

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

3  
4 STATE OF LOUISIANA State Lease No.  
5 PARISH OF EAST BATON ROUGE Louisiana State Lease Form  
6 Revised 2010

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

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

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

33  
34 WHEREAS, by resolution duly adopted, the State Mineral and  
35 Energy Board accepted the bid of whose mailing address is  
36 (hereinafter referred to as "Lessee") as being the most advantageous to  
37 the State of Louisiana: and

38  
39 WHEREAS, for the purposes of this lease, the following definitions  
40 shall apply:

- 41  
42 (i) The term "anniversary date" shall mean the date of this Lease  
43 and the same date of each next ensuing year or years.  
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45 (ii) The term "outside acreage" shall mean all of the leased  
46 premises, except any portion(s) thereof included in a unit or  
47 units on which unitized operations are being conducted.

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(iii) "Actual drilling operations", wherever used in this Lease, means, in good faith: 1) actual drilling (commenced by spudding in) of a new well, or 2) deepening or sidetracking, or 3) plugging back or attempting re-completion in a separate interval of an existing well (all such operations being commenced by actual down hole operations); and "Actual reworking operations" means, in good faith, reconditioning, cleaning out, or otherwise attempting to establish, increase, or restore production in an existing well by down hole operations. Neither of the above shall include the installation of flow lines or other surface facilities of any kind whatsoever needed to produce the well. Once commenced, any such operations shall be deemed to continue so long as they are conducted in good faith without lapse of more than ninety (90) days. Actual drilling operations shall be deemed to terminate on the last day down hole 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 to complete a well as a producer. Drilling operations or reworking operations shall be deemed to terminate on the last day any such down hole operations are conducted in good faith for the purpose of establishing, increasing, or restoring production.

(iv) "Paying Quantities" as used in this Lease means paying quantities as defined by Article 124 of the Louisiana Mineral Code, provided that in addition thereto, and notwithstanding the provisions of Article 125 of said Code, the royalties payable on such production must also be sufficient to constitute a serious or adequate consideration to Lessor to maintain this Lease in effect.

(v) "Acceptable development operations", shall mean either actual drilling operations, or actual reworking operations, or production in paying quantities.

(vi) The term "non-affiliated party" means a company, firm, or other business unit which is not: (1) a direct part of Lessee's corporate or other business structure; (2) a wholly owned, partially owned, or actually or partially controlled subsidiary corporation or other business unit of Lessee; (3) a parent corporation of Lessee; or (4) a wholly or partially owned or actually or partially controlled subsidiary of Lessee's parent corporation.

(vii) For purposes of this Lease an affiliated party shall mean:

1 (1) Ownership or common ownership of more than 50 percent of  
2 the voting securities, or instruments of ownership, or other forms of  
3 ownership, of another person constitutes control (therefore  
4 presumed an affiliate). Ownership of less than 10 percent constitutes  
5 a presumption of non-control ( presumed non-affiliate) that Lessor  
6 may rebut.

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

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

13 (b) With respect to the voting securities, or instruments of  
14 ownership, or other forms of ownership: The percentage of  
15 ownership or common ownership, the relative percentage of  
16 ownership or common ownership compared to the percentage(s) of  
17 ownership by other persons, whether a person is the greatest single  
18 owner, or whether there is an opposing voting bloc of greater  
19 ownership;

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

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

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

26 (3) Regardless of any percentage of ownership or common  
27 ownership, relatives, either by blood or marriage, are affiliates.

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

1 facilities. The leased property, situated in the Parish of      State of  
2 Louisiana, is more fully described as follows:

3  
4        This Lease excludes free sulfur, potash, lignite, salt and other solid  
5 minerals, and geothermal energy. Lessee shall not have any rights to  
6 explore, drill for, mine, produce or take any action whatsoever in regard  
7 to any such solid mineral deposits, nor any rights under this lease in  
8 regard to alternative energy as defined by LA Revised Statute 30:124.

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

24  
25        Further, in accordance with Article XII, Section 10 of the  
26 Constitution of Louisiana, and notwithstanding any language herein to the  
27 contrary, the rights granted herein exclusively to the mineral Lessee shall  
28 be subject to the surface usage for integrated coastal protection or  
29 hurricane and flood protection promulgated, funded and effected through  
30 the State of Louisiana, the Louisiana Coastal Protection and Restoration  
31 Authority, the Louisiana Office of Coastal Protection and Restoration and  
32 the Department of Natural Resources and its divisions, whether solely or  
33 in conjunction with other federal, state, or local governmental agencies,  
34 or with private individuals or entities. Lessee shall hold the State of  
35 Louisiana, including, but not limited to, its political subdivisions such as  
36 the Louisiana State Mineral and Energy Board, the Department of Natural  
37 Resources, and its divisions, the Louisiana Coastal Protection and  
38 Restoration Authority, The Louisiana Office of Coastal Protection and  
39 Restoration, as well as their employees and agents; the United States  
40 Government and its appropriate agencies or political subdivisions,  
41 together with the respective agents and employees of each, and all other  
42 relevant agencies free and harmless from any claims for loss or damages  
43 to the rights of any party arising under this Lease or any other contract,  
44 lease, permit, or license granted to any individual or other entity for any  
45 purpose on state lands or water bottoms from diversions of freshwater or  
46 sediment, depositing of dredged or other materials, integrated coastal  
47 protection project, or any other actions, taken for the purpose of  
48 management, preservation, enhancement, creation, protection, or

1 restoration of coastal wetlands, water bottoms or related, public or  
2 renewable resources. The mineral Lessee, in the exercise of its exclusive  
3 rights granted hereunder, shall utilize the best technology available,  
4 including directional drilling so as to minimize interference with the  
5 ongoing surface usage entailed in the development, construction and  
6 maintenance of the said integrated and/or hurricane and flood protection  
7 projects which will now or may utilize all or a portion of this premises  
8 leased for mineral exploration and development herein.

9  
10 1. Lessee has this day paid to Lessor a cash payment of \_\_\_\_\_  
11 Dollars, one-half (1/2) of which is bonus as full and adequate  
12 consideration for every right granted hereunder and not allocated as mere  
13 rental for a period, and one-half (1/2) of which is rental for the first year  
14 of this Lease. The per acre cash payment stated in the Bid Form shall be  
15 deemed the price paid by Lessee for the acreage believed by the State to  
16 be State owned, and which was advertised as such, within the polygon of  
17 the lease. Should there be shown to have existed at the time the lease was  
18 awarded additional State owned acreage within the polygon of this lease,  
19 Lessee shall owe an additional cash payment equal to the per acre bid  
20 price for this lease times the number of additional acres owned by the  
21 State. This additional cash payment shall not apply to lands which erode  
22 into State owned water bottoms within the lease boundary nor to acreage  
23 which is adjudicated to the State within the lease boundary while this  
24 lease is in effect, though such acreage will be covered by this lease.  
25 Hereinafter, the rental payment shall be the higher of either the annual  
26 rental payment as declared in the Bid Form submitted to Lessor; or one-  
27 half (1/2) the amount of the price per acre as stated in the Bid Form  
28 multiplied by the actual number of acres comprising this lease, including  
29 additional acreage within the lease boundary which existed at the time,  
30 but was not discovered until after the lease was awarded. No additional  
31 rental shall be due on lands which erode into State owned water bottoms  
32 nor on acreage adjudicated to the State during the primary term of this  
33 lease. In addition, if the rental payment amount of this paragraph is in  
34 conflict with any other paragraph or document, the rental payment  
35 amount of this paragraph shall be controlling.

36 2. Subject to the provisions hereof, this Lease shall be for a term of  
37 \_\_\_\_\_ years (hereinafter called "primary term") and so long thereafter as  
38 oil, gas or other liquid or gaseous hydrocarbons are produced in paying  
39 quantities or any operation is conducted, payment is made, or condition  
40 exists, which continues this Lease in force according to its terms.  
41 However, if this Lease is for an inland tract which ordinarily carries a  
42 three year primary term, it will be possible to extend the primary term to  
43 five years if the Mineral and Energy Board determines that certain  
44 conditions have been met. Specifically, prior to the expiration of the  
45 three-year term, Lessee must demonstrate to the Mineral and Energy  
46 Board by convincing evidence that: 1) the Lease is included, or Lessee  
47 has made, and will continue to make, a good faith application for  
48 inclusion of the Lease, within a unit already formed under R.S. 30:5 for a

1 secondary or tertiary recovery project, and 2) bona fide secondary or  
2 tertiary recovery operations within the unit have already begun. If the  
3 Mineral and Energy Board determines that the Lessee has met its burden  
4 of proof regarding the required conditions set forth herein above, the  
5 Mineral and Energy Board shall extend the primary term of this Lease by  
6 two additional years through an acknowledgment resolution having the  
7 effect of a Lease amendment. Thereafter, this Lease may be maintained  
8 under its terms and provisions as if the primary term had originally been  
9 five years.

