STATE OF ALABAMA)
)
SHELBY COUNTY)

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COALBED METHANE LEASE NO. 42

THIS AGREEMENT is made and entered into on the 28 day of August, 2006, by and between the **STATE OF ALABAMA, DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES**, by and through its Commissioner of Conservation, hereinafter referred to as "LESSOR," and **GEOMET, INC.**,a Delaware Corporation, **5336 STADIUM TRACE PARKWAY, SUITE 206, BIRMINGHAM, ALABAMA**, hereinafter referred to as "LESSEE."

W I T N E S S E T H

The LESSOR, for the consideration hereinafter set forth, does lease and let unto the LESSEE, for the purpose of investigating, exploring by geophysical and other methods, prospecting, drilling, and operating for and producing therefrom COALBED METHANE only and the nonexclusive right of injecting water, brine, and other fluids into subsurface strata, under the conditions and limitations hereinafter stated, the fee title lands or mineral estate lands situated in Shelby County, Alabama, more particularly described as follows:

> **All of the beds and bottoms of the Cahaba River** located in Shelby County, Township 21 South, Range 05 West, Sections 25, 26, 35 & 36 containing 62.3 acres more or less. This tract is further described on Department of Conservation Project No. 58-L-80 dated May 1, 2006.

1. **PRIMARY TERM OF LEASE**

The term of this Lease shall be for five (5) years, starting on the 28 day of August, 2006, and terminating at twelve (12:00) o'clock midnight on the 27 day of August, 2011 and as long thereafter as coalbed methane is produced in paying quantities from the demised premises or from a unit which includes a portion of the demised premises. Modification of the term of this Lease, if any, is as provided for in paragraph 10 hereof.

2. **CONSIDERATION**

A. Initial Bonus Payment

LESSOR, for and in consideration of a bonus of **THREE HUNDRED THREE AND NO/100 DOLLARS ($303.00)** per acre, total of which amounts to **EIGHTEEN THOUSAND EIGHT HUNDRED SEVENTY SIX AND 90/100 DOLLARS ($18,876.90)** cash in hand paid, the receipt of which is hereby acknowledged, does hereby lease and let unto LESSEE the demised premises.

B. It is agreed that the following royalties are to be paid by LESSEE to LESSOR without apportionment, except that where LESSOR owns an undivided interest in the minerals and mining rights, then said royalties shall be paid only in the proportion which LESSOR's interest bears to the undivided fee:

(1) On coalbed methane, eighteen and seventy-five hundredths percent (18.75%) of that produced and saved from the demised premises, the same to be delivered to the credit of LESSOR into pipelines to which the wells may be connected, or in the absence of such pipelines, into tank cars or other carriers.

(2) It is the intent of the Parties hereto that LESSOR shall have, in LESSOR's sole discretion, the right to avail itself of all or any part of royalties due LESSOR by taking production in kind.

(3) For the purpose of this Lease, royalty shall be calculated on the gross amount realized from the sale of quantities of coalbed methane, at an arms-length transaction to

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a non-affiliated third-party computed at the point of delivery to said third-party based upon mmBTU at standard pressure of l4.65 p.s.i.a. and standard temperature of 60 degrees Fahrenheit on a dry basis and without deduction of any kind, including, but not limited to, processing and treating costs, transportation costs, marketing costs, or taxes which are levied by federal, state, and local governmental entities which LESSEE is required to pay.

C. If, at or after the expiration of the primary term, this Lease is not continued in effect by production of coalbed methane gas in paying quantities or by drilling or reworking operations, but LESSEE completed on the demised premises, or on a unit which includes a portion of the demised premises, a well capable of producing coalbed methane gas which well has been shut-in for lack of market or lack of transportation facilities, this Lease may be kept in effect for not more than one-year periods or intervals past the end of the primary term by payment to LESSOR annually as royalty in advance the sum of TWENTY AND NO/100 DOLLARS ($20.00) per acre. The first such payment shall be made on or before the last day of the primary term or ninety (90) days after said well is shut-in whichever is later, and subsequent payments shall be due annually on or before the successive anniversaries of the last day of the primary term. The word "unit" shall refer to the drilling unit established or permitted by laws, ordinances or regulations of the State of Alabama or other authority having jurisdiction.

D. LESSEE shall have free use of water from the demised premises for any operations hereunder on the demised premises or lands pooled therewith.

