

1 LEASE FOR OIL, GAS, AND OTHER LIQUID
2 OR GASEOUS HYDROCARBON MINERALS
3

4 STATE OF LOUISIANA
5 PARISH OF EAST BATON ROUGE
6 Louisiana State Lease Form Revised 2014
7

State Lease No.

8 WHEREAS, under the provisions of Sub-Part A of Chapter 2, Title 30 of the
9 Louisiana Revised Statutes of 1950, as amended **or any successor statute**, and other
10 applicable laws, the State Mineral and Energy Board of the State of Louisiana advertised
11 for bids for a Lease covering oil, gas, and other liquid or gaseous hydrocarbon minerals in
12 solution and produced with oil or gas on the property described below; and
13

14 WHEREAS, notwithstanding any language herein which may be to the contrary,
15 this Lease and Lessee, his successors and assigns, are subject to all applicable laws,
16 statutes, rules, or regulations, whether State of Louisiana or Federal, which deal with the
17 subject matter of this Lease during the term this Lease is in force and effect, whether in
18 whole or in part. As between the parties to this agreement, the duties and obligations
19 embodied herein shall control. Furthermore, Lessee, his successors and assigns, shall not
20 use this Lease, or any language contained herein, to circumvent any obligation which may
21 be imposed on them by any applicable law, statute, rule, or regulation in effect during the
22 term this lease is in force and effect.

23 WHEREAS, in response to required advertisements, bids were received and duly
24 opened in the City of Baton Rouge, Parish of East Baton Rouge, State of Louisiana on the
25 _____, (hereinafter, "Effective Date"), at a meeting of the State Mineral and
26 Energy Board of the State of Louisiana (which entity may be sometimes hereinafter
27 referred to as "State Mineral Board," "Mineral Board," or "Board");
28

29 WHEREAS, by resolution duly adopted, the State Mineral and Energy Board
30 accepted the bid of _____ whose mailing address is
31 _____ (hereinafter referred to as "Lessee") as
32 being the most advantageous to the State of Louisiana; and,
33

34 NOW THEREFORE, be it known and remembered that the State Mineral and
35 Energy Board of the State of Louisiana, acting under said authority for and in behalf of
36 the State of Louisiana, as Lessor, does hereby lease, let, and grant exclusively unto the
37 said Lessee, and Lessee's successors and assigns, the property described below for the
38 purpose of exploring by any method, including but not limited to geophysical and
39 geological exploration for formations or structures, prospecting and drilling for and
40 producing oil, gas, together with any other liquid or gaseous hydrocarbon minerals in
41 solution produced with oil or gas, hereinafter sometimes referred to for convenience as
42 oil, gas, or other liquid or gaseous mineral. In connection therewith, Lessee shall have
43 the right to use so much of the property as may be reasonably necessary for such
44 operations, including but not limited to storing minerals and fluids in facilities or by
45 means other than subsurface storage, laying pipelines, dredging canals, building roads,
46 bridges, docks, tanks, power stations, telephone and electric transmission lines, and other
47 structures and/or facilities. The leased property, situated in the Parish of _____,
48 State of Louisiana, is more fully described as follows:
49

50 This Lease excludes free sulfur, potash, lignite, salt, and other solid minerals, and
51 geothermal energy. Lessee shall not have any rights to explore, drill for, mine, produce,
52 or take any action whatsoever in regard to any such solid mineral deposits, nor any rights
53 under this lease in regard to alternative energy as defined by La. R.S. 30:124 **or any**
54 **successor statute**.
55

1 Notwithstanding any language herein to the contrary, the rights granted herein
2 exclusively to the mineral Lessee shall be subject to the surface usage for seismic and
3 geophysical exploration by any seismic permittee of the state whose valid permit predates
4 the effective date of this Mineral Lease and includes all or a portion of the surface area
5 encompassed within the geographical boundary of the leased premises herein. The said
6 seismic permittee shall owe the mineral Lessee no duty to share seismic or geophysical
7 information acquired under the predating permit nor to reimburse the mineral Lessee for
8 surface usage, but said seismic permittee shall not unreasonably interfere with the mineral
9 Lessee's exercise of its rights acquired hereunder and shall owe the mineral Lessee
10 reasonable reimbursement for any actual damages caused by the seismic or geophysical
11 operations carried out under the predating permit.

12
13 Further, in accordance with Article XII, Section 10 of the Constitution of
14 Louisiana, and notwithstanding any language herein to the contrary, the rights granted
15 herein exclusively to the mineral Lessee shall be subject and subservient to surface usage
16 for integrated coastal protection or hurricane and flood protection promulgated, funded,
17 and effected through the State of Louisiana, the Louisiana Coastal Protection and
18 Restoration Authority or the Department of Natural Resources and its divisions, whether
19 solely or in conjunction with other federal, state, or local governmental agencies, or with
20 private individuals or entities. Lessee shall hold the State of Louisiana, including, but not
21 limited to, its political subdivisions such as the Louisiana State Mineral and Energy
22 Board, the Department of Natural Resources and its divisions, the Louisiana Coastal
23 Protection and Restoration Authority, as well as its employees and agents, the United
24 States Government and its appropriate agencies or political subdivisions, together with
25 the respective agents and employees of each, and all other relevant agencies or entities
26 free and harmless from any claims **except as limited by Louisiana Civil Code Article**
27 **2004 or any successor statute** for loss or damages to the rights of any party arising under
28 this Lease or any other contract, lease, permit, or license granted to any individual or
29 other entity for any purpose on state lands or water bottoms from diversions of freshwater
30 or sediment, depositing of dredged or other materials, integrated coastal protection
31 project, or any other actions, taken for the purpose of management, preservation,
32 enhancement, creation, protection, or restoration of coastal wetlands, water bottoms, or
33 related, public or renewable resources. The mineral Lessee, in the exercise of its exclusive
34 rights granted hereunder, shall utilize the best technology available, including directional
35 drilling so as to minimize interference with the ongoing surface usage entailed in the
36 development, construction, and maintenance of the said integrated coastal protection
37 and/or hurricane and flood protection projects which will now or may later utilize all or a
38 portion of this premises leased for mineral exploration and development herein.

39
40 For the purposes of this lease, the following definitions shall apply:

41
42 (i) "Acceptable development operations" shall mean either actual drilling operations, or
43 actual reworking operations, or production in paying quantities on the lease premises or
44 affecting the lease by unitization.

45
46 (ii) "Actual drilling operations" shall mean: (1) drilling commenced by spudding in of a
47 new well [turning-to-the-right], or (2) the deepening or sidetracking of an existing well,
48 or (3) plugging back or attempted recompletion in a separate interval of an existing well
49 (all such operations being commenced by actual down hole operations). Actual drilling
50 operations shall be deemed to terminate on the last day down hole operations of any kind,
51 such as drilling, testing, or installation of equipment are conducted in good faith for the
52 purpose of attempting to discover minerals or to complete a well as a producer.

53
54 (iii) "Actual reworking operations" means reconditioning, cleaning out, or otherwise
55 attempting to establish, increase, or restore production in an existing well by down hole

1 operations. Actual reworking operations shall be deemed to terminate on the last day any
2 such down hole operations are conducted in good faith for the purpose of establishing,
3 increasing, or restoring production.

4
5 Under no circumstances shall drilling or otherwise creating salt water disposal wells
6 constitute actual drilling or reworking operations for the purposes of maintaining this
7 Lease, nor shall off-Lease drilling or other operations constitute actual drilling or
8 reworking operations for the purposes of maintaining this Lease. The installation of
9 flow lines or other surface facilities of any kind whatsoever needed to produce the
10 well shall not be considered as actual drilling operations or actual reworking
11 operations.

12
13 (iv) "Affiliated party" shall mean:

14
15 (1) Ownership or common ownership of more than 50 percent of the voting securities,
16 or instruments of ownership, or other forms of ownership, of another person
17 constitutes control (therefore presumed an affiliate). Ownership of less than 10
18 percent constitutes a presumption of non-control (presumed non-affiliate) that
19 Lessor may rebut.

20
21 (2) If there is ownership or common ownership of 10 through 50 percent of the voting
22 securities or instruments of ownership, or other forms of ownership, of another
23 person, Lessor will consider the following factors in determining whether there is
24 control under the circumstances of a particular case:

25
26 (a) The extent to which there are common officers or directors;

27 (b) With respect to the voting securities, or instruments of ownership, or other
28 forms of ownership: The percentage of ownership or common ownership,
29 the relative percentage of ownership or common ownership compared to the
30 percentage(s) of ownership by other persons, whether a person is the
31 greatest single owner, or whether there is an opposing voting bloc of greater
32 ownership;

33 (c) Operation of a lease, plant, pipeline, or other facility;

34 (d) The extent of participation by other owners in operations and day-to-day
35 management of a lease, plant, pipeline, or other facility; and

36 (e) Other evidence of power to exercise control over or common control with
37 another person.

38
39 (3) Regardless of any percentage of ownership or common ownership, relatives,
40 either by blood or marriage, are affiliates.

41
42 (4) The term "affiliate party" shall include marketing firms engaged in the sale of
43 Lessee's oil, gas, or products.

44
45 (v) "Anniversary date" shall mean the same date on each next ensuing year or years
46 after the Effective Date of this lease.

47
48 (vi) "Non-affiliated party" shall mean a company, firm, or other business unit which is
49 not: (1) a direct part of Lessee's corporate or other business structure; (2) a wholly
50 owned, partially owned, or actually or partially controlled subsidiary corporation or other
51 business unit of Lessee; (3) a parent corporation of Lessee; or (4) a wholly or partially
52 owned or actually or partially controlled subsidiary of Lessee's parent corporation.

53
54 (vii) "Outside acreage" shall mean all of the leased premises, except any portion(s)
55 thereof included in a unit or units on which unitized operations are being conducted.

1
2 (viii) "Paying Quantities" shall mean paying quantities as defined by Louisiana Mineral
3 Code Article 124 or any successor statute, provided that in addition thereto, and
4 notwithstanding the provisions of Article 125 of said Code or any successor statute, the
5 royalties payable on such production must also be sufficient to constitute a serious or
6 adequate consideration to Lessor to maintain this Lease in effect.

7
8 (ix) "Pollution" shall be deemed to include, without limitation, the intrusion of oil, natural
9 gas, liquid or liquefied hydrocarbons, or carbon dioxide into any segment of the
10 environment not previously containing same or any environmental damage or
11 contamination covered by La. R.S. 30:29 or La. R.S. 30:2015.1 or any successor statutes.

