



DEPARTMENT OF CONSERVATION AND ENERGY

TO: STATE MINERAL AND ENERGY BOARD MEMBERS

**FROM: GREG ROBERTS
PETROLEUM LANDS DIRECTOR
OFFICE OF STATE RESOURCES**

DATE: FEBRUARY 11, 2026

LEGAL & TITLE CONTROVERSY REPORT

1. A request by Cypress Energy Partners, LLC ("Cypress") to amend the royalty provision of State Lease No. 22319, which covers land within the Pass-A-Loutre Wildlife Management Area.
2. A request by Staff to approve previously proposed changes to the State Lease Form and the State Agency Lease Form.
3. An update on development of the proposed State Lease Royalty Reduction Program by the Office of State Resources in accordance with Executive Order JML 25-72.

LEGAL & TITLE CONTROVERSY REPORT
ATTACHMENT TO ITEM NO. 2

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

STATE OF LOUISIANA
PARISH OF EAST BATON ROUGE
Louisiana State Lease Form, Revised January 2026

State Lease No. <lease_num>

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

WHEREAS, in response to required advertisements, bids were received and duly opened in the City of Baton Rouge, Parish of East Baton Rouge, State of Louisiana on the <lease_sale_date>, at a meeting of the Board; and

WHEREAS, on the <lease_sale_date> (“**Effective Date**”), the Board accepted the bid of and awarded this Lease to <bidder_name> (“**Lessee**”), whose address is <bidder_addr>, as the most advantageous to the State, as Lessor.

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

The property (“**Leased Premises**”) subject to this Lease, situated in the Parish(es) of <parishes>, State of Louisiana, is more fully described as follows:

<legal_description>

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

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

Lessor makes no warranties as to the condition of the Leased Premises and Lessee accepts the Leased Premises “AS IS.” Lessor has no obligation to make any repairs, additions or improvements to the Leased Premises, and Lessor does not warrant the suitability of the Leased Premises for any purposes intended by Lessee or contemplated by this Lease.

Lessor reserves the right to exclude certain sites from drilling and/or production activities in areas having special wildlife, environmental, or recreational significance on State surface lands and/or water bodies.

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

Notwithstanding any language herein to the contrary, the rights granted herein to Lessee shall be subject and subservient to surface usage for integrated coastal protection or hurricane and flood protection projects promulgated, funded and/or effected through the State, the Coastal Protection and Restoration Authority (“**CPRA**”), the Louisiana Department of Conservation and Energy (“**C&E**”) and/or their divisions, whether solely or in conjunction with other federal, state or local government agencies, or with private individuals or entities. Lessee shall hold the State, its departments, agencies, boards and commissions including, without limitation, the CPRA, C&E, the Office of State Resources, the Board and their officers, employees, agents and representatives, and the United States government, its

departments, agencies and divisions, together with their respective officers, employees, agents and representatives, free and harmless of and from any claims, actions and/or causes of action, except as limited by law, for loss, harm or damage to the rights of any party arising under this Lease or any other contract, permit or license of Lessee related to this Lease caused by the diversion of freshwater or sediment, depositing of dredged or other materials, integrated coastal protection projects, or any other such action taken for the purpose of management, preservation, enhancement, creation, protection or restoration of coastal wetlands, water bottoms or related public or renewable resources. Lessee, in the exercise of its rights granted hereunder, shall utilize the best technology commercially available, including directional drilling, so as to minimize interference with the ongoing surface usage entailed in the development, construction and maintenance of said integrated coastal protection and/or hurricane and flood protection projects.

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

During the term of this Lease, Lessee shall comply with all federal, state, and local laws and regulations, whether now in effect or enacted in the future, in carrying out the provisions of this Lease.

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

DEFINITIONS

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

(A) **“Acceptable Lease Operations”** shall mean either Actual Drilling Operations or Actual Reworking Operations, as defined below, conducted on the Leased Premises in Good Faith and with due diligence. Under no circumstances shall drilling or otherwise creating salt water disposal wells constitute Acceptable Lease Operations.

(1) **“Actual Drilling Operations”** shall mean the following operations conducted on the Leased Premises in Good Faith and with due diligence: (a) drilling commenced by spudding-in of a new well; (b) deepening or sidetracking of an existing well; (c) plugging back or attempted recompletion in a separate interval of an existing well (all such operations being commenced by actual downhole operations); or (d) completing any such well, including the installation of equipment in the wellbore that is necessary to complete the well as a producer and/or to maintain downhole completion activity. The installation of flowlines or other surface facilities needed to produce the well shall not be considered as Actual Drilling Operations.

Actual Drilling Operations shall include directional drilling operations (deviation from vertical), in which event such Actual Drilling Operations shall be considered to have commenced on the Leased Premises when the drill stem penetrates beneath the surface of the Leased Premises.

Actual Drilling Operations shall be deemed to terminate on the last day downhole operations of any kind are conducted, such as drilling, testing or completion.

(2) **“Actual Reworking Operations”** shall mean the following operations conducted on the Leased Premises in Good Faith and with due diligence: reconditioning, cleaning out or otherwise attempting to directly establish, increase or restore production in an existing well by downhole operations.

Actual Reworking Operations shall be deemed to terminate on the last day any such downhole operations are conducted.

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

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

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

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

(4) The term “Affiliate” shall also mean any business concern, organization, or individual operating a well on the Leased Premises, making royalty payments, or engaged in the sale of oil, gas or products for the Lessee or an operator.

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

- (D) **“Good Faith”** as used in the definition of Acceptable Lease Operations, Actual Drilling Operations and Actual Reworking Operations shall mean that each well operation must be:
- (1) Commenced with reasonable expectation of discovering and producing minerals in paying quantities at a particular point or depth; and
 - (2) Conducted in such a manner that constitutes a single operation although actual drilling is not conducted at all times.
- (E) **“Leasehold Payments”** shall mean Rental payments, Deferred Development Payments, Shut-In Payments and any other payments allowed to maintain this Lease in whole or in part.
- (F) The term **“Lessee”** as used throughout this Lease, means and includes the original Lessee named in this Lease, any Affiliate of Lessee, and all assignees, heirs, successors and any Affiliate of any such assignees, heirs or successors.
- (G) **“Non-Affiliate”** shall mean a person, company, firm or other business unit that is not an Affiliate.
- (H) **“Production in Paying Quantities”** shall mean production of oil, gas or other liquid or gaseous minerals in paying quantities as defined by La. R.S. 31:124 from the Leased Premises, in addition, notwithstanding the provisions of La. R.S. 31:125, the amount of royalties payable on such production must also be sufficient to constitute serious or adequate consideration to the Lessor.
- (I) **“Unit”** shall mean unitized or pooled mineral acreage by order of a governmental agency or by conventional agreement approved by Lessor.

ARTICLE 1 – BONUS

Lessee has this day paid to Lessor a cash payment of <bid_amount> Dollars one-half (1/2) of which is (a) full and adequate consideration for every right granted hereunder and one-half (1/2) of which is (b) the annual Rental for the first year of this Lease.