E. If operations for drilling are not commenced on the demised premises, or on a unit including a portion of same, before the first anniversary date of this Lease, or if commenced, such operations are not prosecuted with reasonable diligence, this Lease shall then terminate as to both Parties unless on or before such first anniversary date LESSEE shall pay to LESSOR the sum of TEN AND NO/100 DOLLARS ($10.00) for each acre of the demised premises subject to this Lease and not previously released (hereinafter called "delay rental"), which shall give to LESSEE the privilege of deferring commencement of drilling operations for a period of twelve months from such first anniversary date. In like manner and upon like payment on or before subsequent anniversary dates, the commencement of drilling operations may be further deferred for successive periods of twelve months each for the remainder of the primary term. Modifications to this provision, if any, are located at paragraph 10. SPECIAL PROVISIONS

F. If, within the primary term of this Lease and prior to discovery of any coalbed methane gas on the demised premises or from a unit which includes a portion of the demised premises, Lessees should drill a dry hole or holes thereon, or if after discovery of leased minerals the production thereof should cease from any cause, this Lease shall not terminate if Lessee resumes production, commences and continues with reasonable diligence operations for additional drilling or reworking, or commences or resumes the payment of delay rentals on or before the rental payment date next ensuing after the date of completion of a dry hole or cessation of production provided, however, that should such date occur less than thirty days prior to the rental paying date then LESSEE shall have thirty days after said rental paying date within which to tender a delay rental payment. If during the last year of the primary term and prior to the discovery and production of coalbed methane gas on the demised premises, or from acreage unitized therewith, LESSEE should drill a dry hole thereon, no rental payment or operations are necessary in order to keep the Lease in force during the remainder of the primary term. If at the expiration of the primary term no coalbed methane gas is being produced on the demised premises, or from acreage unitized therewith, but LESSEE is engaged in drilling or reworking operations thereon, the Lease shall remain in force so long as operations are prosecuted with no cessation of more than ninety (90) consecutive days, and if they result in the production of coalbed methane gas, so long thereafter as coalbed methane gas is produced in paying quantities from demised premises or from acreage unitized therewith.

3. **PAYMENT**

Payments for coalbed methane gas shall be made on a monthly basis no later than the last day of the month following the calendar month in which said coalbed methane gas was produced, and payment shall be accompanied by a statement showing the quantities of coalbed methane gas for which payment is made. After rental has been paid, or has become due for any year, neither subsequent production nor subsequent drilling during that year shall entitle LESSEE to a refund of any part of such year's rental payment, nor shall any part of such rental payment be applied on royalties or on rental for any other year.

Any royalty payments hereunder which are made more than thirty (30) days after their due date hereunder shall bear interest at the rate of twelve percent (12%), during the period of delinquency, which said interest will be due and payable together with the royalty payment when said royalty payment is made.

All accounting computations performed in connection with the distribution of revenues to LESSOR shall be performed on a cash accounting basis in accordance with generally accepted accounting principles of the oil and gas industry. All other accounting computations performed pursuant to the provisions of this Lease shall be performed on an accrual accounting basis in accordance with generally accepted principles of the oil and gas industry. All checks for royalty payment or delay rent payment should be made payable to "The Department of Conservation and Natural Resources." Payment should be mailed to:

Department of Conservation
and Natural Resources
Division of State Lands
64 North Union Street
Montgomery, Alabama 36130-1901

4. **COAL MINING RESERVATION**

It is understood and agreed that LESSOR has granted, or may grant, certain coal mining rights under existing or future leases in various areas of the premises herein leased to LESSEE. LESSOR reserves to itself, and its successors and assigns, all rights, present or future, for the mining and removal of coal by any method or methods, from all of the demised premises and in the areas now and hereafter assigned by the LESSOR for future underground coal mine development. Said mine development will be conducted in a prudent fashion so as not to cause waste or obstruct any of LESSEE's coalbed methane gas operations, preexisting pipelines or other man-made structures utilized in the production or transportation of coalbed methane gas. LESSOR reserves the right to approve the location of any wells to be drilled, such approval not to be unreasonably withheld.

5. **PENETRATION OF COAL SEAMS**

In the event coal is encountered in the drilling of any well or wells, test holes or borings, the LESSEE will do and perform such usual and customary practices in penetrating such seams of coals as may be necessary to properly protect such seams of coal or abandoned mine workings, and upon the abandonment of any such well or wells, test holes or borings, shall follow the same practice, and shall comply with the Federal Coal Mine Health and Safety Act of 1969 (or any subsequent act) and with all applicable laws, ordinances, and regulations, present and future, pertaining to protective devices in penetrating coal beds.