12
13 1. Lessee has this day paid to Lessor a cash payment of _____ Dollars, one-half
14 (1/2) of which is bonus as full and adequate consideration for every right granted
15 hereunder and not allocated as mere rental for a period, and one-half (1/2) of which is
16 rental for the first year of this Lease. The per acre cash payment stated in the Bid Form
17 shall be deemed the price paid by Lessee for the acreage claimed by the State to be State
18 owned, and which was advertised as such, within the polygon of the lease. Should there
19 be claimed, within the first year only of the primary term, to have existed at the time the
20 lease was awarded additional State owned acreage within the polygon of this lease,
21 Lessee shall owe an additional cash payment equal to the per acre bid price for this lease
22 multiplied by the number of additional acres owned by the State, on or before the first
23 year anniversary date. This additional cash payment shall not apply to lands that erode
24 into State owned water bottoms within the lease boundary nor to acreage which is
25 adjudicated to the State within the lease boundary while this lease is in effect, though
26 such acreage will be covered by this lease. Hereinafter, the rental payment shall be the
27 higher of either the annual rental payment as declared in the Bid Form submitted to
28 Lessor; or one-half (1/2) the amount of the price per acre as stated in the Bid Form
29 multiplied by the actual number of acres comprising this lease, including additional
30 acreage within the lease boundary which existed at the time, but was not discovered until
31 after the lease was awarded. No additional rental shall be due on lands that erode into
32 State owned water bottoms nor on acreage adjudicated to the State during the primary
33 term of this lease. In addition, if the rental payment amount of this paragraph is in
34 conflict with any other paragraph or document, the rental payment amount of this
35 paragraph shall be controlling.

36
37 2. Subject to the provisions hereof, this Lease shall be for a term of ____ years
38 (herein called "primary term") and so long thereafter as oil, gas, or other liquid or gaseous
39 hydrocarbons are produced in paying quantities or any operation is conducted, payment is
40 made, or condition exists, which continues this Lease in force according to its terms.

41
42 (a) However, if this Lease is for an inland tract which ordinarily carries a three year
43 primary term, it will be possible to extend the primary term to five years if the State
44 Mineral and Energy Board determines that certain conditions have been met. Specifically,
45 prior to the expiration of the three-year term, Lessee must demonstrate to the State
46 Mineral and Energy Board by convincing evidence that:

47
48 (1) the Lease is included, or Lessee has made, and will continue to make, a good
49 faith application for inclusion of the Lease, within a unit already formed under La. R.S.
50 30:5 or any successor statute for a secondary or tertiary recovery project; and

51
52 (2) bona fide secondary or tertiary recovery operations within the unit have already
53 begun. If the State Mineral and Energy Board determines that the Lessee has met its
54 burden of proof regarding the required conditions set forth herein above, the State
55 Mineral and Energy Board shall extend the primary term of this Lease by two additional

1 years through an acknowledgment resolution having the effect of a Lease amendment.
2 Thereafter, this Lease may be maintained under its terms and provisions as if the primary
3 term had originally been five years.
4

5 (b) Whenever evidence acceptable to the staff and Board is presented by Lessee, or
6 its representative, and attested to by affidavit of Lessee, that Lessee has applied for a
7 permit to drill an ultra-deep well, and that Lessee has initiated the forming of, or has
8 formed, a unit-whether voluntary or by order of the Commissioner of Conservation- for
9 the drilling of an ultra-deep well, which will include all or a portion of this lease, the
10 Board, by resolution equivalent to a lease amendment, may increase the primary term of
11 this lease by two (2) additional years. For purposes of the operation of this paragraph
12 only, "ultra-deep" shall mean a depth of Twenty-two Thousand (22,000') feet or greater
13 Total Vertical Depth (TVD), the application of this provision shall only apply to leases on
14 inland tracts with a primary term of Three (3) years or less, and, further, all of the
15 requirements of this provision are completed and presented to the staff and Board in a
16 timely manner such that approval by the Board occurs on or before the end of the original
17 primary term of this lease.
18

19 3. Lease Maintenance: 20

21 (a) If actual drilling operations are not commenced hereunder on the leased premises in
22 good faith on or before one year from the effective date hereof, this Lease shall then
23 terminate unless Lessee, on or before the expiration of that period, shall pay or tender to
24 the Lessor the sum of _____ Dollars (herein called "rental" as same is set
25 forth in paragraph 1 above) which shall not be less than one-half of the above cash
26 payment and which shall extend for twelve (12) months the time within which drilling
27 operations may be commenced. Thereafter, annually, in like manner and upon like
28 payments or tenders, or payments or tenders as may be modified as set forth in paragraph
29 1 above, all of Lessee's rights hereunder may be maintained without actual drilling
30 operations for successive periods of twelve (12) months each during the primary term.
31 Payment or tender of rental may be made by check or draft of Lessee made payable to the
32 order of Office of Mineral Resources and delivered or mailed with U.S. postmark date to
33 Lessor's office on or before the rental paying date.
34

35 (b) **During the primary term,** if on any rental paying date actual drilling operations are
36 being conducted on or production in paying quantities is being obtained from the leased
37 premises, no rental shall be due **at that time.** **However, if actual drilling operations or**
38 **production ceases and is not re-established within ninety (90) days of cessation, this**
39 **Lease shall terminate unless Lessee pays a pro-rata rental based on a fraction comprised**
40 **of the remaining calendar days of the then anniversary period from the end of the ninety**
41 **(90) day period, as numerator, over the total calendar days of the then anniversary period,**
42 **as denominator, multiplied by the full rental.** If actual drilling operations are abandoned
43 or if production ceases at any time within a period of ninety (90) days prior to any rental
44 paying date, then Lessee shall have a period of ninety (90) days after the date of such
45 abandonment of operations or cessation of production within which to commence or
46 resume production, commence actual drilling operations on the leased premises, or pay
47 the full rental payment, and the commencement or resumption of production,
48 commencement of such operations, or payment of rentals within the ninety (90) day
49 period shall have the same effect as though resumed, commenced, or paid on or before the
50 rental paying date.
51

52 (c) If, at the expiration of the primary term, oil, gas, or other liquid or gaseous mineral is
53 not being produced hereunder, but on or before that date (or on or before the end of
54 ninety (90) days following cessation of **acceptable development operations, if a well be**
55 **abandoned or production should cease within ninety (90) days prior to the expiration of**

1 the primary term), Lessee commences acceptable development operations on or affecting
2 the leased premises in an effort to make the premises produce any such minerals (or
3 production is commenced or resumed during such ninety (90) day period), then this Lease
4 shall continue in force so long as such operations are being conducted in good faith or
5 production is maintained without a lapse of more than ninety (90) days between cessation
6 of operations and their recommencement whether on the same well or wells or on a
7 different well or wells successively, or so long as the production so commenced or
8 resumed continues in paying quantities. If, at any time or times after the expiration of the
9 primary term, production hereunder should, for any reason, cease or terminate, Lessee
10 shall have the right, at any time within ninety (90) days from cessation of production, to
11 resume production or actual drilling or actual reworking operations in an effort to make
12 the leased premises again produce any of such minerals, which event shall enable this
13 Lease to remain in force so long as such operations are continued as above provided. If,
14 as a result of any such operations, oil, gas, or other liquid or gaseous hydrocarbon
15 minerals be found and produced in paying quantities, this Lease shall be maintained in
16 full force and effect for so long as production continues without cessation for more than
17 ninety (90) consecutive days.

18
19 (d) This Lease may be maintained in force by directional drilling operations (deviation
20 from vertical), in which event actual drilling operations shall be considered to have
21 commenced on the leased premises when the drill stem penetrates beneath the surface of
22 the leased premises.

23
24 (e) Deferred Development Clause:

25
26 (i) Notwithstanding anything to the contrary herein contained, and consistent with
27 La. R.S. 30:129 or any successor statute, it is understood and agreed that if, during the
28 primary term of this Lease, or within one (1) year after the primary term (if the Lease
29 remains in force and effect at that time), a portion of the property covered by this Lease is
30 integrated and included or placed in a pooled or combined unit, either by itself or with
31 other lands and/or leases, whether by order of an authorized governmental agency or by
32 conventional contract, then commencement of acceptable development operations being
33 obtained from or attributed to a well situated on lands or property within the unit (herein
34 collectively referred to as "unitized operations") shall maintain this Lease in force and
35 effect as to the entirety of the leased premises subject specifically, however, to the
36 following:

37
38 (ii) This lease shall terminate as to lease acreage outside of the unit (hereinafter
39 referred to as "outside acreage") unless:

40
41 When unitized operations commenced during an annual period within the primary
42 term for which a rental payment had been made, on or before the next ensuing
43 anniversary date following said commencement of unitized operations, Lessee
44 either commences acceptable development operations on the outside acreage
45 ("non-unitized operations") or pays to Lessor a sum of money equal to one-half of
46 the per acre cash payment made for this lease multiplied by the number of acres
47 then comprising the outside acreage (hereinafter referred to as a "deferred
48 development payment"); which payment shall maintain this lease in full force and
49 effect as to the outside acreage from the next ensuing anniversary date for a twelve
50 month period until the then next ensuing anniversary date after that. Thereafter, in
51 the absence of non-unitized operations thereon calculated to maintain this lease in
52 force as to the outside acreage, successive deferred development payments on then
53 existing outside acreage made on or before successive ensuing anniversary dates
54 shall maintain this lease in full force and effect as to said outside acreage for
55 successive twelve month periods not to exceed two (2) years after the primary term

1 of this lease; or,

2
3 When unitized operations commenced during an annual period for which no rental
4 had been paid during the primary term, or within one (1) year after the expiration
5 of the primary term, and the lease has been otherwise maintained under its term,
6 Lessee, within ninety (90) days of commencement of unitized operations, either
7 commences non-unitized operations on the outside acreage or pays to Lessor a pro-
8 rata deferred development payment on the then existing outside acreage (to be
9 calculated as a sum of money equal to the deferred development payment
10 multiplied by a fraction equal to the number of days remaining from the end of
11 ninety (90) days from commencement of unitized operations until the next ensuing
12 anniversary date, as numerator, over the total number of days of that annual period,
13 as denominator), which payment shall maintain this lease in full force as to the
14 outside acreage until the next ensuing anniversary date. Thereafter, successive
15 deferred development payments on then existing outside acreage made on or
16 before successive ensuing anniversary dates shall maintain this lease in full force
17 and effect as to said outside acreage, absent non-unitized operations on the outside
18 acreage calculated to maintain this lease in force for successive twelve month
19 periods up to a maximum of one (1) year beyond the primary term.

20
21 (iii) If unitized operations should commence within ninety (90) days of an
22 anniversary date for which a deferred development payment would be available, if paid,
23 to maintain this lease in full force and effect, absent non-unitized operations on the
24 outside acreage, Lessee may make a full deferred development payment on or before the
25 end of the ninety (90) day period. Lessor shall have the option to require Lessee to unitize
26 all producing wells during or within two (2) years beyond the primary term.

27
28 (iv) Nothing contained in this subsection (e) is intended to create nor shall have the
29 effect of creating several or separate Leases, or in any manner to extend, increase, or limit
30 the obligation of Lessee to protect the leased premises from drainage as stated in the
31 Lease, or otherwise. If at any time, either during the primary term of the Lease or the
32 limited extension of the Lease beyond its primary term as provided hereinabove, as to the
33 outside acreage not then being otherwise held under the terms hereof, Lessee conducts
34 non-unit drilling operations or non-unit reworking operations or obtains non-unit
35 production from the leased premises (collectively defined as “non-unitized operations”),
36 then the provisions of this paragraph shall not thereafter apply so long as said non-
37 unitized operations shall continue without cessation for a period longer than ninety (90)
38 days.