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

27  
28 (b) During the primary term, if on any rental paying date actual  
29 drilling operations are being conducted on or production in paying  
30 quantities is being obtained from the leased premises, no rental shall be  
31 due at that time. However, if actual drilling operations or production  
32 ceases, and is not re-established within ninety (90) days of cessation, this  
33 Lease shall terminate unless Lessee pays a pro-rata rental based on a  
34 fraction comprised of the remaining calendar days of the then anniversary  
35 period from the end of the ninety (90) day period, as numerator, over the  
36 total calendar days of the then anniversary period, as denominator,  
37 multiplied by the full rental. If actual drilling operations are abandoned  
38 or if production ceases at any time within a period of ninety (90) days  
39 prior to any rental paying date, then Lessee shall have a period of ninety  
40 (90) days after the date of such abandonment of operations or cessation of  
41 production within which to commence or resume production, commence  
42 actual drilling operations on the leased premises, or pay the full rental  
43 payment, and the commencement or resumption of production,  
44 commencement of such operations, or payment of rentals within the  
45 ninety (90) day period shall have the same effect as though resumed,  
46 commenced, or paid on or before the rental paying date.

47  
48 (c) If at the expiration of the primary term oil, gas or other liquid or

1 gaseous mineral is not being produced hereunder, but on or before that  
2 date (or on or before the end of ninety (90) days following cessation of  
3 production or abandonment of a well, if a well be abandoned or  
4 production should cease within ninety (90) days prior to the expiration of  
5 the primary term) Lessee commences actual drilling or reworking  
6 operations on the leased premises in an effort to make the premises  
7 produce any such minerals (or production is commenced or resumed  
8 during such ninety (90) day period), then this Lease shall continue in  
9 force so long as such operations are being conducted in good faith or  
10 production is maintained without a lapse of more than ninety (90) days  
11 between cessation of operations and their recommencement whether on  
12 the same well or wells or on a different well or wells successively, or so  
13 long as the production so commenced or resumed continues in paying  
14 quantities. If at any time or times after the expiration of the primary term  
15 production hereunder should for any reason cease or terminate, Lessee  
16 shall have the right at any time within ninety (90) days from cessation of  
17 production to resume production or actual drilling or actual reworking  
18 operations in an effort to make the leased premises again produce any of  
19 such minerals, which event shall enable this Lease to remain in force so  
20 long as such operations are continued as above provided. If as a result of  
21 any such operations, oil, gas, or other liquid or gaseous hydrocarbon  
22 minerals be found and produced in paying quantities, this Lease shall be  
23 maintained in full force and effect for so long as production continues  
24 without cessation for more than ninety (90) consecutive days.

25  
26 (d) This Lease may be maintained in force by directional drilling  
27 operations (deviation from vertical), in which event actual drilling  
28 operations shall be considered to have commenced on the leased premises  
29 when the drill stem penetrates beneath the surface of the leased premises.

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32 (e) If at any time or times (during or after the primary term) there is  
33 on the leased premises, or off the leased premises, but affecting the leased  
34 premises by means of a unit including all or a portion of this leased  
35 premises, a well or wells capable of producing oil or gas in commercial  
36 quantities, which fact has been duly verified and confirmed in accordance  
37 with Lessor's requirements for proof thereof, but oil or gas is not being  
38 used, produced, or marketed therefrom because of the lack of a marketing  
39 contract after reasonable attempts to secure same, or lack of production or  
40 marketing facilities, and if this Lease is not then being otherwise  
41 maintained by separate operations or production, this Lease shall,  
42 nevertheless, remain in full force and effect for a period of ninety (90)  
43 days after cessation of such production or such operations or the shutting  
44 in of such well. If, on or before the expiration of the ninety (90) day  
45 period, production or operations shall not have been commenced or  
46 resumed, Lessee, in order to maintain the Lease in force thereafter, shall  
47 commence semi-annual payments to the Lessor at the rate and in the  
48 manner provided hereinbelow and thereby maintain the Lease in full force

1 and effect during the periods covered by such payments. However, if the  
2 ninety (90) day period should expire during the first year of the primary  
3 term or during any year for which a rental has previously been paid, the  
4 initial payment hereunder shall not be required until the next anniversary  
5 date of the Lease. However, if operations or production ceases during the  
6 primary term for which period no rental has been paid, or after the  
7 primary term has ended, the first payment, if made, shall be tendered on  
8 or before the expiration of the ninety (90) day period and shall maintain  
9 this Lease for six (6) months, commencing from the expiration of the  
10 ninety (90) day period. Subsequent payments shall be made at six (6)  
11 month intervals thereafter (herein referred to as "shut-in payment dates")  
12 provided that prior to the onset of each subsequent period the Lessee can  
13 demonstrate to the satisfaction of the Lessor that diligent, good faith  
14 effort is ongoing to establish or restore production to the leased premises  
15 from the shut-in well. Unless additional payment periods are earned as  
16 hereinafter provided, Lessee's right to make such payments may,  
17 assuming Lessee's requisite good faith effort is accepted by Lessor prior  
18 to the end of each six (6) month shut-in period, continue for six (6) semi-  
19 annual periods (the total of which is herein called "initial payment  
20 period"). Additional shut-in periods may be granted by Lessor at the  
21 request of Lessee upon a showing of sufficiently compelling  
22 circumstances. Failure to make or tender the shut-in payment on or  
23 before a shut-in payment due date shall terminate this lease.

24  
25 Each semi-annual shut-in payment shall be at the rate of fifty dollars  
26 (\$50.00) per acre for the then existing number of acres covered by this  
27 Lease, but no payment shall be less than one thousand dollars  
28 (\$1,000.00). Each payment shall maintain this Lease in full force and  
29 effect for a period of six (6) months, and during each period for which a  
30 payment has been made, it shall be considered that gas is being produced  
31 hereunder for all purposes hereof; however, if the provisions of this  
32 paragraph are in conflict with those of any other paragraphs hereof, the  
33 provisions of this paragraph shall be controlling.

34  
35 If on any shut-in payment date, actual drilling operations are being  
36 conducted on or actual production of oil, gas or other liquid or gaseous  
37 mineral in paying quantities is being obtained from the leased premises,  
38 no shut-in payment shall be due.

39  
40 If a subsequent shut-in payment is denied by Lessor because Lessee  
41 has failed to demonstrate sufficiently to Lessor that it is diligently, and in  
42 good faith, attempting to remedy the lack of facilities to produce the  
43 product or obtain a market contract for the product, then on the last day of  
44 the previously paid shut-in period, this Lease shall terminate unless it can  
45 be maintained under other provisions hereof, including either a full or  
46 pro-rata rental payment if applicable during the primary term.

47  
48 If during the life of the Lease, the Lessee and/or his successors

1 utilize all six (6) six (6) month periods, the Lessor and Lessee may by  
2 mutual agreement provide for further individual six (6) month periods  
3 (herein called "further periods") beyond the initial payment period, but  
4 only in cases of extraordinary circumstances and at the sole discretion of  
5 the Lessor.

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7  
8 4. In accepting this lease and its terms, Lessee herein agrees that, If  
9 the Lessee, its successors or assigns, or an operator drilling on this lease,  
10 is exempted from furnishing financial security to accompany the permit  
11 to drill any and all wells on these leased premises as set forth in LAC  
12 43:XIX§104, then Lessee, its successors or assigns shall, within ninety  
13 (90) days of the first onset of downhole drilling operations, furnish Lessor  
14 with evidence of a bond or alternate financial security acceptable in form,  
15 content and amount to Lessor (but under no circumstances less than One  
16 Million and No/100 (\$1,000,000.00) Dollars) sufficient for plugging and  
17 abandoning the well being drilled in compliance with the rules and  
18 regulations promulgated by the Office of Conservation from an approved  
19 corporate surety company authorized to transact the business of indemnity  
20 and suretyship in the State of Louisiana, or such other financial assurance  
21 as may be acceptable to the Lessor.

22  
23 The amount of such security and/or bond shall be increased, if  
24 reasonably deemed necessary at the sole discretion of Lessor, as each new  
25 well is drilled on this lease by an amount acceptable to Lessor and  
26 sufficient to plug and abandon each said new well in full accordance with  
27 the rules and regulations promulgated by the Office of Conservation. In  
28 order to comply with the new well requirement, ninety (90) days prior to  
29 drilling any new well, the Lessee shall furnish Lessor proof that existing  
30 security is sufficient to cover the new well in addition to any existing  
31 wells drilled by Lessee, its successors or assigns, or that additional  
32 security has been obtained, or that the existing security has been increased  
33 to cover the additional cost.