6. **NOTICES**

Notices hereunder shall be deemed sufficient by mailing by registered mail, return receipt requested, any notice herein required for the LESSEE at the following address:

GeoMet, Inc.
5336 Stadium Trace Parkway
Suite 206
Birmingham, Alabama 35244

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and for the LESSOR at the following address:

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Director, Division of State Lands
Department of Conservation
and Natural Resources
64 North Union Street
Montgomery, Alabama 36130-1901

7. **INSURANCE**

LESSEE agrees to carry comprehensive and general public liability and property damage insurance coverage in amounts of not less than $1,000,000 bodily injury and $1,000,000 property damage. Prior to final closure of this Lease, LESSEE will present to LESSOR a certificate of liability insurance. The certificate must state that the LESSEE currently has liability insurance of combined single limit coverage for bodily injury and property damage (or equivalent) of not less than $1,000,000.00 and such policy or policies shall list the LESSOR thereon as an additional named insured. Any change in liability insurance coverage of LESSEE during the term of this Lease must be submitted in writing to LESSOR at least ten (10) days prior to the change in coverage. Further, upon receipt of a written request from LESSOR, LESSEE agrees to furnish to LESSOR a copy of any such insurance policy indicated on such certificate of insurance.

8. **NO WARRANTY OF TITLE**

Notwithstanding any provisions to the contrary in this Lease, this Lease is granted and accepted without any warranty of title and without any recourse against LESSOR whatsoever, either express or implied, it being expressly agreed that the LESSOR shall not be required to return any payments received hereunder or be otherwise responsible to LESSEE therefore.

9. **ADDITIONAL LEASE PROVISIONS**

Attached hereto is Exhibit "A" which contains additional terms, covenants and conditions which are material to this Lease and which are wholly incorporated into this Lease by reference thereto.

10. **SPECIAL PROVISIONS**

A. LESSEE agrees that a producing well will be deemed to retain forty (40) acres in a unit under the terms of this Lease. Unproductive acreage outside of those limits will revert to LESSOR at expiration of the primary term, subject to the 90-day continuous development provision beyond the primary term.

B. The leased minerals included within the terms of this Lease shall be restricted to occluded natural gas produced from coal seams (coalbed methane) other than gob gas.

C. Gob gas is specifically reserved and excluded from the leased minerals as that term is defined in paragraph 10(C) hereof. For the purposes of this Lease the term "gob gas" is defined as that gas which is liberated and accumulates as a result of second mining of coal seams. Gob gas does not include coal seam gas liberated in the mining process which is vented, flared, removed, or disposed of for reasons of safety of the mining operations nor does it include coal seam gas leased to LESSEE hereunder.

Coal seam gas (as defined for purposes of this Lease) is occluded natural gas located in the coal seams prior to underground coal mining. For the purposes of this definition gob gas will be considered only that gas produced from a well after second mining has passed directly beneath the well. The term second mining includes full or partial pillar mining, short and long wall mining.

D. This Lease shall not be assignable either in whole or in part, nor shall it be subleased by Lessee or alienated in any way by Lessee without first obtaining the written approval of the Lessor.

LESSEE understands and agrees that in the event of any assignment, sale or transfer of this Lease, such assignment, sale or transfer will be invalid, void and to no effect unless approved in writing by the Commissioner of Conservation upon application therefore and payment of a $100.00 administrative fee. Assignment approval will not be

unreasonably withheld.

E. Notwithstanding anything herein to the contrary, no drilling operations will be permitted on the leased premises except from land adjacent thereto.

11. **LEGAL ACTION VENUE**

Lessee agrees that the Laws of the State of Alabama shall govern and be controlling and binding over the provisions of the rights herein granted, and that, notwithstanding any provision to the contrary, the venue of any legal action brought in connection herewith shall be the circuit court of Montgomery County, Alabama.

12. **LESSEE NOT TO DISCRIMINATE**

Lessee further agrees to comply with all state and federal laws that prohibit discrimination on the basis of race, color, religion, age, gender, national origin or disability.

IN WITNESS WHEREOF, the Parties have caused this Instrument to be duly executed on the day and year first written above.

RECOMMENDED:

STATE OF ALABAMA
DEPARTMENTOF CONSERVATION
AND NATURAL RESOURCES

James H. Griggs, Director
Division of State Lands

M. Barnett Lawley, Commissioner

THIS CONTRACT HAS BEEN REVIEWED FOR CONTENT, LEGAL FORM, AND COMPLIES WITH ALL APPLICABLE LAWS, RULES, AND REGULATIONS OF THE STATE OF ALABAMA GOVERNING THESE MATTERS.