39
40 (v) The provisions of this subsection (e) shall also be applicable to a unitized shut-
41 in oil or gas well, but in this event, the annual deferred development payment shall be
42 reduced by deducting therefrom the amount of shut-in oil or gas well payments paid, if
43 any, during the same period under subsection (f) hereafter of the Lease which is
44 applicable to the acreage on which the deferred development payment is applicable. The
45 provisions of this paragraph shall also apply to any unit, ordered or created, which wholly
46 underlies the property covered by this Lease.

47
48 (vi) At the end of the deferred development period Lessee shall release back to
49 and in favor of Lessor all of Lessee’s right, title and interest in this Lease as to all depths
50 below one hundred feet (100’) below the deepest formation producing, or the deepest
51 formation behind pipe capable of producing at that time.

52
53 (f) Shut-in Payments: If at any time or times (during or after the Primary Term) there is a
54 well or wells capable of producing oil or gas in commercial quantities in paying quantities
55 on the leased premises, or affecting the lease by unitization including all or a portion of

1 this leased premises, , which fact has been duly verified and confirmed in accordance
2 with Lessor's the Board's requirements for proof thereof, but oil or gas is not being used,
3 produced, or marketed therefrom because of the lack of a marketing contract after
4 reasonable attempts to secure same, or lack of production or marketing facilities, and if
5 this lease is not then being otherwise maintained by separate operations or production,
6 this lease shall, nevertheless, remain in full force and effect for a period of ninety (90)
7 days after cessation of such production or such operations, or the shutting in of such well.

8 If, on or before the expiration of the ninety (90) day period days, production or
9 operations shall not have been commenced or resumed, Lessee, in order to maintain the
10 Lease in force thereafter, shall commence pay one or more semi-annual payments to
11 Lessor (herein referred to as "Shut-in payments") at the rate and in the manner provided
12 herein below and thereby maintain this Lease in full force and effect during the period or
13 periods covered by such payments. Failure to make or tender the shut-in payment on or
14 before date any shut-in payment is due date and/or in a sufficient amount, shall terminate
15 this Lease.

16
17 (i) The timing of shut-in payments is further affected during the primary term of the lease
18 as follows:

19
20 If the ninety (90) day period should expire during the first year of the primary term
21 or during any year for which a rental has previously been paid, the initial payment
22 hereunder shall not be required until the next anniversary date of the Lease; or,
23

24 If operations or production ceases during the primary term for which period no
25 rental has been paid, or after the primary term has ended, the first payment, if
26 made, shall be tendered on or before the expiration of the ninety (90) day period
27 and shall maintain this Lease for six (6) months commencing from the expiration
28 of the ninety (90) day period.
29

30 (ii) Each semi-annual shut-in payment, **as granted by the Board**, shall be at the rate of
31 fifty dollars (\$50.00) per acre for the then existing number of acres covered by this Lease,
32 but no payment shall be less than one thousand dollars (\$1,000.00). Each payment shall
33 maintain this Lease in full force and effect for a period of six (6) months, and during each
34 period for which a payment has been made, it shall be considered that oil or gas is being
35 produced hereunder for all purposes hereof; however, if the provisions of this paragraph
36 are in conflict with those of any other paragraphs hereof, the provisions of this paragraph
37 shall be controlling.

38
39 (iii) If, on any shut-in payment date, actual development operations are occurring, no
40 shut-in payment shall be due.

41
42 (iv) Subsequent payments shall be made at six (6) month intervals thereafter (herein
43 referred to as "**shut-in payment dates**") provided that prior to the onset of each
44 subsequent period the Lessee can demonstrate to the satisfaction of the Lessor that a
45 diligent, good faith effort is ongoing to establish or restore production to the leased
46 premises from the shut-in well. Unless additional payment periods are earned as
47 hereinafter provided, Lessee's right to make such payments may, assuming Lessee's
48 requisite good faith effort is accepted by Lessor prior to the end of each six (6) month
49 shut-in period, continue for six (6) consecutive semi-annual periods (the total of which is
50 herein called "**initial payment period**"). Additional shut-in periods may be granted by
51 Lessor at the request of Lessee upon a showing of sufficiently compelling circumstances.
52

53 (v) Should production or marketing facilities not be secured within the initial shut-in
54 period, and actual drilling operations or actual reworking operations not be commenced,
55 or re-established, despite diligent effort by the Operator and recognition of such effort by

1 the Board, the Board, at its discretion, may grant an additional shut-in period, or periods,
2 as warranted under the same terms herein stated and for the same consideration as
3 hereinbelow set forth.

4
5 (vi) If a subsequent shut-in payment is denied by Lessor because Lessee has failed to
6 demonstrate sufficiently to Lessor that it is diligently, and in good faith, attempting to
7 remedy the lack of facilities to produce the product or obtain a market contract for the
8 product, then, on the last day of the previously paid shut-in period, this Lease shall
9 terminate unless it can be maintained under other provisions hereof, including either a full
10 or pro-rata rental payment if applicable during the primary term.

11
12 (vii) If during the life of the Lease, the Lessee and/or his successors utilize all six (6) six
13 (6) month periods, the Lessor and Lessee may by mutual agreement provide for further
14 individual six (6) month periods (herein called "further periods") beyond the initial
15 payment period, but only in cases of extraordinary circumstances and at the sole
16 discretion of the Lessor.

17
18 4. **Bonding Requirements:** In accepting this lease and its terms, Lessee herein
19 agrees that, if the Lessee, its successors or assigns, or an operator drilling on this Lease, is
20 exempted by the Office of Conservation from furnishing financial security to accompany
21 the permit to drill any and all wells on these leased premises as set forth in LAC
22 43:XIX§104 or its successor regulation, then Lessee, its successors or assigns, shall,
23 within ninety (90) days prior to the first onset of downhole drilling operations, furnish
24 Lessor with evidence of a bond or alternate financial security acceptable in form, content,
25 and amount to Lessor (but under no circumstances less than Five Hundred Thousand and
26 No/100 (\$500,000.00) Dollars). Said bond or security shall be sufficient to secure the
27 payment for damages caused by Lessee's operations on the Leased Premises, and to
28 assure compliance with all the terms and provisions of this Lease including, but not
29 limited to, plugging and abandoning in compliance with the rules and regulations
30 promulgated by the Office of Conservation of any well drilled on the Leased Premises
31 Said bond or security shall issue from an approved corporate surety company authorized
32 to transact the business of indemnity and suretyship in the State of Louisiana, or such
33 other financial assurance as may be acceptable to the Lessor.

34
35 The amount of such bond and/or other acceptable security shall be increased, if
36 reasonably deemed necessary at the sole discretion of Lessor, as each new well is drilled
37 on this lease by an amount acceptable to Lessor and sufficient to plug and abandon each
38 said new well in full accordance with the rules and regulations promulgated by the Office
39 of Conservation. In order to comply with the new well requirement, ninety (90) days prior
40 to drilling any new well, the Lessee shall furnish Lessor proof that existing security is
41 sufficient to cover the new well in addition to any existing wells drilled by Lessee, its
42 successors or assigns, or that additional security has been obtained, or that the existing
43 security has been increased to cover the additional cost.

44
45 The Lessor, after notice to the Lessee and a reasonable opportunity to be heard,
46 may require an additional bond or bond amount or additional financial security in a
47 reasonable amount greater than the amount originally furnished by Lessee where a greater
48 amount is justified by the nature of the surface and its uses, the degree of risk, and the
49 nature of the activity involved in the types of operations being or to be carried out under
50 this Lease. A statewide bond will not satisfy any requirement of a bond imposed under
51 this subparagraph, but may be considered by the State in determining the need for and the
52 amount of any additional bond under this subparagraph.

53
54 Furthermore, the Lessee agrees and accepts that if the Lessee fails or refuses, in
55 any respect, to perform, comply, or observe all terms, conditions, and obligations

1 hereunder as set forth in paragraph 11 of this Lease, Lessee agrees that Lessor may use
2 the provided security to fully pay for the performance, completion, and discharging of all
3 terms, conditions, and obligations of Lessee under this contract to plug and abandon wells
4 and remove any structures or facilities.

5
6 This bond or security shall be automatically renewed annually, subject to the terms
7 and provisions hereof, and it shall require the Surety to notify the Lessor, in writing by
8 Certified Mail, of its intention to cancel the bond. Such written notice of cancellation
9 shall be given at least ninety (90) days prior to the proposed cancellation date. If prior to
10 the cancellation of the security required by this paragraph, the Lessee does not provide the
11 Lessor evidence that a new security has been obtained meeting all of the terms and
12 conditions hereof, all rights granted Lessee under this Lease shall automatically and
13 without further notice to Lessee, be suspended and Lessee shall immediately suspend
14 operations under this Lease except for those operations necessary to maintain the safety of
15 already ongoing drilling, reworking, or production. The reinstatement of the requisite
16 security as evidenced by providing the Lessor sufficient documentation demonstrating
17 compliance, shall immediately thereon lift the suspension and allow the Lessee to resume
18 operations. Should Lessee fail to obtain coverage within ninety (90) days after
19 termination of the previous security, this agreement may terminate at the option of the
20 Lessor.

21
22 5. The obligations set forth in this paragraph are applicable only to wells drilled on
23 property other than the leased premises, and which is not part of a pooled unit containing
24 all or any portion of the leased property. Such non-unitized property is hereinafter
25 referred to as "adjoining property."

26
27 (a) If at any time during or after the primary term there is completed on adjoining
28 property a well located within six hundred and sixty (660) feet of the leased premises (or
29 within any spacing or pooling unit distance greater than 660 feet established by the
30 Commissioner of Conservation) and such well produces oil, gas, or other liquid or
31 gaseous mineral in paying quantities for twenty (20) days (which need not be
32 consecutive) during any period of thirty (30) days, or produces its monthly allowable
33 during such thirty (30) day period, Lessee agrees that the following rebuttable
34 presumptions will arise: (1) that the leased premises are thereby being drained; (2) that
35 the leased premises are not being reasonably protected from drainage by any well or wells
36 on the leased premises or land pooled therewith; and, (3) that an offsetting well on the
37 leased premises would be economically feasible. If Lessee is the operator of or has a
38 working interest in the wells on the adjoining property, Lessee will begin actual drilling
39 operations for a well on the leased premises within ninety (90) days after the end of the
40 above thirty (30) day period. In all other cases Lessee shall be required to begin such
41 operations only within ninety (90) days after receipt of written notice from the Board
42 through its staff of the expiration of the above thirty (30) day period. No offset well shall
43 be necessary if, on or before the maturity date of the offset obligation or any deferred
44 maturity date as hereinafter provided, any of the stated presumptions is rebutted or a unit
45 for the well in question embracing all or part of the leased premises is formed by
46 agreement with the Board or by order of the Commissioner of Conservation.

