

**LEASE FOR OIL, GAS AND OTHER LIQUID  
OR GASEOUS HYDROCARBON MINERALS**

STATE OF LOUISIANA  
PARISH OF EAST BATON ROUGE  
Louisiana State Lease Form Revised 2016

State Lease No. \_\_\_\_\_

**WHEREAS**, under the provisions of Subpart A of Chapter 2, Title 30 of the Louisiana Revised Statutes, and other applicable laws, the State Mineral and Energy Board ("**Board**") of the State of Louisiana ("**State**" or "**Lessor**") advertised for bids for a lease covering oil, gas and other liquid or gaseous hydrocarbon minerals in solution produced with oil or gas on the property described below; and

**WHEREAS**, in response to required advertisements, bids were received and duly opened in the City of Baton Rouge, Parish of East Baton Rouge, State of Louisiana on the \_\_\_\_ day of \_\_\_\_\_, 20XX at a meeting of the Board; and

**WHEREAS**, on the \_\_\_\_ day of \_\_\_\_\_, 20XX ("**Effective Date**"), the Board accepted the bid of \_\_\_\_\_ and awarded this Lease to \_\_\_\_\_ ("**Lessee**"), whose address is \_\_\_\_\_, as the most advantageous to the State as Lessor.

**NOW THEREFORE**, be it known and remembered that the Board, acting under said authority for and on behalf of the State, as Lessor, does hereby lease, let and grant unto said Lessee the Leased Premises as defined below for the purpose of exploring by any method including, but not limited to seismic, geophysical and geological exploration for formations or structures, prospecting, drilling for and producing oil, gas and any other liquid or gaseous hydrocarbon minerals in solution produced with oil or gas, hereinafter sometimes referred to as oil, gas or other liquid or gaseous minerals. This grant of authority shall include the exclusive right to explore and produce oil, gas and other liquid or gaseous hydrocarbon minerals in solution produced with oil or gas on the Leased Premises at the depths covered by this Lease. In connection therewith, Lessee shall have the right to use so much of the Leased Premises as reasonably may be necessary for such operations including, but not limited to storing minerals and fluids in facilities (or by means other than subsurface storage), laying pipelines, dredging canals, building roads, bridges, docks, tanks, power stations, telephone and electric transmission lines, and other structures and/or facilities.

The property ("**Leased Premises**") subject to this Lease, situated in the Parish(es) of \_\_\_\_\_, State of Louisiana, is more fully described as follows:

**(PROPERTY DESCRIPTION)**

This Lease excludes free sulfur, potash, lignite, salt and other solid minerals, and geothermal energy. Lessee shall not have any right to explore, drill for, mine, produce or take any action whatsoever in regard to any such solid mineral deposits, nor any right under this Lease in regard to alternative energy sources as defined by La. R.S. 30:124.

Should this Lease, when executed or thereafter, not cover all depths as to the Leased Premises or a portion thereof, the rights of Lessor or another lessee to conduct operations for the exploration, development and production of oil, gas or other liquid or gaseous minerals as to such excluded depths shall be exercised with reasonable regard for the rights of Lessee (as provided in La. R.S. 31:11), and vice versa.

1 Notwithstanding any language herein to the contrary, the rights granted herein to  
2 Lessee shall be subject to the surface usage for seismic and geophysical exploration by  
3 any seismic permittee of the State whose valid permit predates the Effective Date of this  
4 Lease but only to the extent that such permit covers all or a portion of the surface area  
5 encompassed within the geographical boundary of the Leased Premises. The said seismic  
6 permittee shall owe Lessee no duty to share seismic or geophysical information acquired  
7 under the predating permit nor to reimburse Lessee for surface usage, but said seismic  
8 permittee shall not unreasonably interfere with Lessee's exercise of its rights acquired  
9 hereunder.

10  
11 Notwithstanding any language herein to the contrary, the rights granted herein to  
12 Lessee shall be subject and subservient to surface usage for integrated coastal protection  
13 or hurricane and flood protection projects promulgated, funded and/or effected through  
14 the State of Louisiana, the Coastal Protection and Restoration Authority, the Department  
15 of Natural Resources and/or their divisions, whether solely or in conjunction with other  
16 federal, state or local government agencies, or with private individuals or entities. Lessee  
17 shall hold the State, its departments, agencies, boards and commissions including, without  
18 limitation, the Coastal Protection and Restoration Authority, the Department of Natural  
19 Resources, the Office of Mineral Resources ("**OMR**"), the Board and their officers,  
20 employees, agents and representatives, and the United States government, its departments,  
21 agencies and divisions, together with their respective officers, employees, agents and  
22 representatives, free and harmless of and from any claims, actions and/or causes of action,  
23 except as limited by law, for loss, harm or damage to the rights of any party arising under  
24 this Lease or any other contract, permit or license of Lessee related to this Lease caused  
25 by the diversion of freshwater or sediment, depositing of dredged or other materials,  
26 integrated coastal protection projects, or any other such action taken for the purpose of  
27 management, preservation, enhancement, creation, protection or restoration of coastal  
28 wetlands, water bottoms or related public or renewable resources. Lessee, in the exercise  
29 of its rights granted hereunder, shall utilize the best technology commercially available,  
30 including directional drilling, so as to minimize interference with the ongoing surface  
31 usage entailed in the development, construction and maintenance of said integrated  
32 coastal protection and/or hurricane and flood protection projects.

33  
34 The captions or headings in this Lease are for convenience only and in no way define,  
35 limit or describe the scope or intent of any provision of this Lease.

36  
37 The references in this Lease to statutes and regulations apply to the statute and  
38 regulation as such existed at the time this Lease was revised and also to any amended or  
39 successor statute or regulation.

## 40 **DEFINITIONS**

41  
42 For purposes of this Lease, the following definitions shall apply:

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44 (A) "**Acceptable Lease Operations**" shall mean either Actual Drilling Operations or  
45 Actual Reworking Operations, as defined below, on the Leased Premises or on  
46 lands pooled or unitized with any or all portions thereof.

47  
48 (1) "**Actual Drilling Operations**" shall mean any of the following on the  
49 Leased Premises or on lands pooled or unitized with any or all portions  
50 thereof: (a) drilling commenced by spudding-in of a new well, (b)  
51 deepening or sidetracking of an existing well, (c) plugging back or  
52 attempted recompletion in a separate interval of an existing well (all such  
53 operations being commenced by actual downhole operations), or (d)  
54 completing any such well.  
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Actual Drilling Operations shall be deemed to terminate on the last day downhole operations of any kind, such as drilling, testing or Installation of Equipment, are conducted in good faith for the purpose of attempting to discover minerals or complete a well as a producer.

(2) **“Actual Reworking Operations”** shall mean reconditioning, cleaning out or otherwise attempting to directly establish, increase or restore production in an existing well located on the Leased Premises or on lands pooled or unitized with any or all portions thereof by downhole operations.

Actual Reworking Operations shall be deemed to terminate on the last day any such downhole operations are conducted in good faith for the purpose of establishing, increasing or restoring production.

Under no circumstances shall drilling or otherwise creating salt water disposal wells constitute actual drilling or reworking operations for purposes of maintaining this Lease.

(3) **“Installation of Equipment”** shall mean the installation of equipment in the wellbore that is necessary to complete the well as a producer and/or to maintain downhole completion activity. The installation of flowlines or other surface facilities needed to produce the well shall not be considered as Actual Drilling Operations.

(B) **“Affiliated Party”** shall mean any business concern, organization, or individual that controls, is controlled by or is under common control with Lessee. The power to control is the key factor in affiliation with another business concern, whether exercised or not.

(1) Control may consist of:  
(a) Shared management or ownership;  
(b) Common use of facilities, equipment, and employees; and/or  
(c) Family interest.

(2) Indicators of Lessee affiliates may include:  
(a) Common ownership; and/or  
(b) Common management and identity of interest.

(3) Power to control exists when a person or entity has 50% or more ownership. It may also exist with considerably less than 50% ownership by contractual arrangement or when a person or entity owns a large share compared to other parties.

(4) The term “Affiliated Party” shall apply to an Affiliated Party (as defined above) that is a marketing firm engaged in the sale of Lessee’s oil, gas or products.

(C) **“Anniversary Date”** shall mean the same date on each next ensuing year or years after the Effective Date of this Lease.

(D) **“Leasehold Payments”** shall mean rental payments, Deferred Development Payments, Shut-In Payments and any other payments allowed to maintain this Lease in whole or in part.

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- (E) **“Non-Affiliated Party”** shall mean a person, company, firm or other business unit that is not an Affiliated Party.
- (F) **“Outside Acreage”** shall mean that portion of the Leased Premises not included in a Unit or Units on which Unitized Operations are being conducted.
- (G) **“Production in Paying Quantities”** shall mean production in paying quantities as defined by La. R.S. 31:124 from Leased Premises or lands pooled or unitized with any or all portions thereof and, in addition, notwithstanding the provisions of La. R.S. 31:125, the amount of royalties payable on such production must also be sufficient to constitute serious or adequate consideration.
- (H) **“Rental Paying Date”** shall mean the Anniversary Date during the Primary Term.
- (I) **“Restore”** or **“Restoration”** with respect to any specified portion of the Leased Premises means to restore such portion of the Leased Premises, to the extent possible and practical, in accordance with the regulatory standards provided in Office of Conservation Statewide Order 29-B (or any future replacement regulations therefor), except to the extent any changes are due to normal erosion, settlement and topographical changes or changes caused by Lessor, one or more third parties or acts of God.
- (J) **“Unit”** shall mean pooled mineral acreage by order of a governmental agency or by conventional agreement approved by Lessor.
- (K) **“Unitized Operations”** shall mean Production in Paying Quantities and/or Acceptable Lease Operations attributed to one or more wells designated or otherwise constituting unit wells, cross unit wells, substitute unit wells and/or alternate unit wells in one or more Units encompassing all or a portion of the Leased Premises.

**ARTICLE 1 - BONUS**

Lessee has this day paid to Lessor a cash bonus payment of \_\_\_\_\_ (\$\_\_\_\_\_) Dollars, one-half (1/2) of which is (a) full and adequate consideration for every right granted hereunder, and one-half (1/2) of which is (b) the annual rental for the first year of this Lease.

**ARTICLE 2 - PRIMARY TERM**

- (A) Subject to the provisions hereof, this Lease shall be for a term of \_\_\_\_ ( ) years (**“Primary Term”**) and for so long thereafter as Acceptable Lease Operations are in progress or Production in Paying Quantities is being obtained, or Leasehold Payments are made or conditions exist that continue this Lease in force and effect according to its terms.
- (B) However, if this Lease is for an inland tract that originally carries a Primary Term of three (3) years or less, Lessor may extend the Primary Term by two (2) years if, prior to expiration of the original Primary Term, Lessee shall demonstrate to the satisfaction of Lessor that at least one of the following conditions has been met:
  - (1) This Lease is included within a Unit (or a pilot project has been approved by the Office of Conservation for a Unit, or Lessee has filed an application for a Unit under La. R.S. 30:5(C) for inclusion of all or a portion of the Leased

1 Premises within a Unit) for the purpose of conducting a secondary or  
2 tertiary recovery project; or

- 3 (2) Lessee has commenced activities necessary for the drilling of an ultra-deep  
4 well including, but not limited to having applied for a permit to drill an  
5 ultra-deep well, having formed a Unit including all or a portion of the  
6 Leased Premises for the purpose of drilling an ultra-deep well, or having  
7 provided a signed affidavit by Lessee stating that this Lease will be  
8 included, in whole or in part, in a Unit for the purpose of drilling an ultra-  
9 deep well, or that this Lease is included in a lease block maintained in  
10 support of the drilling of an ultra-deep well. For purposes of this paragraph  
11 only, “*ultra-deep*” shall mean a true vertical depth (“*TVD*”) of twenty-two  
12 thousand feet (22,000’) or greater.

13  
14 Lessor may extend the Primary Term of this Lease through an acknowledgment  
15 Resolution having the effect of an amendment of this Lease.

