

 COPY

## OIL AND GAS LEASE

THIS AGREEMENT made and entered into the 28th day of July 20 04, by and between The Family Trust of George B. Naff and Naomi K. Naff, George B. Naff and Naomi K. Naff, Trustees, Trust dated November 15, 2001, of 34545 Sherbrook Park Drive, Solon, Ohio 44139

hereinafter called Lessor (whether one or more), and Mason Dixon Energy, Inc., whose address is 102 Cambridge Place, Bridgeport, WV 26330, hereinafter called Lessee.

WITNESSETH:

1. **Lease Description.** In consideration of One Dollar (\$1.00) in hand paid by Lessee, and other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged, and for the covenants hereinafter contained, Lessor hereby grants, leases, and lets exclusively to Lessee the

following described land in Section 23 & 24 Township 12, Range 4 of Lee Township, County of Carroll, State of Ohio and bounded substantially by lands now or formerly owned as follows: 1/4 NE SE

TAX MAP #17-00457.000 (9.060 acres) and #17-00458.000 (75.220 acres)

On the North by: Arthur and Merry Everson

On the East by: Jefferson County Line

On the South by: James and Wilma Allander, Small Tracts, Clinger Road

On the West by: William and Lota Dech, A. Cortier, James and Lorene Kays

Estimated to comprise 84.28 acres, whether said tract or tracts contain more or less, which acreage figure may be relied upon by Lessee in determining the amount of delay rentals or other payments hereunder. In addition to the above described land, this lease also covers accretions and any strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above described land, including any interest therein which Lessor may hereafter acquire by reversion, prescription, or otherwise.

2. **Term of Lease.** It is agreed that this lease shall remain in force for a term of five (5) years(s) from the date, and as long thereafter as oil or gas, or either of them, is produced from said land by the Lessee, its successors and assigns. Lessee has the option to extend this lease for an additional term of five (5) years(s) from the expiration of the primary term of this lease, and as long thereafter as oil or gas, or either of them, is produced from said land by the Lessee, its successors and assigns, said renewal to be under the same terms and conditions as contained in this lease. Lessee, its successors or assigns, may exercise this option to renew if on or before the expiration date of the primary term of this lease, Lessee pays or tenders to the Lessor or to the Lessor's credit the sum of Ten and 00/100 dollars per net mineral acre.

3. **Lease Rights Granted.** Lessee shall have and is hereby granted by Lessor, during the term of this lease, the ~~exclusive~~ right to enter upon the above described land to conduct geological and geophysical surveys and explorations, and to operate for, produce and save oil and gas produced in conjunction therewith, and to inject gas, air, water or other fluids into the subsurface strata of said land for the recovery and production of oil and gas; together with the right to drill wells, recondition producing wells and redrill and use abandoned wells on said land for all such purposes; together with rights-of-way and servitudes on, over, and through said lands for roads, pipelines, telephone and telegraph lines, electric power lines, structures, plants, drips, tanks, stations, houses for machinery, gates, meters, regulators, tools, appliances, materials and other equipment that may be used in exploring for and producing oil and gas, and the injection of gas, air, water or other fluids for the enhanced recovery and production of oil and gas produced in conjunction therewith; together with the right to use oil, gas, and water from said land free of cost to Lessee for all such purposes, except water from Lessor's wells or ponds; to remove, either during or after the term hereof, any and all property and improvements placed or located on said land be Lessee, including the right to draw and remove casing; together with the right of ingress, egress, and regress on, over, and through said land for any of the purposes aforesaid.