BY _____

APPROVED:
GEOMET, INC.

By: _____

Its: **J. Neil Walden, Jr., Vice President**

APPROVED:

Governor of Alabama

ATTEST:

Secretary of State

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STATE OF ALABAMA)
MONTGOMERY COUNTY)

I, the undersigned authority, a Notary Public in and for said State and County, hereby certify that M. Barnett Lawley, whose name, as Commissioner of the Alabama Department of Conservation and Natural Resources is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the within instrument, he, as such Commissioner of the Alabama Department of Conservation and Natural Resources, and with full authority, executed the same voluntarily on the day the same bears date.

Given under my hand and seal this the 28 day of August, 2006.

Angela Livingston
Notary Public
My Commission Expires 10/21/2007

STATE OF ALABAMA)
Jefferson **COUNTY)**

I, the undersigned authority, a Notary Public in and for said State and County, hereby certify that J. Neil Walden, Jr., whose name as Vice President of GeoMet, Inc. is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the within instrument, he executed the same voluntarily for and as the act of GeoMet, Inc. on the day the same bears date.

Given under my hand and seal this the 21st day of August, 2006.

Bettye S Vernon
Notary Public

NOTARY PUBLIC STATE OF ALABAMA AT LARGE
MY COMMISSION EXPIRES: Mar 16, 2008
BONDED THRU NOTARY PUBLIC UNDERWRITERS

This Instrument prepared by
Otis J. Goodwyn, Chief Legal Counsel
Department of Conservation and Natural Resources
64 North Union Street
Montgomery, Alabama 36130-1901

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PROVISIONS PERTAINING TO COALBED METHANE OPERATIONS EXHIBIT "A"

A. The LESSEE shall not have the right to grant rights-of-way for railroad, private roads, or other roads, or telegraph, telephone, or transmission lines, or easements of any kind in or on said surface without the written consent of LESSOR. LESSOR reserves for itself all agricultural rights in the surface which the LESSEE is herein granted the right to use, it being intended that the LESSEE shall have only such use of the surface as is necessary for investigating, exploring by geophysical means, drilling, operating, removing, preparing or marketing the coalbed methane with rights-of-way and easements for laying pipelines, telephone, and telegraph lines, tanks, power lines, power houses, stations, gasoline plants, ponds, roadways and fixtures for producing, treating and caring for such products, and any and all other rights and privileges necessary and incident to the economical operation on the demised premises for the purposes herein enumerated; provided, however, that LESSOR shall have the right on prior approval of the location of (1) pipelines forming the collecting systems of two or more wells, (2) transmission pipelines, (3) field storage facilities (as distinguished from those at any one well), (4) roadways, and (5) buildings of any description and for any purpose; and further provided that LESSOR's approval of the foregoing shall not be unreasonably withheld. The LESSEE shall, without expense to LESSOR, acquire and maintain possession of any necessary haulage way rights or other rights not owned by LESSOR. The LESSEE, shall without expense to LESSOR, bury all pipelines serving any wells.

B. This Lease is made SUBJECT to all easements or other rights now existing for railroads, public roads, private roads, transmission lines, telephone lines, pipelines, or other purposes affecting the property covered by this Lease.

C. The LESSEE hereby agrees to indemnify, protect and hold harmless the LESSOR from and against any and all claims including, but not limited to, investigating, exploring by geophysical means, operating, or marketing of said coalbed methane hereunder or for any other reason or reasons resulting from this Lease, including, but not limited to the following:

(1) Any claim for damages which may accrue to the surface of the demised premises or any improvement thereon, by reason of cracking of subsidence or otherwise; or any claim for damages which may accrue to any accompanying or adjacent land owner for loss of lateral support.

(2) Claims made by any governmental agency for any default or failure by LESSEE in Compliance with the laws or regulations of the State of Alabama or laws or regulations of the federal government, county or municipal government in connection with the exercise of LESSEE's rights hereunder.

(3) All claims, suits, demands, judgments, decrees, loss, cost or expense, including attorneys' fees and court costs, which may arise in connection with or on account of any one or more of the claims described in this paragraph C.