- 16  
17 (C) If the Primary Term is extended under Article 2(B)(1) or (2) above, the failure of  
18 Lessee (or the designated operator), before the end of the extended Primary Term,  
19 to commence secondary or tertiary recovery operations or to commence drilling of  
20 the ultra-deep well and reach the required TVD (unless prevented due to  
21 mechanical or other related downhole causes), shall subject Lessee, after demand,  
22 to liquidated damages equal to double the annual rental payment, payment of  
23 which shall be due within thirty (30) days after demand, regardless of whether this  
24 Lease is held by other production or Acceptable Lease Operations not qualifying as  
25 a secondary or tertiary recovery project.

26  
27 Should the drilling of the ultra-deep well fail to reach the depth requirements for  
28 ultra-deep designation during the extended Primary Term, no liquidated damages  
29 will be due as long as continuous drilling operations on the well required by  
30 Article 2(B)(2) above on said well (and/or another ultra-deep well) are ongoing  
31 without cessation of those operations for greater than one hundred eighty (180)  
32 consecutive days and the required depth is reached.

33  
34 **ARTICLE 3 - LEASE MAINTENANCE PAYMENTS**

- 35  
36 (A) Rental Payments:

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38 If Actual Drilling Operations or Production in Paying Quantities are not  
39 commenced hereunder on or before the first Anniversary Date, this Lease shall  
40 then terminate unless Lessee, on or before such date, pays to Lessor the sum of  
41 \_\_\_\_\_ (\$\_\_\_\_\_) Dollars as rental as set forth in Article 1(b), which  
42 payment shall extend for twelve (12) months the time within which Actual Drilling  
43 Operations or Production in Paying Quantities may be commenced. Thereafter,  
44 annually, in like manner and upon like payments, all of Lessee’s rights hereunder  
45 may be maintained without Actual Drilling Operations or Production in Paying  
46 Quantities for successive periods of twelve (12) months each during the Primary  
47 Term. Payment of rental by Lessee may be made by check, wire or draft payable  
48 to the order of the Office of Mineral Resources and delivered or mailed to OMR on  
49 or before the Rental Paying Date.

- 50  
51 (1) On any Rental Paying Date, if Actual Drilling Operations are being  
52 conducted on or Production in Paying Quantities is being obtained from the  
53 Leased Premises, no rental shall be due (and this Lease shall remain in  
54 effect) for the annual rental period then commencing. If Actual Drilling

1 Operations are abandoned and/or Production in Paying Quantities ceases at  
2 any time within a period of ninety (90) days prior to any Rental Paying  
3 Date, Lessee shall have a period of ninety (90) days after the date of such  
4 abandonment of Actual Drilling Operations or cessation of Production in  
5 Paying Quantities within which to commence or resume such Actual  
6 Drilling Operations or Production in Paying Quantities on the Leased  
7 Premises, or make the rental payment. The commencement or resumption of  
8 Actual Drilling Operations or Production in Paying Quantities or payment  
9 of rental within the ninety (90) day period shall have the same effect as  
10 though such were commenced, resumed or paid on or before the Rental  
11 Paying Date.

12  
13 (2) In the final year of the Primary Term, if Acceptable Lease Operations or  
14 Production in Paying Quantities are not in progress at the end of the Primary  
15 Term, then this Lease shall expire at the end of the Primary Term.  
16 However, if Acceptable Lease Operations and Production in Paying  
17 Quantities cease within ninety (90) days prior to expiration of the Primary  
18 Term or at any time after the Primary Term, and Lessee commences or  
19 resumes Acceptable Lease Operations or Production in Paying Quantities  
20 within ninety (90) days after such cessation, this Lease will continue for so  
21 long as Acceptable Lease Operations or Production in Paying Quantities  
22 continue without a lapse of greater than ninety (90) days between cessation  
23 of Acceptable Lease Operations and Production in Paying Quantities and the  
24 recommencement of Acceptable Lease Operations or Production in Paying  
25 Quantities.

26  
27 (3) This Lease may be maintained by directional drilling operations (deviation  
28 from vertical), in which event such Actual Drilling Operations shall be  
29 considered to have commenced on the Leased Premises when the drill stem  
30 penetrates beneath the surface of the Leased Premises or lands pooled or  
31 unitized with any or all portions thereof.

32  
33 (B) Deferred Development Payments:

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35 Consistent with La. R.S. 30:129, and notwithstanding any other provision of this  
36 Lease, during the Primary Term of this Lease or within one (1) year thereafter (if  
37 this Lease is then in force and effect), if a portion of the Leased Premises is  
38 included in a Unit, then commencement of Unitized Operations on that Unit shall  
39 maintain this Lease as to the entirety of the Leased Premises. This provision is  
40 subject, however, to the following:

41  
42 (1) This Lease shall terminate (as provided herein) on the next Anniversary  
43 Date after the commencement of such Unitized Operations as to the Outside  
44 Acreage unless:

45  
46 (a) On or before such Anniversary Date, Lessee pays Lessor a sum equal  
47 to one-half of the per-acre cash bonus payment made for this Lease  
48 multiplied by the number of acres then comprising the Outside  
49 Acreage ("*Deferred Development Payment*"); or

50  
51 (b) Within ninety (90) days of commencement of such Unitized  
52 Operations that are commenced within ninety (90) days before such  
53 Anniversary Date, Lessee pays Lessor a full Deferred Development  
54 Payment; or

- 1 (c) Acceptable Lease Operations are being conducted and/or Production  
2 in Paying Quantities is being obtained from the Outside Acreage as of  
3 such Anniversary Date; or  
4
- 5 (d) Acceptable Lease Operations and Production in Paying Quantities on  
6 the Outside Acreage ceased within ninety (90) days before such  
7 Anniversary Date, and Acceptable Lease Operations or Production in  
8 Paying Quantities are resumed as to the Outside Acreage within  
9 ninety (90) days of such cessation; or  
10
- 11 (e) Acceptable Lease Operations and Production in Paying Quantities on  
12 the Outside Acreage ceased within ninety (90) days before such  
13 Anniversary Date, and Lessee pays Lessor a Deferred Development  
14 Payment within ninety (90) days of said cessation; or  
15
- 16 (f) Lessee is otherwise maintaining the Outside Acreage as of such  
17 Anniversary Date by annual rental payments or Shut-In Payments.  
18
- 19 (2) The Deferred Development Payment shall maintain the Outside Acreage  
20 until the next Anniversary Date. Lessee may maintain the Outside Acreage  
21 of this Lease by Deferred Development Payments for up to two (2) years  
22 beyond the Primary Term.  
23
- 24 (3) After expiration of the periods for which a Deferred Development Payment  
25 would be available, if the Outside Acreage of this Lease is not otherwise  
26 being maintained, this Lease shall terminate as to all Outside Acreage.  
27
- 28 (4) Nothing contained in this Article 3(B) is intended to create nor shall have  
29 the effect of creating several or separate Leases, or in any manner serve to  
30 extend, increase or limit the obligation of Lessee to protect the Leased  
31 Premises from drainage as stated in this Lease or otherwise.  
32
- 33 (5) The provisions of this Article 3(B) shall apply to any Unit that wholly or  
34 partially underlies any or all of the Leased Premises.  
35
- 36 (C) Shut-In Payments:  
37
- 38 If at any time or times (during or after the Primary Term) there are Qualifying  
39 Conditions (as defined below) in effect and the Lease (in its entirety or as to any  
40 portions) is not otherwise being maintained, then the Lease can be maintained in  
41 full force and effect by the payment of a Shut-In Payment (as defined below) in  
42 accordance with the following provisions.  
43
- 44 Lessee's utilization of this provision requires Lessor's approval and shall be at the  
45 sole discretion of Lessor, which approval shall not be unreasonably withheld.  
46 Lessee's request for such approval must include proof of the Qualifying  
47 Conditions (as set forth below) and must be received by Lessor before the  
48 commencement of the applicable Shut-In Period (as defined below).  
49
- 50 (1) Lessee may request to make a semi-annual payment ("**Shut-In Payment**")  
51 to maintain this Lease for a six (6) month period ("**Shut-In Period**")  
52 provided the following conditions ("**Qualifying Conditions**") are met:  
53
- 54 (a) There is a shut-in well(s) on the Leased Premises or within a Unit(s)  
55 that include all or a portion of the Leased Premises;

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- (b) Such well(s) is capable of oil and/or gas Production in Paying Quantities;
  - (c) Oil and/or gas from such well(s) is not being used, produced or marketed because of the lack of a marketing contract or production/marketing facilities; and
  - (d) Lessee has made and is continuing to make good faith reasonable efforts to secure a marketing contract or production/marketing facilities.
- (2) Lessee's requests to Lessor and the required Shut-In Payments shall be in accordance with the following:
- (a) During any year for which this Lease is maintained pursuant to (A) or (B) of Article 3, a Shut-In Payment shall not be required before the next Anniversary Date. Except as provided in paragraphs (b) through (d) below, Lessee's request for Shut-In Payment authority must be received prior to such Anniversary Date.
  - (b) If Qualifying Conditions are in effect less than ninety (90) days prior to an Anniversary Date for which a rental payment may be made, Lessee's request must be received and the Shut-In Payment submitted within ninety (90) days after such Qualifying Conditions are first in effect.
  - (c) If the Qualifying Conditions are in effect less than ninety (90) days prior to the end of the Primary Term or any time beyond the Primary Term, Lessee's request and the Shut-In Payment must be received prior to expiration of the Lease.
  - (d) Subsequent requests for consecutive Shut-In Periods must be received prior to the end of the then existing Shut-In Period. The requested period, if authorized, shall commence upon expiration of the then existing Shut-In Period.
- (3) Each Shut-In Payment shall be at the rate of Fifty (\$50.00) Dollars per acre for the acreage not otherwise maintained under the terms of this Lease, but in no event shall payment be less than One Thousand (\$1,000.00) Dollars. Shut-In Payments are due prior to the commencement of each Shut-In Period.
- (4) Each Shut-In Payment shall maintain this Lease for a period of six (6) months. During each such period, it shall be considered that there is Production in Paying Quantities for Lease maintenance purposes only.
- (5) Lessee may request up to a maximum of six (6) consecutive Shut-In Periods if the aforesated Qualifying Conditions persist and provided that, prior to the end of each Shut-In Period, Lessee obtains Lessor's authorization in accordance herewith. Thereafter, if circumstances warrant, at a future date Lessee may again request and be authorized by Lessor to utilize this shut-in provision in accordance with the terms and requirements herein.

1 (6) Notwithstanding the limitation upon consecutive Shut-In Periods in Article  
2 3(C)(5) above, for compelling reasons proven to the satisfaction of Lessor,  
3 Lessee may request, and Lessor may grant an additional Shut-In Period or  
4 periods in accordance with the terms and requirements herein, with any such  
5 extension(s) to be approved via an acknowledgment Resolution having the  
6 effect of an amendment of this Lease.  
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8 (7) After the last day of any Shut-In Period, this Lease shall terminate unless  
9 another Shut-In Period is authorized or this Lease is maintained under any  
10 other provision under this Lease.  
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#### 12 ARTICLE 4 – TRANSFERS AND ASSIGNMENTS

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14 In accordance with La. R.S. 30:128, the parties hereto understand and agree to the  
15 following:  
16

17 (A) No assignment, sublease or other transfer (collectively “*Assignment*”), in whole or  
18 in part, of any rights or interests granted to Lessee under this Lease shall be valid  
19 unless approved by Lessor.  
20

21 (B) Lessor’s approval is not required for the granting of a mortgage in, collateral  
22 assignment of production from, or other security interest in a mineral lease or  
23 sublease or the transfer of an overriding royalty interest, production, payment, net  
24 profits interest, or similar interest in a mineral lease or sublease.  
25

26 (C) Prior or subsequent to any Assignment, but in no event later than sixty (60) days  
27 from the date of execution of the Assignment, the assignor shall present to OMR a  
28 request for approval of the Assignment by Lessor. Failure to do so shall subject  
29 the assignor to the required statutory penalty beginning on the sixty-first (61<sup>st</sup>) day  
30 following the date of execution of the Assignment.  
31