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36 The Lessor, after notice to the Lessee and a reasonable opportunity  
37 to be heard, may require a bond or other financial security in a reasonable  
38 amount greater than the amount originally furnished by Lessee where a  
39 greater amount is justified by the nature of the surface and its uses, the  
40 degree of risk, and the nature of the activity involved in the types of  
41 operations being or to be carried out under this Lease. A statewide bond  
42 will not satisfy any requirement of a bond imposed under this  
43 subparagraph, but may be considered by the State in determining the need  
44 for and the amount of any additional bond under this subparagraph.

45  
46 Furthermore, the Lessee agrees and accepts that if the Lessee fails or  
47 refuses, in any respect, to perform, comply or observe all terms,  
48 conditions, and obligations hereunder as set forth in paragraph 11 of this

1 Lease, Lessor shall use the provided security to fully pay for the  
2 performance, completion and discharging of all terms, conditions and  
3 obligations of Lessee under this contract to plug and abandon wells and  
4 remove any structures or facilities.

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

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

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

1 necessary if, on or before the maturity date of the offset obligation or any  
2 deferred maturity date as hereinafter provided, any of the stated  
3 presumptions is rebutted or a unit for the well in question embracing all of  
4 part of the leased premises is formed by agreement with the Board or by  
5 order of the Commissioner of Conservation.

6  
7 In lieu of commencing operations for an offset well as above  
8 provided, Lessee may, at Lessee's option, commence compensatory  
9 payments equal to the royalties herein provided, computed on one-half  
10 (1/2) of the oil, gas, or other liquid or gaseous mineral produced by the  
11 well in question on and after the date operations would have otherwise  
12 been commenced, value to be determined in accordance with the royalty  
13 payment provisions of this Lease. Such payments may be commenced on  
14 or before sixty (60) days after the date operations would otherwise have  
15 been commenced, but shall include any accrued compensatory payments.

16 Thereafter, payments shall be due monthly in accordance with royalty  
17 payment provisions herein. Lessee shall not be in default in either  
18 commencing compensatory payments or in making further payments as  
19 above provided if despite due diligence Lessee is unable timely to obtain  
20 the production information on which such payments are to be based. In  
21 any such case, however, Lessee must on or before the due date of the  
22 payments, notify the Board in writing of Lessee's inability to make such  
23 payment, the reasons therefor, and Lessee's intent to make such payment  
24 at the earliest reasonable time. Compensatory payments may be  
25 continued, at Lessee's discretion, for not more than one year from the date  
26 on which offset operations would otherwise have been commenced. At  
27 the end of that time, or within thirty (30) days from the end of any lesser  
28 period for which payments are made, Lessee shall comply with this offset  
29 obligation if the producing well continues to produce in paying quantities  
30 or to produce its allowable and the other conditions making this  
31 obligation operative are existent. The right to make compensatory  
32 payments is intended to permit Lessee to evaluate further the producing  
33 well, and the making of such payments shall not of itself be sufficient to  
34 maintain this Lease if the Lease is not otherwise being maintained in  
35 force and effect; however, the making of any such payments shall not  
36 prejudice Lessee's right to rebut any of the above enumerated  
37 presumptions.

38  
39 (b) In addition to the specific offset drilling obligation above  
40 provided, should Lessee know or have reason to know that drainage of  
41 the leased premises is occurring, Lessee agrees to protect the leased  
42 premises from drainage of oil, gas, or other liquid or gaseous minerals by  
43 a well or wells on adjoining property which may be more than six  
44 hundred and sixty (660) feet from the leased premises, by whatever means  
45 necessary, including the drilling of a well or wells on the leased premises,  
46 or obtaining the formation of appropriate drilling or production units, or  
47 to take any other steps reasonably necessary to protect the leased premises  
48 against such drainage. If Lessee is the operator of or has a working

1 interest in any such well on adjoining property, Lessee shall be obligated  
2 to take such other steps as may be reasonably necessary to protect the  
3 leased premises within ninety (90) days from the time lessee knows or  
4 reasonably should know that drainage is occurring. In all other cases  
5 Lessee shall be obligated to begin such operations or take such other steps  
6 only within ninety (90) days after receipt of written notice from the  
7 Board.

8  
9 (c) In those instances in which notice is expressly required under  
10 paragraph (a) or (b), above, damages, if due, shall be computed only from  
11 the date on which notice is received or, if Lessee commences  
12 compensatory payments, the date on which such payments are  
13 discontinued. In those instances in which there is no requirement of  
14 notice under (a) or (b), above, damages, if due, shall be computed from  
15 the time Lessee knew or reasonably should have known drainage was  
16 occurring. Damages as set forth herein shall consist of the royalty  
17 percentage of this lease times the value (as calculated herein below in this  
18 lease) of one-half (1/2) of the production from the draining well, and may  
19 include lease cancellation for refusal by Lessee to take the necessary steps  
20 to prevent drainage. Written notice containing a demand for performance  
21 shall be necessary as a prerequisite to any action for cancellation of the  
22 Lease by Lessor for nonperformance of any obligations of Lessee to  
23 protect the leased premises against drainage.

24  
25 6. Unless Lessor elects to take in kind all or any part of the portion  
26 due lessor as royalty on minerals produced and saved hereunder, which  
27 option is hereby expressly reserved by Lessor pursuant to L.R.S. 30:127  
28 C and which is to be exercised by written notice by Lessor to Lessee at  
29 any time and from time to time while this Lease is in effect and either  
30 prior or subsequent to acceptance by Lessor of royalties other than in  
31 kind, it being understood that nothing contained in this Lease shall ever  
32 be interpreted as limiting or waiving said option, Lessee shall pay to  
33 Lessor as royalty:

34  
35 (a) \_\_\_\_\_ of the value, as  
36 hereinafter provided, of all oil, including condensate or other liquid  
37 mineral, produced (produced includes sales, stored or traded in kind) and  
38 saved or utilized by methods considered ordinary production methods at  
39 the time of production. The value of such oil sold to a non-affiliate or  
40 affiliate shall not be less than the fair market price. "Fair market price"  
41 may include one or more of the following: NYMEX, NYMEX + roll,  
42 either of the major Oil Market Centers (St. James "Cushing or Empire) or  
43 any combination of Field Posted Price, plus Platt's P+, plus any market  
44 adjustments or if at a future date the Fair Market Valuation changes to  
45 something other than those listed above, the new method of fair market  
46 valuation may be considered and/or utilized.

47  
48 Lessee shall not make any deduction whatsoever for the cost of any

1 operation, process, facility, or other item considered to be a production  
2 function or facility at the time such oil is run. Without limiting the  
3 foregoing sentence and without regard to classification as production  
4 costs, or otherwise, the following costs are not to be deducted from the  
5 value of production: (1) costs incurred for gathering or transporting  
6 production in the field; (2) costs incurred for handling, treating,  
7 separating, or in any way processing production to make it marketable by  
8 methods considered ordinary at the time such oil is run; (3) the cost of  
9 storage on the Lease or in the field; 4) marketing fees incurred for oil  
10 sales; and 5) line loss. The performance of any producing function or any  
11 function mentioned in clauses (2) and (3) of the foregoing sentence at a  
12 commingled facility in or outside the field in which this Lease is situated  
13 shall not make the cost of any such function deductible.  
14

15 If Lessee delivers such oil at a point outside the field in which this  
16 Lease is situated, Lessee may deduct from the value of such oil the actual  
17 costs of transportation from the field boundary to the point of delivery by  
18 means of facilities belonging to a non-affiliated party. If such  
19 transportation is by means of facilities owned by one other than -a non-  
20 affiliated party, Lessee may deduct the actual cost of such transportation,  
21 but only if such cost is no greater than the fair market value of the  
22 services performed; if actual cost is greater than fair market value, the fair  
23 market value shall determine the amount deductible; however, if the  
24 facilities used are regulated as a common carrier by a state or federal  
25 regulatory agency, the authorized tariff chargeable for the services  
26 rendered and paid by Lessee shall be deemed the fair value of such  
27 services. If such transportation is by means of any facilities owned by  
28 Lessee, Lessee may deduct from the value of production a reasonable sum  
29 for such services, computed as follows: the amount deductible shall  
30 include only (1) the direct cost of operation and maintenance, including  
31 cost of labor, direct supervision, fuel, supplies, ordinary repairs, and ad  
32 valorem taxes; and (2) depreciation of the facility computed over the  
33 estimated life of the field or the reserves.  
34

35 If Lessee receives any compensation for any function or process for  
36 which Lessee is responsible to Lessor without right to deduct costs,  
37 including, but not limited to, (1) handling, gathering, or transporting such  
38 oil, or (2) treating or processing such oil by ordinary methods to make it  
39 marketable, the amount of such compensation shall be added to the value  
40 of such oil when computing royalties. If Lessee is deducting costs for any  
41 functions for which he is also receiving compensation, deductions may be  
42 made only to the extent they are in excess of any such compensation.  
43

44 (b) \_\_\_\_\_ of  
45 the value, as hereinafter provided, of all gas, including casinghead gas,  
46 produced (produced includes sales, vented, stored and utilized gas), sold  
47 and stored saved or utilized by methods considered as ordinary  
48 production methods at the time of production. The value of such gas sold

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

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

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

46  
47 If Lessee receives any compensation for any function or process for  
48 which Lessee is responsible to Lessor without right to deduct costs,

1 including but not limited to, (1) gathering or transporting such gas or (2)  
2 dehydrating, decontaminating, or in any way processing production to  
3 make it marketable, the amount of such compensation shall be added to  
4 the value of such gas when computing royalties. If Lessee is deducting  
5 costs for any functions for which he is also receiving compensation,  
6 deductions may be made only to the extent they are in excess of any such  
7 compensation.