4. **Delay Rental Payments.** If operations for drilling are not commenced on the leased premises, or on acreage pooled therewith as provided below, on or before twelve (12) months from this date, this lease shall then terminate as to both parties unless Lessee, on or before the expiration of said period, shall pay or tender to Lessor the sum of Five and 00/100 (\$5.00) Dollars per net mineral acre, hereinafter called the "delay rental," which shall extend for twelve (12) months the time within which drilling operations may be commenced. Thereafter, annually, in like manner and upon like payments or tenders, the commencement of drilling operations may be further deferred for periods of twelve (12) months each during the primary term. Drilling operations shall be deemed to commence when the first material is placed on the leased premises or when the first work, other than surveying or staking the location, is done thereon which is necessary for such operations.

5. **Royalty Payments.** The royalties reserved by Lessor, and which shall be paid by Lessee, are: (a) On oil (including but not limited to distillate and condensate) one-eighth (1/8) of that produced and saved from the leased premises, the same to be delivered at the wells or to the credit of Lessor in the pipeline to which the wells may be connected, provided; however, Lessee, at its option, may from time to time purchase such royalty oil, paying therefore not less than the price prevailing in the pricing area for oil of like grade and gravity at the time of delivery; (b) On gas, including casinghead gas and all other gaseous or vaporous product, the market value at the wells of one-eighth (1/8) of the gas so sold or used, such market value at the wells in no event to exceed the net proceeds received by Lessee calculated or allocated back to the wells from which produced, making allowance and deduction for a fair and reasonable charge for gathering, compressing, and making merchantable such gas, provided, that on gas sold at the wells, the royalty shall be one-eighth (1/8) of the net proceeds received by Lessee from such sale, after such allowance and deduction, and provided further that, if any such sale of gas is regulated as to price by any governmental agency having jurisdiction, such market value or net proceeds shall in no event exceed the amount received by Lessee, not subject to refund, calculated, or allocated back to the wells from which produced, making allowance and deduction for a fair and reasonable charge for gathering, compressing, and making merchantable such gas, and which amount may be further adjusted up or down prospectively or retrospectively when the price or rate authorized by such governmental agency is finally determined. Lessor agrees to pay any and all taxes levied or assessed upon its interest in the production of oil and gas from the leased premises and Lessee is hereby authorized to pay such taxes and assessments on behalf of Lessor and to deduct the amount so paid from any monies payable to Lessor hereunder. In the event any extraneous substance (being any substance that is obtained from sources other than the leased premises or lands pooled or unitized therewith) is injected into subsurface strata in connection with secondary, tertiary, or other enhanced recovery operations hereunder, any like substance thereafter produced hereunder, or contained in oil or gas thereafter produced hereunder, from such strata shall be deemed to be part of the extraneous substance so injected until the total volume thereof equals the total volume of the extraneous substance so injected, and no royalty shall be payable hereunder on

any such extraneous substance. During any period (whether before or after expiration of the primary term hereof) where there is a gas well on the leased premises or on a unit that includes all or a part of the leased premises, however designated, capable of producing gas and gas is not being sold or used on or off the leased premises and the well or wells are shut-in and there is no current production of oil or operations on any part of said leased premises sufficient to keep this lease in force, Lessee shall be obligated to pay or tender as shut-in rental an amount (which shall be the same and shall be paid regardless of the number of shut-in wells and regardless of whether the shut-in well or wells be located upon said leased premises or upon such other acreage as is embraced in such unit) for each six (6) month period equal to one-half the annual rental heretofore provided and it will be considered that gas is produced, for all purposes of this lease, during any period that such well or wells are so shut-in; such amount for the first six (6) month period to be payable within ninety (90) days following shutting-in of the last well, and payment for each subsequent six (6) month period shall be payable on or before the beginning date of each such subsequent six (6) month period. The amount of each such rental payment or tender may be paid by check or draft of Lessee in the same manner as provided in Paragraph Four (4) hereof, and such payments may be commenced and continued either during or beyond the primary term. Lessee's failure to properly pay such rental payments shall render Lessee liable for the amount due but shall not operate to terminate this lease. Lessee shall use reasonable diligence to market gas capable of being produced from such shut-in well or wells, but shall be under no obligation to market such gas under terms, condition, or circumstances which, in Lessee's judgment exercised in good faith, are unsatisfactory.