32 Additionally, upon the Lessor’s approval of an Assignment of any undivided  
33 interest of less than 100% granted under this Lease in the Leased Premises (or  
34 any portion thereof), the assignor(s), in collaboration with the  
35 assignee(s)/transferee(s), shall designate in writing the individual responsible  
36 for receiving the notices required or permitted hereby with respect to such  
37 co-owned portion of the Leased Premises; provided, however, that Lessor shall  
38 not seek to terminate this Lease in whole or in part or assess any penalty or  
39 liquidated damages on any co-lessee(s) without providing direct written notice  
40 to such co-lessee(s). Exceptions from this requirement shall require Board  
41 approval.  
42

43 (D) Unless discharged by the Board expressly and in writing, an Assignment by  
44 Lessee, notwithstanding approval of the Assignment by Lessor, and regardless of  
45 any understanding, agreement, language or reference set forth in the Assignment  
46 instrument, does not release nor relieve the Assignor(s) from satisfying and  
47 complying with the terms, conditions, duties, responsibilities and/or obligations  
48 required by this Lease. Rather, the continuing responsibilities and obligations of  
49 the Assignor(s) shall be determined in accordance with the applicable statutory and  
50 code provisions of the State of Louisiana.  
51

52 Notwithstanding the foregoing, upon request and in conjunction with the  
53 processing of an Assignment of all rights and interests under this Lease, an original  
54 Lessee acting on behalf of another who has not engaged in any activity in  
55 furtherance of the development and production of oil and gas on or affecting the

1 Leased Premises, may be released and relieved by the Board from satisfying and  
2 complying with any and/or all terms, conditions, duties, responsibilities and/or  
3 obligations required by this Lease.  
4

5 (E) Lessee understands and agrees that Lessor may refuse to consent to such  
6 Assignment if, in the Lessor's reasonable opinion, the proposed assignee/transferee  
7 lacks the necessary financial capacity to meet the obligations required by this  
8 Lease or technical capacity to sustain reasonable development of the Leased  
9 Premises. Should Lessor not approve the Assignment, regardless of whether the  
10 Assignment instrument is duly recorded, the assignor and its ancestors in title shall  
11 remain responsible for satisfying and complying with the terms, conditions, duties,  
12 responsibilities and obligations of this Lease.  
13

14 (F) Upon approval of the Assignment by Lessor, all terms, provisions, conditions,  
15 duties, responsibilities and obligations of this Lease shall be binding upon and  
16 inure to the benefit of approved assignee(s)/transferee(s), except as otherwise set  
17 forth herein.  
18

19 (G) Assignees, sublessees and other transferees are responsible for researching the  
20 records maintained by OMR and the Clerk of Court in and for the parish(es)  
21 wherein the Leased Premises is located to determine whether this Lease proposed  
22 for assignment remains valid and is subject to lawful assignment by the assignor.  
23

#### 24 **ARTICLE 5 - FORCE MAJEURE AND SUSPENDING EVENTS**

25

26 (A) If, at any time this Lease is being maintained, Lessee is prevented from continuing  
27 Acceptable Lease Operations and/or Production in Paying Quantities by the  
28 occurrence of a Force Majeure or Suspending Event (herein "**Incident**"), both  
29 hereinbelow defined, and Lessee cannot maintain this Lease under any other  
30 operative provision hereof, such as the payment of annual rental, Deferred  
31 Development Payment or Shut-In Payment, then and only then shall the date for  
32 Lessee to re-commence Acceptable Lease Operations and/or Production in Paying  
33 Quantities be postponed on a day-for-day basis for so long as the adverse effects  
34 upon Lessee's Acceptable Lease Operations and/or Production in Paying  
35 Quantities prevail.  
36

37 (B) Lessor may recognize the Incident provided that Lessee has submitted:

38  
39 (1) Written notice of the occurrence within ninety (90) days of the Incident  
40 onset;

41  
42 (2) An affidavit containing:

43  
44 (a) The onset date, description and nature of the Incident;

45 (b) The effects preventing continuation of Acceptable Lease Operations  
46 or Production in Paying Quantities;

47 (c) The steps being taken to mitigate and eliminate those effects; and

48 (d) An estimated time for resumption of Acceptable Lease Operations or  
49 Production in Paying Quantities.  
50

51 (3) Evidence of Lessee's diligent, reasonable and good faith efforts to mitigate  
52 and eliminate the effects of the Incident and to resume Acceptable Lease  
53 Operations and/or Production in Paying Quantities; and  
54

55 (4) Any other information or documentation evidencing the existence of the

1 Incident requested by Lessor.

- 2
- 3 (C) If Acceptable Lease Operations and/or Production in Paying Quantities cease prior  
4 to the Incident onset (or during the period in which the Incident is still in effect),  
5 and the Incident prevents Lessee from re-establishing Acceptable Lease Operations  
6 and/or Production in Paying Quantities, then the date for Lessee to re-establish  
7 Acceptable Lease Operations and/or Production in Paying Quantities shall be  
8 extended by the period of time during which Lessee was prevented from re-  
9 establishing Acceptable Lease Operations and/or Production in Paying Quantities.
- 10
- 11 (D) The occurrence of an Incident shall not maintain this Lease for more than twelve  
12 (12) months from the date of the Incident onset unless extended by Lessor. To  
13 utilize Article 5, Lessee shall be required to submit written, detailed reports on a  
14 monthly basis to OMR and demonstrate the ongoing efforts by Lessee to mitigate  
15 the effects of the Incident.
- 16
- 17 (E) A “*Force Majeure*” event, as herein utilized, shall be a fortuitous event that is  
18 beyond Lessee’s control and is not ultimately determined to be caused by Lessee  
19 nor due to Lessee’s negligent or intentional commission or omission, or failure to  
20 take reasonable and timely foreseeable preventative measures that would have  
21 mitigated or negated the effects of the event. A Force Majeure event may include  
22 (1) a major storm, major flood or other similar natural disaster, or (2) a major  
23 accident such as a blowout, fire or explosion.
- 24
- 25 (F) A “*Suspending Event*”, as herein utilized, shall be (1) the lack of availability, after  
26 Lessee has diligently, timely and in good faith attempted to secure same, of any  
27 required equipment and/or personnel, such as the specific type of rig or specific  
28 type of casing or drill pipe, or (2) the unreasonable delay by any government  
29 agency or political subdivision in granting permits necessary for Acceptable Lease  
30 Operations or Production in Paying Quantities, or (3) an order of any federal or  
31 state court of competent jurisdiction preventing Acceptable Lease Operations or  
32 Production in Paying Quantities, or (4) the act of a third party, not under the  
33 control or at the instigation of Lessee, in shutting down and unreasonably refusing  
34 to reopen any facility through which hydrocarbons from this Lease are necessarily  
35 passed as part of production (and provided there is no other reasonably economical  
36 method of carrying on production), or (5) other events not described herein that are  
37 recognized by Lessor.
- 38
- 39 (G) If the reports are not timely submitted or if Lessee did not attempt in good faith to  
40 mitigate the effects of the Incident, Lessor, after notice and opportunity to be  
41 heard, may declare the Incident recognition to be ended and that Lessee may not  
42 after such failure utilize this provision to excuse any failure to comply with any  
43 obligations of this Lease relating to the particular Incident involved.
- 44
- 45 (H) For purposes of this Article:
- 46
- 47 (1) An increase in costs of performing the obligations set forth in this Lease  
48 shall not constitute circumstances beyond Lessee’s control;
- 49
- 50 (2) Lessee’s financial inability to comply with any of the obligations of this  
51 Lease shall not be grounds for an extension of time;
- 52
- 53 (3) Notice (as required under Article 5(B)(1) above) given beyond ninety (90)  
54 days shall be deemed unreasonable barring consequential extenuating  
55 circumstances; and

1  
2 (4) The interpretation and operation of any term of this Force Majeure and  
3 Suspending Event provision are at the sole, reasonable discretion of Lessor.  
4

5 **ARTICLE 6 - POOLING AND UNITIZATION**  
6

7 (A) Lessee may, by order of the Commissioner of Conservation or by conventional  
8 agreement with the consent and approval of Lessor, pool or unitize the Leased  
9 Premises (or any portion thereof), including in combination with other property or  
10 leases (or portions thereof). Unitized Operations from property other than the  
11 Leased Premises within the pooled or unitized area shall have the same effect as if  
12 said operations had occurred on the Leased Premises with respect to Lease  
13 maintenance.  
14

15 No conventional unit or pooling agreement shall be approved by Lessor unless a  
16 unit plat compiled and certified by a licensed surveyor showing the unit outline and  
17 each lease or other property interest within the Unit as having been surveyed  
18 accompanies and is attached to the Unit or pooling agreement unless waived by  
19 Lessor.  
20

21 (B) Should Lessee apply or give notice of intent to apply to the Commissioner of  
22 Conservation for the creation of any Unit or Units that would include all or any  
23 portion of the Leased Premises, Lessee shall furnish Lessor with a copy of the  
24 notice or application, accompanying unit plat, and all other attached information.  
25 Said copies shall be furnished to Lessor either at the time the application is filed  
26 with the Commissioner of Conservation or at the time required by applicable  
27 orders or regulations of the Commissioner of Conservation for furnishing such  
28 information, whichever is earlier. Unless waived by Lessor, if a Unit or Units  
29 including all or any portion of the Leased Premises are created by order of the  
30 Commissioner of Conservation, Lessee shall submit to Lessor a survey plat of each  
31 Unit or Units so created, either prior to or within ninety (90) days of initial  
32 production from the Unit (which time period may be extended by Lessor). The  
33 survey plat of the Unit or Units must clearly identify the Leased Premises, the tract  
34 acreage, and the unit percentage participation for same.  
35

36 Failure of Lessee, after notice, to timely submit such a plat shall subject Lessee to  
37 liquidated damages in the amount of One Hundred (\$100.00) Dollars per day. This  
38 assessment shall commence on the thirty-first (31<sup>st</sup>) day after receipt of such notice  
39 and continue until the required plat is provided. If Lessee submits the survey plat  
40 within thirty (30) days after its receipt of such notice, then no damages are due.  
41

42 (C) If a surface and/or subsurface agreement requested by Lessee for the drilling of a  
43 well on or traversing the Leased Premises is granted by an agency of the State to  
44 Lessee during the term of this Lease, Lessee shall furnish to Lessor copies of any  
45 and all data required on the subject well in accordance with Article 8 below.  
46 Further, a presumption shall exist, unless Lessee can reasonably demonstrate the  
47 contrary to Lessor, that a Unit for the well should be formed to include a portion of  
48 this Lease, and Lessee agrees to form a Unit either by a conventional agreement  
49 approved by Lessor or make application to the Commissioner of Conservation for  
50 the formation of such a Unit within six (6) months after completion of the subject  
51 well. Once the Unit is formed, royalties attributable to the Leased Premises  
52 included in the Unit will be paid back to the first date of production from the well.  
53

54 (D) If on the Effective Date, all or any portion of the Leased Premises is included in a  
55 Unit established by order of the Commissioner of Conservation with one or more

1 unit wells producing at that time and Lessee is a working interest owner in such  
2 unit well or wells, Lessee agrees to pay royalty on all oil, gas or other liquid or  
3 gaseous mineral produced and saved or utilized from such unit wells or wells and  
4 attributable to the Leased Premises from the effective date of such Unit or from the  
5 date Lessee acquired an interest in such well or wells, whichever is later, regardless  
6 of whether all development and operating costs chargeable to the Leased Premises  
7 have been paid. Nothing herein shall be construed as requiring Lessee to pay  
8 royalties under this Article 6(D) if royalties (or state interests) on such production  
9 were paid pursuant to the terms of a previous lease (or state operating agreement)  
10 with the State.

## 11 ARTICLE 7 - OFFSET WELLS

12  
13  
14 The obligations set forth in this Article apply to only wells that are drilled on “*Adjoining*  
15 *Property*” (which is defined as property that is (1) not the Leased Premises, (2) not part of  
16 a Unit and (3) not part of state lease or state operating agreement having a royalty or state  
17 interest rate equal to or greater than that set forth herein). Wells drilled on Adjoining  
18 Property are hereafter referred to as “*Adjoining Wells*”.