ARTICLE 2 – PRIMARY TERM

- (A) Subject to the provisions hereof, this Lease shall be for a term of <primary_term> years (**“Primary Term”**) and for so long thereafter as this Lease is maintained in force in any manner provided herein.
- (B) If the Lessee is not in default under any of the terms and conditions of the Lease, the Lessee may apply to the Board in writing to extend the Primary Term of this Lease by a maximum of two (2) additional years. The Lessee must file this request to the Office of State Resources not later than ninety (90) days prior to the expiration of the initial Primary Term. The Board may extend the Primary Term and said extension shall be on the same terms and conditions as set forth herein, except for any additional consideration and/or modified terms accepted by the Board for the granting of said extension.

ARTICLE 3 – LEASE MAINTENANCE

- (A) Lease Maintenance During the Primary Term:
- (1) If Actual Drilling Operations or Production in Paying Quantities is not occurring on the first Anniversary Date, this Lease shall terminate unless Lessee, on or before the first Anniversary Date, pays to Lessor the sum of <bid_rental> Dollars (**“Rental”**). Timely payment of a Rental shall extend for twelve (12) months from the Anniversary Date the time within which Actual Drilling Operations or Production in Paying Quantities must be commenced in order to maintain this Lease. If, during the Primary Term but after the first year thereof, this Lease has been maintained and Actual Drilling Operations or Production in Paying Quantities is not occurring on an Anniversary Date, this Lease shall terminate unless Lessee pays a Rental to the Lessor on or before that Anniversary Date. The Lessor is not required to give notice that Rentals are due. Rental payment by Lessee shall be made by check, draft or in a form acceptable by the Board and made payable to the order of the “Office of State Resources” and delivered or mailed to the Office of State Resources on or before the Anniversary Date.
 - (2) If Actual Drilling Operations or Production in Paying Quantities is occurring on an Anniversary Date during the Primary Term, no Rental shall be due and this Lease shall remain in effect for twelve (12) months from that Anniversary Date as if a Rental had been paid.
 - (3) Should Actual Drilling Operations be abandoned or suspended or Production in Paying Quantities cease at any time within a period of ninety (90) days prior to an Anniversary Date during the Primary Term, Lessee shall have a period of ninety (90) days after the date of such abandonment, suspension or cessation within which to commence or resume Actual Drilling Operations or Production in Paying Quantities on the Leased Premises, or make the Rental payment. The commencement or resumption of Actual Drilling Operations or Production in Paying Quantities or payment of Rental within the ninety (90) day period shall have the same effect as though such were commenced, resumed or Rental paid on or before the Anniversary Date.

- (4) Notwithstanding the foregoing, the Lessor may, in its sole discretion, waive termination of this Lease resulting from Lessee's failure to timely render a Rental payment. To be eligible for waiver of termination, Lessee shall issue to Lessor a written request for waiver of termination and tender the full amount of the past-due Rental, plus a penalty of twenty percent (20%) of the amount thereof, within fifteen (15) days following the past-due Rental deadline. Within thirty (30) days of receipt of Lessee's written request and tender, Lessor shall issue a written determination either granting or denying the requested waiver. Upon a determination by Lessor to waive termination, this Lease shall be deemed to have remained in full force and effect without interruption. Upon a determination by Lessor to deny waiver of termination, this Lease shall be deemed to have terminated upon passage of the past-due Rental deadline, and Lessor shall return the full sum of past-due Rental and penalty furnished by Lessee.
- (B) Lease Maintenance at the end of the Primary Term and Thereafter:
- (1) This Lease shall terminate at the end of the Primary Term unless Acceptable Lease Operations or Production in Paying Quantities is occurring. If Acceptable Lease Operations or Production in Paying Quantities is occurring at the end of the Primary Term, this Lease shall terminate unless Acceptable Lease Operations or Production in Paying Quantities continue without a lapse of greater than ninety (90) days between cessation of Acceptable Lease Operations or Production in Paying Quantities and their recommencement.
 - (2) If Acceptable Lease Operations or Production in Paying Quantities cease within ninety (90) days prior to expiration of the Primary Term or at any time after the Primary Term, and Lessee commences or resumes Acceptable Lease Operations or Production in Paying Quantities within ninety (90) days after such cessation, this Lease will continue for so long as Acceptable Lease Operations or Production in Paying Quantities continue. If Lessee fails to commence Acceptable Lease Operations or Production in Paying Quantities within ninety (90) days or there is a lapse of greater than ninety (90) days between cessation of Acceptable Lease Operations or Production in Paying Quantities, this Lease shall thereupon terminate.
 - (3) Notwithstanding anything in Article 3(B)(1) or 3(B)(2), this Lease may also be maintained in some cases after the Primary Term in accordance with Article 3(C) (Deferred Development Payment), Article 3(D) (Shut-In Payment) and Article 5 (Force Majeure and Suspending Event).
- (C) Lease Maintenance when Leased Premises included in a Unit:
- (1) Notwithstanding anything to the contrary herein contained, in the event all or a portion of the Leased Premises is included by itself or with other lands in a Unit, then Actual Drilling Operations, Actual Reworking Operations, Production in Paying Quantities, Acceptable Lease Operations and/or Shut-in Payments attributed to that Unit ("**Unitized Operations**") shall serve to maintain this Lease, pursuant to the applicable provisions found in sections (A), (B), or (D) of this Article, only as to that portion of the Leased Premises embraced in such a Unit and this Lease shall terminate as to all acreage lying outside the Unit ("**Outside Acreage**") unless maintained as set forth herein below. For purposes of maintaining this Lease with Unitized Operations pursuant to this section, the definitions for the defined terms Actual Drilling Operations, Actual Reworking Operations, Production in Paying Quantities, Acceptable Lease Operations and/or Shut-in Payments, are expanded to include operations, production or payments attributed to wells whether located on the Leased Premises or on lands pooled or unitized therewith. As used herein, the term "**Deferred Development Payment**" shall mean a sum equal to one-half of the per-acre cash bonus payment made for this Lease multiplied by the number of acres in the Outside Acreage.
 - (2) This Lease may be maintained as to Outside Acreage as otherwise allowed under the terms of this Lease or as follows:
 - (a) Lessee pays the Lessor a Deferred Development Payment on or before the Anniversary Date of this Lease next ensuing after the commencement of Unitized Operations; or
 - (b) In the event that Unitized Operations commence within ninety (90) days before the Anniversary Date next ensuing after the commencement of Unitized Operations, Lessee shall make a Deferred Development Payment within ninety (90) days of said commencement of the Unitized Operations; or
 - (c) In the event that this Lease is being maintained as to Outside Acreage by Acceptable Lease Operations and/or Production in Paying Quantities, and such Acceptable Lease Operations and/or Production in Paying Quantities cease for any cause and this Lease is not otherwise maintained as to Outside Acreage under the terms of this Lease, Lessee shall, within ninety (90) days of said cessation, resume Acceptable Lease Operations and/or Production in Paying Quantities as to the Outside Acreage or make a Deferred Development Payment on or before the end of the ninety (90) day period.
 - (3) The Deferred Development Payment shall maintain this Lease as to Outside Acreage until the next Anniversary Date. By payment of the Deferred Development Payment on or before each succeeding

Anniversary Date, this Lease may be maintained as to Outside Acreage during the remainder of the Primary Term and up to two (2) years beyond the Primary Term.

- (4) Nothing contained in this Article is intended to create nor shall have the effect of creating several or separate Leases, or in any manner serve to extend, increase or limit the obligation of Lessee to protect the Leased Premises from drainage as required in this Lease or otherwise.

