

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 Aactual 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) APaying 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.

30  
31 [Added the definitions part to make it easier to follow those terms in the new](#)  
32 [lease.](#)

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

1 telephone and electric transmission lines, and other structures and/or  
2 facilities. The leased property, situated in the Parish of      State of  
3 Louisiana, is more fully described as follows:

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

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

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

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

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

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38 **PRESENT LEASE LANGUAGE**

39  
40 1. Lessee has this day paid to Lessor a cash payment of \_\_\_\_\_  
41 \_\_\_\_\_ Dollars one-  
42 half (1/2) of which is bonus as full and adequate consideration for every  
43 right granted hereunder and not allocated as mere rental for a period, and  
44 one-half (1/2) of which is rental for the first year of this lease.

45  
46 **Added additional language to make sure that additional water bottoms**  
47 **which are discovered later within the lease polygon, but which existed at the**  
48 **time the lease was awarded, will be paid for by Lessee, both in cash payment**

1 and rental; though lands eroding into state water bottoms after lease  
2 awarded do not require additional payment. Miami Corp. lease form has  
3 rental paid by the acre with language “but not less than” to cover the same  
4 situation. Bath (6) lease form also has per acre rental payments after first  
5 year to cover same.

6  
7 2. Subject to the provisions hereof, this Lease shall be for a term of  
8 \_\_\_\_ years (hereinafter called “primary term”) and so long thereafter as  
9 oil, gas or other liquid or gaseous hydrocarbons are produced in paying  
10 quantities or any operation is conducted, payment is made, or condition  
11 exists, which continues this Lease in force according to its terms.  
12 However, if this Lease is for an inland tract which ordinarily carries a  
13 three year primary term, it will be possible to extend the primary term to  
14 five years if the Mineral and Energy Board determines that certain  
15 conditions have been met. Specifically, prior to the expiration of the  
16 three-year term, Lessee must demonstrate to the Mineral and Energy  
17 Board by convincing evidence that: 1) the Lease is included, or Lessee  
18 has made, and will continue to make, a good faith application for  
19 inclusion of the Lease, within a unit already formed under R.S. 30:5 for a  
20 secondary or tertiary recovery project, and 2) bona fide secondary or  
21 tertiary recovery operations within the unit have already begun. If the  
22 Mineral and Energy Board determines that the Lessee has met its burden  
23 of proof regarding the required conditions set forth herein above, the  
24 Mineral and Energy Board shall extend the primary term of this Lease by  
25 two additional years through an acknowledgment resolution having the  
26 effect of a Lease amendment. Thereafter, this Lease may be maintained  
27 under its terms and provisions as if the primary term had originally been  
28 five years.

29  
30 3. (a) If actual drilling operations are not commenced hereunder on  
31 the leased premises in good faith on or before one year from the effective  
32 date hereof, this Lease shall then terminate unless Lessee on or before the  
33 expiration of that period shall pay or tender to the Lessor the sum of  
34 \_\_\_\_\_ Dollars (hereinafter called “rental” as same is set  
35 forth in paragraph 1 herein) which shall not be less than one-half of the  
36 above cash payment and which shall extend for twelve (12) months the  
37 time within which drilling operations may be commenced. Thereafter,  
38 annually, in like manner and upon like payments or tenders, or payments  
39 or tenders as may be modified as set forth in paragraph 1 hereinabove, all  
40 of Lessee’s rights hereunder may be maintained without actual drilling  
41 operations for successive periods of twelve (12) months each during the  
42 primary term. Payment or tender of rental may be made by check or draft  
43 of Lessee made payable to the order of Office of Mineral Resources and  
44 delivered or mailed with U.S. postmark date to Lessor’s office on or  
45 before the rental paying date.

46  
47 (b) During the primary term, if on any rental paying date actual  
48 drilling operations are being conducted on or production in paying

1 quantities is being obtained from the leased premises, no rental shall be  
2 due at that time. However, if actual drilling operations or production  
3 ceases, and is not re-established within ninety (90) days of cessation, this  
4 Lease shall terminate unless Lessee pays a pro-rata rental based on a  
5 fraction comprised of the remaining calendar days of the then anniversary  
6 period from the end of the ninety (90) day period, as numerator, over the  
7 total calendar days of the then anniversary period, as denominator,  
8 multiplied by the full rental. If actual drilling operations are abandoned  
9 or if production ceases at any time within a period of ninety (90) days  
10 prior to any rental paying date, then Lessee shall have a period of ninety  
11 (90) days after the date of such abandonment of operations or cessation of  
12 production within which to commence or resume production, commence  
13 actual drilling operations on the leased premises, or pay the full rental  
14 payment, and the commencement or resumption of production,  
15 commencement of such operations, or payment of rentals within the  
16 ninety (90) day period shall have the same effect as though resumed,  
17 commenced, or paid on or before the rental paying date.

18

19 3. If actual drilling operations are not commenced hereunder on the  
20 leased premises in good faith on or before one year from the date hereof, this  
21 lease shall then terminate unless Lessee on or before the expiration of that  
22 period shall pay or tender to the Lessor the sum of

23

24 \_\_\_\_\_ Dollars

25 (hereinafter called "rental") which shall not be less than one-half of the  
26 above cash payment and which shall extend for twelve (12) months the time  
27 within which drilling operations may be commenced. Thereafter, annually,  
28 in like manner and upon like payments or tenders, all of Lessee's rights  
29 hereunder may be maintained without actual drilling operations for  
30 successive periods of twelve (12) months each during the primary term.  
31 Payment or tender of rental may be made by check or draft of Lessee made  
32 payable to the order of Office of Mineral Resources and delivered or mailed  
33 by registered mail to said office on or before the rental paying date.

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35 4.(a) If on any rental paying date actual drilling operations are being  
36 conducted on or production in paying quantities is being obtained from the  
37 leased premises, no rental shall be due for the annual rental period then  
38 commencing; if actual drilling operations be abandoned at any time within a  
39 period of ninety (90) days prior to any rental paying date or if production  
40 ceases within such ninety (90) days, Lessee shall have a period of ninety  
41 (90) days after the date of such abandonment of operations or cessation of  
42 production within which to commence or resume production, commence  
43 actual drilling operations on the leased premises, or make the rental  
44 payment, and the commencement or resumption of production,  
45 commencement of such operations, or payment of rental within the ninety  
46 (90) day period shall have the same effect as though resumed, commenced,  
47 or paid on or before the rental paying date.

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1 Old lease form does not have provision for pro-rata rentals during the  
2 primary term. However, large landowner leases, such as Miami Corp, do  
3 have pro-rata payment from the end of the 90 day period. California leases  
4 have Lessee paying rental every year during primary term and, if production  
5 occurs, a royalty on top of rental. Pennsylvania has a per acre rental (\$20)  
6 escalating over fixed periods of the primary term and reduced if producing  
7 well drilled by per acre rental on acreage attributable to the producing well.  
8 Landowner lease (JMB Partnership) has pro-rata rentals.

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

35  
36 (d) This Lease may be maintained in force by directional drilling  
37 operations (deviation from vertical), in which event actual drilling  
38 operations shall be considered to have commenced on the leased premises  
39 when the drill stem penetrates beneath the surface of the leased premises.

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42 (e) If at any time or times (during or after the primary term) there is  
43 on the leased premises, or off the leased premises, but affecting the leased  
44 premises by means of a unit including all or a portion of this leased  
45 premises, a well or wells capable of producing oil or gas in commercial  
46 quantities, which fact has been duly verified and confirmed in accordance  
47 with Lessor's requirements for proof thereof, but oil or gas is not being  
48 used, produced, or marketed therefrom because of the lack of a marketing

1 contract after reasonable attempts to secure same, or lack of production or  
2 marketing facilities, and if this Lease is not then being otherwise  
3 maintained by separate operations or production, this Lease shall,  
4 nevertheless, remain in full force and effect for a period of ninety (90)  
5 days after cessation of such production or such operations or the shutting  
6 in of such well. If, on or before the expiration of the ninety (90) day  
7 period, production or operations shall not have been commenced or  
8 resumed, Lessee, in order to maintain the Lease in force thereafter, shall  
9 commence semi-annual payments to the Lessor at the rate and in the  
10 manner provided hereinbelow and thereby maintain the Lease in full force  
11 and effect during the periods covered by such payments. However, if the  
12 ninety (90) day period should expire during the first year of the primary  
13 term or during any year for which a rental has previously been paid, the  
14 initial payment hereunder shall not be required until the next anniversary  
15 date of the Lease. However, if operations or production ceases during the  
16 primary term for which period no rental has been paid, or after the  
17 primary term has ended, the first payment, if made, shall be tendered on  
18 or before the expiration of the ninety (90) day period and shall maintain  
19 this Lease for six (6) months, commencing from the expiration of the  
20 ninety (90) day period. Subsequent payments shall be made at six (6)  
21 month intervals thereafter (herein referred to as "shut-in payment dates")  
22 provided that prior to the onset of each subsequent period the Lessee can  
23 demonstrate to the satisfaction of the Lessor that diligent, good faith  
24 effort is ongoing to establish or restore production to the leased premises  
25 from the shut-in well. Unless additional payment periods are earned as  
26 hereinafter provided, Lessee's right to make such payments may,  
27 assuming Lessee's requisite good faith effort is accepted by Lessor prior  
28 to the end of each six (6) month shut-in period, continue for six (6) semi-  
29 annual periods (the total of which is herein called "initial payment  
30 period"). Additional shut-in periods may be granted by Lessor at the  
31 request of Lessee upon a showing of sufficiently compelling  
32 circumstances. Failure to make or tender the shut-in payment on or  
33 before a shut-in payment due date shall terminate this lease.

34  
35 Each semi-annual shut-in payment shall be at the rate of fifty dollars  
36 (\$50.00) per acre for the then existing number of acres covered by this  
37 Lease, but no payment shall be less than one thousand dollars  
38 (\$1,000.00). Each payment shall maintain this Lease in full force and  
39 effect for a period of six (6) months, and during each period for which a  
40 payment has been made, it shall be considered that gas is being produced  
41 hereunder for all purposes hereof; however, if the provisions of this  
42 paragraph are in conflict with those of any other paragraphs hereof, the  
43 provisions of this paragraph shall be controlling.

44  
45 If on any shut-in payment date, actual drilling operations are being  
46 conducted on or actual production of oil, gas or other liquid or gaseous  
47 mineral in paying quantities is being obtained from the leased premises,  
48 no shut-in payment shall be due.

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

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

(d) If at any time or times (during or after the primary term) there is on the leased premises a well or wells capable of producing gas in paying quantities, which fact has been duly verified and confirmed in accordance with Lessor's requirements for proof thereof, but gas is not being used or marketed therefrom because of the lack of a reasonable market or marketing facilities or governmental restrictions and if this lease is not then being otherwise maintained by separate operations or production, this lease shall, nevertheless, remain in full force and effect for a period of ninety (90) days after cessation of such production or such operations or the shutting in of such well. If, on or before the expiration of the ninety (90) day period, production or operations shall not have been commenced or resumed, Lessee, in order to maintain the lease in force thereafter, shall commence semi-annual payments to the Lessor at the rate and in the manner provided hereinbelow and thereby maintain the lease in full force and effect during the periods covered by such payments; however, if the ninety (90) day period should expire during the first year of the primary term or during any year for which a rental has previously been paid, the initial payment hereunder shall not be required until the next anniversary date of the lease. The first payment, if made, shall be tendered on or before the expiration of the ninety (90) day period or the appropriate anniversary date, as the case may be, and shall maintain this lease for six (6) months, commencing from the expiration of the ninety (90) day period or the anniversary date. Subsequent payments shall be made at six (6) month intervals thereafter (herein referred to as "shut-in payment dates"). Unless additional payment periods are earned as hereinafter provided, Lessee's right to make such payments shall continue for six (6) semi-annual periods (the total of which is herein called "initial payment period"). Each semi-annual payment shall be at the rate of twenty-five dollars (\$25.00) per acre for the number of acres then covered by this lease, but no payment shall be less than five hundred dollars (\$500.00). Each payment shall maintain this lease in full force and effect for a period of six (6) months, and during each period for which a payment has been made, it shall be considered that gas is being produced hereunder for all purposes

1 hereof, but especially under the provisions of Articles 2, 4, 7, and 9;  
2 however, if the provisions of this paragraph 6(d) are in conflict with those of  
3 any other articles hereof, the provisions of this paragraph shall be  
4 controlling.

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6 If on any shut-in payment date, actual drilling operations are being  
7 conducted on or actual production of oil, gas or other liquid or gaseous  
8 mineral in paying quantities is being obtained from the leased premises, no  
9 shut-in payment shall be due until the next shut-in payment date; however,  
10 the running of the initial payment period shall not be suspended or  
11 interrupted, and the same shall be true of any extension of that period by  
12 additional shut-in periods earned as hereinafter provided.

13  
14 The initial payment period may be extended in the following manner.  
15 Lessee may earn two (2) additional six (6) month shut-in payment periods  
16 beyond the initial payment period for each additional well drilled or  
17 completed after completion of the shut-in well on which the initial shut-in  
18 payment was made (whether such additional wells are dry holes, producers,  
19 or shut-in wells). To qualify as a well "completed" after the first shut-in  
20 well, the completion must be in another hole, and no more than one  
21 completion will be counted for each additional hole regardless of the number  
22 of sands in any such hole. The aggregate additional periods (hereinafter  
23 referred to as "additional periods") so earned shall not exceed a total of six  
24 (6). The first of any additional periods shall commence from the date on  
25 which the initial payment period would have expired and the initial payment  
26 period, thus extended, shall continue to run from that date, regardless  
27 whether Lessee is actually required to make any additional payments. The  
28 Board and Lessee may by mutual agreement provide for further six (6)  
29 month periods (hereinafter called "further periods") beyond the initial  
30 payment period and any extension thereof.