**6. Operations.** If prior to discovery and production of oil or gas, on the leased premises or on acreage pooled therewith, Lessee should drill a dry hole or holes thereon or, if after discovery and production of oil or gas, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling, deepening, plugging back, or reworking within ninety (90) days thereafter or if it be within the primary term, commences or resumes the payment or tender of delay rentals or commences operations for drilling, deepening, plugging back, or reworking on or before the delay rental paying date next ensuing after the expiration of ninety (90) days from date of completion of a dry hole or cessation of production. If at any time subsequent to ninety (90) days prior to the beginning of the last year of the primary term and prior to the discovery and production of oil or gas on the leased premises or on acreage pooled therewith, Lessee should drill a dry hole thereon, no delay rental payment or operations are necessary in order to keep this lease in force during the remainder of the primary term. If at the expiration of the primary term, oil or gas is not being produced on the leased premises or on acreage pooled therewith, but Lessee is engaged in drilling, deepening, plugging back or reworking operations thereon or shall have completed a dry hole thereon within ninety (90) days prior to the end of the primary term, this lease shall remain in force so long as operations on said well, or for the drilling, deepening, plugging back, or reworking of any additional well, are prosecuted with no cessation of more than ninety (90) consecutive days and, if they result in the production of oil or gas, so long thereafter as oil or gas is produced from the leased premises, or open acreage pooled therewith.

**7. Pooling.** Lessee hereby is given the right at its option, at any time within the primary term hereof or at any time during which this lease may be extended by any provision hereof, and from time to time within such period, to pool, reform, enlarge and/or reduce such unit or pool, and repool all or any part or parts of leased premises or rights therewith with any other land in the vicinity thereof, or with any leasehold, operating, or other rights or interests in such other land so as to create units of such size and surface acreage as Lessee may desire but containing not more than eighty (80) acres for an oil well and not more than six hundred forty (640) acres for a gas well plus in each case a ten percent (10%) acreage tolerance. If at any time larger units are specified under any then applicable law, rule, regulation, or order of any governmental authority for the drilling, completion or operation of a well, or for obtaining maximum allowable, any such unit may be established or enlarged to conform to the size authorized. Each unit or reformation thereof may be created by governmental authority or by recording in the appropriate county office a Declaration containing a description of the pooled acreage. Any well which is commenced, or is drilled, or is producing on any part of any land theretofore or thereafter so pooled shall, except for the payment of royalties, be considered a well commenced, drilled, and producing on leased premises under this lease. There shall be allocated to the portion of leased premises included in any such pooling or repooling such proportion of the actual production from all lands so pooled or repooled as such portion of leased premises, computed on an acreage basis, bears to the entire acreage of the lands so pooled or repooled. The production so allocated shall be considered for the purpose of payment or delivery of royalty to be the entire production from the portion of leased premises included in such pooling or repooling in the same manner as though produced from such portion of leased premises under the terms of this lease. A unit established hereunder shall be valid and effective for all purposes of this lease even though there may be land, oil, and gas rights, royalty, and/or leasehold interests in land within the unit which are not pooled or unitized, or even though there may be a failure of the leasehold title (in whole or in part) to any tract or interest therein included in a pooled unit.

**8. Warranty and Lesser Interest.** Lessor hereby warrants and agrees to defend on the title and to the land herein described, covenants that Lessee will have quiet enjoyment under this agreement, covenants the Lessee shall have the benefit of the doctrine of after-acquired title, and covenants that Lessee, at its option, may discharge any tax, mortgage or other lien upon said land in event of default in payment thereof by Lessor and be subrogated to the rights of the holder thereof with the right to enforce same and apply royalties and payments accruing hereunder toward satisfying same. Without impairment of Lessee's rights under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the land herein described less than the entire oil and gas estate covered by this lease, when the rentals and royalties to be paid Lessor shall be reduced proportionately.