47
48 In lieu of commencing operations for an offset well as above provided, Lessee
49 may, at Lessee's option, commence compensatory payments equal to the royalties herein
50 provided, computed on one-half (1/2) of the oil, gas, or other liquid or gaseous mineral
51 produced by the well in question on and after the date operations would have otherwise
52 been commenced, value to be determined in accordance with the royalty payment
53 provisions of this Lease. Such payments may be commenced on or before sixty (60) days
54 after the date operations would otherwise have been commenced, but shall include any
55 accrued compensatory payments. Thereafter, payments shall be due monthly in

1 accordance with royalty payment provisions herein. Lessee shall not be in default in
2 either commencing compensatory payments or in making further payments as above
3 provided if, despite due diligence, Lessee is unable timely to obtain the production
4 information on which such payments are to be based. In any such case, however, Lessee
5 must, on or before the due date of the payments, notify the Board in writing of Lessee's
6 inability to make such payment, the reasons therefor, and Lessee's intent to make such
7 payment at the earliest reasonable time. Compensatory payments may be continued, at
8 Lessee's discretion, for not more than one year from the date on which offset operations
9 would otherwise have been commenced. At the end of that time, or within thirty (30)
10 days from the end of any lesser period for which payments are made, Lessee shall comply
11 with this offset obligation if the producing well continues to produce in paying quantities
12 or to produce its allowable and the other conditions making this obligation operative are
13 existent. The right to make compensatory payments is intended to permit Lessee to
14 evaluate further the producing well, and the making of such payments shall not of itself
15 be sufficient to maintain this Lease if the Lease is not otherwise being maintained in force
16 and effect; however, the making of any such payments shall not prejudice Lessee's right
17 to rebut any of the above enumerated presumptions.

18
19 (b) In addition to the specific offset drilling obligation above provided, should
20 Lessee know or have reason to know by examination of geological, seismic or other
21 relevant data that drainage of the leased premises is occurring, Lessee agrees to protect
22 the leased premises from drainage of oil, gas, or other liquid or gaseous minerals by a
23 well or wells on adjoining property which may be more than six hundred and sixty (660)
24 feet from the leased premises, by whatever means necessary, including the drilling of a
25 well or wells on the leased premises, or obtaining the formation of appropriate drilling or
26 production units, or to take any other steps reasonably necessary to protect the leased
27 premises against such drainage. If Lessee is the operator of or has a working interest in
28 any such well on adjoining property, Lessee shall be obligated to take such other steps as
29 may be reasonably necessary to protect the leased premises within ninety (90) days from
30 the time lessee knows or reasonably should know that drainage is occurring. In all other
31 cases Lessee shall be obligated to begin such operations or take such other steps only
32 within ninety (90) days after receipt of written notice from the Board.

33
34 (c) In those instances in which notice is expressly required under paragraph (a) or
35 (b), above, damages, if due, shall be computed only from the date on which notice is
36 received or, if Lessee commences compensatory payments, the date on which such
37 payments are discontinued. In those instances in which there is no requirement of notice
38 under (a) or (b), above, damages, if due, shall be computed from the time Lessee knew or
39 reasonably should have known drainage was occurring. Damages as set forth herein shall
40 consist of the royalty percentage of this lease multiplied by the value (as calculated herein
41 below in this lease) of one-half (1/2) of the production from the draining well, and may
42 include lease cancellation for refusal by Lessee to take the necessary steps to prevent
43 drainage. Written notice containing a demand for performance shall be necessary as a
44 prerequisite to any action for cancellation of the Lease by Lessor for nonperformance of
45 any obligations of Lessee to protect the leased premises against drainage.

46
47 6. **Royalty:** Unless Lessor elects to take in kind all or any part of the portion due
48 lessor as royalty on minerals produced and saved hereunder, which option is hereby
49 expressly reserved by Lessor pursuant to La.R.S. 30:127(C) or any successor statute and
50 which is to be exercised by written notice by Lessor to Lessee at any time and from time
51 to time while this Lease is in effect and either prior or subsequent to acceptance by Lessor
52 of royalties other than in kind, it being understood that nothing contained in this Lease
53 shall ever be interpreted as limiting or waiving said option, Lessee shall pay to Lessor as
54 royalty:
55

1 (a) _____ of the value, as hereinafter
2 provided, of all oil, including condensate or other liquid mineral, produced (“produced”
3 includes sales, stored or traded in kind) and saved or utilized by methods considered
4 ordinary production methods at the time of production. The value of such oil sold to a
5 non-affiliate or affiliate shall not be less than the fair market price. “Fair market price”
6 may include one or more of the following: NYMEX, NYMEX + roll, either of the major
7 Oil Market Centers (St. James, Cushing, Empire, or Argus) or any combination of Field
8 Posted Price, plus Platt’s P+, plus any market adjustments or, if at a future date the Fair
9 Market Valuation changes to something other than those listed above, the new method of
10 Fair Market Valuation may be considered and/or utilized.

11
12 Lessee shall not make any deduction whatsoever for the cost of any operation,
13 process, facility, or other item considered to be a production function or facility at the
14 time such oil is run. Without limiting the foregoing sentence and without regard to
15 classification as production costs or otherwise, the following costs are not to be deducted
16 from the value of production: (1) costs incurred for gathering, moving, or transporting
17 production in the field; (2) costs incurred for handling, treating, separating, fractionating,
18 or in any way processing production to make it marketable by methods considered
19 ordinary at the time such oil is run; (3) the cost of storage on the Lease or in the field; (4)
20 marketing fees, any other miscellaneous fee, or unspecified discounts and/or subtractions
21 from the base price incurred during or related to the sale of oil by the Lessee, affiliate, or
22 non-affiliated party; and, (5) line loss. The performance of any producing function or any
23 function mentioned inside clauses (2) and (3) of the foregoing sentence at a commingled
24 facility in or outside the field in which this Lease is situated shall not make the cost of any
25 such function deductible.

26
27 If Lessee delivers such oil at a point outside the field in which this Lease is
28 situated, Lessee may deduct from the value of such oil a reasonable sum for transportation
29 from the field boundary to the point of delivery by means of facilities belonging to a non-
30 affiliated party, not in excess of actual cost (as evidenced by invoices from the
31 transporter(s)). . If such transportation is by means of facilities owned by one other than
32 a non-affiliated party, Lessee may deduct the actual cost of such transportation, but only
33 if such cost is no greater than the fair market value of the services performed; if actual
34 cost is greater than fair market value, the fair market value shall determine the amount
35 deductible; however, if the facilities used are regulated as a common carrier by a state or
36 federal regulatory agency, the authorized tariff chargeable for the services rendered and
37 paid by Lessee shall be deemed the fair value of such services. If such transportation is
38 by means of any facilities owned by Lessee, Lessee may deduct from the value of
39 production a reasonable sum for such services, computed as follows: the amount
40 deductible shall include only (1) the direct cost of operation and maintenance, including
41 cost of labor, direct supervision, fuel, supplies, ordinary repairs, and ad valorem taxes;
42 and, (2) depreciation of the facility computed over the estimated life of the field or the
43 reserves.

44
45 If Lessee receives any compensation for any function or process for which Lessee
46 is responsible to Lessor without right to deduct costs, including, but not limited to: (1)
47 handling, gathering, or transporting such oil; or, (2) treating or processing such oil by
48 ordinary methods to make it marketable, the amount of such compensation shall be added
49 to the value of such oil when computing royalties. If Lessee is deducting costs for any
50 functions for which he is also receiving compensation, deductions may be made only to
51 the extent they are in excess of any such compensation.

52
53 (b) _____ of the value, as
54 hereinafter provided, of all gas, including casinghead gas, produced (“produced” includes
55 sales, vented, stored, interlease sales, and utilized gas), sold and stored, saved, or utilized

1 by methods considered as ordinary production methods at the time of production. The
2 value of such gas sold to a non-affiliate or affiliate or vented or utilized in the field, shall
3 not be less than the fair market price. "Fair Market Price" may include one or more of the
4 following: a pipeline index in the field or adjacent to the field, Bloomberg Liquified
5 Petroleum Gas Prices, Platt's LP Gas Wire, NGCH published in the "Foster Natural Gas
6 Report", a NYMEX closing price, a Henry Hub price, plus/minus premium, and/or
7 transportation outside the field or, if at a future date the Fair Market Valuation changes to
8 something other than those listed above, the new method of Fair Market Valuation may
9 be considered and/or utilized.

10
11 Except as expressly permitted herein, Lessee shall not make any deduction
12 whatsoever for the cost of any operation, process, facility, or other item considered to be a
13 producing function at the time such gas is produced. Without limiting the foregoing
14 sentence and without regard to classification as production costs or otherwise, the
15 following costs are not to be deducted from the value of production: (1) costs incurred for
16 gathering, moving, or transporting production in the field; (2) costs incurred for
17 dehydrating, decontaminating (as with an amine plant inside the field), fractionating, or in
18 any way processing production to make it marketable by methods considered ordinary at
19 the time such gas is produced; (3) marketing fees, any other miscellaneous fee, or
20 unspecified discounts and/or subtractions from the base price incurred during or related to
21 the sale of gas by the Lessee, affiliate, or non-affiliated party; or, (4) line loss. The
22 performance of any producing function or any function mentioned in clause (2) of the
23 foregoing sentence at a commingled facility inside or outside the field in which this Lease
24 is situated shall not make the cost of any such function deductible. Without regard to
25 classification as production costs or otherwise, Lessee may deduct costs incurred for
26 compression of gas at a point in or adjacent to the field for insertion into a purchaser's
27 line or into a line owned by Lessee or a carrier for transportation to a point of delivery
28 outside the field.

29
30 If Lessee delivers such gas at a point outside the field in which this Lease is
31 situated, Lessee may deduct from the value of such gas a reasonable sum for
32 transportation from the field boundary to the point of delivery by means of facilities
33 belonging to a non-affiliated party, not in excess of actual cost (as evidenced by invoices
34 from the transporter(s)). If such transportation is by means of facilities owned by one
35 other than a non-affiliated party, Lessee may deduct the actual cost of such transportation,
36 but only if such cost is no greater than the fair market value of the services performed; if
37 actual cost is greater than fair market value, the fair market value shall determine the
38 amount to be deducted. If such transportation is by means of any facilities owned by
39 lessee, lessee may deduct from the value of production a reasonable sum for such
40 services, computed as follows: the amount deductible shall include only, (1) the direct
41 cost of operation and maintenance, including cost of labor, direct supervision, fuel,
42 supplies, ordinary repairs, and ad valorem taxes; and, (2) depreciation of the facility
43 computed over the estimated life of the field or reserves.

44
45 If Lessee receives any compensation for any function or process for which Lessee
46 is responsible to Lessor without right to deduct costs, including but not limited to: (1)
47 gathering or transporting such gas; or, (2) dehydrating, decontaminating, or in any way
48 processing production to make it marketable, the amount of such compensation shall be
49 added to the value of such gas when computing royalties. If Lessee is deducting costs for
50 any functions for which he is also receiving compensation, deductions may be made only
51 to the extent they are in excess of any such compensation.