8  
9 (c) In addition to the separation of condensate or other liquid  
10 mineral from gas by ordinary production methods (as to which Lessor  
11 shall receive royalties above provided and for which separation no charge  
12 may be made by Lessee), gas produced hereunder, including casinghead  
13 gas, may be processed in a gasoline or other extraction plant in or serving  
14 the field, and products may be recovered therefrom either directly by  
15 Lessee or under prudently negotiated contracts executed by Lessee. If  
16 Lessee enters into a prudently negotiated contract for the processing of  
17 gas with a non-affiliated party or parties under which such party or parties  
18 retain in kind a portion of the products recovered from or attributed to  
19 such gas, in lieu of processing fees, the in kind portion of the products  
20 kept as the processing fee must be reasonable and prudently negotiated,  
21 just as any processing fee must be reasonable and prudently negotiated.  
22 Lessee shall be held accountable for royalty due on excessive in kind  
23 retention. Lessee shall pay royalty on residue gas sold as detailed for gas  
24 sold in paragraph 6(b) based on the value, as hereinafter determined, of  
25 Lessee's share of such products under such prudently negotiated contract.  
26 Residue gas is defined as: all plant source gas delivered by a producer  
27 for processing, less shrinkage due to liquid extraction, fuel required for  
28 plant equipment necessary for liquid extraction, flare gas and unavoidable  
29 losses. In all other cases Lessee shall pay the royalty provided for gas in  
30 paragraph 6(b) based on the value, as hereinafter determined, of the total  
31 products recovered, after deducting therefrom the costs of processing as  
32 specified below.

33  
34 The price or prices received by Lessee if the products are sold to  
35 non-affiliated party or parties, under a prudently negotiated contract or  
36 contracts, notwithstanding any other language or provision in this  
37 document, it is herein provided, and all parties agree, shall not be less  
38 than a fair market price - which may exceed index price - as may be  
39 determined utilizing the criteria in the succeeding paragraph, subject to  
40 the right of the State, as original Lessor, to verify that fair market price  
41 was paid upon audit.

42  
43 If such products are sold to an affiliated party under a prudently  
44 negotiated contract or are sold to one other than a non-affiliated party  
45 under a contract which would not have been considered prudently  
46 negotiated if executed with a non-affiliated party, the value of the  
47 products shall be their fair market value as detailed above. The value of  
48 any such products (or Lessee's share thereof) not sold under any contracts

1 shall be the fair market value at the plant for such products, or if no  
2 products are being sold at the plant, the average of the market values for  
3 like products of the same grade and quality at the three nearest plants at  
4 which such products are being sold but not less than the "Fair Market  
5 Price" as detailed above.

6  
7 When the cost of processing is not met by retention by the processor of a  
8 share of the products or in any other case in which Lessee may deduct  
9 from the value of such products reasonable and prudent cost of  
10 processing, the charges shall be determined as follows. If the gas is  
11 processed by a non-affiliated party under a prudently negotiated contract,  
12 the reasonable costs which may be deducted shall be those provided in  
13 such contract. In all other cases, including those where the gas is  
14 processed by an affiliated party and those in which the Lessee Itself owns  
15 any part of the plant in which processing occurs, the combined value of  
16 the residue gas under Article 6 and the liquid or gaseous products  
17 resulting from such processing upon which the royalty is determined shall  
18 not be less than the royalty that would be due upon the value (as  
19 determined under the provisions of Article 6 b of the volume of the gas  
20 before processing, produced, saved and utilized from the leased property).

21

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

25

26 In all other cases, including processing by those other than a non-  
27 affiliated party or parties and those in which Lessee itself or in  
28 conjunction with others owns the plant, the charges should be determined  
29 by contract between Lessee and Lessor. In the absence of such a contract  
30 the charges to be deducted shall include only the proportionate part of (1)  
31 the direct cost of operating and maintain the plant, computed annually,  
32 including cost of labor and on-site supervision, shrinkage, materials,  
33 supplies and ordinary repairs; (2) depreciation of the plant, less salvage  
34 value, computed over the life or lives of the field or fields served by the  
35 plant, or by such other method as is agreed upon by Lessor and Lessee;  
36 and (3) ad valorem taxes.

37

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

42

43 In no case should total royalty on residue gas and liquids extracted  
44 be less than the royalty which would be payable at the Lease on the  
45 unprocessed gas.

46

47 (d) \_\_\_\_\_ of

1 any and all other liquid or gaseous hydrocarbon minerals in solution and  
2 produced with oil or gas and saved or utilized, which are not specifically  
3 mentioned herein, said royalties to be delivered or paid when marketed or  
4 utilized as is the accepted practice in such matters.

5  
6 (e) In all cases, Lessor's royalty shall be calculated and paid after  
7 deduction of all severance or production taxes.

8  
9 (f) The first payment of royalty shall be made within one hundred  
10 twenty (120) days following commencement of production from, or  
11 allocation of production to the leased premises, except that in the case of  
12 any production from or allocable to the leased premises, which has  
13 occurred prior to the date of but which is deemed to be covered by this  
14 Lease, Lessee hereby agrees to pay Lessor's royalty on all such prior  
15 production within one hundred twenty (120) days from the date of this  
16 Lease. Thereafter, royalty on oil, including condensate or other liquid  
17 mineral, produced and saved at the well by ordinary production methods  
18 shall be paid by the 25th of each month for production of the previous  
19 month; and royalty on gas, including liquids or other products extracted  
20 or processed from gas other than by ordinary production methods, or  
21 other liquid or gaseous mineral not specifically mentioned shall be paid  
22 on or before the 25th day of the second month following that in which  
23 produced or extracted or processed. In the event any royalty payment is  
24 not correctly or timely made, the remedies provided by L.A.R.S. 31:137  
25 through 142 relative to notice, damages, interest, attorney fees, and  
26 dissolution shall be applicable, except that interest shall be payable  
27 thereon until paid without any requirement for prior written notice by  
28 Lessor to Lessee.

29  
30 7. (a) Lessee may surrender all or any portion or portions of the  
31 leased premises at any time this Lease is in effect and thereby be relieved  
32 of all obligations thereafter accruing under this Lease as to the portions  
33 surrendered except the following: no partial release or surrender shall  
34 reduce or otherwise affect the amount of rentals to be paid to maintain the  
35 lease during the primary term as provided for hereinabove, nor shall any  
36 release of the Lease, in whole or in part, relieve original Lessee or any of  
37 its successors or assigns of any obligations to plug and abandon wells,  
38 clean up the well or production site, or any other obligations arising under  
39 this lease, Commissioner of Conservation rulings, or regulations  
40 pertaining to the status of well sites, or under other portions of this lease.

41  
42 (b) Within ninety (90) days after expiration or termination by its  
43 own terms of this Lease or any portion thereof, either during or after the  
44 primary term hereof, Lessee shall execute and record an appropriate  
45 release evidencing such expiration or termination, and shall also supply  
46 Lessor with a copy or copies thereof properly certified by the recorder or  
47 recorders of the parish or parishes in which the leased premises are  
48 located. In the event Lessee fails to timely comply therewith, Lessee shall

1 be liable for reasonable attorney fees and court costs incurred in bringing  
2 suit for such cancellation and release. It is further agreed, however, that  
3 liquidated damages shall be paid by Lessee to Lessor in the amount of  
4 One Hundred Dollars (\$100.00) per day for each day of non-compliance  
5 after expiration of said ninety (90) day period, regardless of whether suit  
6 is filed for cancellation and release, and for such additional compensatory  
7 damages as Lessor may prove. Lessee, its successors or assigns, hereby  
8 waives any further notice of default or otherwise and confesses judgment  
9 as regards the liquidated damages accruing as herein set forth.