(D) Shut-In Payments:

- (1) If at any time or times (during or after the Primary Term) there is on the Leased Premises a gas and/or oil well or wells capable of Production in Paying Quantities, but gas and/or oil is not being used, produced or marketed therefrom because of the lack of a reasonable market or production/marketing facilities (“**Qualifying Conditions**”), and if this Lease is not then being otherwise maintained, Lessee may make a request to maintain this Lease in force by making a payment at the rate of Fifty Dollars (\$50.00) per acre for the acreage not otherwise maintained under the terms of this Lease (“**Shut-In Acreage**”), but in no event shall payment be less than One Thousand Dollars (\$1,000.00) (“**Shut-In Payment**”). A Shut-In Payment shall maintain this Lease as to Shut-In Acreage for a period of six (6) months (“**Shut-In Period**”), during which, it shall be considered that there is Production in Paying Quantities for lease maintenance purposes only. The Shut-In Payment must be made prior to the termination of this Lease as to the Shut-In Acreage.
- (2) Lessee’s request to make a Shut-In Payment must clearly demonstrate proof to the Lessor the existence of the Qualifying Conditions and that Lessee has, and is continuing, to diligently, and in good faith, attempt to remedy the lack of facilities to produce or market the product or obtain a market contract for the product. Lessee’s request to make a Shut-In Payment requires Lessor’s approval and shall be at the sole discretion of Lessor, which approval shall not be unreasonably withheld. However, if this Lease can be maintained by the payment of a Rental, Lessor has the sole discretion to require the Lessee to maintain the Lease by payment of a Rental rather than by a Shut-In Payment.
- (3) Lessee may request up to a maximum of six (6) consecutive Shut-In Periods. For each subsequent request following the initial Shut-In Period, Lessee must clearly demonstrate proof to the Lessor the existence of Qualifying Conditions and that Lessee has, and is continuing, to diligently, and in good faith, attempt to remedy the lack of facilities to produce or market the product or obtain a market contract for the product. Each such subsequent request requires Lessor’s approval and shall be at the sole discretion of Lessor, which approval shall not be unreasonably withheld. However, if this Lease can be maintained by the payment of a Rental, Lessor has the sole discretion to require the Lessee to maintain the Lease by payment of a Rental rather than by a Shut-In Payment. Each such subsequent request must be received prior to the end of the then existing Shut-In Period, and, if authorized, shall commence upon expiration of the then existing Shut-In Period. If Lessee’s subsequent request is denied, then on the last day of the then existing Shut-In Period, this Lease shall terminate unless it can be maintained under other provisions hereof. Notwithstanding the limitation upon consecutive Shut-In Periods, for compelling reasons proven to the satisfaction of Lessor, Lessee may request, and Lessor may grant an additional Shut-In Period or periods in accordance with the terms and requirements herein, with any such extension(s) to be approved via an acknowledgment Resolution of the Board, having the effect of an amendment of this Lease.

(E) Termination of Deep Rights:

- (1) The Lessor may terminate this Lease on the second Anniversary Date beyond the end of the Primary Term (or, if Acceptable Lease Operations on the Leased Premises or on lands pooled or unitized therewith are ongoing within ninety (90) days before such second Anniversary Date, then upon the lapse of all such Acceptable Lease Operations for more than ninety (90) days) as to the depths lying below the stratigraphic equivalent of one hundred feet (100’) below the base of the deepest stratigraphic formation that at such time is either producing or capable of production and is encountered by a well located on the Leased Premises or on lands pooled or unitized therewith; or a deeper depth agreed to by the Lessor (“**Deep Rights Acreage**”). Prior to exercising its right to terminate this Lease as to the Deep Rights Acreage, Lessor shall send written notice of its intentions to exercise said right to the Lessee on or before the first Anniversary Date beyond the end of the Primary Term.
- (2) In the event that Lessor exercises its right to terminate this Lease as to the Deep Rights Acreage, Lessor shall have the right to enter into new agreements for the exploration and production of minerals from the Deep Rights Acreage, and in connection therewith to grant someone other than the Lessee the right to explore, develop, produce and market minerals from the Deep Rights Acreage, together with the rights of ingress and egress through the Leased Premises to conduct such operations, commensurate with the rights granted to Lessee herein, including the right to penetrate and drill through the formations above the Deep Rights Acreage. The rights retained by the Lessee and the rights granted with respect to the Deep Rights Acreage shall be exercised in such manner that neither shall unduly interfere with the operations of the other upon the Leased Premises or the Deep Rights Acreage.

ARTICLE 4 – TRANSFERS AND ASSIGNMENTS

- (A) No assignment, sublease or other transfer, in whole or in part, of any rights or interest granted to Lessee under this Lease (collectively hereinafter referred to as an (“**Assignment**”) shall be valid unless approved by Lessor in accordance with La. R.S. 30:128 and as amended. Nonetheless, an Assignment shall not include, and the prior sentence shall not apply to, the granting of a mortgage in, collateral assignment of production from, or other security interest in this Lease or the transfer of an overriding royalty interest, production payment, net profits interest, or similar interest in this Lease.
- (B) An assignor, sublessor, or transferor making an Assignment of this Lease is not relieved of his obligations or liabilities under this Lease unless the Lessor has discharged him expressly and in writing, notwithstanding approval of the Assignment by Lessor and regardless of any understanding, agreement, language or reference to the contrary set forth in the terms and conditions of the Assignment.
- (C) All terms, provisions, conditions, duties, responsibilities and obligations of this Lease shall be binding upon and inure to the benefit of an assignee(s), sublessee(s), and transferee(s) to the extent of the interest acquired.