31  
32 If the end of the initial payment period falls within the primary term of  
33 this lease and at a time when there is a remaining rental date which would  
34 permit Lessee to maintain this lease by payment of rentals, Lessee may  
35 commence or resume the payment of rentals on the next anniversary date of  
36 this lease or may maintain this lease by any other means permitted under  
37 paragraphs 4(a) and 4(c). If the end of the initial payment period or any  
38 extension thereof falls within the last year of the primary term, it shall be  
39 considered that production has ceased under the terms of paragraph 4(a), and  
40 no rental shall be due for the remainder of the primary term. If the end of the  
41 initial payment period, any extension thereof, or any further period falls on  
42 or after the expiration date of the primary term and there are no operations or  
43 actual production sufficient to maintain this lease under the provisions of  
44 paragraphs 4(b) and 4(c), this lease shall terminate.

45  
46 The provisions of this paragraph shall be applicable to any well with a  
47 gas/oil ratio such that the Commissioner of Conservation will not permit its  
48 operation without use or sale of the gas.

1  
2 Tender or acceptance of a shut-in payment or payments shall not free  
3 Lessee of any obligation to develop this lease as a prudent operator or to  
4 exercise diligent efforts to obtain a market for the gas so discovered.  
5

6 Present lease form has shut-in for gas well only and limits to six, six-  
7 month periods. New lease form has shut-in for oil and gas and has initial  
8 six, six-month periods, but can ask for more. Large landowner leases (Miami  
9 Corp and JMB Partnership) have either a shut-in gas well clause paying a  
10 shut-in sum or well ceases production and resume rental payment clause.  
11 Alaska's lease has a provision for suspension of operations. Texas leases  
12 provide for a shut-in payment of double the annual rental, but not less than  
13 \$1,200.  
14  
15  
16

17 4. In accepting this lease and its terms, Lessee herein agrees that, If  
18 the Lessee, its successors or assigns, or an operator drilling on this lease,  
19 is exempted from furnishing financial security to accompany the permit  
20 to drill any and all wells on these leased premises as set forth in LAC  
21 43:XIX§104, then Lessee, its successors or assigns shall, within ninety  
22 (90) days of the first onset of downhole drilling operations, furnish Lessor  
23 with evidence of a bond or alternate financial security acceptable in form,  
24 content and amount to Lessor (but under no circumstances less than One  
25 Million and No/100 (\$1,000,000.00) Dollars) sufficient for plugging and  
26 abandoning the well being drilled in compliance with the rules and  
27 regulations promulgated by the Office of Conservation from an approved  
28 corporate surety company authorized to transact the business of indemnity  
29 and suretyship in the State of Louisiana, or such other financial assurance  
30 as may be acceptable to the Lessor.  
31

32 The amount of such security and/or bond shall be increased, if  
33 reasonably deemed necessary at the sole discretion of Lessor, as each new  
34 well is drilled on this lease by an amount acceptable to Lessor and  
35 sufficient to plug and abandon each said new well in full accordance with  
36 the rules and regulations promulgated by the Office of Conservation. In  
37 order to comply with the new well requirement, ninety (90) days prior to  
38 drilling any new well, the Lessee shall furnish Lessor proof that existing  
39 security is sufficient to cover the new well in addition to any existing  
40 wells drilled by Lessee, its successors or assigns, or that additional  
41 security has been obtained, or that the existing security has been increased  
42 to cover the additional cost.  
43  
44

45 The Lessor, after notice to the Lessee and a reasonable opportunity  
46 to be heard, may require a bond or other financial security in a reasonable  
47 amount greater than the amount originally furnished by Lessee where a  
48 greater amount is justified by the nature of the surface and its uses, the

1 degree of risk, and the nature of the activity involved in the types of  
2 operations being or to be carried out under this Lease. A statewide bond  
3 will not satisfy any requirement of a bond imposed under this  
4 subparagraph, but may be considered by the State in determining the need  
5 for and the amount of any additional bond under this subparagraph.

6  
7 Furthermore, the Lessee agrees and accepts that if the Lessee fails or  
8 refuses, in any respect, to perform, comply or observe all terms,  
9 conditions, and obligations hereunder as set forth in paragraph 11 of this  
10 Lease, Lessor shall use the provided security to fully pay for the  
11 performance, completion and discharging of all terms, conditions and  
12 obligations of Lessee under this contract to plug and abandon wells and  
13 remove any structures or facilities.

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

32  
33 [There is no bonding provision in present lease form. Texas provides](#)  
34 [both a codal and contractual lien on minerals in ground and produced as well](#)  
35 [as other assets of Lessee as guarantee for payment of royalty and other sums.](#)  
36 [Alaska lease provides for a bond on the lease prior to issuance which can be](#)  
37 [increased after reasonable hearing to Lessee. Pennsylvania lease requires](#)  
38 [financial security in form acceptable to state. MMS requires a bond to drill.](#)

39  
40  
41 5. The obligations set forth in this paragraph are applicable only to  
42 wells drilled on property other than the leased premises, and which is not  
43 part of a pooled unit containing all or any portion of the leased property;  
44 which non-unitized property is hereinafter referred to as Adjoining  
45 property.”

46  
47 (a) If at any time during or after the primary term there is completed  
48 on adjoining property a well located within six hundred and sixty (660)

1 feet of the leased premises (or within any spacing or pooling unit distance  
2 greater than 660 feet established by the Commissioner of Conservation)  
3 and such well produces oil, gas, or other liquid or gaseous mineral in  
4 paying quantities for twenty (20) days (which need not be consecutive)  
5 during any period of thirty (30) days, or produces its monthly allowable  
6 during such thirty (30) day period, Lessee agrees that the following  
7 rebuttable presumptions will arise: (1) that the leased premises are thereby  
8 being drained; (2) that the leased premises are not being reasonably  
9 protected from drainage by any well or wells on the leased premises or  
10 land pooled therewith; and (3) that an offsetting well on the leased  
11 premises would be economically feasible. If Lessee is the operator of or  
12 has a working interest in the wells on the adjoining property, Lessee will  
13 begin actual drilling operations for a well on the leased premises within  
14 ninety (90) days after the end of the above thirty (30) day period. In all  
15 other cases Lessee shall be required to begin such operations only within  
16 ninety (90) days after receipt of written notice from the Board of the  
17 expiration of the above thirty (30) day period. No offset well shall be  
18 necessary if, on or before the maturity date of the offset obligation or any  
19 deferred maturity date as hereinafter provided, any of the stated  
20 presumptions is rebutted or a unit for the well in question embracing all of  
21 part of the leased premises is formed by agreement with the Board or by  
22 order of the Commissioner of Conservation.

23  
24 In lieu of commencing operations for an offset well as above  
25 provided, Lessee may, at Lessee's option, commence compensatory  
26 payments equal to the royalties herein provided, computed on one-half  
27 (1/2) of the oil, gas, or other liquid or gaseous mineral produced by the  
28 well in question on and after the date operations would have otherwise  
29 been commenced, value to be determined in accordance with the royalty  
30 payment provisions of this Lease. Such payments may be commenced on  
31 or before sixty (60) days after the date operations would otherwise have  
32 been commenced, but shall include any accrued compensatory payments.

33 Thereafter, payments shall be due monthly in accordance with royalty  
34 payment provisions herein. Lessee shall not be in default in either  
35 commencing compensatory payments or in making further payments as  
36 above provided if despite due diligence Lessee is unable timely to obtain  
37 the production information on which such payments are to be based. In  
38 any such case, however, Lessee must on or before the due date of the  
39 payments, notify the Board in writing of Lessee's inability to make such  
40 payment, the reasons therefor, and Lessee's intent to make such payment  
41 at the earliest reasonable time. Compensatory payments may be  
42 continued, at Lessee's discretion, for not more than one year from the date  
43 on which offset operations would otherwise have been commenced. At  
44 the end of that time, or within thirty (30) days from the end of any lesser  
45 period for which payments are made, Lessee shall comply with this offset  
46 obligation if the producing well continues to produce in paying quantities  
47 or to produce its allowable and the other conditions making this  
48 obligation operative are existent. The right to make compensatory

1 payments is intended to permit Lessee to evaluate further the producing  
2 well, and the making of such payments shall not of itself be sufficient to  
3 maintain this Lease if the Lease is not otherwise being maintained in  
4 force and effect; however, the making of any such payments shall not  
5 prejudice Lessee's right to rebut any of the above enumerated  
6 presumptions.

7  
8 (b) In addition to the specific offset drilling obligation above  
9 provided, should Lessee know or have reason to know that drainage of  
10 the leased premises is occurring, Lessee agrees to protect the leased  
11 premises from drainage of oil, gas, or other liquid or gaseous minerals by  
12 a well or wells on adjoining property which may be more than six  
13 hundred and sixty (660) feet from the leased premises, by whatever means  
14 necessary, including the drilling of a well or wells on the leased premises,  
15 or obtaining the formation of appropriate drilling or production units, or  
16 to take any other steps reasonably necessary to protect the leased premises  
17 against such drainage. If Lessee is the operator of or has a working  
18 interest in any such well on adjoining property, Lessee shall be obligated  
19 to take such other steps as may be reasonably necessary to protect the  
20 leased premises within ninety (90) days from the time lessee knows or  
21 reasonably should know that drainage is occurring. In all other cases  
22 Lessee shall be obligated to begin such operations or take such other steps  
23 only within ninety (90) days after receipt of written notice from the  
24 Board.

25  
26 (c) In those instances in which notice is expressly required under  
27 paragraph (a) or (b), above, damages, if due, shall be computed only from  
28 the date on which notice is received or, if Lessee commences  
29 compensatory payments, the date on which such payments are  
30 discontinued. In those instances in which there is no requirement of  
31 notice under (a) or (b), above, damages, if due, shall be computed from  
32 the time Lessee knew or reasonably should have known drainage was  
33 occurring. Damages as set forth herein shall consist of the royalty  
34 percentage of this lease times the value (as calculated herein below in this  
35 lease) of one-half (1/2) of the production from the draining well, and may  
36 include lease cancellation for refusal by Lessee to take the necessary steps  
37 to prevent drainage. Written notice containing a demand for performance  
38 shall be necessary as a prerequisite to any action for cancellation of the  
39 Lease by Lessor for nonperformance of any obligations of Lessee to  
40 protect the leased premises against drainage.

41  
42  
43 (a) If at any time during or after the primary term there is completed on  
44 adjoining property a well located within six hundred and sixty (660) feet of  
45 the leased premises (or within any spacing or pooling unit distance greater  
46 than 660 feet established by the Commissioner of Conservation) and such  
47 well produces oil, gas, or other liquid or gaseous mineral in paying quantities  
48 for twenty (20) days (which need not be consecutive) during any period of

1 thirty (30) days, or produces its monthly allowable during such thirty (30)  
2 day period, rebuttable presumptions will arise: (1) that the leased premises  
3 are thereby being drained; (2) that the leased premises are not being  
4 reasonably protected from drainage by any well or wells on the leased  
5 premises or land pooled therewith; and (3) that an offsetting well on the  
6 leased premises would be economically feasible. If Lessee is the operator of  
7 or has a working interest in the adjoining property, Lessee will begin actual  
8 drilling operations for a well on the leased premises within ninety (90) days  
9 after the end of the above thirty (30) day period. In all other cases Lessee  
10 shall be required to begin such operations only within ninety (90) days after  
11 receipt of written notice from the Board of the expiration of the above thirty  
12 (30) day period. No offset well shall be necessary if, on or before the  
13 maturity date of the offset obligation or any deferred maturity date as  
14 hereinafter provided, any of the stated presumptions is rebutted or a unit for  
15 the well in question embracing all of part of the leased premises is formed by  
16 agreement with the Board or by order of the Commissioner of Conservation.  
17  
18

19 In lieu of commencing operations for an offset well as above provided,  
20 Lessee may, at Lessee's option, commence compensatory payments equal to  
21 the royalties herein provided, computed on one-half (1/2) of the oil, gas, or  
22 other liquid or gaseous mineral produced by the well in question on and  
23 after the date operations would have otherwise been commenced, value to be  
24 determined in accordance with the provisions of Article 6 of this lease. Such  
25 payments may be commenced on or before sixty (60) days after the date  
26 operations would otherwise have been commenced, but shall include any  
27 accrued compensatory payments. Thereafter, payments shall be due monthly  
28 in accordance with Article 6(g). Lessee shall not be in default in either  
29 commencing compensatory payments or in making further payments as  
30 above provided if despite due diligence Lessee is unable timely to obtain the  
31 production information on which such payments are to be based. In any  
32 such case, however, Lessee must on or before the due date of the payments,  
33 notify the Board in writing of Lessee's inability to make such payment, the  
34 reasons therefor, and Lessee's intent to make such payment at the earliest  
35 reasonable time. Compensatory payments may be continued, at Lessee's  
36 discretion, for not more than one year from the date on which offset  
37 operations would otherwise have been commenced. At the end of that time,  
38 or within thirty (30) days from the end of any lesser period for which  
39 payments are made, Lessee shall comply with this offset obligation if the  
40 producing well continues to produce in paying quantities or to produce its  
41 allowable and the other conditions making this obligation operative are  
42 existent. The right to make compensatory payments is intended to permit  
43 Lessee to evaluate further the producing well, and the making of such  
44 payments shall not of itself be sufficient to maintain this lease if the lease is  
45 not otherwise being maintained in force and effect; however, the making of  
46 any such payments shall prejudice Lessee's right to rebut any of the above  
47 enumerated presumptions.  
48

1 (b) In addition to the specific offset drilling obligation above provided,  
2 Lessee agrees to drill any and all wells necessary to protect the leased  
3 premises from drainage of oil, gas, or other liquid or gaseous mineral by a  
4 well or wells on adjoining property or to take any other steps reasonably  
5 necessary to protect the leased premises against such drainage, including, but  
6 not limited to, obtaining the formation of appropriate drilling or production  
7 units. If Lessee is the operator of or has a working interest in any well on  
8 adjoining property. Lessee shall be obligated to begin actual drilling  
9 operations for a well on the leased premises or to take such other steps as  
10 may be reasonable necessary to protect the leased premises within ninety  
11 (90) days from the time lessee knows or reasonably should know that  
12 drainage is occurring. In all other cases Lessee shall be obligated to begin  
13 such operations or take such other steps only within ninety (90) days after  
14 receipt of written notice from the Board.