10  
11 (c) In fulfilling its obligations under paragraph 7. by properly  
12 releasing the Lease, Lessee shall obtain from the operator a list of all  
13 unplugged wells and facilities no longer in use that require abandonment,  
14 record same with the release and send a certified copy of the release with  
15 the list to Lessor. Lessee shall also attach to the copy of the release and  
16 send to Lessor a reasonable plan for plugging and abandoning all wells  
17 and removing all facilities on the list, including removal of all surface  
18 facilities, and restoring the leased premises as herein contemplated.

19  
20  
21 8. The parties hereto understand and agree to the following:

22  
23 (a) No assignment or other transfer of any rights or interests granted to  
24 Lessee, its successors or assigns, under this lease shall be valid unless  
25 prior approval by the Lessor has been obtained, and further, that any such  
26 assignment or transfer made without Lessor's prior approval shall be null  
27 and void ab initio.

28  
29 (b) An assignment or other transfer made by Lessee, its successors or  
30 assigns, including any language to the contrary which may be contained  
31 within those documents notwithstanding, which has been approved by the  
32 Lessor does not relieve original Lessee, or any of its successors or  
33 assigns, of any and all obligations, duties, or responsibilities incurred  
34 under the terms of this lease.

35  
36 (c) In addition, no assignment or transfer of this Lease shall be valid  
37 unless a provision has been made by the assignor or transferor and  
38 assignee or transferee to have the financial security and insurance set  
39 forth as required in this lease, maintained in full force and effect  
40 following the assignment or other transfer into the hands of the assignee;  
41 which financial security shall be attached to each and every well located  
42 on that portion of the leased premises being transferred. Written evidence  
43 of the maintenance of said financial security and insurance shall be  
44 presented together with the assignment or other transfer at the time same  
45 as submitted for Lessor's approval. The same shall hold true for each and  
46 every successive assignment or transfer of an interest in this lease.

47  
48 (d) Lessee agrees that Lessor, in determining whether to consent to any

1 proposed assignment or other transfer, may reasonably consider the  
2 proposed assignee or other transferee's financial capacity (including the  
3 ability to obtain required insurance and other financial security under the  
4 terms of this Lease) and the ability to continue reasonable development of  
5 the leased premises. Lessor may refuse to consent to such assignment if,  
6 in the Lessor's reasonable opinion, the proposed assignee or other  
7 transferee lacks the necessary financial capacity to meet the obligations  
8 under the terms of this lease or technical capacity to sustain reasonable  
9 development of the leased premises. Should Lessor not consent to the  
10 assignment or other transfer submitted for approval, whether or not same  
11 is recorded, the assignor or other transferor, as well as his ancestors in  
12 title, shall remain the then present holder of this lease for all purposes,  
13 rights, duties, obligations, and benefits appertaining hereto.

14  
15 (e) Upon compliance with the provisions of LA R.S. 30:128 and  
16 approval by Lessor, all the terms, provisions and conditions of this Lease  
17 shall be binding upon and shall insure to the benefit of the respective  
18 successors, assigns, and/or sublessees.

19  
20  
21  
22 9.(a) Lessee may, with the consent and approval of Lessor, pool or  
23 unitize the acreage covered by this Lease (or any portion thereof),  
24 including in combination with other property or leases (or portions  
25 thereof). Operations on or production of minerals from property other  
26 than this lease within the pooled or unitized area, whether units created by  
27 the Commissioner of Conservation or by conventional agreement, shall  
28 have the same effect as if said operations or production had occurred on  
29 the leased premises with respect to lease maintenance within said pooled  
30 or unitized area. No unit or pooling agreement shall be approved by the  
31 Lessor unless a unit plat compiled and certified by a licensed surveyor  
32 showing the unit outline and each Lease or other property interest within  
33 the unit as having been surveyed accompanies and is attached to the unit  
34 or pooling agreement.

35  
36 (b) Should Lessee apply or give notice of intent to apply to the  
37 Commissioner of Conservation for the creation of any unit or units which  
38 would include all or any portion of the leased premises, Lessee shall  
39 furnish Lessor with a copy of the notice or application, accompanying  
40 unit plat, and all other attached information, either at the time the  
41 application is filed with the Commissioner or at the time required by  
42 applicable orders or regulations of the Commissioner for furnishing such  
43 information, to any parties entitled to receive it, whichever is earlier. If a  
44 unit or units including all or any part of the leased premises are created by  
45 order of the Commissioner, Lessee shall submit to Lessor a survey plat of  
46 each unit or units so created, either prior to or within ninety (90) days of  
47 initial production from the unit. The survey plat of the unit or units must  
48 clearly identify the state lease acreage, tract acreage and the unit

1 percentage participation for each state lease tract. Failure to submit such  
2 a plat shall result in a cumulative liquidated damage assessment against  
3 Lessee in the amount of one hundred dollars (\$100.00) per day, beginning  
4 on the ninety-first (91<sup>st</sup>) day, from onset of unit production until the  
5 required plat is in the office of Lessor.

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

16  
17 (d) If on the date of this Lease all or any portion of the leased  
18 premises is included in a unit established by order of the Commissioner of  
19 Conservation, Lessee agrees to pay royalty on all oil, gas or other liquid  
20 or gaseous mineral produced and saved or utilized and attributable to the  
21 leased premises from the date of such unit regardless whether all  
22 development and operating costs chargeable to the leased premises have  
23 been paid.

24  
25 (e) Deferred Development: Notwithstanding anything to the  
26 contrary herein contained, it is understood and agreed that if, during the  
27 primary term of this Lease, or within two (2) years after the primary term  
28 (if the Lease remains in force and effect at that time), a portion of the  
29 property covered by this Lease is integrated and included or placed in a  
30 pooled or combined unit, either by itself or with other lands and/or leases,  
31 whether by order of an authorized governmental agency or by  
32 conventional contract, then commencement of actual drilling operations  
33 or actual reworking operations on, or production in commercial quantities  
34 being obtained from or attributed to, a well situated on lands or property  
35 within the unit ( herein collectively referred to as "unitized operations")  
36 shall maintain this Lease in force and effect as to the entirety of the leased  
37 premises subject specifically, however, to the following:

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

41  
42 i) When unitized operations commenced during an annual  
43 period within the primary term for which a rental payment had been  
44 made, on or before the next ensuing anniversary date following said  
45 commencement of unitized operations, Lessee either commences  
46 acceptable development operations on the outside acreage ("non-  
47 unitized operations") or pays to Lessor a sum of money equal to  
48 one-half of the per acre cash payment made for this lease multiplied

1 times the number of acres then comprising the outside acreage  
2 (hereinafter referred to as a “deferred development payment”);  
3 which payment shall maintain this lease in full force and effect as to  
4 the outside acreage from the next ensuing anniversary date for a  
5 twelve month period until the then next ensuing anniversary date  
6 after that. Thereafter, in the absence of non-unitized operations  
7 thereon calculated to maintain this lease in force as to the outside  
8 acreage, successive deferred development payments on then existing  
9 outside acreage made on or before successive ensuing anniversary  
10 dates shall maintain this lease in full force and effect as to said  
11 outside acreage for successive twelve month periods not to exceed  
12 two (2) years after the primary term of this lease; or

13  
14 ii) When unitized operations commenced during an annual  
15 period for which no rental had been paid during the primary term, or  
16 within two years after the expiration of the primary term, and the  
17 lease has been otherwise maintained under its term, Lessee, within  
18 ninety (90) days of commencement of unitized operations, either  
19 commences non-unitized operations on the outside acreage or pays  
20 to Lessor a pro-rata deferred development payment on the then  
21 existing outside acreage (to be calculated as a sum of money equal  
22 to the deferred development payment multiplied by a fraction equal  
23 to the number of days remaining from the end of ninety (90) days  
24 from commencement of unitized operations until the next ensuing  
25 anniversary date, as numerator, over the total number of days of that  
26 annual period, as denominator), which payment shall maintain this  
27 lease in full force as to the outside acreage until the next ensuing  
28 anniversary date. Thereafter, successive deferred development  
29 payments on then existing outside acreage made on or before  
30 successive ensuing anniversary dates shall maintain this lease in full  
31 force and effect as to said outside acreage, absent non-unitized  
32 operations on the outside acreage calculated to maintain this lease in  
33 force for successive twelve month periods up to a maximum of two  
34 years beyond the primary term.

35  
36 If unitized operations should commence within ninety (90) days of  
37 an anniversary date for which a deferred development payment would be  
38 available, if paid, to maintain this lease in full force and effect, absent  
39 non-unitized operations on the outside acreage, Lessee may make a full  
40 deferred development on or before the end of the ninety (90) day period.