(4) It is recognized by LESSOR and LESSEE that there are or may be in the vicinity of, or in, under or upon, some or all of the lands leased hereunder abandoned mine workings. Nothing contained herein, nor any other information, oral, in writing or by diagram, drawing or map, furnished by LESSOR shall be construed as a warranty or representation of any kind of the location or condition of any such abandoned workings. LESSEE expressly assumes all risks of every kind whatsoever with respect to any of its operations at nor near any such abandoned workings and, in addition to any other similar conditions contained herein, LESSEE agrees to and does hereby indemnify and hold LESSOR harmless from and against any and all claims of every kind in any way arising out of the presence of any such abandoned workings in the vicinity of, or in, under or upon any such workings.

(5) LESSEE shall exercise at all times due diligence against the starting and spreading of fires on the demised premises and on other lands of the LESSOR or on lands of third parties which are adjacent or contiguous to the demised premises; and if during the term thereof fire from any cause at time does start on or in the vicinity of the demised premises, LESSEE shall at its expense promptly use every reasonable means to extinguish the flame, cooperating with all other fire personnel. LESSEE shall be liable to LESSOR for all consequences of fire caused by LESSEE its agents, servants, and employers.

D. LESSEE agrees:

(1) To comply with all laws and rules and regulations of the State of Alabama with reference to encasing wells and plugging dry and abandoned wells and with any other laws, rules and regulations of the federal government and of the State of Alabama in connection with coalbed methane wells and disposal of produced waters.

(2) To keep faithful, accurate, and legible records to enable a correct determination of products produced and marketed or delivered to the LESSOR's credit in pipelines or otherwise. LESSOR, its officers, agents, employees, engineers, attorneys or accountants, shall, at all reasonable times, have access to said records, books of account and other records insofar as it is necessary to ascertain such weights, volumes, and prices, but said LESSOR, its officers, agents, employees, engineers, geologists, and independent contractors, shall have the right at any time and from time to time visit, inspect, survey and measure all or any part of the demised premises for the purposes of determining the accuracy of LESSEE's records as to its mining on the demised premises and for determining whether or not LESSEE has complied and is complying with its obligations under this Lease. LESSEE agrees that it and its agents, officers, employees, will cooperate with and assist LESSOR's officers, agents, employees, geologists, geophysicists, engineers and independent contractors with such visit inspections, surveys and measurements.

(3) That during the drilling or completion of any well the agents and representatives of the LESSOR shall at all reasonable times have the privilege of the derrick floor, but without any liability on the part of the LESSEE in the event of their injury or death resulting from the drilling operations thereon.

(4) To keep complete and accurate logs of each well, including, therein the location and thickness of all coal seams penetrated, which logs shall at all times be available for the inspection of the LESSOR, and upon completion of any well or wells LESSEE shall furnish to LESSOR a full, true and complete certified copy of each of said logs.

(5) That LESSEE shall furnish LESSOR, upon request, copies of all logs both electric and mud; studies; reports; geological evaluations, core sample reports and any other such information that is geological information that becomes available from LESSEE's drilling and testing of wells.

(6) That LESSOR shall not be liable for any claim for damages which may arise from any act or omission of LESSEE hereunder, including damages of LESSEE's employees or amounts payable to said employees under any Workmen's Compensation, unemployment, or similar act or law; and LESSEE shall indemnify and hold LESSOR harmless against all expenses, claims, demands, suits, judgments, and decrees including, without limitation, court costs and attorneys' fees, to which LESSOR may be subject on account of any act of omission of LESSEE, LESSEE's agents, servants or employees, including the failure to comply with any law, ordinance, or regulation to which LESSEE's operations hereunder are subject, and including any amounts payable under any Workmen's Compensation, unemployment, or other similar act or law.

(7) That LESSEE will conduct operations in such manner as to do no unnecessary damage to the surface of the property herein described and that it will interfere as little as possible with the operations of the LESSOR or its lessees who may be conducting other operations on the demised premises.

(8) That LESSEE shall furnish LESSOR with a survey and maps showing the location on the demised premises of all wells drilled and of all pipelines, tanks, roads, and other facilities placed or constructed thereon by LESSEE or under LESSEE's direction.

(9) LESSEE will report at the commencement of the primary term of this Lease, and thence annually on the anniversary date hereof, on its development and production plants for the demised premises in the year following. The report will include, as a minimum, LESSEE's well development in all locations, an estimate of the mineral volume to be produced based on potential tests as required by The State of Alabama Oil & Gas Board, and an estimate of the market and royalty value of the projected volume.

(10) That with regard to any well drilled by LESSEE, its successors or assigns, on the demised premises, or on lands pooled therewith, LESSEE shall give reasonable advance notice to LESSOR that said well is to be drilled and the location thereof.