15  
16 (c) In those instances in which notice is expressly required under  
17 paragraph (a) or (b), above, damages, if due, shall be computed only from  
18 the date on which notice is received or, if Lessee commences compensatory  
19 payments, the date on which such payments are discontinued. In those  
20 instances in which there is no requirement of notice under (a) or (b), above,  
21 damages, if due, shall be computed from the time Lessee knew or reasonably  
22 should have known drainage was occurring. Written notice containing a  
23 demand for performance shall be necessary as a prerequisite to any action for  
24 cancellation of the lease by Lessor for nonperformance of any obligations of  
25 Lessee to protect the leased premises against drainage.

26  
27 New lease has provision for potential drainage wells greater than 660  
28 feet from lease line and specifies how compensatory royalty will be  
29 computed if elected. Present lease doesn't have such provisions. Large  
30 landowner lease (Miami Corp) has 330 foot offset obligations with  
31 obligation to drill offset well or petition for unit to include lease acreage.  
32 Alaska has 500 foot offset for oil and 1500 foot offset for gas wells with  
33 obligation to drill offset well or reasonably compensate state for drainage  
34 loss. Texas has 1000 foot offset provision. Texas lease has forfeiture of  
35 lease provision if fail to drill offset well to prevent drainage.

36  
37 6. Unless Lessor elects to take in kind all or any part of the portion  
38 due lessor as royalty on minerals produced and saved hereunder, which  
39 option is hereby expressly reserved by Lessor pursuant to L.R.S. 30:127  
40 C and which is to be exercised by written notice by Lessor to Lessee at  
41 any time and from time to time while this Lease is in effect and either  
42 prior or subsequent to acceptance by Lessor of royalties other than in  
43 kind, it being understood that nothing contained in this Lease shall ever  
44 be interpreted as limiting or waiving said option, Lessee shall pay to  
45 Lessor as royalty:

46  
47 (a) \_\_\_\_\_ of the value, as  
48 hereinafter provided, of all oil, including condensate or other liquid

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

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

26  
27 If Lessee delivers such oil at a point outside the field in which this  
28 Lease is situated, Lessee may deduct from the value of such oil the actual  
29 costs of transportation from the field boundary to the point of delivery by  
30 means of facilities belonging to a non-affiliated party. If such  
31 transportation is by means of facilities owned by one other than -a non-  
32 affiliated party, Lessee may deduct the actual cost of such transportation,  
33 but only if such cost is no greater than the fair market value of the  
34 services performed; if actual cost is greater than fair market value, the fair  
35 market value shall determine the amount deductible; however, if the  
36 facilities used are regulated as a common carrier by a state or federal  
37 regulatory agency, the authorized tariff chargeable for the services  
38 rendered and paid by Lessee shall be deemed the fair value of such  
39 services. 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 the 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) handling, gathering, or transporting such  
2 oil, or (2) treating or processing such oil by ordinary methods to make it  
3 marketable, the amount of such compensation shall be added to the value  
4 of such oil when computing royalties. If Lessee is deducting costs for any  
5 functions for which he is also receiving compensation, deductions may be  
6 made only to the extent they are in excess of any such compensation.

7  
8 (b) \_\_\_\_\_ of  
9 the value, as hereinafter provided, of all gas, including casinghead gas,  
10 produced (produced includes sales, vented, stored and utilized gas), sold  
11 and stored saved or utilized by methods considered as ordinary  
12 production methods at the time of production. The value of such gas sold  
13 to a non-affiliate or affiliate or vented or utilized in the field, shall not be  
14 less than the fair market price. "Fair Market Price" may include one or  
15 more of the following: a pipeline index in the field or adjacent to the  
16 field, Bloomberg Liquified Petroleum Gas Prices, Platt's LP Gas Wire,  
17 NGCH published in the "Foster Natural Gas Report", a NYMEX closing  
18 price, a Henry Hub price, plus/minus premium, and /or transportation  
19 outside the field or if at a future date the Fair Market Valuation changes  
20 to something other than those listed above, the new method of fair market  
21 valuation may be considered and/or utilized.

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

41  
42 If Lessee delivers such gas at a point outside the field in which this  
43 Lease is situated, Lessee may deduct from the value of such gas a  
44 reasonable sum for transportation from the field boundary to the point of  
45 delivery by means of facilities belonging to a non-affiliated party, not in  
46 excess of actual cost. If such transportation is by means of facilities  
47 owned by one other than a non-affiliated party, Lessee may deduct the  
48 actual cost of such transportation, but only if such cost is no greater than

1 the fair market value of the services performed; if actual cost is greater  
2 than fair market value, the fair market value shall determine the amount to  
3 be deducted. If such transportation is by means of any facilities owned by  
4 lessee, lessee may deduct from the value of production a reasonable sum  
5 for such services, computed as follows: the amount deductible shall  
6 include only (1) the direct cost of operation and maintenance, including  
7 cost of labor, direct supervision, fuel, supplies, ordinary repairs, and ad  
8 valorem taxes; and (2) depreciation of the facility computed over the  
9 estimated life of the field or reserves.

10  
11 If Lessee receives any compensation for any function or process for  
12 which Lessee is responsible to Lessor without right to deduct costs,  
13 including but not limited to, (1) gathering or transporting such gas or (2)  
14 dehydrating, decontaminating, or in any way processing production to  
15 make it marketable, the amount of such compensation shall be added to  
16 the value of such gas when computing royalties. If Lessee is deducting  
17 costs for any functions for which he is also receiving compensation,  
18 deductions may be made only to the extent they are in excess of any such  
19 compensation.

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

45  
46 The price or prices received by Lessee if the products are sold to  
47 non-affiliated party or parties, under a prudently negotiated contract or  
48 contracts, notwithstanding any other language or provision in this

1 document, it is herein provided, and all parties agree, shall not be less  
2 than a fair market price - which may exceed index price - as may be  
3 determined utilizing the criteria in the succeeding paragraph, subject to  
4 the right of the State, as original Lessor, to verify that fair market price  
5 was paid upon audit.

6  
7 If such products are sold to an affiliated party under a prudently  
8 negotiated contract or are sold to one other than a non-affiliated party  
9 under a contract which would not have been considered prudently  
10 negotiated if executed with a non-affiliated party, the value of the  
11 products shall be their fair market value as detailed above. The value of  
12 any such products (or Lessee's share thereof) not sold under any contracts  
13 shall be the fair market value at the plant for such products, or if no  
14 products are being sold at the plant, the average of the market values for  
15 like products of the same grade and quality at the three nearest plants at  
16 which such products are being sold but not less than the "Fair Market  
17 Price" as detailed above.

18  
19 When the cost of processing is not met by retention by the processor of a  
20 share of the products or in any other case in which Lessee may deduct  
21 from the value of such products reasonable and prudent cost of  
22 processing, the charges shall be determined as follows. If the gas is  
23 processed by a non-affiliated party under a prudently negotiated contract,  
24 the reasonable costs which may be deducted shall be those provided in  
25 such contract. In all other cases, including those where the gas is  
26 processed by an affiliated party and those in which the Lessee Itself owns  
27 any part of the plant in which processing occurs, the combined value of  
28 the residue gas under Article 6 and the liquid or gaseous products  
29 resulting from such processing upon which the royalty is determined shall  
30 not be less than the royalty that would be due upon the value (as  
31 determined under the provisions of Article 6 b of the volume of the gas  
32 before processing, produced, saved and utilized from the leased property).

33  
34 In all cases the following costs are not to be deducted: any and all  
35 marketing fees incurred for the sale of the plant products and any costs  
36 for which the Lessee is reimbursed by another party.

37  
38 In all other cases, including processing by those other than a non-  
39 affiliated party or parties and those in which Lessee itself or in  
40 conjunction with others owns the plant, the charges should be determined  
41 by contract between Lessee and Lessor. In the absence of such a contract  
42 the charges to be deducted shall include only the proportionate part of (1)  
43 the direct cost of operating and maintain the plant, computed annually,  
44 including cost of labor and on-site supervision, shrinkage, materials,  
45 supplies and ordinary repairs; (2) depreciation of the plant, less salvage  
46 value, computed over the life or lives of the field or fields served by the  
47 plant, or by such other method as is agreed upon by Lessor and Lessee;

1 and (3) ad valorem taxes.

2

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

7

8 In no case should total royalty on residue gas and liquids extracted  
9 be less than the royalty which would be payable at the Lease on the  
10 unprocessed gas.

11

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

17

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

20

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

41

42 6. Unless Lessor elects to take in kind all or any part of the portion due  
43 lessor as royalty on minerals produced and saved hereunder, which option is  
44 hereby expressly reserved by Lessor pursuant to L.R.S. 30:127 C and which  
45 is to be exercised by written notice by Lessor to Lessee at any time and from  
46 time to time while this lease is in effect and either prior or subsequent to  
47 acceptance by Lessor of royalties other than in kind, it being understood that  
48 nothing contained in this lease or in the rider attached hereto shall ever be

1 interpreted as limiting or waiving said option, Lessee shall pay to Lessor as  
2 royalty:

3  
4 (a) \_\_\_\_\_ of the  
5 value, as hereinafter provided, of all oil, including condensate or other liquid  
6 mineral, produced and saved or utilized by methods considered ordinary  
7 production methods at the time of production. The value of such oil shall  
8 not be less than the average price for oil of like grade and quality posted for  
9 the field in which this lease is situated. If there is no price posted for the  
10 field in which this lease is situated, the value of such oil shall be not less  
11 than the average of prices posted for oil of like grade and quality for the  
12 three fields nearest to the field in which this lease is situated for which such  
13 prices are posted. If Lessee enters into an oil sales contract which, at the  
14 time of execution, provides for a price equal to or in excess of the  
15 appropriate average price referred to in the two preceding sentences, the  
16 price payable under the terms of the contract at the time such oil is run shall  
17 be the value of such oil, even though the appropriate average changes during  
18 the life of the contract; however, any such contract must have been prudently  
19 negotiated under the circumstances existing at the time of execution. If  
20 Lessee is unable, after diligent effort, to sell such oil for a price equal to or in  
21 excess of the appropriate average price and Lessee consequently negotiates a  
22 contract to sell such oil to an independent party at a lesser price, the value of  
23 such oil for the duration of any such contract (but not in excess of one year)  
24 shall be the price received by Lessee under such contract.

25  
26 Lessee shall not make any deduction whatsoever for the cost of any  
27 operation, process, facility, or other item considered to be a production  
28 function or facility at the time such oil is run. Without limiting the foregoing  
29 sentence and without regard to classification as production costs, or  
30 otherwise, the following costs are not to be deducted from the value of  
31 production: (1) costs incurred for gathering or transporting production in the  
32 field; (2) costs incurred for handling, treating, separating, or in any way  
33 processing production to make it marketable by methods considered ordinary  
34 at the time such oil is run; and (3) the cost of storage on the lease or in the  
35 field. The performance of any producing function or any function  
36 mentioned in clauses (2) and (3) of the foregoing sentence at a commingled  
37 facility in or outside the field in which this lease is situated shall not make  
38 the cost of any such function deductible.

39  
40 If Lessee delivers such oil at a point outside the field in which this  
41 lease is situated, Lessee may deduct from the value of such oil the actual  
42 costs of transportation from the field to the point of delivery by means of  
43 facilities belonging to an independent party. If such transportation is by  
44 means of facilities owned by one other than an independent party, Lessee  
45 may deduct the actual cost of such transportation, but only if such cost is no  
46 greater than the fair value of the services performed; if actual cost is greater  
47 than fair value, the fair value shall determine the amount deductible;  
48 however, if the facilities used are regulated as a common carrier by a state or

1 federal regulatory agency, the authorized tariff chargeable for the services  
2 rendered and paid by Lessee shall be deemed the fair value of such services.

3 If such transportation is by means of any facilities owned by Lessee, Lessee  
4 may deduct from the value of production a reasonable sum for such services,  
5 computed as follows: the amount deductible shall include only (1) the direct  
6 cost of operation and maintenance, including cost of labor, direct  
7 supervision, fuel, supplies, ordinary repairs, and ad valorem taxes; and (2)  
8 depreciation of the facility computed over the estimated life of the field.

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

18  
19 (b) \_\_\_\_\_ of  
20 the value as hereinafter provided, of all gas, including casinghead gas,  
21 produced and saved or utilized by methods considered as ordinary  
22 production methods at the time of production. When such gas is sold by  
23 Lessee to an independent party under an arms' length contract prudently  
24 negotiated under the facts and circumstances existing at the time of its  
25 execution, the value of such gas and of gas utilized by Lessee shall be the  
26 price received by Lessee for such gas under the contract. If the purchaser is  
27 not an independent party but the contract would have been considered  
28 prudently negotiated under the facts and circumstances existing at the time  
29 of its execution if made with an independent party, then the value of the gas  
30 shall be the price received by Lessee under the contract; if the contract  
31 would not have been considered prudently negotiated if made with an  
32 independent party, the value of such gas shall be its fair value at the time of  
33 production but not less than the average of the prices paid for gas of like  
34 kind and quality from the field from which such gas is being produced, or if  
35 no gas is being sold from that field, the average of prices paid for gas of like  
36 kind and quality in the three nearest fields in which gas of like kind and  
37 quality is being sold, all comparisons to be with contracts made in the same  
38 market (either interstate or intrastate) and for the sale of similar quantities of  
39 gas. In all other cases the value of such gas shall be the average stated in the  
40 last clause of the preceding sentence.

