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GOVERNOR

STATE OF MICHIGAN

DEPARTMENT OF NATURAL RESOURCES

LANSING



REBECCA A. HUMPHRIES
DIRECTOR

May 12, 2008

TO: Rebecca A. Humphries, Director

Transaction: Twenty (20) Direct Oil and Gas Leases, Nondevelopment, in Antrim County.

Authority: Part 5, Department of Natural Resources, Section 502, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended and R 299.8105, Direct Leases, Rule 105, Section (4).

Applicant: Atlas Gas & Oil Company, LLC, of Traverse City, Michigan.

Jurisdiction: Department of Natural Resources (DNR), State-owned minerals.

Mineral Description: The W1/2 NW fractional 1/4 (97.66 acres, more or less), Section 6, T30N, R06W, Chestonia Township; the NE1/4 NW fractional 1/4 (32.69 acres, more or less), the NW1/4 NW fractional 1/4, except that part lying W'ly of the abandoned East Jordan and Southern Railway (19.92 acres, more or less), the N1/2 SW1/4 NW fractional 1/4 and the N 220 feet of the S1/2 SW1/4 NW fractional 1/4, except that part lying W'ly of the abandoned East Jordan and Southern Railway (26.59 acres, more or less), the N1/2 SE1/4 NW fractional 1/4 and the N 220 feet of the S1/2 SE1/4 NW fractional 1/4 (26.67 acres more or less), the entire NE fractional 1/4 (157.76 acres, more or less), Section 1, and the S1/2 SE1/4 (80.00 acres, more or less), Section 2, T30N, R07W, Kearney Township; the NE1/4 (160.00 acres, more or less), the N1/2 SE1/4 (80.00 acres, more or less), the W1/2 SW1/4 (80.00 acres, more or less), Section 24, and the S1/2 (320.00 acres, more or less), Section 25, T31N, R06W, Jordan Township; the S1/2 NW1/4 (80.00 acres, more or less) and the entire S1/2, except the r/w lying within the E1/2 SE1/4 (313.90 acres, more or less), Section 16, the E1/2 E1/2, except the r/w lying within the NE1/4 NE1/4 (157.61 acres, more or less), Section 17, the SE1/4 (160.00 acres, more or less), Section 18, the NE1/4 (160.00 acres, more or less), Section 19, the NW1/4 (160.00 acres, more or less), the W/2 NE1/4 (80.00 acres, more or less), the SW1/4 (160.00 acres, more or less), and the S1/2 SE1/4 (80.00 acres, more or less), Section 21, T31N, R05W, Warner Township, all in Antrim County. Total proposed to lease: 2,432.80 acres.

Comments: All parcels requested lie within the Jordan Valley Management Area (JVMA). Applicant proposes to utilize directional and horizontal drilling techniques from existing privately held surface well locations outside of the JVMA boundary to reach hydrocarbons lying beneath the parcels requested for lease. Department of Natural Resource staff has determined that the above-described parcels are being drained by offset

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production and therefore recommend that direct leases be entered into pursuant to the Rules for Oil and Gas Leases on State Lands, R 299.8105, Direct Leases, Rule 105, Section (4). Applicant has existing infrastructure in place (i.e. processing facilities, flow lines, sales lines, etc.), therefore no disturbance will be necessary to the surface of the lands lying within the JVMA. Parcels are currently classified as nonleasable due to the unique and sensitive nature of the JVMA.

- Drilling Type/Unit: Requested parcels are proposed to be amended into existing Unitized Areas currently operated by applicant (see attached maps). Uniform Spacing Plans are also proposed to accommodate horizontal drilling requirements. The Uniform Spacing Plans will be presented to the Supervisor of Wells, Office of Geological Survey, Department of Environmental Quality, for approval upon issuance of the requested direct oil and gas leases.
- Lease Terms: One-year term, no extensions, 3/16 royalty, \$243,400.00 bonus consideration (\$100.00 per acre), and a \$2.00 per acre rental.
- Special Restrictions: Nondevelopment classification with no future consideration for any type of development reclassification in perpetuity.
- Notice: Notice was published in the Antrim County News on April 9, 2008. This item will appear on the May 27, 2008 DNR Business Calendar and will be eligible for approval on June 5, 2008.
- Recommendation: That the nondevelopment leases be issued to the applicant pursuant to the above terms and conditions.

Lynne M. Boyd, Chief
Forest, Mineral and Fire Management
Deputy

Arminda S. Koch
Resource Management

Dennis Fedewa
Chief Deputy

I approve the staff recommendation.

Rebecca A. Humphries
Director

Date Approved