52
53 (c) In addition to the separation of condensate or other liquid mineral from gas by
54 ordinary production methods (as to which Lessor shall receive royalties above provided
55 and for which separation no charge may be made by Lessee), gas produced hereunder,

1 including casinghead gas, may be processed in a gasoline or other extraction plant in or
2 serving the field, and products may be recovered therefrom either directly by Lessee or
3 under prudently negotiated contracts executed by Lessee. If Lessee enters into a
4 prudently negotiated contract for the processing of gas with a non-affiliated party or
5 parties under which such party or parties retain in kind a portion of the products
6 recovered from or attributed to such gas, in lieu of processing fees, the in kind portion of
7 the products kept as the processing fee must be reasonable and prudently negotiated, just
8 as any processing fee must be reasonable and prudently negotiated. Lessee shall be held
9 accountable for royalty due on excessive in kind retention. Lessee shall pay royalty on
10 residue gas sold as detailed for gas sold in paragraph 6(b) based on the value, as
11 hereinafter determined, of Lessee's share of such products under such prudently
12 negotiated contract. Residue gas is defined as: all plant source gas delivered by a producer
13 for processing, less shrinkage due to liquid extraction, fuel required for plant equipment
14 necessary for liquid extraction, flare gas, and unavoidable losses. In all other cases
15 Lessee shall pay the royalty provided for gas in paragraph 6(b) based on the value, as
16 hereinafter determined, of the total products recovered, after deducting therefrom the
17 costs of processing as specified below.

18
19 The price or prices received by Lessee if the products are sold to non-affiliated
20 party or parties, under a prudently negotiated contract or contracts, notwithstanding any
21 other language or provision in this document, it is herein provided, and all parties agree,
22 shall not be less than a fair market price - which may exceed index price - as may be
23 determined utilizing the criteria in the succeeding paragraph, subject to the right of the
24 State, as original Lessor, to verify that fair market price was paid upon audit.

25
26 If such products are sold to an affiliated party under a prudently negotiated contract
27 or are sold to one other than a non-affiliated party under a contract which would not have
28 been considered prudently negotiated if executed with a non-affiliated party, the value of
29 the products shall be their fair market value as detailed above. The value of any such
30 products (or Lessee's share thereof) not sold under any contracts shall be the fair market
31 value at the plant for such products, or if no products are being sold at the plant, the
32 average of the market values for like products of the same grade and quality at the three
33 nearest plants at which such products are being sold but not less than the "Fair Market
34 Price" as detailed above.

35
36 When the cost of processing is not met by retention by the processor of a share of
37 the products or in any other case in which Lessee may deduct from the value of such
38 products reasonable and prudent cost of processing, the charges shall be determined as
39 follows. If the gas is processed by a non-affiliated party under a prudently negotiated
40 contract, the reasonable costs which may be deducted shall be those provided in such
41 contract. In all other cases, including those where the gas is processed by an affiliated
42 party and those in which the Lessee itself owns any part of the plant in which processing
43 occurs, the combined value of the residue gas under Article 6 and the liquid or gaseous
44 products resulting from such processing upon which the royalty is determined shall not be
45 less than the royalty that would be due upon the value (as determined under the
46 provisions of Article 6(b) of the volume of the gas before processing, produced, saved,
47 and utilized from the leased property).

48
49 In all cases the following costs are not to be deducted: any and all marketing fees
50 incurred for the sale of the plant products and any costs for which the Lessee is
51 reimbursed by another party.

52
53 In all other cases, including processing by those other than a non-affiliated party or
54 parties and those in which Lessee itself or in conjunction with others owns the plant, the
55 charges should be determined by contract between Lessee and Lessor. In the absence of

1 such a contract the charges to be deducted shall include only the proportionate part of: (1)
2 the direct cost of operating and maintain the plant, computed annually, including cost of
3 labor and on-site supervision, shrinkage, materials, supplies, and ordinary repairs; (2)
4 depreciation of the plant, less salvage value, computed over the life or lives of the field or
5 fields served by the plant, or by such other method as is agreed upon by Lessor and
6 Lessee; and, (3) ad valorem taxes.

7
8 In all of the cases provided for in this paragraph, Lessor shall be entitled to the
9 royalty for gas provided in paragraph (b) of this Article based on the value of Lessee's
10 share of the residue gas sold or otherwise disposed of after processing.

11
12 In no case should total royalty on residue gas and liquids extracted be less than the
13 royalty which would be payable at the Lease on the unprocessed gas.

14
15 (d) _____ of any and all other
16 liquid or gaseous hydrocarbon minerals in solution and produced with oil or gas and
17 saved or utilized which are not specifically mentioned herein, said royalties to be
18 delivered or paid when marketed or utilized as is the accepted practice in such matters.

19
20 (e) In all cases, Lessor's royalty shall be calculated and paid after deduction of all
21 severance or production taxes.

22
23 (f) The first payment of royalty shall be made within one hundred twenty (120)
24 days following commencement of production from, or allocation of production to the
25 leased premises, except that in the case of any production from or allocable to the leased
26 premises, which has occurred prior to the date of but which is deemed to be covered by
27 this Lease, Lessee hereby agrees to pay Lessor's royalty on all such prior production
28 within one hundred twenty (120) days from the date of this Lease. Thereafter, royalty on
29 oil, including condensate or other liquid mineral, produced and saved at the well by
30 ordinary production methods shall be paid by the 25th of each month for production of
31 the previous month; and royalty on gas, including liquids or other products extracted or
32 processed from gas other than by ordinary production methods, or other liquid or gaseous
33 mineral not specifically mentioned shall be paid on or before the 25th day of the second
34 month following that in which produced or extracted or processed. In the event any
35 royalty payment is not correctly or timely made, the remedies provided by La.R.S. 31:137
36 through 142 or any successor statutes relative to notice, damages, interest, attorney fees,
37 and dissolution shall be applicable, except that interest shall be payable thereon until paid
38 without any requirement for prior written notice by Lessor to Lessee.

39
40 (g) Lessee shall be responsible for designating one payor of all royalties due
41 under this lease, per LUW code or lease, in the event the leased premises are not
42 unitized in accordance with La. R.S. 30:9 and 30:10 or any successor statutes.
43 Designation of a payor for each LUW code or lease shall be made to the property
44 section of the mineral income division for the Office of Mineral Resources. If
45 reporting and payments are not received timely and properly then the payor, when
46 designated, or Lessee, when no designated, shall be subject to penalties in accordance
47 with La. R.S. 30:136(B) or any successor statute.

48
49 (h) Lessee shall report all production of hydrocarbons and associated liquid or
50 gaseous minerals from, or attributable to, this lease to the Production Audit Division of
51 the Office of Conservation and to the Mineral Income Division of the Office of Mineral
52 Resources by appropriate SR forms containing both LeaseUnitWell (LUW) code and well
53 serial number. Failure to report production as herein specified shall be deemed "improper
54 reporting" which shall subject Lessee to the penalty specified therefor.

1 7. (a) Lessee may surrender all or any portion or portions of the leased premises at
2 any time this Lease is in effect and thereby be relieved of all obligations thereafter
3 accruing under this Lease as to the portions surrendered except the following: no partial
4 release or surrender shall reduce or otherwise affect the amount of rentals to be paid to
5 maintain the lease during the primary term as provided for hereinabove, nor shall any
6 release of the Lease, in whole or in part, relieve original Lessee or any of its successors or
7 assigns of any obligations to plug and abandon wells, clean up the well or production site,
8 or any other obligations arising under this lease, Commissioner of Conservation rulings,
9 or regulations pertaining to the status of well sites, or under other portions of this lease.

10
11 (b) In the event of initial cancellation or forfeiture of this lease Lessee may retain
12 forty (40) acres around each well capable of or producing oil and one hundred sixty (160)
13 acres around each well producing gas and around each shut-in well capable of producing
14 gas in paying quantities (including wells drilled under this lease by directional drilling). If
15 any well is then being worked on or being drilled, Lessee shall have the right to complete
16 such operations, and in the event any such operations result in completion of a well
17 capable of producing oil or gas in paying quantities, Lessee may retain acreage around
18 each such well as above provided. Retained acreage around any well shall form as near a
19 square tract as is practical. If any acreage covered by this lease shall have been included
20 in a unit established by the Commissioner of Conservation, or by conventional agreement,
21 or if any such acreage shall have been assigned to a producing or shut-in well under
22 statewide allowable orders of the Commissioner and such acreage is actually being
23 drained by the well or would be drained by it if the well were produced, Lessee may
24 retain all the acreage included in such unit or units or so assigned for allowable purposes.
25 Thereafter, each area so retained by Lessee shall be subject to the terms of this lease as
26 regards future maintenance thereof.

27
28 (c) Within ninety (90) days after of expiration or termination by its own terms of
29 this Lease or any portion thereof, either during or after the primary term hereof, Lessee
30 shall execute and record an appropriate release evidencing such expiration or termination,
31 and shall also supply Lessor with a copy or copies thereof properly certified by the
32 recorder or recorders of the parish or parishes in which the leased premises are located.
33 In the event Lessee fails to timely comply therewith, Lessee shall be liable for reasonable
34 attorney fees and court costs incurred in bringing suit for such cancellation and release. It
35 is further agreed, however, that liquidated damages shall be paid by Lessee to Lessor in
36 the amount of One Hundred Dollars (\$100.00) per day for each day of non-compliance
37 after expiration of said ninety (90) day period, regardless of whether suit is filed for
38 cancellation and release, and for such additional compensatory damages as Lessor may
39 prove. Lessee, its successors or assigns, hereby waives any further notice of default or
40 otherwise and confesses judgment as regards the liquidated damages accruing as herein
41 set forth.

42
43 (d) In fulfilling its obligations under paragraph 7 by properly releasing the Lease,
44 Lessee shall obtain from the operator a list of all unplugged wells and facilities no longer
45 in use that require abandonment, record same with the release and send a certified copy of
46 the release with the list to Lessor. Lessee shall also attach to the copy of the release and
47 send to Lessor a reasonable plan for plugging and abandoning all wells and removing all
48 facilities on the list, including removal of all surface facilities, and restoring the leased
49 premises as herein contemplated.

50
51 8. Assignments & Transfers: The parties hereto understand and agree to the
52 following:

53
54 (a) No assignment or other transfer of any rights or interests granted to Lessee, its
55 successors or assigns, under this lease shall be valid unless prior approval by the Lessor

1 has been obtained, and further, that any such assignment or transfer made without
2 Lessor's prior approval shall be null and void ab initio.

3
4 (b) An assignment or other transfer made by Lessee, its successors or assigns,
5 including any language to the contrary which may be contained within those documents
6 notwithstanding, which has been approved by the Lessor does not relieve original Lessee,
7 or any of its successors or assigns, of any and all obligations, duties, or responsibilities
8 incurred under the terms of this Lease.