41  
42 Except as expressly permitted herein, Lessee shall not make any  
43 deduction whatsoever for the cost of any operation, process, facility, or other  
44 item considered to be a producing function at the time such gas is produced.

45 Without limiting the foregoing sentence and without regard to classification  
46 as production costs or otherwise, the following costs are not to be deducted  
47 from the value of production: (1) costs incurred for gathering or transporting  
48 production in the field; or (2) costs incurred for dehydrating,

1 decontaminating, or in any way processing production to make it marketable  
2 by methods considered ordinary at the time such gas is produced. The  
3 performance of any producing function or any function mentioned in clause  
4 (2) of the foregoing sentence at a commingled facility in or outside the field  
5 in which this lease is situated shall not make the cost of any such function  
6 deductible. Without regard to classification as production costs or  
7 otherwise, Lessee may deduct costs incurred for compression of gas at a  
8 point in or adjacent to the field for insertion into a purchaser's line or into a  
9 line owned by Lessee or a carrier for transportation to a point of delivery  
10 outside the field.

11

12 If Lessee delivers such gas at a point outside the field in which this  
13 lease is situated, Lessee may deduct from the value of such gas a reasonable  
14 sum for transportation from the field to the point of delivery by means of  
15 facilities belonging to an independent party, not in excess of actual cost. If  
16 such transportation is by means of facilities owned by one other than an  
17 independent party, Lessee may deduct the actual cost of such transportation,  
18 but only if such cost is no greater than the fair value of the services  
19 performed; if actual cost is greater than fair value, the fair value shall  
20 determine the amount to be deducted. If such transportation is by means of  
21 any facilities owned by lessee, lessee may deduct from the value of  
22 production a reasonable sum for such services, computed as follows: the  
23 amount deductible shall include only (1) the direct cost of operation and  
24 maintenance, including cost of labor, direct supervision, fuel, supplies,  
25 ordinary repairs, and ad valorem taxes; and (2) depreciation of the facility  
26 computed over the estimated life of the field.

27

28 If Lessee receives any compensation for any function or process for  
29 which Lessee is responsible to Lessor without right to deduct costs,  
30 including but not limited to, (1) gathering or transporting such gas or (2)  
31 dehydrating, decontaminating, or in any way processing production to make  
32 it marketable, the amount of such compensation shall be added to the value  
33 of such gas when computing royalties. If Lessee is deducting costs for any  
34 functions for which he is also receiving compensation, deductions may be  
35 made only to the extent they are in excess of any such compensation.

36

37 (c) In addition to the separation of condensate or other liquid mineral  
38 from gas by ordinary production methods (as to which Lessor shall receive  
39 royalties above provided and for which separation no charge may be made  
40 by Lessee), gas produced hereunder, including casinghead gas, may be  
41 processed in a gasoline or other extraction plant in or serving the field, and  
42 products may be recovered therefrom either directly by Lessee or under  
43 contracts executed by Lessee. If Lessee enters into a contract for the  
44 processing of gas with an independent party or parties under which such  
45 party or parties retain in kind a portion of the products recovered from or  
46 attributed to such gas as consideration for processing, Lessee shall pay the  
47 royalty provided for gas in paragraph 6(b) based on the value, as hereinafter  
48 determined, of Lessee's share of such products under such contract. In all

1 other cases Lessee shall pay the royalty provided for gas in paragraph 6(b)  
2 based on the value, as hereinafter determined, of the total products  
3 recovered, after deducting therefrom the costs of processing as specified  
4 below.

5  
6 The value of such products (or Lessee's share thereof) in the cases  
7 above provided shall be the price or prices received by Lessee if sold under a  
8 contract or contracts prudently negotiated under the facts and circumstances  
9 existing at the time of execution with an independent party or parties. If  
10 such products are not sold to an independent party but are sold under a  
11 contract which would have been considered prudently negotiated if executed  
12 with an independent party, the value of such products (or Lessee's share  
13 thereof) shall be the price or prices received by Lessee. If such products are  
14 not sold to an independent party under a prudently negotiated contract or are  
15 sold to one other than an independent party under a contract which would  
16 not have been considered prudently negotiated if executed with an  
17 independent party, the value of the products shall be their fair market value  
18 at the plant at the time sold. The value of any such products (or Lessee's  
19 share thereof) not sold under any contracts shall be the fair market value at  
20 the plant for such products, or if no products are being sold at the plant, the  
21 average of the market values for like products of the same grade and quality  
22 at the three nearest plants at which such products are being sold.

23  
24 When the cost of processing is not met by retention by the processor of  
25 a share of the products or in any other case in which Lessee is to deduct from  
26 the value of such products the cost of processing, the charges shall be  
27 determined as follows. If the gas is processed by an independent party or  
28 parties under a contract prudently negotiated under the facts and  
29 circumstances existing at the time of execution, the charges deducted shall  
30 be those provided in such contract. In all other cases, including processing  
31 by those other than an independent party or parties and those in which  
32 Lessee itself or in conjunction with others owns the plant, the charges should  
33 be determined by contract between Lessee and Lessor. In the absence of  
34 such a contract the charges to be deducted shall include only the  
35 proportionate part of (1) the direct cost of operating and maintaining the  
36 plant, computed annually, including cost of labor and on-site supervision,  
37 materials, supplies, and ordinary repairs; (2) plant fuel and shrinkage; (3)  
38 depreciation of the plant computed over the life or lives of the field or fields  
39 served by the plant, or by such other method as is agreed upon by Lessor and  
40 Lessee; and (4) ad valorem taxes.

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

46  
47 (d) If at any time or times (during or after the primary term) there is on  
48 the leased premises a well or wells capable of producing gas in paying

1 quantities, which fact has been duly verified and confirmed in accordance  
2 with Lessor's requirements for proof thereof, but gas is not being used or  
3 marketed therefrom because of the lack of a reasonable market or marketing  
4 facilities or governmental restrictions and if this lease is not then being  
5 otherwise maintained by separate operations or production, this lease shall,  
6 nevertheless, remain in full force and effect for a period of ninety (90) days  
7 after cessation of such production or such operations or the shutting in of  
8 such well. If, on or before the expiration of the ninety (90) day period,  
9 production or operations shall not have been commenced or resumed,  
10 Lessee, in order to maintain the lease in force thereafter, shall commence  
11 semi-annual payments to the Lessor at the rate and in the manner provided  
12 hereinbelow and thereby maintain the lease in full force and effect during the  
13 periods covered by such payments; however, if the ninety (90) day period  
14 should expire during the first year of the primary term or during any year for  
15 which a rental has previously been paid, the initial payment hereunder shall  
16 not be required until the next anniversary date of the lease. The first  
17 payment, if made, shall be tendered on or before the expiration of the ninety  
18 (90) day period or the appropriate anniversary date, as the case may be, and  
19 shall maintain this lease for six (6) months, commencing from the expiration  
20 of the ninety (90) day period or the anniversary date. Subsequent payments  
21 shall be made at six (6) month intervals thereafter (herein referred to as  
22 "shut-in payment dates"). Unless additional payment periods are earned as  
23 hereinafter provided, Lessee's right to make such payments shall continue  
24 for six (6) semi-annual periods (the total of which is herein called "initial  
25 payment period"). Each semi-annual payment shall be at the rate of twenty-  
26 five dollars (\$25.00) per acre for the number of acres then covered by this  
27 lease, but no payment shall be less than five hundred dollars (\$500.00).  
28 Each payment shall maintain this lease in full force and effect for a period of  
29 six (6) months, and during each period for which a payment has been made,  
30 it shall be considered that gas is being produced hereunder for all purposes  
31 hereof, but especially under the provisions of Articles 2, 4, 7, and 9;  
32 however, if the provisions of this paragraph 6(d) are in conflict with those of  
33 any other articles hereof, the provisions of this paragraph shall be  
34 controlling.

35  
36 If on any shut-in payment date, actual drilling operations are being  
37 conducted on or actual production of oil, gas or other liquid or gaseous  
38 mineral in paying quantities is being obtained from the leased premises, no  
39 shut-in payment shall be due until the next shut-in payment date; however,  
40 the running of the initial payment period shall not be suspended or  
41 interrupted, and the same shall be true of any extension of that period by  
42 additional shut-in periods earned as hereinafter provided.

43  
44 The initial payment period may be extended in the following manner.  
45 Lessee may earn two (2) additional six (6) month shut-in payment periods  
46 beyond the initial payment period for each additional well drilled or  
47 completed after completion of the shut-in well on which the initial shut-in  
48 payment was made (whether such additional wells are dry holes, producers,

1 or shut-in wells). To qualify as a well “completed” after the first shut-in  
2 well, the completion must be in another hole, and no more than one  
3 completion will be counted for each additional hole regardless of the number  
4 of sands in any such hole. The aggregate additional periods (hereinafter  
5 referred to as “additional periods”) so earned shall not exceed a total of six  
6 (6). The first of any additional periods shall commence from the date on  
7 which the initial payment period would have expired and the initial payment  
8 period, thus extended, shall continue to run from that date, regardless  
9 whether Lessee is actually required to make any additional payments. The  
10 Board and Lessee may by mutual agreement provide for further six (6)  
11 month periods (hereinafter called “further periods”) beyond the initial  
12 payment period and any extension thereof.

13  
14 If the end of the initial payment period falls within the primary term of  
15 this lease and at a time when there is a remaining rental date which would  
16 permit Lessee to maintain this lease by payment of rentals, Lessee may  
17 commence or resume the payment of rentals on the next anniversary date of  
18 this lease or may maintain this lease by any other means permitted under  
19 paragraphs 4(a) and 4(c). If the end of the initial payment period or any  
20 extension thereof falls within the last year of the primary term, it shall be  
21 considered that production has ceased under the terms of paragraph 4(a), and  
22 no rental shall be due for the remainder of the primary term. If the end of the  
23 initial payment period, any extension thereof, or any further period falls on  
24 or after the expiration date of the primary term and there are no operations or  
25 actual production sufficient to maintain this lease under the provisions of  
26 paragraphs 4(b) and 4(c), this lease shall terminate.

27  
28 The provisions of this paragraph shall be applicable to any well with a  
29 gas/oil ratio such that the Commissioner of Conservation will not permit its  
30 operation without use or sale of the gas.

31  
32 Tender or acceptance of a shut-in payment or payments shall not free  
33 Lessee of any obligation to develop this lease as a prudent operator or to  
34 exercise diligent efforts to obtain a market for the gas so discovered.

35  
36 (e) \_\_\_\_\_ of any  
37 and all other liquid or gaseous minerals in solution and produced with oil or  
38 gas and saved or utilized, which are not specifically mentioned herein, said  
39 royalties to be delivered or paid when marketed or utilized as is the accepted  
40 practice in such matters.

41  
42 (f) In all cases, Lessor’s royalty shall be calculated and paid after  
43 deduction of all severance or production taxes.

44  
45 (g) The first payment of royalty shall be made within one hundred  
46 twenty (120) days following commencement of production from, or  
47 allocation of production to the leased premises, except that in the case of any  
48 production from or allocable to the leased premises, which has occurred

1 prior to the date of but which is deemed to be covered by this lease, Lessee  
2 hereby agrees to pay Lessor's royalty on all such prior production within one  
3 hundred twenty (120) days from the date of this lease. Thereafter, royalty on  
4 oil, including condensate or other liquid mineral, produced and saved at the  
5 well by ordinary production methods shall be paid by the 25th of each month  
6 for production of the previous month; and royalty on gas, including liquids  
7 or other products extracted or processed from gas other than by ordinary  
8 production methods, or other liquid or gaseous mineral not specifically  
9 mentioned shall be paid on or before the 25th day of the second month  
10 following that in which produced or extracted or processed. In the event any  
11 royalty payment is not correctly or timely made, the remedies provided by  
12 L.A.R.S. 31:137 through 142 relative to notice, damages, interest, attorney  
13 fees, and dissolution shall be applicable, except that interest shall be payable  
14 thereon until paid without any requirement for prior written notice by Lessor  
15 to Lessee.

16  
17 (h) For all purposes of this Article 6 "independent party" means a  
18 company, firm, or other business unit which is not: (1) a direct part of  
19 Lessee's corporate or other business structure; (2) a wholly owned or  
20 actually controlled subsidiary corporation or other business unit of Lessee;  
21 (3) a parent corporation of Lessee; or (4) a wholly owned or actually  
22 controlled subsidiary of Lessee's parent corporation.

23  
24  
25 New lease form has much more detailed method of calculating royalty  
26 and more specific deductions allowed and disallowed. Most other states  
27 lease forms are much less detailed as to royalty calculation and deductions.  
28 However, Alaska has royalty provisions which refer to certain code articles  
29 so theirs may be as detailed. Large landowner (Miami Corp) lease has  
30 royalty provision similar to our Present Lease form. Bath Form leases are  
31 much simpler royalty provision. Texas leases have no deductions of any kind  
32 (either for processing, transportation or otherwise), but allow recycling for  
33 gas, minus liquids, for processing at processing plant without royalty until  
34 gas is eventually sold. MMS just has simple royalty clause, but refers to  
35 USC codal provisions for all lease activity which may include royalty  
36 calculation. Large landowner lease (Miami Corp) has free use of oil and gas  
37 for drilling and reworking operations and no royalty on legally vented or  
38 flared gas. Most leases have royalty in-kind provisions. Alaska has royalty  
39 from units (only unit production, no lease production in Alaska apparently)  
40 free from all unit expense including dehydration, separation, cleaning,  
41 preparation for transportation, gathering, and salt water disposal, as well as  
42 any lien.