19  
20 (A) At any time during or after the Primary Term, if there is completed an Adjoining  
21 Well located within six hundred and sixty feet (660’) of the Leased Premises (or  
22 within any spacing or pooling unit distance greater than 660’ established by the  
23 Commissioner of Conservation) and such Adjoining Well has production in paying  
24 quantities for twenty (20) days (that need not be consecutive) during any period of  
25 thirty (30) days, or produces its monthly allowable during any period of thirty (30)  
26 days, Lessee agrees that the following rebuttable presumptions will arise: (1) that  
27 the Leased Premises is thereby being drained; (2) that the Leased Premises is not  
28 reasonably being protected from drainage by any well or wells on the Leased  
29 Premises or lands pooled or unitized with any or all portions thereof hereafter  
30 referred to as “Offset Well(s)”; and (3) that an Offset Well would be economically  
31 feasible.

32  
33 (1) If Lessee is the operator of or has a working interest in such Adjoining Well,  
34 Lessee shall within ninety (90) days after the end of the above thirty (30)  
35 day period either begin Actual Drilling Operations for an Offset Well or  
36 commence (or cause to be commenced) unitization for the Adjoining Well.

37  
38 (2) In all other cases, Lessee shall be required to begin such Actual Drilling  
39 Operations for an Offset Well or commence (or cause to be commenced)  
40 unitization for the Adjoining Well within ninety (90) days after receipt of  
41 written notice from Lessor which notice shall not be sent until after the end  
42 of the above thirty (30) day period.

43  
44 The last day of the ninety (90) day periods addressed in (1) and (2) above shall be  
45 referred to as the “*Maturity Date*”.

46  
47 (B) No Offset Well shall be necessary if, on or before the Maturity Date, as it may be  
48 deferred as hereinafter provided, any of the stated presumptions is rebutted or if a  
49 Unit for the Adjoining Well in question is formed by agreement with Lessor or  
50 created or under consideration by the Commissioner of Conservation.

51  
52 (C) In lieu of commencing operations for an Offset Well or unitization for the  
53 Adjoining Well as above provided, Lessee may, at its option, commence  
54 compensatory payments to Lessor equal to the royalty herein provided, computed  
55 on one-half (1/2) of the oil, gas or other liquid or gaseous minerals produced by the

1 Adjoining Well in question on and after the Maturity Date, value to be determined  
2 in accordance with the royalty payment provisions of this Lease. Such payments  
3 may be commenced on or before sixty (60) days after the Maturity Date, but shall  
4 include any accrued compensatory payment commencing on the Maturity Date.  
5 Thereafter, payments shall be due monthly in accordance with royalty payment  
6 provisions herein.

7  
8 Lessee shall not be in default in commencing compensatory payments or in making  
9 further payments as above provided if, despite due diligence, Lessee is unable to  
10 timely obtain the production information on which such payments are to be based.  
11 In such case, however, Lessee must, on or before the payment due date, notify  
12 Lessor, in writing, of Lessee's inability to make such payment, the reason(s)  
13 therefor and Lessee's intention of making such payment at the earliest reasonable  
14 time.

15  
16 Compensatory payments may be continued, at Lessee's discretion, for not more  
17 than one (1) year from the Maturity Date. At the end of that time, or within thirty  
18 (30) days from the end of any lesser period for which payments are made, Lessee  
19 shall comply with this offset obligation if the Adjoining Well continues to have  
20 production in paying quantities or to produce its allowable, and the other  
21 conditions making this obligation operative continue to exist. The right to make  
22 compensatory payments is intended to permit Lessee to further evaluate the  
23 producing Adjoining Well, and the making of such payments shall not of itself be  
24 sufficient to maintain this Lease if this Lease is not otherwise being maintained;  
25 however, the making of such payments shall not prejudice Lessee's right to rebut  
26 any of the above enumerated presumptions.

27  
28 (D) In addition to the specific offset drilling obligation above provided, if Lessee  
29 knows or reasonably has access to information, by examination of geological,  
30 seismic or other relevant data, that drainage of the Leased Premises is occurring,  
31 Lessee agrees to protect the Leased Premises from drainage of oil, gas or other  
32 liquid or gaseous minerals by a producing Adjoining Well that may be more than  
33 six hundred and sixty feet (660') from the Leased Premises by whatever means  
34 necessary, including the drilling of an Offset Well or obtaining the formation of  
35 appropriate drilling or production units for the Adjoining Well. If Lessee is the  
36 operator of or has a working interest in a producing Adjoining Well, Lessee shall  
37 be obligated, within ninety (90) days from the time Lessee knows or reasonably  
38 has access to information that drainage is occurring, to take such steps as  
39 reasonably necessary to protect the Leased Premises. In all other cases, Lessee  
40 shall not be obligated to begin such operations or take other steps until ninety (90)  
41 days after receipt of written notice from Lessor.

42  
43 (E) In those instances in which notice from Lessor is expressly required under this  
44 Article, if due, damages shall be computed only from the date that notice is  
45 received or, if Lessee commences compensatory payments, the date on which such  
46 payments are discontinued. In those instances in which there is no requirement of  
47 notice, if due, damages shall be computed from the time Lessee knew or  
48 reasonably had access to information that drainage was occurring. The damages  
49 contemplated herein shall consist of the royalty percentage of this Lease,  
50 multiplied by one half of the value of the production from the draining Adjoining  
51 Well, and may include lease cancellation (except as provided in Article 18(C)  
52 below) for refusal by Lessee to take the steps necessary to prevent drainage.  
53 Written notice from Lessor containing a demand for performance and Lessee's  
54 failure to timely comply with such notice shall be necessary as a prerequisite to any  
55 action for cancellation of this Lease for Lessee's nonperformance of its obligation

1 to protect the Leased Premises against drainage.  
2

3 **ARTICLE 8 - LESSEE REPORTING**  
4

5 (A) Lessee shall furnish Lessor, upon request, all of the following types of well and  
6 survey data in Lessee's possession, or reasonably accessible to Lessee in  
7 connection with this Lease including, but not limited to: (1) all wire line surveys in  
8 open or cased holes including, but not limited to electrical and radioactivity logs,  
9 porosity logs of all types and dip-meters, with all such logs to be provided, in  
10 standard fanfold paper format at scales of 1 inch to 100 feet and 5 inches to 100  
11 feet, digital image files in TIF and PDF formats, and composite digital curve data  
12 in LAS (Log ASCII Standard) format or other format requested by Lessor if  
13 maintained by Lessee; (2) directional surveys; (3) mud logs and core descriptions  
14 of both sidewall samples and conventional cores; (4) drill stem and production test  
15 data; (5) daily drilling reports (to be supplied weekly); and (6) production data,  
16 current and cumulative, including oil, gas and water production, surface and  
17 subsurface pressures (collectively "**Data**").  
18

19 Upon request, Lessee also shall furnish Lessor with any other information and data  
20 in Lessee's possession or reasonably available to Lessee in order to keep Lessor  
21 fully informed of Lessee's good faith compliance with the provisions of this Lease  
22 and continuing development of and operations on the Leased Premises. This  
23 information together with the Data shall be referred as to the "**Records**".  
24

25 Notwithstanding anything herein to the contrary, Lessee's obligation to provide  
26 such information or data is limited to the format actually used by Lessee or  
27 reasonably available to Lessee. Furthermore, to the extent allowed by law, Lessor  
28 agrees to keep confidential any such Records not already part of the public domain.  
29

30 (B) Nothing in this Article shall require Lessee to furnish or permit inspection of  
31 Lessee's interpretation of the types of data referred to above, and nothing herein  
32 shall be construed as requiring Lessee to secure any such data solely for the  
33 purpose of this Article. Lessor's representatives shall have access, at reasonable  
34 times and intervals, to examine and inspect Lessee's Records and operations being  
35 conducted on the Leased Premises or lands pooled or unitized with any or all  
36 portions thereof. To the extent allowed by law, Lessor shall keep confidential any  
37 information (including Records) not part of the public domain.  
38

39 (C) Failure of Lessee, after notice, to satisfy the requirements of this Article shall  
40 subject Lessee to liquidated damages in the amount of One Hundred (\$100.00)  
41 Dollars per day for each day of non-compliance, commencing on the thirty-first  
42 (31<sup>st</sup>) day after receipt of notice. If Lessee satisfies such requirements within thirty  
43 (30) days after its receipt of such notice, then no damages are due.  
44

45 **ARTICLE 9 – ROYALTY**  
46

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

1 (A) \_\_\_\_\_(\_\_\_\_%) percent of the value, as  
2 hereinafter provided, of all oil, including condensate or other liquid mineral,  
3 produced (including sales, stored or traded in-kind) and saved or utilized by  
4 methods considered ordinary production methods at the time of production. The  
5 price of such oil sold to a Non-Affiliated Party or Affiliated Party shall not be less  
6 than the "Fair Market Price". Fair Market Price is considered the average sales  
7 price for oil of like grade and quality in the field in which the lease is situated. If  
8 the Lessee is the sole producer within the field, Fair Market Price shall be deemed  
9 the average sales price of oil of like grade and quality for the three nearest  
10 surrounding fields. Consideration may be given to one or more of the following  
11 when determining the Fair Market Price: NYMEX, NYMEX + roll, any of the  
12 major oil market centers (for example, St. James, Cushing, Empire or Argus) or  
13 any amalgamation of field posted price, plus Platt's P+, plus any market  
14 adjustments (including for kind and quality). If at a future date, an industry  
15 recognized and accepted index changes to something other than those listed above,  
16 the new standard may be considered and/or utilized. If Lessee enters into a  
17 prudently negotiated, arm's length oil sales contract, which at the time of  
18 execution, provides for a price equal to or in excess of the Fair Market Price as  
19 described above, the price payable under the terms of the contract at the time such  
20 oil is run shall be the value of such oil, even though the appropriate average  
21 changes during the life of the contract.

22  
23 Lessee shall not make any deduction whatsoever for the cost of any operation,  
24 process, facility or other item considered to be a production function or facility at  
25 the time such oil is run. Without limiting the foregoing sentence and without  
26 regard to classification as production costs or otherwise, the following costs shall  
27 not be deducted from the value of production: (1) costs incurred for gathering,  
28 moving or transporting production within the field boundaries; (2) costs incurred  
29 for handling, treating, separating, fractionating or in any way processing  
30 production to make it marketable by methods considered ordinary at the time such  
31 oil is run; (3) the cost of storage on the Lease or in the field; (4) marketing fees,  
32 any other miscellaneous fee, or unspecified discounts and/or subtractions from the  
33 base price incurred during or related to the sale of oil by Lessee, an Affiliated Party  
34 or a Non-Affiliated Party; and (5) line loss. The performance of any producing  
35 function or any function mentioned within clauses (2) and (3) above at a  
36 commingled facility in or outside the field in which this Lease is situated shall not  
37 make the cost of any such function deductible.