41  
42 Nothing contained in this subsection (e) is intended to create nor  
43 shall have the effect of creating several or separate Leases, or in any  
44 manner to extend, increase or limit the obligation of Lessee to protect the  
45 leased premises from drainage as stated in the Lease, or otherwise. If at  
46 any time, either during the primary term of the Lease or the limited  
47 extension of the Lease beyond its primary term as provided hereinabove,  
48 as to the outside acreage not then being otherwise held under the terms

1 hereof, Lessee conducts non-unit drilling operations or non-unit  
2 reworking operations or obtains non-unit production from the leased  
3 premises (collectively defined as Anon-unitized operations”), then the  
4 provisions of this paragraph shall not thereafter apply so long as said non-  
5 unitized operations shall continue without cessation for a period longer  
6 than ninety (90) days.

7  
8 The provisions of this subsection (e) shall also be applicable to a  
9 unitized shut-in gas well, but in this event, the annual deferred  
10 development payment shall be reduced by deducting therefrom the  
11 amount of shut-in gas well payments paid, if any, during the same period  
12 under subsection (f) hereafter of the Lease which is applicable to the  
13 acreage on which the deferred development payment is applicable. The  
14 provisions of this paragraph shall also apply to any unit, ordered or  
15 created, which wholly underlies the property covered by this Lease.

16  
17 At the end of the primary term Lessee shall release back to and in  
18 favor of Lessor all of Lessee’s right, title and interest in this Lease as to  
19 all depths below one hundred feet (100’) below the deepest formation  
20 producing, or the deepest formation behind pipe capable of producing at  
21 that time.

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

42  
43  
44 (b) All records which are filed by or received from any person by the  
45 Office of Mineral Resources of the Department of Natural Resources, or  
46 any official or employee in the Office of Mineral Resources of the  
47 Department of Natural Resources, or which in any manner is in the

1 custody or control of the Office of Mineral Resources of the Department  
2 of Natural Resources, or any official or employee in the office of mineral  
3 resources of the Department of Natural Resources shall be deemed public  
4 record except where the record is designated as confidential by law.

5  
6 (c) Nothing in this paragraph shall require that Lessee furnish or  
7 permit inspection of any interpretation of any of the types of data referred  
8 to above, and nothing herein shall be construed as requiring Lessee to  
9 secure any such data solely for the purposes of this paragraph. Lessor's  
10 representatives shall have access at all reasonable times to examine and  
11 inspect Lessee's records and operations pertaining to the leased premises  
12 or lands pooled therewith.

13  
14 (d) Failure to comply with this requirement shall result in liquidated  
15 damages to be paid by Lessee to Lessor of \$100 per day for each day of  
16 non-compliance starting 30 days after the date on which the well reaches  
17 total vertical depth.

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

38  
39 (b) After one year, the Lessee may not, without the express  
40 approval of the State Mineral and Energy Board, trespass upon the  
41 premises which makes up this lease to fulfill its plug and abandonment,  
42 and cleanup obligation, but shall remain obligated under this Lease to  
43 appear before the State Mineral and Energy Board, at its request to  
44 explain the failure to properly plug and abandon all wells and restore the  
45 leased premises to as near as possible its prelease condition, and further,  
46 Lessee at that time shall utilize the plan filed with the release to fulfill its  
47 obligations as set forth in this Lease. The Mineral and Energy Board may  
48 grant Lessee temporary access to the former leased premises to carry out

1 its plan, or the Mineral and Energy Board may exercise its option to  
2 pursue any and all other means at its disposal to restore the premises.

3  
4 (c) The failure to do any of the specified acts in this part shall  
5 jointly and severally subject the then Lessee(s) to assessment of a  
6 liquidated damage in the amount of one hundred (\$100.00) dollars per  
7 day from the end of one year from the lease termination date until all  
8 duties and responsibilities of Lessee(s) are carried out. This liquidated  
9 damage shall in no way impinge on the use by Lessor of the financial  
10 security furnished by Lessee(s) to carry out the duties and obligations of  
11 this lease.

12  
13 (d) In addition to restoration of the leased premises as  
14 contemplated and required by this Lease, Lessee shall be responsible for  
15 all damages to the leased premises caused by his operations without  
16 limitation, including, but not limited to, timber, crops, roads, buildings,  
17 fences, soil, surface and subsurface water, aquifers and vegetation and all  
18 "environmental damage" as that term is defined in La. R.S. 30:29 or any  
19 successor statutes.

20  
21 12. If at any time this Lease is being validly maintained under any  
22 of its provisions and Lessee is in the process of either: A) commencing  
23 Lease operations which are herein defined as spudding a well [turning-to-  
24 the-right], downhole drilling, or downhole reworking operations, or (B)  
25 diligently, timely and in good faith performing requisite tasks to  
26 commence Lease operations including, but not necessarily limited to,  
27 towing the required type of rig to a drill site, obtaining permitting from all  
28 necessary parties, or satisfying conditions and obligations under any  
29 validly enacted law, statute or regulation of an agency of the Federal  
30 Government, the State of Louisiana or any of its political subdivisions  
31 having proper jurisdiction, or C) producing in commercial quantities, and  
32 Lessee is prevented from continuing A, B, or C by the occurrence of a  
33 Force Majeure event, as herein below defined, then shall the critical date  
34 be postponed on a day-for-day basis for so long as the effects of the Force  
35 Majeure prevail, providing that Lessee: i) has given the Office of Mineral  
36 Resources reasonable, timely written notice of the Force Majeure event  
37 occurrence [notice given beyond three months shall be deemed  
38 unreasonable barring consequential extenuating circumstances], and ii) an  
39 affidavit which shall contain the date and type of the occurrence of the  
40 Force Majeure event, its effects in preventing continuation of A, B, or C  
41 above, the steps being taken to mitigate and eliminate those effects and an  
42 estimated time for resuming of A, B, or C above, and iii) is diligently,  
43 reasonably and in good faith attempting to mitigate and eliminate the  
44 effects of the fortuitous event and resume A, B, or C above. The  
45 interpretation and operation of any term of this Force Majeure clause is at  
46 the sole, reasonable discretion of the Mineral and Energy Board and/or its  
47 duly authorized staff. The operation of Force Majeure alone shall not  
48 maintain this Lease in full force and effect for more than six (6) months

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

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

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

39  
40 Force Majeure, as herein utilized shall be defined as a fortuitous  
41 event such as: 1) a major storm, major flood, or other, similar natural  
42 disaster, or 2) a major accident such as a blowout, fire, or explosion  
43 beyond Lessee's control and not ultimately found to be the fault of Lessee  
44 [that is, due to Lessee's negligent or intentional commission or omission,  
45 or failure to take reasonable and timely, foreseeable preventative  
46 measures which would have mitigated or negated the effects of the  
47 fortuitous event], or 3) the lack of availability of any required equipment  
48 and/or personnel C such as the specific type of rig necessary to

1 accomplish the task or specific types of casing or drill stem pipe C after  
2 Lessee has diligently, timely and in good faith attempted to secure same,  
3 or 4) the unreasonable delay by the federal government or any of its  
4 agencies, or the State of Louisiana or any of its agencies or political  
5 subdivisions (including, but not limited to, various departments, boards,  
6 commissions, parish governments and municipalities, each having proper  
7 authority and jurisdiction) in granting necessary permits, or 5) a valid  
8 order of any Federal or State court of competent jurisdiction, or 6) the act  
9 of a third party not under the control or at the instigation of Lessee in  
10 shutting down and unreasonably refusing to reopen any facility through  
11 which hydrocarbons from the Lease are necessarily passed as part of  
12 production [and providing there is no other reasonably economical  
13 method of carrying on production]”.

14  
15 13. (a) Lessee hereby agrees that in exercising the rights granted it  
16 under the lease, it will comply with and be subject to all current  
17 applicable environmental laws and regulations and those validly adopted  
18 or issued, by the United States and its agencies, and by the State of  
19 Louisiana and its agencies, and by any applicable local government.  
20 Lessee further agrees that it will comply with all minimum water quality  
21 standards validly adopted by said governmental authorities with respect to  
22 pollution, noxious chemicals, and waste being introduced into affected  
23 water areas. Further, in conducting all storage operations under this lease  
24 requiring dredging, filling, or local navigation in order to conduct oil and  
25 gas exploration and production operations, Lessee shall comply with the  
26 applicable requirements of the environmental management of said area.

27  
28 (b) For the purpose of this lease, any material now or hereinafter  
29 designated as or containing components now or hereinafter designated as  
30 hazardous, toxic, dangerous, or harmful, and/or which are subject to  
31 regulation as hazardous, toxic, dangerous, or harmful material by any  
32 federal, state or local law, regulation, statute or ordinance shall be  
33 transported, stored and handled in accordance and compliance with the  
34 provision of applicable federal, state, and local law, including but not  
35 limited to, 42 U.S.C. 6901 et. seq. (RCRA), 42 U.S.C. 9601 et. seq.  
36 (CERCLA), existing presently, or as subsequently enacted or amended.