43  
44 7. (a) Lessee may surrender all or any portion or portions of the  
45 leased premises at any time this Lease is in effect and thereby be relieved  
46 of all obligations thereafter accruing under this Lease as to the portions  
47 surrendered except the following: no partial release or surrender shall  
48 reduce or otherwise affect the amount of rentals to be paid to maintain the

1 lease during the primary term as provided for hereinabove, nor shall any  
2 release of the Lease, in whole or in part, relieve original Lessee or any of  
3 its successors or assigns of any obligations to plug and abandon wells,  
4 clean up the well or production site, or any other obligations arising under  
5 this lease, Commissioner of Conservation rulings, or regulations  
6 pertaining to the status of well sites, or under other portions of this lease.  
7

8 (b) Within ninety (90) days after expiration or termination by its  
9 own terms of this Lease or any portion thereof, either during or after the  
10 primary term hereof, Lessee shall execute and record an appropriate  
11 release evidencing such expiration or termination, and shall also supply  
12 Lessor with a copy or copies thereof properly certified by the recorder or  
13 recorders of the parish or parishes in which the leased premises are  
14 located. In the event Lessee fails to timely comply therewith, Lessee shall  
15 be liable for reasonable attorney fees and court costs incurred in bringing  
16 suit for such cancellation and release. It is further agreed, however, that  
17 liquidated damages shall be paid by Lessee to Lessor in the amount of  
18 One Hundred Dollars (\$100.00) per day for each day of non-compliance  
19 after expiration of said ninety (90) day period, regardless of whether suit  
20 is filed for cancellation and release, and for such additional compensatory  
21 damages as Lessor may prove. Lessee, its successors or assigns, hereby  
22 waives any further notice of default or otherwise and confesses judgment  
23 as regards the liquidated damages accruing as herein set forth.  
24

25 (c) In fulfilling its obligations under paragraph 7. by properly  
26 releasing the Lease, Lessee shall obtain from the operator a list of all  
27 unplugged wells and facilities no longer in use that require abandonment,  
28 record same with the release and send a certified copy of the release with  
29 the list to Lessor. Lessee shall also attach to the copy of the release and  
30 send to Lessor a reasonable plan for plugging and abandoning all wells  
31 and removing all facilities on the list, including removal of all surface  
32 facilities, and restoring the leased premises as herein contemplated.  
33

34 No other state has liquidated damage clause for late release, but the  
35 provision is same as in present lease form; was put in lease form to force  
36 Lessees to record releases so could get land back into commerce.  
37

38 8. The parties hereto understand and agree to the following:  
39

40 (a) No assignment or other transfer of any rights or interests granted to  
41 Lessee, its successors or assigns, under this lease shall be valid unless  
42 prior approval by the Lessor has been obtained, and further, that any such  
43 assignment or transfer made without Lessor's prior approval shall be null  
44 and void ab initio.  
45

46 (b) An assignment or other transfer made by Lessee, its successors or  
47 assigns, including any language to the contrary which may be contained  
48 within those documents notwithstanding, which has been approved by the

1 Lessor does not relieve original Lessee, or any of its successors or  
2 assigns, of any and all obligations, duties, or responsibilities incurred  
3 under the terms of this lease.

4  
5 (c) In addition, no assignment or transfer of this Lease shall be valid  
6 unless a provision has been made by the assignor or transferor and  
7 assignee or transferee to have the financial security and insurance set  
8 forth as required in this lease, maintained in full force and effect  
9 following the assignment or other transfer into the hands of the assignee;  
10 which financial security shall be attached to each and every well located  
11 on that portion of the leased premises being transferred. Written evidence  
12 of the maintenance of said financial security and insurance shall be  
13 presented together with the assignment or other transfer at the time same  
14 as submitted for Lessor's approval. The same shall hold true for each and  
15 every successive assignment or transfer of an interest in this lease.

16  
17 (d) Lessee agrees that Lessor, in determining whether to consent to any  
18 proposed assignment or other transfer, may reasonably consider the  
19 proposed assignee or other transferee's financial capacity (including the  
20 ability to obtain required insurance and other financial security under the  
21 terms of this Lease) and the ability to continue reasonable development of  
22 the leased premises. Lessor may refuse to consent to such assignment if,  
23 in the Lessor's reasonable opinion, the proposed assignee or other  
24 transferee lacks the necessary financial capacity to meet the obligations  
25 under the terms of this lease or technical capacity to sustain reasonable  
26 development of the leased premises. Should Lessor not consent to the  
27 assignment or other transfer submitted for approval, whether or not same  
28 is recorded, the assignor or other transferor, as well as his ancestors in  
29 title, shall remain the then present holder of this lease for all purposes,  
30 rights, duties, obligations, and benefits appertaining hereto.

31  
32 (e) Upon compliance with the provisions of LA R.S. 30:128 and  
33 approval by Lessor, all the terms, provisions and conditions of this Lease  
34 shall be binding upon and shall insure to the benefit of the respective  
35 successors, assigns, and/or sublessees.

36  
37  
38 8. It is further agreed and understood that the rights of Lessee may be  
39 assigned or transferred in whole or in part, but no transfer or assignment  
40 whether in whole or in part, in relation to this lease shall be valid unless such  
41 transfer or assignment be approved by the Lessor.

42  
43 New Lease Form has provision for assuring assignee has financial  
44 security, both bond and insurance, to meet obligations of lease before  
45 approval of assignment or transfer, and further, to check out potential  
46 assignee to see if it has requisite ability to develop lease. Old Lease Form  
47 has none of those provisions.

48

1 Alaska's lease form says state must approve transfer or it is not valid,  
2 and that all obligations of lease to state transfer to assignee so that bond  
3 requirement seems to have to transfer. Texas requires state approval or no  
4 transfer, and further, requires transferee to demonstrate financial security  
5 before transfer approved, and transferee becomes liable for All previous  
6 transferor's liabilities. MMS transfers refer to applicable regulations  
7 pertaining to transfers of interest (which include financial viability of  
8 transferees being verified before approval of transfer).

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

23  
24 (b) Should Lessee apply or give notice of intent to apply to the  
25 Commissioner of Conservation for the creation of any unit or units which  
26 would include all or any portion of the leased premises, Lessee shall  
27 furnish Lessor with a copy of the notice or application, accompanying  
28 unit plat, and all other attached information, either at the time the  
29 application is filed with the Commissioner or at the time required by  
30 applicable orders or regulations of the Commissioner for furnishing such  
31 information, to any parties entitled to receive it, whichever is earlier. If a  
32 unit or units including all or any part of the leased premises are created by  
33 order of the Commissioner, Lessee shall submit to Lessor a survey plat of  
34 each unit or units so created, either prior to or within ninety (90) days of  
35 initial production from the unit. The survey plat of the unit or units must  
36 clearly identify the state lease acreage, tract acreage and the unit  
37 percentage participation for each state lease tract. Failure to submit such  
38 a plat shall result in a cumulative liquidated damage assessment against  
39 Lessee in the amount of one hundred dollars (\$100.00) per day, beginning  
40 on the ninety-first (91<sup>st</sup>) day, from onset of unit production until the  
41 required plat is in the office of Lessor.

42  
43 (c) If a surface and/or subsurface agreement for drilling of a well is  
44 granted by the Division of Administration, Office of State Lands,  
45 affecting this Lease, the Lessee shall furnish copies of all electrical and  
46 radioactivity surveys on the subject well to the Lessor. Further, a  
47 presumption shall exist, unless Lessee can reasonably demonstrate the  
48 contrary to Lessor, that a unit for the well should be formed to include a

1 portion of this Lease and Lessee agrees to make application to the  
2 Commissioner of Conservation for the formation of such a unit within six  
3 (6) months after the completion of the subject well.

4  
5 (d) If on the date of this Lease all or any portion of the leased  
6 premises is included in a unit established by order of the Commissioner of  
7 Conservation, Lessee agrees to pay royalty on all oil, gas or other liquid  
8 or gaseous mineral produced and saved or utilized and attributable to the  
9 leased premises from the date of such unit regardless whether all  
10 development and operating costs chargeable to the leased premises have  
11 been paid.

12  
13 9. Lessee may, with the consent and approval of Lessor pool or  
14 combine the acreage covered by this lease (or any portion thereof) with any  
15 other property, lease, or leases (or portions thereof). Operations on or  
16 production of minerals from, or the existence of a shut-in gas well on, any  
17 portion of a unit, including units created by the Commissioner of  
18 Conservation or by conventional agreement, in which all or any part of the  
19 leased premises is embraced shall have the same effect under the terms of  
20 this lease as if it had occurred on the leased premises.

21  
22 10. Should Lessee apply or give notice of intent to apply to the  
23 Commissioner of Conservation for the creation of any unit or units which  
24 would include all or any portion of the leased premises. Lessee shall furnish  
25 Lessor with a copy of the notice or application, each accompanying unit plat,  
26 and all other attached information either at the time the application is filed  
27 with the Commissioner or at the time required by applicable orders or  
28 regulations of the commissioner for furnishing such information to any  
29 parties entitled to receive it, whichever is earlier. If a unit or units including  
30 all or any part of the leased premises are created by order of the  
31 Commissioner, Lessee shall submit to Lessor a survey plat of each unit or  
32 units so created.

33  
34 New Lease Form has provision for forced unitization if surface-  
35 subsurface agreement from State Land Office is granted and contains that  
36 clause, which previously was usually ignored by entities granted the  
37 agreements. Virtually all state lease forms (Texas, Oklahoma, Pennsylvania,  
38 et al, as well as the MMS) have unitization provisions. Alaska regulations  
39 require unitization of all wells so no need in lease form. Large Landowner  
40 leases contemplate units, both voluntary and commissioner's, but have not  
41 provision for entering into voluntary units.

42  
43 (e) Deferred Development: Notwithstanding anything to the  
44 contrary herein contained, it is understood and agreed that if, during the  
45 primary term of this Lease, or within two (2) years after the primary term  
46 (if the Lease remains in force and effect at that time), a portion of the  
47 property covered by this Lease is integrated and included or placed in a  
48 pooled or combined unit, either by itself or with other lands and/or leases,

1 whether by order of an authorized governmental agency or by  
2 conventional contract, then commencement of actual drilling operations  
3 or actual reworking operations on, or production in commercial quantities  
4 being obtained from or attributed to, a well situated on lands or property  
5 within the unit ( herein collectively referred to as “unitized operations”)  
6 shall maintain this Lease in force and effect as to the entirety of the leased  
7 premises subject specifically, however, to the following:

8  
9 This lease shall terminate as to lease acreage outside of the unit  
10 (hereinafter referred to as “outside acreage”) unless:

11  
12 i) When unitized operations commenced during an annual  
13 period within the primary term for which a rental payment had been  
14 made, on or before the next ensuing anniversary date following said  
15 commencement of unitized operations, Lessee either commences  
16 acceptable development operations on the outside acreage (“non-  
17 unitized operations”) or pays to Lessor a sum of money equal to  
18 one-half of the per acre cash payment made for this lease multiplied  
19 times the number of acres then comprising the outside acreage  
20 (hereinafter referred to as a “deferred development payment”);  
21 which payment shall maintain this lease in full force and effect as to  
22 the outside acreage from the next ensuing anniversary date for a  
23 twelve month period until the then next ensuing anniversary date  
24 after that. Thereafter, in the absence of non-unitized operations  
25 thereon calculated to maintain this lease in force as to the outside  
26 acreage, successive deferred development payments on then existing  
27 outside acreage made on or before successive ensuing anniversary  
28 dates shall maintain this lease in full force and effect as to said  
29 outside acreage for successive twelve month periods not to exceed  
30 two (2) years after the primary term of this lease; or

31  
32 ii) When unitized operations commenced during an annual  
33 period for which no rental had been paid during the primary term, or  
34 within two years after the expiration of the primary term, and the  
35 lease has been otherwise maintained under its term, Lessee, within  
36 ninety (90) days of commencement of unitized operations, either  
37 commences non-unitized operations on the outside acreage or pays  
38 to Lessor a pro-rata deferred development payment on the then  
39 existing outside acreage (to be calculated as a sum of money equal  
40 to the deferred development payment multiplied by a fraction equal  
41 to the number of days remaining from the end of ninety (90) days  
42 from commencement of unitized operations until the next ensuing  
43 anniversary date, as numerator, over the total number of days of that  
44 annual period, as denominator), which payment shall maintain this  
45 lease in full force as to the outside acreage until the next ensuing  
46 anniversary date. Thereafter, successive deferred development  
47 payments on then existing outside acreage made on or before  
48 successive ensuing anniversary dates shall maintain this lease in full

1 force and effect as to said outside acreage, absent non-unitized  
2 operations on the outside acreage calculated to maintain this lease in  
3 force for successive twelve month periods up to a maximum of two  
4 years beyond the primary term.  
5

6 If unitized operations should commence within ninety (90) days of  
7 an anniversary date for which a deferred development payment would be  
8 available, if paid, to maintain this lease in full force and effect, absent  
9 non-unitized operations on the outside acreage, Lessee may make a full  
10 deferred development on or before the end of the ninety (90) day period.  
11

12 Nothing contained in this subsection (e) is intended to create nor  
13 shall have the effect of creating several or separate Leases, or in any  
14 manner to extend, increase or limit the obligation of Lessee to protect the  
15 leased premises from drainage as stated in the Lease, or otherwise. If at  
16 any time, either during the primary term of the Lease or the limited  
17 extension of the Lease beyond its primary term as provided hereinabove,  
18 as to the outside acreage not then being otherwise held under the terms  
19 hereof, Lessee conducts non-unit drilling operations or non-unit  
20 reworking operations or obtains non-unit production from the leased  
21 premises (collectively defined as Anon-unitized operations”), then the  
22 provisions of this paragraph shall not thereafter apply so long as said non-  
23 unitized operations shall continue without cessation for a period longer  
24 than ninety (90) days.  
25

26 The provisions of this subsection (e) shall also be applicable to a  
27 unitized shut-in gas well, but in this event, the annual deferred  
28 development payment shall be reduced by deducting therefrom the  
29 amount of shut-in gas well payments paid, if any, during the same period  
30 under subsection (f) hereafter of the Lease which is applicable to the  
31 acreage on which the deferred development payment is applicable. The  
32 provisions of this paragraph shall also apply to any unit, ordered or  
33 created, which wholly underlies the property covered by this Lease.  
34