38  
39 If Lessee delivers oil at a point outside the field in which this Lease is situated by  
40 means of facilities belonging to a Non-Affiliated Party, Lessee may deduct from  
41 the value of such oil a reasonable sum not in excess of actual costs, as evidenced  
42 by invoices from the transporter(s) or other documentation Lessor deems  
43 appropriate, for the transportation from the field boundary to the point of delivery.  
44 If such transportation is by means of facilities owned by an Affiliated Party, Lessee  
45 may deduct the lesser of the actual cost of such transportation, or the fair market  
46 value of the services performed. If actual cost is greater than fair market value, the  
47 fair market value shall determine the amount subject to deduction. However, if the  
48 facilities used are regulated as a common carrier by a state or federal regulatory  
49 agency, the authorized tariff chargeable and paid by Lessee for the services  
50 rendered shall be deemed the fair market value of such services. If such  
51 transportation is by means of facilities owned by Lessee, Lessee may deduct from  
52 the value of production a reasonable sum for such services computed as follows:  
53 the amount deductible shall include only (1) the direct cost of operations and  
54 maintenance, including costs of labor, direct supervision, fuel, supplies, ordinary  
55 repairs and ad valorem taxes; and (2) depreciation of the facility computed over the

1 estimated life of the field or the reserves. Transportation or location differential, as  
2 a component of a contract between seller and buyer, is subject to the same terms  
3 and restrictions, listed here-in.  
4

5 If Lessee receives any compensation for any function or process for which Lessee  
6 is responsible to Lessor without right to deduct costs including, but not limited to  
7 (1) handling, gathering or transporting such oil, or (2) treating or processing such  
8 oil by ordinary methods to make it marketable, the amount of such compensation  
9 shall be added to the value of such oil when computing royalties. If Lessee is  
10 deducting costs for any functions for which it also is receiving compensation,  
11 deductions may be made for costs only to the extent they are in excess of any such  
12 compensation.  
13

14 (B) \_\_\_\_\_ (\_\_\_\_%) percent of the  
15 value, as hereinafter provided, of all gas, including casinghead gas, produced  
16 (including sales, vented, flared, flash, stored, interlease sales and utilized gas), sold  
17 and stored, saved or utilized by methods considered as ordinary production  
18 methods at the time of production. The price of such gas sold to a Non-Affiliated  
19 Party or Affiliated Party and the price of gas vented, flared, or utilized (including  
20 gas used in lift operations) by Lessee in the field shall not be less than the Fair  
21 Market Price. Fair Market Price shall be the average price paid for gas of like kind  
22 and quality from the field produced. If the Lessee is the sole producer within the  
23 field, Fair Market Price shall be deemed the average sales price paid for gas of like  
24 kind and quality for the three nearest surrounding fields. Consideration may be  
25 given to one or more of the following when determining the Fair Market Price: a  
26 pipeline index in the field or adjacent to the field; Bloomberg Liquefied Petroleum  
27 Gas Prices, Platt's LP Gas Wire;, a NYMEX closing price; and/or a Henry Hub  
28 price(or other comparable Hub price), plus/minus premium; and/or transportation  
29 outside the field. If at a future date an industry recognized and accepted index  
30 changes to something other than those listed above, the new standard may be  
31 considered and/or utilized. If Lessee enters into a prudently negotiated, arm's  
32 length gas sales contract, which at the time of execution provides for a price equal  
33 to or in excess of the Fair Market Price as described above, the price payable under  
34 the terms of the contract at the time such gas is produced shall be the value of such  
35 gas, even though the appropriate average changes during the life of the contract.  
36

37 Except as expressly authorized hereby, Lessee shall not make any deduction  
38 whatsoever for the cost of any operation, process, facility or other item considered  
39 to be a producing function at the time such gas is produced. Without limiting the  
40 foregoing sentence and without regard to classification as production costs or  
41 otherwise, the following costs are not to be deducted from the value of production:  
42 (1) costs incurred for gathering, moving or transporting production within the field  
43 boundaries; (2) costs incurred for dehydrating, decontaminating (as with an amine  
44 plant inside the field), fractionating or in any way processing production to make it  
45 marketable by methods considered ordinary at the time such gas is produced; (3)  
46 marketing fees, any other miscellaneous fee, or unspecified discounts and/or  
47 subtractions from the base price incurred during or related to the sale of gas by  
48 Lessee, an Affiliated Party or Non-Affiliated Party; and (4) line loss. The  
49 performance of any producing function or any function mentioned in (2) above at a  
50 commingled facility inside or outside the field in which this Lease is situated shall  
51 not make the cost of any such function deductible. Without regard to classification  
52 as production costs or otherwise, Lessee may deduct costs incurred for  
53 compression of gas at a point in or adjacent to the field for insertion into a  
54 purchaser's line or into a line owned by Lessee or a carrier for transportation to a  
55 point of delivery outside the field.

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If Lessee delivers gas at a point outside the field in which this Lease is situated by means of facilities belonging to a Non-Affiliated Party, Lessee may deduct from the value of such gas a reasonable sum not in excess of actual costs, as evidenced by invoices from the transporter(s) or other documentation Lessor deems appropriate, for transportation from the field boundary to the point of delivery. If such transportation is by means of facilities owned by an Affiliated Party, Lessee may deduct the lesser of the actual cost of such transportation or the fair market value of the services performed. If actual cost is greater than fair market value, the fair market value shall determine the amount subject to deduction. If such transportation is by means of facilities owned by Lessee, Lessee may deduct from the value of production a reasonable sum for such services computed as follows: the amount deductible shall include only (1) the direct cost of operations and maintenance, including costs of labor, direct supervision, fuel, supplies, ordinary repairs and ad valorem taxes, and (2) depreciation of the facility calculated over the estimated life of the field or the reserves.

If Lessee receives any compensation for any function or process for which Lessee is responsible to Lessor without right to deduct costs including, but not limited to handling, gathering or transporting such gas, or dehydrating, decontaminating or in any way processing production to make it marketable, the amount of such compensation shall be added to the value of such gas when computing royalties. If Lessee is deducting costs for any functions for which it also is receiving compensation, deductions may be made for costs only to the extent they are in excess of any such compensation.

(C) In addition to the separation of condensate or other liquid mineral from gas by ordinary production methods (as to which Lessor shall receive royalties as provided in Article 9(B) above and for which separation, no charge may be made by Lessee), gas produced hereunder, including casinghead gas, may be processed in a gasoline or other extraction or processing plant in or serving the field, and products may be recovered therefrom either directly by Lessee or under prudently negotiated arm's length contracts executed by Lessee. If Lessee enters into a prudently negotiated arm's length contract for the processing of gas with a Non-Affiliated Party or parties under which such party or parties retain in-kind a portion of the products recovered from or attributed to such gas, in lieu of processing fees, the in-kind portion of the products kept as the processing fee must be reasonable and prudently negotiated. Lessee may deduct from the value of liquids, the value of the retained in-kind portion or costs specifically identified as processing fees, but not both. Lessee shall be held accountable for royalty due on excessive in-kind retention. Lessee shall pay royalty on residue gas sold, as detailed for gas sold in Article 9(B) above, based on the value, as hereinafter determined, of Lessee's share of such products under such negotiated contract. Residue gas is defined as: all plant source gas delivered by a producer for processing, less shrinkage due to liquid extraction; fuel required for plant equipment necessary for liquid extraction; flare gas; and unavoidable losses within the plant. In all other cases, Lessee shall pay the royalty provided for gas in Article 9(B) above based on the value, as hereinafter determined, of the total products recovered, after deducting therefrom the costs of processing as specified below.

Sales of products to a Non-Affiliated Party are subject to audit utilizing the criteria in the following paragraphs, and subject to the right of Lessor to verify sales and subsequent royalty payment based upon Fair Market Price.

1 If the products are sold by Lessee to an Affiliated Party under a prudently  
2 negotiated arm's length contract or under a contract that would not have been  
3 considered prudently negotiated arm's length if executed by a Non-Affiliated  
4 Party, the value of the products shall be the fair market value as detailed above.  
5 The value of such products (or Lessee's share thereof) sold in the absence of a  
6 prudently negotiated arm's length contract shall be determined as follows: (1) the  
7 fair market value for products sold at the plant; (2) if no products are being sold at  
8 said plant, the average of market values for like products of the same grade and  
9 quality at the three nearest plants where such products are sold. In no event shall  
10 products be valued at an amount less than "fair market value" as detailed above.  
11

12 When the cost of processing is not met by retention by the processor of a share of  
13 the products or in any other case in which Lessee may deduct from the value of  
14 such products the reasonable and prudent costs of processing, the charges shall be  
15 determined as follows: (1) if the gas is processed by a Non-Affiliated Party under a  
16 prudently negotiated arm's length contract, the reasonable costs that may be  
17 deducted shall be those provided in such contract; or (2) if the gas is processed by  
18 an Affiliated Party, or is processed at a plant in which Lessee has an ownership  
19 interest, the combined value of the residue gas as set forth herein and the liquid or  
20 gaseous products resulting from such processing used to determine royalty shall  
21 not be less than as though royalty were calculated on the value (as determined  
22 under the provisions of (B) above of volume on said gas before processed,  
23 produced, saved and utilized from the Leased Premises).  
24

25 The following costs are never to be deducted: (1) any and all marketing fees  
26 incurred for the sale of the plant products; and (2) any and all costs for which  
27 Lessee is reimbursed by another party.  
28

29 When processing involves an Affiliated Party or parties, or Lessee has an  
30 ownership interest in the plant, charges are determined by the contract between  
31 Lessee as producer and processor. In the absence of such a contract, deductible  
32 charges are limited to the proportionate part of (1) the annual direct costs of  
33 operating and maintaining the plant, including costs of labor and on-site  
34 supervision, shrinkage, materials, supplies and ordinary repairs, (2) plant  
35 depreciation, less salvage value, computed over the life of the field(s) served by the  
36 plant, or other such method as agreed upon by Lessor and Lessee, and (3) ad  
37 valorem taxes.  
38

39 In accordance with the provisions of (C) above, Lessor shall be entitled to the  
40 royalty for gas provided in (B) above based on the value of Lessee's share of the  
41 residue gas sold or otherwise disposed of after extraction of natural gas liquids.  
42

43 Royalty on residue gas and liquids, in aggregate, shall not be less than royalty  
44 calculated using unprocessed gas volume (keep whole) available for sale at the  
45 wellhead. Consideration will be given for circumstances in which Lessee is  
46 compelled to process either by a Non-Affiliated Party or contractual obligation.  
47

48 (D) \_\_\_\_\_ (\_\_\_\_%) percent of  
49 any and all other liquid or gaseous hydrocarbon minerals in solution produced with  
50 oil or gas and saved or utilized that are not specifically mentioned herein, said  
51 royalties to be delivered or paid when marketed or utilized in accordance with the  
52 accepted practice in such matters.  
53

54 Lessor's royalty shall be calculated and paid after deduction of all severance taxes.  
55

1 The first payment of royalty shall be made within one hundred twenty (120) days  
2 following commencement of production from or allocation of production to the Leased  
3 Premises, except that in the case of any production from or allocable to the Leased  
4 Premises that has occurred prior to the Effective Date, but which is deemed to be covered  
5 by this Lease, Lessee hereby agrees to pay royalty on all such prior production within one  
6 hundred twenty (120) days from the Effective Date. Thereafter, royalty on oil, including  
7 condensate or other liquid mineral, produced and saved at the well by ordinary production  
8 methods shall be paid by the 25<sup>th</sup> day of each month on production from the previous  
9 month. Thereafter, royalty on gas, including liquids or other products extracted or  
10 processed from gas other than by ordinary production methods, or other liquid or gaseous  
11 mineral not specifically mentioned, shall be paid on or before the 25th day of the second  
12 month following that in which such product was produced or extracted or processed. In  
13 the event any royalty payment is not correctly or timely made, the remedies provided by  
14 La. R.S. 30:136 and 31:137-142 relative to penalties, notice, damages, interest, attorney  
15 fees and dissolution shall be applicable, except that interest shall be payable thereon until  
16 paid without any requirement for prior written notice by Lessor to Lessee.

17  
18 Unless otherwise authorized by Lessor, Lessee shall be responsible for designating one  
19 payor of all royalties due under this Lease per LeaseUnitWell (“LUW”) Code.  
20 Designation of a payor for each LUW Code shall be made to the Property Section of the  
21 Mineral Income Division of the Office of Mineral Resources. If reporting and payments  
22 are not received timely and properly, such Lessee shall be subject to penalties, after  
23 notice, in accordance with La. R.S. 30:136(B).

24  
25 Lessee shall report all production of hydrocarbons and associated liquid or gaseous  
26 minerals from or attributable to this Lease to the Production Audit Division of the Office  
27 of Conservation and to the Mineral Income Division of the Office of Mineral Resources  
28 by appropriate SR forms containing both the LUW Code and the Well Serial Number.  
29 Failure to report production as herein specified shall be deemed improper reporting,  
30 which shall subject Lessee to the penalty specified therefor.

### 31 32 **ARTICLE 10 - AUDIT RIGHTS**

33  
34 (A) Lessee shall keep a complete and accurate account of all its books and records  
35 pertaining to its calculation of royalty utilizing accounting systems and methods in  
36 compliance with Generally Accepted Accounting Principles consistently applied to  
37 ensure the most accurate figures reasonably available. Lessee shall retain in its  
38 possession detailed papers, books, records, accounts and other documents relative  
39 to its calculation and payment of royalties and other sums due by Lessee hereunder  
40 for examination by OMR personnel at all reasonable times. Such documentation  
41 shall be maintained in an organized manner and otherwise in the manner that such  
42 documentation is regularly maintained by Lessee in the ordinary course of its  
43 business. Upon reasonable notice, Lessor, through OMR, shall have the right to  
44 review and audit such documents and systems for purposes of verifying their  
45 accuracy and reporting requirements. To the extent allowed by law, all documents,  
46 working papers and information provided for review, audit and/or access shall be  
47 maintained by OMR personnel in strict confidence.