ARTICLE 5 – FORCE MAJEURE AND SUSPENDING EVENTS

- (A)
 - (1) If, at any time this Lease is being maintained by Acceptable Lease Operations and/or Production in Paying Quantities, and Lessee is prevented from continuing Acceptable Lease Operations and/or Production in Paying Quantities by the occurrence of a Force Majeure or Suspending Event as defined in this Article, (“**Incident**”), and Lessee cannot maintain this Lease under any other operative provision of this Lease, such as the Rental payment, Deferred Development Payment or Shut-In Payment, then and only then shall the date for Lessee to re-commence Acceptable Lease Operations and/or Production in Paying Quantities in order to maintain this Lease be postponed on a day-for- day basis for so long as the adverse effects of the Incident continue, providing that Lessee provides the Office of State Resources with notice in accordance with section (B) of this Article and that Lessee is diligently, reasonably and in good faith attempting to mitigate and eliminate the effects of the Incident. The occurrence of an Incident shall not maintain this Lease for more than twelve (12) months from the date of the Incident onset unless extended by Lessor.
 - (2) A determination as to whether Lessee can utilize this Article and whether Lessee has complied with the requirements thereof is at the sole, reasonable discretion of Lessor. In making such a determination, Lessor shall not consider Lessee’s financial inability to comply with any of the obligations of this Lease and an increase in costs of performing the obligations set forth in this Lease shall not constitute circumstances beyond Lessee’s control.
- (B) Within ninety (90) days of the Incident onset, Lessee shall submit a written notice containing the following: (1) the onset date, description and nature of the Incident; (2) the effects preventing continuation of Acceptable Lease Operations or Production in Paying Quantities; (3) a description and evidence of Lessee’s diligent, reasonable and good faith efforts to mitigate and eliminate the effects of the Incident and to resume Acceptable Lease Operations and/or Production in Paying Quantities; (4) an estimated time for resumption of Acceptable Lease Operations or Production in Paying Quantities; and (5) any other information or documentation evidencing the existence of the Incident requested by Lessor. Notice given beyond ninety (90) days shall not be considered reasonable notice and the application may be denied by Lessor barring consequential extenuating circumstances.
- (C) Every thirty (30) days following the notice required in section (B) of this Article, Lessee shall be required to submit written, detailed reports on a monthly basis to the Office of State Resources giving therein a description and evidence of Lessee’s diligent, reasonable and good faith efforts to mitigate and eliminate the effects of the Incident and to resume Acceptable Lease Operations or Production in Paying Quantities. If the reports are not timely submitted or if Lessee did not attempt in good faith to mitigate the effects of the Incident, Lessor, after notice and opportunity to be heard, may declare the Incident recognition to be ended and that Lessee may not after such failure utilize this provision to excuse any failure to comply with any obligations of this Lease relating to the particular Incident involved.
- (D) A “**Force Majeure**” event, as herein utilized, shall be a fortuitous event that is beyond Lessee’s control and is not ultimately determined to be caused by Lessee or due to Lessee’s negligent or intentional commission or omission, or failure to take reasonable and timely foreseeable preventative measures that would have mitigated or negated the effects of the event. An example of a Force Majeure event may include, depending on the specific circumstances involved: (1) a major storm, major flood or other similar natural disaster; or (2) a major accident such as a blowout, fire or explosion.
- (E) A “**Suspending Event**,” as herein utilized, shall be: (1) the lack of availability, after Lessee has diligently, timely and in good faith attempted to secure same, of any required equipment and/or personnel, such as the specific type of rig or specific type of casing or drill pipe; or (2) the unreasonable delay by any government agency or political subdivision in granting permits necessary for Acceptable Lease Operations or Production in Paying Quantities; or (3) an order of any federal or state court of competent jurisdiction preventing Acceptable Lease Operations or Production in Paying Quantities; or (4) the act of a third party, not under the control or at the instigation of Lessee, in shutting down and unreasonably refusing to reopen any facility through which hydrocarbons from this Lease are necessarily passed as part of production (and provided there is no other reasonably economical method of carrying on production); or (5) other events not described herein that are recognized by Lessor.

ARTICLE 6 – UNITS

- (A) Lessee may include all or a portion of the Leased Premises within a Unit. Nonetheless, Lessee must obtain Lessor's approval prior to including all or a portion of the Leased Premises in a Unit through a conventional agreement.
- (B) If Lessee applies for, gives notice of the intent to apply for, or receives notice of an application to the Commissioner of Conservation for the creation, dissolution, or modification of any Unit that includes, or is seeking to include or exclude, all or a portion of the Leased Premises, Lessee shall provide Lessor with copies of same, in addition to any information attached thereto. If Lessee is the applicant, said copies shall be furnished to Lessor either at the time the application or notice is filed with the Commissioner of Conservation or at the time required by applicable orders or regulations of the Commissioner of Conservation for furnishing such information, whichever is earlier; if Lessee is not the applicant, said copies shall be furnished to Lessor promptly after Lessee receives copies of such application or notice. For a Unit created by an order of the Commissioner of Conservation, which includes all or a portion of the Leased Premises, Lessee shall furnish Lessor a survey plat of each Unit so created.

ARTICLE 7 – PROTECTION AGAINST DRAINAGE

- (A) Lessee agrees to protect the Leased Premises from drainage of oil, gas or other liquid or gaseous minerals by a well producing from adjacent or nearby property ("**Adjacent Well**") not owned by Lessor and not included in a Unit ("**Drainage**"). It shall be presumed, subject to rebuttal by Lessee, that Drainage is occurring if the Adjacent Well is producing within six hundred and sixty feet (660') of the Leased Premises (or within any spacing or pooling unit distance greater than six hundred and sixty feet (660') established by the Commissioner of Conservation), provided such well is not exempt from Statewide Order 29-E spacing requirements. This presumption shall not serve to limit or preclude Lessee's obligation to protect the Leased Premises from Drainage in cases where the facts giving rise to the presumption do not exist.
- (B) In order to satisfy its obligation to protect from Drainage, Lessee shall, within one hundred twenty (120) days after the completion date of the Adjacent Well, begin Actual Drilling Operations for a well drilled to a depth necessary to protect the Leased Premises from Drainage, if a reasonably prudent operator would drill such a well ("**Offset Well**"). If Lessee is not an operator or does not have an interest in the Adjacent Well, the Lessee shall be required to begin such operations within one hundred twenty (120) days after receipt of written notice from Lessor.
- (C) Lessee may delay the drilling of an Offset Well for a period not to exceed one (1) year by making payments to Lessor in the same manner and amount equal to one-half (1/2) the royalties Lessee would have to pay pursuant to this Lease, as if the production being obtained from the Adjacent Well was being obtained from a well producing from the Leased Premises ("**Offset Royalties**"). Offset Royalties are intended to permit Lessee time to further evaluate the producing Adjacent Well, and the payment of Offset Royalties shall not of itself serve to maintain this Lease if not otherwise maintained.
- (D) The obligation to protect the Leased Premises from Drainage and the requirements of this Article shall be satisfied with respect to a particular Adjacent Well on the date that Lessee either releases the affected portion of the Leased Premises or initiates unitization proceedings to include all or a portion of the Leased Premises within a Unit in which the particular Adjacent Well is serving as the Unit well. Any damages from Drainage occurring prior to the date such a release is executed or such Unit is created are owed by the Lessee to the Lessor.

ARTICLE 8 – LESSEE REPORTING

- (A) Lessee shall furnish Lessor, upon request, well and survey data reasonably available to Lessee relating to the Leased Premises or lands pooled therewith including, but not limited to: (1) all wire line surveys and all (open and cased hole) logs run in the well in paper and digital formats to be determined by Lessor; (2) directional surveys; (3) mud logs and core descriptions of both sidewall samples and conventional cores; (4) drill stem and production test data; (5) daily drilling reports (to be supplied weekly); and (6) production data, current and cumulative, including oil, gas and water production, surface and subsurface pressures. Upon request, Lessee also shall furnish Lessor with any and all other information reasonably available to Lessee to keep Lessor informed of Lessee's compliance with the provisions of this Lease and operations on the Leased Premises. To the extent allowed by law, Lessor agrees to keep confidential any information submitted under this Article that is not already part of the public domain.
- (B) Nothing in this Article shall require Lessee to furnish or permit inspection of Lessee's interpretation of the information referred to above. Lessor's representatives shall have access, at reasonable times and intervals, to examine and inspect Lessee's information and operations being conducted on the Leased Premises or lands pooled or unitized.

