Proposed New Lease Form Provisions

1. General Liability Insurance
2. Financial Security

Insurance

ISSUE:

- The state currently has no insurance to cover damage claims arising from operations on the leased premises.

PRESENT LEASE FORM:

- No insurance requirements.

NEW LEASE FORM:

- Comprehensive liability insurance coverage is required
- No less than $1,000,000 per occurrence and $2,000,000 for excess liability or other such limits as deemed appropriate and necessary by the Board
- Coverage includes, but is not limited to, personal injury, accidental death, property loss, and environmental impairment
- Effective date of insurance is 30 days prior to surface activity
- Lessee must provide certificate proof of insurance annually
- Lessee must notify Lessor no less than 15 days prior to cancellation, and must provide substitute
- Provision is derived from a provision in the current operating agreement form.

PROPOSED WORDING FOR PROVISION:

ARTICLE 15—GENERAL LIABILITY INSURANCE

(a) Lessee, at its sole expense, shall purchase and maintain in full force and effect, throughout the operational term of this Lease and continuing until all Lease obligations are fulfilled, a policy(s) of commercial general liability insurance having a minimum limit per occurrence of One Million ($1,000,000.00) Dollars and excess liability insurance having a minimum per occurrence of Two Million ($2,000,000.00) Dollars (or other such limits as deemed appropriate and necessary by the Board). This policy shall identify Lessor as an additional insured, be applicable to the Leased Premises, and provide coverage, except as may be limited by law, to Lessor and Lessee against claims for bodily injury, death, property damage, and environmental damage on a sudden and accidental basis that may arise from or in connection with the development and production activities and operations conducted pursuant to this Lease by Lessee, its operators, contractors, employees, agents, representatives and their successors and assigns.

For purposes of this Article, the operational term of this Lease shall commence thirty (30) days prior to any surface activity on the Leased Premises in furtherance of the development and production of oil and gas including, but not limited to surveying, mobilization, location preparation and other such activities preliminary to development of the Lease.

(b) The insurance coverage required hereby shall be provided at Lessee's sole expense and the insurer shall have no recourse against Lessor for payment of premiums or any assessments required by the policy(s). Deductibles and/or self-insured retentions must be disclosed by Lessee and acceptable to the Board, with Lessee solely responsible for paying all such deductibles and/or self-insured retentions.

(c) The insurance coverage required hereby of Lessee shall be provided by a company authorized to do business in the State of Louisiana having an A.M. Best's rating of A-:VI or higher. If at any time an insurer issuing such policy(s) does not meet the minimum A.M. Best rating, Lessee shall obtain a substitute policy(s) with an insurer possessing such rating and submit a substitute Certificate of Insurance in compliance herewith.

(d) Lessee shall furnish to Lessor, initially as required by Section (a) above and on an annual basis thereafter no later than January 31st of each year, a Certificate(s) of Insurance fully completed and signed by a person authorized by the insurer to bind coverage in its behalf evidencing satisfaction of the insurance coverage requirements of this Article. Additionally, Lessee shall provide to Lessor the Declaration Page and the Cancellation Endorsement for the policy(s), along with any additional endorsements that may be requested by Lessor. These documents shall be provided to Lessor prior to commencement of the operational term, with the Certificate Holder listed as:

State of Louisiana
Office of Mineral Resources
LaSalle Building – 8th Floor
617 North Third Street
Baton Rouge, Louisiana 70802
Ref: State Lease No. _____

If Lessee's obligation to maintain insurance coverage is provisionally suspended in accordance with Section (h) hereof, Lessee still must furnish proof or cause its operator to furnish proof to Lessor of such coverage as required by this Section.

(e) As soon as practicable, but in no event later than fifteen (15) days prior to occurrence, Lessee shall advise Lessor of the suspension or cancellation of any such policy of insurance. In such event, Lessee shall secure replacement insurance in compliance with the requirements herein to ensure that continuous coverage is maintained on the Leased Premises.

(f) Failure of Lessee to maintain and furnish proof of insurance as required hereby may, at the sole option of Lessor, after notice and reasonable opportunity to correct such failure, cause this Lease to be terminated. Additionally, Lessee's failure, after notice, to obtain insurance or provide proof of insurance within thirty (30) days of

receipt of such notice shall subject Lessee to liquidated damages in the amount of One Hundred ($100.00) Dollars per day until proof of such insurance is provided to OMR. The liquidated damage assessment may be waived, in whole or in part, for cause by the Board. Such failure, however, shall not relieve Lessee of liability nor its duty to perform the obligations required by this Lease.

(g) In the event of:

i) An assignment or other transfer of the entirety of Lessee's interest in the Lease, upon producing acceptable proof that Lessee's assignee(s)/transferee(s) has secured insurance coverage as required hereby, Lessee shall be relieved of its obligation to maintain such coverage.

ii) An assignment or other transfer causing the Lease to be held in indivision, Lessee and/or its assignee(s)/transferee(s) shall maintain or cause to be maintained such insurance.

iii) An assignment or other transfer causing the Lease to be held in divisible portions, Lessee and its assignee(s)/transferee(s) shall maintain such coverage on their respective portions.

Nothing herein shall require a duplication of coverage, with Lessee and/or its assignee(s)/transferee(s) responsible for ensuring that such coverage is provided.

(h) The Lessee and/or its assignee(s)/transferee(s) may request Board authority to provisionally suspend its obligation to maintain insurance by demonstrating to the satisfaction of the Board that an operator(s), actively engaged in development and production activities and operations on the Leased Premises on behalf of Lessee, has obtained and will continually maintain insurance coverage compliant with the requirements set forth herein. In the event coverage by the operator(s) lapses or terminates for any reason, such suspension shall automatically terminate and Lessee shall again obtain and maintain insurance coverage as required hereby.

Financial Security

ISSUE:

- There is a need for security for the payment for damages caused by the Lessee and for performance of the lease obligations.

PRESENT LEASE FORM:

- Contains no financial security provisions

NEW LEASE FORM:

- Financial security requirements apply only if the lessee and/or operator have been exempted from the Office of Conservation's financial security requirements.

PROPOSED WORDING FOR PROVISION:

ARTICLE 7—FINANCIAL SECURITY

In accepting this Lease and its terms, Lessee herein agrees that if Lessee, its successors or assigns, or an operator drilling on the Leased Premises is not required, pursuant to the statutes, rules and regulations of the Office of Conservation, to provide financial security for the plugging and abandoning, and associated site restoration of each well drilled, then Lessee, its successors or assigns must provide, with written consent of the operator of record, or cause the operator to provide financial security, in a form acceptable to the Commissioner of Conservation, within thirty (30) days of completion of any well on the Leased Premises. Lessee's obligation to provide financial security also is required upon a change of operatorship of a well on the Leased Premises if the Lessee, its successors or assigns, or their contractor(s) becomes the operator of record. The financial security required hereby shall be as described in and in accordance with LAC 43:XIX §104 (or successor regulation).

Lessee shall furnish to Lessor, upon request, evidence of the financial security so provided.