48  
49 (B) In addition to all other audit rights set forth in this Lease or required by law, OMR  
50 personnel shall have access to all books, records, papers, reports, accounts and  
51 documents of Lessee to facilitate any such examination or investigation. If records  
52 are maintained in machine-sensible and hard copy formats, Lessee shall make such  
53 records available to OMR in said format.

1 **ARTICLE 11 - LEASE ACCESS**

- 2
- 3 (A) This Lease is subject to the requirements of La. R.S. 30:127(G) such that the  
4 public's access to public waterways throughout the State lands covered by this  
5 Lease shall be maintained and preserved for the public by Lessee.  
6
- 7 (B) Lessor retains the right, throughout the life of this Lease, to use all existing roads  
8 and waterways and those constructed or reconstructed by Lessee for any and all  
9 purposes deemed necessary or desirable in connection with the control,  
10 management, administration and harvest of Lessor-owned land or resources  
11 thereof, including timber management.  
12
- 13 (C) Lessor retains the right, throughout the life of this Lease, to use any and all  
14 portions of the Leased Premises for any and all purposes so long as doing so does  
15 not unreasonably interfere with the rights and performance of Lessee under this  
16 Lease.  
17
- 18 (D) Lessor shall have the right to sell, exchange, transfer or otherwise dispose of all or  
19 any portion of the Leased Premises. Further, Lessor shall have the right to issue  
20 rights-of-way and easements upon the Leased Premises so long as such rights-of-  
21 way or easements do not unreasonably interfere with Lessee's operations  
22 conducted pursuant to the rights granted by this Lease.  
23
- 24 (E) Lessor reserves the right to access the Leased Premises at all reasonable times in  
25 order to inspect the Leased Premises and to investigate and secure compliance by  
26 Lessee with all Lease requirements.  
27
- 28 (F) The rights reserved hereunder may be exercised by Lessor or any other person or  
29 entity acting under the authority of Lessor in any manner that does not  
30 unreasonably interfere with or endanger Lessee's operations under this Lease.  
31
- 32 (G) All rights pertaining to the Leased Premises not expressly granted to Lessee by this  
33 Lease, or necessarily implied herein, are hereby reserved to Lessor.  
34

35 **ARTICLE 12 - LESSOR'S RIGHTS**

36

37 Lessee agrees that any failure by Lessor to enforce any provision, obligation, condition,  
38 right or privilege of this Lease shall not constitute a waiver or relinquishment by Lessor  
39 of its rights, privileges and/or remedies afforded herein or by law. Furthermore, Lessee  
40 agrees that it shall not hold or use Lessor's failure to enforce any provision, obligation,  
41 condition, right or privilege as a defense in any future dispute or litigation. As such, all  
42 provisions, obligations, conditions, rights and privileges granted hereby or by operation  
43 of law shall remain valid, in force and enforceable despite Lessor's failure to previously  
44 enforce them.  
45

46 **ARTICLE 13 - ENVIRONMENTAL LAWS AND REGULATIONS**

- 47
- 48 (A) Lessee hereby agrees that in exercising the rights granted hereunder, it will comply  
49 with and be subject to all applicable state and federal environmental laws and  
50 regulations. Lessee also agrees that it will comply with all minimum water quality  
51 standards adopted by any governmental authority with respect to pollution, noxious  
52 chemicals and waste being introduced into affected water areas. Further, in  
53 conducting operations under this Lease requiring dredging, filling or navigation in  
54 order to conduct oil and gas exploration and production operations, Lessee shall  
55 comply with all applicable state and federal requirements for the permitting of such

1 activities in the operational area.

- 2
- 3 (B) For purposes of this Lease, any material now or hereinafter designated as or  
4 containing components now or hereinafter designated as hazardous, toxic,  
5 dangerous or harmful, and/or that are subject to regulation as hazardous, toxic,  
6 dangerous or harmful material by any federal or state law, regulation, statute or  
7 ordinance, shall be transported, stored and handled in accordance and in  
8 compliance with the provisions of such laws including, but not limited to 42  
9 U.S.C. 6901 *et seq.* (RCRA) and 42 U.S.C. 9601 *et seq.* (CERCLA), as presently  
10 existing or as subsequently enacted or amended.

11

12 **ARTICLE 14 - RESPONSIBILITY FOR ENVIRONMENTAL DAMAGE**

- 13
- 14 (A) Lessee shall be responsible for environmental damage as defined in La. R.S. 30:29  
15 that occurs as a result or consequence of Lessee's occupation, oil and gas  
16 exploration, production operations and/or use of the Leased Premises, irrespective  
17 of whether such damage is due to negligence, the inherent nature of Lessee's  
18 activities or operations or other reason(s). Lessee must conduct operations as a  
19 reasonably prudent operator using standard industry practices and procedures and  
20 proper safeguards to prevent environmental damage. Lessee shall be responsible  
21 for all environmental damage to aquatic or marine life, wildlife, birds and any  
22 public property that may result from Lessee's operations hereunder. Lessee shall  
23 report all unpermitted and reportable discharges as required by applicable state and  
24 federal environmental and conservation statutes and regulations ("Environmental  
25 and Conservation Laws and Regulations") to the Louisiana Department of  
26 Environmental Quality, the Louisiana Office of Conservation and any other  
27 appropriate entity.

28

29 All reasonably necessary preparations and precautions shall be taken by Lessee to  
30 prevent fire and explosion and, subject to Environmental and Conservation Laws  
31 and Regulations, to prevent contamination of any portion of the total environment  
32 of the Leased Premises, provided that nothing herein shall be construed as  
33 lessening or reducing Lessee's obligations under all Environmental and  
34 Conservation Laws and Regulations.

- 35
- 36 (B) Lessee shall indemnify, defend and hold harmless Lessor, its officers, employees,  
37 agents and representatives, with respect to any and all damages, costs, liability,  
38 fees, attorney fees, penalties (civil or criminal), fines (civil or criminal) and  
39 cleanup costs arising out of or in any way related to the use, disposal,  
40 transportation, generation, sale and location upon or affecting the Leased Premises  
41 of hazardous substances as defined in Article 13 above by Lessee or any of  
42 Lessee's officers, employees, agents, representatives, contractors, subcontractors,  
43 licensees and invitees (or by any assigns or sublessees of Lessee whose  
44 Assignment is not approved by Lessor in accordance with Article 4 above). Lessee  
45 shall further indemnify, defend and hold Lessor harmless from any and all damage,  
46 cost, liability, fees, attorney fees, penalties (civil or criminal), fines (civil or  
47 criminal) and cleanup costs arising out of or related to any breach by Lessee of the  
48 provisions of this Lease concerning hazardous substances and/or negligent  
49 operations. This indemnity is in addition to and in no way limits the general  
50 indemnity contained under Article 21 below.

- 51
- 52 (C) In conducting any activity under this Lease that requires dredging, filling or  
53 navigating in order to conduct oil and gas exploration and production operations,  
54 Lessee shall comply with all applicable state and federal requirements for the  
55 permitting of such activities in the operational area.

- 1  
2 (D) Lessee shall, at its sole cost and expense, keep and maintain the Leased Premises,  
3 all improvements thereon owned, placed and/or caused to be placed by Lessee and  
4 all facilities appurtenant to such improvements in good order and repair and in the  
5 appropriate condition for the safe conduct of any activities or enterprises conducted  
6 on the Leased Premises pursuant to the rights granted hereunder, and any  
7 applicable state or federal laws.  
8

9 **ARTICLE 15 - FINANCIAL SECURITY**

- 10  
11 (A) In accepting this Lease and its terms, Lessee agrees that Lessee or an operator  
12 drilling on the Leased Premises shall provide financial security for the plugging  
13 and abandoning, and associated site restoration of each well drilled. Lessee's  
14 obligation to provide financial security also is required upon a change of  
15 operatorship of a well on the Leased Premises.  
16  
17 (B) The nature and extent of the financial security required hereby shall be as set forth  
18 in LAC 43:XIX §104. In no event, however, shall the financial security  
19 requirements of this Lease be less than those set forth in said regulation as such  
20 was in effect on September 1, 2015.  
21  
22 (C) Lessee's obligation under this Lease to provide financial security for the plugging  
23 and abandoning, and associated site restoration, of each well, drilled shall be  
24 satisfied by fully and continually complying with the applicable statutes, rules and  
25 regulations of the Office of Conservation as set forth in (B) above.  
26  
27 (D) Lessee shall furnish to Lessor, upon request, evidence of the financial security so  
28 provided to the Commissioner of Conservation.  
29

30 **ARTICLE 16 - GENERAL LIABILITY INSURANCE**

- 31  
32 (A) Lessee, at its sole expense, shall purchase and maintain in full force and effect,  
33 throughout the Operational Term (as defined below) and continuing until all Lease  
34 obligations are fulfilled, a policy(s) of commercial general liability insurance  
35 having a minimum limit per occurrence of One Million (\$1,000,000.00) Dollars  
36 and excess liability insurance having a minimum limit per occurrence of Two  
37 Million (\$2,000,000.00) Dollars (or other such limits as deemed reasonably  
38 appropriate and necessary by Lessor after notice and Board review). This policy  
39 shall identify Lessor as an additional insured, be applicable to the Leased Premises  
40 and provide coverage, except as may be limited by law, to Lessor and Lessee  
41 against claims for bodily injury, death and property damage, and for pollution  
42 incidents of a sudden and accidental nature causing such harm that may arise from  
43 or in connection with the development and production activities and operations  
44 conducted pursuant to this Lease by Lessee, its operators, contractors, employees,  
45 agents, representatives and their successors and assigns.  
46

47 For purposes of this Article, the "***Operational Term***" shall commence thirty (30)  
48 days prior to any surface activity on the Leased Premises in furtherance of the  
49 development and production of oil and gas including, but not limited to surveying,  
50 mobilization, location preparation and other such activities preliminary to  
51 development of this Lease.  
52

- 53 (B) The insurance coverage required hereby shall be provided at Lessee's sole expense  
54 and the insurer shall have no recourse against Lessor for payment of premiums or  
55 any assessments required by the policy(s). Deductibles and/or self-insured

1           retentions must be reasonable, within industry standards and, upon request,  
2           disclosed by Lessee to Lessor, with Lessee solely responsible for paying all such  
3           deductibles and/or self-insured retentions.  
4

5       (C)   The insurance coverage required hereby of Lessee shall be provided by a company  
6           authorized to do business in the State of Louisiana having an A.M. Best's rating of  
7           A-:VI or higher. At any time, if an insurer issuing such policy(s) does not meet the  
8           minimum A.M. Best rating, Lessee shall obtain a substitute policy(s) with an  
9           insurer possessing such rating and submit a substitute Certificate of Insurance in  
10          compliance herewith.  
11

12       (D)   Lessee shall furnish to Lessor, initially as required by (A) above, and on an annual  
13          basis thereafter within thirty (30) days of the policy's annual renewal date, a  
14          Certificate(s) of Insurance fully completed and signed by the insurer's authorized  
15          representative evidencing satisfaction of the insurance coverage requirements of  
16          this Article. Additionally, upon request, Lessee shall provide to Lessor the  
17          Declaration Page and the Cancellation Endorsement for the policy(s), along with  
18          any additional endorsements that may be requested by Lessor. These documents  
19          shall be provided to Lessor prior to commencement of the Operational Term, with  
20          the Certificate Holder listed as:  
21

22                   State of Louisiana  
23                   Office of Mineral Resources  
24                   LaSalle Building – 8<sup>th</sup> Floor  
25                   617 North Third Street  
26                   Baton Rouge, Louisiana 70802  
27                   Ref: State Lease No. \_\_\_\_\_  
28

29           If Lessee's obligation to maintain insurance coverage is provisionally suspended in  
30           accordance with (H) below, Lessee still must furnish proof or cause its operator to  
31           furnish proof to Lessor of such coverage as required hereby.  
32

33       (E)   As soon as practicable, but in no event later than fifteen (15) days prior to  
34           occurrence, Lessee shall advise Lessor of the suspension or cancellation of any  
35           policy of insurance. In such event, Lessee shall secure replacement insurance in  
36           compliance with the requirements herein to ensure that continuous coverage is  
37           maintained on the Leased Premises.  
38

39       (F)   Failure of Lessee to maintain and furnish proof of insurance as required hereby  
40           may, at the sole option of Lessor, after notice, reasonable opportunity to cure and  
41           opportunity to be heard, cause this Lease to be terminated. Additionally, Lessee's  
42           failure, after notice, to obtain insurance or provide proof of insurance within thirty  
43           (30) days of receipt of such notice shall subject Lessee to liquidated damages in the  
44           amount of One Hundred (\$100.00) Dollars per day until the earlier of when proof  
45           of such insurance is provided to OMR or the termination or surrender of this  
46           Lease. The liquidated damage assessment may be waived, in whole or in part, for  
47           cause by Lessor. Such failure, however, shall not relieve Lessee of liability nor its  
48           duty to perform the obligations required by this Lease.  
49

50       (G)   In the event of:

51  
52           (1)   An Assignment or other transfer of the entirety of Lessee's interest in this  
53           Lease, upon producing acceptable proof that Lessee's  
54           assignee(s)/transferee(s) has secured insurance coverage as required hereby,  
55           Lessee shall be relieved of its obligation to maintain such coverage.