ARTICLE 9 – ROYALTY

- (A) Unless Lessor elects to take in-kind all or any part of the portion due Lessor as royalty on minerals produced, saved, sold, utilized or severed hereunder pursuant to La. R.S. 30:127(C), which option may be exercised at any time and for any duration upon written notice to Lessee, Lessee shall pay royalty to the Lessor as follows:
- (B) Royalty On Oil:

- (1) <oil_decimal> of the value, as hereinafter provided, of all oil, including condensate or other liquid mineral, produced, saved, sold, utilized or severed from, or attributable to, the Leased Premises. When such oil is sold by Lessee to a Non-Affiliate purchaser under an arms' length contract prudently negotiated under the facts and circumstances existing at the time of its execution, the value of such oil shall be the price received by Lessee for such oil under the contract. If such oil is sold by Lessee to an Affiliate purchaser or the contract is not an arms' length contract, but the contract would have been considered prudently negotiated under the facts and circumstances existing at the time of its execution, then the value of the oil shall be the price received by Lessee under the contract; if such contract would not have been considered prudently negotiated at the time of its execution, the value of such oil, including all premiums and consideration in whatever form, shall not be less than the average of the prices paid for oil of like kind and quality from the field from which such oil is being produced, or if no oil is being sold from that field, the average of prices paid for oil of like kind and quality in the three (3) nearest fields in which oil of like kind and quality is being sold, all comparisons to be with contracts made in the same market (either interstate or intrastate) and for the sale of similar kinds, qualities and quantities of oil.
 - (2) Lessee shall place oil produced, saved, sold, utilized or severed from the Leased Premises in marketable condition and Lessee cannot deduct from the value of said oil any costs associated with putting the oil into a marketable condition, except as specifically allowed elsewhere in this Article. Marketable condition for oil means sufficiently free from impurities and otherwise in a condition that it will be acceptable by a Non-Affiliate purchaser under a sales contract typical for the field or area.
 - (3) Lessee shall not make any deduction whatsoever for the cost of any operation, process, facility, or other item considered to be a function of production, exploration, development, primary or enhanced recovery or abandonment at the time such oil is run. Without limiting the foregoing sentence, the following costs are not to be deducted from the value of oil: (a) costs incurred for gathering, whether inside or outside the field; (b) costs incurred for transportation within the field; (c) costs incurred for pumping, lifting, recycling, handling, treating, separating, dehydrating, removing contaminants, or in any way processing oil production to put it in marketable condition; and (d) the cost of storage on the Leased Premises or in the field. The performance of any non-deductible function at a commingled facility in or outside the field in which the Leased Premises is situated shall not make the cost of any such function deductible.
 - (4) If Lessee delivers such oil at a point outside the field in which the Leased Premises is situated, Lessee may deduct from the value of such oil the reasonable, actual, unreimbursed costs of transportation from the field boundary to the point of delivery by means of facilities belonging to a Non-Affiliate party. If such transportation is by means of facilities owned or co-owned by the Lessee or an Affiliate, Lessee may deduct from the value of oil a reasonable sum for such services, computed as follows: the amount deductible shall include only: (1) the direct cost of operation and maintenance, including cost of labor, direct supervision, fuel, supplies, ordinary repairs, and ad valorem taxes; and (2) depreciation of the facility computed over the estimated life of the field.
- (C) Royalty On Gas:
- (1) <gas_decimal> of the value, as hereinafter provided, of all gas, including casinghead gas, produced, saved, sold, utilized, or severed from, or attributable to, the Leased Premises. When such gas is sold by Lessee to a Non-Affiliate purchaser under an arms' length contract prudently negotiated under the facts and circumstances existing at the time of its execution, the value of such gas shall be the price received by Lessee for such gas under the contract. If such gas is sold by Lessee to an Affiliate purchaser or the contract is not an arms' length contract, but the contract would have been considered prudently negotiated under the facts and circumstances existing at the time of its execution, then the value of the gas shall be the price received by Lessee under the contract; if such contract would not have been considered prudently negotiated at the time of its execution, the value of such gas, including all premiums and consideration in whatever form, shall not be less than the average of the prices paid for gas of like kind and quality from the field from which such gas is being produced, or if no gas is being sold from that field, the average of prices paid for gas of like kind and quality in the three (3) nearest fields in which gas of like kind and quality is being sold, all comparisons to be with contracts made in the same market (either interstate or intrastate) and for the sale of similar kinds, qualities and quantities of gas. Notwithstanding anything contained in this Article to the contrary, payment of royalty to Lessor shall not be due on gas vented or flared in accordance with the requirements of Statewide Order No. 45-I-A (LAC 43:XIX Chapter 35) in effect now and as amended.
 - (2) Lessee shall place gas produced, saved, sold, utilized or severed from the Leased Premises in marketable condition and Lessee cannot deduct from the value of said gas any costs associated with putting the gas into a marketable condition, except as specifically allowed elsewhere in this Article. Marketable condition for gas means sufficiently free from impurities and otherwise in a condition that it will be acceptable by a Non-Affiliate purchaser under a sales contract typical for the field or area, or when the gas meets the location, quality and pressure specifications for transmission into an interstate pipeline or processing facility.

- (3) Except as expressly permitted herein, Lessee shall not make any deduction whatsoever for the cost of any operation, process, facility, or other item considered to be a function of production, exploration, development, primary or enhanced recovery or abandonment at the time such gas is produced. Without limiting the foregoing sentence, the following costs are not to be deducted from the value of gas: (a) costs incurred for gathering, whether inside or outside the field; (b) costs incurred for transportation within the field; and (c) costs incurred for lifting, recycling, separating, treating, dehydrating, removing contaminants, amine treating, glycol, methanol and chemical injection, or in any way processing gas production to put it in marketable condition. The performance of any non-deductible function at a commingled facility in or outside the field in which the Leased Premises is situated shall not make the cost of any such function deductible. Lessee may deduct costs incurred for compression of gas at a point in or adjacent to the field for insertion into a purchaser's line or into a line owned by Lessee or a carrier for transportation to a point of delivery outside the field.
- (4) If Lessee delivers such gas at a point outside the field in which the Leased Premises is situated, Lessee may deduct from the value of such gas the reasonable, actual, unreimbursed costs for transportation from the field boundary to the point of delivery by means of facilities belonging to a Non-Affiliate. If such transportation is by means of facilities owned by the Lessee or an Affiliate, Lessee may deduct from the value of gas a reasonable sum for such services, computed as follows: the amount deductible shall include only: (1) the direct cost of operation and maintenance, including cost of labor, direct supervision, fuel, supplies, ordinary repairs, and ad valorem taxes; and (2) depreciation of the facility computed over the estimated life of the field.