35 At the end of the primary term Lessee shall release back to and in  
36 favor of Lessor all of Lessee’s right, title and interest in this Lease as to  
37 all depths below one hundred feet (100’) below the deepest formation  
38 producing, or the deepest formation behind pipe capable of producing at  
39 that time.  
40

### 41 3. Deferred Development 42

43 Notwithstanding anything to the contrary herein contained, it is  
44 understood and agreed that in the event during the primary term of this  
45 Lease, or within one (1) year thereafter (if the lease is then in force and  
46 effect), a portion of the property covered hereby is integrated and included  
47 or placed with other lands in a pooled or combined unit, whether by order of  
48 a governmental agency or by conventional contract, then unit drilling

1 operations or unit reworking operations or unit production from a well  
2 situated on lands or property embraced in such unit or units (hereinafter  
3 collectively called “unitized operations”), shall serve to maintain this Lease  
4 in force and effect as to the entirety of the leased premises, subject however  
5 to the following express requirements in lieu of reasonable development of  
6 the “outside acreage”, as hereinafter defined, which is not otherwise  
7 maintained under the terms of this Lease all as set out more completely  
8 hereinbelow in this Paragraph 3. If on the anniversary date of the Lease next  
9 ensuing after the commencement of unitized operations (or if the first date of  
10 unitized operations is less than 90 days prior to the anniversary date, then on  
11 the expiration of 90 days after such first date of unitized operations) the  
12 Lease is not being maintained under its terms by means other than unitized  
13 operations, the Lease shall terminate on said anniversary date (or at the end  
14 of said 90 day period, as the case may be) as to all outside acreage unless on  
15 or before said anniversary date (or the end of said 90 day period, as the case  
16 may be) Lessee pays or tenders to Lessor, as a deferred development  
17 payment, a sum of money equal to one-half of the rate per acre of the cash  
18 payment paid for the Lease multiplied by the number of acres then  
19 comprising the outside acreage, which tender or payment shall maintain this  
20 Lease in effect as to such outside acreage not otherwise maintained under the  
21 terms of the Lease until the next ensuing anniversary date. By similar tender  
22 or payment of a deferred development payment on or before each succeeding  
23 anniversary date this Lease may so be maintained in force during the  
24 remainder of the primary term (if any) and for two years thereafter as to such  
25 outside acreage. After the expiration of the periods during which the Lease  
26 may be maintained by deferred development payments as above provided, if  
27 this Lease at any time is not being maintained in effect by other than unitized  
28 operations, it shall terminate as to all outside acreage not otherwise so  
29 maintained under the provisions of this Lease, provided that if a unit or units  
30 are created after the expiration or said periods the effect of which is to  
31 convert non-unitized operations as hereinafter defined, into unitized  
32 operations, it shall be regarded for all purposes of this Lease as though there  
33 had been on the effective date of such unit or units a cessation of production  
34 on the outside acreage. If at any time during the primary term of the Lease  
35 or within one year thereafter there is a cessation of all non-unitized  
36 operations as hereinafter defined, whether same occurs as the result of the  
37 actual cessation of such operations or as the result of non-unitized operations  
38 being converted into unitized operations, then Lessee, in lieu of resuming  
39 non-unitized operations as provided in this Lease, may elect to maintain the  
40 Lease in effect as to the outside acreage by tendering or paying a deferred  
41 development payment, computed as hereinabove provided, on the next  
42 ensuing anniversary date of this Lease (or within 90 days from the cessation  
43 of non-unitized operations if such cessation should occur less than 90 days  
44 prior to such anniversary date). If at any time during the second year after  
45 the primary term of the Lease, there is a cessation of non-unitized operations  
46 as hereinafter defined, whether same occurs as the result of the actual  
47 cessation of such operations or as the result of non-unitized operations being

1 converted into unitized operations, then the entire Lease shall nevertheless  
2 remain in effect until the next ensuing anniversary date.

3  
4 Nothing contained in this Paragraph 3 is intended to create nor shall  
5 have the effect of creating several or separate leases, or in any manner to  
6 extend, increase or limit the obligation of Lessee to protect the leased  
7 premises from drainage as stated in the Lease, or otherwise. If at any time,  
8 either during the primary term of the Lease or the limited extension of the  
9 Lease beyond its primary term as provided above in this Paragraph 3, as to  
10 the outside acreage not otherwise held under the terms hereof, Lessee  
11 conducts non-unit drilling operations or non-unit reworking operations or  
12 obtains non-unit production from the leased premises (collectively defined  
13 as “non-unitized operations”), then the provisions of this paragraph shall not  
14 thereafter apply so long as said non-unitized operations shall continue.

15  
16 The provisions of this Paragraph 3 shall also be applicable to a unitized  
17 shut-in gas well, but in this event, the annual deferred development payment  
18 shall be reduced by deducting therefrom the amount of shut-in gas well  
19 payments paid, if any, during the same period under Paragraph 6 of the  
20 Lease which is applicable to the acreage on which the deferred development  
21 payment is applicable. The provisions of this paragraph shall also apply to  
22 any unit, ordered or created, which wholly underlies the property covered by  
23 this lease.

24  
25 For purposes of this paragraph the following definitions shall apply:

26  
27 (a) The term “anniversary date” shall mean the date of this Lease and  
28 the same date of each next ensuing year or years.

29  
30 (b) The term “outside acreage” shall mean all of the leased premises,  
31 except any portion(s) thereof included in a unit or units on which unitized  
32 operations are being conducted.

33  
34 Deferred Development clause was taken out of the Rider and put in the  
35 body of the lease. Language was also changed to clarify how it works  
36 similar to a Pugh clause. Also, new lease form makes it applicable to shut-in  
37 wells. The Bath (6) forms after 1964 have a Pugh clause. Large landowner  
38 leases (JMB Partnership and Miami Corp) have Pugh clause. Alaska has  
39 provision that severs lease when unitized into unitized and non-unitized with  
40 the non-unitized being treated as separate lease of same terms and having to  
41 be maintained as a separate lease under lease terms not affected by unitized  
42 portion.

43 10.(a) For the first well drilled on the leased premises or lands  
44 pooled therewith, Lessee shall furnish Lessor all of the following types of  
45 data: (1) all wire line surveys in open or cased holes, including, but not  
46 limited to , all electrical and radioactive logs, porosity logs of all types  
47 and dip-meters, all in both 1” and 5” hard copy format and composite

1 digital curve data in LAS or LIS; (2) directional surveys; (3) mud logs and  
2 core descriptions of both sidewall samples and conventional cores; (4)  
3 drill stem and production test data; (5) daily drilling reports to be supplied  
4 weekly; (6) paleontological reports; (7) velocity surveys including vertical  
5 seismic profiles; (8) all geological and geophysical survey data derived  
6 from surveys on the leased premises and consistent with the rites of the  
7 State under permits as set forth in R.S. 30:213 and (9) production data,  
8 current and cumulative, including oil, gas and water production, surface  
9 and subsurface pressures. For subsequent wells drilled on the leased  
10 premises or lands pooled therewith, upon request by Lessor, Lessee shall  
11 furnish Lessor any or all of the above data. Lessee shall also furnish  
12 Lessor with any other information and data requested by Lessor to keep  
13 Lessor fully informed that Lessee is complying with the provisions of this  
14 Lease in good faith, and developing and operating the leased premises as  
15 a reasonably prudent operator for the mutual benefit of Lessor and Lessee.

16  
17  
18 (b) All records which are filed by or received from any person by the  
19 Office of Mineral Resources of the Department of Natural Resources, or  
20 any official or employee in the Office of Mineral Resources of the  
21 Department of Natural Resources, or which in any manner is in the  
22 custody or control of the Office of Mineral Resources of the Department  
23 of Natural Resources, or any official or employee in the office of mineral  
24 resources of the Department of Natural Resources shall be deemed public  
25 record except where the record is designated as confidential by law.

26  
27 (c) Nothing in this paragraph shall require that Lessee furnish or  
28 permit inspection of any interpretation of any of the types of data referred  
29 to above, and nothing herein shall be construed as requiring Lessee to  
30 secure any such data solely for the purposes of this paragraph. Lessor's  
31 representatives shall have access at all reasonable times to examine and  
32 inspect Lessee's records and operations pertaining to the leased premises  
33 or lands pooled therewith.

34  
35 (d) Failure to comply with this requirement shall result in liquidated  
36 damages to be paid by Lessee to Lessor of \$100 per day for each day of  
37 non-compliance starting 30 days after the date on which the well reaches  
38 total vertical depth.

39  
40 11. Upon request by Lessor, Lessee shall furnish Lessor any or all of  
41 the following types of data relating to wells drilled on the leased premises or  
42 lands pooled therewith: (1) all wire line surveys in open or cased holes,  
43 including, but not limited to, all electrical and radio activity logs, porosity  
44 logs of all types and directional surveys; (2) core descriptions of both  
45 sidewall samples and conventional cores; (3) drill stem and production test  
46 data; (4) daily drilling reports to be supplied weekly; and (5) production  
47 data, current and cumulative, including oil, gas and water production,  
48 surface and subsurface pressures. Lessee shall also furnish Lessor with any

1 other information and data requested by Lessor to keep Lessor fully  
2 informed that Lessee is complying with the provisions of this Lease in good  
3 faith, and developing and operating the leased premises as a reasonably  
4 prudent operator for the mutual benefit of Lessor and Lessee. Any  
5 information furnished by Lessee to Lessor or otherwise examined and  
6 studied by Lessor shall be retained in confidence. Nothing in this Article  
7 shall require that Lessee furnish or permit inspection of any interpretation of  
8 any of the types of data referred to above, and nothing herein shall be  
9 construed as requiring Lessee to secure any such data solely for the purposes  
10 of this Article. Lessor's representatives shall have access at all reasonable  
11 times to examine and inspect Lessee's records and operations pertaining to  
12 the leased premises or lands pooled therewith.

13  
14 Alaska has a comprehensive list of what Lessee must furnish on its  
15 operations with requirement that if want confidential, Lessee must request  
16 confidentiality and mark documents as such. Texas requires written copies  
17 of all information, including cuttings, cores, logs, records, memoranda,  
18 accounts, surveys, etc. and has a regulation levying penalty for non-  
19 compliance. MMS has codal articles requiring information to be provided  
20 and penalties. Large landowner leases (Miami Corp) requires much more  
21 information be given to Lessor including run tickets, applications for  
22 permits, etc.

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

43  
44 (b) After one year, the Lessee may not, without the express  
45 approval of the State Mineral and Energy Board, trespass upon the  
46 premises which makes up this lease to fulfill its plug and abandonment,  
47 and cleanup obligation, but shall remain obligated under this Lease to  
48 appear before the State Mineral and Energy Board, at its request to

1 explain the failure to properly plug and abandon all wells and restore the  
2 leased premises to as near as possible its prelease condition, and further,  
3 Lessee at that time shall utilize the plan filed with the release to fulfill its  
4 obligations as set forth in this Lease. The Mineral and Energy Board may  
5 grant Lessee temporary access to the former leased premises to carry out  
6 its plan, or the Mineral and Energy Board may exercise its option to  
7 pursue any and all other means at its disposal to restore the premises.

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

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

25  
26 12. Lessee shall be obligated to plug and abandon all wells on the  
27 premises no longer necessary for operations or production of this lease, and  
28 to remove from the premises all structures and facilities serving said wells,  
29 all at Lessee’s sole risk, cost and expense and subject to compliance with  
30 laws, rules and regulations. Failure of Lessee to do so within a reasonable  
31 time shall subject Lessee to and make Lessee liable for any and all costs or  
32 expenses of any kind incurred by the State for removing said facilities, but in  
33 no instance shall title to or ownership of said facilities automatically vest in  
34 or transfer to the State nor shall said facilities be deemed “improvements” to  
35 the leased premises for purposes of vesting title in same to the State. Prior  
36 to the date of first production from any site on this lease, Lessee shall create or  
37 cause to be created, under the direction of the Commissioner of  
38 Conservation pursuant to the Memorandum of Understanding among the  
39 Department of Natural Resources, the Commissioner of Conservation and  
40 the State Mineral Board dated August 8, 1995, a Site Specific Trust Account  
41 to be funded in a manner satisfactory to the Commissioner of Conservation  
42 in accordance with the rules and regulations promulgated under L.R.S.  
43 30:80, et seq. The Site Specific Trust Account shall be reassessed and, if  
44 necessary, modified by the Secretary of the Department of Natural  
45 Resources and the Commissioner of Conservation prior to the date of first  
46 production of each additional well. In connection therewith, the right of  
47 Lessee to draw and remove casing from wells and to further remove any  
48 facilities no long utilized in the operations or production on this lease is

1 recognized, provided such right is exercised by Lessee not later than one  
2 year after termination of this lease or portion thereof on which the well is  
3 located. If such right of salvage is not timely exercised, Lessee shall be  
4 subject to and liable for any costs or expenses of any kind incurred by the  
5 State in removing or disposing of casing or other facilities, but under no  
6 circumstances shall title to said salvage transfer to or vest in the State nor  
7 shall it be forfeited by Lessee to the State. In addition to restoration of the  
8 leased premises as contemplated and required by this lease, Lessee shall be  
9 responsible for all damages to the leased premises, and in addition and  
10 without limitation for all damages to any timber, crops, roads, buildings,  
11 fences, and other improvements thereon.

12  
13 New Lease form obligations are much more specific than Present  
14 Lease Form, and deal with such things as environmental damages, but also  
15 requires a list of all unplugged wells and non-used facilities be filed with  
16 release and a copy given to Lessor together with a plan to remediate them.  
17 MMS has regulations in the USC which govern cleanup. Texas lease has a  
18 removal of equipment and a pollution clause which are concise and basically  
19 requires highest standard of care and thoroughness in removing to the  
20 satisfaction of the Commissioner. Alaska lease form has clause stating  
21 Lessee must clean sight up and, before reserved rights are exercised, pay for  
22 all damage to property, including use of bond. Major landowner lease  
23 (Miami Corp) has provision mandating removal of all equipment within 4  
24 months, or Lessor can remove, destroy or keep equipment, at its option, and  
25 at Lessee's cost.