9
10 (c) In addition, no assignment or transfer of this Lease shall be valid unless a
11 provision has been made by the assignor or transferor and assignee or transferee to have
12 the financial security and insurance set forth as required in this Lease, maintained in full
13 force and effect following the assignment or other transfer into the hands of the assignee;
14 which financial security shall be attached to each and every well located on that portion of
15 the leased premises being transferred. Written evidence of the maintenance of said
16 financial security and insurance shall be presented together with the assignment or other
17 transfer at the time same as submitted for Lessor's approval. The same shall hold true for
18 each and every successive assignment or transfer of an interest in this lease.

19
20 (d) Lessee agrees that Lessor, in determining whether to consent to any proposed
21 assignment or other transfer, may reasonably consider the proposed assignee or other
22 transferee's financial capacity (including the ability to obtain required insurance and other
23 financial security under the terms of this Lease) and the ability to continue reasonable
24 development of the leased premises. Lessor may refuse to consent to such assignment if,
25 in the Lessor's reasonable opinion, the proposed assignee or other transferee lacks the
26 necessary financial capacity to meet the obligations under the terms of this lease or
27 technical capacity to sustain reasonable development of the leased premises. Should
28 Lessor not consent to the assignment or other transfer submitted for approval, whether or
29 not same is recorded, the assignor or other transferor, as well as his ancestors in title, shall
30 remain the then present holder of this Lease for all purposes, rights, duties, obligations,
31 and benefits appertaining hereto.

32
33 (e) Upon compliance with the provisions of La. R.S. 30:128 or any successor
34 statute and approval by Lessor, all the terms, provisions, and conditions of this Lease
35 shall be binding upon and shall insure to the benefit of the respective successors, assigns,
36 and/or sublessees.

37
38 9. (a) Lessee may, with the consent and approval of Lessor, pool or unitize the
39 acreage covered by this Lease (or any portion thereof), including in combination with
40 other property or leases (or portions thereof). Operations on or production of minerals
41 from property other than this lease within the pooled or unitized area, whether units
42 created by the Commissioner of Conservation or by conventional agreement, shall have
43 the same effect as if said operations or production had occurred on the leased premises
44 with respect to lease maintenance within said pooled or unitized area. No unit or pooling
45 agreement shall be approved by the Lessor unless a unit plat compiled and certified by a
46 licensed surveyor showing the unit outline and each Lease or other property interest
47 within the unit as having been surveyed accompanies and is attached to the unit or
48 pooling agreement.

49
50 (b) Should Lessee apply or give notice of intent to apply to the Commissioner of
51 Conservation for the creation of any unit or units which would include all or any portion
52 of the leased premises, Lessee shall furnish Lessor with a copy of the notice or
53 application, accompanying unit plat, and all other attached information, either at the time
54 the application is filed with the Commissioner or at the time required by applicable orders
55 or regulations of the Commissioner for furnishing such information, to any parties

1 entitled to receive it, whichever is earlier. If a unit or units including all or any part of the
2 leased premises are created by order of the Commissioner, Lessee shall submit to Lessor a
3 survey plat of each unit or units so created, either prior to or within ninety (90) days of
4 initial production from the unit. The survey plat of the unit or units must clearly identify
5 the state lease acreage, tract acreage, and the unit percentage participation for each state
6 lease tract. Failure to submit such a plat shall result in a cumulative liquidated damage
7 assessment against Lessee in the amount of one hundred dollars (\$100.00) per day,
8 beginning on the ninety-first (91st) day, from onset of unit production until the required
9 plat is in the office of Lessor.

10
11 (c) If a surface and/or subsurface agreement for drilling of a well is granted by the
12 Division of Administration, Office of State Lands, affecting this Lease, the Lessee shall
13 furnish copies of all electrical and radioactivity surveys on the subject well to the Lessor.
14 Further, a presumption shall exist, unless Lessee can reasonably demonstrate the contrary
15 to Lessor, that a unit for the well should be formed to include a portion of this Lease and
16 Lessee agrees to make application to the Commissioner of Conservation for the formation
17 of such a unit within six (6) months after the completion of the subject well.

18
19 (d) If on the date of this Lease all or any portion of the leased premises is included
20 in a unit established by order of the Commissioner of Conservation, Lessee agrees to pay
21 royalty on all oil, gas, or other liquid or gaseous mineral produced and saved or utilized
22 and attributable to the leased premises from the date of such unit regardless whether all
23 development and operating costs chargeable to the leased premises have been paid.

24
25 10.(a) For the first well drilled on the leased premises or lands pooled therewith,
26 Lessee shall furnish Lessor all of the following types of data: (1) all wire line surveys in
27 open or cased holes, including, but not limited to, all electrical and radioactive logs,
28 porosity logs of all types and dip-meters, all in both 1" and 5" hard copy format and
29 composite digital curve data in LAS or LIS; (2) directional surveys; (3) mud logs and core
30 descriptions of both sidewall samples and conventional cores; (4) drill stem and
31 production test data; (5) daily drilling reports to be supplied weekly; (6) paleontological
32 reports; (7) velocity surveys including vertical seismic profiles; (8) all geological and
33 geophysical survey data derived from surveys on the leased premises and consistent with
34 the rights of the State under La. R.S. 30:209.1 and under permits as set forth in La. R.S.
35 30:213 or any successor statutes; and, (9) production data, current and cumulative,
36 including oil, gas, and water production, surface and subsurface pressures. For
37 subsequent wells drilled on the leased premises or lands pooled therewith, upon request
38 by Lessor, Lessee shall furnish Lessor any or all of the above data. Lessee shall also
39 furnish Lessor with any other information and data requested by Lessor to keep Lessor
40 fully informed that Lessee is complying with the provisions of this Lease in good faith,
41 and developing and operating the leased premises as a reasonably prudent operator for the
42 mutual benefit of Lessor and Lessee.

43
44 (b) All records which are filed by or received from any person by the Office of
45 Mineral Resources of the Department of Natural Resources, or any official or employee in
46 the Office of Mineral Resources of the Department of Natural Resources, or which in any
47 manner is in the custody or control of the Office of Mineral Resources of the Department
48 of Natural Resources, or any official or employee in the office of mineral resources of the
49 Department of Natural Resources shall be deemed public record except where the record
50 is designated as confidential by law.

51
52 (c) Nothing in this paragraph shall require that Lessee furnish or permit inspection
53 of any interpretation of any of the types of data referred to above, and nothing herein shall
54 be construed as requiring Lessee to secure any such data solely for the purposes of this
55 paragraph. Lessor's representatives shall have access at all reasonable times to examine

1 and inspect Lessee's records and operations pertaining to the leased premises or lands
2 pooled therewith.

3
4 (d) Failure to comply with any requirement in this paragraph shall result in
5 liquidated damages to be paid by Lessee to Lessor of one hundred (\$100.00) dollars per
6 day for each day of non-compliance starting thirty (30) days after the date on which the
7 well reaches total vertical depth.

8
9 11. (a) Lessee, its successors or assigns, shall, no later than one (1) year from the
10 termination of all or any portion of this lease on which the well, or wells, are located, plug
11 and abandon all wells on the premises no longer necessary for operations or production
12 on this lease, and remove from the premises all structures and facilities serving said wells,
13 all at Lessee's sole risk, cost and expense, and subject to compliance with all applicable
14 laws, rules, and regulations. The right, as well as the obligation, of Lessee to draw and
15 remove casing from wells and to further remove any facilities no longer utilized in the
16 operations or production on the lease is recognized. Failure of the Lessee to exercise the
17 salvage right and obligation shall subject Lessee to and make Lessee liable for any and all
18 costs or expenses of any kind incurred by the State for plugging and abandoning all wells,
19 removing or disposing of said casing, and/or other facilities. However, under no
20 circumstances shall title to or ownership of said casing or facilities automatically vest in
21 or transfer to the State nor shall said casing or facilities be deemed "improvements" to the
22 leased premises for purposes of vesting title in same to the State. In addition, under no
23 circumstances shall the title to said salvage transfer to or vest in the State nor shall it be
24 forfeited by Lessee to the State.

25
26 (b) After one year, the Lessee may not, without the express approval of the State
27 Mineral and Energy Board, trespass upon the premises which makes up this lease to
28 fulfill its plug and abandonment, and cleanup obligation, but shall remain obligated under
29 this Lease to appear before the State Mineral and Energy Board, at its request to explain
30 the failure to properly plug and abandon all wells and restore the leased premises to as
31 near as possible its prelease condition, and further, Lessee at that time shall utilize the
32 plan filed with the release to fulfill its obligations as set forth in this Lease. The Mineral
33 and Energy Board may grant Lessee temporary access to the former leased premises to
34 carry out its plan, or the Mineral and Energy Board may exercise its option to pursue any
35 and all other means at its disposal to restore the premises.

36
37 (c) The failure to do any of the specified acts in this part shall jointly and severally
38 subject the then Lessee(s) to assessment of a liquidated damage in the amount of one
39 hundred (\$100.00) dollars per day from the end of one year from the lease termination
40 date until all duties and responsibilities of Lessee(s) are carried out. This liquidated
41 damage shall in no way impinge on the use by Lessor of the financial security furnished
42 by Lessee(s) to carry out the duties and obligations of this lease.

43
44 (d) In addition to restoration of the leased premises as contemplated and required
45 by this Lease, Lessee shall be responsible for all damages to the leased premises caused
46 by his operations without limitation, including, but not limited to, timber, crops, roads,
47 buildings, fences, soil, surface and subsurface water, aquifers, and vegetation and all
48 "environmental damage" as that term is defined in La. R.S. 30:29 or any successor
49 statutes.

50
51 12. **Force Majeure:** If at any time this Lease is being validly maintained under any
52 of its provisions and Lessee is prevented from continuing acceptable development
53 operations by the occurrence of a Force Majeure event, as herein below defined, then
54 shall the critical date be postponed on a day-for-day basis for so long as the effects of the
55 Force Majeure prevail, providing that Lessee: (i) has given the Office of Mineral

1 Resources reasonable, timely written notice of the Force Majeure event occurrence
2 (notice given beyond three months shall be deemed unreasonable barring consequential
3 extenuating circumstances); and, (ii) an affidavit which shall contain the date and type of
4 the occurrence of the Force Majeure event, its effects in preventing continuation of
5 acceptable development operations, the steps being taken to mitigate and eliminate those
6 effects and an estimated time for resuming of acceptable development operations; and,
7 (iii) is diligently, reasonably, and in good faith attempting to mitigate and eliminate the
8 effects of the fortuitous event and resume acceptable development operations. The
9 interpretation and operation of any term of this Force Majeure clause is at the sole,
10 reasonable discretion of the State Mineral and Energy Board and/or its duly authorized
11 staff. The operation of Force Majeure alone shall not maintain this Lease in full force and
12 effect for more than six (6) months from date of the fortuitous event unless extended by,
13 and at the sole discretion of, the State Mineral and Energy Board. Force Majeure shall,
14 during the six (6) months from the date of the fortuitous event, operate in ninety (90) day
15 increments, which means that Lessee (or the lease operator as Lessee's representative)
16 shall, by written, detailed reports given on a monthly basis, show what efforts are
17 occurring to alleviate the effects of the fortuitous event. If either: (1) all of the monthly
18 required reports are not given when due (the 1st of the month) during a ninety (90) day
19 period; or, (2) the reports do not indicate sufficient effort, at the discretion of the Board,
20 to alleviate the effects of the fortuitous event over a ninety (90) day period, the Board
21 may declare that the Force Majeure is ended and the Lease shall terminate at the end of
22 ninety (90) days from the end of the Force Majeure, or if the Lease was under a ninety
23 (90) day clock at the time of the fortuitous event, the remainder of the ninety (90) days
24 left after the fortuitous event occurred, unless maintained under other than the Force
25 Majeure clause of the Lease.