(D) Royalty On NGLs:

- (1) Gas produced hereunder, including casinghead gas, may be processed in a gasoline or other extraction plant in or serving the field; and natural gasoline, natural gas liquids or other products ("**NGLs**"), may be recovered therefrom either directly by Lessee or under contracts executed by Lessee. Lessor shall be paid a royalty on all residue gas remaining after such processing or extraction pursuant to the amount and terms set forth in section (C) of this Article. Lessee shall pay the Lessor <other_decimal> as royalty on the value, as hereinafter provided, of NGLs processed or extracted from all gas, including casinghead gas, produced, saved, sold, utilized, or severed from, or attributable to, the Leased Premises. If Lessee enters into an arm's length contract with a Non-Affiliate for the processing of gas, which is prudently negotiated under the facts and circumstances existing at the time of execution, and under which such party retains in kind a portion of the NGLs recovered from or attributed to such gas as consideration for processing, Lessee shall pay such royalty on the NGLs allocated to Lessee under such contract. If Lessee enters into a contract for processing gas with an Affiliate, or if the contract is not arms' length or is not prudently negotiated under the facts and circumstances existing at the time of execution, Lessee shall pay the royalty on the total NGLs recovered.
- (2) The value of the NGLs shall be the price received by Lessee if sold to a Non-Affiliate purchaser under an arms' length contract prudently negotiated under the facts and circumstances existing at the time of execution. If the NGLs are sold by Lessee to an Affiliate purchaser or the contract is not an arms' length contract, but the contract would have been considered prudently negotiated under the facts and circumstances existing at the time of its execution, then the value of the NGLs shall be the price received by Lessee under the contract; if such contract would not have been considered prudently negotiated at the time of its execution, or if the NGLs are not sold under any contract, the value of NGLs, including all premiums and consideration in whatever form, shall be calculated on the basis of Oil Price Information Service (OPIS) at Mont Belvieu, Texas, on the date sold. If at a future date, an industry recognized and accepted index posting changes to something other than OPIS at Mont Belvieu, Texas, a new standard may be agreed to by the parties to this Lease.
- (3) If the gas is processed by a Non-Affiliate under an arms' length contract prudently negotiated under the facts and circumstances existing at the time of execution, the charges deducted shall be those provided in such contract, and those charges may include, but are not limited to, a combination of processing and retention of NGLs by the processor. If the gas is processed at a facility owned or co-owned by an Affiliate, or is processed pursuant to a non-arms' length contract with an Affiliate, or if the contract was not prudently negotiated under the facts and circumstances existing at the time of execution, the charges to be deducted shall include only the Lessor's proportionate part of: (1) the direct cost of operating and maintaining the plant, computed annually, including cost of labor and on-site supervision, materials, supplies, and ordinary repairs; (2) plant fuel and shrinkage; (3) depreciation of the plant computed over the life or lives of the field or fields served by the plant, or by such other method as is agreed upon by Lessor and Lessee; and (4) ad valorem taxes.

(E) General Provisions Applicable To All Royalty:

- (1) Lessee shall report all production of hydrocarbons and associated liquid or gaseous minerals from, or attributable to, this Lease to the Production Audit Division of the Office of Permitting and Compliance and to the Income Division of the Office of State Resources by appropriate forms containing both LeaseUnitWell ("**LW**") code and well serial number. Failure to report production as herein specified shall be deemed "improper reporting" which shall subject Lessee to the penalty as allowed by law or this Lease.

- (2) If Lessee receives compensation for any function, process or liability related to production from the Leased Premises without the right given herein to deduct the costs related to such compensation, such compensation amount shall be included in the value for such production type when computing royalties.
- (3) Lessor's royalty shall be calculated and paid after deduction of all severance or production taxes.
- (4) The first payment of royalty shall be made within one hundred twenty (120) days following commencement of production. In the case of any production which has occurred prior to the Effective Date, but which is deemed to be covered by this Lease, Lessee hereby agrees to pay Lessor's royalty on all such prior production within one hundred twenty (120) days from the Effective Date. Thereafter, royalty on oil, including condensate or other liquid mineral, shall be paid by the 25th of each month for production of the previous month; and royalty on gas, including NGLs extracted or processed from gas, shall be paid on or before the 25th day of the second month following that in which such gas was produced or extracted or processed. In the event any royalty payment is not correctly or timely made, the remedies provided by La. R.S. 31:137 through 142 and La. R.S. 30:136 relative to notice, damages, penalty, interest, attorney fees, and dissolution shall be applicable, except that interest shall be payable thereon until paid without any requirement for prior written notice by Lessor to Lessee.
- (5) Lessee may recycle gas or liquid hydrocarbons produced from the Leased Premises for gas and/or oil lift purposes on the Leased Premises or for injection into any oil or gas producing formation underlying the Leased Premises for stimulating the production of oil or for secondary recovery purposes and no royalties shall be payable on the gas or liquid hydrocarbon so recycled until such time as the same may thereafter be severed from, produced, saved, sold, or utilized by Lessee in such manner as to entitle Lessor to a royalty thereon under the royalty provisions of this Lease.
- (6) Lessee must exercise due diligence and make reasonable efforts to market all production from the Leased Premises to obtain the best price reasonably available. Lessee cannot charge Lessor any cost for the time and resources expended in the performance of this obligation, such as, but not limited to, the charging of a marketing fee.

ARTICLE 10 – AUDIT RECORDS

Lessee shall establish and maintain in an organized manner all records, reports and other information reasonably relevant to its calculation of royalties, deductions and/or other sums due by Lessee under the terms of this Lease for a period of ten (10) years after the records are generated unless the Office of State Resources notifies the Lessee that it has initiated an audit or investigation involving such records and that such records must be maintained for a longer period. In any case, when an audit or investigation is underway, records shall be maintained until the Office of State Resources releases the Lessee of the obligation to maintain such records. Upon reasonable notice, Lessor, through the Office of State Resources, shall have the right to access such records in the manner and format they are regularly maintained in the ordinary course of business for the purpose of review, duplication and/or audit. To the extent allowed by law, all such records, reports and other information provided for review, duplication, or audit shall be maintained by Office of State Resources personnel in strict confidence.

ARTICLE 11 – LEASE ACCESS

- (A) Pursuant to La. R.S. 30:127(G), Lessee shall maintain and preserve the public's access to public waterways throughout the State lands covered by this Lease.
- (B) Lessee shall grant Lessor, or any other person or entity acting on behalf of Lessor, access at all reasonable times via any road or waterway to inspect the Leased Premises to ensure compliance with all Lease requirements or to exercise any right reserved explicitly or impliedly in this Lease.
- (C) Lessor retains the right to sell, exchange, transfer, or otherwise dispose of all or any portion of the Leased Premises and all rights in the Leased Premises not expressly granted to Lessee or necessarily implied by this Lease. Further, Lessor shall have the right to use any and all portions of the Leased Premises for any purpose or to issue rights-of-ways and servitudes upon the Leased Premises provided doing so does not unreasonably interfere with the rights of Lessee.

ARTICLE 12 – LESSOR'S RIGHTS

The mention of any express obligation of Lessee herein shall never be construed as affecting any implied obligation which Lessee may otherwise owe Lessor hereunder, but shall be considered as being in addition thereto. Similarly, the mention of any right or remedy of Lessor herein shall not preclude Lessor from exercising any other right or remedy to which Lessor might otherwise be entitled; and no failure of Lessor to enforce any provision of this Lease shall operate as a waiver of Lessor's right to thereafter enforce such provision or any other provision.

ARTICLE 13 – SURFACE USE AND RESTORATION

- (A) Surface Use:
 - (1) Lessee shall comply with and be subject to all applicable state and federal laws and regulations, in effect now and as amended, and all laws and regulations enacted after the Effective Date of this Lease which govern: exploration and production (or where applicable, hazardous or industrial)

waste disposal, storage, treatment, transportation, or management; environmental quality (regardless of the environmental media involved), oil and gas conservation, navigation, archeological resources, cemeteries, coastal resource management, and wetlands protection and restoration.