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

(3) An Assignment or other transfer causing this 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) Lessee and/or its assignee(s)/transferee(s) may request Lessor's authority to provisionally suspend its obligation to maintain insurance by demonstrating to the satisfaction of Lessor 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.

(I) At the discretion of Lessor, Lessee may be authorized to satisfy the requirements of this Article by means of self-insurance. Such authorization will not be unreasonably withheld if Lessee is able to demonstrate sustained financial stability and satisfy all other requirements of Lessor.

**ARTICLE 17 - TITLE DISPUTES**

(A) In the event of a *bona fide* dispute or litigation involving Lessor's ownership or title to any portion of the Leased Premises, Lessee agrees to promptly notify Lessor, in writing, and upon Lessor's request provide any information and/or documentation in Lessee's possession or to which Lessee has access regarding such dispute, including the identity of the adverse claimant(s) and the nature of the dispute. Nothing herein shall be construed as requiring Lessee to secure any such data solely for the purpose of this Article.

(B) During the pendency of and through resolution of the dispute or litigation, Lessee shall comply with all terms, provisions and requirements of this Lease, including the payment of royalty, and shall be deemed in default of payment of royalty if Lessee suspends or stops making royalty payments in compliance with this Lease. However, in lieu of making said payments directly to Lessor, pending settlement or final and definitive adjudication of the title dispute or litigation, Lessee may:

(1) Request and obtain authorization from Lessor to suspend the direct payment of royalty due on the production attributable to the disputed acreage, deposit the royalty payments into an interest bearing escrow account at a FDIC insured financial institution having a presence within the State and otherwise fully comply with the title dispute protocol approved by Lessor; or

(2) Initiate a concursus proceeding and deposit the royalty payments attributable to the disputed acreage into the court registry; or

(3) Take other action as authorized by Lessor.

- 1 (C) Lessor shall accept the funds so deposited as royalty payments attributable to the  
2 disputed acreage such that Lessee shall not be held in default in payment of royalty  
3 if properly computed and timely made in accordance with the terms and provisions  
4 of this Lease, pursuant to an order of the court or in accordance with Lessor's  
5 authorization.  
6
- 7 (D) Nothing herein is intended to waive, release, relinquish or in any way diminish any  
8 rights Lessor may have to review, examine, audit, dispute, challenge or contest any  
9 payments made or not made by or on behalf of Lessee on the production  
10 attributable to the disputed acreage. In the event an audit or other examination  
11 should reveal that the sums deposited into an escrow account or into the registry of  
12 the court are incorrect, Lessee shall remain fully responsible for all royalty  
13 amounts determined to be due and owing, and may be subject to payment of  
14 interest and penalties as required by law or the terms of this Lease.  
15
- 16 (E) Upon termination of any escrow authority, concursus proceeding or other action  
17 authorized by Lessor, royalty payments due on the production attributable to the  
18 disputed acreage shall be made in accordance with the terms of any settlement,  
19 compromise or final, definitive adjudication and pursuant to the terms and  
20 provisions of this Lease.  
21

#### 22 **ARTICLE 18 - TERMINATION AND RELEASE**

- 23
- 24 (A) Lessee may surrender all or any portion(s) of the Leased Premises at any time this  
25 Lease is in effect and thereby be relieved of lease development and maintenance  
26 obligations thereafter accruing as to the acreage surrendered, except that no partial  
27 surrender shall reduce or otherwise affect the amount of rental to be paid to  
28 maintain this Lease during the Primary Term, nor shall any surrender of this Lease,  
29 in whole or in part, relieve Lessee, its successors, transferees or assigns, of its duty  
30 to satisfy unfulfilled lease obligations including, but not limited to plugging and  
31 abandoning wells acquired or drilled by Lessee, Restoring well/production sites, or  
32 complying with Office of Conservation regulations or Commissioner of  
33 Conservation orders pertaining to the status of the well sites/facilities acquired or  
34 installed by such Lessee.  
35
- 36 (B) Within ninety (90) days of any such surrender or upon expiration or termination of  
37 this Lease or any portion thereof, either voluntarily or by its own terms, whether  
38 during or after the Primary Term, Lessee shall execute and record a formal release  
39 evidencing such surrender, expiration or termination with the Clerk of Court of the  
40 parish(es) wherein the Leased Premises is located. Within this same period, Lessee  
41 shall provide a certified copy of this release to Lessor.  
42
- 43 (C) In the event this Lease is otherwise determined to be null *ab initio* or is cancelled  
44 under Article 7(E) above, Lessee may nonetheless retain (and this Lease shall  
45 remain in effect as a single lease as to) forty (40) acres around each well capable of  
46 oil Production in Paying Quantities, and one hundred sixty (160) acres around each  
47 well capable of gas Production in Paying Quantities (including wells drilled under  
48 this Lease by directional drilling). If any well is then being drilled or worked on,  
49 Lessee shall have the right to complete such operations and, in the event such  
50 activity results in completion of a well capable of oil or gas Production in Paying  
51 Quantities, Lessee may also retain (and this Lease shall also remain in effect as a  
52 single lease as to) acreage around each such well as above provided.  
53

54 Retained acreage around any well shall form as near a square tract as is practical. If  
55 any acreage covered by this Lease shall have been included in a Unit, whether

1 established by order of the Commissioner of Conservation or by conventional  
2 agreement, or if any such acreage shall have been assigned to a producing or shut-  
3 in well under statewide allowable orders of the Commissioner of Conservation and  
4 such acreage is actually being drained by the well or would be drained by it if the  
5 well were produced, Lessee may retain all of the acreage included in such Unit(s)  
6 or so assigned for allowable purposes. Thereafter, each area so retained by Lessee  
7 shall be subject to the terms of this Lease and shall not create or constitute a  
8 separate lease.

9  
10 Notwithstanding the foregoing, under no circumstance may Lessee retain acreage  
11 within the Leased Premises if Lessor has obtained a final, non-appealable  
12 judgment terminating this Lease for reasons other than non-development.

13  
14 (D) In complying with the requirements of this Article, Lessee additionally shall  
15 compile a listing of all unplugged wells and facilities owned, or placed and/or  
16 caused to be placed by Lessee on the acreage released and no longer in use that  
17 require abandonment. This list shall be submitted to OMR along with a copy of  
18 the recorded release required hereby. With these documents, in furtherance of  
19 Lessee's obligation to Restore the Leased Premises as herein contemplated, Lessee  
20 also shall provide to Lessor a proposal, in writing, clearly setting forth Lessee's  
21 preliminary plan for plugging and abandoning all such wells and removing all such  
22 facilities in accordance with Article 19 below.

23  
24 (E) In the event, after notice and a reasonable opportunity to cure, Lessee fails to  
25 timely and/or fully comply with the requirements set forth in this Article, Lessee  
26 shall be liable for the reasonable attorney fees and costs incurred by Lessor in  
27 obtaining such release, and for liquidated damages in the amount of One Hundred  
28 (\$100.00) Dollars per day for each day of non-compliance after expiration of said  
29 ninety (90) day period.

30  
31 **ARTICLE 19 - ABANDONMENT AND RESTORATION**

32  
33 (A) Lessee, no later than the applicable Restoration Period (as defined in Article 19(F)  
34 below) for the Leased Premises (or portion thereof) as to which this Lease has  
35 expired, terminated or been surrendered ("**Expired Leased Premises**"), regardless  
36 of whether a formal release has been duly recorded as required by Article 18  
37 above, shall be obligated to (1) plug and abandon all wells Lessee drilled or  
38 acquired on the Expired Leased Premises that are no longer producing or utilized  
39 for operations, (2) remove from the Expired Leased Premises all structures and  
40 facilities owned, placed or caused to be placed by Lessee no longer utilized for  
41 operations or production (it being understood that Lessee may continue to use, as  
42 long as it is being utilized for operations or production under this Lease or is  
43 authorized under a separate agreement, permit or other legal right, any structure or  
44 facility owned, placed or caused to be placed by Lessee on the Expired Leased  
45 Premises before such expiration, termination or surrender), and (3) Restore the  
46 Expired Leased Premises at Lessee's sole risk, cost and expense, and subject to  
47 compliance with all applicable laws, rules and regulations.

48  
49 Lessor recognizes Lessee's right and obligation to draw and remove casing from  
50 wells and further, to remove any structures and facilities no longer utilized in  
51 operations or production on the Expired Leased Premises during the Restoration  
52 Period. However, unless otherwise approved by Lessor, Lessee or its agent shall  
53 not be permitted to salvage and/or remove from the Expired Leased Premises  
54 equipment, machinery, structures or facilities no longer utilized by any wells until  
55 the said wells on the Expired Leased Premises are first plugged and abandoned in

1 accordance with all applicable laws, rules and regulations.

2  
3 (B) Failure of Lessee to satisfy the duties, responsibilities and obligations set forth in  
4 Article 19(A) above during the Restoration Period shall render Lessee liable for  
5 any and all costs and expenses incurred by Lessor for plugging and abandoning  
6 such wells, removing and disposing of said casing, structures and facilities and  
7 Restoration of the Expired Leased Premises. However, under no circumstance  
8 shall title to or ownership of said casing, structures or facilities be forfeited to, vest  
9 in or transfer to Lessor, nor shall said casing, structures or facilities be deemed  
10 “improvements” to the Expired Leased Premises for ownership purposes.

11  
12 (C) Lessee agrees that upon completion of oil and gas exploration and production  
13 activities under this Lease, Lessee shall remove all associated facilities, materials  
14 and equipment (including without limitation all submerged materials, equipment or  
15 debris) that were placed on the Expired Leased Premises by or for the account of  
16 Lessee and may impede commercial fishing and trawling. Additionally, Lessee  
17 shall Restore all affected water bottoms under the Expired Leased Premises.

18  
19 (D) In addition to Restoration of the Leased Premises as contemplated and required by  
20 this Lease, Lessee shall be responsible, without limitation, for all damage to the  
21 Leased Premises caused by its operations including, but not limited to loss or  
22 damage to timber, crops, roads, buildings, fences, bridges, soil, surface and  
23 subsurface water, aquifers and vegetation, and also all environmental damage as  
24 that term is defined in La. R.S. 30:29.

25  
26 (E) After the Restoration Period, Lessee may not trespass upon the released portion of  
27 the Expired Leased Premises to remove any machinery, equipment, structures or  
28 facilities, draw casing from any well or initiate plugging and abandonment or  
29 cleanup obligations without the express approval of Lessor.

30  
31 (F) The **“Restoration Period”** for any Expired Leased Premises shall be one (1) year  
32 from the date when this Lease has expired, terminated or been surrendered as to  
33 such Expired Lease Premises; provided that the Restoration Period may be  
34 extended to provide additional time for Lessee to fulfill obligations under this  
35 Article. To obtain such an extension, Lessee shall appear before Lessor to make  
36 such request and present an abandonment plan for the Expired Leased Premises  
37 and a time schedule to fulfill its obligation to properly plug and abandon such  
38 wells located on, remove from the premises such structures and facilities serving  
39 and Restore the Expired Leased Premises in accordance with this Article. Lessor  
40 may grant Lessee temporary access to the Expired Leased Premises to carry out its  
41 plan, or Lessor may exercise its option to pursue any and all other means available  
42 to satisfy these obligations.