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E. It is understood and agreed that LESSEE shall conduct its exploration drilling, production and marketing in a reasonable and workmanlike manner not only with a view to reasonable development and recovery of the coalbed methane, and avoidance of waste but also to the conservation of potential production and reserves by the avoidance of drainage by adjacent owners, the intrusion of water into an oil or gas stratum, the escape of oil or gas out of one stratum to another, or the pollution of fresh water by oil, gas or salt water. In the event a well or wells producing oil or gas or other minerals of the kind herein leased (including coalbed methane) in paying quantities should be brought in on adjacent land not unitized with any part of the demised premises but draining the demised premises, then LESSEE will thereafter promptly proceed with the drilling of such wells on the demised premises as would a reasonably prudent operator to accomplish the purposes of this paragraph.

F. If at any time while this Lease is in force and LESSEE deems it advisable, in order to form a drilling unit, or in order to conform to spacing rules issued by the State or Federal authorities having control of such matters, or in order to conform to conditions imposed upon the issuance of drilling permits, LESSEE shall have the right to pool or combine the premises covered by this Lease, or part thereof, with other land, whether such land beheld by LESSEE or by others, such pooling to be into a unit not exceeding the number of acres allocated to one well by the above-mentioned authority, and to be applicable only to sands, horizons, or strata as are covered by such regulations. LESSEE shall execute in writing and record in the conveyance records of the county in which the land is situated, an instrument identifying and describing the pooled acreage, and shall mail to LESSOR by registered mail, a certified copy of such instrument. As between the Parties hereto and except as herein otherwise specifically provided, the entire acreage so pooled into a unit shall be treated for all purposes as if it were included in this Lease. In lieu of the royalties herein specified elsewhere, LESSOR shall receive, on the production from the unit so pooled, only such proportion of the royalties stipulated herein as the amount of the LESSOR's net mineral acreage (coalbed methane rights) placed in the unit bears to the total acreage so pooled in the particular unit involved. If operations are conducted on or production is secured from any land in such pooled unit, it shall have the same effect of maintaining the LESSEE's rights in force hereunder as if such operations were on or such production were from premises covered hereby, except that its effect shall be limited to the part of the demised premises which is included in such pooled unit. During any period in which this Lease is being so maintained as to part of the demised premises pursuant to this paragraph F, this Lease may be maintained as to the remainder in any manner elsewhere provided for herein; provided, that if it is maintained by rental payment, the rentals may be reduced in proportion to the number of acres in such unit as to which the lease is being maintained by drilling operations or production.

G. LESSEE may at any time prior to or after the discovery and production of any minerals on the demised premises execute and deliver to LESSOR a release or releases

of any portion or portions of the demised premises and be relieved of all requirements hereof as to the demised premises surrendered.

H. All express or implied covenants of this Lease and all of LESSEE's operations hereunder shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, including without limitation, air and water pollution, and this Lease shall not be terminated, in whole or in part, nor LESSEE held liable in damages, for failure to comply therewith , if compliance is prevented by, or if such failure is the result of, any such law, order, rule, or regulation, or if prevented by an act of God, of the public enemy, labor disputes, inability to obtain material, failure of transportation beyond the reasonable control of LESSEE, or other cause beyond the reasonable control of LESSEE. If during the term of this Lease, any minerals are discovered in paying quantities upon the demised premises, but LESSEE is prevented from producing the same by reason of any of the causes set out in this paragraph, other than the causes set out 3-C of the lease, this Lease shall nevertheless be considered as producing and shall continue in full force and effect until LESSEE is permitted to produce the coalbed methane and as long thereafter as such production continues in paying quantities or drilling or reworking operations are continued as elsewhere herein provided.

I. The Parties hereto agree that there are reserved and excluded from leased minerals under this Lease all coal, (but not gases contained in said coal prior to mining), iron ore, sulfur, natural gas, gob gas, oil, and all other minerals, except for those specifically