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

1 reasonably and in good faith attempting to mitigate and eliminate the  
2 effects of the fortuitous event and resume A, B, or C above. The  
3 interpretation and operation of any term of this Force Majeure clause is at  
4 the sole, reasonable discretion of the Mineral and Energy Board and/or its  
5 duly authorized staff. The operation of Force Majeure alone shall not  
6 maintain this Lease in full force and effect for more than six (6) months  
7 from date of the fortuitous event unless extended by, and at the sole  
8 discretion of, the State Mineral and Energy Board. Force Majeure shall,  
9 during the six (6) months from the date of the fortuitous event, operate in  
10 ninety (90) day increments; which means that Lessee (or the lease  
11 operator as Lessee's representative) shall, by written, detailed reports  
12 given on a monthly basis, show what efforts are occurring to alleviate the  
13 effects of the fortuitous event. If either: 1) all of the monthly required  
14 reports are not given when due (within a week of the end of the month)  
15 during a ninety (90) day period, or 2) the reports do not indicate sufficient  
16 effort, at the discretion of the Board, to alleviate the effects of the  
17 fortuitous event over a ninety (90) day period, the Board may declare that  
18 the Force Majeure is ended and the Lease shall terminate at the end of  
19 ninety (90) days from the end of the force majeure, or if the lease was  
20 under a ninety (90) day clock at the time of the fortuitous event, the  
21 remainder of the ninety (90) days left after the fortuitous even occurred,  
22 unless maintained under other than the Force Majeure clause of the lease.  
23

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

30 Should the Mineral and Energy Board, in its sole discretion, decide  
31 to allow the Force Majeure clause to maintain the lease beyond six (6)  
32 months from the date of the fortuitous event, then Lessee shall be subject  
33 to the same requirements regarding reporting and efforts to alleviate the  
34 effects of the fortuitous event, but, in addition, shall pay a shut-in  
35 payment, regardless of whether the lease was being held by gas or oil  
36 production, equal to fifty (\$50.00) dollars per acre multiplied times the  
37 then existing number of acres in this lease, but not less than one thousand  
38 (\$1,000.00) dollars, to Lessor which shall maintain this Lease in full force  
39 and effect for a period of three (3) months. If the Force Majeure  
40 maintenance is denied by the Board for reporting deficiencies or  
41 insufficient effort, no refund of any portion of the shut-in payment will be  
42 due. Should the effects of the Force Majeure be alleviated within a three  
43 (3) month period for which this shut-in payment was tendered or made,  
44 no refund of any portion of the funds shall be available to the Lessee.  
45

46 Force Majeure, as herein utilized shall be defined as a fortuitous  
47 event such as: 1) a major storm, major flood, or other, similar natural  
48 disaster, or 2) a major accident such as a blowout, fire, or explosion

1 beyond Lessee's control and not ultimately found to be the fault of Lessee  
2 [that is, due to Lessee's negligent or intentional commission or omission,  
3 or failure to take reasonable and timely, foreseeable preventative  
4 measures which would have mitigated or negated the effects of the  
5 fortuitous event], or 3) the lack of availability of any required equipment  
6 and/or personnel C such as the specific type of rig necessary to  
7 accomplish the task or specific types of casing or drill stem pipe C after  
8 Lessee has diligently, timely and in good faith attempted to secure same,  
9 or 4) the unreasonable delay by the federal government or any of its  
10 agencies, or the State of Louisiana or any of its agencies or political  
11 subdivisions (including, but not limited to, various departments, boards,  
12 commissions, parish governments and municipalities, each having proper  
13 authority and jurisdiction) in granting necessary permits, or 5) a valid  
14 order of any Federal or State court of competent jurisdiction, or 6) the act  
15 of a third party not under the control or at the instigation of Lessee in  
16 shutting down and unreasonably refusing to reopen any facility through  
17 which hydrocarbons from the Lease are necessarily passed as part of  
18 production [and providing there is no other reasonably economical  
19 method of carrying on production]".

20  
21 13. If at any time this Lease is being validly maintained under any of  
22 its provisions and Lessee is in the process of either: A) commencing lease  
23 operations which are herein defined as spudding a well [turning-to-the-  
24 right], downhole drilling, or downhole reworking operations, or B)  
25 diligently, timely and in good faith performing requisite tasks to commence  
26 lease operations including, but not necessarily limited to, towing the required  
27 type of rig to a drill site, obtaining permitting from all necessary parties, or  
28 satisfying conditions and obligations under any validly enacted law, statute  
29 or regulation of an agency of the Federal Government, the State of Louisiana  
30 or any of its political subdivisions having proper jurisdiction, or C)  
31 producing in commercial quantities, and Lessee is prevented from  
32 continuing A, B, or C by the occurrence of a Force Majeure event, as herein  
33 below defined, and Lessee cannot maintain this Lease beyond any critical  
34 date under any other operative provisions of this Lease — such as the  
35 payment of a pro-rata rental based on the number of months remaining until  
36 the next anniversary date divided by twelve (12) and/or the full rental for a  
37 year if the force majeure effect prevails for an entire rental period [all during  
38 the primary term of the lease and only where rental payments may hold the  
39 lease], payment of deferred development or payment of shut-in/in-lieu  
40 royalty — then, and only then, shall the critical date be postponed on a day-  
41 for-day basis for so long as the effects of the Force Majeure prevail,  
42 providing that Lessee: i) has given the Office of Mineral Resources  
43 reasonable, timely written notice of the Force Majeure event occurrence  
44 [notice given beyond three months shall be deemed unreasonable barring  
45 consequential extenuating circumstances] which shall contain the date and  
46 type of the occurrence of the Force Majeure event, its effects in preventing  
47 continuation of A, B, or C above, the steps being taken to mitigate and

1 eliminate those effects and an estimated time for resuming of A, B, or C  
2 above, and ii) is diligently, reasonably and in good faith attempting to  
3 mitigate and eliminate the effects of the fortuitous event and resume A, B, or  
4 C above, and iii) has exhausted Lease provisions other than Force Majeure  
5 which may serve to maintain the Lease in full force and effect. The  
6 interpretation and operation of any term of this Force Majeure clause is at  
7 the sole, reasonable discretion of the Mineral Board and/or its duly  
8 authorized staff. The operation of Force Majeure alone shall not maintain  
9 this Lease in full force and effect for more than one year from date of the  
10 fortuitous event unless extended by, and at the sole discretion of, the State  
11 Mineral Board.

12  
13 Force Majeure, as herein utilized shall be defined as a fortuitous event  
14 such as: 1) a major storm, major flood, or other, similar natural disaster, or 2)  
15 a major accident such as a blowout, fire, or explosion beyond Lessee's  
16 control and not ultimately found to be the fault of Lessee [that is, due to  
17 Lessee's negligent or intentional commission or omission, or failure to take  
18 reasonable and timely, foreseeable preventative measures which would have  
19 mitigated or negated the effects of the fortuitous event], or 3) the lack of  
20 availability of any required equipment — such as the specific type of rig  
21 necessary to accomplish the task or specific types of casing or drill stem pipe  
22 — after Lessee has diligently, timely and in good faith attempted to secure  
23 same, or 4) the unreasonable delay by the Federal Government or any of its  
24 agencies, or the State of Louisiana or any of its agencies or political  
25 subdivisions (including, but not limited to, various departments, boards,  
26 commissions, parish governments and municipalities, each having proper  
27 authority and jurisdiction) in granting necessary permits, or 5) a valid order  
28 of any Federal or State court of competent jurisdiction, or 6) the act of a  
29 third party not under the control or at the instigation of Lessee in shutting  
30 down and unreasonably refusing to reopen any facility through which  
31 hydrocarbons from the Lease are necessarily passed as part of production  
32 [and providing there is no other reasonably economical method of carrying  
33 on production].

34  
35 New Lease form is pretty much the same as Present Lease form except  
36 it allows 1) unless in primary term where rental will be required, get 6  
37 months non-payment, in three month increments with monthly reporting and  
38 2) after 6 months all pay shut-in payment, whether oil or gas, to maintain  
39 lease.

40 All State and Major Landowner leases have a force majeure, but none  
41 is as detailed or comprehensive as ours.

42  
43 13. (a) Lessee hereby agrees that in exercising the rights granted it  
44 under the lease, it will comply with and be subject to all current  
45 applicable environmental laws and regulations and those validly adopted  
46 or issued, by the United States and its agencies, and by the State of  
47 Louisiana and its agencies, and by any applicable local government.  
48 Lessee further agrees that it will comply with all minimum water quality

1 standards validly adopted by said governmental authorities with respect to  
2 pollution, noxious chemicals, and waste being introduced into affected  
3 water areas. Further, in conducting all storage operations under this lease  
4 requiring dredging, filling, or local navigation in order to conduct oil and  
5 gas exploration and production operations, Lessee shall comply with the  
6 applicable requirements of the environmental management of said area.

7  
8 (b) For the purpose of this lease, any material now or hereinafter  
9 designated as or containing components now or hereinafter designated as  
10 hazardous, toxic, dangerous, or harmful, and/or which are subject to  
11 regulation as hazardous, toxic, dangerous, or harmful material by any  
12 federal, state or local law, regulation, statute or ordinance shall be  
13 transported, stored and handled in accordance and compliance with the  
14 provision of applicable federal, state, and local law, including but not  
15 limited to, 42 U.S.C. 6901 et. seq. (RCRA), 42 U.S.C. 9601 et. seq.  
16 (CERCLA), existing presently, or as subsequently enacted or amended.

17  
18 **No corollary for this provision in Present Lease Form, but some**  
19 **version is in MMS which refers to codal provisions; Texas which**  
20 **refers to Commission rules; Alaska which refers to rule and**  
21 **regulations.**

22  
23 14. (a) Lessee shall be responsible for any pollution or other  
24 damage to any portion of the environment in or adjacent to the leased  
25 property which occurs as a result or consequence of Lessee's occupation,  
26 oil and gas exploration, production operations and use of the premises,  
27 irrespective of whether or not such pollution or damage may be due to  
28 negligence or to the inherent nature of Lessee's operations. For the  
29 purpose of this lease, pollution shall be deemed to include, without  
30 limitation, the intrusion of oil, natural gas, liquid or liquefied  
31 hydrocarbons, or carbon dioxide into any segment of the environment not  
32 previously containing same.

33  
34 Lessee shall use the highest degree of care and all proper  
35 safeguards to prevent land or water pollution resulting from drilling,  
36 construction, transportation, and other oil and gas exploration and  
37 production operations pursuant to this Lease. Lessee shall use all means at  
38 its disposal to recapture all escape pollutants and shall be solely  
39 responsible for all damages, if any, to aquatic or marine life, wildlife,  
40 birds, and any public or private property that may result from any such  
41 land, air or water pollution occasioned by Lessee's operations hereunder.  
42 Lessee shall report all unpermitted discharges of pollutants pursuant to  
43 any Federal or State statutes and regulations and to Louisiana Department  
44 of Environmental Quality and Louisiana Department of Conservation  
45 within five (5) calendar days or within the time required by federal, state,  
46 or local laws, whichever is earlier.

47  
48 All reasonably necessary preparations and precautions shall be

1 made by the Lessee in order to prevent fire and explosion and to prevent  
2 contamination of any portions of the total environment of the leased  
3 property; provided, that nothing herein shall be construed as lessening or  
4 reducing Lessee's obligations under other applicable statutes, rules and  
5 regulations of the State of Louisiana and the United State of America.

6  
7 (b) Lessee shall indemnify, defend, and hold harmless Lessor,  
8 employees, officers, and agents with respect to any and all damages,  
9 costs, liabilities, fees (including reasonable attorneys' fees and costs),  
10 penalties (civil or criminal), and cleanup costs arising out of or in any  
11 way related to Lessee's use, disposal, transportation, generation, sale and  
12 location upon or affecting the leased property of Hazardous Substances as  
13 defined in Section 13(b) of this Lease. This indemnity shall extend to  
14 actions of Lessee's employees, agents, assigns, subleases, contractors,  
15 subcontractors, licensees, and invitees. Lessee shall further indemnify,  
16 defend, and hold harmless lessor from any and all damages, costs,  
17 liabilities, fees (including reasonable attorneys' fees and costs), penalties  
18 (civil or criminal), and cleanup costs arising out of or related to any  
19 breach of the provisions of this Lease concerning Hazardous Substances  
20 and/or negligent operations. This indemnity is in addition to, and in no  
21 way limits, the general indemnity contained in paragraph 4 of this Lease.

22  
23 (c) Further, in conducting any operations under this Lease requiring  
24 dredging, filling, or local navigation in order to conduct oil and gas  
25 exploration and production operations, Lessee shall comply with the  
26 applicable requirements of the environmental management of said area.  
27 Lessee agrees that, upon completion of oil and gas exploration and  
28 production operations under this Lease, Lessee shall remove all facilities,  
29 materials, and equipment that would impede commercial fishing and  
30 trawling, including, without limitation, all submerged materials,  
31 equipment, or debris placed on the leased premises by or for the account  
32 of Lessee; and Lessee shall return or restore, to the extent reasonably  
33 possible of accomplishment, all affected water bottoms to a condition as  
34 nearly equivalent to that which existed before said operations were  
35 conducted and/or structures were constructed. Lessee further agrees that  
36 in exercising the rights granted hereunder and in discharging the  
37 obligations undertaken, it will allow sufficient lead time in the planning  
38 of its activities to permit the affected regulatory agencies to make  
39 appropriate review of the proposed operations.