- (2) Lessee shall conduct operations as a prudent operator using standard industry practices and procedures and proper safeguards and take all reasonably necessary preparations and precautions to prevent and remedy pollution, fire, explosion, and environmental damage to the Leased Premises. Lessee shall be responsible, without limitation, for all damage to the Leased Premises caused by its operations including, but not limited to loss or damage to timber, crops, roads, buildings, fences, bridges, soil, surface and subsurface water, aquifers and vegetation, and also all environmental damage as that term is defined in La. R.S. 30:29. This responsibility shall be irrespective of whether such damage is due to negligence, or to the inherent nature of Lessee's activities or operations or other reason(s).
 - (3) Lessee shall report all unpermitted and reportable discharges on the Leased Premises as required by applicable state and federal environmental and conservation statutes and regulations to the Lessor and any other legally required entity.
 - (4) Lessee shall, at its sole cost and expense, keep and maintain all improvements on the Leased Premises utilized, owned, placed and/or caused to be placed by Lessee and all facilities appurtenant to such improvements in good order and repair and in the appropriate condition for the safe conduct of any activities or enterprises conducted on the Leased Premises pursuant to the rights granted hereunder, and any applicable state or federal laws.
- (B) Restoration:
- (1) Lessee shall be obligated to plug and abandon all wells owned, utilized, placed or caused to be placed by the Lessee on the Leased Premises no longer necessary for operations or production; to remove from the Leased Premises all structures and facilities owned, utilized, placed or caused to be placed by Lessee which are no longer utilized for operations or production on the Leased Premises; and to restore the Leased Premises, as near as practicable, to the condition existing on the Effective Date of this Lease ("**Restoration Obligations**"), all at Lessee's sole risk, cost and expense and subject to compliance with laws, rules and regulations. Lessee shall complete the Restoration Obligations within one (1) year commencing on the earliest of the following dates: (a) the date said wells, structures or facilities are no longer necessary for operations or production on the Leased Premises or lands pooled or unitized therewith; or (b) the date this Lease has expired, terminated or been released (whichever occurs first) as to all or a portion of the Leased Premises. The failure of the Lessee to timely complete the Restoration Obligations shall subject Lessee to and make Lessee liable for any and all costs or expenses of any kind incurred by the State for plugging said wells or removing said structures or facilities, but in no instance shall title to or ownership of said facilities automatically vest in or transfer to the State nor shall said wells, structures or facilities be deemed "improvements" to the Leased Premises for purposes of vesting title in same to the State.
 - (2) Lessor recognizes Lessee's right to draw and remove casing from wells and, further, to remove any structures and facilities no longer utilized in operations or production on the Leased Premises.

ARTICLE 14 – FINANCIAL SECURITY

- (A) In accepting this Lease and its terms, Lessee agrees that Lessee or an operator drilling on the Leased Premises shall provide financial security for the plugging and abandoning, and associated site restoration of each well drilled. Lessee's obligation to provide financial security also is required upon a change of operatorship of a well on the Leased Premises.
- (B) Lessee's obligation under this Lease to provide financial security for the plugging and abandoning, and associated site restoration, of each well, drilled shall be satisfied by fully establishing and maintaining financial security of a nature, to the extent, and in the amount required to comply with the applicable statutes, rules and regulations of C&E.
- (C) Lessee shall furnish to Lessor, upon request, evidence of the financial security so provided to the Secretary of C&E.

ARTICLE 15 – GENERAL LIABILITY INSURANCE

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

Documents evidencing satisfaction of the requirements of this section shall be provided to Lessor prior to commencement of the Operational Term, with the "Certificate Holder" listed as:

State of Louisiana
Office of State Resources
617 North Third Street, 8th Floor
Post Office Box 2827
Baton Rouge, Louisiana 70821-2827
Ref: State Lease No. _____

For purposes of this Article, the "**Operational Term**" shall commence upon the initiation of any surface activity on the Leased Premises in furtherance of the development and production of oil and gas including, but not limited, to surveying, mobilization, location preparation and other such activities preliminary to development of this Lease.

- (B) At the discretion of Lessor, Lessee may be authorized to satisfy the requirements of this Article by means of self-insurance. Such authorization will not be unreasonably withheld if Lessee is able to demonstrate sustained financial stability and satisfy all other requirements of Lessor.
- (C) The insurance coverage required hereby shall be provided at Lessee's sole expense and the insurer shall have no recourse against Lessor for payment of premiums or any assessments required by the policy(s). Deductibles and/or self-insured retentions must be reasonable, within industry standards and, upon request, disclosed by Lessee to Lessor, with Lessee solely responsible for paying all such deductibles and/or self-insured retentions.
- (D) Unless Lessor gives its written consent otherwise: (1) the insurance coverage required hereby of Lessee shall be provided by a company authorized to do business in the State of Louisiana having an A.M. Best rating of A:VI or higher (or a comparable rating by another rating agency acceptable to Lessor); and (2) at any time, if an insurer issuing such policy(s) does not meet the minimum A.M. Best rating, Lessee shall obtain a substitute policy(s) with an insurer possessing such rating and submit a substitute Certificate of Insurance in compliance herewith.
- (E) Lessee shall furnish to Lessor, on an annual basis within thirty (30) days of the policy's annual renewal date, a "Certificate(s) of Insurance" fully completed and signed by the insurer's authorized representative evidencing satisfaction of the insurance coverage requirements of this Article. Additionally, upon request, Lessee shall provide to Lessor the "Declaration Page" and the "Cancellation Endorsement" for the policy(s).

ARTICLE 16 – TITLE DISPUTES

- (A) Notwithstanding any provision herein to the contrary, this Lease is granted and accepted without any warranty of title and without any recourse against Lessor whatsoever, either express or implied. It is expressly agreed that Lessor shall not be required to return any payments received hereunder or be otherwise responsible to Lessee therefor. Lessor hereby disclaims any covenant of quiet enjoyment or peaceful possession of the Leased Premises.
- (B) In the event of a bona fide dispute or litigation involving Lessor's ownership or title to any portion of the Leased Premises, Lessee agrees to promptly notify Lessor, in writing, and provide any information and/or documentation in Lessee's possession or to which Lessee has access regarding such dispute, including the identity of the adverse claimant(s) and the nature of the dispute.
- (C) During the pendency of and through resolution of the dispute or litigation, Lessee shall comply with all terms, provisions and requirements of this Lease, including the payment of royalty, and shall be deemed in default of payment of royalty if Lessee suspends or stops making royalty payments. However, in lieu of making said payments directly to Lessor, Lessee may:
 - (1) Request and obtain authorization from Lessor to suspend the direct payment of royalty due on the production attributable to the disputed acreage, deposit the royalty payments into an interest bearing escrow account at an FDIC insured financial institution having a presence within the State and fully comply with the title dispute protocol approved by Lessor; or
 - (2) Initiate a concursus proceeding and deposit the royalty payments attributable to the disputed acreage into the court registry; or
 - (3) Take other action as authorized by Lessor.
- (D) Nothing herein is intended to waive, release, relinquish or in any way diminish any rights Lessor may have to review, examine, audit, dispute, challenge or contest any payments made or not made by or on behalf of Lessee on the production attributable to the disputed acreage. In the event an audit or other examination should reveal that the sums deposited into an escrow account or into the registry of the court are incorrect, Lessee shall remain fully responsible for all royalty amounts determined to be due and owing, and may be subject to payment of interest and penalties as required by law or the terms of this Lease.
- (E) Upon termination of any escrow authority, concursus proceeding or other action authorized by Lessor, royalty payments due on the production attributable to the disputed acreage shall be made directly to Lessor in

accordance with the provisions of this Lease or the terms of any settlement or final unappealable judgment that resolves the title dispute.