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designated as leased minerals in the lease to which this exhibit is attached and all rights and easements necessary to the recovery and marketing thereof. Anything in this Lease to the contrary notwithstanding, the Parties further agree that for all purposes of this Lease it is understood that LESSOR does not own or claim to own more land or interests therein than described in the Lease to which this Exhibit is attached, and to conform to spacing rules issued by the State or Federal authorities having control of such matters, or in order to conform to conditions imposed upon the issuance of drilling permits, LESSEE shall have the right to pool or combine the premises covered by this Lease, or part thereof, with other land, whether such land be held by LESSEE or by others, such pooling to be into a unit not exceeding the number of acres allocated to one well by the above-mentioned authority, and to be applicable only to sands, horizons or strata as are covered by such regulations. LESSEE shall execute in writing and record in the conveyance records of the county in which the land is situated, an instrument identifying and describing the pooled acreage, and shall mail to LESSOR by registered mail, a certified copy of such instrument. As between the Parties hereto and except as herein otherwise specifically provided, the entire acreage so pooled into a unit shall be treated for all purposes as if it were included in this Lease. In lieu of the royalties herein specified elsewhere, LESSOR shall receive, on the production from the unit so pooled, only such proportion of the royalties stipulated herein as the amount of the LESSOR's net mineral acreage (coalbed methane rights) placed in the unit bears to the total acreage so pooled in the particular unit involved. If operations are conducted on or production is secured from any land in such pooled unit, it shall have the same effect of maintaining the LESSEE's rights in force hereunder as if such operations were on or such production were from premises covered hereby, except that its effect shall be limited to the part of the demised premises which is included in such pooled unit. During any period in which this Lease is being so maintained as to part of the demised premises pursuant to this paragraph I, this Lease may be maintained as to the remainder in any manner elsewhere provided for herein; provided, that if it is maintained by rental payment, the rentals may be reduced in proportion to the number of acres in such unit as to which the Lease is being maintained by drilling operations or production. LESSEE shall, at its expense, acquire whatever additional rights are required for LESSEE's operations hereunder; LESSOR makes no warranty of any kind or character with respect to its title to the interests in premises leased herein.

J. LESSEE shall pay ad valorem taxes on all of its improvements, fixtures, and equipment, and shall also pay its portion of all taxes levied on the production, use or sale of oil, gas, or other products therefrom and all taxes on the receipts therefrom or taxes due by reason of the LESSEE's activities on the demised premises of whatever nature or kind, either Federal or State, or any subdivision thereof. LESSEE shall pay the ad valorem taxes levied upon its interest in the oil, gas, and other products, and LESSOR shall pay the ad valorem taxes, if any, levied upon its interest in the land described in the Lease to which this Exhibit is attached, including the royalty interest reserved by the LESSOR in this case.

K. LESSEE is an independent contractor and LESSOR shall have no control or right to exercise any control whatsoever over LESSEE, LESSEE's employees or agents in the exercise of their rights of operation under this Lease. The right to engineering inspection under this Lease, the right to inspect the LESSEE's records and other rights herein reserved by the LESSOR shall not give, or be deemed to give LESSOR the right to exercise control over LESSEE or LESSEE's employees in its operations.

L. In the event of any conflict between any of the regulations, laws or requirements of this Lease, those regulations, laws or requirements shall control where performance of said regulations, laws or requirements of this Lease will meet or exceed the requisites of the conflicting regulations, laws, or requirements. In the event the higher degree of performance will not resolve the conflict, the LESSOR may elect which regulations, laws or requirements of this Lease it shall require to be enforced. Any such election shall be for the limited purpose of performing the terms of this Lease only and shall not be deemed controlling between Federal and State governmental conflicts.

M. The use of explosives shall comply with the rules, regulations and standards of the laws of the State of Alabama, the Federal Government and any regulations adopted pursuant to those laws.

N. In the event LESSEE is operating on the demised property together with adjoining property and said activity shall require LESSEE to interrupt operations on LESSOR's lands, LESSEE shall notify LESSOR of such interruption, not less than thirty (30) days before said

interruption and LESSEE shall also notify LESSOR not later than thirty (30) days prior to resumption of operation on the lands. LESSEE shall also notify LESSOR in writing when LESSEE has completed or abandoned or proposes to complete or abandon the operation or removal of coalbed methane within any leased area, whereupon LESSOR shall within ninety (90) days advise LESSEE if the same is not considered to be in full compliance with the terms of this Lease. Upon such notice, the LESSEE shall maintain adequate ingress and egress for the LESSOR to the operational area for a period of ninety (90) days for engineering inspection by the LESSOR.

O. In the event of termination of this Lease from any cause whatsoever, the LESSEE shall have the right, subject to the extent of the interest of LESSOR, herein provided, to remove from the land herein described, within six (6) months after said termination, all tracks, structures, machinery, equipment, well casing, minerals or the product thereof, and other property which the LESSEE may have placed within its operations areas upon the demised premises under this Lease, upon condition that all sums of money due LESSOR from the LESSEE under this Lease shall have been paid to LESSOR and that all of the covenants herein recited have been kept and performed. Should LESSEE fail or refuse to remove its said property within six (6) months after termination of this Lease, as aforesaid, LESSOR shall have the right to remove all or any part thereof from the demised premises and to sell the same.