37  
38  
39 14. (a) Lessee shall be responsible for any pollution or other  
40 damage to any portion of the environment in or adjacent to the leased  
41 property which occurs as a result or consequence of Lessee's occupation,  
42 oil and gas exploration, production operations and use of the premises,  
43 irrespective of whether or not such pollution or damage may be due to  
44 negligence or to the inherent nature of Lessee's operations. For the  
45 purpose of this lease, pollution shall be deemed to include, without  
46 limitation, the intrusion of oil, natural gas, liquid or liquefied  
47 hydrocarbons, or carbon dioxide into any segment of the environment not  
48 previously containing same.

1  
2 Lessee shall use the highest degree of care and all proper  
3 safeguards to prevent land or water pollution resulting from drilling,  
4 construction, transportation, and other oil and gas exploration and  
5 production operations pursuant to this Lease. Lessee shall use all means at  
6 its disposal to recapture all escape pollutants and shall be solely  
7 responsible for all damages, if any, to aquatic or marine life, wildlife,  
8 birds, and any public or private property that may result from any such  
9 land, air or water pollution occasioned by Lessee's operations hereunder.  
10 Lessee shall report all unpermitted discharges of pollutants pursuant to  
11 any Federal or State statutes and regulations and to Louisiana Department  
12 of Environmental Quality and Louisiana Department of Conservation  
13 within five (5) calendar days or within the time required by federal, state,  
14 or local laws, whichever is earlier.

15  
16 All reasonably necessary preparations and precautions shall be  
17 made by the Lessee in order to prevent fire and explosion and to prevent  
18 contamination of any portions of the total environment of the leased  
19 property; provided, that nothing herein shall be construed as lessening or  
20 reducing Lessee's obligations under other applicable statutes, rules and  
21 regulations of the State of Louisiana and the United State of America.

22  
23 (b) Lessee shall indemnify, defend, and hold harmless Lessor,  
24 employees, officers, and agents with respect to any and all damages,  
25 costs, liabilities, fees (including reasonable attorneys' fees and costs),  
26 penalties (civil or criminal), and cleanup costs arising out of or in any  
27 way related to Lessee's use, disposal, transportation, generation, sale and  
28 location upon or affecting the leased property of Hazardous Substances as  
29 defined in Section 13(b) of this Lease. This indemnity shall extend to  
30 actions of Lessee's employees, agents, assigns, subleases, contractors,  
31 subcontractors, licensees, and invitees. Lessee shall further indemnify,  
32 defend, and hold harmless lessor from any and all damages, costs,  
33 liabilities, fees (including reasonable attorneys' fees and costs), penalties  
34 (civil or criminal), and cleanup costs arising out of or related to any  
35 breach of the provisions of this Lease concerning Hazardous Substances  
36 and/or negligent operations. This indemnity is in addition to, and in no  
37 way limits, the general indemnity contained in paragraph 4 of this Lease.

38  
39 (c) Further, in conducting any operations under this Lease requiring  
40 dredging, filling, or local navigation in order to conduct oil and gas  
41 exploration and production operations, Lessee shall comply with the  
42 applicable requirements of the environmental management of said area.  
43 Lessee agrees that, upon completion of oil and gas exploration and  
44 production operations under this Lease, Lessee shall remove all facilities,  
45 materials, and equipment that would impede commercial fishing and  
46 trawling, including, without limitation, all submerged materials,  
47 equipment, or debris placed on the leased premises by or for the account  
48 of Lessee; and Lessee shall return or restore, to the extent reasonably

1 possible of accomplishment, all affected water bottoms to a condition as  
2 nearly equivalent to that which existed before said operations were  
3 conducted and/or structures were constructed. Lessee further agrees that  
4 in exercising the rights granted hereunder and in discharging the  
5 obligations undertaken, it will allow sufficient lead time in the planning  
6 of its activities to permit the affected regulatory agencies to make  
7 appropriate review of the proposed operations.  
8

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

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

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

### 38 15. Comprehensive and Liability Insurance

39

40 (a) Lessee shall, at its sole expense, provide and maintain in full  
41 force and effect during the term of this Lease a general comprehensive  
42 liability insurance with Lessor as a named insured party in an amount not  
43 less than One Million Dollars (\$1,000,000.00) for each occurrence and  
44 Five Million Dollars (\$5,000,000.00) in the aggregate, which shall cover  
45 Lessee and Lessor for damage claims including, but not limited to,  
46 personal injury, accidental death, property loss, environmental  
47 impairment or pollution that may arise from operations conducted under  
48 this Lease or any occurrence on or about the leased premises whether

1 such operations are by Lessee or anyone directly, or indirectly, employed  
2 by Lessee. Lessor shall be named as additional insured as their interests  
3 may appear on Lessee's liability insurance. Lessee shall also maintain  
4 equivalent insurance coverage for the operation of its motor vehicles.

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

9  
10 (c) Lessee shall provide Lessor with a certificate of insurance for its  
11 comprehensive general liability insurance and pollution liability insurance  
12 demonstrating the above coverage prior to beginning its operations on the  
13 leased premises.

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

21  
22 (e) Failure of Lessee to provide or maintain insurance coverage as  
23 set forth herein may, at the sole option of Lessor, terminate this contract.

24  
25  
26 16. In all suits arising out of this contract, the parties hereto agree  
27 that this Lease is to be interpreted in accordance with Louisiana Law and  
28 that Louisiana Law shall govern, and that the state courts of Louisiana  
29 shall be the proper forum, unless such suit is required to be filed in or is  
30 removed to any federal court in this state.

31 In case of ambiguity, this Lease shall always be construed in favor  
32 of Lessor and against Lessee.

33  
34 17. In the event of any bona fide dispute or litigation involving  
35 Lessor's ownership or title to any portion of the leased premise, Lessee  
36 agrees to promptly notify Lessor in writing of the nature of said adverse  
37 claim in reasonable detail, identifying the adverse claimant, and the basis  
38 and extent of Lessee's accountability to said adverse claimant for any oil,  
39 gas or other liquid or gaseous mineral produced from or attributable to  
40 such portion of the leased premise.

41  
42 Lessee shall comply with all the terms and provisions of the lease  
43 throughout any bona fide dispute or litigation and shall be held in default  
44 in payment of such royalty if Lessee suspend or stop royalty payment in  
45 accordance with the terms of the lease unless the Lessor grants one of the  
46 following exceptions:

- 1 a. Pending final and definitive adjudication or other settlement of said  
2 title dispute or litigation, and if disputing party is not receiving a  
3 minimum royalty, the Lessee shall obtain written approval from the  
4 Lessor to suspend royalty payable hereunder on oil, gas or other  
5 liquid or gaseous mineral produced from or attributable to this Lease  
6 in order to deposit said royalty payment into either an interest  
7 bearing bank account with a bank in good financial standing and  
8 insured by the Federal Deposit Insurance Corporation (FDIC) or  
9 into the registry of the court in which the concursus litigation was  
10 filed. If the Lessee deposits the money into an interest bearing bank  
11 account, Lessee shall demonstrate to Lessor that it deposited the  
12 funds into the highest possible interest bearing account and it shall  
13 supply Lessor with verification of said account and a copy of any  
14 deposits or withdrawals from said account and monthly account  
15 statements showing the balance in said account. Lessor shall accept  
16 said royalty deposit as royalties on production of said minerals from  
17 said portion of the leased premises as royalty payment due pursuant  
18 to the terms and provision of this Lease and Lessee shall not be held  
19 in default in payment of such royalty payments if deposited royalty  
20 payments are computed and made in accordance with the terms and  
21 provisions of this lease or pursuant to the terms of a court's order.  
22 When said title dispute or litigation shall be resolved by either a  
23 final and definitive adjudication or a settlement and comprise  
24 agreement, then the deposit of the royalty payment into the interest  
25 bearing bank account or into the registry of the court shall cease  
26 effective as of the effective date of said final and definitive  
27 adjudication or other settlement. The money in said interest bearing  
28 bank account or in the registry of the court shall be disbursed in  
29 accordance with the terms of said final and definitive adjudication  
30 or settlement and comprise agreement. Thereafter, royalty payment  
31 on said minerals shall be made in accordance with the terms of said  
32 final and definitive adjudication or settlement and comprise  
33 agreement and pursuant to the terms and provisions of this Lease; or  
34
- 35 b. Pending final and definitive adjudication or other settlement of said  
36 title dispute or litigation, the Lessee shall obtains written approval  
37 from the Lessor to reduce royalty payable hereunder on oil, gas or  
38 other liquid or gaseous mineral produced from or attributable to this  
39 Lease. The royalty payment required pursuant to the terms of this  
40 Lease may be reduced by Lessor to one-half (1/2) of the royalties on  
41 production of said minerals, but not below the minimum royalties