26
27 Notwithstanding any other language herein to the contrary, should the Force
28 Majeure occur during the primary term for which the payment of either a full or pro-rata
29 rental could otherwise maintain this Lease in force, then this Lease shall terminate unless
30 the rental, either full or pro-rata as set forth hereinabove, is timely paid by Lessee.

31
32 Should the State Mineral and Energy Board, in its sole discretion, decide to allow
33 the Force Majeure clause to maintain the lease beyond six (6) months from the date of the
34 fortuitous event, then Lessee shall be subject to the same requirements regarding
35 reporting and efforts to alleviate the effects of the fortuitous event, but, in addition, shall
36 pay a shut-in payment, regardless of whether the Lease was being held by gas or oil
37 production, equal to fifty (\$50.00) dollars per acre multiplied times the then existing
38 number of acres in this lease, but not less than one thousand (\$1,000.00) dollars, to Lessor
39 which shall maintain this Lease in full force and effect for a period of three (3) months. If
40 the Force Majeure maintenance is denied by the Board for reporting deficiencies or
41 insufficient effort, no refund of any portion of the shut-in payment will be due. Should the
42 effects of the Force Majeure be alleviated within a three (3) month period for which this
43 shut-in payment was tendered or made, no refund of any portion of the funds shall be
44 available to the Lessee.

45
46 Force Majeure, as herein utilized shall be defined as a fortuitous event such as: (1)
47 a major storm, major flood, or other similar natural disaster; or, (2) a major accident such
48 as a blowout, fire, or explosion beyond Lessee's control and not ultimately found to be
49 the fault of Lessee (that is, due to Lessee's negligent or intentional commission or
50 omission, or failure to take reasonable and timely, foreseeable preventative measures
51 which would have mitigated or negated the effects of the fortuitous event).

52
53 13. Suspending Events: In addition to the Force Majeure events listed herein,
54 certain other events, referred to herein as "suspending events" may allow for the
55 maintenance of this Lease for a period of six (6) months from the date of the suspending

1 event. The operation of suspending events alone shall not maintain this Lease in full
2 force and effect for more than six (6) months from date of the event unless extended by,
3 and at the sole discretion of, the State Mineral and Energy Board. Suspending events
4 shall, during the six (6) months from the date of the suspending event, operate in ninety
5 (90) day increments, which means that Lessee (or the lease operator as Lessee's
6 representative) shall, by written, detailed reports given on a monthly basis, show what
7 efforts are occurring to alleviate the effects of the suspending event. If either: (1) all of
8 the monthly required reports are not given when due (the 1st of the month) during a ninety
9 (90) day period; or, (2) the reports do not indicate sufficient effort, at the discretion of the
10 Board, to alleviate the effects of the suspending event over a ninety (90) day period, the
11 Board may declare that the suspending event is ended and the Lease shall terminate at the
12 end of ninety (90) days from the end of the suspending event, or if the Lease was under a
13 ninety (90) day clock at the time of the suspending event, the remainder of the ninety (90)
14 days left after the suspending event occurred, unless maintained under other than the
15 suspending event clause of the Lease.

16
17 Notwithstanding any other language herein to the contrary, should the suspending
18 events occur during the primary term for which the payment of either a full or pro-rata
19 rental could otherwise maintain this Lease in force, then this Lease shall terminate unless
20 the rental, either full or pro-rata as set forth hereinabove, is timely paid by Lessee.

21
22 Should the State Mineral and Energy Board, in its sole discretion, decide to allow
23 the suspending events clause to maintain the lease beyond six (6) months from the date of
24 the fortuitous event, then Lessee shall be subject to the same requirements regarding
25 reporting and efforts to alleviate the effects of the fortuitous event, but, in addition, shall
26 pay a shut-in payment, regardless of whether the Lease was being held by gas or oil
27 production, equal to fifty (\$50.00) dollars per acre multiplied times the then existing
28 number of acres in this lease, but not less than one thousand (\$1,000.00) dollars, to Lessor
29 which shall maintain this Lease in full force and effect for a period of three (3) months. If
30 the suspending events maintenance is denied by the Board for reporting deficiencies or
31 insufficient effort, no refund of any portion of the shut-in payment will be due. Should the
32 effects of the suspending events be alleviated within a three (3) month period for which
33 this shut-in payment was tendered or made, no refund of any portion of the funds shall be
34 available to the Lessee.

35
36 Suspending events for the purposes of this Lease are: (1) the lack of availability of
37 any required equipment and/or personnel, such as the specific type of rig necessary to
38 accomplish the task or specific types of casing or drill stem pipe after Lessee has
39 diligently, timely, and in good faith attempted to secure same; or (2) the unreasonable
40 delay by the Federal Government or any of its agencies, or the State of Louisiana or any
41 of its agencies or political subdivisions (including, but not limited to, various
42 departments, boards, commissions, parish governments, and municipalities, each having
43 proper authority and jurisdiction) in granting necessary permits; or, (3) a valid order of
44 any Federal or State court of competent jurisdiction; or, (4) the act of a third party not
45 under the control or at the instigation of Lessee in shutting down and unreasonably
46 refusing to reopen any facility through which hydrocarbons from the Lease are
47 necessarily passed as part of production (and providing there is no other reasonably
48 economical method of carrying on production).

49
50 Evidence of the existence of such suspending events must be presented to the
51 Office of Mineral Resources in the above-noted reports. The burden to prove that such
52 suspending events have occurred and are ongoing lie solely with the Lessee or its agent
53 and the approval of extensions of terms of this Lease based upon the existence of such
54 suspending events are within the sole discretion of the State Mineral and Energy Board
55 only upon a presentation and review of sufficient evidence of the event from the Lessee

1 or its agent.

2
3 14. (a) Lessee hereby agrees that in exercising the rights granted it under the lease,
4 it will comply with and be subject to all current applicable environmental laws and
5 regulations and those validly adopted or issued by the United States and its agencies, by
6 the State of Louisiana and its agencies, and by any applicable local government. Lessee
7 further agrees that it will comply with all minimum water quality standards validly
8 adopted by said governmental authorities with respect to pollution, noxious chemicals,
9 and waste being introduced into affected water areas. Further, in conducting all
10 operations under this Lease requiring dredging, filling, or local navigation in order to
11 conduct oil and gas exploration and production operations, Lessee shall comply with the
12 applicable requirements of the environmental and land management of said area.

13
14 (b) For the purpose of this Lease, any material now or hereinafter designated as or
15 containing components now or hereinafter designated as hazardous, toxic, dangerous, or
16 harmful, and/or which are subject to regulation as hazardous, toxic, dangerous, or harmful
17 material by any federal, state or local law, regulation, statute, or ordinance shall be
18 transported, stored, and handled in accordance and compliance with the provision of
19 applicable federal, state, and local law, including but not limited to, 42 U.S.C. 6901, et
20 seq. (RCRA), 42 U.S.C. 9601, et seq. (CERCLA), existing presently, or as subsequently
21 enacted or amended.

22
23 15. (a) Lessee shall be responsible for any pollution or other damage to any
24 portion of the environment in or adjacent to the leased property which occurs as a result
25 or consequence of Lessee's occupation, oil and gas exploration, production operations,
26 and use of the premises, irrespective of whether or not such pollution or damage may be
27 due to negligence or to the inherent nature of Lessee's operations. Lessee shall use the
28 highest degree of care and all proper safeguards to prevent land or water pollution
29 resulting from drilling, construction, transportation, and other oil and gas exploration and
30 production operations pursuant to this Lease. Lessee shall use all means at its disposal to
31 recapture all escaped pollutants and shall be solely responsible for all damages, if any, to
32 aquatic or marine life, wildlife, birds, and any public or private property that may result
33 from any such land, air, or water pollution occasioned by Lessee's operations hereunder.
34 Lessee shall report all unpermitted discharges of pollutants pursuant to any Federal or
35 State statutes and regulations and to Louisiana Department of Environmental Quality and
36 Louisiana Office of Conservation within five (5) calendar days or within the time
37 required by federal, state, or local laws, whichever is earlier.

38
39 All reasonably necessary preparations and precautions shall be made by the Lessee
40 in order to prevent fire and explosion and to prevent contamination of any portions of the
41 total environment of the leased property, provided that nothing herein shall be construed
42 as lessening or reducing Lessee's obligations under other applicable statutes, rules, and
43 regulations of the State of Louisiana and the United States of America.

44
45 (b) Lessee shall indemnify, defend, and hold harmless Lessor and its employees,
46 officers, and agents with respect to any and all damages, costs, liabilities, fees (including
47 reasonable attorneys' fees and costs), penalties (civil or criminal), and cleanup costs
48 arising out of or in any way related to Lessee's use, disposal, transportation, generation,
49 sale, and location upon or affecting the leased property of Hazardous Substances as
50 defined in Section 13(b) of this Lease. This indemnity shall extend to actions of Lessee's
51 employees, agents, assigns, subleases, contractors, subcontractors, licensees, and invitees.
52 Lessee shall further indemnify, defend, and hold harmless lessor from any and all
53 damages, costs, liabilities, fees (including reasonable attorneys' fees and costs), penalties
54 (civil or criminal), and cleanup costs arising out of or related to any breach of the
55 provisions of this Lease concerning Hazardous Substances and/or negligent operations.

1 This indemnity is in addition to, and in no way limits, the general indemnity contained in
2 paragraph 4 of this Lease.

3
4 (c) Further, in conducting any operations under this Lease requiring dredging,
5 filling, or local navigation in order to conduct oil and gas exploration and production
6 operations, Lessee shall comply with the applicable requirements of the environmental
7 management of said area. Lessee agrees that, upon completion of oil and gas exploration
8 and production operations under this Lease, Lessee shall remove all facilities, materials,
9 and equipment that would impede commercial fishing and trawling, including, without
10 limitation, all submerged materials, equipment, or debris placed on the leased premises by
11 or for the account of Lessee; and Lessee shall return or restore, to the extent reasonably
12 possible of accomplishment, all affected water bottoms to a condition as nearly equivalent
13 to that which existed before said operations were conducted and/or structures were
14 constructed. Lessee further agrees that in exercising the rights granted hereunder and in
15 discharging the obligations undertaken, it will allow sufficient lead time in the planning
16 of its activities to permit the affected regulatory agencies to make appropriate review of
17 the proposed operations.