43  
44 (G) Failure of Lessee, after notice and a reasonable opportunity to cure, to satisfy the  
45 duties, responsibilities or obligations set forth in this Article shall subject Lessee to  
46 liquidated damages in the amount of One Hundred (\$100.00) Dollars per day,  
47 commencing the day immediately after the applicable Restoration Period. Such  
48 liquidated damages shall accrue until all such duties, responsibilities and  
49 obligations are fully satisfied unless Lessee, prior to expiration of the Restoration  
50 Period, requests and for good cause shown receives approval from Lessor of an  
51 extension of time to satisfy such requirements.

1 **ARTICLE 20 – NOTICES**

2  
3 Any notice required or permitted to be given under this Lease must be in writing and  
4 addressed to the following (or such other address(es) provided in accordance with this  
5 Article):

6  
7 For Lessee: Name: \_\_\_\_\_  
8 Title: \_\_\_\_\_  
9 Address: \_\_\_\_\_  
10 \_\_\_\_\_  
11 Tel. #: \_\_\_\_\_  
12

13 For Lessor: Office of Mineral Resources  
14 Post Office Box 2827  
15 Baton Rouge, Louisiana 70821-2827  
16 Telephone (225) 342-4615  
17

18 Notice provided by certified mail, return receipt requested, will be deemed to have been  
19 received by the addressee party on the earlier of the actual date of receipt by the addressee  
20 party (as reflected by postal records) or the seventh (7<sup>th</sup>) calendar day after mailing of  
21 such notice; notice provided otherwise shall be deemed given upon receipt by the  
22 addressee party. Failure to update and/or maintain accurate contact information shall not  
23 invalidate any notice given by any party hereto in accordance with the information of  
24 record with OMR. Each party shall have the right to change its address at any time and  
25 from time to time by giving written notice thereof to the other party. Upon an  
26 Assignment, Lessee may also specify additional and/or alternative parties and applicable  
27 information for purposes of notice hereunder.  
28

29 **ARTICLE 21 - INDEMNITY AND HOLD HARMLESS**

30  
31 Lessee unconditionally agrees to respond to, investigate, provide defense for, protect  
32 against, save, indemnify and hold free and harmless the State, the Department of Natural  
33 Resources, the Board and the OMR of, from and against any and all demands, claims,  
34 causes of action, damages, judgments, costs, fees, expenses and attorney fees arising from  
35 any harm, loss, injury or death to any person, or any harm, loss, damage or destruction of  
36 any property resulting from any act, omission, fault or negligence of Lessee or any of  
37 Lessee’s officers, employees, agents, representatives, contractors, subcontractors,  
38 licensees and invitees (or by any assigns or sublessees of Lessee whose Assignment is not  
39 approved by Lessor in accordance with Article 4 above) in conducting activities or  
40 operations in, upon or under the Leased Premises pursuant to the rights granted by this  
41 Lease. The protections afforded by this provision equally apply to the officers,  
42 employees, agents and representatives of the referenced governmental entities.  
43

44 This general indemnity provision is in addition to and shall not be limited in any way by  
45 any specific indemnity provision contained elsewhere within this Lease.  
46

47 **ARTICLE 22 - NO WARRANTY OF TITLE**

48  
49 (A) Notwithstanding any provision herein to the contrary, this Lease is granted and  
50 accepted without any warranty of title and without any recourse against Lessor  
51 whatsoever, either expressed or implied. It is expressly agreed that Lessor shall  
52 not be required to return any payments received hereunder or be otherwise  
53 responsible to Lessee therefor. Lessee represents that it has investigated title to the  
54 Leased Premises and is satisfied with such title as Lessor may have. Lessor hereby  
55 disclaims any covenant of quiet enjoyment or peaceful possession of the Leased

1 Premises.

2

3 (B) Lessor makes no warranties as to the condition of the Leased Premises and Lessee  
4 accepts the Leased Premises "AS IS". Lessor has no obligation to make any  
5 repairs, additions or improvements to the Leased Premises, and Lessor does not  
6 warrant the suitability of the Leased Premises for any purposes intended by Lessee  
7 or contemplated by this Lease.

8

9

**ARTICLE 23 - EXECUTORY CONTRACT**

10

11 Lessor and Lessee herein agree that for so long as this Lease remains in full force and  
12 effect, it is deemed to be an executory contract and an unexpired lease within the meaning  
13 of Section 365 of the United States Bankruptcy Code (or successor statute).

14

15

**ARTICLE 24 - LAW AND FORUM**

16

17 Lessee agrees that the terms and provisions of this Lease shall be construed in accordance  
18 with the laws of the State of Louisiana and that the courts of this State shall be the proper  
19 forum for any litigation related to this Lease, unless such litigation is required to be filed  
20 in or is removed to a federal court of this State.

21

22 Lessee further agrees that the rule of construction requiring that the terms and provisions  
23 of an instrument be construed against the drafting party is not and shall not be applicable  
24 to this Lease.

25

26

**ARTICLE 25 - CONFLICT**

27

28 Notwithstanding any language herein to the contrary, this Lease and Lessee are subject to  
29 all laws, statutes, rules and regulations, state and federal, applicable to the subject matter  
30 of this Lease during the term this Lease is in force and effect, whether in whole or in part.  
31 In the event this Lease imposes on a party any duties, requirements, responsibilities or  
32 obligations greater than those under any applicable law, statute, rule or regulation, the  
33 provisions set forth herein shall control. Furthermore, Lessee shall not use this Lease or  
34 any language contained herein to circumvent any obligation which may be imposed on  
35 Lessee by any applicable law, statute, rule or regulation in effect during the term this  
36 Lease is in force and effect.

37

38

**ARTICLE 26 - SEVERABILITY**

39

40 This Lease sets forth the full terms of the agreement between the parties. If any provision  
41 hereof is found to be invalid for any reason, such provision shall be severed from the  
42 agreement and the remaining terms and provisions shall be fully binding upon the parties.

43

44

**ARTICLE 27 - COUNTERPARTS**

45

46 This Lease may be signed in any number of counterparts, each of which shall be binding  
47 on the parties and constitute the same single agreement. For convenience in recording, a  
48 signature page may be detached from any counterpart and attached to another counterpart.

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[Lessor may execute this Lease either in authentic form using the first signature block below or with a witness acknowledgment using the second signature block below.]

**THUS READ, ACCEPTED AND SIGNED** by Lessor on this \_\_\_\_ day of \_\_\_\_\_, 20XX at Baton Rouge, Louisiana, but effective as of the Effective Date, in the presence of the undersigned competent witnesses who sign their names below with Lessor and me, Notary Public, after due reading of the whole.

WITNESSES: **LESSOR: STATE MINERAL AND ENERGY BOARD**  
for and on behalf of the STATE OF LOUISIANA

\_\_\_\_\_  
Print: \_\_\_\_\_ By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
Print: \_\_\_\_\_

\_\_\_\_\_  
Print Name: \_\_\_\_\_  
Notary Public  
Bar/Notary # \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

\*\*\*\*\*

**THUS READ, ACCEPTED AND SIGNED** by Lessor on this \_\_\_\_ day of \_\_\_\_\_, 20XX, but effective as of the Effective Date, in the presence of the undersigned competent witnesses who sign their names below.

WITNESSES: **LESSOR: STATE MINERAL AND ENERGY BOARD**  
for and on behalf of the STATE OF LOUISIANA

\_\_\_\_\_  
Print: \_\_\_\_\_ By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
Print: \_\_\_\_\_

**Witness Form of Acknowledgment**

State of Louisiana  
Parish of East Baton Rouge

Before me, the undersigned authority in and for the foregoing jurisdiction, personally appeared \_\_\_\_\_ who, upon being duly sworn by me, did state that said appearer was one of the two witnesses to the execution of the foregoing instrument and saw \_\_\_\_\_ execute said instrument as \_\_\_\_\_ of the State Mineral and Energy Board for and on behalf of the State of Louisiana as the free act and deed of said Board and the State of Louisiana in the presence of said appearer and \_\_\_\_\_, the other subscribing witness.

Sworn to and signed before me on this  
\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_. \_\_\_\_\_  
Print Name: \_\_\_\_\_

\_\_\_\_\_  
Print Name: \_\_\_\_\_  
Notary Public  
Bar/Notary # \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

1 [The original Lessee may execute this Lease either in authentic form using the first  
2 signature block below or with a witness acknowledgment using the second signature  
3 block below.]  
4

5 **THUS READ, ACCEPTED AND SIGNED** by Lessee on this \_\_\_\_ day of \_\_\_\_\_, 20XX at  
6 \_\_\_\_\_, State of \_\_\_\_\_, but effective as of the Effective Date, in the presence of the undersigned  
7 competent witnesses who sign their names below with Lessee and me, Notary Public, after due reading of the  
8 whole.  
9

10 WITNESSES: **LESSEE:** \_\_\_\_\_  
11 \_\_\_\_\_  
12 \_\_\_\_\_ By: \_\_\_\_\_  
13 Print Name: \_\_\_\_\_ Print Name: \_\_\_\_\_  
14 \_\_\_\_\_ Title: \_\_\_\_\_  
15 \_\_\_\_\_  
16 Print Name: \_\_\_\_\_  
17  
18

19 \_\_\_\_\_  
20 Print Name: \_\_\_\_\_  
21 Notary Public  
22 Bar/Notary # \_\_\_\_\_  
23 Commission Expires: \_\_\_\_\_  
24

25 \*\*\*\*\*

26  
27 **THUS READ, ACCEPTED AND SIGNED** by Lessee on this \_\_\_\_ day of \_\_\_\_\_, 20XX, but effective as  
28 of the Effective Date, in the presence of the undersigned competent witnesses, who sign their names below.  
29

30 WITNESSES: **LESSEE:** \_\_\_\_\_  
31 \_\_\_\_\_  
32 \_\_\_\_\_ By: \_\_\_\_\_  
33 Print Name: \_\_\_\_\_ Print Name: \_\_\_\_\_  
34 \_\_\_\_\_ Title: \_\_\_\_\_  
35 \_\_\_\_\_  
36 Print Name: \_\_\_\_\_  
37  
38

39 **Witness Form of Acknowledgment for Lessee that is not an Individual**

40 State of \_\_\_\_\_  
41 Parish/County of \_\_\_\_\_  
42

43 Before me, the undersigned authority in and for the foregoing jurisdiction, personally appeared  
44 \_\_\_\_\_ who, upon being duly sworn by me, did state that said appearer was one of the  
45 two witnesses to the execution of the foregoing instrument and saw \_\_\_\_\_ execute said  
46 instrument as \_\_\_\_\_ of \_\_\_\_\_ as the free act and deed of  
47 said entity in the presence of said appearer and \_\_\_\_\_, the other subscribing witness.  
48

49 Sworn to and signed before me on this  
50 \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_. \_\_\_\_\_  
51 Print Name: \_\_\_\_\_  
52 \_\_\_\_\_  
53 \_\_\_\_\_  
54 Print Name: \_\_\_\_\_  
55 Notary Public  
56 Bar/Notary # \_\_\_\_\_  
57 Commission Expires: \_\_\_\_\_  
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**Witness Form of Acknowledgment for Individual Lessee**

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State of \_\_\_\_\_  
Parish/County of \_\_\_\_\_

Before me, the undersigned authority in and for the foregoing jurisdiction, personally appeared \_\_\_\_\_ who, upon being duly sworn by me, did state that said appearer was one of the two witnesses to the execution of the foregoing instrument and saw \_\_\_\_\_ execute said instrument as his/her free act and deed in the presence of said appearer and \_\_\_\_\_, the other subscribing witness.

Sworn to and signed before me on this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_  
Print Name: \_\_\_\_\_

\_\_\_\_\_  
Print Name: \_\_\_\_\_

Notary Public

Bar/Notary # \_\_\_\_\_

Commission Expires: \_\_\_\_\_