1 requirements of LA. R.S. 30:127. The reduced royalty payment  
2 shall be computed and paid or delivered to Lessor in the same  
3 manner as the royalties on said minerals herein elsewhere stipulated.  
4 Lessee shall deposit the unpaid funds into either an interest bearing  
5 bank account with a bank in good financial standing and insured by  
6 the Federal Deposit Insurance Corporation (FDIC) or into the  
7 registry of the court in which the concursus litigation was filed. If  
8 the Lessee deposits the money into an interest bearing bank account,  
9 Lessee shall demonstrate to Lessor that it deposited the funds into  
10 the highest possible interest bearing account and it shall supply  
11 Lessor with verification of said account and a copy of any deposits  
12 or withdrawals from said account and monthly account statements  
13 showing the balance in said account. Pending final and definitive  
14 adjudication or other settlement and comprise agreement of said title  
15 dispute or litigation, Lessee shall pay or deliver said reduce royalty  
16 of oil, gas or other liquid or gaseous mineral produced from or  
17 attributable to this Lease to Lessor. Lessor shall accept said reduced  
18 royalties on production of said minerals from said portion of the  
19 leased premises as royalty payment due pursuant to the terms and  
20 provision of this Lease and Lessee shall not be held in default in  
21 payment. Lessee shall have no right to suspend, fail to pay or  
22 recover said reduced royalty payment on production of said  
23 minerals made to Lessor. When said title dispute or litigation shall  
24 be resolved by either a final and definitive adjudication or a  
25 settlement and comprise agreement, Lessee shall make royalty  
26 payments on said mineral in accordance with the terms of said final  
27 and definitive adjudication or settlement and comprise agreement  
28 and pursuant to the terms and provisions of this Lease. The unpaid  
29 funds in said interest bearing bank account or in the registry of the  
30 court shall be disbursed in accordance with the terms of said final  
31 and definitive adjudication or settlement and comprise agreement.  
32

33 18. (a) This Lease is subject to the provisions of La. R.S.  
34 30:127(G), and access by the public to public waterways through the state  
35 lands covered by the Lease shall be maintained and preserved for the  
36 public by the lessee.  
37

38 (b) The Lessor shall have the right to use all existing roads and/or  
39 any roads, and waterways constructed or reconstructed by the Lessee for  
40 any and all purposes deemed necessary or desirable in connection with  
41 the control, management, harvest, and administration of Lessor-owned

1 land or resources thereof. Lessor reserves the right to issue rights-of-way  
2 and easements upon leased premises so long as such rights-of-way or  
3 easements do not unreasonably interfere with any of Lessee's operations  
4 conducted according to the rights granted in this Lease.

5  
6 (c) In addition, the Lessor, or any of its authorized agents or  
7 representatives, shall at all times during the term of this Lease have the  
8 use of any and all parts of the property for any and all purposes so long as  
9 the Lessor does not unreasonably interfere with the rights and  
10 performance of Lessee under this Lease. Specifically, the Lessor shall  
11 have the right to enter and conduct all resource management activities,  
12 integrated coastal protection projects, including, but not limited to,  
13 activities associated with timber management. The Lessor shall also have  
14 the right to sell, exchange, transfer, or otherwise dispose of all or part of  
15 the leased premises subject to this Lease.

16  
17 (d) The rights reserved under this paragraph may be exercised by  
18 Lessor, or by any other person or entity acting under the authority of the  
19 Lessor, in any manner that does not unreasonably interfere with or  
20 endanger the Lessee's operations under this Lease.

21  
22 (e) All rights pertaining to the leased premises not expressly  
23 granted to the Lessee by this Lease, or necessarily implied therein, are  
24 hereby reserved to the Lessor

25  
26 19. (a) Lessor, or any entity acting as agent under the authority of  
27 Lessor, shall have the right, at any time upon reasonable notice, to  
28 examine, audit, or inspect books, records, and accounts of Lessee  
29 pertinent to the purpose of verifying the accuracy of the reports and  
30 statements furnished to the Lessor. The Lessee shall permit the Lessor or  
31 its agents to examine all supporting books, records and accounting  
32 systems at all reasonable times. Such books, records and accounting  
33 systems must employ methods and techniques that will ensure the most  
34 accurate figures reasonably available. Lessee agrees to and shall use  
35 generally accepted accounting principles consistently applied in the  
36 preparation of same. In order to prevent the impairment of an ongoing  
37 audit investigation by the Office of Mineral Resources, all audit working  
38 papers, records or any information provided by the entity being audited  
39 shall remain confidential during the investigation and until the audit is  
40 complete. Once the audit investigation has been deemed complete by the  
41 Office of Mineral Resources, all audit working papers, records and  
42 information obtained under this Subtitle shall be made available to the  
43 public except where the record is designated as confidential by law.

1 (b) In addition to all other audit rights otherwise set forth in this  
2 Lease or required by the law, the State and Energy Board and its staff  
3 shall have the same audit rights which the United States of America  
4 would have under 30 U.S.C. 1713(a) and under State of Louisiana Act  
5 449 of 2005 Regular Session, LA R.S. 47:1542 through 47:1548.  
6

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

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

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

27 22. Lessee agrees that any failure by the Lessor to enforce any  
28 provision, obligations, conditions, rights, and privileges in connection  
29 with the lease shall not constitute a waiver or relinquishment by the  
30 Lessor of its rights, privileges and/or remedies. Furthermore, Lessee  
31 agrees that it shall not hold or use Lessor's failure to enforce any  
32 provisions, obligations, conditions, rights and privileges as a defense in  
33 any future dispute or litigation. All the provisions, obligations, conditions  
34 of the lease and any and all of Lessor's rights and privileges shall remain  
35 valid and in force despite the failure of the Lessor to previously enforce  
36 them.  
37

38 23. This agreement sets forth the full terms of the agreement  
39 between the parties. If any section of this agreement is found to be  
40 invalid for any reason, such section shall be severed from the agreement  
41 and the remainder of the terms and conditions of this agreement shall be  
42 binding on the parties.  
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THUS DONE, READ, ACCEPTED, AND SIGNED by the parties hereto in the presence of the respective undersigned witnesses, as of the \_\_\_\_\_ day of \_\_\_\_\_, A.D. \_\_\_\_\_, which shall be the date of this Lease for all purposes.

WITNESSES to the signature of Lessor:

\_\_\_\_\_  
\_\_\_\_\_

STATE MINERAL AND ENERGY BOARD  
By:

For the State of Louisiana,

Lessor

WITNESSES to the signature of Lessee:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

For

Lessee

**WITNESS FORM OF  
ACKNOWLEDGMENT FOR STATE MINERAL AND ENERGY BOARD**

STATE OF LOUISIANA  
PARISH OF EAST BATON ROUGE

Before me, the undersigned authority, personally came and appeared \_\_\_\_\_, who by me being first duly sworn, deposed and said:  
That he/she is one of the witnesses to the execution of the foregoing instrument and that he/she saw \_\_\_\_\_ sign said instrument as \_\_\_\_\_ of the State Mineral and Energy Board for and on behalf of the State of Louisiana, in the presence of appearer and \_\_\_\_\_ the other subscribing witness.  
Sworn to and subscribed before me on this the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

Appearer

Notary Public

**WITNESS FORM OF  
ACKNOWLEDGMENT FOR CORPORATE LESSEE**

STATE OF \_\_\_\_\_ OF \_\_\_\_\_

Before me, the undersigned authority, personally came and appeared \_\_\_\_\_, who by me being first duly sworn, deposed and said:  
That he/she is one of the witnesses to the execution of the foregoing instrument and that he/she saw \_\_\_\_\_ execute said instrument as \_\_\_\_\_ of \_\_\_\_\_ as the free act and deed of said corporation in the presence of appearer and \_\_\_\_\_, the other subscribing witness.  
Sworn to and subscribed before me on this the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

Appearer

Notary Public

**WITNESS FORM OF  
ACKNOWLEDGMENT FOR INDIVIDUAL LESSEE**

STATE OF \_\_\_\_\_ OF \_\_\_\_\_

Before me, the undersigned authority, personally came and appeared \_\_\_\_\_, who by me being first duly sworn, deposed and said:

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That he/she is one of the witnesses to the execution of the foregoing instrument and that he/she saw  
\_\_\_\_\_ execute said instrument as his own free act and deed in  
the presence of appearer and \_\_\_\_\_, the other subscribing witness.  
Sworn to and subscribed before me on this the  
\_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

Appearer

Notary Public