**9. Notices.** Failure to pay or error in paying any rental or other payment due hereunder shall not constitute a ground for forfeiture of this lease and shall not affect Lessee's obligation to make such payment, but Lessee shall not be considered in default on account thereof until Lessor has first given Lessee written of the non-payment and Lessee shall have failed for a period of thirty (30) days after receipt of such notice to make payment.

**10. Ownership Changes.** The rights of either party hereunder may be assigned in whole or in part; but no change or division in ownership of the leased premises, delay rentals, shut-in rentals, storage rentals, or royalties, or in the status of any party, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No change in such ownership or status shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by U.S. mail, at Lessee's principal place of business, with a certified copy of recorded instrument or instruments satisfactory to the Lessee, evidencing same. In the event of the death of any person entitled to any sum hereunder, Lessee may pay or tender the same to the credit of the deceased or the estate of the deceased until such time Lessee is furnished with proper evidence of the appointment and qualification of an executor or administrator of the estate or, if there be none, evidence satisfactory to as to the heirs or devisees of the deceased and that all debts of the estate have been paid. If at any time two or more parties are entitled to or adversely claim any sum payable hereunder, or any part thereof, Lessee may pay or tender the same either jointly to such parties or separately to each in accordance with his respective ownership thereof. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment unless and until furnished with a recordable instrument executed by all parties designating an agent to receive payment for all. In the event of assignment of this lease as to a segregated portion of the leased premises, the delay rentals, shut-in rentals, and storage rentals payable hereunder shall be apportionable as between the several leasehold owners ratably according to the surface area of each, and the failure to pay delay rentals, shut-in rentals, or storage rentals on the one segregated portion of the leased premises shall not affect the rights of the party holding the other segregated portion hereunder. In the event of assignment hereof, in whole or in part, liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach.

**11. Release of Lease.** Lessee, at any time, and from time to time, may surrender this lease as to all or any part or parts of leased premises by tendering an appropriate instrument of surrender to the Lessor or filing for a record a release or releases of this lease as to any part or all of said land, and thereupon, this lease, and the rights and obligations of the parties hereunder, shall terminate as to the part or parts so surrendered. Upon each such surrender as to any part or parts of the leased premises the rental and all other payments specified herein shall be proportionately reduced on an acreage basis, and Lessee shall maintain such rights to the surrendered portion as may be appropriate to its enjoyment of the portion not surrendered. Lessee shall have the right at any time during or after the expiration of this lease to remove all machinery, fixtures, buildings, or other structures placed on said premises by Lessee, including the right to pull and remove all casing.

**12. Adverse Claims.** In case of notice of, or an adverse claim to the premises, affecting all or any part of the shut-in rentals, delay rentals, storage rentals or royalties, Lessee may withhold payment or delivery of the same until their ownership is determined by compromise, or by final decree of a court of competent jurisdiction, and to this end Lessee may file a petition for interpleader.

CBN MKN

13. **Surface Use.** No well shall be drilled nearer than two hundred (200) feet of any house or barn now on said premises without written consent of Lessor. Lessee shall pay for damages caused by Lessee's operations to growing crops on said land. When requested by Lessor, prior to the laying of any such pipeline, Lessee shall bury Lessee's pipeline below plow depth.