P. The LESSEE shall give the LESSOR one hundred and twenty (120) days written notice before commencing operations in any quarter-quarter section of the demised premises for the purpose of allowing the LESSOR to remove the timber prior to said operations; and LESSEE shall have the right to remove all timber on such specified area not removed within such one hundred and twenty (120) day period, provided the LESSOR owns the fee or surface of said area. In the event that the LESSEE removes timber prior to commencement of mining activities and operations hereunder in any quarter-quarter section, the LESSEE shall be liable to the LESSOR for the fair market value of the timber on said tract, the fair market value to be determined by the LESSOR's Forester.

Q. This Lease shall inure to and be binding upon the respective successors and assigns of the Parties thereto, as well as the Parties themselves; but if the LESSEE should assign or transfer, mortgage or pledge the rights herein granted without first procuring in writing the consent of LESSOR, or if the interest of the LESSEE hereunder should be sold under execution or other legal process without consent as aforesaid of LESSOR, or if the LESSEE should at any time during the life of this Lease become insolvent, or if any proceedings in bankruptcy should be commenced, including, but not limited to, a reorganization under Chapter 11 of the Bankruptcy Act, or if a receiver or trustee should be appointed of or for the property of the LESSEE (any reference to "Bankruptcy" or term of bankruptcy include present laws or subsequent laws amending or revising or rewriting the present Federal bankruptcy laws, or if the rights herein granted should by operations of law devolve or pass to others other than the LESSEE, then, and in any of said cases, LESSOR shall have the right to terminate this Lease immediately upon the occurrence of any of the foregoing events by giving the LESSEE notice of its termination; additionally, LESSOR shall be entitled to proceed under the terms hereof to protect its rights or claims for unpaid monies, royalties, damages or any other claims protected hereunder. LESSEE is required to give LESSOR written notice of any of the foregoing occurrences not later than fifteen (15) days from the notice of any of the foregoing occurrences to LESSEE.

R. (1) If LESSEE shall make any default in payment of any royalty to LESSOR under this Lease, and such default shall continue for a period of fifteen (15) days after written notice thereof shall have been given by LESSOR to LESSEE, then LESSOR shall have the right at any time after said fifteen (15) days to terminate the lease; provided, however, in the event of a dispute as to the amount of royalty due, then amount claimed by LESSEE to be due may be placed by LESSEE in escrow with a mutually acceptable escrow agent, and this Lease will not be considered in default for nonpayment of royalty.

(2) In the event of failure on the part of the LESSEE to comply with any or all of the covenants in this Lease, other than failure to pay royalties, and provided that such failure is continued for a period of thirty (30) days after notification of such failure has been given to the LESSEE, then LESSOR shall thereupon have the right to terminate this Lease at any time by giving the LESSEE thirty (30) days written notice of its intention to do so, and at the expiration of thirty (30) days after the mailing of such written notice, the rights herein granted shall be deemed terminated.

(3) The terms and provisions of this Lease necessary to protect LESSOR's rights and interest in and to the mining of the demised premises, reclamation of the demised premises, royalty payments and any and all other rights held by LESSOR hereunder shall survive the cancellation or termination of this Lease for any reason.

S. The LESSEE shall, at its expense, re-establish any land corners removed, damaged, or covered up by its operation and provide a map or plat of the relocated corners and reference marks, as established and prepared by an Alabama registered land surveyor. It is further agreed that the LESSEE shall be solely responsible for determining the location of all land lines and that the LESSEE shall protect and indemnify LESSOR, including providing the defense of any lawsuit against LESSOR, should the LESSEE get on or upon the lands not owned by the LESSOR.

T. LESSEE shall maintain, restore, or replace all existing access roads or mutually agreed upon new roads with all-weather roads, with adequate drainage facilities necessary for roads to remain in good condition.

U. This Lease cannot be amended orally or unilaterally by either Party. LESSOR specifically states that any representation or amendment contrary to the terms of this Lease made by a person on behalf of LESSOR shall not be binding on LESSOR unless the representation or amendment is in writing and executed by an official of LESSOR having authority to bind LESSOR.

V. Time is of the essence of every term and condition of this Lease unless otherwise provided for herein. The failure of LESSEE to perform its obligations in a timely manner shall result in the termination of this Lease by notice to LESSEE.

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Shelby Cnty Judge of Probate,AL
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