40  
41 (d) Lessee agrees that, should the Lessor and/or the Commissioner  
42 of Conservation determine that the continued operation of the oil and gas  
43 exploration and production operation, including but not limited to,  
44 temporary surface storage facility and/or associated wellhead facilities  
45 (wellhead, valves, tanks or pits and flares) would cause unsafe operating  
46 conditions, waste pollution, or contamination of air, fresh water, or soil,  
47 the Lessor and/or the Commissioner of Conservation may immediately  
48 prohibit further oil and gas exploration and production operations of the

1 Lessee's facility and/or its associated wellhead facilities until such time as  
2 Lessor or Commissioner of Conservation determines that the oil and gas  
3 exploration and production operation can and will be conducted in a  
4 physically and environmentally safe manner.

5  
6 Should the Lessor and/or the Commissioner of Conservation  
7 determine, due to oil and gas exploration and production operations, that  
8 any unsafe operating condition, waste, pollution, or contamination of air,  
9 fresh water, or soil is imminent, further oil and gas exploration and  
10 production operations of any affected reservoir formation and associated  
11 facilities shall be discontinued until such time as it is Lessor and/or the  
12 Commissioner of Conservation determines that the oil and gas exploration  
13 and production operations will be conducted in a physically and  
14 environmentally safe manner.

15  
16 (e) Lessee shall, at its sole cost and expense, keep and maintain the  
17 leased premises and all improvements thereon and all facilities  
18 appurtenant thereto (regardless of ownership) in good order and repair  
19 and safe condition for the safe conduct of any activities or enterprises  
20 conducted on the property pursuant to the rights granted under this Lease.

21  
22 Present Lease Form doe not have these provisions, but they are  
23 comprehensive in delineating what Lessee is responsible. While other state  
24 lease forms and Big Landowner lease forms have references to Lessee  
25 liability and other hold harmless language, there are numerous references to  
26 codes, rules and regulations.

## 27 28 15. Comprehensive and Liability Insurance

29  
30 (a) Lessee shall, at its sole expense, provide and maintain in full  
31 force and effect during the term of this Lease a general comprehensive  
32 liability insurance with Lessor as a named insured party in an amount not  
33 less than One Million Dollars (\$1,000,000.00) for each occurrence and  
34 Five Million Dollars (\$5,000,000.00) in the aggregate, which shall cover  
35 Lessee and Lessor for damage claims including, but not limited to,  
36 personal injury, accidental death, property loss, environmental  
37 impairment or pollution that may arise from operations conducted under  
38 this Lease or any occurrence on or about the leased premises whether  
39 such operations are by Lessee or anyone directly, or indirectly, employed  
40 by Lessee. Lessor shall be named as additional insured as their interests  
41 may appear on Lessee's liability insurance. Lessee shall also maintain  
42 equivalent insurance coverage for the operation of its motor vehicles.

43  
44 (b) Lessee or its insurer shall be liable to Lessor for any damage  
45 done to sovereign property of the State as the result of Lessee's  
46 operations.

47  
48 (c) Lessee shall provide Lessor with a certificate of insurance for its

1 comprehensive general liability insurance and pollution liability insurance  
2 demonstrating the above coverage prior to beginning its operations on the  
3 leased premises.

4  
5 (d) Lessee shall advise Lessor of the cancellation of any insurance  
6 policy required by this Lease immediately upon receipt of notice by  
7 Lessee of the cancellation and in no event later than 30 days from the  
8 effective date of the cancellation. Lessee shall immediately secure  
9 replacement insurance for the same terms such that continuous coverage  
10 is maintained.

11  
12 (e) Failure of Lessee to provide or maintain insurance coverage as  
13 set forth herein may, at the sole option of Lessor, terminate this contract.

14  
15 No provision in Present Lease Form for insurance, but Large  
16 Landowners in Louisiana (Miami Corp) require insurance; Pennsylvania  
17 requires insurance; Texas uses a statutory and contractual first lien right on  
18 all minerals produced, as well as Lessee's equipment to cover any damages  
19 or costs incurred;

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

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

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

35  
36 Lessee shall comply with all the terms and provisions of the lease  
37 throughout any bona fide dispute or litigation and shall be held in default  
38 in payment of such royalty if Lessee suspend or stop royalty payment in  
39 accordance with the terms of the lease unless the Lessor grants one of the  
40 following exceptions:

- 41  
42 a. Pending final and definitive adjudication or other settlement of said  
43 title dispute or litigation, and if disputing party is not receiving a  
44 minimum royalty, the Lessee shall obtain written approval from the  
45 Lessor to suspend royalty payable hereunder on oil, gas or other  
46 liquid or gaseous mineral produced from or attributable to this Lease

1 in order to deposit said royalty payment into either an interest  
2 bearing bank account with a bank in good financial standing and  
3 insured by the Federal Deposit Insurance Corporation (FDIC) or  
4 into the registry of the court in which the concursus litigation was  
5 filed. If the Lessee deposits the money into an interest bearing bank  
6 account, Lessee shall demonstrate to Lessor that it deposited the  
7 funds into the highest possible interest bearing account and it shall  
8 supply Lessor with verification of said account and a copy of any  
9 deposits or withdrawals from said account and monthly account  
10 statements showing the balance in said account. Lessor shall accept  
11 said royalty deposit as royalties on production of said minerals from  
12 said portion of the leased premises as royalty payment due pursuant  
13 to the terms and provision of this Lease and Lessee shall not be held  
14 in default in payment of such royalty payments if deposited royalty  
15 payments are computed and made in accordance with the terms and  
16 provisions of this lease or pursuant to the terms of a court's order.  
17 When said title dispute or litigation shall be resolved by either a  
18 final and definitive adjudication or a settlement and comprise  
19 agreement, then the deposit of the royalty payment into the interest  
20 bearing bank account or into the registry of the court shall cease  
21 effective as of the effective date of said final and definitive  
22 adjudication or other settlement. The money in said interest bearing  
23 bank account or in the registry of the court shall be disbursed in  
24 accordance with the terms of said final and definitive adjudication  
25 or settlement and comprise agreement. Thereafter, royalty payment  
26 on said minerals shall be made in accordance with the terms of said  
27 final and definitive adjudication or settlement and comprise  
28 agreement and pursuant to the terms and provisions of this Lease; or  
29

- 30 b. Pending final and definitive adjudication or other settlement of said  
31 title dispute or litigation, the Lessee shall obtains written approval  
32 from the Lessor to reduce royalty payable hereunder on oil, gas or  
33 other liquid or gaseous mineral produced from or attributable to this  
34 Lease. The royalty payment required pursuant to the terms of this  
35 Lease may be reduced by Lessor to one-half (1/2) of the royalties on  
36 production of said minerals, but not below the minimum royalties  
37 requirements of LA. R.S. 30:127. The reduced royalty payment  
38 shall be computed and paid or delivered to Lessor in the same  
39 manner as the royalties on said minerals herein elsewhere stipulated.  
40 Lessee shall deposit the unpaid funds into either an interest bearing  
41 bank account with a bank in good financial standing and insured by

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

28 18. In the event of any bona fide dispute or litigation involving  
29 Lessor's ownership or title to any portion of the leased premises, Lessee  
30 agrees to promptly notify Lessor in writing of the nature of said adverse  
31 claim in reasonable detail, identifying the adverse claimant, and the basis  
32 and extent of Lessee's accountability to said adverse claimant for any oil,  
33 gas or other liquid or gaseous mineral produced from or attributable to such  
34 portion of the leased premises. Pending final and definitive adjudication or  
35 other settlement of said title dispute or litigation the royalties payable  
36 hereunder on oil, gas or other liquid or gaseous mineral produced from or  
37 attributable to only such portion of the leased premises may be reduced by  
38 Lessee, with prior written consent of Lessor, to one-half (1/2) of the royalties  
39 on production of said minerals herein elsewhere stipulated, but not below the  
40 minimum royalties of one-eighth (1/8th) on said minerals as required by  
41 L.R.S. 30:127, said reduced royalties on said minerals to be computed and  
42 paid or delivered to Lessor in the same manner as the royalties on said  
43 minerals herein elsewhere stipulated. Pending final and definitive

1 adjudication or other settlement of said dispute or litigation, Lessee shall pay  
2 or deliver and Lessor shall accept said reduced royalties on production of  
3 said minerals as full payment of all royalties due hereunder on production of  
4 said minerals from said portion of the leased premises; and, Lessee shall  
5 have no right to suspend, fail to pay or recover said reduced royalties on  
6 production of said minerals. When said title dispute or litigation shall be  
7 finally resolved, whether by final and definitive judgment of court or other  
8 settlement, then the payment or delivery of said reduced royalties on  
9 production of said minerals shall cease, effective as of the effective date of  
10 said final and definitive adjudication or other settlement; and, from and after  
11 the effective date thereof, but not retroactively, royalties on said production  
12 of said minerals shall be paid or delivered in accordance with said final and  
13 definitive adjudication or other settlement and pursuant to the other  
14 provisions of this lease. All of the foregoing provisions of this paragraph are  
15 subject to Lessee's right to release as otherwise provided in this lease.

16

17 Changes from Present Lease Form to allow State to collect reduction  
18 portion of royalty during litigation if State wins and granted a  
19 reduced royalty prior winning judgment. Can't find similar  
20 minimum royalty provisions in other State lease forms

21

22 18. (a) This Lease is subject to the provisions of La. R.S.  
23 30:127(G), and access by the public to public waterways through the state  
24 lands covered by the Lease shall be maintained and preserved for the  
25 public by the lessee.

26

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

35

36 (c) In addition, the Lessor, or any of its authorized agents or  
37 representatives, shall at all times during the term of this Lease have the  
38 use of any and all parts of the property for any and all purposes so long as  
39 the Lessor does not unreasonably interfere with the rights and  
40 performance of Lessee under this Lease. Specifically, the Lessor shall  
41 have the right to enter and conduct all resource management activities,  
42 integrated coastal protection projects, including, but not limited to,  
43 activities associated with timber management. The Lessor shall also have

1 the right to sell, exchange, transfer, or otherwise dispose of all or part of  
2 the leased premises subject to this Lease.

3

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

8

9 (e) All rights pertaining to the leased premises not expressly  
10 granted to the Lessee by this Lease, or necessarily implied therein, are  
11 hereby reserved to the Lessor

12

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

31 (b) In addition to all other audit rights otherwise set forth in this  
32 Lease or required by the law, the State and Energy Board and its staff  
33 shall have the same audit rights which the United States of America  
34 would have under 30 U.S.C. 1713(a) and under State of Louisiana Act  
35 449 of 2005 Regular Session, LA R.S. 47:1542 through 47:1548.

36

37 11. Upon request by Lessor, Lessee shall furnish Lessor any or all of  
38 the following types of data relating to wells drilled on the leased premises or  
39 lands pooled therewith: (1) all wire line surveys in open or cased holes,  
40 including, but not limited to, all electrical and radio activity logs, porosity  
41 logs of all types and directional surveys; (2) core descriptions of both  
42 sidewall samples and conventional cores; (3) drill stem and production test  
43 data; (4) daily drilling reports to be supplied weekly; and (5) production  
44 data, current and cumulative, including oil, gas and water production,  
45 surface and subsurface pressures. Lessee shall also furnish Lessor with any  
46 other information and data requested by Lessor to keep Lessor fully

1 informed that Lessee is complying with the provisions of this Lease in good  
2 faith, and developing and operating the leased premises as a reasonably  
3 prudent operator for the mutual benefit of Lessor and Lessee. Any  
4 information furnished by Lessee to Lessor or otherwise examined and  
5 studied by Lessor shall be retained in confidence. Nothing in this Article  
6 shall require that Lessee furnish or permit inspection of any interpretation of  
7 any of the types of data referred to above, and nothing herein shall be  
8 construed as requiring Lessee to secure any such data solely for the purposes  
9 of this Article. Lessor's representatives shall have access at all reasonable  
10 times to examine and inspect Lessee's records and operations pertaining to  
11 the leased premises or lands pooled therewith.

12 20. In addition to all other audit rights otherwise set forth in this lease  
13 or required by the law, the State Mineral Board and its staff shall have the  
14 same audit rights which the United States of America would have under 30  
15 U.S.C. 1713(a) and under State of Louisiana Act 449 of 2005 Regular  
16 Session, and that both provisions may be applied retroactively.

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19 New Lease form substantially increases rights to receive and examine  
20 records, etc. of Lessee with more specificity than Present Lease form. Other  
21 States have varying degrees of rights to receive data and examine records.  
22 Alaska gets to examine all books and records at all reasonable times, plus all  
23 data from operations. Texas gets everything including contacts, estimates of  
24 reserves, sales tickets, plus all drilling records, seismic, etc. MMS has 30  
25 USC rights to examine documents. Large Private Landowner leases have  
26 comprehensive rights to examine records and reports, permit applications,  
27 information obtained by Lessee n surrounding property, etc.

28  
29 20. (a) Notwithstanding any provisions to the contrary in this Lease,  
30 this Lease is granted and accepted without any warranty of title and  
31 without any recourse against Lessor whatsoever, either expressed or  
32 implied. It is expressly agreed that the Lessor shall not be required to  
33 return any payments received hereunder or be otherwise responsible to  
34 Lessee therefore. The Lessee represents that the Lessee has investigated  
35 the title and is satisfied with such title as the Lessor may have. Lessor  
36 hereby disclaims any covenant of quiet enjoyment or peaceful possession  
37 of the leased property.

38  
39 (b) Lessor makes no warranties as to the condition of the leased  
40 property, and Lessee accepts the leased property "AS IS". The Lessor has  
41 no obligation to make any repairs, additions, or improvements to the  
42 leased property.

43  
44 21. Lessor and Lessee herein agree that, so long as it remains in full  
45 force and effect, this Lease is deemed an executory contract and an  
46 unexpired Lease within the meaning of Section 365 of the United States  
47 Bankruptcy Code.

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

23. This agreement sets forth the full terms of the agreement between the parties. If any section of this agreement is found to be invalid for any reason, such section shall be severed from the agreement and the remainder of the terms and conditions of this agreement shall be 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:

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

6  
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Appearer

Notary Public