14. **Storage.** Lessee shall have the exclusive right to use any stratum or strata underlying the premises for the storage of gas or liquids and may, for such purpose, reopen and restore to operation any and all abandoned wells on the premises and may drill new wells thereon for the purpose of injecting and storing gas or liquids in such stratum or strata and withdrawing such gas or liquids therefrom. If Lessee intends to use the premises for such purpose, or determines that it is so using the premises, Lessee may deliver to Lessor or have recorded in the county or counties in which this lease is recorded a declaration that the premises are being used, or from a specified date will be used, for gas or liquid storage, and thereafter Lessee shall have the exclusive right to use the premises for such gas or liquid storage until such time as Lessee may deliver to Lessor or have recorded in such county or counties a surrender of the right granted to Lessee by this paragraph or until Lessee shall intentionally abandon the right to use the premises for such storage. During the period or periods that Lessee shall utilize the premises for storage of gas or liquids, the royalties herein provided to be paid to Lessor shall accrue and become payable only such gas and liquids as shall have been taken from such premises by Lessee over and above the amount thereof which Lessee theretofore shall have been stored in such stratum or strata. For and during the period or periods that Lessee uses said premises for such storage, Lessee shall pay to Lessor a minimum rental of Two and 00/100 (\$2.00) Dollars per acre per year on the number of acres covered by this lease, such payment to be made not later than sixty (60) days from and after the end of each twelve (12) month period during which the premises are utilized for storage. Lessee is expressly granted the right to use so much of the surface of the premises as is reasonably necessary in the exercise of the rights granted to Lessee by this paragraph. The rights granted to Lessee by this paragraph shall continue in force for the period of time hereinabove specified, but this lease, insofar as it grants to Lessee the right to prospect and explore for, and produce oil and gas from stratum or strata other than those employed in such storage, shall not be continued in force solely by the storage of gas or liquids as provided in this paragraph.

15. **Regulations and Delays.** Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations, and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells, and the price of oil, gas, and other substances hereby. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike, or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and shall be maintained in force and effect for so long as prevention or delay continues, and for ninety (90) days thereafter, or so long as this lease is maintained in force by some other provisions thereof, whichever is the later date. Lessee shall not be liable for breach of any express or implied covenants of this lease when drilling, production, or other operations are so prevented, delayed, or interrupted.

16. **Breach or Default.** In the event Lessor considers that Lessee has not complied with its express or implied obligations hereunder, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach of said obligation. Lessee shall then have sixty (60) 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 for any cause hereunder, and no such action shall be brought until the lapse of sixty (60) days after service of such notice on Lessee. Neither the service of said notice nor the doing of any acts by the 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 of its obligations hereunder. It is provided, however, that after production of oil or gas has been obtained from the land covered hereby or land pooled therewith (or with any part thereof) this lease shall not be subject to forfeiture or loss, either in whole or part, for failure to comply with the express or implied obligations of this contract, except after final judicial ascertainment of such failure and after Lessee has been given a period of sixty (60) days after such final ascertainment to prevent such loss or forfeiture by complying with and discharging the obligations as to which Lessee has been judicially determined to be in default.

17. **Title Curative.** Lessor agrees to execute proper division orders, transfer orders, affidavits, and such other instruments as may be necessary to carry out the purposes of this lease.

18. **Execution.** Should any one or more of the parties named herein as Lessor fail to execute this lease, it shall nevertheless be binding on the party or parties who execute the same, and additional parties may execute this lease as Lessor, and this lease shall be binding on each party executing the same notwithstanding that such party is not named herein as Lessor; and all of the provisions of this lease shall inure to the benefit of and be binding on the parties hereto and their respective heirs, legal representatives, successors, and assigns.

CBN \*SEE ADDENDUM, ATTACHED HERETO AND INCORPORATED HEREIN.

MKN IN WITNESS WHEREOF, this instrument is executed as of the first date above written.

Witnesses:

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

Lessor:

George B. Naff  
George B. Naff, Trustee  
Naomi K. Naff  
Naomi K. Naff, Trustee

ACKNOWLEDGMENT

STATE OF OHIO }  
COUNTY OF CUYAHOGA } ss.