18
19 (d) Lessee agrees that, should the Lessor and/or the Commissioner of Conservation
20 determine that the continued operation of the oil and gas exploration and production
21 operation, including but not limited to, temporary surface storage facility and/or
22 associated wellhead facilities (wellhead, valves, tanks, pits, and flares) would cause
23 unsafe operating conditions, waste pollution, or contamination of air, fresh water, or soil,
24 the Lessor and/or the Commissioner of Conservation may immediately prohibit further oil
25 and gas exploration and production operations of the Lessee's facility and/or its associated
26 wellhead facilities until such time as Lessor or Commissioner of Conservation determines
27 that the oil and gas exploration and production operation can and will be conducted in a
28 physically and environmentally safe manner.

29
30 Should the Lessor and/or the Commissioner of Conservation determine, due to oil
31 and gas exploration and production operations, that any unsafe operating condition,
32 waste, pollution, or contamination of air, fresh water, or soil is imminent, further oil and
33 gas exploration and production operations of any affected reservoir formation and
34 associated facilities shall be discontinued until such time as it is Lessor and/or the
35 Commissioner of Conservation determines that the oil and gas exploration and production
36 operations will be conducted in a physically and environmentally safe manner.

37
38 (e) Lessee shall, at its sole cost and expense, keep and maintain the leased premises
39 and all improvements thereon and all facilities appurtenant thereto (regardless of
40 ownership) in good order and repair and safe condition for the safe conduct of any
41 activities or enterprises conducted on the property pursuant to the rights granted under
42 this Lease.

43 44 16. Comprehensive and Liability Insurance:

45
46 (a) Lessee shall, at its sole expense, provide and maintain in full force and effect
47 during the term of this Lease and until all lease obligations are fulfilled, a general
48 comprehensive liability insurance with Lessor as a named insured party in an amount not
49 less than One Million Dollars (\$1,000,000.00) for each occurrence and Five Million
50 Dollars (\$5,000,000.00) in the aggregate, which shall cover Lessee and Lessor for
51 damage claims including, but not limited to, personal injury, accidental death, property
52 loss, environmental impairment or pollution that may arise from operations conducted
53 under this Lease or any occurrence on or about the leased premises whether such
54 operations are by Lessee or anyone directly, or indirectly, employed by Lessee. Lessor
55 shall be named as additional insured as their interests may appear on Lessee's liability

1 insurance. Lessee shall also maintain equivalent insurance coverage for the operation of
2 its motor vehicles.

3
4 (b) Lessee or its insurer shall be liable to Lessor for any damage done to sovereign
5 property of the State as the result of Lessee's operations.

6
7 (c) Lessee shall provide Lessor with a certificate of insurance for its comprehensive
8 general liability insurance and pollution liability insurance demonstrating the above
9 coverage within thirty (30) days of execution of the lease.

10
11 (d) Lessee shall advise Lessor of the cancellation of any insurance policy required
12 by this Lease immediately upon receipt of notice by Lessee of the cancellation and in no
13 event later than thirty (30) days from the effective date of the cancellation. Lessee shall
14 immediately secure replacement insurance for the same terms such that continuous
15 coverage is maintained.

16
17 (e) Failure of Lessee to provide or maintain insurance coverage as set forth
18 herein may, at the sole option of Lessor, terminate this contract.

19
20 17. In all suits arising out of this contract, the parties hereto agree that this Lease is to be
21 interpreted in accordance with Louisiana Law and that Louisiana Law shall govern, and
22 that the state courts of Louisiana shall be the proper forum, unless such suit is required to
23 be filed in or is removed to any federal court in this state.

24
25 In case of ambiguity, this Lease shall always be construed in favor of Lessor and
26 against Lessee.

27
28 18. **Title Disputes:** In the event of any bona fide dispute or litigation involving Lessor's
29 ownership or title to any portion of the leased premise, Lessee agrees to promptly notify
30 Lessor in writing of the nature of said adverse claim in reasonable detail, identifying the
31 adverse claimant, and the basis and extent of Lessee's accountability to said adverse
32 claimant for any oil, gas or other liquid or gaseous mineral produced from or attributable
33 to such portion of the leased premises.

34
35 Lessee shall comply with all the terms and provisions of the Lease throughout any
36 bona fide dispute or litigation and shall be held in default of payment of such royalty if
37 Lessee suspends or stops royalty payments in accordance with the terms of the Lease.
38 However, in lieu of making said payment, pending final and definitive adjudication or
39 other settlement of said title dispute or litigation, Lessee may:

40
41 1. Acquire authorization from the State Mineral and Energy Board to suspend the
42 royalty payable hereunder on oil, gas, or other liquid or gaseous mineral produced
43 from or attributable to the bona fide disputed acreage and escrow said royalty
44 payment into an interest bearing bank account with a bank in good financial
45 standing and insured by the Federal Deposit Insurance Corporation (FDIC) and
46 comply with the escrow protocol approved by the Board; or

47 2. Initiate concursus litigation and deposit royalty payment attributable to the bona
48 fide disputed acreage into the registry of the court in which the concursus litigation
49 was filed; or

50 3. Take other action as authorized by the State Mineral and Energy Board.

51
52 Lessor shall accept said royalty deposit as royalties attributable to the bona fide
53 disputed portion of the leased premises as royalty payment due pursuant to the terms
54 and provision of this Lease and Lessee shall not be held in default in payment of such

1 royalty payments if deposited royalty payments are computed and made in accordance
2 with the terms and provisions of this Lease, pursuant to the terms of a court's order or
3 pursuant to the terms of the Board's escrow authorization.

4
5 Nothing herein is intended to waive, release, relinquish or in any way diminish
6 whatever rights the Lessor may have to review, audit, dispute, challenge or contest any
7 payments made, or not made, by or on behalf of any operator or lessee of a lease
8 involving or covering all or part of any conflict tract or land involved in litigation. In
9 the event that any audit or other examination should reveal that an incorrect amount of
10 royalties has been placed into escrow in connection with a dispute, operators are not
11 released with respect thereto. Thereafter, royalty payments on said minerals shall be
12 made in accordance with the terms of said final and definitive adjudication or
13 settlement and comprise agreement and pursuant to the terms and provisions of this
14 Lease.

15
16 19. (a) This Lease is subject to the provisions of La. R.S. 30:127(G) or any
17 successor statute, and access by the public to public waterways through the state lands
18 covered by the Lease shall be maintained and preserved for the public by the Lessee.

19
20 (b) The Lessor shall have the right to use all existing roads and/or any roads and
21 waterways constructed or reconstructed by the Lessee for any and all purposes deemed
22 necessary or desirable in connection with the control, management, harvest, and
23 administration of Lessor-owned land or resources thereof. Lessor reserves the right to
24 issue rights-of-way and easements upon leased premises so long as such rights-of-way or
25 easements do not unreasonably interfere with any of Lessee's operations conducted
26 according to the rights granted in this Lease.

27
28 (c) In addition, the Lessor, or any of its authorized agents or representatives, shall
29 at all times during the term of this Lease have the use of any and all parts of the property
30 for any and all purposes so long as the Lessor does not unreasonably interfere with the
31 rights and performance of Lessee under this Lease. Specifically, the Lessor shall have the
32 right to enter and conduct all resource management activities, integrated coastal
33 protection projects, including, but not limited to, activities associated with timber
34 management. The Lessor shall also have the right to sell, exchange, transfer, or otherwise
35 dispose of all or part of the leased premises subject to this Lease.

36
37 (d) The rights reserved under this paragraph may be exercised by Lessor, or by any
38 other person or entity acting under the authority of the Lessor, in any manner that does
39 not unreasonably interfere with or endanger the Lessee's operations under this Lease.

40
41 (e) All rights pertaining to the leased premises not expressly granted to the Lessee
42 by this Lease, or necessarily implied therein, are hereby reserved to the Lessor.

43
44 20. (a) Lessor, through the Office of Mineral Resources, shall have the right, at
45 any time upon reasonable notice, to examine, audit, or inspect books, records, and
46 accounts of Lessee pertinent to the purpose of verifying the accuracy of the reports and
47 statements furnished to the Lessor, including all such information and documentation that
48 that is reasonably relevant to the computation and payment of royalties or other sums due.
49 The Lessee shall permit Office of Mineral Resources' personnel to examine all supporting
50 books, records, and accounting systems at all reasonable times. Such books, records, and
51 accounting systems must employ methods and techniques that will ensure the most
52 accurate figures reasonably available. Lessee agrees to and shall use generally accepted
53 accounting principles consistently applied in the preparation of same. In order to prevent
54 the impairment of an ongoing audit investigation by the Office of Mineral Resources, all
55 audit working papers, records, or any information provided by the entity being audited

1 shall remain confidential during the investigation and until the audit is complete. Once
2 the audit investigation has been deemed complete by the Office of Mineral Resources, all
3 audit working papers, records, and information obtained under this audit shall be made
4 available to the public except where the record is designated as confidential by law.
5

6 (b) In addition to all other audit rights otherwise set forth in this Lease or required
7 by the law, the Office of Mineral Resources' personnel shall have the same audit rights
8 which the United States of America would have under 30 U.S.C. 1713(a) and which the
9 Louisiana Department of Revenue would have under La. R.S. 47:1542 through 47:1548
10 or any successor statutes.
11

12 21. (a) Notwithstanding any provisions to the contrary in this Lease, this Lease is
13 granted and accepted without any warranty of title and without any recourse against
14 Lessor whatsoever, either expressed or implied. It is expressly agreed that the Lessor
15 shall not be required to return any payments received hereunder or be otherwise
16 responsible to Lessee therefore. The Lessee represents that the Lessee has investigated the
17 title and is satisfied with such title as the Lessor may have. Lessor hereby disclaims any
18 covenant of quiet enjoyment or peaceful possession of the leased property.
19

20 (b) Lessor makes no warranties as to the condition of the leased property, and
21 Lessee accepts the leased property "AS IS." The Lessor has no obligation to make any
22 repairs, additions, or improvements to the leased property.
23

24 22. Lessor and Lessee herein agree that, so long as it remains in full force and
25 effect, this Lease is deemed an executory contract and an unexpired Lease within the
26 meaning of Section 365 of the United States Bankruptcy Code or any successor statute.
27

28 23. Lessee agrees that any failure by the Lessor to enforce any provision,
29 obligations, conditions, rights, and privileges in connection with the Lease shall not
30 constitute a waiver or relinquishment by the Lessor of its rights, privileges, and/or
31 remedies. Furthermore, Lessee agrees that it shall not hold or use Lessor's failure to
32 enforce any provisions, obligations, conditions, rights, and privileges as a defense in any
33 future dispute or litigation. All the provisions, obligations, and conditions of the lease
34 and any and all of Lessor's rights and privileges shall remain valid and in force despite
35 the failure of the Lessor to previously enforce them.
36

37 24. This agreement sets forth the full terms of the agreement between the parties.
38 If any section of this agreement is found to be invalid for any reason, such section shall
39 be severed from the agreement and the remainder of the terms and conditions of this
40 agreement shall be binding on the parties.
41