to affect proper well transfer.

18. This lease and all its terms, conditions and stipulations shall extend to and be binding on all heirs, personal representatives, successors and assigns of Lessor and Lessee. This LEASE contains all of the agreements and understandings of Lessor and Lessee respecting the subject matter hereof and no implied covenants or obligations, or verbal representations or promises, have been made or relied upon by Lessor or Lessee supplementing or modifying this lease or as an inducement thereto. 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 related to the sale of production of hydrocarbons as may be required by Lessee or others.

19. Lessee shall maintain Commercial General Liability insurance in an amount not less than \$5,000,000 per occurrence for the life of the well. The policy shall name as additional insured the Lessor and a Certification of Insurance evidencing all coverage and endorsements set forth above shall be furnished to Lessor upon request. Lessee shall provide to Lessor written notice of the cancellation, non-renewal or reduction of coverage. Failure to maintain the liability insurance shall result in the lease termination, at Lessor's option.

20. Lessee acknowledges that the safety of Lessor's residents, employees, and guests is of the utmost importance and will take no action that will jeopardize their safety and/or use and enjoyment of its property. Lessee's employees and subcontractors will stay in designated work areas at all times while on Lessor's property. Lessor shall have the right to immediately remove Lessee's employees or subcontractors for any improper behavior as determined by Lessor or for other good cause shown. This entire agreement is governed by all relevant provisions according to Ohio Law.

21. Lessee agrees to incorporate, as if fully rewritten herein, and to comply with all the terms and conditions of North Royalton Ordinance 08-218 and to comply with all rules and regulations as set forth by the Ohio Department of Natural Resources. Lessee further agrees to any and all requirements, conditions or permits as determined by the North Royalton Building Commissioner, North Royalton Fire Department, and North Royalton Planning Commission.

IN WITNESS WHEREOF, the undersigned have executed this Instrument on the date appearing above.

LESSOR:

Robert A. Stefanik, Mayor

STATE OF OHIO, COUNTY OF CUYAHOGA SS:

BEFORE ME, a Notary Public in and for said County and State, personally appeared the above-named City of North Royalton by _____ its Mayor, who acknowledged that he did sign the foregoing instrument and that the same is his free act and deed.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at _____ this _____ day of _____, 2008.

NOTARY PUBLIC

LESSEE:

By: Charles R. Cutter, President

STATE OF OHIO, COUNTY OF WAYNE SS:

BEFORE ME, a Notary Public in and for said County and State, personally appeared the above-named Charles R. Cutter as President, who acknowledged that he did execute the foregoing instrument and that the same is his free act and deed.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal at _____ this _____ day of _____, 2008.

NOTARY PUBLIC