ARTICLE 17 – TERMINATION AND RELEASE

- (A) Lessee may release all or any portion or portions of the Leased Premises at any time this Lease is in effect and thereby be relieved of all obligations thereafter accruing under this Lease as to the portions surrendered; however, no partial release shall reduce or otherwise affect the amount of Rentals required to maintain this Lease during the Primary Term thereof. Nor shall any release of this Lease, in whole or in part, relieve the Lessee of any obligations to plug and abandon wells, restore the Leased Premises, or any other obligations arising under C&E orders, decisions, or regulations pertaining to the remediation of well sites.
- (B) Within ninety (90) days after termination of this Lease as to any portion of the Leased Premises, either during or after the Primary Term hereof, Lessee shall execute and record an appropriate release evidencing such expiration or termination, and shall also supply Lessor with a copy or copies thereof properly certified by the recorder or recorders of the parish or parishes in which the Leased Premises are located. In the event Lessee fails to timely comply therewith, Lessee shall be liable for reasonable attorney fees and court costs incurred in bringing suit for such cancellation, and for all damages resulting therefrom. It is agreed, however, that damages to be paid by Lessee to Lessor shall be One Hundred Dollars (\$100.00) per day for each day of non-compliance after expiration of said ninety (90) day period, regardless of whether suit is filed for cancellation, and for such additional compensatory damages as Lessor may prove. Lessee, hereby waives any further notice of default or otherwise and confesses judgment as regards the liquidated damages accruing as herein set forth.
- (C) Within ninety (90) days after termination of this Lease as to any portion of the Leased Premises, either during or after the Primary Term, Lessee shall submit to the Office of State Resources a listing of all unplugged wells and facilities owned, or placed and/or caused to be placed by Lessee on the acreage released and a written preliminary plan which sets forth the Lessee's schedule for complying with its Restoration Obligations of the Leased Premises.

ARTICLE 18 – NOTICES

- (A) All notices required by this Lease or by law to be served on, given to, or delivered shall be in writing and shall be properly addressed to the Lessee(s) at the last address provided to Office of State Resources pursuant to La. R.S. 30:123.1 or section (B) of this Article or to the Office of State Resources at 617 N. 3rd Street, LaSalle Building, 8th Floor, Baton Rouge, Louisiana 70802 or P.O. Box 2827, Baton Rouge, Louisiana 70821-2827. Such notices shall be deemed effective and delivered: (i) upon receipt if delivered personally; or (ii) if properly addressed, upon deposit in the U.S. mail, registered or certified, postage prepaid, return receipt requested; or (iii) if properly addressed, one (1) business day after it is sent by recognized commercial overnight courier service.
- (B) Each Lessee(s) desiring to change its physical and/or mailing address shall be responsible for providing the Office of State Resources with the new address. Written notice pursuant to this section is required ten days prior to the effective date of the address change and must be transmitted in accordance with section (A) of this Article.
- (C) Upon an Assignment, Lessee(s)/assignor(s) and/or the assignee(s) shall ensure that the information required pursuant to La. R.S. 30:123.1 for the assignee(s) is current for purposes of notice herein.
- (D) Failure of Lessee to update and/or maintain accurate contact information shall not invalidate any notice given by the Office of State Resources.

ARTICLE 19 – INDEMNITY AND HOLD HARMLESS

Lessee unconditionally agrees to respond to, investigate, defend, protect, save, indemnify, and hold free and harmless the State, C&E, the Board, the Office of State Resources and the officers, employees, agents and representatives of Lessor from any and all demands, claims, causes of action, damages, judgments, costs, fees, expenses and attorney fees arising from any harm, loss, injury or death to any person, or any harm, loss, damage or destruction of any property resulting from any act, omission, fault or negligence of Lessee or any of Lessee's officers, employees, agents, representatives, contractors, subcontractors, licensees and invitees in conducting or failing to conduct activities or operations pursuant to the rights granted by this Lease.

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

ARTICLE 20 – EXECUTORY CONTRACTS

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

ARTICLE 21 – LAW AND FORUM

Lessee agrees that the terms and provisions of this Lease shall be construed in accordance with the laws of the State of Louisiana. Lessee further agrees that any litigation arising in connection with this Lease and to which the

State is a party shall be instituted before the Nineteenth Judicial District Court in the Parish of East Baton Rouge, unless such litigation is required to be filed in or is removed to a federal court of this State.

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

ARTICLE 22 – SEVERABILITY

This Lease sets forth the full terms of the agreement between the parties. If any provision hereof is found to be invalid for any reason, by final judgment of a court of competent jurisdiction or pursuant to any applicable law, such provision shall be severed from the agreement and the remaining terms and provisions shall be fully binding upon the parties. The parties agree that the Lease shall then be reformed to replace such severed provision with a valid, lawful and enforceable provision that comes as close as possible to expressing the intent of the severed provision.

ARTICLE 23 –MULTIPLE ORIGINALS

This Lease may be executed in multiple originals, each of which is intended to have the same force and effect.

ARTICLE 24 - SECURITY INTERESTS/LESSOR’S LIEN

- (A) In order to secure all of Lessee’s monetary obligations under this Lease to Lessor, including particularly payment of royalties, Lessee does hereby grant a first ranking security interest in, and specifically pledges and assigns in favor of Lessor, a first priority lien and security interest in Lessee’s interest in (i) all of the minerals that are extracted from the Leased Premises or lands pooled therewith and which are attributable to the Lease and (ii) all proceeds from the sale or other transfer of any such minerals, whether such proceeds are held by Lessee or a third party (collectively “Lessor’s Security Interest”).
- (B) Lessee further acknowledges the right of, and hereby authorizes, Lessor to file UCC financing statements covering Lessor’s Security Interest. Promptly upon execution of this Lease, Lessee will file with the clerk of court of any parish a UCC financing statement for Lessor’s Security Interest and deliver a recorded copy of said UCC financing statement to Lessor within ten (10) days of recording the Lease. Lessee will execute and record any other documents reasonably requested by Lessor to perfect Lessor’s Security Interest. It is further agreed that Lessor may exercise all of the rights of a secured party under Louisiana law (including particularly under the Louisiana Uniform Commercial Code-Secured Transactions contained in R.S. 10:9-101 et seq.) with respect to Lessor’s Security Interest.
- (C) Lessee further represents and warrants that at the time of execution of this Lease there are no prior or superior liens or security interests and that at the time the UCC financing statement for Lessor’s Security Interest is filed in the UCC records of any parish, there will be no prior or superior liens or security interests to Lessor’s Security Interest, including such liens or security interests arising from, or relating to, Lessee’s activities under this Lease and/or Lessee’s acquisition of this Lease. Should Lessor determine that this representation and warranty is not true and correct, or if Lessee fails to timely make any and all payments due to Lessor under this Lease, then Lessor may exercise any and all rights under this Lease and/or under Louisiana law to seek recovery of all sums due, plus legal interest, from the date(s) due until paid, and all costs and its reasonable attorney fees, and/or to file suit to have this Lease dissolved and/or terminated in accordance with the Louisiana Mineral Code, and to recover all costs and its reasonable attorney fees related thereto.