On the 28th day of July, in the year 2004. Before me, the undersigned, a Notary Public in and for said State, personally appeared The Family Trust of George B. Naff and Naomi K. Naff, George B. Naff and Naomi K. Naff, Trustees, Trust dated November 15, 2001, personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is(are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

DAVID ANDERSON  
Notary Public, State of Ohio  
My Commission Expires Apr. 24, 2005  
Recorded in Wayne County

David Anderson  
Notary Public

After recording, please return original instrument to MASON DIXON ENERGY, INC., 102 Cambridge Place, Bridgeport, WV 26330

## Addendum

This Addendum is attached to and made a part of that certain Oil and Gas Lease dated July 28, 2004, by and between The Family Trust of George B. Naff and Naomi K. Naff, George B. Naff and Naomi K. Naff, Trustees, Trust dated November 15, 2001, as Lessor, and Mason Dixon Energy, Inc., as Lessee. If any of the following provisions conflict with or are inconsistent with any of the printed provisions or terms of this Lease, the following provisions shall control.

- 19) Lessee and Lessor to mutually agree on all drill site and access road locations, not to be unreasonably withheld by Lessor.
- 20) Upon completion of operations, ground to be restored by Lessee to as near as possible the condition which existed prior to commencement of operations.
- 21) In the event any activity carried on by Lessee pursuant to the terms of this lease damages, disturbs, or injures any fresh water well or source located on these leased premises, Lessee shall at its sole cost and expense use its best efforts to correct any such damage, disturbance or injury.
- 22) Lessee agrees it will protect and save and keep Lessor harmless and indemnified against and from any penalty or damage or charges imposed for any violation of any laws or ordinances, whether occasioned by the neglect of Lessee or those holding under Lessee, and Lessee will at all times protect, indemnify and save and keep harmless the Lessor against and from any and all loss, damage or expense, including any injury to any person or property whomsoever or whatsoever arising out of or caused by any negligence of the Lessee or those holding under Lessee.
- 23) Lessee agrees to pay Lessor at a reasonable rate for all damages caused to growing crops, trees, and timber caused by the drilling operations, which would include damages caused by the well location(s), road(s) to the location(s), and pipeline(s) from the well(s) on the leased premises.
- 24) Lessor may use up to 200,000 cubic feet of gas, free of charge, per calendar year, for domestic purposes in one dwelling house on said leased premises; provided at the time a well is first drilled and completed hereunder, Lessor owns a dwelling house located on that part of the leased premises on which such well is located; subject, however to such well being capable of producing in commercial quantities; and subject, further, to the use, maintenance, operation, production and right of abandonment by Lessee of its well(s), equipment and pipelines on the leased premises. Notwithstanding the foregoing provisions, in the event the leased premises are made a part of a unit or pooled with other acreage and the well(s) has been drilled on another lease, the Lessor will not be entitled to use wellhead gas, free or otherwise. Lessor may upon written application, subject to Lessee's election as hereinafter described, secure such gas by service line laid to and connected to such well on said leased premises in accordance with all applicable laws, rules and regulations, the point of connection to be designated by Lessee, and in such event, the Lessor shall assume the entire risk and all expenses associated with securing and using such gas and agrees, to the fullest extent of applicable law, to release and indemnify Lessee from and against any and all claims or causes of action arising therefrom or relating thereto. At the time application is made for free gas, Lessee shall have the option to make a one-time total cash payment to the qualified applicant(s) of three thousand dollars (\$3,000.00) in lieu of providing free gas and payment for said sum shall thereafter permanently discharge Lessee's obligation under this lease to provide gas free of cost to Lessor, his successors, heirs and assigns. If Lessor in any year uses gas in excess of the quantity provided for herein, Lessor shall pay for the same at the local prevailing price for gas for domestic use but Lessee assumes no obligation to furnish Lessor with gas in excess of the quantity provided herein. The measurement and regulation of such gas shall be by meter furnished by Lessee and regulators furnished by Lessor and set at the tap on the well.

The Family Trust of George B. Naff and Naomi K. Naff Trust Dated  
November 15, 2001

  
George B. Naff, Trustee

  
Naomi K. Naff, Trustee